EXTERNAL FACTORS INHIBITING GROWTH OF NON DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA: A CASE STUDY OF SPEED CAPITAL

BY

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UNITED STATES INTERNATIONAL UNIVERSITY
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SUMMER 2017
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A Research Project Report Submitted to the Chandaria School of Business in partial fulfilment of the requirement for the Award of the Degree of Masters of Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY
AFRICA

SUMMER 2017
STUDENT’S DECLARATION

I declare that this research project is my original work and has not been previously published or presented for the award of a degree in any university.

Signed…………………………… Date……………………

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This project report has been presented for examination with my approval as the appointed supervisor.

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Dean, Chandaria School of Business
ABSTRACT

The aim of the study was to investigate the external factors inhibiting growth of non-deposit taking microfinance institutions in Kenya. The study will focus on a non-deposit taking MFI located in Nairobi, Speed Capital. The study aimed to answer four research questions: what is the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions, what is the role played by technology in the growth of non-deposit taking microfinance institutions, what is the impact of a non-deposit taking microfinance institution’s location in their growth and the role played by capital adequacy in the growth of non-deposit taking microfinance institutions. The study adopted a descriptive research design. Speed Capital was selected purposively and stratified random sampling was used to sample the target population which included board of directors, senior management, middle level management and non-management staff of Speed Capital. Census sampling technique was used and the sample size was established as 99 respondents. The questionnaire was used to collect information on the independent variable while secondary data was used to collect information on firm growth. Descriptive statistics (frequencies, percentages, mean and standard deviation) and inferential statistics (correlation and regression) were used to analyse the data. The correlation results showed a positive and significant relationship between regulatory framework, technology and capital adequacy, but there was a positive and insignificant relationship between location and growth of non-deposit taking MFIs. The regression analysis showed that the study independent variables explained 40.2 % change in growth of non-deposit taking MFIs. The ANOVA results indicated that this change was statistically significant. The multiple regression analysis further confirmed that a change in regulatory framework, technology and capital adequacy led to growth of non-deposit taking MFIs and this was significant. Based on the findings, the study concludes that regulatory framework, capital adequacy and technology were the external factors inhibiting growth of non-deposit taking microfinance institutions in Kenya. The study further concludes that location does not inhibit growth of non-deposit taking microfinance in Kenya. The study recommends for further study, other factors perceived to influence growth of non-deposit taking MFIs such as corporate governance, capital structure, corporate social responsibility and role played by devolution.
ACKNOWLEDGEMENT

I acknowledge my wife and son for the support accorded to me throughout the project. My appreciation goes to all those who contributed either directly or indirectly to the successful completion of this research project.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of Study

Microfinance involves the provision on a small scale of a broad range of financial services such as deposits, loans, payment services, to poor and low income households and their enterprises (Mngolia, 2009). Microfinance has also been described as the provision of financial services to poor and low income households who don’t have ready access to formal financial institutions. MFIs have been known to provide a channel for increasing the efficiency, depth, breadth and reach (access) of financial systems (Goyal, Marsh, Narayan, & Ahmed, 2011).

Consequently, institutions that offer microfinance are called microfinance institutions (MFIs). An MFI is an institution whose principal business is the provision of microfinance services, including micro credit. The concept of Microfinance dates back to the mid-19th century when the theorist Lysander Spooner documented the benefits for small credits to farmers, businessmen and entrepreneurs as a means through which the society would get its people out of poverty. At about the same time, a village bank movement in Germany was started by Friedrich Wilhelm Raiffeisen and had within 40 years since its inception, reached 2 million rural farmers. These two models would in subsequent years be perceived to be the pioneers of the concept of microfinance by renowned Yale researcher Timothy Guinnane (Guinnane, 1997).

However, the delivery of financial services in the form of microfinance to the poor was popularized by the activities of Professor Yunus in Bangladesh in the early 1970’s. After obtaining his PHD in economics, he travelled back home in the early 1972 to find his country grappling with famine as a result of severe flooding. In fact, it was estimated that over 80% of the country’s population was living in abject poverty barely two years after earning its independence from Pakistan in 1971 (Yunus, 1999).

Professor Yunus, with a special charter of the Bangladesh government, founded the Grameen bank as a formal and independent financial institution in 1983. The bank targeted the vulnerable members of the society and focused on providing credit to poor, who could not access credit through the formal processes available at the time (Marguerite, 2001). By providing access to credit to the extremely poor in Bangladesh,
the Grameen bank enabled recipients of its loans to become entrepreneurs. Through extra income earned, beneficiaries of the bank’s loans were able to break themselves free from the cycle of poverty (Yunus, 1996).

However, it was not until the late 1990’s when the microfinance revolution started to be felt across the globe. This would by part be attributed to the success of the Grameen bank group lending model which required borrowers to organize themselves into groups of five to receive a loan (Marguerite, 2001). This model would later be referred to as the joint liability contract and was one of the most celebrated lending innovations by the Grameen Bank. In 2006, the Nobel peace prize committee settled on Professor Yunus, the founder of the Grameen bank as the winner of the annual award for his pioneering efforts in reducing poverty in Bangladesh (Sengupta & Aubuchon, 2008).

Globally, provision of credit was initially done through non-profit organizations (NGO’s). For example in Latin America, NGO’s devised ways of providing credit sustainably to this sector. This was by taking into account the lack of information and traditional guarantees within this population sector, developing instead a methodology that used personal information and one-on-one contact to provide credit (Jansson, 1997).

One such firm that is thought to have heralded the concept of microfinance in the continent is Accion International. In the 1980’s, the firm began a grassroots community development initiative in the low income areas of Venezuela. It initially focused at building schools and water systems prior to offering microfinance to community based initiatives in subsequent years (Beatriz & Maria, 2005). By the end of the 1990s, a growing number of countries within the region had at least one microfinance entity that had demonstrated its capacity to reach large numbers of poor people with credit and also achieve financial viability while specializing in the microenterprise sector (Beatriz & Maria, 2005). For the first time in history, capital was on its way to being democratized (Marguerite, 2001).

Around the world, a revolution started to be felt within the low-income cadre of the society in the 1990’s. Microfinance institutions had gained prominence to serve over 10 million households in the developed and developing countries by the mid 1990’s. The developing microfinance industry had huge implications for social and economic development. The growth of microfinance institutions (MFIs) in developing countries
which specifically target low income individuals are viewed as potentially useful for promotion of financial inclusion. (Gomez & Santor, 2008). The micro financiers were finally delivering financial services to the poor at scale, through financially self-sufficient institutions (Marguerite, 2001).

The microfinance sector in Africa is understood to be relatively newer compared to the Asian or the Latin America sector. Asian MFIs are able to serve poorer clients with products and loans charged by low interest rates. The networks of small MFIs is very dense, MFIs are located near important cities and people do not have to cross long distance to get there (Gomes, 2000). On the other hand, African MFIs are very diverse regarding the forms or types of MFIs. They are much more dependent on financial resources of humanitarian organizations; they have higher operational or administrative expense and clients are usually served with microfinance products charged by higher interest rates (Kiplagat, 1998).

A study performed in 2003 attributed that the biggest economic tragedy of the twentieth century was the dismal growth performance of the African continent (Artadi & Sala-i-Martin, 2003). After many of its big nations became independent in the 1960s, sub-Saharan Africa’s growth and development record was disastrous for decades with many African countries suffering negative per capita growth (Etzensperger, 2013).

Kenya’s financial sector is roughly the largest in East Africa. Kenya has 44 commercial banks and boasts the best-developed microfinance segment in the region. Roughly three-quarters of the East African microfinance sector are Kenyan (Etzensperger, 2013). Uganda has 25 commercial banks with only 2, (Centenary Bank and Equity Bank Uganda) having a microfinance focus. The country has five deposit-taking MFIs and a few smaller MFIs. The microfinance sector is regulated by the Bank of Uganda. Tanzania has 35 commercial banks, but less than a dozen major MFIs. Unfortunately, the large number of commercial banks does not reflect a high degree of financial inclusion. Most commercial banks have a narrow, often government and/ or commodity sector-related business focus and do not serve a substantial number of households or businesses (Mukama, Fish, & Volschenk, 2005).
While the MFIs focus on the latter segment, together they still reach a relatively small number of 300,000 active borrowers and 390,000 savers. The leading MFI, with 100,000 active borrowers, is Arusha-based Pride (Etzensperger, 2013).

The Microfinance industry in Kenya began gaining prominence in the early 2000’s. In the late 1980s, the Kenyan Government established a Structural Adjustment Program that sought to liberalize the economy. This was done by supporting micro-enterprises to counter possible negative effects of this liberalization (Dondo, 2007). Initially, MFI’s had an agricultural orientation due to the inability by established institutions to support farmers such as the Agricultural Finance Corporation. The entry of the Narc government coupled with increased funding from International donors, opened up the arena for MFI’s in a bid to improve the living standards of our nation (Kurgat, 2012).

The year 2005 was declared by the Economic and Social Council of the United Nations as the International year of Microcredit to sensitize the financial and building sector to fuel the strong entrepreneurial spirit of the poor people around the world (Omino, 2005). In Kenya, this would undoubtedly set the stage for the enactment of the Microfinance Act 2006, one of the key turning points in the industry. Pundits claimed that this act would set in a new era in the growth and development of the microfinance industry by integrating the industry to the formal financial sector, thereby promoting competition, efficiency and access. The Microfinance act of 2006 would ultimately lead to the creation of an all-inclusive financial system including the strengthening of alternative financial service providers and public education and awareness campaign that would stem off the mushrooming of pyramid schemes and similar schemes in the country (Ndulu, 2016).

The Central Bank of Kenya (CBK) broadly divides the microfinance institutions into deposit-taking and non-deposit-taking microfinance institutions. The deposit-taking microfinance institutions (DTMs) are licensed and regulated by the CBK and are permitted to mobilize and intermediate (or lend) deposits from the public. The DTMs have contributed to the deepening of financial inclusion by opening branches in many parts of Kenya and the region (Cherotich, 2011). They have also developed new financial products that are demand driven and that are appropriate to the needs of the clients. Examples include Faulu Kenya, KWFT, and SMEP. The non-deposit taking microfinance institutions are regulated by the Ministry of Finance (National Treasury), and are not allowed to mobilize public funds (Aduda & Kalunda, 2012). The Central Bank of Kenya
(CBK) continues to play a leading role to ensure macro-economic stability and to provide a supportive regulatory environment for the financial sector growth and development. For notable progress to be achieved, flexibilities in regulatory issues and policies are necessary where rigidities would deter the creation of markets for the previously financially excluded (Goswami & Sharma, Is microfinance the magic bullet for women's empowerment: analysis of findings from south asia, 2005).

Microfinance in Kenya is regulated under different laws, including the banking law and the Microfinance Act, which was issued in 2006 and amended in 2013. Hence, the Microfinance Act 2006 and the Central Bank of Kenya Act primarily governs the Microfinance industry (Muganga, 2010). The main objective of the Microfinance Act is to provide the legal, regulatory and the supervisory framework for the Deposit-Taking Microfinance Institutions (DTMs).

The Act makes several provisions for MFI license issuance, revocation, and restriction; provides for MFI entry into regulated status; defines the minimum core capital requirements and prohibited activities; provides limits for loans or credit facilities; defines ownership and management structure; provides for supervision by CBK; and stipulates the terms for periodic reporting to the CBK. The Microfinance (Amendment) Bill 2013 increased the range of financial services that the DTMs can offer. Moreover, the amended version has differentiated between the regulated microfinance institutions and the un-regulated microfinance lenders (Ndulu, 2016).

A survey conducted by FinAccess (2006) stated that about 38% of adult Kenyans are unserved by our financial system indicating a huge market potential for the microfinance industry. The study shows that only 19% of Kenyans are served by formal financial sector, namely commercial banks and the Kenya Post Office Savings Bank, while 8% are served by semi-formal financial service providers such as microfinance institutions (MFIs) and Savings and Credit Co-operatives societies (SACCOs) and the remaining 35% are served by informal financial service providers ranging from Accumulating and Rotating Savings and Credit Associations (ASCAs and ROSCAs) to shopkeepers and money lenders. This indicates a big gap in access to financial services by Kenyans and microfinance institutions (MFIs) are expected to play a major role in filling it by expanding access (FinAccess, 2006).
Recently, the total asset of the Microfinance Institutions (MFIs) in Kenya has increased steadily compared to the previous years. The growth was at an average of 30.4% and is worth over KES 220bn as at December 2011, up from KES 129bn as at December 2009 (Kurgat, 2012). Despite this growth, Kenyan microfinance sector is still weak compared to the size of its clients. Recent reports showed that if commercial banks are excluded, the Kenya microfinance sector is less strong and relatively stagnant (Muiruri, 2014).

The Microfinance Act 2006 that came to effect in 2008 created three tiers of microfinance institutions: prudentially regulated deposit-taking, credit only and unregulated informal groups. Some researchers have broadly grouped the Kenyan Microfinance sector into 3 categories namely, The Informal sector, the formal subsidized sector and the formal non-subsidized sector. Non deposit taking MFI’s are categorized under the informal sector or the credit only with the deposit taking MFI’s categorized under the formal subsidized sector or the prudentially regulated deposit taking category (Muganga, 2010).

Figure 1.1 Financial Landscape in Kenya

The AMFI website states that a non-deposit taking microfinance institution is a licensed non-deposit taking provider of microfinance services that is mandated by law to provide financing or capital. Non-micro finance institutions continue to play a significant role in the lives of the poor in Kenya by responding to their needs, concerns and voices by providing easy access of financial services and are seen as a solution to include on a large-scale previously excluded poorer groups without access to capital into the financial system (Cherotich, 2011).

Speed Capital is an upcoming non deposit taking micro finance institution that was established in the year 2009. Its key focus was to provide financial solutions to the non-
banked or low level businesses as a catalyst for growth, promoting entrepreneurship, business sustainability and poverty alleviation. It is stated in the firm’s website that the firm’s vision is to be the preferred partner for provision of financial services to small medium enterprises (SME’s) in Kenya and beyond.

The firm is headquartered in Nairobi (Kimathi House) and boasts of about 8 branches and currently has a loan portfolio of 200 million with a customer base of about 15,000. The company prides itself in providing quick small loans that can be processed between 1 – 2 days and with flexible payments of between 1 to 12 months at an interest rate of 10% every month on a reducing balance. The firm has a wide range of products aimed at empowering people economically and socially. These include Asset financing, project financing, Import financing, bonds financing and invoice discounting to mention but just a few. In addition, the firm ensures that micro entrepreneurs have easy access to financial and support services in strategic urban and semi-urban areas of Kenya.

The firm has been selected for this study because most of its employees and managers have been in the industry for more than 5 years, hence have better insights on the challenges that the firm and industry players face. In addition, the firm seeks to grow and expand into the wider East African market; hence, it will be important for all its stakeholders to understand the potential barriers to this strategic plan.

1.2 Problem Statement
Kenya’s economic growth has over the past decade revolved between 5% and 7% primarily due to the fact that there is still a huge gap in terms of accessibility to finance for the low and middle income earners which inevitably results in a stagnation of the country’s growth (Ndulu, 2016). Microfinance services in Kenya have existed for some years, yet for a number of reasons, have not been able to reach the majority of low income Kenyans. Microfinance continues to play a significant role in the lives of the poor in Kenya by responding to their needs, concerns and voices by providing easy access of financial services (Cherotich, 2011). Without the prioritization of the factors that impede the growth of these microfinance services, solutions might have no significant impact on growth in the sector if they are not correctly targeted. Establishing an efficient and growing microfinance system is central to serving the low income segment of society effectively while also contributing to economic growth (Yunus, 1999).
Deposit taking MFI’s can leverage on the Association for Micro-finance Institutions (AMFI), a member-based organization that was established and registered in 1999 under the societies Act, with the aim to build the capacity of the Kenyan Microfinance Industry. Non-deposit taking MFI’s do not have a unified body through which they can voice their concerns or lobby other regulatory institutions for better policies to govern them. AMFI has since its conception continued to play a major role in the development of the industry with a broad mandate of promoting a conducive environment for the development of MFIs, clients and the business environment (Dondo, 2007).

Non-deposit taking microfinance institutions continue to face a myriad of challenges in their quest to enhance financial accessibility in the country. This research will focus on external factors affecting growth of non-deposit taking financial institutions in the country. There has been increased emphasis on new delivery channels such as agent banking, mobile phone money transfer services and relaxed know-your-customer (KYC) requirements in order for non-deposit taking microfinance institutions to reach out the unbanked and underserved (Aduda & Kalunda, 2012). However non-deposit taking microfinance institution have not yet achieved their primary goal of financial inclusion and as a result just serve a niche market of small scale entrepreneur’s in search for short term and overnight capital to finance their business in the lower trade zones of the Nairobi central business district, namely Luthuli avenue, Gikomba market and River road (Ndulu, 2016).

1.3 Purpose of Study
This study aims to determine the reasons why non-deposit-taking microfinance institutions seem to be stagnating despite the relative growth of the Kenyan economy driven by the small and medium enterprises. This study will focus on a firm known as Speed Capital.

1.4 Research Questions
1.4.1 What is the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions?

1.4.2 What is the role played by technology in the growth of non-deposit taking microfinance institutions?
1.4.3 What is the impact of non-deposit taking microfinance institution’s location in their growth?

1.4.4 What role does capital adequacy play in the growth of non-deposit taking microfinance institutions?

1.5 Significance of Study
This study will be of great importance to the following groups:

1.5.1 Management of Speed Capital
The study will bring out clearly the challenges that management in non-deposit taking MFI’s should address in their endeavor to improve on their institution’s growth and expansion.

1.5.2 Investors
The study will expose to potential investors gaps within the industry. In addition, it will enable investors know how best to partner with these institutions for a better return of their investment.

1.5.3 Other non-deposit taking microfinance institutions
The study will enable industry players’ leverage on their partnerships to come up with a unified body that can lobby for favorable laws.

1.5.4 Regulatory Bodies
The study will expose the challenges faced by non-deposit taking microfinance institutions and how the regulators can develop favorable policies to govern these institutions.

1.5.5 Researchers
The study will bring out other areas of focus within the microfinance industry that researchers would consider for further studies as well as providing reference material for future researchers.

1.6 Scope of Study
The study will cover of the upcoming Non deposit taking MFI (Speed Capital) that was established in the year 2009. Its key focus was to provide financial solutions to the non-banked or low level businesses as a catalyst for growth, promoting entrepreneurship, business sustainability and poverty alleviation. The firm’s vision is to be the preferred
partner for provision of financial services to Small Medium Enterprises (SME’s) in Kenya and beyond. The study was conducted between March 2017 and June 2017.

1.7 Definition of Terms

1.7.1 Capital Adequacy
Capital is described as the factor of production that can generate revenue when employed (Smith, 2003).

1.7.2 Regulatory Environment
This is simply, the laws, rules, and regulations put into place by federal, state, or other government entities and civilian organizations to control the behavior and actions of business activities. The core objectives of financial regulation are to preserve the stability and soundness of the financial system and to protect the deposits of the public (Llewellyn, 1999).

1.7.3 Technology
Technology is broadly speaking the application of scientific knowledge domain for sensible functions and practical purposes (White & Bruton, 2011).

1.7.4 Location
This is simply a particular place, point or area occupied by a subject (Gersmehl, 2008).

1.7.5 Poverty
This is described as an unacceptable deprivation in human wellbeing that can comprise of both physiological and social needs. The poor in this case are people finding themselves in the situation of poverty (Yunus, 1996).

1.7.6 Microfinance
This is the business of accumulating capital and spreading it around at the small end of financial markets where the poor are most likely to participate. It is simply put, the provision of financial services to the poor (Yunus, 1999).

1.7.7 Deposit taking Micro Finance Institution
A business in which the entity / person conducting the business holds itself out as accepting deposits on a day to day basis and lending and extending credit for the account and at the risk of the person accepting the deposit including the provision of short term loans to small enterprises or low income households (Microfinance Act, 2006).
1.7.8 Non Deposit Taking Micro Finance Institution
A licensed non-deposit taking provider of microfinance services that is not allowed to mobilize public funds and is mandated by law to provide financing or capital (Microfinance Act, 2006).

1.8 Chapter Summary
The identification of the major problems affecting growth of MFI's will provide guidance on how microfinance service providers like Speed Capital should prioritize their activities, and how to address any impediments to growth. In the next chapter, the study will focus on the major external factors as highlighted in the research questions that are an impediment to the growth of non-deposit taking MFI’s as well as contributions by different authors on pertinent issues affecting non-deposit taking MFI’s that are yet to be addressed by different stakeholders.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to develop a conceptual framework and come up with assumptions through reviewing, analyzing and incorporating to the study what other writers have observed in their studies about the operations and performance of non-deposit taking micro finance institutions. This chapter is structured according to the research questions and is divided into four sections with each section focusing on the salient factors that are an impediment to the growth and expansion of non-deposit taking micro finance institutions located within the Nairobi Central Business District. The chapter further highlights contributions and thoughts of different writers in the area of microfinance operations in the country.

2.2 The Role of the Regulatory Environment on Growth of Non-Deposit Taking MFI’s

This section will focus on the relevance of a regulatory framework in the growth of non-deposit taking MFI’s. In addition, it will focus on the areas that regulators should focus in improving the regulatory framework for the industry.

2.2.1 The Regulatory Environment

Over the years, the government of Kenya has sought to introduce policies that would increase financial inclusivity within the country in a bid to alleviate poverty. From structural adjustment policies and district focus for rural development strategies in the 1980’s whose main objective was poverty alleviation through resource allocation in a more geographically equitably basis (Mariara, 2006).

In addition, strategies to decentralize funds such as the constituency development fund targeted towards vulnerable members of the society who do not have a steady source of income have been introduced. However, due to capacity constraints and poorly conceived plans, most of these strategies have not yielded much in poverty eradication as compared to the contribution that MFI’s have had over the last decade in promoting financial deepening in the country (Cherotich, 2011).

The Kenya National Human Development Report of 1999 that was financed by the UNDP reflected significant increase in poverty levels in the country despite efforts by the
government in providing improved social and economic services to disadvantaged regions and people. In addition, the report highlighted the persistent disparities in the area of gender despite efforts to equalize opportunities between women and men in Kenya (Oketch, 2000). In fact, the number of female borrowers in MFI’s is higher than that of men this can be attributed to the fact that most women lack collateral as required by mainstream financial services (Cherotich, 2011).

Prior to the enactment of the Microfinance act of 2006, MFI’s in Kenya were licensed under different acts of parliament namely; The NGO Co-ordination Act, Companies limited by Guarantee, Trust Act, Societies Act, Co-operatives Act, Companies Act, Banking Act, Kenya Post Office Saving Bank Act. However, with the entry of the Narc government to power and under the stewardship of the then Minister of Finance Mr. David Mwiraria, it was decided that there was a need to establish a comprehensive regulatory policies and where necessary regulatory bodies to govern the operation of all the different players in the countries financial industry (Mariara, 2006).

This was clear evidence of the government’s appreciation of the dynamic operations of financial institutions. As a result, institutions such as the Sacco Societies Regulatory Authority (SASRA) and the Kenya Bankers Associations (KBA), were established to oversee the activities of the country’s biggest financial industry players namely; Deposit taking co-operative Societies and Banks. In 2005, a taskforce comprising of executives of MFI’s, representatives of the CBK and the MFI’s umbrella body AMFI initiated the process of establishing a governance framework for MFI’s through a Micro-finance bill that would be tabled in parliament (Omino, 2005). This would later culminate in the gazettement of the Microfinance act of 2006.

The microfinance industry is currently regulated through the Microfinance Act of 2006 which sought to lay the framework of key policies governing the industry. However, a closer look at the policies adopted reveals a disparity in what policies are relevant to non-deposit taking MFI’s. The regulatory environment within the microfinance industry in the country appears to lean more towards the operations of the deposit taking MFI than the informal non deposit taking MFI’s (Ndulu, 2016).

Non-deposit taking MFI’s continue to face constraints in terms of growth despite the Government of Kenya recognizing the importance of the supporting informal sector in
poverty alleviation and ultimately the growth of the economy. Some scholars have termed growth that is not regulated as unsustainable growth, hence, the importance of regulation in any industry seeking to grow and expand. MFI’s have over the years played a pivotal role in fueling the growth of the Informal sector otherwise referred to as SME’s through capital availability (Mukama, Fish, & Volschenk, 2005).

Moved by the need to increase awareness on the micro finance industry in Kenya, a few industry players joined hands to form an umbrella body by the name, Association of Micro Finance Institutions (AMFI) in 1999. AMFI continues to play a major role in the development of the industry with a broad mandate of promoting a conducive environment for the development of MFIs, clients and the business environment. However, AMFI has concentrated much of its advocacy efforts on the operations and challenges faced by deposit taking MFI’s with little focus laid on non-deposit taking MFI’s (Kurgat, 2012).

Unfortunately, the situation seems not to be any different even in other countries. It was between 1985 and 1990 that governments in most Asian countries notably Philippines initiated a process of liberalization of its financial markets by implementing policies aimed at fostering private sector participation in the economy and reducing government intervention (Afifa, 2005). Policies shifted from the rural sector, a traditional focus of credit market interventions to the more urban-based small enterprises and livelihood sectors. This would lead to the proliferation of financial institutions, both regulated and non-regulated, providing microfinance services (Gomes, 2000). The existence of clear policies and regulations therefore leads to good governance which is a key ingredient in the achievement of an organizations goals and objectives (Muganga, 2010).

Good governance can only take place if there is participation from all players in an organization / industry and impartial application of the rule of law. Good governance can take different forms for example political governance which involves embracing decision making and policy implementation by a legitimate and authoritative state that represents the interests of the society to economic governance whose major pillar is transparency and accountability (Chibba, 2009).
2.2.2 The Role played by the Regulatory Environment on Growth of Non-Deposit Taking MFI’s

Regulations help to define the legal status of institutions, outlining the allowable and prohibited activities as well as the scope of those offering those services. This is very important in creating an environment that promotes responsible lending (Muganga, 2010). Players in the microfinance industry need to recognize the role played by non-deposit taking institutions and to lobby for policies that are inclusive and cognizant of the operations of those institutions. In 2007, the Government of Kenya launched the Vision 2030. The Kenya Vision 2030 is a long term development blueprint for the country encompassing 3 key pillars namely: Social, Economic and Political pillars (Aduda & Kalunda, 2012).

The contributions of the microfinance institutions towards the attainment of this vision cannot be over-emphasized. It is therefore important that adequate steps are taken to ensure proper governance of all participants and or players in the microfinance industry. The challenges facing entrepreneurs and small medium enterprises in Africa are varied and many. They will range from lack of financial support, weak economic infrastructure, and lack of policy coherence. Given the small number of indigenous African small firms compared to firms in the more developed countries, empowerment through education and training support for entrepreneurs and small-scale enterprises will help establish the necessary capabilities for small business growth (Biggs, 2010).

The hindrances to development in the microfinance industry still remain the high cost of finance and absence of a focused government approach to help little and rising organizations in Kenya (Oketch, 2000). The Kenyan government considers the small and medium enterprises and by extension, the microfinance sector the centre of industrial development since it generates employment opportunities, provides goods and services and steers competition and innovation and should therefore hinge several development strategies on it (Kurgat, 2012).

The implementation, monitoring and enforcement of sustainable development principles remain a challenge. The two main approaches to monitoring, implementation and enforcement are the command and control model and the voluntary approach. Each approach has its own advantages and disadvantages (Ochanda, 2002).
The command and control model entails government or government agencies setting guidelines and standards and failure to comply with the guidelines attracts sanctions. Sanctions include cancellation or denial of licenses, imposition of fines or cancelation of projects. The main advantages of a command and control model are that the guidelines are certain, their obedience is mandatory and a high compliance rate is possible since they are backed by sanctions. Moreover, government agencies can give incentives for compliance and ensure acceptance and implementation. However, the command and control model has some disadvantages. First, lack of adequate capacity can reduce its effectiveness in implementing sustainable finance. Second, government agencies may be subject to regulatory capture, a situation where the regulator protects banks from regulation. Further, non-compliant banks may corrupt or influence the regulator, leading to poor or lackluster implementation of the guidelines (Ochanda, 2002).

The voluntary approach occurs when financial institutions implement sustainable banking principles on their own initiative. The main advantage of the voluntary approach is that financial Institutions are likely to comply with guidelines adopted voluntarily. Moreover, it saves tax payers money in setting and implementing sustainable banking standards and guidelines. Further, self-regulation can complement government initiatives and therefore ensure greater compliance (Ochanda, 2002). However, voluntary approach has its own challenges. First, it may lead to unfair competition. (Kiplagat, 1998) asserted that since the principles are voluntary, some financial institutions are unlikely to adopt the principles due to lack of sanctions. This is one of the main weaknesses of voluntary codes. It can therefore create unfair competition, where some banks would be incurring compliance costs, while others avoid those costs in a naked run for profits. Moreover, since there are no sanctions, financial institutions can withdraw from the principles at whim. MFI’s should constantly lobby with the government highlighting the immense benefit that citizens can generate from them (Mngolia, 2009)

This will result in laws and regulations that favor their activities and as a result, improve their ability to reach out to a wider customer base. Institutions such AMFI and other umbrella bodies (that non-deposit taking MFI’s with similar vision can establish) can be useful media through which they can advocate for appropriate changes in legal and regulatory environment to ensure their members operate competitively and to create awareness among policy makers, development partners, and the general public about the
role of microfinance in poverty alleviation and employment creation in Kenya (Muiruri, 2014).

A research conducted in Tanzania found out that the Tanzanian Government recognized that in order to have an efficient and effective financial system, additional focus had to be placed on the expansion of financial services to the low-income segment through financial sector reform programs. It also realized that the microfinance sector needed to be an integral part of the country’s financial system (Mukama, Fish, & Volschenk, 2005).

However, a study done in 2010 found out that regulation is definitely not the sole factor responsible for the state of development of the South African microfinance market; macroeconomic reforms have also played a key role (Muganga, 2010).

### 2.3 Impact of Technology in the Growth of Non-Deposit Taking MFI’s

This section will aim at understanding the role played by technology in the growth of non-deposit taking MFI’s. Empirical research has shown that technological capabilities hold the key to competitive advantage for industries globally (Muli, 2013).

#### 2.3.1 Technology

Technology is broadly speaking the application of scientific knowledge domain for sensible functions and practical purposes. Technology continues to be one amongst the largest disruptions within the modern day economic setting and development of technology may be a vital facet of business aggressiveness within the 21st century (Arranz & Arroyabe, 2009).

The foremost goal of technology and innovation in any given space is to add value through driving improved efficiencies and effectiveness of processes. It is on this basis that firms and organizations decision makers will seek to pursue investments in technology. Empirical investigations suggest that the promotion of an innovation enabling culture requires senior leaders’ support and involvement. This in turn leads to adoption of innovative strategies that are in line with the firm’s objectives and vision (White & Bruton, 2011).

The importance of technology and innovation in any business was reiterated within the theory of innovative profits that was propagated by renowned scholar Schumpeter. This theory emphasized the role of entrepreneurship and the need to source for opportunities for innovative value and generating activities which would expand and transform the
circular flow of income. The theory differentiates explicitly between physical and intellectual capital, and between saving, which makes physical capital grow, and innovation, which makes intellectual capital grow. From the theory, we determine that technological progress comes from innovations carried out by firms driven by the pursuit of profit with each innovation being aimed at generating some new process or product. This gives its creator a competitive edge over its business rivals by rendering obsolete some previous innovation (Schumpeter, 1934).

Technology has been one of the greatest contributors of growth in literary all industries that have embraced it in their core businesses. The last decade has seen tremendous growth in the use of the internet in almost all industries with technology being a source of competitive advantage to those who have applied it in their day to day operations. The internet has significantly reduced the cost of communication resulting in an improved profitability for companies which in turn has resulted in customers benefitting from cheaper products (Trott, 2012). The financial industry in Kenya has been recognized globally for the adoption of innovative platforms that have led to increased financial deepening (Anyasi & Otubu, 2009).

Chan & Jia, (2011) also conducted a study on the role of mobile banking in facilitating rural finance. The study hypothesized that mobile banking has the potential of reducing financial inequality between the urban and the rural areas. The study focused on the efforts made by financial regulators in China in order to change the situation as far as rural finance services are concerned. It was established that mobile service providers are entering into strategic alliances with banks to provide banking services to the rural majority. It was also revealed that this strategic partnership enables commercial banks to achieve financial deepening. However, the study confirmed that the financial deepening in the banking industry enhanced by mobile technology cannot be successful without proper cooperation from the regulators. Technological innovations are more likely to enable financial institutions to provide a variety of products to their customers. It may also be the reason why some financial institutions will be far much ahead of the rest in the industry. The ability to provide affordable and competitive services across geographical boundaries largely depends on the technology adopted. Technology will, therefore, form the thin line between most successful and less successful financial institutions (Lewis, 2012).
Rapid technological change demands a cross discipline approach if gainful development is to occur. Integration of technology requires bringing everything together and introducing tactical steps that drive day to day activities. It is through integration that a lot of visions and imaginations are visualized and are the premise upon which a shared vision is set. This vision helps stakeholders envision future opportunities and begin to set a road map going forward (White & Bruton, 2011).

A number of constraints to technological growth have been identified. These include; lack of capability among MFI’s to identify, seek and use appropriate technologies in their production and a non-enabling environment that impedes access to technology (Aduda & Kalunda, 2012). In addition, limited access to technology information, technology services and non-functional innovation system weaken linkages within financial institutions at large. Other factors include underdeveloped entrepreneurial skills, limited access to appropriate technology and lack of skills in technology management (Namusonge, 2004).

The importance of adopting innovation is arguably the reduction in costs and risk of making loans available to the poor and isolated people. In fact, innovation leads to long term sustainability through driving out costs to invest in growth and improved operational efficiency within organizations (Ochanda, 2002).

2.3.2 Role played by Technology on the Growth of Non-Deposit Taking MFI’s

The latest revolution that financial institutions have adopted is with relevance to mobile banking in an effort to leverage on the synergies of mobile banking technology in telecommunication (Anyasi & Otubu, 2009).

The main reason why Kenyan monetary institutions have managed to register growth even throughout times of global economic recession is as a result of “crossing the boundaries of conventional banking” and embracing new innovations (Muli, 2013). In the 2015 Economic survey published by the Kenya National Bureau of Statistics, the country’s estimated internet users had increased by 23% to 26.2 million users primarily driven by a reduction in data bundle prices and affordability of internet enabled phones.

This has resulted in an increase in the mobile lending statistics with most financial institutions recording remarkable top line financial growth boosted by increased interest
income from the largely unbanked population that has embraced mobile lending facilities (Ondiege, 2010). The development of technological capabilities requires rigor and focus of both the governments and enterprises. At the firm level, management needs to be cognizant and willing to develop technological capabilities. The firm should have available capital and be ready to investing in productivity enhancing efforts (Namusonge, 2004).

Non-deposit taking MFI’s continue to grapple with limited resources thus aren’t able to implement comprehensive innovative solutions in their business models and hence have not been able to leverage on technology to improve their outreach to a wider market. The mobile technology innovations have enabled most banks to expand their operations beyond national boundaries and this has enabled them to increase their profitability (Muli, 2013).

Unfortunately, many MFI’s organizations are not considering the use of ICT based system to implement various growth and development strategies, ICT strategy implementation systems helps MFI’s organizations to effectively respond to the changing business environment which they operate in. During strategy implementation process, some strategies require to be adjusted in order to be compatible with the dynamic characteristics of business environment such as change in demand and supply of MFI’s services and change of interest rates polices by the central bank (Cole, 2009).

Mobile technology has a very huge potential of availing financial and banking services to majority of unbanked populations and more specifically to the poor. (Ondiege, 2010) argues that Sub Saharan Africa has the highest percentage of penetration by Microfinance institutions when compared to other regions in the developing world. In order for these financial institutions to improve their revenue and performance, they have embraced the use of mobile banking technology to reach many customers in areas where conventional banking never existed. Example of countries where mobile banking has been a success story include; South Africa, the DRC, Zambia and Kenya where mobile phone banking is taking services to remote areas where conventional banks have been physically absent. Subscribers can now open accounts, check their balances, pay their bills, transfer money, and cater for their daily basic needs.” (Ondiege, 2010).
2.4 The impact of a Non-Deposit taking MFI’s Location on its Performance

This section will aim at determining what role an MFI’s location plays with regards to its growth and expansion.

2.4.1 Location

Location can simply be described as a particular place, point or area occupied by a subject (Gersmehl, 2008). Location has been attributed as a great source of competitive advantage for not only industries but nations as prescribed by the theory of competitive advantage (Porter, 1990). Locational factors that businesses or firms take into consideration include; regulatory policies, cost of labor, distribution of resources and nature of the host market. Location has been distinguished as a basic factor within the porter’s diamond model, a useful theory in international business literature which builds on Porter’s earlier frameworks on competitive strategy (Porter, 1990)

Locational advantages make it more profitable for an organization to exploit its assets in a particular location (Rugman & D'Cruz, 1993). MFI’s have been understood to operate in the urban areas whereby the demand for their services is perceived to be higher than in the rural areas. This has arguably been one of the major reasons that has led to a relatively lower financial deepening in the economically marginalized areas (Cherotich, 2011).

It is very important for management of organizations to be able assess the most suitable location for their operations. The nature of location is one fundamental consideration that should guide management’s decision. The nature of the location will ideally be assessed in two major dimensions; the size of the location and the stage of the development of the location (Rugman & D'Cruz, 1993). MFI’s have over the years struggled to identify the best location for their operations primarily due to lack of proper research and capacity constraints being experienced within the industry in Kenya (FinAccess, 2006)

A study done in China found out that in the context of financial deepening, the location of the financial institutions is also considered to be influencing the saving behavior of the households (Chan & Jia, 2011). Microfinance has to play a key role in development and financial deepening by bringing access to financial services to the poor, who are neglected by the formal banking sector. It is widely known that many financial institutions’ target clients that have collateral. If MFIs are to fill this void they must reach the rural poor (Yunus, 1999).
The development of any country’s financial sector is recognized as a catalyst for growth and poverty reduction (Chibba, 2009). One of the challenges facing African markets is how to channel existing resources into the appropriate sectors to stimulate productivity, create employment, providing the citizenry and enterprises with basic utilities. Microfinance is seen as a means through which inclusion of previously excluded poorer groups without access to capital into the financial system can be incorporated. Financial sustainability has a positive effect on the depth of outreach, and on the other hand, growth in the depth of outreach enhances the financial performance of an MFI (Grunert & Hildebrandt, 2004).

Research carried out by the Boston Consulting Group in 2013, indicates that firms have a very high affinity for emerging locations and markets. More than 75% of the companies they surveyed expect to gain market share in emerging markets. Successful companies in emerging areas have started to understand the favorable business models to adopt and what their consumers’ needs are. In their survey, some respondents stated that the most important requirement for success is the ability to understand local customers’ needs, adopt local business and operating models.

The microfinance industry in Kenya and by extension, non-deposit taking MFI’s is not any different. They are also likely to have strong relationships with important stakeholders i.e. in the County governments as well as get immense knowledge of the dynamics in the different regions or counties in the country. However, in order to understand the market, it is critical for any organization to first define its market (Beatriz & Maria, 2005)

Kula, (2006) observed that lack of sufficient information about markets and by extension location poses a great challenge to the growth of the informal lending institutions in Kenya. Despite the vast amount of trade-related information available and the possibility of accessing national and international databases, many informal lending institutions continue to rely heavily on private or even physical contacts for market related information. This is due to inability to interpret the statistical data and poor connectivity especially in rural areas. Since there is vast amount of information and only lack of statistical knowledge to interpret and Internet connectivity, microfinance institutions need to be supported.
Location is a tangible resource that plays a key role in the growth of an organization. According to the resource-based view (RBV), companies gain sustainable competitive advantages by deploying valuable resources and capabilities that are inelastic in supply (Grunert & Hildebrandt, 2004). This perspective opposes the fact that a firm’s competitive advantage is due to endowment of strategic resources that are valuable, rare, costly to imitate, and costly to substitute. It assumes that organizations must be successful in obtaining and managing valued resources in order to be effective (Biggs, 2010).

However, location has to be intertwined with defining a firm’s market. Once market segments are defined, analyzing market segment follows and looks at the following situations; is the market segment overcrowded? – is existing competition competent and entrenched? Market segments where there is little hope for differentiation and no way to build barriers to entry by competitors, unmet needs. Location is inevitably the foundation of localization. Localization is whereby a company adapts its strategy to suite that of the local market, an entity does this by tailor making its products and marketing activities to that of the local market (Rugman & D'Cruz, 1993).

Localization entails adoption of products and services as well as the applications, content and communication systems, strategies and means so as to meet the needs of the target markets’ culture, language, and other relevant local clientele needs. Adequate research is however required when a firm chooses to do business in a particular location. The purpose of localization is simple; to make a firm’s products adaptable to the new environment (Lang, Loeser, & Nettesheim, 2008). Non-deposit taking MFI’s therefore need to not only locate their services strategically but also determine who their target market in those specific locations are and adopt the right strategies to suite that local market (Ruzzier, 2006).

2.4.2 Role Played by the Location of a Non-deposit Taking MFI in its Growth

One of the key roles microfinance has to play in development is in bringing access to financial services to the poor, to those who are neglected by the formal banking sector. It is widely known that mainstream financial institutions target clients that have collateral. The poor do not have assets to act as collateral, therefore, they are ignored by the formal financial sector. One of the greatest challenges that microfinance institutions face in promoting nationwide financial deepening is their geographical location (Mutua, 2011).
The location of most non-deposit taking MFI’s is quite telling in the sense that most of them are located in major urban centers rather than the rural areas where majority of the poor in the developing world live and therefore where financial services should be provided (Cherotich, 2011). The need to increase savings in order to stimulate investment and help emerging economies achieve catch-up growth was emphasized in early financial deepening theories. This would ultimately result in a reduction in the poverty levels (Chan & Jia, 2011).

Globally, promoters of financial inclusion approve that direct access to financial services can improve individual livelihoods amongst the poor by enabling them to manage scarce resources more efficiently. Savings mobilization is important for improved financial performance and outreach, especially in the rural areas where access to financial services is challenging. MFI need to design a range of savings products that are safe and with better returns (Kurgat, 2012).

One of the government’s key deliverables is human development which encompasses the process of enlarging people’s choices to develop their full potentials and lead a productive and fulfilling life. The role of micro finance institutions in promoting human development has in the recent past gained prominence due to the ease with which people can access funds for development (Sengupta & Aubuchon, 2008).

Non deposit taking MFI’s basically have one large target market that comprises of micro entrepreneurs who operate microenterprises by choice. Most microenterprises are established in major urban centers and few succeed in the rural areas due to lack of technical and financial assistance. In addition, owners of these enterprises are primarily interested in earning a living to support themselves and their families. They only grow the business when something in their lives changes and they need to generate a larger income (Biggs, 2010).

2.5 Role played by Capital Adequacy on the Growth on Non-Deposit Taking MFI’s
This section will aim at determining how capital adequacy influences growth of non-deposit taking MFI’s as well as ways through which these institutions can access capital.

2.5.1 Capital Adequacy
The concept of Capital Adequacy Ratio (CAR) can help indicate of an MFI’s liquidity. Liquidity is important in ascertaining a firm’s ability to meet its liabilities and cushion it
from negative profitability which may impact on the going concern of a business. Poor liquidity can lead to a financial institution’s closure regardless of its financial performance. The capital adequacy ratio is relevant to the microfinance industry in that it measures the amount of capital relative to risk-weighted assets that an MFI should have. MFIs should strive to have high-quality liquid assets as protection against stress events. They should be cognizant of the fact that under crisis, even the relatively “safer” sources of capital can be withdrawn (Berger, 2010).

Capital adequacy in financial institutions is generally impacted by asset valuation and more specifically the provision for bad and doubtful debts. MFI loans as classified as being risky because they do not have good collateral other than joint liability of group members, hence stricter loan provisions. The Microfinance act of 2006 has specified the Capital Asset Ratio (CAR) for all financial institutions. For most MFIs, the CAR numerator should be based on Tier 1, namely equity capital, retained earnings, and donated equity (including the latter only if the donor has no recall option). This is because Tier 1 is the highest quality capital, which enables an organization to absorb losses on a going concern basis, whereas Tier 2 absorbs losses on a “gone-concern” basis. In other words, Tier 1 capital helps an MFI to survive adverse conditions, whereas Tier 2 comes into play only after the organization is insolvent. In addition, not all regulatory bodies around the world recognize Tier 2. With respect to the CAR denominator, CAR weights bank assets according to their assessed levels of risk, that is, the likelihood that they might suffer unexpected losses. The least risky assets such as cash and government securities receive a zero weight, while ordinary loans are weighted at 100%. CAR also provides weights for other assets such as mortgage loans, but they are not yet relevant for most MFIs (Berger, 2010).

Financial institutions exist primarily due to market imperfections. The financial intermediation theory is one of the theories that seek to explain the reasons for existence of financial intermediaries in an economy. Financial intermediaries are tasked with creating equilibrium between the spending units, deficit spending units and surplus spending units. The main reason propagated by the theory in favor of the financial intermediaries is the informational asymmetry which generates market imperfections by preventing savers and investors from trading directly with each other in an optimal way (Aduda & Kalunda, 2012).
Financial intermediaries (as agents and as delegated monitors) create an avenue through which ultimate savers and investors interact for their common good. Financial intermediaries are able to achieve this since they have the right level of information as compared to the ultimate savers and investors. Many of these imperfections lead to specific forms of transaction costs and financial intermediaries appear to overcome these costs, at least partially (Muli, 2013). In the 1990's, the government promoted the development of MFI’s by providing a platform that supported donor support to the MFI’s. This donor support was primarily from the established institutions such as the World Bank and Non-Governmental Organizations (NGO’s) (Afifa, 2005).

Many MFIs were established to reduce poverty and make financial services more accessible to the unbanked and poor. MFI’s were assessed based on outreach to the poor and their impact in improving the living standards through financial support. However, as the MFI industry grew in size, donor support became constrained with the increased number of MFI’s triggering the need to establish self-sustainable MFIs that could stand on their own. MFIs would therefore need to start covering their operational expenses from their program incomes. Managers are tasked with the responsibility of building sustainable MFIs and at the same time increase access to sources of funds (Aduda & Kalunda, 2012).

2.5.2 Role Played by Capital Adequacy on the growth of non-deposit taking MFI’s

The microfinance industry is not immune to the problems of the wider financial institutions as was evidenced in the 2008 global financial meltdown. MFIs experienced diminishing resources and their cost of operations sky-rocketed. A key learning from this was that MFIs would need to enhance their capital planning strategies. Risk is a necessary and unavoidable part of doing business. Profits are a bank’s reward for taking on risks such as issuing loans, which inherently carry some chance of default. The challenge is not to eliminate risk entirely, but rather to minimize and manage it so that profits can be optimized without exposing the MFI to unnecessary losses or, in extreme cases, to institutional failure (Berger, 2010).

Despite the growing number of MFIs, their outreach is constrained due to their limited resource base and lack of institutional capacity to provide a wide range of financial services (Aduda & Kalunda, 2012). This is especially so in the rural areas whereby MFI
outreach is predominantly through group-based programmes. These programmes have limited capacity for financial resources. Although banking Institutions have a stronger resource base and wider outreach, they lack expertise in microfinance (MF) lending (Ondiege, 2010).

A study done on the role of microfinance Institutions in Thika found out that Kenya entrepreneurship is expanding and offers a great potential for helping stimulate the nation’s declining economy. Poverty eradication through provision of MFI services in Kenya, Access to capital to start-up and expansion of business is extremely importantly for small business in Thika. This is true because when the borrowers benefit from the loan from MFIs, their businesses grow and they will continue to borrow loans and graduating to bigger loans thus increasing the sustainability of the lending institution. (Muiruri, 2014)

When non-deposit taking MFI disburse loans to individuals, they require a larger degree of collateralization and have to conduct much more screening. Individual loans in microfinance will gain in importance in the future if MFIs continue to get better access to capital markets and if competition further rises (Lehner, 2009). Insufficient supply of small loans is a major issue, particularly where business creators are unemployed persons, women or form part of ethnic minorities (Raynard, 2002)

According to the sessional paper 1 of 2005, the Government of Kenya recognized that access to credit and financial services was key to the growth and development of the country’s economic stability. The government sought to promote development of financial services by providing incentives to attract saving, investment and development of venture capitalists. It is believed that this initiative would ultimately increase the availability of capital for the lending institutions in the informal sector, notably, the non-deposit taking MFI’s (Dondo, 2007)

Unfortunately, the initiative was at best a pre-conceived one with limited resources being allocated to its achievement as was the case with most government sponsored projects. Major financial institutions experienced a meteoric rise in their performance boosted by earnings from lending and financing of small and medium enterprises. This unfortunately, continues to be the trend to date, with most MFI’s still struggling to acquire sources of capital (Mariara, 2006)
The success of most microfinance schemes depends on how competitive their interest rates are compared to the market interest rates (Afifa, 2005). MFIs should however charge interest rates that can enable them sustain their day to day operations. The administration of many small loans, processing, monitoring and evaluation is more often than not a very expensive exercise which may have a significant impact on the profitability of an MFI. Without self-sufficiency, there is little hope for MFIs to reach greater numbers of poor households (Mukama, Fish, & Volschenk, 2005).

Capital is key in enabling microfinance institutions meet the demands of the ever growing economies in developing countries. The rising purchasing power of a large number of households means soaring demand for other essential services whose supply has traditionally been inadequate. The emerging consumer class in Africa is a statistical fact. Microfinance as financial-sector development pursues the objective of a sound financial sector, consisting of a multitude of formal providers competing for clients from all segments of society. The rapid advancement of financial-sector development in Kenya is a powerful testimony to the important role microfinance continues to play in emerging economies. The financial sector enables the growth of other industries, and its microfinance segment caters to a large number of self-employed entrepreneurs, small businesses, and low-income households (Etzensperger, 2013).

Capital is important in ensuring microfinance Institutions have the capacity to provide financial services to the low-income households and micro and small enterprises (MSEs), provide an enormous potential to support the economic activities of the poor and thus contribute to poverty alleviation (Muiruri, 2014). Microfinance is yet another instrument to unleash the ideas and energies of local entrepreneurs with a potential to grow, to forge linkages with other businesses that will drive national savings and investments. Unleashing home-grown capital can create a pool of resources for local entrepreneurs to set up small business and diversify their economic base. However, these can only be achieved if capital is made available to microfinance institutions (Mwatela, 2008).

2.5 Chapter Summary

The literature reviewed in this chapter highlights the major factors that are affecting growth of non-deposit taking microfinance institutions. Specifically, it has examined the
relationship between these factors and the overall growth of players in the non-deposit taking microfinance institutions. It has delved deeply into each research question with a view of understanding the different views from different authors. The next chapter will focus on the research methodology and data collection strategies adopted to seek more insights on the study.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter shows the research design methodology that will be adopted for the study. Section 3.2 discusses the research design, 3.3 defines the population and sampling procedures adopted, 3.4 discusses the data collection methods adopted in the research, 3.5 discusses the research procedures, section 3.6 discusses the data analysis methods employed in the study and section 3.7 provides a summary of the chapter subsequent to the analysis.

3.2 Research Design

Research design is the general plan of how a researcher intends to go about answering the research questions (Saunders, Lewis, & Thornhill, Research methods for business students, 2016). Research design is a blue print which facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible hence yielding maximum information with minimal expenditure of effort, time and money (Bryman A., 2004).

A descriptive research design was used in this study. A descriptive research is used to gain an accurate profile of events, persons or situations and it is necessary for the researcher to have a clear picture of the phenomenon he or she wishes to collect data prior (Saunders, Lewis, & Thornhill, Research methods for business students, 2016) The descriptive research design was chosen since it was more precise and accurate as it involves description of events and situation in a carefully planned way; this research design also portrays the characteristics of a population fully (Yin, 2003)

3.3 Population and Sampling Design

3.3.1 Population

A population is described as a well- defined group of people or objects that share common characteristics (Ruzzier, 2006). A population in a research study is a group about which some information is sought. Most researchers cannot include all members of the population in their studies and must resort to limiting the number of subjects to only a
sample from the population. Therefore, the full set of cases or elements from which a sample is taken is called the population (Saunders, Lewis, & Thornhill, Research methods for business students, 2016).

However, such a population may be difficult to research as not all the elements or cases may be known or accessible to the researcher. Consequently, the researcher may redefine the population to make it more manageable, this subset of population is referred to as the target population (Saunders, Lewis, & Thornhill, Research methods for business students, 2016). The target population is the population that is the actual focus or target of the research and it defines those units for which the findings of the survey are meant to generalize.

The population in this research was a non-deposit taking Microfinance Institution in located in Nairobi County by the name of Speed Capital. The firm is headquartered in Nairobi (Kimathi House) and boasts of about 8 branches and currently has a loan portfolio of 200 million with a customer base of about 15,000. The company prides itself in providing quick small loans that can be processed between 1 – 2 days and with flexible payments of between 1 to 12 months at an interest rate of 10% every month on a reducing balance. This population was selected from the Association of Microfinance Institutions (AMFI) list of Non-deposit taking MFI’s in Nairobi County. The company was selected as it had been in operations for 5 – 10 years. The target population was the employees and the management of Speed Capital. It is believed that this company’s managers are in a better position to give relevant information on the subject matter.

<table>
<thead>
<tr>
<th>Population Strata</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>10</td>
</tr>
<tr>
<td>Senior Management</td>
<td>3</td>
</tr>
<tr>
<td>Middle level Managers</td>
<td>10</td>
</tr>
<tr>
<td>Non-management staff</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99</strong></td>
</tr>
</tbody>
</table>

3.3.2 Sample Design

3.3.2.1 Sampling Frame
A sampling frame is a list of elements from which the sample is actually drawn and is closely related to the population (Bryman A., 2004). In a probability sample, it is the complete list of all cases in the target population from which a sample is drawn. For this study, the sampling frame came from the list of employees and management as highlighted in the firm’s (Speed Capital) official website.

### 3.3.2.2 Sampling Technique

Probability sampling was used in the study. In probability sampling, the chance of each case being selected from the target population is known and is more often than not equal for all cases. Statistical sampling techniques are the strategies applied by researchers during the statistical sampling process (Yin, 2003).

Stratified random sampling is a modification of random sampling in which one divides the population into two or more relevant and significant groups based on one or more attributes (David, 2004). This sampling technique was used because it barred the introduction of biasness in the selection. The technique was also employed because it enabled the generalization of a larger population with a margin of error that was statistically determinable (Bryman A., 2004). After the population had been divided into different subsets, each stratum was then sampled as an independent sub-population, out of which individual elements were randomly selected. Then simple random sampling was applied within each stratum. This often improved the representativeness of the sample by reducing sampling error.

### 3.3.2.3 Sampling Size

Statisticians have proved that the larger the absolute size of a sample size, the closer its distribution will be to the normal distribution and thus the more robust it will be. This relationship is known as the central limit theorem. In addition, statisticians have also shown that a sample size of 99 or more will usually result in a sampling distribution for the mean that is very close to a normal distribution (Cooper & Schindler, 2011).
Where $N = \text{Target Population}$

And $n = \text{the Sample Size}$

### 3.4 Data Collection

The study will use both secondary data from the firm’s financial reports, websites and primary data collected using questionnaire. The questionnaire will include both structured and unstructured questions and will be administered through drop and pick method to respondents who will include the employees and management of the organization. By using unstructured questions, a respondent’s response may give an insight to his feelings, interests and decisions and give as much information as possible without holding back (Cooper & Schindler, 2011).

Structured questionnaires are useful in identifying general patterns in a descriptive study. The standardized nature of the data will make it easier to test statistical propositions or hypothesis. To support the data received from questionnaire and information from interview the study shall obtain secondary data from respective firm’s annual financial reports as well as non-financial information from respective firm’s websites.

The method was preferred because it is convenient, cost effective and attractive for data collection for this kind of a study (Cooper & Schindler, 2011). The respondents were granted reasonable time as per their convenience. The research instruments asked the respondent to rate the issues affecting in a Likert scale 1-5.

### 3.5 Research Procedures

#### 3.5.1 Validity and Credibility

Validity is an indication of how sound a research is. It means that findings from the research truly represent the phenomenon being measured (Bryman, Social Research

---

<table>
<thead>
<tr>
<th>Sampling Strata</th>
<th>N</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Senior Management</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Middle level Managers</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Non-management staff</td>
<td>76</td>
<td>76</td>
</tr>
</tbody>
</table>

Total: 99

Where $N = \text{Target Population}$

And $n = \text{the Sample Size}$
Prior to using a questionnaire, it should be pilot tested with respondents who are similar to those who will actually complete it.

The questionnaire designed by the researcher based on the research questions will be pilot tested to refine the questions before it is administered to the selected sample. A pilot test on 15 respondents will be conducted to detect weakness in design of the questionnaire and to give a further indication on the validity and credibility of the research instrument. Preliminary analysis using the pilot test data will be undertaken to ensure that the data collected will enable investigative questions to be answered. Pilot testing helps refine the questionnaire so that respondents will have not have difficulties in answering the questions and subsequent data recording by the researcher (Saunders, Lewis, & Thornhill, Research methods for business students, 2016).

3.5.2 Reliability and Dependability
Reliability is the extent to which a research method produces the same results each time it is applied to the same study (Bryman, Social Research Methods, 2004). Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures (Cooper & Schindler, 2011). The researcher selected a pilot group of 15 respondents from the target population to test the reliability of the research instruments.

The researcher used drop-and-pick method in delivering and collecting the completed study questionnaires. The researcher conveniently dropped and picked the questionnaire from the respondents at will. Those willing to complete the questionnaire, the researcher gave them a copy of the questionnaire, requested to know when it could be collected, then arranged to collect the questionnaire at the soonest possible time. The researcher also made periodical telephone calls and visits to inquire on the progress of the questionnaires. Secondary data collected using a questionnaire with a high response rate is likely to be more reliable than those from one with a low response rate (Saunders, Lewis, & Thornhill, Research methods for business students, 2016).

3.6 Data Analysis
This study sought to establish the relationship between the growth of non-deposit taking MFI’s with their regulatory environment, technology, locality and capital adequacy. Before processing the responses, the completed questionnaires will be edited for
completeness and consistency. The data will be coded to enable the responses to be grouped into various categories. Inferential statistics will be used to summarize the data and they include correlation, regression and analysis of variance.

In order to achieve this objective, the researcher used regression analysis to establish the relationship. Regression analysis involves predicting the dependent variable using one or more independent variables. Therefore in the linear regression model, the dependent variable is assumed to be a linear function of one or more independent variables plus an error introduced to account for all other factors. Practically, the procedure estimates the extent to which changes in a "dependent variable (Y)" which is put on the y-axis, can be attributed to changes in an "independent or explanatory variable(s) X_i," which is placed on the X-axis. Regression analysis will be used to establish the relationship between the study variables. The regression equation is:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

Where Y is the dependent variable (Growth), \( \beta_0 \) is the regression constant, \( \beta_1, \beta_2, \beta_3 \) and \( \beta_4 \) are the coefficients of independent variables, \( X_1 \) is the regulatory framework, \( X_2 \) is impact of technology is the firms operations, \( X_3 \) is location of the firm and \( X_4 \) is the role of capital adequacy. The findings of the study were presented by tables.

3.7 Chapter Summary

A descriptive research design was used in this study. Inferential statistics will then be employed to help in making generalizations to the population (Mugenda, 2008). The researcher selected a firm that had been in operation for a period of 5 years and above. The researcher used primary data for this study and data was collected using questionnaires; the questionnaires consisted of structured questions. The data collected via questionnaire was checked for completeness. Then it was coded and summarized via excel spread sheets. Then the entries were made into the Statistical Package for Social Science (SPSS) version 20 and analysis was done. The responses (qualitative data) were thematically organized depending on their contents. The findings from the analysis were organized, summarized and presented using tables and bar graphs to easily and clearly depict the frequency, percentages and other relevant statistics.
The results of the analysis were used to answer the research questions and to complete the study report. The next chapter discusses the findings obtained from the field through data collected from the questionnaire. The chapter presents the demography of the respondents, findings of the analysis based on the objectives of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction
This study sought to determine the role played by regulatory environment, capital adequacy, technology and location on the growth of non-deposit taking microfinance institutions. This chapter presents the results and findings of the study. The sections herein include background information of the study participants and the study research questions sections. The chapter is also presented in terms of descriptive statistics and inferential statistics. The study targeted a sample size of 99 respondents from which 71 filled in and returned the questionnaires. This translates to a response rate of 72% that was considered sufficient for this study for the purpose of generalization of findings.

4.2 Background information
This section covers the demographic aspects of the respondents namely; age, level of education, years of experience in the industry and in the firm.

4.2.1 Age
Figure 4.1 shows the age information on study participants’ age. The findings indicate that 26.8% were 31-35 years, 19.7% were 26-30 years, 18.3% were 20-25, and 18.3% were 36-40 years. Those over 40 years and above represented at 16.9%.

![Figure 4.1: Respondents’ age categories](image)

4.2.2 Education
The study sought information on the education level of respondents. The findings revealed that 40.8% had an undergraduate level of education, 26.8% had postgraduate level of education, 22.5% had a college level of education whereas 9.9% cited other qualifications as shown in Figure 4.2.

![Figure 4.2: Respondents’ Level of Education](image)

4.2.3 Respondent’s Position in Organization

Figure 4.3 below shows the respondents’ position at Speed Capital. The results show that majority of the study participants were non-management staff (80.3%), middle-management staff (9.9%), senior management (7.0%) and board of directors (2.8%).

![Figure 4.3: Respondents’ Position at Speed Capital](image)
4.2.4 Years worked in Industry

The study sought information on the number of years study participants had worked in the MFI industry. Figure 4.4 shows that 34.6 % had worked in the MFI industry for 4-5 years, over 8 years (33.3 %), 6-7 years (21.0 %), 2-3 years (8.6 %) and 2.5 % had worked in the MFI industry for less than one year.

![Figure 4.4 Years worked in MFI industry among respondents](image)

4.2.5 Years worked in Organization

In regard to the years worked at Speed Capital, the study found that 33.3 % had worked at Speed Capital for less than one year, 21.0 % for over 8 years, 19.8 % cited 2-3 years, 13.6 % cited 6-7 years and 12.3% had worked at Speed Capital for 4-5 years as indicated in Figure 4.5.

![Figure 4.5: Number of years respondents had worked at Speed Capital](image)
4.2.6 Years in Current Position

The study asked respondents to indicate the number of years they have been in the current position. The findings showed that 32.0% had been in the current position for 2-3 years, others were, 4-5 years (29.6%), 6-7 years (16.0%), 0ver 8 years (12.5%) and less than one year comprised of 9.9% of the sample.

Figure 4.6: Number of years in current position at Speed Capital

4.3 Descriptive Statistics

The study conducted descriptive statistics for each of the independent variables. The descriptive tools of analysis used were: percentages, mean and standard deviation. This section is presented in line with the study research questions.

4.3.1 Regulatory Framework and Non-Deposit Taking MFIs Growth.

The study sought to answer the question on the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions. The results show that the highest ranked statement on regulatory framework was there is a clear regulatory framework for non-deposit taking MFI’s in the country with a mean score of 4.31 and standard deviation of 0.965; this was followed by the organization actively consults externally on regulatory matters affecting the industry (M=4.23; SD=1.124) and regulation has a positive impact on the growth and expansion of your organization (M=4.20; SD=1.129) as shown in Table 4.1.
Table 4.1: Regulatory Framework Descriptive Statistics

<table>
<thead>
<tr>
<th>Regulatory Framework</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>A proper regulatory framework will surely lead to the growth of an organization in your industry</td>
<td>11.3%</td>
<td>8.5%</td>
<td>12.7%</td>
<td>16.9%</td>
<td>50.7%</td>
<td>3.87</td>
<td>1.414</td>
</tr>
<tr>
<td>There is a clear regulatory framework for non-deposit taking MFI’s in the country</td>
<td>1.4%</td>
<td>5.6%</td>
<td>9.9%</td>
<td>26.8%</td>
<td>56.3%</td>
<td>4.31</td>
<td>0.965</td>
</tr>
<tr>
<td>Your organization has an internal regulatory framework embedded in its operations</td>
<td>5.6%</td>
<td>12.7%</td>
<td>18.3%</td>
<td>29.6%</td>
<td>33.8%</td>
<td>3.73</td>
<td>1.218</td>
</tr>
<tr>
<td>Your organization actively consults externally on regulatory matters affecting the industry</td>
<td>4.2%</td>
<td>5.6%</td>
<td>11.3%</td>
<td>21.1%</td>
<td>57.7%</td>
<td>4.23</td>
<td>1.124</td>
</tr>
<tr>
<td>Regulation has a positive impact on the growth and expansion of your organization</td>
<td>4.2%</td>
<td>4.2%</td>
<td>16.9%</td>
<td>16.9%</td>
<td>57.7%</td>
<td>4.20</td>
<td>1.129</td>
</tr>
<tr>
<td>The government is cognizant of the needs of Non-deposit taking MFI’s when setting up the regulatory framework of the Microfinance Industry</td>
<td>8.5%</td>
<td>7.0%</td>
<td>26.8%</td>
<td>26.8%</td>
<td>31.0%</td>
<td>3.65</td>
<td>1.232</td>
</tr>
</tbody>
</table>

4.3.2 Technology and Non-Deposit Taking MFIs Growth

The study aimed to answer what role technology played on the growth of non-deposit taking microfinance institutions. The study presented six statements on technology to staff to indicate to what extent technology influenced growth.

Table 4.2 shows that the highest ranked item was technology has had a big role to play in the growth of your firm over the years with a mean score of 3.25 and standard deviation of 1.391, followed by there is adequate commitment across the organization to adopt innovative solutions for customers (M=2.86; SD=1.234). The least ranked technology statement was I believe that without technology, the organization would not be where it is today (M=2.49; 1.511).
Table 4.2: Technology descriptive statistics

<table>
<thead>
<tr>
<th>Technology</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology has had a big role to play in the growth of your firm over the years</td>
<td>14.1%</td>
<td>18.3%</td>
<td>21.1%</td>
<td>21.1%</td>
<td>25.4%</td>
<td>3.25</td>
<td>1.391</td>
</tr>
<tr>
<td>There is sufficient investment in Research and Development on Innovative services within the organization</td>
<td>39.4%</td>
<td>12.7%</td>
<td>8.5%</td>
<td>22.5%</td>
<td>16.9%</td>
<td>2.65</td>
<td>1.587</td>
</tr>
<tr>
<td>Your organization actively trains and develops its employees on advancement in technologies</td>
<td>32.4%</td>
<td>1.4%</td>
<td>35.2%</td>
<td>16.9%</td>
<td>14.1%</td>
<td>2.79</td>
<td>1.423</td>
</tr>
<tr>
<td>Your organization actively benchmarks its services with those of competing firms who have adopted technology in their operations</td>
<td>38.0%</td>
<td>8.5%</td>
<td>12.7%</td>
<td>19.7%</td>
<td>21.1%</td>
<td>2.77</td>
<td>1.623</td>
</tr>
<tr>
<td>You believe that without Technology, your organization would not be where it is today</td>
<td>42.3%</td>
<td>11.3%</td>
<td>14.1%</td>
<td>19.7%</td>
<td>12.7%</td>
<td>2.49</td>
<td>1.511</td>
</tr>
<tr>
<td>There is adequate commitment across the organization to adopt innovative solutions for customers</td>
<td>16.9%</td>
<td>23.9%</td>
<td>23.9%</td>
<td>26.8%</td>
<td>8.5%</td>
<td>2.86</td>
<td>1.234</td>
</tr>
</tbody>
</table>

4.3.3 Location and Non-Deposit Taking MFIs Growth

The study sought to establish the impact of non-deposit taking microfinance institution’s location in their growth. The results show that from the six statements presented, the respondents were neutral that location of organization had a positive impact in the firm’s growth and expansion with a mean score of 3.00 and standard deviation of 1.254 as depicted in Table 4.3.

The findings further showed that study participants disagreed that growth of your organization has been highly compromised due to the location of your firm’s headquarters and its branches with a mean score of 2.66 and a standard deviation 1.320.
Table 4.3: Location descriptive statistics

<table>
<thead>
<tr>
<th>Location</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The location of your organization has had a positive impact in the firms growth and expansion</td>
<td>15.5%</td>
<td>16.9%</td>
<td>33.8%</td>
<td>19.7%</td>
<td>14.1%</td>
<td>3.00</td>
<td>1.254</td>
</tr>
<tr>
<td>There exists untapped locations that the company would consider in its growth and expansion objectives</td>
<td>14.1%</td>
<td>28.2%</td>
<td>31.0%</td>
<td>14.1%</td>
<td>12.7%</td>
<td>2.83</td>
<td>1.219</td>
</tr>
<tr>
<td>Your organization has exhausted its target market in the current locations of operations</td>
<td>19.7%</td>
<td>28.2%</td>
<td>29.6%</td>
<td>12.7%</td>
<td>9.9%</td>
<td>2.65</td>
<td>1.220</td>
</tr>
<tr>
<td>The location of your firm’s branches is the biggest contributor to the growth of your customer base and loan book</td>
<td>21.1%</td>
<td>22.5%</td>
<td>23.9%</td>
<td>19.7%</td>
<td>12.7%</td>
<td>2.80</td>
<td>1.327</td>
</tr>
<tr>
<td>Your firm’s mission and vision are indicative of the importance of location in the firms long term growth</td>
<td>16.9%</td>
<td>32.4%</td>
<td>25.4%</td>
<td>12.7%</td>
<td>12.7%</td>
<td>2.72</td>
<td>1.256</td>
</tr>
<tr>
<td>The growth of your organization has been highly compromised due to the location of your firm’s headquarters and its branches</td>
<td>21.1%</td>
<td>31.0%</td>
<td>22.5%</td>
<td>11.3%</td>
<td>14.1%</td>
<td>2.66</td>
<td>1.320</td>
</tr>
</tbody>
</table>

4.3.4 Capital Adequacy

The research intended to determine the role that capital adequacy plays in the growth of non-deposit taking microfinance institutions. The results show that the highest ranked item for capital adequacy was the firm actively seeks for capital and sources of financing on a regular basis with a mean score of 3.83 and a standard deviation of 1.134.

This was followed by current loan book would have been higher if you had more sources of capital (M=3.72; SD=1.256) and established financial institutions are willing to offer capital to your organization (M=3.70; SD=1.224) as shown in Table 4.4.
Table 4.4: Capital adequacy descriptive statistics

<table>
<thead>
<tr>
<th>Capital Adequacy</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Neutral</th>
<th>Agree</th>
<th>Strongly Agree</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your firm has a diverse portfolio of sources of capital to run its day to day operations</td>
<td>9.9%</td>
<td>11.3%</td>
<td>23.9%</td>
<td>26.8%</td>
<td>28.2%</td>
<td>3.52</td>
<td>1.286</td>
</tr>
<tr>
<td>Established financial institutions are willing to offer capital to your organization</td>
<td>5.6%</td>
<td>14.1%</td>
<td>16.9%</td>
<td>31.0%</td>
<td>32.4%</td>
<td>3.70</td>
<td>1.224</td>
</tr>
<tr>
<td>Your current loan book would have been higher if you had more sources of capital</td>
<td>8.55</td>
<td>9.9%</td>
<td>15.5%</td>
<td>33.85</td>
<td>32.4%</td>
<td>3.72</td>
<td>1.256</td>
</tr>
<tr>
<td>The firm actively seeks for capital and sources of financing on a regular basis</td>
<td>4.2%</td>
<td>8.5%</td>
<td>22.55</td>
<td>29.6%</td>
<td>35.2%</td>
<td>3.83</td>
<td>1.134</td>
</tr>
<tr>
<td>Availability of capital has had a positive impact on the firms growth and expansion</td>
<td>12.7%</td>
<td>7.0%</td>
<td>21.1%</td>
<td>23.9%</td>
<td>35.2%</td>
<td>3.62</td>
<td>1.367</td>
</tr>
<tr>
<td>The growth of your organization has been highly compromised due to the lack of adequate financing</td>
<td>11.3%</td>
<td>8.5%</td>
<td>18.3%</td>
<td>29.6%</td>
<td>32.4%</td>
<td>3.63</td>
<td>1.323</td>
</tr>
</tbody>
</table>

4.4 Inferential Statistics

This section presents the inferential statistics findings. The study conducted correlation analysis to establish the association between the independent and dependent variables. Multiple regression analysis was done to establish the influence of study independent variables on the dependent variable.

4.4.1 Correlation Analysis

Table 4.5 shows the results of the correlation analysis. The results show that there was a positive and significant association between the independent and dependent variables except for location which was insignificant. The findings show that regulatory had an $r$ value of 0.234, $p < 0.05$; technology had an $r$ value of 0.131, $p < 0.05$; location had an $r$ value of 0.034, $p > 0.05$ and capital adequacy had an $r$ value of 0.189, $p < 0.05$. The findings indicate that regulatory framework had the greatest linear relationship with growth of non-deposit taking MFIs, this was followed by capital adequacy, technology and location.
Table 4.5: Correlation of external factors and non-deposit taking MFIs growth

<table>
<thead>
<tr>
<th>Variables</th>
<th>Regulatory framework</th>
<th>Technology</th>
<th>Location</th>
<th>Capital adequacy</th>
<th>Firm growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory framework</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology</td>
<td>.039(**)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>.047</td>
<td>.121</td>
<td>1</td>
<td>.072</td>
<td>1</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>.072</td>
<td>.140</td>
<td>.072</td>
<td>.189</td>
<td>1</td>
</tr>
<tr>
<td>Firm growth</td>
<td>.234(**)</td>
<td>.131</td>
<td>.034(**)</td>
<td>.062</td>
<td>.004</td>
</tr>
</tbody>
</table>

4.4.2 Regression Analysis

The study conducted a multiple regression between Regulatory framework, Technology, Location, Capital adequacy and Firm growth. Table 4.6 shows the model summary which shows that the study independent variables (Regulatory framework, Technology, Location, Capital adequacy) explained 40.2% of variation in non-deposit taking MFIs growth.

Table 4.6: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.634 (a)</td>
<td>.402</td>
<td>.376</td>
<td>4.10567</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), Regulatory framework, Technology, Location, Capital adequacy

Table 4.7 shows the ANOVA results of the regression analysis, the findings show ($F = 41.187, p < 0.05$) that the study proposed model was significant in explaining variation in growth of non-deposit taking MFIs. This means that the combination of regulatory framework, technology, location, capital adequacy has an effect on growth of non-deposit taking MFIs.

Table 4.7: ANOVA (a)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>17.966</td>
<td>4</td>
<td>40.212</td>
<td>41.187</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>10.453</td>
<td>78</td>
<td>7.859</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>29.420</td>
<td>82</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), Regulatory framework, Technology, Location, Capital adequacy
b Dependent Variable: Non-deposit taking MFIs Growth

Table 4.8 shows the regression coefficients where the highest coefficients were observed for regulatory framework followed capital adequacy, technology and location. The findings indicated that non-deposit taking MFIs growth was predicted by regulatory framework (Beta = 0.333, \( p < 0.05 \)), capital adequacy (Beta = 0.299, \( p < 0.05 \)), technology (Beta = 0.231, \( p < 0.05 \)) and location (Beta = 0.127, \( p < 0.05 \)). The study proposed model therefore becomes:

\[
Y = 4.152 + X_1 (0.333) + X_2 (0.231) + X_3 (0.127) + X_4 (0.299) + \epsilon_j
\]

Table 4.8: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>4.152</td>
<td>.728</td>
<td>3.758</td>
<td>.002</td>
</tr>
<tr>
<td>Regulatory framework</td>
<td>.333</td>
<td>.066</td>
<td>.059</td>
<td>1.675</td>
</tr>
<tr>
<td>Technology</td>
<td>.231</td>
<td>.118</td>
<td>.421</td>
<td>4.155</td>
</tr>
<tr>
<td>Location</td>
<td>.127</td>
<td>.025</td>
<td>.425</td>
<td>3.728</td>
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<tr>
<td>Capital adequacy</td>
<td>.299</td>
<td>.211</td>
<td>.378</td>
<td>2.671</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Non-deposit taking MFIs Growth

4.5 Chapter Summary

This chapter showed and presented the results and findings of the study. Descriptive statistics (percentages, mean and standard deviation) and inferential statistics (correlation and regression analysis) were used to make inferences. Data was presented in Figures and Tables. The next chapter of the study presents the discussion, conclusions and recommendations of the study.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents the discussions, conclusions and recommendations from the findings of the study. The chapter is presented in sections that include a summary of the study findings, the discussions, conclusions and recommendations are presented in tandem with the research questions of the study.

5.2 Summary of findings
The aim of the study was to investigate the external factors inhibiting growth of non-deposit taking microfinance institutions in Kenya focusing on Speed Capital as a case for the study. The study aimed to answer four research questions: what is the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions, what is the role played by technology in the growth of non-deposit taking microfinance institutions, what is the impact of a non-deposit taking microfinance institution’s location in their growth and the role played by capital adequacy in the growth of non-deposit taking microfinance institutions. The study adopted a descriptive research design.

Speed Capital was selected purposively and stratified random sampling was used to sample the target population which included board of directors, senior management, middle level management and non-management staff of Speed Capital. The study used census sampling technique and the sample size was established as 99 respondents. The questionnaire was used to collect information on the independent variable while secondary data was used to collect information on firm growth. Descriptive statistics (frequencies, percentages, mean and standard deviation) and inferential statistics (correlation and regression) were used to analyse the data.

The demographic information of study participants showed that 26.8% were 31-35 years, 19.7% were 26-30 years, 18.3% were 20-25, and 18.30% were 36-40 years and those over 40 years and above represented at 16.9%. In regard to their education, 40.8% had an undergraduate level of education, 26.8% had postgraduate level of education, and 22.5% had a college level of education whereas 9.9% cited other qualifications. In terms of their position in the firm, the results showed that non-management staff comprised of
80.3 %, middle-management staff (9.9 %), senior management (7.0 %) and board of directors (2.8%).

With relevance to their experience working in MFI industry, 34.6 % had worked in the MFI industry for 4-5 years, over 8 years (33.3 %), 6-7 years (21.0 %), 2-3 years (8.6 %) and 2.5 % had worked in the MFI industry for less than one year. In terms of working at Speed Capital, 33.3 % had worked at Speed Capital for less than one year, 21.0 % for over 8 years, 19.8 % cited 2-3 years, 13.6 % cited 6-7 years and 12.3% had worked at Speed Capital for 4-5. The results revealed that 32.0 % had been in the current position at Speed Capital for 2-3 years, others were, 4-5 years (29.6 %), 6-7 years (16.0 %), over 8 years (12.5 %) and less than one year comprised of 9.9 %.

The correlation results showed a positive and significant relationship between regulatory framework \( (r = 0.234, p < 0.05) \), technology \( (r =0.131, p <0.05) \) and capital adequacy \( (r = 0.189, p < 0.05) \). There was a positive but insignificant relationship between location and growth of non-deposit taking MFIs. The model summary from the regression analysis showed that the study independent variables explained 40.2 % change in growth of non-deposit taking MFIs. The ANOVA results indicated that this change was statistically significant. The multiple regression analysis further confirmed that a change in regulatory framework led to a 0.333 change in growth of non-deposit taking MFIs and this was significant, this was also observed for technology \( (\beta = 0.231; p < 0.05) \) and capital adequacy \( (\beta = 0.299; p < 0.05) \). The findings indicated a positive but insignificant effect of location on growth of non-deposit taking MFIs.

5.3 Discussion

5.3.1 Regulatory Framework and Non-Deposit Taking MFIs Growth

The study sought to answer the question on the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions. The descriptive statistics showed that respondents agreed that there is a clear regulatory framework for non-deposit taking MFI’s in the country. This is in contrary to a study that revealed disparity in the policies relevant to non-deposit taking MFI’s, suggesting that the regulatory environment within the microfinance industry appears to lean more towards the operations of deposit taking MFI’s rather than the non-deposit taking MFI’s (Ndulu, 2016).
However, the correlation results also showed a positive and statistically significant relationship between regulatory framework and growth of non-deposit-taking MFIs. Regression analysis further confirmed that the regulatory framework influenced growth of non-deposit taking MFIs by a factor of 0.333 and this was significant. This finding corroborates a study done in 2010 which confirms that regulation has a positive impact on the growth and expansion of the organization. A key ingredient for success is good governance which is a result of clear policies and regulations (Muganga, 2010).

Furthermore, AMFI has concentrated much of its advocacy efforts on the operations and challenges faced by deposit taking MFI’s with little focus laid on non-deposit taking MFI’s (Kurgat, 2012). The limitations of non-deposit taking firms to only lend their own funds or borrowed funds mean that they may not raise funding through public offerings. This regulation affects the growth and expansion of non-deposit taking MFIs in Kenya and hence corroborates the study findings which showed that the regulatory framework of non-deposit taking MFIs growth was affected by the legal and regulatory framework (Kurgat, 2012).

A factor of 0.333 though significant, is also indicative of the fact that regulation is definitely not the sole factor responsible for the growth of these institutions. A study conducted on the impact of regulation on microfinance institutions in the economy of the South African market found out that macroeconomic reforms have also played a role in the state of development of the South African microfinance market (Muganga, 2010). The findings of the study support the need for non-deposit taking institutions to lobby with the government, highlighting the immense benefit that citizens can generate from them (Mngolia, 2009).

This will result in favorable laws and regulations that will enhance the institutions ability to reach out to a wider customer base. However, good governance is an output of participation from different stakeholders. Good governance involves embracing decision making and policy implementation by an authoritative state that represents the interests of the society to transparency and accountability from an economic perspective (Chibba, 2009). Regulators also need to understand that the microfinance sector is an integral part of the country’s financial system (Mukama, Fish, & Volschenk, 2005)
5.3.2 Technology and non-deposit taking MFIs Growth

The study sought to answer the question on the role played by technology on growth of non-deposit taking microfinance institutions. The descriptive statistics showed that respondents were neutral in terms of the extent to which technology has impacted on the growth of Speed Capital over the years.

The correlation results also showed a positive and statistically significant relationship between technology and growth of non-deposit taking MFIs. Regression analysis further confirmed that technology influenced growth of non-deposit taking MFIs by a factor of 0.231 and this was significant. The findings support the fact that technology continues to be one of the largest disruptions within the modern day economic setting and development of technology may be a vital facet of business aggressiveness within the 21st century (Arranz & Arroyabe, 2009).

The financial industry in Kenya has been recognized globally for the adoption of innovative platforms that have led to increased financial deepening (Anyasi & Otubu, 2009). This finding supports Muli (2013) arguments that technological innovations are more likely to enable financial institutions achieve competitive advantage by providing a variety of products to their customers. It may also be the reason why some financial institutions will be far much ahead of the rest in the industry. The ability of most banks providing affordable and competitive banking services across geographical boundaries largely depends on the technology adopted.

The government has over the years encouraged the introduction of information communication technology (ICT). Consequently, mobile money services are being used widely in Kenyan communities. The ability to provide affordable and competitive services across geographical boundaries largely depends on the technology adopted. Technology will therefore form the thin line between most successful and less successful financial institutions (Anyasi & Otubu, 2009).

Despite the relevance of technology on growth of non-deposit taking MFIs, there is evidence to show that MFIs are facing several challenges in using technology to their advantage. These include; lack of capability among MFI’s to identify, seek and use appropriate technologies in their production and a non-enabling environment that impedes access to technology (Aduda & Kalunda, 2012).
It is however important to note that financial deepening will be enhanced by technology if there is proper co-operation from regulators as was found out in a study done in China. It was established that mobile service providers are entering into strategic alliances with banks to provide banking services to the rural majority (Chan & Jia, 2011). Mobile technology has been recognized as the most convenient way of providing access to credit to most people who have no access to banking facilities (Ondiege, 2010). Adoption of an innovative culture requires support and involvement from top management for implementation to be successful and in line with the organizations objectives and vision (White & Bruton, 2011).

It is important to note that the development of technological capabilities requires rigor and focus from different stakeholders such as governments and enterprises. At the firm level, management needs to appreciate and show willingness to develop technological capabilities and channel resources in an optimal way. The firm should have available capital and be ready to investing in innovative and productivity enhancing efforts (Namusonge, 2004).

5.3.3 Location and non-deposit taking MFIs Growth
The study sought to answer the question on the role played by location on growth of non-deposit taking microfinance institutions. The descriptive statistics showed that respondents were neutral that location of Speed Capital had a positive impact on growth and expansion. The correlation results also showed a positive but insignificant relationship between location and growth of non-deposit-taking MFIs. Regression analysis further revealed that location influenced growth of non-deposit taking MFIs by a factor of 0.127 and this was insignificant.

The findings from the study contradict the resource-based view (RBV) that states that location is a tangible resource that plays a key role in the growth of an organization. RBV propagates that companies that deploy valuable resources and capabilities that are inelastic in supply will gain sustainable competitive advantages (Grunert & Hildebrandt, 2004). The findings from the study contradict earlier findings that indicated that in the context of financial deepening, the location of the financial institutions is also considered to be influencing the saving behavior of the households in China (Chan & Jia, 2011).
Moreover, the findings from this study contradict a study done in 2011 that found that micro finance institutions greatest inhibitor is geographical location of the microfinance Institutions (Mutua, 2011). However, the location of most non-deposit taking MFI’s is quite telling in the sense that most of them are located in major urban centers rather than the rural areas where majority of the poor in the developing world live and therefore where financial services are should be provided (Cherotich, 2011).

Ruzzier (2006) found out that location has to be intertwined with defining and analyzing a firm’s market segment in terms of existing competition. Non-deposit taking MFI’s therefore need to not only locate their services strategically but also strive to determine who their target market in those specific locations are. Determining a suitable location should therefore be a result of a conscious effort to understand the market and how best the firm will be positioned to serve and meet the needs of its customers. Establishing operations in the right location will enable micro finance institutions promote human development due to the ease with which people can access funds for development (Sengupta & Aubuchon, 2008).

The findings from this study support the notion that MFI’s have been understood to operate in the urban areas whereby the demand for their services is perceived to be higher than in the rural areas. This has arguably been one of the major reasons that have led to a relatively lower financial deepening in the economically marginalized areas (Cherotich, 2011).

The objective of microfinance is to provide finance services to the economically marginalized members of the society; these are often in the rural areas (Chan & Jia, 2011). In their study, they found out that mobile banking has the potential of reducing financial inequality between the urban and the rural areas.

Microfinance has to play a key role in development and financial deepening by bringing access to financial services to the poor, who are neglected by the formal banking sector. However, if MFIs are to fill this void they must reach the rural poor (Yunus, 1999). Speed Capital has no presence in the rural areas and thus the location of the branches has had no significant effect on its growth.

5.3.4 Capital adequacy and non-deposit taking MFIs Growth
The study sought to answer the question on the role played by capital adequacy on growth of non-deposit taking microfinance institutions. The descriptive statistics showed that respondents agreed that Speed Capital actively sought for funding and sources of financing on a regular basis. The correlation results also showed a positive and statistically significant relationship between capital adequacy and growth of non-deposit-taking MFIs. Regression analysis further confirmed that capital adequacy influenced growth of non-deposit taking MFIs by a factor of 0.299 and this was significant.

The findings from the study show that capital requirement was the second most significant factor that had an effect on the growth of non-deposit taking MFIs. This finding supports, Aduda and Kalunda (2012) finding that despite the growing number of MFIs, their outreach is constrained, especially in rural areas. This is because of inadequacies in their resource base and absence of institutional capacity to provide a wide range of financial services. This is especially so in the rural areas whereby MFI outreach is predominantly through group-based programmes. These programmes have limited capacity for financial resources. Although banking Institutions have a stronger resource base and wider outreach, they lack expertise in microfinance (MF) lending (Ondiege, 2010).

The study supports Lehner (2009) who noted that if MFI’s continue to get better access to capital markets, individual loans in microfinance will gain importance in the future. Despite efforts by the government to provide incentives to attract savings and availability of capital from venture capitalists, most MFI’s still struggle to acquire sources of capital inhibiting their ability to serve the growing demand for capital from the emerging entrepreneurs. (Mariara, 2006).

A study conducted in Tanzania determined that without a self-sustaining mechanism of generating funds, there is little hope for MFIs to reach a greater number of poor households (Mukama, Fish, & Volschenk, 2005). The government has an important role to play to promote the development of MFI’s by providing a platform that supports financial support to MFI’s from different quarters, especially donor support from established institutions such as the World Bank and Non-Governmental Organizations (NGO’s) (Afifa, 2005).
The findings from the study support the significance played by capital in enabling microfinance institutions to comfortably provide financial services to the low-income households and micro and small enterprises (MSEs), support the economic activities of the poor and thus contribute to poverty alleviation (Muiruri, 2014).

The government should step back and adopt its earlier strategies of seeking to promote development of financial services by providing incentives to attract saving, investment and development from donor associations and venture capitalists. This initiative would ultimately increase the availability of capital for the microfinance institutions in the informal sector, notably, the non-deposit taking MFI’s. (Dondo, 2007).

5.4 Conclusion

5.4.1 Regulatory Framework and Non-Deposit Taking MFIs Growth
The study sought to answer the question on the role played by the regulatory environment in the growth of non-deposit taking microfinance institutions. The findings revealed a positive and statistically significant relationship between regulatory framework and growth of non-deposit taking MFIs. The regression confirmed that regulatory framework had the greatest influence on growth of non-deposit taking MFIs.

5.4.2 Technology and Non-Deposit Taking MFIs Growth
The study sought to answer the question on the role played by technology on growth of non-deposit taking microfinance institutions. The findings revealed a positive and statistically significant relationship between technology and growth of non-deposit-taking MFIs. The results indicated a positive effect of technology on growth of non-deposit taking MFIs. The study, therefore, concludes that technology has an effect on growth of non-deposit taking MFIs.

5.4.3 Location and Non-Deposit Taking MFIs Growth
The study sought to answer the question on the role played by location on growth of non-deposit taking microfinance institutions. Correlation results also showed a positive but insignificant relationship between location and growth of non-deposit-taking MFIs. Location was found to have an insignificant influence on growth of non-deposit taking MFIs. The study therefore concludes that location has no effect on growth of non-deposit taking MFIs.
5.4.4 Capital Adequacy and Non-Deposit Taking MFIs Growth
The study sought to answer the question on the role played by capital adequacy on growth of non-deposit taking microfinance institutions. The correlation results showed a positive and statistically significant relationship between capital adequacy and growth of non-deposit-taking MFIs. Regression analysis confirmed that capital adequacy influenced growth of non-deposit taking MFIs. The study therefore concludes that capital adequacy is the second most significant factor affecting growth of non-deposit taking MFIs.

5.5 Recommendations
5.5.1 Recommendations for Improvement
Based on the results of the study the researcher recommends various ways that non-deposit taking MFI’s can use to overcome factors affecting their growth and expansion.

5.5.1.1 Regulatory Framework and Non-Deposit Taking MFIs Growth
The study recommends for unification of the legal and regulatory framework of deposit taking and non-deposit taking MFIs to be regulated and supervised by the Central Bank of Kenya. This calls for consultation with stakeholders in the MFI industry to chart a way forward to enhance growth of non-deposit taking MFIs.

5.5.1.2 Technology and Non-Deposit Taking MFIs Growth
Non-deposit taking MFIs senior management should invest in information communication technologies that are emerging in the global financial markets as a means of creating, achieving and maintaining a sustainable competitive advantage in financial services provision in Kenya.

5.5.1.3 Location and Non-Deposit Taking MFIs Growth
Non-deposit taking microfinance institution should be proactive in identifying and selecting a target group for their services and this should not be dependent on the location of their customers rather than where the targeted consumers are located.

5.5.1.4 Capital Adequacy and Non-Deposit Taking MFIs Growth
Non-deposit taking microfinance institutions should be proactive in sourcing for sources of finances to fund their operations and increase their capacity to serve a wider customers base.
5.5.2 Recommendations for Future Research

The study aim was to establish the role played by the regulatory environment, technology, location and capital adequacy in the growth of non-deposit taking MFIs. The study recommends for further study on other factors perceived to influence growth of non-deposit taking MFIs such as corporate governance, capital structure, corporate social responsibility and role played by devolution. The study suggests for further study on other non-deposit taking MFIs in the 47 counties in Kenya.
REFERENCES


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Appendix I: Data Collection Instrument Questionnaire

Introduction Letter

Dear Respondent,

My name is Ian Gikundi Mutethia, and I am pursuing a post graduate degree at United States University (USIU). I thank you for finding time to participate in this questionnaire on the external factors inhibiting growth of non-deposit taking MFIs in the Kenya.

The questionnaire is divided into four sub sections and I would be happy to have all the subsections completed. The information you provide will be treated as confidential and will only be used for academic purposes. This will take you 15-30 minutes. Please feel free to supply all relevant information. Again, thank you for your time.

Section A: Background

Tick where appropriate

1. Name……………………………………………………………………………….(Optional)

2. Age
20 – 25 years [ ] 26 – 30 years [ ] 31 – 35 years [ ] 36 – 40 years [ ] 40 years and over [ ]

3. Level of Education
College Level [ ] Undergraduate Level [ ] Post Graduate Level [ ] Other [ ]

4. Position in the organization
Board of Director [ ] Senior Manager [ ]
Middle level Manager [ ] Non-management staff [ ]

5. How long have you worked in this Industry?
0-1 years [ ] 2-3 years [ ] 4-5 years [ ] 6-7 years [ ] over 8 years [ ]

6. How long have you worked in this particular Organization?
0-1 years [ ] 2-3 years [ ] 4-5 years [ ] 6-7 years [ ] over 8 years [ ]
7. How long have you been in your current position?

   0-1 years [ ] 2-3 years [ ] 4-5 years [ ] 6-7 years [ ] over 8 years [ ]

Section B: The role played by the regulatory environment in the growth of the firm

8. In a scale of 1 – 5, kindly indicate your level of agreement with the following statements relating to the role played by the regulatory environment in the growth of the firm, Kenya?

   1 = strongly agree, 2 = agree, 3 = neutral, 4 = disagree, 5 = strongly disagree.

<table>
<thead>
<tr>
<th>Regulatory Framework</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>A proper regulatory framework will surely lead to the growth of an organization in your industry</td>
<td></td>
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<tr>
<td>There is a clear regulatory framework for non-deposit taking MFI’s in the country</td>
<td></td>
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</tr>
<tr>
<td>Your organization has an internal regulatory framework embedded in its operations</td>
<td></td>
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<tr>
<td>Your organization actively consults externally on regulatory matters affecting the industry</td>
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<tr>
<td>Regulation has a positive impact on the growth and expansion of your organization</td>
<td></td>
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<tr>
<td>The government is cognizant of the needs of Non-deposit taking MFI’s when setting up the regulatory framework of the Microfinance Industry</td>
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</tbody>
</table>

Section C: Impact of Technology in the growth of non-deposit taking MFI’s

9. In a scale of 1 – 5, kindly indicate your level of agreement with the following statements with regards to the relationship between technology and the growth of non-deposit taking MFI’s in Nairobi.

   1 = strongly agree, 2 = agree, 3 = neutral, 4 = disagree, 5 = strongly disagree.

<table>
<thead>
<tr>
<th>Technology</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technology has had a big role to play in the growth of your firm over the</td>
<td></td>
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</tbody>
</table>
There is sufficient investment in Research and Development on Innovative services within the organization

Your organization actively trains and develops its employees on advancement in technologies

Your organization actively benchmarks its services with those of competing firms who have adopted technology in their operations

You believe that without Technology, your organization would not be where it is today

There is adequate commitment across the organization to adopt innovative solutions for customers

**Section D: The impact of a non-deposit taking MFI’s location on its performance**

10. In a scale of 1 – 5, kindly indicate your level of agreement with the following statements relating the role played by the location of a non-deposit taking MFI on its growth.  
1=strongly agree, 1=agree, 3=neutral, 4=disagree, 5=strongly disagree.

<table>
<thead>
<tr>
<th>Location</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The location of your organization has had a positive impact in the firms growth and expansion</td>
<td></td>
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<tr>
<td>There exists untapped locations that the company would consider in its growth and expansion objectives</td>
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<tr>
<td>Your organization has exhausted its target market in the current locations of operations</td>
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<tr>
<td>The location of your firm’s branches is the biggest contributor to the growth of your customer base and loan book</td>
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<tr>
<td>Your firm’s mission and vision are indicative of the importance of location in the firms long term growth</td>
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<tr>
<td>The growth of your organization has been highly compromised due to the location of your firm’s headquarters and it’s branches</td>
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</tbody>
</table>
Section E: Role played by capital adequacy to the performance on non-deposit taking MFI’s

11. In a scale of 1 – 5, kindly indicate your level of agreement with the following statements relating the role played by Capital adequacy of a non-deposit taking MFI on its growth.

1=strongly agree, 2=agree, 3=neutral, 4=disagree, 5=strongly disagree.

<table>
<thead>
<tr>
<th>Capital Adequacy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your firm has a diverse portfolio of sources of capital to run it’s day to day operations</td>
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<tr>
<td>Established financial institutions are willing to offer capital to your organization</td>
<td></td>
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<tr>
<td>Your current loan book would have been higher if you had more sources of capital</td>
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<tr>
<td>The firm actively seeks for capital and sources of financing on a regular basis</td>
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<tr>
<td>Availability of capital has had a positive impact on the firms growth and expansion</td>
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</tr>
<tr>
<td>The growth of your organization has been highly compromised due to the lack of adequate financing</td>
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</table>
Appendix II: Gantt chart on Work Plan

<table>
<thead>
<tr>
<th>Chapter One</th>
<th>Chapter Two</th>
<th>Chapter Three</th>
<th>Proposal draft</th>
<th>Pilot testing Questionnaire</th>
<th>Issue Questionnaire</th>
<th>Data collection</th>
<th>Data analysis</th>
<th>Report writing</th>
<th>Final project draft</th>
<th>Research Project Submission</th>
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</table>

Week 1 | Week 2 | Week 3 | Week 4 | Week 1 | Week 2 | Week 3 | Week 4 | Week 1 | Week 2 | Week 3 | Week 4 | Week 1 | Week 2 | Week 3 | Week 4 | Week 1 | Week 2 | Week 3 | Week 4 |

Chapter One
Chapter Two
Chapter Three
Proposal draft
Pilot testing Questionnaire
Issue Questionnaire
Data collection
Data analysis
Report writing
Final project draft
Research Project Submission

Appendix III: Budget

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<td>Binding</td>
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<table>
<thead>
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<th>B Transport</th>
<th>Quantity</th>
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<td>Issuing Questionnaire</td>
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<td>Picking Questionnaire</td>
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<th>D Writing Material</th>
<th>Quantity</th>
<th>Price per Unit</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pen</td>
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<td>15</td>
<td>75</td>
</tr>
<tr>
<td>File</td>
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</table>

Total Amount | 14,225.00