IMPLICATIONS OF COMMERCIALIZATION OF MICROFINANCE INSTITUTION'S ON THEIR CLIENT OUTREACH IN KENYA

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ABSTRACT
This study set out to assess the extent of commercialization of microfinance institutions (MFIs) in Kenya and to establish if the MFI's that are adopting commercial practices have attained client outreach. Social owners who include social entrepreneurs, foundations and donors exclusively own majority (77%) of MFIs, indicating a low level of commercialization in MFIs. Majority (59%) of MFIs' activities are funded from both market and non-market based sources of funds. While 14% of MFI's exclusively use funds from market-based sources which include commercial loans; savings and shareholder capital representing a relatively higher level of commercialization. 27% MFI's exclusively use funds from non-market based sources which are basically grants and subsidized loans. This is an indication of low level of commercialization in MFIs in relation to sources of funds.

Majority (59%) of MFIs have developed and implemented diversified financial services delivery systems, which include decentralized credit decisions, payments and collections through retail outlets among others. This indicated a higher level of commercialization in MFIs.

Majority (82%) of MFIs indicated that the important financial objective is operational self-sufficiency, which shows a realization that a commercial approach will allow MFIs greater opportunity and control to fulfill their social objectives of providing the poor with increased access to an array of demand-driven microfinance products and services. Majority (41%) of MFIs offer one product, which is the group lending product, 9% of MFIs offer more than four products while the rest offer between two and four products. This indicates a low level of commercialization in MFIs. The MFIs that are operating as formal financial institutions offer more than four products. This means that the policy and legal and regulatory framework are not conducive to the commercialization of MFIs in terms of product development. Consequently, majority of MFIs would like to transform to formal financial institutions in the next five years.

Majority (50%) of MFIs have between 1-10 branches and outlets, these MFIs accounted for majority (43%) of total clients in 1998 and 61% of total clients in 2002. The MFIs that have between 1-10 and 41-50 branches and outlets show a growth in market share will the rest show a decline in market share in the five year period (1998-2002).

The MFIs that indicated high level of commercialization also achieved the highest growth in client outreach.