Abstract:

The topic of the research project was on “Factors Influencing the Transition from Micro-financing to Formal Banking among the Micro Finance Institutions in Kenya”. The main objectives of the study was to establish the factors influencing in the transformation from micro financing to formal banking in Kenya. The research questions were systematically generated from the objectives. The research used a survey strategy, simple random sampling in finding the number of schools, and simple stratified sampling in finding the respondents. Questionnaire and interviews were used to collect data from the respondents and out of the fifty managers (50) who were sampled, forty nine (49) of them responded, giving a response rate of ninety eight (98) percent. The conclusions of the study are based on the research questions leading to the main purpose of the study. Firstly, it was found that a number of measures can be taken in order to transform from micro financing to formal banking. Secondly, there are many measures that can be undertaken in order to transform from micro financing to formal banking. The key factors are: increasing customer base; improving the quality of service; changing the IT in the organization; improving the turn around a round in loan application; customer segmentation and change of measures in giving loans. Thirdly, the factors to a very great extent that have facilitated the MFI’s (which are now on the formal banking business) in the transformation efforts to formal banking include: a sound customer care desk; the MFI’s ability to optimize business volume; understanding organizations exposure to customers; operating through efficient systems and processes; minimizing losses when loans go bad; and lastly, effective balancing of high and low risk business. Fourthly, loans management is a key measure in its own that can influence the growth of micro finance institution. The key measures to a very great extent which can be used by MFI to minimize losses when loans go bad were found to be: by insurance; proper vetting of customers; and reputation of the company where loans are advanced. Fifthly, the serious challenges facing/ inhibiting factors MFIs facing the transformation from micro financing to formal banking are: strict rules from the Central Bank; high costs of operation; no proper government policy on MFI’s; unscrupulous MFI’s spoiling the reputation of the industry; and the inability to deliver services to poor or remote populations. Further analysis using factor analysis broke the factors into five components: inadequate regulatory and loan management systems, rivalry and competition in the industry, poor customer care, high operation cost to central banks cost levies and unscrupulous nature of MFI’s.