

**DETERMINANTS OF THE UPTAKE OF MICRO FINANCE PRODUCTS AMONG  
COMMERCIAL BANKS IN MOMBASA COUNTY, KENYA**

**BY**

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**DECLARATION**

I hereby declare that this project report is my original work and has not been presented for examination at any other university.

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## **DEDICATION**

This research project is dedicated to my dear Mum Veronica, Dad Nicholas, my lovely sisters, Betty and Matty and lastly my brother Wendo. You have always been a shoulder to lean on throughout my life and will forever be indebted to you all. I love you guys.

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May God bless you all.

## **ABBREVIATIONS AND ACRONYMS**

**CBK:** Central Bank of Kenya

**CBR:** Central Bank Rate

**CGAP:** Consultative Group to Assist the Poor

**DTMF:** Deposit Taking Micro Finance

**KCB:** Kenya Commercial Bank

**KBBR:** Kenya Banks Reference Rate

**MDGs:** Millennium Development Goals

**MFI:** Micro Finance Institution

**MPC:** Monetary Policy Committee

**NARBARD:** National Bank of Agriculture and Rural Development

**NMB:** National Microfinance Bank

**SACCO:** Savings and Credit Cooperative Society

**SME:** Small and Medium Enterprises

**UBOS:** Uganda bureau of Standards

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## ABSTRACT

Microfinance remains one of the most important tools which can be used in poverty eradication and achievement of Millennium development goals (MDGs) especially MDG 1 which aims at eradicating extreme poverty and hunger by the year 2015. It enables the poor not only to save but also to borrow money with little or no collateral enabling them meet their social and financial aspirations. Recently, most commercial banks have ventured into microfinance either through directly offering microfinance products through their mainstream banks or through fully-owned subsidiaries dealing exclusively with microfinance. The main objective of this study was therefore to examine the determinants of uptake of micro finance products among commercial banks in Mombasa County, Kenya. Related literature review was done on the independent variables which included Interest rates, competition, and technology and customer retention. The researcher found out that there was a correlation between interest rates and the uptake of microfinance products and services among commercial banks in Mombasa County. There was also a positive correlation between technology and the uptake of microfinance products among commercial banks in Mombasa County. Mobile banking and internet banking were some of the technology researched on. Based on the findings of the study, it was prudent for the researcher to conclude that interest rates charged by a bank on micro products and services had a significant influence on their uptake among commercial banks. The researcher also concluded that competition was a key indicator and had a significant influence on the uptake of microfinance products and services among commercial banks in Mombasa County. On technology, the researcher concluded that it plays a pivotal role in modern day banking and especially on access and uptake of micro finance products. The researcher found it prudent to suggest further research on factors that propel customers to prefer commercial banks to micro finance institutions when it comes to uptake of micro finance products and services. The research employed descriptive survey design and both qualitative and quantitative data was collected. Data collection instruments used were questionnaires and interview guides. The quantitative data from the study was coded and entered into a computer for analysis using the statistical Package for Social Sciences (SPSS). Independent sample T-test and Chi square test of independence at 95% level of confidence was used in this study. The level of significance at probability level of 5% was applied.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the study

The term Micro finance (MF) refers to the provision of banking services and products to the lower income people especially the poor ( Delfiner et al, 2006). These services include small loans for microenterprises and individuals, savings, money transfer services, means of payment and insurance. Given their nature, micro entrepreneurs tend to operate on the margins of the formal economy, often without permits and commercial documentation, and usually lacking fixed assets that could serve as collateral. Formal expense and income records are generally scarce. Income is often on the lower end of the scale, although operating margins for microenterprises in percentage terms can be significant.(Rosenberg, 1996). According to Young et al, (2005), the products and services can be targeted to meet the financial needs of the households as well as their income generating activities.

Success stories indicate that low-income markets can be served on a sustainable basis, that is, with full cost recovery and a market return, without subsidy. As a result, in a growing number of countries, the formal financial sector has begun to take notice and to service these traditionally marginalized sectors. This experience suggests that local formal financial institutions have a business incentive to serve this sector. Small businesses and microenterprises employ 20 % to 80 % of the economically active population in the developing world. Combined with the other low income market segments, they comprise a market that should not be ignored by local formal financial institutions in researching potential market opportunities (Isern 2005).

However, despite the size of the microfinance market and cases of demonstrated commercial success in delivering microfinance, most commercial banks remain hesitant to enter this market, even though they are often in the best institutional position to service it. In large part, commercial banks misjudge the risk of microfinance; they overestimate the costs and underestimate the potential returns (Arora 2005)

It is desirable and indeed essential that commercial banks should be involved in microfinance. If they are not, any impact that microfinance can have on global poverty will be negligible, for it is the privately owned commercial banks which dominate the financial markets in most countries. Currently, microfinance is being commercialized, but this still mostly involves MFIs becoming commercial banks – such as K-REP (Kenya) and BancoSol (Bolivia), or the setting up of commercial banks doing only microfinance, such as Centenary Rural Development Bank (Uganda).

Most of the commercial banks that have moved into microfinance are state banks, for example, Bank Rakyat Indonesia (BRI), National Microfinance Bank (Tanzania), and Banco Nacional de Costa Rica. Cases of pre-existing, privately owned commercial banks 'downscaling' and starting microfinance operations are still relatively few and far between; although there are success stories - examples include Hatton National Commercial Bank in Sri Lanka, and a number of private banks in India through a programme started by the National Bank of Agriculture and Rural Development (NABARD). Many of the commercial banks that have tried to downscale have faced considerable problems, and have not achieved impressive levels of outreach (Valenzuela, 2001). There are many reasons why privately owned commercial banks are put off entering the microfinance market, despite its apparent potential profitability, and why those banks that have 'taken the plunge' have in many cases faced problems. Commercial banks are answerable to their shareholders, who live and die by the bottom line and demand maximum returns. Most do not feel that microfinance will guarantee them this. Standards and regulatory requirements with which commercial banks have to comply, particularly regarding unsecured lending, and interest rates, are inappropriate for microfinance operations. The organizational structures, procedures, products and methodologies of commercial banks are not suited to microfinance, and changing them can be difficult, time consuming and expensive. There are significant cultural barriers to be overcome; staff and managers of commercial banks often still perceive the poor as unbankable, and the ways of working required to reach out to them as unbecoming for professional businesspeople like themselves (Baydas, Graham & Valenzuela, 1997). These perceptions have not been helped by bad experiences in the past with government and donor-led attempts to induce commercial banks to lend to the poor through mechanisms such as compulsory targeting and provision of low cost funds for on lending. Nonetheless, commercial banks also have a number of competitive advantages as compared to other players in microfinance. They have the necessary management expertise, systems and physical infrastructure in place, are able to accept deposits and have access to other sources of funds such as equity capital (Rhyne & Christen 1999).

The Grameen Bank of Bangladesh pioneered microcredit in 1976, through lending to members of groups. Group lending typically links the fate of borrowers by stipulating that if one borrower within a group defaults, the other members have to repay the loan (joint liability). To ensure timely payments of loans, group members provide household items and business assets as collateral for the facility and also pressure for members to repay. This was pioneered by Mohamed Yunus, a Bengal banker, social entrepreneur, economist and civil society leader who received the Nobel Prize in October 2006.

Closer home, the National Microfinance Bank in Tanzania (NMB) offers micro finance services to its clients. NMB gives loans to individuals as well as groups of people in small enterprises. NMB's main source of funds is deposits and capital, making it a self-sustainable institute. It employs a unique strategy towards microfinance in that it links large corporate customers to microfinance loan customers in a strategy known as Kilombero. This is after they linked loans given to the Kilombero sugar company to sugar out-growers.

The Kilombero strategy encourages growth through loans for use of capital and the growth of both small and large enterprises. NMB encourages and expands micro finance by giving loans to micro and small enterprises for the purchase of goods, collection and payment of services to large corporate clients to/from micro and small enterprises and provision of add-on services such as money transfers and payment services to both the large corporate clients and micro and small enterprises. According to the Central Bank of Kenya (CBK), Kenya has 43 commercial banks, spread across the country although most are concentrated in the larger cities and towns such as Nairobi, Mombasa, Nakuru, Eldoret and Kisumu (CBK, 2013)

Equity Bank is largely credited with pioneering micro finance in Kenya. By coming up with products tailor-made for the lower strata of the society, Equity bank revolutionized the Kenyan banking environment by offering banking services to those who traditionally had been seen as un-bankable.

Some of the other commercial banks offering Micro finance include Co-operative bank of Kenya, Kenya Commercial bank, K-rep bank, Jamii Bora bank among others. There are also commercial banks which have fully owned subsidiaries operating as MFIs such as Rafiki Deposit taking Microfinance (DTMF) which is fully owned by Chase Bank.

Microfinance has become an increasingly important tool for economic growth in developing countries as noted by Wydick (2002). Widespread experiences and research have shown the importance of savings and credit facilities for the poor. This puts emphasis on the sound development of microfinance institutions as vital ingredients for investments, employment and economic growth (Omino, 2005). According to Collins, Murdoch, Rutherford and Ruthven, (2009) microcredit plays an important role in helping the poor mitigate the unreliability of their income.

Microfinance is not only used as a means of poverty reduction but also as a means of improving the quality of life in general. The various micro finance products offered in Kenya have enabled the poor who do not have access to traditional securities such as title deeds and vehicle log books to access bank loans. This has not only contributed to poverty reduction but also generally increased the standards of living of many Kenyan households (CBK, 2013)

Microfinance is also a contributing factor in the overall macroeconomic state of a country. There are theoretical arguments that if micro finance is successful at any one of its aims such as raising income levels, promoting entrepreneurship, increasing savings among others, then overtime, the positive effects of macroeconomic measures such as rate of economic growth and per capita GDP also improve (CGAP, 2004)

Micro finance has also contributed to reduction in crime especially where youth are engaged in income-generating activities. Through micro businesses, people are able to fend for their families and meet their social responsibilities.

### **1.2 Statement of the problem**

Previous studies have shown that microfinance institutions play a vital role in the economic development of many developing countries through the provision of a wide range of financial products and services to the poor, low-income households and micro and small enterprises. While microfinance is widely celebrated as a possible solution to the financing problems of smaller firms and micro businesses, there is remarkably little examination of the connection between microfinance and product innovation (Nugroho and Miles, 2009). Previous studies have concentrated on the growth of the MFI institutions. This has resulted in little or no research on determinants of MFIs product innovation within the industry. Kanyiri (2009) for instance, in his study on the factors inhibiting innovation in financial intermediaries for SMEs in Kenya, only sought the perspective of Savings and Credit Cooperative Societies (SACCO) entrepreneurial members and therefore, findings from his study are evidently limited in scope. By seeking data from a number of commercial banks in Kenya, this research sought to enrich and contributed in closing the literature gap that still exists on product innovation and uptake in Kenyan commercial banks. It is against this background that this study was conducted to identify and examine the determinants of uptake of micro finance products among commercial banks in Mombasa County, Kenya.

### **1.3 Purpose of the study**

The purpose of this study was to identify the determinants of uptake of micro finance products among commercial banks in Mombasa County, Kenya.

#### **1.4 Objectives of the study**

The study was guided by the following objectives:

- i. To determine the extent to which interest rates influence the uptake of micro finance products among commercial banks in Mombasa County.
- ii. To establish how technology influences the uptake of Micro Finance products among commercial banks in Mombasa County.
- iii. To establish how competition influences the uptake of Micro finance products among commercial banks in Mombasa County
- iv. To establish the extent to which customer retention influences the uptake of Micro finance products among commercial banks in Mombasa County.

#### **1.5 Research questions**

The study answered the following research questions:

- i. To what extent do interest rates influence the uptake of micro finance products among commercial banks in Mombasa County?
- ii. How does technology influence the uptake of micro finance products among commercial banks in Mombasa County?
- iii. How does competition influence the uptake of micro finance products among commercial banks in Mombasa County?
- iv. To what extent does customer retention influence the uptake of Micro Finance products among commercial banks in Mombasa County?

#### **1.6 Research hypotheses**

The study tested the following research hypotheses:

**H<sub>1</sub>:** Interest rates influence the uptake of micro finance products among commercial banks in Mombasa County

**H<sub>1</sub>:** Technology influences the uptake of micro finance products among commercial banks in Mombasa County

**H<sub>1</sub>:** Competition influences the uptake of micro finance products among commercial banks in Mombasa County

**H<sub>1</sub>:** Customer retention influences the uptake of micro finance products among commercial banks in Mombasa County

### **1.7 Basic assumptions of the study**

The study was built on the following assumptions:

- i. The research assumed that Equity Bank Ltd, Kenya Commercial Bank and Co-Operative Bank of Kenya would give a representative study sample of the commercial banks in Mombasa County.
- ii. The research assumed that there would be co-operation from the management, the staff and the Micro finance Officers who are directly in touch with the customers and the customers themselves in providing the necessary information.

### **1.8 Significance of the study**

First and foremost, the results of this study will be of great importance to scholars and researchers as it will contribute to the review of literature by other researchers in the field.

Secondly, Commercial banks can now better understand their competitive advantages and come up with more innovative and tailor –made products for micro businesses in Kenya.

Last but not the least, regulatory authorities within the government such as the central bank of Kenya formulate policies which promote rather than hinder the growth of micro finance in the country.

### **1.9 Limitation of the study**

The main limitation was reluctance from the respondents to administer data collection instruments. In this regard, the researcher obtained an authorization letter to collect data from the respondents. Time constraints and availability of funds to enable the researcher obtain a much wider sample were also a limiting factor. The researcher also encountered challenges gathering information from some of the respondents due to their reluctance to share information with a competitor’s employee. In this case, the researcher assured the respondents that the information given was purely for research and that it won’t be used to give the researcher’s employer undue advantage

### **1.10 Delimitation of the study**

The research focused on the determinants of the uptake of micro finance products among commercial banks with a focus on Mombasa County, Kenya. There are about 43 commercial banks in Kenya, most of which have a representation in the county of Mombasa. Equity bank ltd, Kenya Commercial bank ltd and the Co-operative bank of Kenya were used as representative samples of the commercial banks in Mombasa County. The research incorporated the banks’ customers’ perception on micro finance products and services in the respective banks. The researcher explained the purpose of the study and assured the respondents that the information gathered was only for academic purposes and that

confidentiality will be adhered to. The researcher ensured that he was ethical during the conducting of the research by getting full consent from the respondents. The researcher was also keen on ensuring reliability and validity of data collection instruments to ensure accuracy of the results.

### **1.11 Definition of significant terms**

**Microfinance:** A means of extending credit, usually in the form of small loans with no collateral, to non-traditional borrowers such as the poor in rural or undeveloped areas. It's a source of financial services for entrepreneurs and small businesses lacking access to banking and related services.

**Interest Rates:** The rate at which interest is paid by a borrower (debtor) for the use of that they borrow from a lender (creditor)

**Technology:** The branch of knowledge that deals with the creation and use of technical means and their interaction with life, society and the environment, drawing upon such subjects as engineering, applied science and pure science.

**Customer retention:** The activity that a selling organization undertakes in order to reduce customer defection

**Customer attrition:** Also known as customer churn, customer turnover or customer defection is the loss of clients or customers.

**Competition:** The rivalry offered by a competitor.

**Microfinance institutions:** Is an organization that provides financial services to the poor.

This broad definition includes a wide range of providers that vary in their legal structure, mission and manner of operation. They however share common characteristics of providing cheap credit to the poor and most vulnerable in the society.

**Commercial banks:** is a type of bank that provides services such as accepting deposits, making business loans and offering investment products

### **1.12 Organization of the study**

Chapter one of this study consists of the introduction of the study in which the study background, statement of the problem, purpose of the study, objectives of the study, research questions, research hypothesis, significances of the study, limitations of the study and delimitations of the study was discussed.

Chapter two of the study contains literature review which incorporates all the research objectives and conceptual framework. Chapter three contains the research methodology including the research design, population of the study, sampling techniques and sample size, data collection and analysis, qualitative control and ethical issues.



Chapter four illustrates the response rate of the respondents, testing of the various hypotheses, data analysis and interpretation whereas chapter five contains the summary of the study findings, discussions, conclusions drawn based on the findings and recommendations by the researcher.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

According to Baker (2003) literature review is the evaluation of all sources of information that relate to the topic under study. Literature review has also been defined as the use of ideas in literature to justify the particular approach to the topic and demonstration that the study contributes something new.

Therefore, the researcher reviewed literature on commercial banks and how they have incorporated micro finance into their mainstream banking system. The literature discussed how the independent variables which included interest rates, technology, competition and customer retention influenced the uptake of microfinance products among commercial banks in Mombasa County.

#### 2.2 Rationale behind Commercial banks offering Micro Finance products

Banks are commercial financial intermediaries that borrow from savers and lend to companies or individuals that need resources for investments. (Gorton et al, 2002). They are special because of their ability to transform financial claims of household savers efficiently into claims insured to corporations, individuals and governments.

Their ability to evaluate information accurately, control and monitor borrowers allows it to transform these claims at the lowest cost possible to all parties, that is credit allocation. Banks allow the credit risks on these loans in exchange for fair return sufficient to cover the cost of funding. (Van Horne, 1991).

Majority of commercial banks do not offer microfinance as they perceive it to be an expensive enterprise, arguing that it's possible to make a lot of money on a large loan than on a small one and you can't make much money holding saving accounts with very little funds in them. However, MFIs serving the poor are showing rapid financial improvement. Rosengard, (2004) says three developments in the recent past have motivated banks to search for new markets: deregulation of financial institutions, liberalization of financial markets, and globalization of financial services. These trends have lowered barriers to entry for new financial institutions, increased competition among old and new financial institutions, and led to saturation of traditional financial markets. In order to remain profitable, and even more importantly, to continue to grow, mainstream commercial banks have increasingly tried to provide core financial services (savings, credit and transfer/payment facilities) to those previously viewed as unbankable.

Delfiner et.al (2007) points out that bank have been entering the microfinance market in increasing numbers over the past years. This phenomenon (known as downscaling), together with that of up scaling where micro finance institutions convert into commercial banks, is resulting in a growing number of formal regulated institutions partially or totally moving into microfinance.

According to Kamau (2004), profitability has been defined as the capacity to make profit or as a quality or state of being profitable .Profitability is the matter at hand as a measure of performance and sustainability. It is one of the most important indicators for measuring the success of a business. Maintained profitability leads to continued strengthening of the net worth and value to shareholders/owners of the organization. Sustainability on the other hand is the ability of a firm to continue its operations in the long term to ensure that the firm is not existing today and winding up tomorrow (Kamau, 2004).

According to Dondo and Ongila (2006) microfinance performance can take many forms depending on the interest of the stakeholders. Different stakeholders require different performance to enable them make informed decisions. For example shareholders will be more interested in profitability, growth, return on investment and continued financial stability of the institution. Governments and multilateral agencies are interested in expected social and economic benefits to micro entrepreneurs, such as increase in employment and income levels, (Kesner, 2005).

A report by USAID on profitability of microfinance in commercial banks, states that as more and more commercial banks become intrigued by the idea of entering the microfinance market, whether for social responsibility, the long term viability of the microfinance program is eventually defined by its contribution to the bank's profitability. Determining costs and revenue drivers is key to ensuring that the resources are available and properly allocated; costs both actual and imputed, are fairly assigned; and pricing strategies accurately reflect profitability goals. Once the bank is convinced that the net operating margin of microfinance products can be relative to the other products in the bank, the challenge becomes growing the volumes so that the absolute net income is also significant. (a case study on profitability of microfinance in commercial banks; Hatton National Bank, USAID January 2005).

Baydas (1997) also points out that even though most banks report profitable microfinance programs, the main issue of concern should be cost reduction in terms of human resource, financial methodology and alternatives to the lengthy individual business techniques. Apart from cost reduction, many banks may need to increase their interest rate and accept the fact that microfinance programs are generally

costly. The pricing of microloans should be therefore set to cover the cost of making these loans, monitoring and full repayment.

The main determinants of profitability and sustainability in microfinance are Interest rates and non-interest Income. According to Kimutai (2003), Interest rate is the price one pays for using borrowed money (loans). Margarida (2000) found that net interest margin reacts positively to operating costs and hence profitability. Guru and Shanmugen (1999) stated that changing market conditions would have an impact on the market interest rates which would certainly have direct impact on profitability. The overall objective of a bank should be to balance its return and risk in a way that maximizes the banks market value to its shareholders, Hampel (1994). Relating this objective to interest rates, a bank should try to earn the highest margin it can in a manner consistent with reasonable stability in the interest margin. Sinkey (1992) notes that the business of banking involves betting on interest rates while Ritter et al(1997) suggested that the success or failure of a bank depends on how the institution buys and sells money. (Kibe, 2003) says that non- interest income include services charges on deposits and income from various non-deposit activities. Bank charges are payments debited to a bank account for the services the bank provides. They include charges on opening of accounts, banker's cheque processing, salary processing, loan processing, Electronic Funds Transfer (EFTs) among others. With the decreasing interest rates in Kenya, banks have sought to maintain their levels of profits by increasing banks charges.

Kibe (2003), noted that compared to non-interest income, interest rate spread accounts for 40% of total variations in profit of commercial banks. This means that 60% of variations are due to the other factors that do not relate to interest rate. He concluded that interest rate spread does not contribute significantly to the profitability of commercial banks as less than 20% of profits can be explained by interest rate spread leaving 80% to non- interest related factors. He recommended that further research be done to determine the other factors that affect profitability in banks.

Many organizations in the recent times faced turbulent and rapid changing external condition that translated into complex, chaotic, multifaceted, fluid, and interlinked stream of initiatives affecting work and organizational design, resource allocation, and systems and procedures in a continuous attempt to improve performance (Huczynski & Buchanan, 2001). Globalization of world economies has resulted in high environmental volatility coming in unpredictable way (Achol, 1991). Environmental changes such as technological innovation, competition, globalization, regulation and deregulation and consumer behavior have affected many organizations in that they have been forced to

enhance their business processes in order to survive in an environment which has become increasingly competitive (Ansoff,1987).

Organizations are therefore, undertaking strategic changes in order to align their business strategies to the environment thereby matching resources and activities of an organization to that environment.

With businesses focusing on generating profits, sustainability was not a popular concern among companies up until recently. Now, in an era of globalization, multinational corporations (those that conduct business in more than one country) and local businesses are no longer able to conduct destructive and unethical practices, such as polluting the environment, without attracting negative feedback from the general public. With increased media attention, pressure from NGOs, and rapid global information sharing, there is a surging demand from civil society, consumers, governments, and others for corporations to conduct sustainable business practices. In addition, in order to attract and retain employees and customers, companies are beginning to realize the importance of being ethical while running their daily operations. The corporate response has often meant an adoption of 'a new consciousness', and this has been known as Corporate Social Responsibility (CSR) since the 1970s.

CSR has over the years been embraced by organizations that seek to make a difference in the community they serve. It is important as it enhance a good relationship between the organizations, its clients and the community. Through CSR the organization continues to communicate that it is interested in the needs of its clients and the community they serve. CSR is also important as it helps in creating goodwill between the organization and the public's. Thus the main activities normally involve non-financial arenas such as Human Rights, Business ethics, Environmental policies, corporate contributions, community development, corporate governance and workplace issues.

Rhyne says that microfinance originated among donors, governments, and NGOs motivated by a desire to improve the standard of living of low-income people. This motivation was expressed variously as poverty alleviation, job creation, or microenterprise development and at times, was accompanied by additional social motivations, such as empowerment. Microfinance is still valued for its contributions to economic goals such as increased household and enterprise income and entrepreneurial development- social goals- such as improved family living conditions, more equitable gender relations, and better nutrition. For many microfinance programs, client participation in governance is seen as a core value. Banks venturing into microfinance tend to reinforce their public image, since engaging in the poverty alleviation and increasing women empowerment help build more trust for the banks in the formal financial sector.

According to Delfiner, commercial microfinance target economically active poor individual who include microenterprises, small scale farmers , and the most recent concept has include low- income salaried employees, pensioners and poor households. The economically active poor are usually unsatisfied because their income is generally unstable due to the informal nature of their employments or self-managed productive projects. The commercial microfinance is therefore a complement to, not a substitute for, government and donor alleviation and employment generation programs for the extremely poor. Having a sector specialize in microfinance helps commercial banks improve their public image, as caring for the most disadvantaged social sectors is welcomed by clients and society in general.

However, Rhyne questions whether the newly-commercial, competitive microfinance will serve their purpose. Definitely, any goal that can be achieved through provision of financial services will still be served. With the growing competition in the microfinance sector, few microfinance programs will be able to maintain the extra services that support other social goals. Commercialized microfinance is not likely to serve as a platform for educational messages, group action, or social services. The clients will not be empowered once they are simply customers of for profit institutions. (Elisabeth Rhyne and Robert Peck Christen, 2004)

### **2.3. Interest rates and the uptake of micro finance products**

Interest rate is the percentage charged or paid for the use of money. It is charged when the money is being borrowed and paid when it is being loaned. Interest rates can either be nominal or real. Nominal interest rate can be measured in currency terms, not in terms of goods. In Kenya the nominal interest rate measures the yield in Kenya shillings per year, per Kenya shillings invested while the real interest rate is corrected for inflation and is calculated as the nominal interest rate minus the rate of inflation (Pandey, 1999).

In the United States, authority for interest rate decisions is divided between the Board of Governors of the Federal Reserve (Board) and the Federal Open Market Committee (FOMC). The Board decides on changes in discount rates after recommendations submitted by one or more of the regional Federal Reserve Banks. The FOMC decides on open market operations, including the desired levels of central bank money or the desired federal funds market rate.

Interest rates can be classified as either short-term or long-term. For example, you can take out a home loan with the interest rate fixed for 20 years. This is considered a long-term interest rate. You make the same payments over these years, regardless of whether interest rates rise or fall. Alternatively, when you use your credit card or take out a personal loan you are borrowing money at an interest rate that can change in the short term (variable). Short-term interest rates tend to be higher than long-term

interest rates (Kibe, 2003).As the size of a loan expands, the interest rate on that loan rises to accommodate the increased risk associated with the loan. However, utilizing firm-level data of the Barbadian banking industry, it is observed that the smaller the loan's size, the greater the interest rate applied, and vice versa. (Thordsen and Nathan ,1999 )

Interest rates are a major concern in the banking and lending industry in Uganda. Financial institutions have been accused of charging high interest rates and exploiting the consumers. This has led to government through the Ministry of Finance passing a Financial Institutions Act with an aim of protecting the consumers (Musunguzi, 2004). The Act imposes interest rate ceilings on loan finance provided by money lending/financial institutions. These ceilings are proposed to be linked to the 2 prime rate. Given this, it is not possible for them to charge full-cost recovery interest rates. According to UBOS (2005) results, access to loans and credit facilities has been and is still a major problem for a large portion of Ugandan society. The problem is most significant amongst the disadvantaged and especially in rural areas where the majority of people don't have access to formal banking services due to lack of collateral security.

Inflation has a major effect on the interest rates in a particular country. Inflation is the sustained upward movement of goods and services in an economy. There are three main causes of inflation; the demand -pull inflation which occurs when demand for goods and services rises while the supply stays the same. The second cause is the cost-push inflation which starts when the supply of goods and services is restricted for some reason while supply stays the same. The third cause is the overexpansion of the money supply. That is, when a glut of capital in the market chases too few opportunities.

According to the CBK's Monetary Policy Committee (MPC) The overall month-on-month inflation increased marginally from 7.30 percent in May 2014 to 7.39 percent in June 2014 mainly driven by the base effect and also reflecting an increase in the prices of some foodstuffs, fuel and electricity. Similarly, month-on-month non-food-non-fuel inflation increased slightly from 4.35 percent to 4.47 percent. (CBK, 2014)

The exchange rate has remained stable supported mainly by foreign exchange inflows through diaspora remittances and increased foreign investor participation in the Nairobi Securities Exchange as well as enhanced confidence following successful issuance of the Sovereign Bond in June 2014. It fluctuated within a narrow range of Ksh.87.38 and Ksh.87.92 against the USD in June 2014 compared to a range of Ksh.86.87 and Ksh.87.86 in May 2014. The CBK level of usable foreign exchange reserves increased from USD6, 308.23 million (equivalent to 4.28 months of import cover) at the end of April 2014 to USD6, 501.37 million (equivalent to 4.34 months of import cover) as at 7th July,

2014. The build-up in foreign exchange reserves provides adequate cushion for the exchange rate against temporary shocks (CBK)

A notable development in the banking sector during the past few months was the introduction of a Kenya Banks' Reference Rate (KBRR) developed as an outcome of discussions between the stakeholders, CBK and lead by The National Treasury. The KBRR was developed as part of the recommendations to enhance the supply of private sector credit and mortgage finance in Kenya by facilitating a transparent credit pricing framework. It is the base rate for all commercial banks' lending. Given that one of the components of the KBRR is the Central Bank Rate (CBR), this framework is expected to enhance the transmission of monetary policy signals through commercial banks' lending rates. It will be computed as an average of the CBR and the weighted 2-month moving average of the 91-day Treasury bill rates. The introduction of KBRR is expected to have a positive effect on the pricing of loans by Commercial banks leading to reduced interest rates.

#### **2.4 Technology and the uptake of micro finance products**

There has been a rapid growth in technological developments, which as a result has brought opportunities to institutions providing financial services through use of channels that have multiple electronic options (Laukkanen and Pasanen, 2007)

Mobile telephony is one such channel which financial service providers use to provide services to their customers. This has enabled commercial banks to increase the number of customers and also save on costs. The easy availability and relatively low pricing of mobile phones has enabled majority of commercial banks to reach more customers while at the same time providing them with banking services at their convenience anywhere in the country, while existing and new customers are enjoying the increased security and affordability of the services and devices (Jenkins, 2008). Mobile banking can also reduce costs and increase the quality of services, even in poor communities (Kapoor et al, 2007)

Mobile banking is used in many parts of the world with little or no infrastructure, especially remote and rural areas. This aspect of mobile commerce is also popular in countries where most of their population is unbanked. In most of these places, banks can only be found in big cities, and customers have to travel hundreds of miles to the nearest bank (Vaidya, 2011)

Robinson (2009) and Sathye, (1999) noted that the internet has a significant impact on financial institutions, allowing consumers to access many bank facilities such as micro loans and cheap accounts whenever they need them, whilst enabling banks to significantly reduce their operating costs. Many



customers can now access various financial services at the comfort of their homes without physically visiting their branches. Internet banking often referred to as 'online banking' can be defined as performing financial transactions over the internet through a bank's website (Shao,2007). Banks expect benefits such as reduction of operating costs, wide customer reach, promote business diversification and retention of market share (Carlson, 2001)

According to Cronin (2006), online banking was first introduced in the early 1980s in New York. Four major banks: Citibank, Chase Manhattan, Chemical and Manufacturers Hanover offered home banking services. Chemical introduced its Pronto services for individuals and small businesses in 1983. It allowed individual and small-business clients to maintain electronic checkbook registers, see account balances, and transfer funds between checking and savings accounts. Pronto failed to attract enough customers to break even and was abandoned in 1989. Other banks had a similar experience.

Almost simultaneously with the United States, online banking arrived in the United Kingdom. It was the Nottingham Building Society that in 1983 introduced Britain's first electronic home banking service through a joint venture with Prestel, a computerized information service owned by British Telecom.

The UK's first home online banking services known as Homelink was set up by Bank of Scotland for customers of the Nottingham Building Society (NBS) in 1983. The system used was based on the UK's Prestel view-link system and used a computer, such as the BBC Micro, or keyboard (Tandata Td1400) connected to the telephone system and television set. The system allowed on-line viewing of statements, bank transfers and bill payments. In order to make bank transfers and bill payments, a written instruction giving details of the intended recipient had to be sent to the NBS who set the details up on the Homelink system. Typical recipients were gas, electricity and telephone companies and accounts with other banks. Details of payments to be made were input into the NBS system by the account holder via Prestel. A cheque was then sent by NBS to the payee and an advice giving details of the payment was sent to the account holder. BACS was later used to transfer the payment directly.

The remarkable gains made towards mobile phone access have seen a steady progress in the scope of innovations emanating from exploitation of mobile technology. What has characterized the Kenyan mobile landscape is a rapid uptake of various services key among them the mobile based products. Mobile banking is one innovation which has progressively rendered itself in pervasive ways cutting across numerous sectors of economy and industry.

An appropriate banking environment is considered a key pillar as well as an enabler of economic growth (Koivu 2002). With the continuously emerging wave of information driven economy, the banking industry in Kenya has inevitably found itself unable to resist technological indulgence. The need for convenient ways of accessing financial resources beyond the conventional norms has seen the recurrent expansion and modernization of banking patterns. Given the huge demand for finance oriented services, institutions beside the historical banks have joined the fray in an attempt to grab a piece of the perceived cake of opportunity within the banking industry.

According to Financial Sector Deepening Kenya (FSD Kenya), the most recent data available indicates that only 19% of adult Kenyans reported having access to a formal, regulated financial institution while over a third (38%) indicated no access to even the most rudimentary form of informal financial service. This leaves a percentage of more than 80% outside the bracket of the reach of mainstream banking.

The pent up demand for an affordable and reliable way of holding funds while ensuring that risk levels are consigned to a minimum is consistently unfolding. A system with the potential to obliterate the historical hurdles of cost and free access which have for a long time stood in the way of willing partakers of banking services evokes immediate attention and interest. The unprecedented uptake of mobile phone banking services in Kenya is a testament to this fact.

Though the Mobile phone banking idea was initially born out of the intention to reach the unbanked poor, (Porteous, 2006) it has stretched its tentacles far and wide to captivate the interest of unimagined client segments. Even the prudential banks have joined the fray and are now acting as agents and outlets of Mobile service provider banking services. This could have come as a realization on the part of the traditional banks of the maxim that “if you can’t beat them; join them.”.Porteous (2006) distinguishes two aspects of mobile banking: Additive and transformational Characteristics. *Additive aspects* are those in which the mobile phone is merely another channel to an existing bank account. Mobile banking is additive when it merely adds to the range of choices or enhances the convenience of existing customers of mainstream financial institutions. *Transformational characteristics* arise when the financial product linked to the use of the phone is targeted at persons who do not hold formal bank accounts with the conventional banking institutions.

Sarker and Wells (2003) assert that the only single access requirement or barrier to the resultant mobile banking will be the mobile phone. However, worldwide market penetration of affordable cellular devices and growing network service diffusion makes this intricacy almost fully resolved hence setting a firm pedestal for mobile banking escalation. Some of the mobile banking products offered by Kenyan banks include M-shwari by Commercial Bank of Africa, M-benki by KCB, and M-Co-Op Cash by Co-Operative bank among others.

## **2.5 Competition and the uptake of micro finance products**

Recent developments in the banking sector have spurred intense competition among commercial banks. The global financial crisis reignited the interest of policy makers and academics in bank competition and the role of the state in competition policies (policies and laws that affect the extent to which banks compete). Some believe that increases in competition and financial innovation in markets such as subprime lending contributed to the financial turmoil. Others worry that the crisis and government support of the largest banks increased banking concentration, reducing competition and access to finance, and potentially contributing to future instability as a result of moral hazard problems associated with too-big-to-fail institutions. However, it was noted that the run-up to the crisis was characterized by an increase in market power (Anginer et al, 2012).

Thorston (2008) notes that the advantages of competition for an efficient and inclusive financial system are strong regulatory and supervisory policies and should focus on an incentive-compatible environment for banking rather than try to fine-tune market structure or the degree of competition. The Kenya banking sector is governed by the companies act, the Banking act, and the Central bank Act together with various other prudential guidelines issues by the Central bank of Kenya. All the policies and regulations that administer the entire banking sector are focused on ensuring that banks operate within the legal framework.

Along the various developmental changes in the environment, the Kenya banking sector realized growth in assets, deposits, profitability and adoption of new banking services and products (PwC)

As a result of the growth in the financial streams and increased innovative programs, competition within the banking sector has greatly increased. Bank managers are required to be proactive rather than reactive. They are required to create the future rather than anticipate the future ((Hamel and Prahalad, 1989)

This ability to be pro-active and not reactive is one of the greatest techniques for creating value within an organization. It requires a continuous process of transforming information into intelligence so that you can manage the future. One of the best tools for making this work is the Competitive Intelligence which is not just about critical strategic thinking but also provides numerous other benefits to organizations (Gathumbi, 2008). With Competitive Intelligence, banks are able to learn more about their organizations, identify what should be measured, and help them focus on critical success factors to be used. It also assist banks to anticipate trends that are unique to the banking industry as well as monitoring competition, new products, new markets, regulatory actions or other external factors critical to the success of banks (David, 2001).

High competition among commercial banks as well as MFIs has become the order of the day, soul searching and borrowing of ideas has also increased competition and making it banks intelligence to outdo the others. As a result, commercial banks have confined to more aggressive competition to have a big share in the market (Kahaner, 1997).

Baydas et al. (1997) denotes that stiff banking competition in many countries has forced some banks to diversify into new markets and especially the microfinance market. Delfiner (2007) also points out that growing competition in the markets previously served by banks such as loans to big companies, SMEs, drives downscaling. Isern (2003) also indicated that with the increasing competition, there is a margin squeeze leading many banks to explore new potential markets that can generate growth in client numbers at acceptable profit margins. The traditional markets of corporate, business trade and now even housing and consumer finance are being sought by all banks, leading to price competition and wafer thin spreads.

## **2.6 Customer Retention and the uptake of micro finance products**

Customer retention refers to the customer's stated continuation of a business relationship with a firm (Timothy et al, 2007). Customer loyalty has been defined as the willingness of customer to maintain their relations with a particular firm or service/product (Kim & Yoon, 2004).

Customer loyalty is focal point for numerous business organizations (Vesel & Zabkar, 2009). The success of company sales are ensured by customer loyalty, which can be influenced by management action ( Schindler et al, 2001). In emerging business competitions, the loyalty of customers has been shown to be a main feature in getting continued competitive advantage (Lin & Wang, 2006).

Customer - oriented business organizations will attract and develop loyal customers (Chang & Chen, 2007). It is crucial to understand the customer psyche for building competitive policies to succeed in differentiation and winning of customer loyalty in the competitive market (Chen & Hu, 2010). A firm can develop long lasting, jointly profitable association's with customer by developing customer loyalty (Pan, et al,2011). Customer loyalty is a vital element for the continued existence and operating of firms business (Chen& Hu, 2010). Loyalty can be measured by the intention to repurchase, recommending the product/services to others and patience towards price (Kim & Yoon, 2004). Customer loyalty is used to measure repeated purchasing and forbearance for price (Auh & Johnson, 2005). The banking industry is highly competitive, with banks not only competing amongst themselves, but also with non-banks and other financial institutions such as mobile phone companies for example, Safaricom, and Airtel and MFIs.

Most banks product developments are easy to increase and when banks provide nearly similar services, they can only distinguish themselves based on the price and quality or search new markets.(Koivu,2002)

Customer attrition is a major concern for US and Canadian banks, because they have much higher churn rates than banks in Western Europe. They have however achieved customer turnover rates as low as 12% per year, by using tactics such as free checking accounts, online banking and bill payment, and improved customer service. However, once banks can improve their churn rates by improving customer service, they can reach a point beyond which further customer service will not improve retention; other tactics or approaches need to be explored.

Previous studies have identified the benefits that customer retention delivers to an organization. Reichfield (1990) says that the longer a customer stays with the organization or company the more utility than seeking new customers. Many factors consisting of higher initial cost of finding and attracting new customers, increases both the value and number of purchases, and the number of time that the customers stays with the organization.

Rust and Zahorik declared that the cost of attracting new customer may be five times of keeping existing customers. In other research, Beckett et al, made conclusions as to why customers appear to remain loyal to the same financial provider such as banks, in spite of many factors they hold less favorable views towards these service providers. This is because many consumers appear to perceive little differentiation between banks, because according to their opinion, the change of banks essentially is useless. Secondly, consumer appears motivated by convenience. Finally, consumers associate changing banks with high switching costs in terms of potential sacrifice and effort involved. Retention criteria adopted by banks should be carefully managed or else the customers might still leave their banks, no matter how hard bankers try to retain them. (Mostafa et al 2010)

According to Urquizo, (2002), the microfinance industry is evolving as a result of the increasing number of credit providers and market experience using microfinance products. As a result developing customer retention strategies should also be important. As the market evolves, retention becomes a key component in the banking strategy.

Customer retention is not only important because retaining customers costs less than acquiring new ones but rather because it is a value generation strategy for the shareholders and stakeholders; guaranteeing future revenues greatly depends on strengthening the customers' loyalty. For this reason

two banks/ MFIs with the same profitability, number of customers, loan delinquency rates and other factors can have different institutional rates if one of them has more loyal customers. Retention strategies should therefore be developed with the objective of building a win- win relationship between the customer and the organization ( Shaeck and Cihak ,2008)

However, maintaining high standards of customers' satisfaction will not by itself cause customer loyalty. Today, retaining customers becomes a priority. In spite of the importance of retaining customers, some research shows that longevity does not alone lead to profitability (Abratt, 1999 & Beerli, 2004).

## **2.7 Conceptual framework**

The main objective of this study was to establish factors influencing the uptake of micro finance products among commercial banks in Mombasa County, Kenya. In this research, a conceptual framework was adopted as illustrated below.

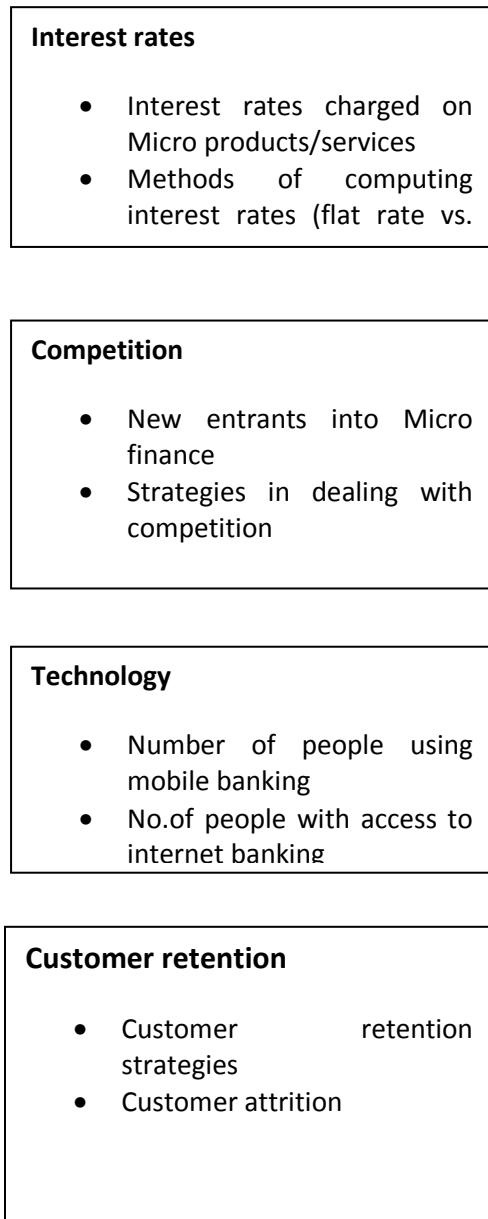
The conceptual framework outlined the independent variables, dependent variables, moderating and intervening variables. Mugenda and Mugenda (2008) defines conceptual framework as a hypothesized model identifying the concepts under study and their relationship. It is a framework usually developed by the researcher to demonstrate the interrelationship between variables of the study.

The independent variables are the driving factors which included interest rates, technology, competition and customer retention.

The moderating variables were government policies and regulations.

**Figure 1: Conceptual framework**

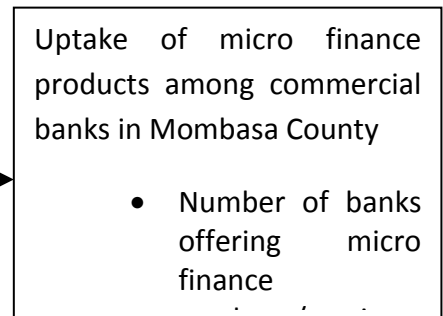
**Independent Variables**



**Moderating variables**



**Dependent variable**



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

In this chapter, discussion of the methodology that was used to conduct the research adopted the following structure; the research design, the target population, sampling and sample size, data collection methods and procedure, the validity and reliability of the research tools, ethical considerations; and data analysis and presentation techniques. Finally, a detailed operational definition of variables was done and provided in the final section of this chapter.

#### 3.2 Research design

The study used descriptive survey to gather information on the relationship between the uptake of micro finance products among commercial banks in Mombasa and the independent variables which included interest rates, technological advancement, competition and customer retention.

Descriptive survey is considered appropriate because subjects are normally observed in the natural set up and can result in accurate and reliable information (Britt, 2006)

#### 3.3 Target Population

A population is defined as the total collection of elements about which we wish to make some inferences (Cooper and Schindler, 2003).The target population for this study was micro finance customers and Micro finance officers of Equity bank, Kengeleni branch, Co-operative bank Digo road Branch, and KCB Kilindini Branch.

Equity bank has four branches in the county of Mombasa namely Digo road branch, Moi avenue branch, Nyali Branch and Kengeleni branch. According to Equity bank 2013 annual report, Kengeleni branch which is strategically located near the sprawling Kongowea open air market has the largest number of Micro finance customers among Equity branches in Mombasa (Equity annual report, 2013). Consequently, the researcher used Equity Kengeleni branch as a representative of the other equity branches in Mombasa County.

Co-operative bank has five branches in Mombasa namely Digo road branch, Nkrumah road branch, Likoni branch, Jomo Kenyatta and Changamwe branch (CO-OP Bank, 2014).Out of this, Digo road branch located at the heart of Mombasa CBD was used as a representative of Co-operative branches in Mombasa because of its location in micro finance high potential areas.



KCB has the largest branch network in the county of Mombasa with six branches offering Micro finance products and services namely Treasury square, Kilindini, Kisauni, Kengeleni, Mvita and Mwembe tayari branches.

The researcher used Kilindini branch as representative of the KCB branches in Mombasa county. KCB launched micro finance in Mombasa county through piloting in Treasury square & Kilindini branches in 2009 (KCB Annual report, 2010). The researcher also has direct conduct with micro finance customers and products in Kilindini branch hence the choice of the branch.

The total number of Micro finance staff in the three banks is distributed as follows; Equity bank Kengeleni branch has 6 micro finance officers and 3020 micro Finance customers, Co-operative bank, Digo road Branch has 5 micro officers and 1200 customers whereas KCB Kilindini has 4 micro finance officers and a total of 1024 micro customers.

Geographically, the study was limited to the county of Mombasa. According to the 2009 census, Mombasa had a total population of 939, 370. Currently; the population is estimated at 1.2 million people. It has a cosmopolitan population with the Swahili people and Mijikenda being dominant. The main religions practiced include Islam, Christianity and Hinduism.

Mombasa has a total geographical area of 294.7 Km<sup>2</sup> with a water mass of 65 Km<sup>2</sup>.

Administratively, Mombasa county is governed by an elected governor and has six constituencies namely Changwamwe, Jomvu, Kisauni, Nyali, Likoni and Mvita all led by elected members of the National assembly.

Table 3.1: Equity Bank, Co-op bank & KCB customer numbers

<i>Bank</i>	<i>No. of MFOs</i>	<i>No. of Microfinance customers</i>
Equity	6	3020
Co-op Bank	5	1200
KCB.	4	1024

Equity annual report, 2013, Co-op bank annual report, 2013, KCB annual report, 2014

### 3.4 Sample size and sampling techniques

A sample in research study is a group on which information is gathered (Frankel, 2000). The idea of sampling is that by selecting some of the elements in a population we can draw a conclusion about the entire population (Cooper, 2006). Using Mugenda and Mugenda, 2003, a sample size of 100` was used in this study. This sample size was therefore calculated as follows;

#### 3.4.1: Sample size

For purposes of sampling the following formula as suggested by Mugenda & Mugenda (2003) was used to arrive at a sample size.

For a sample less than 10,000:

We have

$$N = z^2 qp/d^2$$

Where:

N = the desired sample size

z = the standard normal deviate at the required confidence level.

p = the proportion in the target population estimated to have characteristics being measured.

q = 1-p

d = the level of statistical significance set.

**Source:** Mugenda (2003)

Let the p value =0.5, q=1-p, the z-statistic is 1.96, and we desire accuracy at the 0.05 level, then the sample size is:

$$n = (1.96)^2 (0.50) (0.50) / (0.05)^2 \\ = 100$$

#### 3.4.2 Sampling procedure

The respondents were selected from the three commercial banks mentioned before. Pilot testing of the instruments, Reliability of the research instruments and validity of the research instrument were considered.

### 3.5 Data collection instruments

The study used both primary and secondary data. The primary data collection method was carried out using questionnaires and interview guides. Glasser and Strauss (2007) explains that questionnaires are important instruments for research and data collection. The researcher used questionnaires because they are effective in collecting data from a large sample within a short period of time and at a relatively reduced cost as compared to other methods. The researcher also used secondary data from the banks' annual reports, strategic plans and magazines in order to better understand the research.

### **3.5.1 Pilot testing of the instruments**

Pilot testing was undertaken to establish the reliability of data collection instruments.

Questionnaires were tested on three micro finance staff and ten customers in Kilindini branch to check for their accuracy.

### **3.6 Validity and Reliability of the Research instruments.**

According to Churchill & Lacobucci (2002), validity is synonymous with accuracy or correctness and is an important measure of survey instrument's accuracy.

Gregory (1992) asserts that in order to be valid, inferences made from scores have to be meaningful, appropriate and useful. Fujun et al (2007) mentioned three types of validity: Content validity, predictive validity and construct validity. Duggirala et al (2008) defined content validity as the assessment of the correspondence between the individual items and the concept. The research addressed content validity and questionnaires were tested by giving them out to 10 customers and 3 micro finance staff in KCB Kilindini branch to determine their validity.

Reliability indicates the extent to which a variable or set of variables is consistent in what it is intended to measure (Hair et al, 2007). Factors that affect reliability include poorly written items, excessively broad content of measure, imposed time limits in the testing situation, item difficulty, little or no variability in questions within the testing instrument and too many difficult items in the testing instrument (Mehrens and Lehman, 1991) In order to test reliability, the researcher employed the internal consistency method; specifically the split-half method. The researcher split the instrument into odd and even items and then calculated the resulting coefficient in order to establish the degree to which the two halves of the test provide the same results.

### **3.7 Data collection procedure.**

Data was collected through self-administered questionnaires which were e-mailed and hand-delivered to the respondents. The questionnaires aimed to establish the relationship between the uptake of micro finance products the independent factors highlighted.

### **3.8 Data presentation and analysis Techniques**

This study was able to establish the extent to which the independent variable influenced the dependent variable. Data was analyzed using descriptive analysis. Descriptive analysis is the study of the distribution of one variable and it provides the researcher with profiles of the study population such as size, composition, efficiency and preferences (Kothari, 2004) The data collected from the questionnaires was analyzed by both qualitative and quantitative methods of data analysis, The data was then coded and fed into the statistical package for social sciences (SPSS) program in order to

generate the various statistical measures. Independent sample T-test and Chi square test of independence at 95% level of confidence was used in this study. The level of significance at probability level of 5% was applied.

### **3.9 Ethical considerations**

According to Mugenda and Mugenda (1999), ethics is the branch of philosophy which deals with one's conduct and serves as a guide to one's behavior.

In undertaking the study, the researcher informed the respondents that the information they gave was purely for research purposes and assured them of confidentiality. The researcher completely avoided plagiarism. Sharp and Howard (1996) asserts that plagiarism erodes the integrity of the researcher and the research findings. Lastly, the researcher ensured honesty in gathering and analyzing data and ensured that data integrity was not compromised.

### 3.10 Operational definition of variables

The variables constituted the dependent variable which is uptake of microfinance products and services, and the independent variables which included interest rates, technology, competition & customer retention.

Table 3.2 shows the variables, the indicators and what was measured.

**Table 3.2: Operational definition of variables**

Variable	Indicator	Measurement	Scale	Data Collection	Type Of Analysis
<b>Dependent variable</b> Uptake of microfinance products	pricing	Cost of taking microfinance products	Nominal	Questionnaires & interview guide	Survey
	marketing	Marketing strategies used by banks	Nominal	Questionnaires & interview guide	Survey
<b>Independent variable</b> Interest rates	pricing	No. of customers up taking microfinance products	Nominal	Questionnaires	Survey
<b>Independent variable</b> Technology	No. of people using mobile phones No. of people with internet connectivity	The infrastructure set up by banks to enable use of technology	Nominal	Questionnaires	Survey
<b>Independent variable</b> Competition	New entrants in Microfinance New products	No. of banks offering microfinance	Nominal	Questionnaires	Survey
<b>Independent variable</b> Customer retention	Business gain/loss	No. of people gained/lost since inception of microfinance	Nominal	Questionnaire	Survey

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION

#### 4.1 Introduction

This study placed a specific direction and focus to thematically analyze and interpret data on the determinants of uptake of microfinance products among commercial banks in Mombasa County, Kenya. The data was derived from the questionnaires and key informant interviews, which were formulated and guided by the objectives of this study. Statistical package of social science (SPSS) was then used to analyze the data; and later illustrated in frequency tables & cross tabulation as shown below.

#### 4.2 Response rate

A 96% response rate was recorded where out of the 100 questionnaires distributed, 96 were returned.

#### 4.3: Uptake of Micro Finance Products

The study sought to find out the products and services offered in the institution and responses recorded as follows:

**Table 4.1: Products and services offered in institutions**

Products	Number of respondents	Percent
Micro loans	55	57
Micro savings account	12	14
Both	29	29
Total	96	100.0

Table 4.1 shows that micro loans were the most products offered in the institutions as reported by 57% of the total respondents in the study with only 14% respondents reporting micro savings account. 29% respondents reported both micro loans and micro savings account services and products offered in the institutions.

Further analysis of the study findings on how well the microfinance operations were understood in the institution realized an overwhelming majority of 96% respondents who reported to understand the services very well with a minority of 4% well understanding the services.

**The study sought to test the following research hypothesis:**

The researcher conducted a test hypothesis on the uptake of micro finance products and services within the institutions as shown below

**Table 4.2: Chi-Square testing on influence of uptake of microfinance services**

	<i>Chi-Square Value</i>	<i>Df</i>	<i>Asymp. Sig. (2 sided)</i>
How well do you understand Microfinance operations in your institution	12.114	4	0.228
Bank possess the necessary resources and capability to successfully offer microfinance services & Products	9.922	4	0.524
Bank undertakes adequate marketing for its micro Finance products	12.972	4	0.944

The table above indicates Chi-Square statistic results; it shows there was a significant relationship between a bank possessing the necessary resources and capability to successfully offer microfinance services & Products and the uptake of such products and services within the institutions in Mombasa County.

Similarly, it was evident that banks undertaking adequate marketing for their micro Finance products in Mombasa County, improved the uptake of microfinance services locally. This was evident from the test where the Chi-Square value exceeded the cut off point of 10 for the two indicators.

However, it would be induced from the chi-square test that majority of the individuals within the County may not fully take up micro finance services/ products. This was evidenced during the test where the value of chi-square went below the cutoff point of ten and thus made the indicator very passive. It was prudent for the researcher to infer that the chi-square test ruled out the null hypothesis.

#### 4.4 Interest Rates and the uptake of microfinance products

This sections looks at the measures of interest rates and Table 4.3 presents the information as found out by the study.

**Table 4.3: Interest rates and the uptake of microfinance products**

<b>Interest</b>	<b>Strongly Agree = 5</b>	<b>Agree = 4</b>	<b>Weakly Agree = 3</b>	<b>Disagree = 2</b>	<b>Strongly Disagree = 1</b>
<b>1</b> Interest rates charged by your bank are affordable	18	60	41	22	12
<b>2.</b> You fully understand how your bank calculates the interest rate	51	71	17	10	4
<b>3.</b> Banks interest rate remain constant for the whole period of the loan	1	2	4	13	133
<b>4</b> Setting interest rates lower than competitors leads to increased growth of market share	153	0	0	0	0
<b>5</b> Setting interest rates lower than competitors leads to better loan performance in your bank	153	0	0	0	0

Interest rates were a significant variable to determine uptake of microfinance services in Mombasa County. Specific indicators were measured to determine the validity of the variable from the uptake.

A likert scale was herein applied to directly test the influence that the variable had by determining the strengths through their indicators.

It was likely found to be evident that Interest rates charged by banks were affordable. In as much as 60% slightly agreed on this at the likert scale, a significant strength was given by 18% who strongly agreed on the scale thus pushing the strength to 78%.

In another indicator, banks interest rate remained constant for the whole period of the loan. This received a lot of strength from majority of the respondents on the scale.

With another majority of the respondents setting interest rates lower than competitors led to better loan performance in your bank. It was quite difficult for the test results to reject the null hypothesis. This therefore implied that interest rates had a positive correlation with the uptake of micro finance services in Mombasa County.



#### 4.5 Competition and the uptake of microfinance products

The researcher sought to know if there was any bank that had newly ventured into Micro finance and findings reported as below:

**Table 4.4: Bank had newly ventured into Micro finance**

Bank had newly ventured into Micro finance	Frequency	%
Yes	33	35%
No	63	65%
	96	100%

Table 4.4 above illustrates that only 35% of the respondents reported that banks within Mombasa County had introduced Micro Finance services while an overwhelming majority of 65% denied.

Further analysis on the rate of new customer acquisition in Micro finance in your bank was medium – low as indicated by an overwhelming 100% of the respondents.

The foregoing analysis indicates that the rate of competition between banks and microfinance institutions were not quite rampant in as much as running micro finance services was concerned

The study sought to find out if banks had improved on their existing products/services to make them more competitive and findings were illustrated in table 4.5 below.

**Table 4.5: Bank had improved on existing products & services.**

Bank had newly ventured into Micro finance	Frequency	%
Yes	76	78%
No	20	22%
	96	100%

Table 4.5 above indicates that 78% majority of the respondents confirmed that banks had improved on their existing products/services to make them more competitive. However, it appeared as if the 22% of the respondents had not been convinced whether banks improved on their existing products/services to make them more competitive.

The study tested the variable using the Chi-square test and the results are summarized in the table 4.6 below.

**Table 4.6: Chi-square Results on the incomes in relation to uptake of microfinance products**

	<b>Chi-square value</b>	<b>Df</b>	<b>Asymp. Sig. (2 sided)</b>
Bank has newly ventured into Micro finance	55.468	30	0.003
Rate of new customer acquisition in Micro finance in bank	48.177	20	0.383
Bank offering products/Services which are more competitive than other banks	58.100	24	0.000
Banks improved on their existing products/services to make them more competitive	25.434	24	0.000

In three out of four cases the results of the Assymp. Sig. yielded a  $< 0.05$  therefore the null hypothesis is rejected. This was a confirmation test hypothesis and thus it brings a conclusion that is asymptotic to both the chi-square results and the other consequential test components. In all cases the data sets contained cells with an expected count of less than five, therefore it was unclear as to whether the standard asymptotic calculations of the significance level had been met.

The researcher therefore concluded that of all sub variables computed above, competition was a key indicator that had a significant influence on uptake of microfinance services within banking institutions in Mombasa County.

#### **4.6 Customer retention and the uptake of microfinance products**

The researcher sought to establish the opinions from the customers within the banking institutions on how they valued uptake of microfinance products or services.

### **Age of respondents**

The study sought to determine the age brackets of the respondents and findings revealed that majority of the people interviewed (47.9%) were between the ages of 31 – 40 while 33.3% represented those above 40 years of age as shown in table 4.7 below.

***Table 4.7: Age bracket of the respondent***

<b>Age bracket in years</b>	<b>Number of respondents</b>	<b>Percent</b>
Below 30 years	18	29.0
31-40	46	47.92
Over 40	32	33.3
Total	96	100.0

The researcher sought to use the age factor to determine the appropriateness of the respondents to disseminate information on the subject matter. The researcher makes inferences that information disseminated for the purposes of the study could be used to make conclusions considering that it had been collected from purely mature and probably informed people.

### **Distribution of respondents by marital status**

Table 4.8 below shows the distribution of respondents by their marital status. 75% of the respondents reported that they were married with 14.6% being single during the time of the study.

*Table 4.8: Marital status of respondents*

<b>Respondents Marital status</b>	<b>Number of respondents</b>	<b>Percent</b>
Single	14	14.58
Married	72	75
Separated	4	4.17
Widowed	6	6.25
Total	96	100.0

It was important to note from the above analysis that respondents that had been separated and those widowed formed 4.17% and 6.25% respectively.

The uptake of microfinance services was determined by the marital status; culturally, most married women found it difficult to take up such services as restricted by their spouses. It was important to note that the high proportion of 75% married people could have somewhat affected the uptake of such services

### Customer uptake of microfinance products

The table below shows the analysis of results on the indicators that show the relationship between various variables and the customer uptake in the microfinance services in Mombasa County.

**Table 4.9: Customer uptake of microfinance products**

<i>Indicator</i>	<i>Response categories</i>	<i>Frequency</i>	<i>Percent</i>
For how long have used microfinance products?	1. 1-2 years ( )	15	17%
	2. 3-4 years ( )	40	45%
	3. over 5 Years ( )	35	38%
Which microfinance product and service have you used.	1. Individual loans ( )	38	40%
	2. Group loans ( )	13	14%
	3. Savings accounts ( )	45	46%
Is the interest rate charged on micro loans in your bank acceptable?	1. Yes	96	100%
	2. No	0	0%

The analysis of results on the indicators that show the relationship between various variables and the customer uptake in the microfinance services in Mombasa County was done and reported as discussed.

The researcher sought to find out the duration of time that the customers had used microfinance products and services. 45% majority reported that they had used the products for a period between 3-4 years with another significant proportion recorded at 38%. It should be noted that a minority of 17% had only 1-2 years' experience with microfinance products. The above analysis is indicative that majority of the customers have quite an extensive experience with microfinance products thus giving them a vast knowledge on the products and services offered.

Further analysis of the study findings on the specific microfinance products and services that the respondents had used recorded 46% having used mainly savings account. There were however those who had taken some loans; individual loans were reported by 40% while groups loans were used by 14% of the respondents. The analysis was indicative of the fact that besides customers doing some savings with banks, they also utilized loan facilities, more especially individual loans with some groups' loans as established from a majority of 54%.

Still on the loans facilities, the study sought to find out if the interest rate charged on micro loans in your bank was acceptable. An overwhelming proportion of 100% confirmed that interest rates charged on microfinance loans were quite acceptable. This could have been an attributing factor to the high uptake of loans by both individuals and groups.

It was important for the researcher to find out how the customers came to know about microfinance products in your bank and findings shown below.

**Table 4.10: Customer knowledge on microfinance products**

<b>Customer knowledge on microfinance products</b>	<b>Number of respondents</b>	<b>Percent</b>
Media	16	18%
Bank's DSRS	21	20%
Referral by a friend	55	57.9%
Personal inquiry from your bank	4	4.1%
Total	96	100.0

57.9% of the customers learnt about microfinance products from friends with 18% reporting media to have given them knowledge about the same products. It was however important to note that 24.1% learnt about the services from the banks; either through direct inquiries or through customer other bank mechanisms.

Proper services on microfinance offered by banks to customers seem to be a motivating factor to extend knowledge about the same products to others. This inference was made through evidence that customer to customer knowledge was a key channel.

In the test analysis, the study utilized chi-square in establishing the relationship between independent variable (marketing) and the dependent (uptake of microfinance products/ services) within banking institutions in Mombasa County.

**Table 4.11: Testing of research hypothesis**

	Marketing	Uptake of microfinance products
Chi-Square	117.521	33.662
Df	5	2
Asymp. Sig.	.010	.008

Based on the results in the table above, the chi-square values on the levels of marketing were 117.521, at 5 degrees of freedom. The computed value is larger than the table value of the chi-square which is 11.33. The chi-square value on uptake of microfinance is 33.662 at 2 degrees of freedom. The null hypothesis which implies that marketing is significant in relation to the customer uptake of microfinance products and services within banking institutions and thus needs to be highly embraced.

#### 4.7 Technology and the uptake of microfinance products

Technology has enabled commercial banks provide banking services to people who were previously unbanked. It has also helped the commercial banks in cost reduction which has led to increased profitability.

##### Mobile banking services

Majority of the respondents confirmed that their banks offered mobile banking services. This was reported by an overwhelming majority of 100% of respondents in the study. The study further realized that 76% of the respondents used mobile banking services while the remaining 24% had never used them although they had seen them advertised within the banking institutions as shown in table 12 below.

**Table 4.12: Extent of mobile banking to uptake of microfinance services**

<i>Indicator</i>	<i>Response categories</i>	<i>Frequency</i>	<i>Percent</i>
Have you used mobile banking services?	1. Yes	74	76%
	2. No	22	24%
Does mobile banking make access to micro finance products/services easier?	3. Yes	74	76%
	4. No	22	24%

In table 4.12 above, it was evident from the analysis that mobile banking services made access to financial services easier as reported by 76% of the respondents while only 24% declined. It was prudent to conclude from the above analysis that those who declined possibly represented those who had never used mobile banking before the time of the study.



## Internet banking

The study sought to determine the extent at which internet banking correlated to the uptake of microfinance products in banking institutions and findings were as shown below;

**Table 4.13: Extent of internet banking to uptake of microfinance services**

<i>Indicator</i>	<i>Response categories</i>	<i>Frequency</i>	<i>Percent</i>
Does your bank offer internet banking service?	1. Yes	85	87.5%
	1. No	11	12.5%
Are you connected to internet banking?	1. Yes	0	0%
	2. No	96	100%
Would you consider moving to another bank offering micro finance products/service?	1. Yes	0	0%
	2. No	96	100%

In table 4.13 above, banks offered internet banking services as reported by 87.5% of the respondents while 12.5% were in denial.

Further analysis to confirm if clients have connected themselves to internet banking revealed that none of them had for fear of cybercrimes.

When asked if they (customers) would consider moving to another bank offering micro finance products/service, 100% denied and remained hooked up to their recent banking institutions during the time of the study.

It was obvious that the services both internet and mobile were quite attractive and thus customers had generated trust with their banks and so never found any reason to move for other banking institutions that offered them microfinance products and services.

**Table 4.14: Correlation between mobile banking and uptake of microfinance products**

	<b>Mobile banking</b>	<b>Uptake of microfinance products</b>
Mobile banking	1	0.689
Internet banking	0.689	1
No. of respondents	96	96

The researcher sought to find out if the respondents considered mobile and internet banking as convincing modes of banking. The study utilized the Pearson correlation co-efficient in establishing the weight and relationship between the two variables to the dependent variable.

There was a positive correlation of 0.689 between mobile banking and the subsequent uptake of microfinance products and services within the banking institutions in Mombasa County. In summary, there was proper evidence that respondents had enough trust on the mobile banking services offered by their institutions hence the 100% of respondents reporting not to consider moving to other banking institutions for microfinance services and products.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, DISCUSSIONS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The major findings in this study are summarized; conclusions drawn based on the findings and recommendations made alongside recommendation for further studies following the limitations of the study.

#### 5.2 Summary of findings

Microfinance institutions seemed to have considered the interest rates as a major factor in determining the uptake of products and services by their customers. Banks seemed to charge considerable and affordable rates in order to entice their customers. This was evident by the 60% of respondents who slightly agreed on this at the likert scale, a significant strength was given by 18% who strongly agreed on the scale thus pushing the strength to 78%. Another indicator was that banks interest rate remained constant for the whole period of the loan; which received a lot of strength from majority of the respondents on the scale. In summary, it was important to deduce that interest rates had a positive correlation with the uptake of micro finance services in Mombasa County.

It is seemingly clear that significant proportion of banks within Mombasa County had introduced Micro Finance services. The rate of new customer acquisition in Micro finance in your bank was medium –low as indicated by an overwhelming 100% of the respondents. It therefore implied that the rate of competition between banks and microfinance institutions were not quite rampant in as much as running micro finance services was concerned

The findings of the study indicated 78% majority of the respondents confirming that banks had improved on their existing products/services to make them more competitive. Competition was a key indicator that had a significant influence on uptake of microfinance services within banking institutions in Mombasa County.

The duration of time that the customers had used microfinance products and services was determined by 45% majority who reported that they had used the products for a period between 3-4 years with another significant proportion recorded at 38%. This was indicative that majority of the customers have quite an extensive experience with microfinance products thus giving them a vast knowledge on the products and services offered. An overwhelming proportion of 100% confirmed that interest rates

charged on microfinance loans were quite acceptable. This could have been an attributing factor to the high uptake of loans by both individuals and groups. Proper services on microfinance offered by banks to customers seem to be a motivating factor to extend knowledge about the same products to others. This inference was made through evidence that customer to customer knowledge was a key channel. Marketing was therefore significant in relation to the customer retention and the uptake of microfinance products and services within banking institutions and thus needs to be highly embraced.

Mobile banking services was confirmed by 100% majority of the respondents to have been offered extensively by banks. The study realized that 76% of the respondents used mobile banking services. It was evidence from the analysis that mobile banking services made access to financial services easier as reported by 76% of the respondents.

Internet banking was also offered in many of the banking institutions 87.5% of the respondents reported. It was obvious that the services both internet and mobile were quite attractive and thus customers had generated trust with their banks and so never found any reason to move to other banking institutions that offered them microfinance products and services.

### **5.3 Discussion of the findings**

This section discusses the findings of the analyses of this study, based on the objectives and the research questions.

Observations by the CBK's Monetary Policy Committee (MPC) stated the overall month-on-month inflation increased marginally from 7.30 percent in May 2014 to 7.39 percent in June 2014. Similarly, month-on-month non-food-non-fuel inflation increased slightly from 4.35 percent to 4.47 percent. (CBK, 2014).

This interest rate was however acceptable and customer friendly. The findings of the study report supported the CBK, 2014 observations by the fact that banking institutions seemed to have considered the interest rates as a major factor in determining the uptake of products and services by their customers. The rate of inflation as reported by the CBK was parallel to the interest rates charged by the banks thus giving customers a breather towards affording microfinance services and products from banks

With significant proportions of respondents strongly agreeing in the likert scale on the affordability of interest rates charged by banks, it clearly defines the capacity of banks to make profit as stated by

Kamau (2004). This defines profitability by the banking institutions as the measure of performance and sustainability and an indicator that measures the success of a business.

Similarly, in a test show analysis of the variable, majority of the banks reported interest rates lower than competitors, this led to better loan performance in banks.

Companies are beginning to realize the importance of being ethical while running their daily operations In order to attract and retain employees and customers. Huczynski & Buchanan, 2001 stated that many organizations in the recent times faced turbulent and rapid changing external conditions that translated into complex, chaotic, multifaceted, fluid, and interlinked stream of initiatives affecting work and organizational design, resource allocation, and systems and procedures in a continuous attempt to improve performance.

The researcher clearly identified some significant proportion of banks within Mombasa County that had introduced Micro Finance services. The rate of new customer acquisition in Micro finance was reported to be medium as indicated by an overwhelming 100% of the respondents.

Competition was therefore not quite rampant in as much as running micro finance services was concerned although many organizations are strategically changing tactics in order to align their business tactics to the changing environment. This called for extensive matching of resources and activities of an organization to that environment

However, Rhyne questions whether the newly-commercial, competitive microfinance will serve their purpose. He matches his sentiments with the fact that any goal that can be achieved through provision of financial services will still be served regardless of the growing competition in the microfinance sector; few microfinance programs will be able to maintain the extra services that support other social goals.

With 78% majority of the respondents confirming that banks had improved on their existing products/services to make them more educative and competitive, it was clear that commercialized microfinance was not likely to serve as a platform for educational messages, group action, or social services. The study findings realized that clients will not be empowered once they are simply customers of for profit institutions. The same was also confirmed by Elisabeth Rhyne and Robert Peck Christen,( 2004).

Customer attrition is a major concern for most banks in Mombasa County. They have however achieved customer turnover rates as low as 12% per year, by using tactics such as free checking

accounts, online banking and bill payment, and improved customer service. A cross reference between the report from Reichfield (1990) and the study findings indicated that the duration of time that the customers had used microfinance products and services was determined by 45% majority who reported that they had used the products for a period between 3-4 years with another significant proportion recorded at 38%. This was indicative that majority of the customers have quite an extensive experience with microfinance products thus giving them a vast knowledge on the products and services offered.

Proper services on microfinance offered by banks to customers seem to be a motivating factor to extend knowledge about the same products to others. This inference was made through evidence that customer to customer knowledge was a key channel. Marketing was therefore significantly in relation to the customer retention and the uptake of microfinance products and services within banking institutions and thus needs to be highly embraced.

A wide range of studies declared that the cost of attracting new customer may be five times of keeping existing customers. In this study, the researcher made conclusions as to why customers appear to remain loyal to the same financial provider such as banks, in spite of many factors they hold less favorable views towards these service providers. This is because many consumers appear to perceive little differentiation between banks, because according to them, the change of banks essentially is useless.

Secondly, consumer appears motivated by convenience. Finally, consumers associate changing banks with high switching costs in terms of potential sacrifice and effort involved. Retention criteria adopted by banks should be carefully managed or else the customers might still leave their banks, no matter how hard bankers try to retain them.

Mobile telephony is one such channel which financial service providers use to provide services to their customers. This has enabled commercial banks to increase the number of customers and also save on costs. Jenkins, (2008) stated that the easy availability and relatively low pricing of mobile phones has enabled majority of commercial banks to reach more customers while at the same time providing them with banking services at their convenience anywhere in the country, while existing and new customers are enjoying the increased security and affordability of the services and devices. The same were supported by the findings of the study and the fact that mobile banking can also reduce costs and increase the quality of services, even in poor communities like the majority found within Mombasa County.

The remarkable gains made towards mobile phone access have seen a steady progress in the scope of innovations emanating from exploitation of mobile technology. Mobile banking services was confirmed by 100% majority of the respondents to have been offered extensively by banks with 76% of the respondents used mobile banking services. What has characterized the Kenyan mobile landscape is a rapid uptake of various services key among them the mobile based products. Mobile banking is one innovation which has progressively rendered itself in pervasive ways cutting across numerous sectors of economy and industry.

#### **5.4 Conclusion**

Based on the findings of the study, it was important to note that the interest Rates charged by a bank on microfinance services had a significant influence on the uptake of microfinance products. As many Microfinance institutions seemed to have considered the interest rates as a major factor in determining the uptake of products and services by their customers; many of the banks seemed to attract their customers with the considerable and affordable rates. In summary, the researcher concludes that interest rates had a positive correlation with the uptake of micro finance services in Mombasa County.

Competition in this study was measured by several indicators. The aspect of banks introducing Micro Finance services, the rate of new customer acquisition in Micro finance in banks and banks confirming that they had improved their services to cope with competition as measured. All the indicators save for the fact that banks introduced microfinance services were positively indicating high rates of responses. This inferred that the rate of competition between banks and microfinance institutions were not quite rampant in as much as running micro finance services. The researcher simply concluded that competition was a key indicator that had a significant influence on the uptake of microfinance services within banking institutions in Mombasa County.

We can conclude that technology played a vital role to influence the uptake of microfinance products within banking institutions. Mobile phone was a significant channel which financial service providers use to provide services to their customers. It is important to note that commercial banks used mobile services to increase the number of customers and also save on costs. This was evident when 100% of respondents reported that mobile services was offered within banking institutions and a subsequent utilization rate of 76% by the customers. There was a however a slightly different scenario in the use of internet banking in as much as banks offered the service. The researcher made conclusion that both internet and mobile were quite attractive and thus customers had generated trust with their banks and

so never found any reason to move for other banking institutions that offered them microfinance products and services.

### **5.5 Recommendations**

The recommendations made in this section are in the light of responses and in view of the research findings on the uptake of microfinance products/ services in banks within Mombasa County.

The researcher recommends that commercial banks need to reduce their interest rates in order to attract and retain more customers to utilize their microfinance services/ products. There is also a need to educate customers on the interest rates offered in banks in line with the value added into the utilization of microfinance services.

The researcher also recommends that commercial banks need to enlighten their customers on the use of mobile and internet banking for ease of utilization of microfinance services from banks. This will eliminate the fear that some of them have on cyber-crime and increase their confidence to the banks they are served from.

Lastly, Customers need to be educated on the current products that banks introduce and improve the services and customer care in order to retain them. Media could also be used more to provide extensive awareness in as much as proper treatment to customers could also lead to them introducing other new clients and thus retain existing one besides adding new clients.

### **5.6 Suggestions for Further Research**

This research has concentrated on the determinants of uptake of microfinance services/ products within commercial banks in Mombasa County. However there are other Microfinance institutions which offer the same services and products in Mombasa County. Therefore it is worthwhile to study the factors that propel customers to prefer commercial banks and not microfinance institutions for microfinance services and products.



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## APPENDICES

### Appendix I: Questionnaire for Micro Finance Staff

Dear respondent, this instrument is designed to facilitate collection of data on **determinants of the uptake of Micro Finance products among commercial banks in Mombasa County, Kenya**. The information you provide will be used purely and solely for academic purposes and will be treated with utmost confidence.

Thank you in advance for your participation

#### Section A: Identification

1. Name of Bank:.....
2. Title of Respondent (Tick as appropriate)  
Branch Manager ( ) (ii) business banker ( ) (iii) MFO ( ) (IV) Micro DSR
3. Duration in the banking industry
  - a) 4 years and below ( )
  - b) More than 4 years ( )

#### Section B: UPTAKE OF MICRO FINANCE PRODUCTS

4. Which of these microfinance product/ service are offered in your institution?
  - a) Microloans b) micro savings accounts c) both
5. How well do you understand Microfinance operations in your institution?
  - i) Very well ( ) ii) Well ( ) iii) Fairly ( ) iv) Poorly ( ) v) very poorly ( )
6. In your assessment, does your Bank possess the necessary resources and capability to successfully offer microfinance services & Products?
  - A) Yes ( ) b) No ( )
- 7 List four reasons for your answer in No.6 above .....
8. Has your bank undertaken adequate marketing for its micro Finance products?
  - A) Yes ( ) b No ( )
9. Briefly mention four marketing strategies used by your bank to attract new Microfinance customers.....

#### INTEREST RATES

Answer the following questions allocated various scores as shown in your honest opinion(tick appropriately)

	INTEREST	Strongly Agree = 5	Agree = 4	Weakly Agree = 3	Disagree = 2	Strongly Disagree = 1
1	Interest rates charged by your bank are affordable					
2.	You fully understand how your bank calculates the					



**CUSTOMER RETENTION**

- 15). Apart from microcredit and micro saving services, which other bank products are appropriate for the microfinance clients.....
- 16. Which ways do you use as staff to offer this other services?.....
- 17). Have the means in No. (16), assisted in reduction of loss of business? If yes, explain further.  
.....
- 18). Have the microfinance products attracted other customers who initially enjoyed different product. If yes, how has this affected the bank’s performance? .....
- 19). has your bank succeeded in the implementation of microfinance services? Give reasons for your answer.

## Appendix II: Respondent Questionnaire 2

As a valued customer who has been using microfinance products, you are kindly requested to spare a few minutes of your time to complete the survey questionnaire. Your honest and complete answers will be highly appreciated. The information you provide will be used purely and solely for academic purposes and will be treated with utmost confidence.

Thank you in advance for your participation.

### Section A: Identification

1. Name of Bank .....
2. Branch.....

### Section B: Demographics

Tick as appropriate

1. Age: 18-30 ( ) 31-40 ( ) 41-50 ( ) Over 50 ( )
2. Sex: Male ( ) Female ( )
3. Occupation : Employed ( ) Self Employed ( )
4. For how long have used microfinance products?  
1-2 years ( ) 3-4 years ( ) over 5 Years ( )
5. Which organization were you in before joining your Bank.....
6. Which microfinance product and service have you used.  
Individual loans ( )  
Group loans ( )  
Savings accounts ( )
7. Is the interest rate charged on micro loans in your bank acceptable?  
a) Yes ( ) b) No ( )  
Give reasons for your answer in No. 7 above.....
8. How does your bank calculate interest rates on Micro loans?  
a) Flat rate ( ) b) Reducing balance ( )
9. Do you understand the difference between the two methods of calculating interest rates in 8 above?  
a) Yes ( ) b) No ( )
10. Briefly explain your answer in 9 above:.....
11. How did you find out about microfinance products in your bank?  
a) Media ( )  
b) Bank's DSRS ( )  
c) Referral by a friend ( )  
d) Personal inquiry from your bank ( )
12. Has your bank done enough to educate people on the micro finance products they offer?  
a) Yes ( ) b) NO ( )
13. If you answer in 12 above is No, briefly explain what they should do to reach many more people  
.....
14. Does your bank offer mobile banking services?  
Yes ( ) No ( )  
If your answer in 14 above is YES, have you used the mobile banking services?  
a) YES ( ) b) NO ( )
15. Does mobile banking make access to micro finance products/services easier?



- a) Yes ( ) b) No ( )
16. Briefly explain your answer in 15 above.....
17. Does your bank offer internet banking service?
- a) Yes ( ) b) No ( )
18. Are you connected to internet banking?
- a) YES ( ) b) NO ( )
19. If Yes, Briefly explain how internet banking has helped you.....
20. Is your bank offering better microfinance products/services than its competitors?
- a) YES ( ) b) NO ( ) c) I don't know ( )
21. What would you want your bank to improve on to make it more competitive? Briefly explain below: .....
22. Are you satisfied with your bank's micro finance products being offered?
- a) YES ( ) b) NO ( )
23. If your answer is No above, briefly explain what strategies the bank can employ to prevent customer attrition/ loss .....
24. Would you consider moving to another bank offering micro finance products/service?
- a) YES ( ) b) NO ( )
25. Briefly explain your answer above.....

**Thank you very much for your response and cooperation**

**Appendix III: Letter of Introduction**

Wambua Vincent Mulinge,  
P.O Box 90300 -80100  
Mombasa.  
Cell Phone 0723301638

The .....  
.....  
.....

Dear Sir/Madam,

**REF: ACADEMIC RESEARCH**

I am a Masters student at the University of Nairobi currently pursuing a Master’s Degree in Project Planning Management. In accordance with the requirement of the course we are supposed to carry out a research in any area of interest. I am therefore conducting a Research on determinants of the uptake of Micro Finance product among commercial banks in Mombasa County.

I am kindly requesting for your participation by responding to the questionnaire since your views will be very important in this study. You are free to ask any questions and not to respond to any question that you may feel uncomfortable with. The information given by you will be kept strictly confidential and used solely for the purpose of the research.

Thank you for your cooperation.

Wambua Vincent Mulinge