FACTORS THAT ENHANCE EFFICIENCY IN SERVICE DELIVERY IN MICROFINANCE INSTITUTIONS IN NAIROBI

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D53/OL/13402/04

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DECLARATION

This research project is my original work and has not been presented in any other university or for any other award.

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I dedicate this project to my late father, Evans Obadhi and my mother, Benta Amollo for sacrificing everything to ensure that I had quality education.
ACKNOWLEDGEMENT

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A special appreciation also goes to the author’s family, specifically his wife Mary and their two daughters, Kimberly and Daniella for the patience during this exercise. All errors expressed in this paper are entirely those of the author.
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<td><strong>Building Societies</strong></td>
<td>Are financial institutions that provide financial products and</td>
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<td>services that are geared towards building and housing.</td>
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<td><strong>Commercial Banks</strong></td>
<td>These are financial organizations that have developed specialized</td>
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<td></td>
<td>financial products and services to serve both up and down market</td>
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<td></td>
<td>clients.</td>
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<td><strong>Insurance Companies</strong></td>
<td>These are financial institutions that provide risk management</td>
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<td></td>
<td>financial services to both individual and corporate clients.</td>
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<td><strong>Micro-Finance Institutions</strong></td>
<td>These are financial institutions that provide small savings and</td>
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<td>loan services to economically active poor people at the local</td>
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<td></td>
<td>level near their homes and business places in both rural and</td>
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<td></td>
<td>urban areas.</td>
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<td><strong>Rotating Savings &amp; Credit Associations</strong></td>
<td>These are informal savings and credit schemes designed locally</td>
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<td></td>
<td>to access financial services to those un-reached by the formal</td>
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<tr>
<td></td>
<td>financial services.</td>
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<tr>
<td><strong>Savings &amp; Credit Cooperative Societies</strong></td>
<td>Are organization that provide financial services (savings and</td>
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<td>credit) and non-financial services (e.g. marketing and</td>
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<td>ABBREVIATIONS</td>
<td>Description</td>
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<tr>
<td>AMFI</td>
<td>Association of Micro-Finance Institutions</td>
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<tr>
<td>ERSWEC</td>
<td>Economic Recovery Strategy for Wealth and Employment Creation</td>
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<td>SACCOs</td>
<td>Savings and Credit Co-operative Societies</td>
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<td>GOK</td>
<td>Government of Kenya</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>NGOs</td>
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<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
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<td>CGAP</td>
<td>Consultative Group against Poverty</td>
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<td>SME</td>
<td>Small and Micro Enterprises</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>ICT</td>
<td>Information Communication Technology</td>
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<td>KPOSB</td>
<td>Kenya Post Office Savings Bank</td>
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<td>MFI</td>
<td>Micro-Finance Institution</td>
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<tr>
<td>MSMEs</td>
<td>Micro Small and Medium Enterprises</td>
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<tr>
<td>K-Rep</td>
<td>Kenya Rural Enterprise Programme</td>
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<td>SPSS</td>
<td>Statistical Package for Social Scientists</td>
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ABSTRACT

The government of Kenya has been at the forefront in encouraging the growth of entrepreneurs with an intention of fighting poverty and creation of wealth within the populace.

One of the major challenges faced by the entrepreneurs has been lack of access to affordable finance. There are several reasons why over 38.4% of Kenyans are completely excluded from accessing finance; one of the reasons is that most MFIs are currently operating within towns and its environs. This has disabled Kenyans who are living far from towns from accessing financial services.

The other issue has been lack growth and enhanced efficiency in service delivery by MFIs or MF programmes. MF programmes have not considered several factors that can enhance their sustainability. This study is crucial because it will bring to the fore the key areas that MF programmes need to focus on to enhance their services, grow and therefore access financial service to more Kenyans. This will in turn spur economic growth, alleviate poverty, and create more wealth and more employment opportunities.

Relevant literature will be reviewed on the development and growth of MFIs in the World and also in Kenya. The study intends to establish what factors affect sustainable MF services in Christian programmes with the case study of Young Women Christian Association (YWCA). Various factors that have contributed to either growth or failure of growth in MF services in various programmes or organizations will be looked at.

The study intends to focus on the Micro-Credit operations of YWCA. Data will be collected using questionnaires that will be administered by the researcher himself. Data analysis will be conducted on the quantitative data using the modern statistical software package.
CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Microfinance institutions have played a major role in the development and growth of the economy of Africa and Kenya in particular. They have provided the much needed credit to micro and small business persons who have been able to spur the growth of their businesses and hence creating employment for other Kenyans. According to Ledgerwood and White 2006, the microfinance industry has seen impressive growth for longer than a decade yet still reaches only a small percentage of its potential market worldwide. Oketch and Mirero 2004 indicate that for microfinance institutions in Africa, managing growth is today a challenge with many dimensions: resources are limited, and yet institutional needs are diverse and continually multiplying. When combined with fast changing operating environment in which Kenya is introducing regulation and supervision under the Microfinance Act, 2006, and where new frontiers in methodology and products and services are constantly emerging, this becomes a challenge for microfinance institutions.

The situation has not been made easy by the fact that research in the microfinance sector and more so in the microfinance operations has not been that adequate most especially in Kenya. This has been as a result of the fact that the microfinance sector in the country had not been recognized as a serious contributor towards general economic growth and alleviation of poverty. It is only in the recent years that the sector has gained some recognition. This has led to the passing of the Microfinance Act, 2006. This Act was necessitated by the fact that over the years, fake microfinance institutions had sprouted up with an intention of assisting business people and the public only for them to collapse with people’s savings. Some of these fake institutions came to be known as pyramid schemes. There were others that started as Non-Governmental Organizations run by individuals and had no systems or structures, no checks and balances and no clearly defined products or offices where their clients could come and visit them. Hence the
purpose of this study is to establish those key factors that enhance growth in microfinance institutions in Nairobi.

Potential microfinance institutions that intend to register, those that are currently struggling to survive or those that are currently not aware of the factors that are inhibiting them from providing efficient service delivery, will find it important to identify the factors which will enable them achieve this. This study will also assist anyone who intends to put his/her hard earned money into any microfinance institution to ask questions with regards to these factors before putting in his/her money. The study in particular will address the following specific objectives: to establish the role of the governance structure in enhancing efficient service provision of a microfinance institution; to determine the effects of staff and management skills in enhancing efficient service provision of a microfinance institution and to find out the effects of information communication technology in enhancing efficient service delivery of a microfinance institution. The presence or the lack of these factors in any microfinance institutions will determine the pace of growth for such institutions.

1.2 Statement of the Problem

The Kenyan microfinance industry has been slow in its growth as compared to the other neighboring countries like Uganda and Tanzania. One of the reasons for the slow growth is as a result of the fact that the Government took very long to appreciate the role the microfinance institutions were playing in the economic development of the country. For instance, it took the Association of Microfinance Institutions (AMFI) over 10 years to convince the Government to pass the necessary legislation to regulate the industry. The Microfinance Act, 2006 was passed after lengthy lobbying. Regulation of microfinance institutions in our neighboring countries was done much earlier than Kenya.

Pyramid schemes sprouted up as a result of lack of proper regulation and thereby defrauding Kenyans of their hard-earned money. There were no set standards for the industry and therefore even genuine and potential microfinance institutions did not know
what benchmarks were there to enable them enhance efficiency in service delivery. Most microfinance institutions begun with good intentions but as a result of lack of knowledge regarding the key factors that can enable them grow, deliver efficient service and sustain themselves, they all collapsed.

The purpose of the study therefore, is to determine the key factors necessary for any microfinance institution to enhance its growth, sustainability and competitiveness through enhancement of service delivery.

1.3 Objectives of the Study

1.3.1 General Objective

To determine the factors that enhances efficiency in service delivery in microfinance institutions in Nairobi.

1.3.2 Specific Objectives

i. To establish the role of governance structure in enhancing efficiency in service delivery of microfinance institutions in Nairobi;

ii. To determine the effects of staff skills in enhancing efficiency in service delivery of microfinance institutions in Nairobi;

iii. To find out the effects of information communication technology in enhancing efficiency in service delivery in microfinance institutions in Nairobi, and

iv. To find out the effect of strategic planning and management documents in enhancing efficiency in service delivery of microfinance institutions in Nairobi.

1.4 Research Questions

i. How does the governance structure enhance efficiency in service delivery in microfinance institutions in Nairobi?

ii. To what extent do the staffing skills have in enhancing efficiency in service delivery in microfinance institutions in Nairobi?
iii. To what extent does information communication and technology enhance efficiency in service delivery in microfinance institutions in Nairobi?

iv. How does the strategic planning and management documents affect enhancement of service delivery in microfinance institutions in Nairobi?

1.5 Significance of the Study

The study was aimed at highlighting key factors that enable microfinance institutions to enhance their service delivery. It will enable those microfinance institutions that are in the process of formation, those that are struggling to succeed and those that are in the transformation process to identify and streamline these key factors to enable them enhance their service delivery mechanisms for the benefit of their clients. In the long run, by streamlining these factors, the microfinance institutions will be able to cut costs, make more profit, attract and retain more clients and thereby enhancing their sustainability.

This study will also be significant to the existing and potential clients who want to access financial services from various microfinance institutions. These clients will be able to appraise to what extent a particular microfinance institution has been able to entrench these factors within its operations. Clients can therefore be able to gauge what kind institution they are joining.

Donors or development partners who want to invest in microfinance institutions will find this study useful as it will be able to inform them on the importance of these factors in any potential microfinance institution and therefore enable them make informed judgment. With the regulation of microfinance institution in Kenya, the Government through the Central Bank of Kenya will find this study useful in appraising and assessing the microfinance institutions and determining what level of regulation they may be falling into.
1.6 Scope of the Study

The scope of the study was limited to ten (10) microfinance institutions that have both a local and a national presence but all with their head quarters in Nairobi. The regional microfinance institutions usually face slightly more challenges as compared to the national microfinance institutions. This study was conducted between January and July 2010 and it covered the MFIs head offices and also their branches.

1.7 Limitations and Delimitations of the Study

The following were the limitations encountered when undertaking this study:

1.7.1 Resistance by MFIs to provide critical Information

There were various limitations encountered in undertaking this research; they included reluctance by respondents to provide the necessary information to the researcher. Most MFIs at the moment are very reluctant to share information to external parties more so regarding the weaknesses within their systems. The fear is that this will expose them to their competitors. However, the researcher was able to reassure the MFIs of his confidentiality with the information they were to provide.

1.7.2 Lack of Relevant Research Information

The other challenge was lack of relevant research information in the area of study. As compared to other fields of study, microfinance sector in Kenya being a relatively new sector has not been widely researched on more so on the area of study. This posed a challenge. Again, through the use of long term contact within the sector and also through AMFI, the researcher was able to access more information in the area of study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
This chapter focuses on the review of related literature on the financial sector in Kenya, microfinance institutions, the role they play in building entrepreneurs and the factors that contribute to the enhancement of service delivery and sustainability of microfinance institutions in Kenya. Through this, the researcher will acknowledge the existing knowledge and identify the gaps that justify this study.

2.2 The Financial Sector in Kenya
The financial sector is the fifth largest sector in Kenya with a contribution to GDP of about 10.6 per cent. It also accounts for about 3.8% of total employment. According to the ERSWEC 2003-2007 (GoK 2003). The ability of Kenya’s financial sector to contribute to development process has been undermined by non-performing loans portfolio which stood at nearly 30% of the total loans and advances from commercial banks by the end of 2002. Other factors that have contributed to the poor performance of the financial system include absence of effective competition which has led to persistence of wide interest rate spreads; absence of strong and vibrant institutions or long term capital and legal system characterized by long delays in the determination of commercial disputes and enforcement of contracts.

The financial sector in Kenya comprises banking, insurance, capital markets and pension funds. Other parts of the sector include quasi-banking institutions and services provided by savings and credit cooperative societies (SACCOs), microfinance institutions, building societies, development finance institutions (DFIs) and informal services. Currently, the sector contributes about 4% to GDP and provides assets equivalent to about 40% of GDP. According to the Vision 2030, GoK 2008 as of 30th June 2005, there were only 2,204,000 bank accounts in Kenya from a total population of more than 30 million.
According to a study commissioned by Financial Access Partnership in 2009, the access to financial services in Kenya showed that 32% of the total population is still excluded from financial services and that the vast majority uses informal groups rather any kind of formal financial institution.

It is important to note that only 1.7% of the population has used financial services from MFls whereas, 14.2% and 13.1% have used financial services from banks and SACCOs respectively. As per the CBK Annual Report 2006 there are over 3,800 licensed SACCOs that together are estimated to have 2.1 million clients, 1.48 billion USD in loan portfolio and 1.79 billion USD in deposits.

2.3 The Development of Microfinance Institutions in the World and in Kenya
According to Robinson (2001), microfinance refers to small-scale financial services—primarily credit and savings—provided to people who farm or fish or herd; who operate small enterprises or micro-enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and groups at the local levels of developing countries both rural and urban.

Robinson (2001) also indicates that microfinance in its very current terms refers ‘...to the large-scale, profitable provision of microfinance services—small savings and loans—to economically active poor people by sustainable financial institutions at the local level—near homes and work places of the clients—in both rural and urban areas’.

Oketch and Mirero (2004) indicate that donor-funded non-governmental organizations (NGOs) were among the first to identify the vast, unmet demand for micro-credit in the developing countries, to develop methodologies for delivering and recovering small loans and to begin credit programs for the poor. Some of these programmes failed but were able to reach the poor. But poverty lending does not meet poor people’s demand for savings services. A different solution is required to meet the massive global demand for
small loans and savings services which calls for the need for a sustainable commercial microfinance institution. This involves consistent growth of the microfinance institution in terms of loan portfolio, savings and loans products, improved services etc. The microfinance revolution developed in the 1980s and came of age in the 1990s. Commercial microfinance is now found in many countries where it is at different stages of development. In its most advanced form, in banks and other formal financial institutions.

Oketch and Mirero (2004) indicated that Bolivia’s Banco Solidario, translated as the Bank for Solidarity (groups), known as BancoSol, was the first bank in Latin America built expressly to provide financial services for micro-enterprises profitably on national scale. It was created by the Fundacion para Promocion y Desarrollo de la Microempresa (PRODEM) an NGO that provides commercial credit to micro-entrepreneurs. Being an NGO, PRODEM was restricted from collecting savings from the public or borrowing from the central bank. To gain access to other sources of funds, increase the volume of lending and provide full financial services to micro-entrepreneurs, PRODEM’s Board of Directors decided to open a private commercial bank that would serve micro-enterprises.

According to CBK Annual Report (2006) it postulates that microfinance in Kenya has experienced considerable transformation over the past twenty years, growing from a fledgling industry dominated by a few donor and church-based NGOs to a vibrant sector increasingly driven by commercialization. Microfinance institutions are now recognized as legitimate providers of financial services and as the key to unlocking economic growth for entrepreneurs and poor families, especially in rural areas. Unarguably, the most innovative and promising initiatives to increasing access to financial services for impoverished and ordinary Kenyans is done by microfinance institutions.

A significant step in the development of the microfinance industry in Kenya is the enactment of the Microfinance Act in December 2006. The Act will enhance the performance of this sector by putting in place the necessary laws and regulatory framework for the establishment, licensing and supervision of deposit-taking
microfinance institutions focused on providing services and products focused to low income households and enterprises. The overriding rationale for microfinance regulation and supervision is to create an enabling environment that will promote the performance and sustainability of deposit-taking microfinance institutions while at the same time protecting depositors' interests. The Act will supervise microfinance institutions under two tiers, i.e. nationwide microfinance institutions whose minimum core capital is prescribed at Kshs 60 million, and community microfinance institutions with a minimum core capital of Kshs 20 million.

According to Yehu (2007), many of the current market leaders in the microfinance industry were founded in the early eighties. Currently, the Kenyan microfinance industry contains two microfinance oriented banks (K-Rep Bank and Equity Bank) that are regulated by the Central Bank of Kenya (CBK) under the Banking act (1989). Other regulated financial institutions are Savings and Credit Cooperative Societies (SACCOs) which are regulated by the Commissioner of Cooperatives under the Cooperatives Societies Act (2004) and are allowed to pursue member based financial intermediation. Other MFIs are registered under the Companies, NGOs and Trusts Acts.

The microfinance sector in Kenya has faced a number of constraints that need to be addressed to enable them to improve outreach and sustainability. The major impediment to the development of microfinance business in Kenya has been lack of specific legislation and set of regulations to guide the operations of the microfinance sub-sector.

The Business Daily (February 6, 2009) indicated that the new Microfinance Act (2006) enacted by Parliament in December 2006 and assented to by the President in December 2007 will regulate deposit-taking financial institutions. The prudential and non-prudential regulations have been published by the CBK. Faulu Kenya and Kenya Women Finance Trust (KWFT) have already received their licenses as Deposit-Taking Micro-Finance Institutions. This law now enables them to legally mobilize savings from the public. There are around twenty (20) other MFIs whose names have been approved by the Central Bank of Kenya and whose process of transformation has begun.
In the past, especially up to 1997, donor agencies that once provided the microfinance institutions with the necessary seed and operating capital have since redirected their support towards improving the nascent sector’s superstructure, i.e., supporting various governments in developing policy environments conducive to microfinance or using the same grants to instead seduce reluctant commercial banks and other private sector firms to enter into the market or encouraging rating companies to develop appropriate rating methodologies for market-driven microfinance, or supporting global agencies; such as the CGAP (under the umbrella of the World Bank), in establishing performance standards and benchmarks and promoting transparency and reporting.

The change in operating environment started with a call for a ‘financial systems approach’ to microfinance, where the supply of services is purely driven by demand.

### 2.4 Role of Microfinance Institutions in the growth of Entrepreneurship

According to Robinson (2001) it was noted that the emerging microfinance revolution—the large scale provision of small loans and deposit services to low income people by secure, conveniently located, competing commercial financial institutions—has generated the processes needed to democratize capital. Appropriately designed financial products and services enable many poor people to expand and diversify their economic activities, increase their incomes and improve their self-confidence. Financial institutions knowledgeable about microfinance can become profitable and self-sustaining while achieving wide client outreach. In the beginning, most bankers and policy makers got it all wrong as they used Government or donor funds to provide subsidized credit, an approach that continues in many countries today. These actions were based on theories that were wrong and hence development mistakes occurred.

As per the Business Daily (February 6, 2009) it is noted that MFIs have been operating largely on grants until early 1990s when donors started pushing them towards sustainability. This shift forced them to find new sources of funds like commercial banks and other wholesale lenders to stay afloat. Robinson (2001) also noted that subsidized programmes are constrained by their budgets; relatively few borrowers can be served.
Often these are local elites with influence to obtain rationed loans at below-market rates. The poor generally do without credit or borrow from informal commercial money-lenders.

The important roles that small and micro enterprises (SMEs) play in the development of the economy of Kenya has been recognized and documented in a number of studies. A detailed review of the development of SMEs in Kenya is found in King (1996a and b) who identifies and discusses the critical turning points in the history of the sector. SME contributions to the economy of Kenya have been studied by ILO 1972; McCormick 1988; Parker and Torres 1994; Daniels et al. 1995, and King 1996b. Parker and Torres (1994) estimated that out of roughly 13 million Kenyans of working age in 1993, SMEs provided employment for 16% of the labor force. Daniels et al. (1995) estimated that SMEs created jobs for 100,000 workers in 1994 and 130,000 in the first half of 1995. SMEs provide direct and indirect employment as well as part-time and full-time employment to households in rural and urban areas in Kenya.

The ERSWEC (2003) indicates that one of the key steps that the Government needed to undertake to strengthen the intermediation role of the financial sector was to ‘Accelerate the enactment of the Micro-Finance Institutions Act, as a step towards enhancing competition in the financial sector’.

In addition to employment creation and income generation, SMEs play other important roles in the economy, such as production of goods and services and development of skills. The major benefits of the SME sector are clearly brought out in Sessional Paper No. 2 GoK (1992) and they include contribution to the economy in terms of output of goods and services and creation of jobs.

According to the National MSE Baseline Survey (1999) it is indicated that lack of credit formed the second most important constraint for MSMEs in Kenya. This is more so as a result of the fact they cannot access credit from the conventional banks. This category of entrepreneurs has formed the major market niche of all microfinance institutions.
2.5 Factors affecting Efficient Service Delivery in Microfinance Institutions

2.5.1 Legislation, Ownership and Governance
The Banking Act (1989), Companies Act Cap. 486, The Building Societies Act (1956) and the KPOSB Act (1973) have attempted to address issues regarding ownership, governance and accountability. The other Acts have not adequately addressed these issues and have thus contributed to a large extent to the poor performance and eventual demise of many MFIs because of lack of appropriate regulatory oversight.

At the same time due to lack of proper regulatory framework, the financial services sector has seen the sprouting up fake MFIs and SACCOs that promise to double or even triple investors money within months only for such financial institutions to end up collapsing and doing so with people’s investments. For instance in 2007, DECI a purported MFI, fleeced Kenyans their money with impunity. There was nothing the government could do to arrest the people behind it. This is because of lack of proper and clear regulatory and supervisory infrastructure. Biashara Leo Magazine (May/June 2008) noted that the supervision by CBK will thus ensure that depositors’ funds are protected against misappropriation. This will prevent unfortunate cases like the infamous pyramid schemes scam where investors lost close to Kshs 500 million in 2007. The Government through the Ministry of Co-operatives set up a task force that investigated the Pyramid Schemes. This report found out that there were certain individuals who were culpable and it was recommended that they refund the money back to the public. Some of these individuals are also to face prosecution. The report recommended proper legislation to be put in place to militate against the same occurrence in future.

According to Oketch and Mirero (2004) among the emerging challenges facing MFIs include: The potential conflict of interests between the boards of directors and chief executives of microfinance institutions, as a result of changes in ownership, control and power. The other challenge is the loss of influence and control as the new boards of directors of the transformed and commercialized microfinance institutions replace the
founder directors in response to the change in ownership, as well as legal requirements for regulation and supervision.

As quoted in Oketch and Mirero (2004), it is noted that the failure to balance the various potentially conflicting institutional goals contribute to organizational failure. In Bolivia, BancoSol redefined its vision to become the most profitable commercial bank in the market, this short term narrow focus of direction led the MFI to suffer a higher average cost of funds as it switched from grant to commercial funding.

According to the Small Enterprise Development Journal Vol.11 (December 2000), almost all MFIs of various cadres have a governing board that is supposed to provide independent oversight for the management. But where members serve on that board for altruistic reasons and do not have serious amounts of their own money at risk, with a few heroic exceptions they tend not to look over management’s shoulders the same way business investors do. The problem derives not from the personal quality of MFI board members, but rather from the organic structure of their incentives.

In looking at the performance of microfinance institutions, the role of ownership and its contribution to governance and leadership are often underplayed mainly due to the fact that most microfinance institutions evolving from development organizations have no real ownership or governance and leadership body that have a financial stake in the organization.

According to MicroSave Africa (2002) it notes that to govern effectively, a board would need to among others set the direction and objectives of the organization, be thoroughly familiar with the nature of the organization’s core business, uphold the values of integrity, professionalism and accountability, and be committed and have time to attend to the organization’s affairs. In most microfinance institutions the board is at different stages of transformation.
There are different signs of board disharmony, these include: if board members accept mediocre or poor performance of the MFI or if all board members are not fully abreast of the results, finances, main challenges and strategy for the future.

According to Robinson (2001) she postulates that the owners of self-sufficient MFIs are a curious mix of governments, donors and foundations, social investors, bankers, banks, businesspeople, current or former directors of NGOs, and a variety of others. This changes as the industry develops. Despite their varied backgrounds, they share certain characteristics which include among others understanding the business opportunities of microfinance, mandate the setting of interest rates and fees that fully cover all (non-subsidized) financial costs, operating costs, and risks and that enable institutional profitability, have the capacity to access additional capital as needed and help the institution to avoid or overcome bureaucratic and political hurdles.

According to Ledgerwood and White (2006) it indicates that the institutional transformation has profound implications for the ownership and governance structures of MFIs. The introduction of shareholders with equity at stake significantly changes the nature of the institution. Shareholders represent a different type of stakeholder than donors providing grant capital. Their effect on governance, strategic direction, institutional culture, management and policies and procedures cannot be overstated.

Despite best efforts to forge a cohesive group of directors, board disputes do occur from time to time. Traditional approaches to dispute resolution include an escalating set of steps that the parties agree to take to reach resolution. In general, the four escalating steps are conciliation, mediation, arbitration and litigation.

Governance is broadly defined as the system of checks and balances whereby stakeholders of the MFI (its owners, senior management, donors, regulators, customers) ensure that the MFI fulfills its institutional mission and is managed effectively.
The number of MFI board ranges from 5 to 25 with most falling in the range of 7 to 9 members. The board will be large enough to complete work effectively, help secure funding as needed, advance the reputation of the MFI, provide continuity and ensure that quorums are easily met for meetings, yet small enough to allow substantive decisions to be made and for board members to establish a relationship of trust and accountability with each other.

Ledgerwood and White (2006) also elaborates that the board usually consists of several committees which include Executive Committee which is authorized by the board to act on problems or delegated decision-making responsibilities between board meetings with such decisions to later be ratified by the full board. There is also the Audit or Finance Committee which oversees expenditures and budgets, ensures internal control and financial analysis, recommends expenditure power of executive director within the board-approved budget, and hears reports of internal and external auditors. Personnel and compensation Committee reviews strategic personnel issues, overall Compensation policy, make recommendations for compensation of Heads of MFIs and other senior management, while Risk Management committee monitors adequacy and implementation of the risk policy strategy of the MFI.

This study intends to prove that any MFI with a qualified, active and visionary Board that has financial stake in the MFO will definitely enhance its efficiency in service delivery to its clients and hence be more competitive.

2.5.2 Information Communication Technology (ICT)
According to Ledgerwood (2000) it states that the management information system (MIS) of an institution includes all systems used for generating the information that guides management in decision-making process. It includes both the hardware and software. Most financial institutions in Kenya are still grappling with issues of information technology despite investing huge amounts of money in installing them.
The Government as indicated in the ERSWEC (2006) recognizes the economic value and benefits of information and communications technology services both in the rural and urban areas. Information and communications technology (ICT) is important to the realization of the required improvement in the productivity and empowerment of the citizenry. The sector has however not been able to achieve its objectives due to low penetration of ICT usage in Kenya especially in the rural and marginal areas due to high cost of equipment, poor telephone communications service and lack of power supply.

Technology is often seen as the panacea for all problems when it fails to deliver as promised or on time, it can cause morale issues. Adopting a new MIS provides an excellent opportunity to address inefficient or outdated processes and procedures that may have been developed and passed down over time.

According to Ledgerwood (2000) it states that MFI management information systems generally fall into three main areas which include: An accounting system with general ledger at its core, a credit and savings monitoring systems which captures information and provides reports about performance of each loan disbursed, often with a savings system that monitors all transactions related to client savings and a system designed to gather data on client impact.

As indicated in the Appraisal Guide for Microfinance Institutions (2007) an MFI’s ICT needs to provide relevant information to appropriate people at different levels of the MFI, it also needs to be reliable and available in a timely manner to enable a loan officer to make timely decisions in the field. Importantly, MFIs need to fully make use of the information it produces.

According to Ledgerwood (2000) it postulates that the ICT needs of various MFIs depend with what category they are. For instance: Small MFIs whose client number is less than 3,000 have no plans for significant expansion. These institutions need a relatively simple system that monitors and reports on the quality of the portfolio and can generate the information required for key management indicators.
Medium MFIs are institutions that have from 3,000 to 20,000 clients, are expanding and offer an array of credit and savings products. These MFIs require a much more rigorous management information system with solid security features and a thorough audit trail, that handles a large volume of transactions, includes the capacity to monitor savings accounts, and will stand up to the scrutiny of banking regulators.

Large MFIs exceed or intend to exceed 20,000 clients. They need development of a new system to meet their information needs. Although the costs of developing such management information systems can easily exceed US$ 100,000, the increased quality of information and management control as well as the automation of many key tasks, can lead to significant efficiencies in operations of this scale, which justify the high level of investment required.

The intention of this study is to prove that for an MFI to enhance its efficiency in service delivery to its clients, it needs a versatile, robust, networked and reliable ICT.

2.5.3 Staff/Employee Skills
The production of human resources has continued to be supply-driven and does not adequately respond to changing employment requirements. This has led to an over-supply in certain areas and a shortage in other, particularly at the cadre level as indicated in the Vision 2030 (2008).

Profitable commercial microfinance organizations operating at a large scale have their branches and other low-level outlets are treated as profit centers, everyone is accountable for his/her performance and responsibility are decentralized. Managers of sustainable MFIs are committed to the profitable delivery of microfinance services to a large number of clients.

Rapid growth and transformation of microfinance institution into regulated institutions has forced them to adapt their organizational structures and cultures. This is what
BancoSol adapted from its initial structure as PRODEM. During the PRODEM stage, the institution had promoted an informal office culture which encouraged innovation, commitment to the organization’s mission and recognition of individual contributions to a team effort. The management hierarchy was simple and flat, relying heavily on interpersonal relations. This internal culture fit well with a lending methodology based on trust between the organization and its clients. This informal culture became less suited to the demands of a larger institution. BancoSol adapted by designing a stricter management structure, improved systems and new chains of command. Experienced bankers, human resource managers, experts in asset and liability management and management information specialists were incorporated as quoted in the CGAP Focus No. 6 (March 1997).

According to the Appraisal Guide for Microfinance Institutions (2007) it postulates that the management needs to have the experience, ability, vision and leadership to lead the MFI to achieve its mission.

Ledgerwood (2000) also explains that significant training of both management and staff becomes imperative when introducing any product. Managers and staff need to learn how local markets operate, how to locate potential clients and how to design instruments and services for that market. They also need to understand basic finance and the importance of an adequate spread between lending and deposit services. The training need of all management and staff should be assessed and delivered both initially and periodically as the MFI grows.

This study intends to prove that to enhance its efficiency in service delivery; MFIs need qualified and well trained staff.

2.5.4 Strategic Planning and Management Documents
According to Oketch and Mirero (2004) it quotes Jawaharlal Nehru’s definition of planning was ‘the exercise of intelligence to deal with facts and situations as they are and finding a way to solve problems’. Achieving growth entails continuously striking delicate
balances between costs and risks as well as scale versus returns and the need for careful strategic planning on all aspects of their organizations. Previously before the millennium, only about 25% of the MFIs in Africa were systematically planning for their growth. Currently, it is worrisome that as many as 25% of MFIs in Africa are yet to embrace planning given the circumstance under which they are operating.

2.5.4.1 Strategic Plans and Business Plans: According to Oketch and Mirero (2004) it states that long term strategic planning documents give clarity in terms of the organization’s mission and vision, and therefore objectives and goals. Many MFIs at the moment may be preparing business plans just to attract funding or because it is a condition for those MFIs wishing to transform into regulated entities.

2.5.4.2 Strategic Marketing Plans: As per the Micro-save Strategic Marketing for Microfinance Institutions Toolkit (March 2005) it indicates that the role of Strategic Marketing Framework is to assist MFIs to think about strategic marketing and how it relates to their core business of providing financial services to poor people. The Marketing Strategy comprises three pillars or the three 1st tier strategies which include Corporate Brand and Identity which is the design and presentation, intended to differentiate the MFI from its competition. It includes development of brand attributes and positioning statement, branding communication plan (internal and external). Corporate identity and corporate communications and public relations; Product Strategy which encompasses product development and differentiation, as well as costing/pricing and sales/promotion strategies used by MFIs; and finally Product Delivery and Customer Service Strategy which focuses on how and where the MFI’s products are delivered and the customer experience. This includes personnel training and development strategy in customer service and customer orientation culture, delivery process development, technology strategy and infrastructure development strategy. Four information packages inform almost all aspects of an MFI’s marketing activities. These are includes Market Analysis which profiles and understands the MFI’s target/potential market; Competitor Analysis which profiles and understands the MFI’s competitors (formal, semi-formal and informal); Customer Analysis which tracks the MFI’s performance through customer
research, particularly through customer satisfaction analysis; and PEST Analysis which
examines the Political, Economic, Social and Technological environment within which
the MFI operates.

According to Microsave (2004) it explains that the functions of a Marketing Plan is that it
acts as a provision of a framework and an opportunity for top-level thinking and focus,
increasing familiarity, understanding and support for a market-led approach within
institutions, defining a desired direction for future growth and providing a map for how to
get there, getting everyone on the same page with respect to your product marketing
strategy, thus increasing the consistency of your product and service delivery, and
guaranteeing institutional memory—if people leave or new people arrive, if memories
falter, or if events bring pressure to alter assumptions, the information in the written
marketing plan stays intact to remind you of what you’ve agreed on.

Out of the Marketing Plans, there are usually Product Marketing Plans for each individual
product which usually gives a step-by-step concrete guide for what an MFI needs to do in
order to successfully market its product during a particular time period—usually one year.
It lays out the game plan and assigns specific tasks to be accomplished within the year.

2.5.4.3 Risk Management Policy: According to Jitegemea Credit Scheme (2008) it
indicates that one of the key objectives of Risk Management Policy (RMP) is to improve
business performance by informing and improving decision making and planning, to
promote a culture in which the taking of calculated risks in pursuit of opportunities to
benefit the JCS is encouraged and to provide a sound basis for integrated risk
management and internal controls as components of good corporate governance.

According to Ledgerwood (2000) it postulates that there are four main areas of risk that
are specific to MFIs; these include:
a. Ownership and Governance
No amount of external oversight can replace the accountability that stems from proper governance and supervision performed by owners of financial institutions who also form the Board of Directors. This is because they ensure adequate oversight and supervision of the management team; it also determines the policies and strategic documents that direct the MFI. The owners also ensure that there is sufficient financial depth to respond to additional calls for capital as required.

b. Management Risks
These risks apply to MFIs through the specific methods of providing financial services. This includes decentralized operational systems whereby an MFI provides financial services at the location of the client. This can create an environment that can easily be subject to fraudulent practices. Management efficiency is also another area of risk such that if they do not manage the funds well, funds are not relenting promptly and therefore earnings suffer. The other risk here is on management information. If an MFI does not have a versatile and robust MIS, then information are inaccurate and untimely, hence decisions made are inaccurate.

c. New Industry
A number of risks that face the MFIs stem from the fact that microfinance is relatively new field. Some of the risks here include Growth management which emanates from lack of proper monitoring of the dramatic growth especially in new markets or during its initial years of operation. The other risk is related to new products and services whereby it is difficult to assess whether a new product or service is an ill-conceived deviation from an existing model or a breakthrough in new services for the market.

As per Ledgerwood (2000) it also mentions the following risks associated with MFIs: Liquidity Risk which refers to the ability of an MFI to meet its immediate demands for cash, that is, loan disbursement, bill payments and debt repayment. An MFI is in a liquid position if it is able to meet its current obligations as they become due. By calculating the
liquidity ratio, the MFI can determine if there is enough cash available for disbursements and also whether there is too much idle cash:

\[
\text{Liquidity ratio} = \frac{\text{Cash} + \text{Expected cash inflows in the period}}{\text{Anticipated cash outflows in the period}}
\]

Credit Risk represents the potential loss resulting from the poor quality of the organization’s assets, particularly its loan portfolio. It covers delinquency management. Interest Rate Risk arises when interest rates on assets and interest rates on liabilities (which fund the assets) are mismatched, both in rates and terms. It occurs after assets and liabilities have been priced or loans have been booked. It is different from pricing of loans to cover the MFI’s costs and expected returns.

Foreign Exchange Risk occurs when an MFI receives donor or investment funds on other than their local currency or if they hold cash or other investments in foreign currency. The devaluation or revaluation of these assets and liabilities acts the same way as interest rates in exposing the MFI to potential gain or loss. Managing this risk can influence the profitability of an MFI.

2.6 Conceptual Framework
In this section, the researcher analyzed the relationship between dependent and independent variables that have had an effect to enhanced efficiency in service delivery in microfinance institutions in Nairobi.
2.7 Critical Review

The aim of this literature review was to evaluate the various literatures that have so far been written focusing on the factors that enhance efficiency in service delivery in microfinance institutions. According to Kabbucho and Cracknell (2002) to govern effectively, a board needs to set the direction and objectives of the organization, be thoroughly familiar with the nature of the organization’s core business, uphold the values of integrity, professionalism and accountability, and be committed and have time to attend to the organization’s affairs. However, in most MFIs this is not what happens. The reason for this is that MFIs have different stakeholders within it who have to be represented within the Board yet they do not have the pre-requisite knowledge of the business being undertaken by the institutions. The pre-selection process of these boards is also unclear as is in most cases it is not written down. Therefore, you find that the board is a composition of friends and relatives and not people with diverse knowledge in microfinance.
Information Communication Technology (ICT) has been able to shape the modern microfinance trends. The ATMs and electronic commerce have become common on the financial institutions. They have over the years enabled the commercial banks to attract lower cadre clients than MFIs. It has also inspired new ways of organizing and managing the transforming microfinance institutions. However, the constant change of information technology on daily basis is creating new sets of management challenges. The cost of installing the modern information technology by most up-coming MFIs is costly hence affecting their capital base at the expense of lending the same fund to their clients. By reviewing the literature in this research, there is no practical step-by-step guidance for MFIs to facilitate them install versatile and robust ICT. There is also no research undertaken to determine the impact of not having proper ICT in MFIs. This study will enumerate these details for the benefit of MFIs in general.

2.8 Summary of Literature Review
The reviewed literatures show that existence of strategic documents in MFIs, the type of ownership and governance structure, information communication technology and staff and management skills are some of the key factors that affect efficiency in service delivery within MFIs. While the government has recognized the role of MFIs in enabling access to financial services and hence poverty alleviation through enactment of Microfinance Act 2006, studies indicate that implementation of the Act is yet to be fully undertaken. It was a challenge to access any document that elaborated on the key strategic planning document that any successful micro-credit programme needs to have for it to be sustainable in its service provision to its clients. The researcher did not get a document that elaborates on key factors that affect provision of sustainable micro-finance services. These key factors are critical for any MFI that intends to be regulated under the Act and therefore, for any MFI that wishes to enhance its service delivery.
3.0 RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction
This chapter describes the overall research design, the study area, the target population, the sampling techniques, the data collection procedure and the intended method of data analysis.

3.2 Research Design
This study is both quantitative and deductive. It will mainly use descriptive methodology though a combination of different research designs which will enhance validity of the findings. However, Saunder et al. (2003) postulates that combining of different research designs in one study enables triangulations and increases validity of the findings. For this reason, elements of exploratory design will also be applied. The descriptive research will be used because it seeks to portray accurate profile of personal factors, events or situations. This is a relevant phenomenon applicable to the factors enhance efficiency in service delivery in MFIs which are outlined in the conceptual framework of this study. The exploratory design elements will be used to establish causal relationship between variables.

3.3 Target Population
The research intended to investigate the factors that enhance efficient delivery of service in microfinance institutions in Nairobi. The population of interest is revealed in the following table:

Table 3.1 Target Population of MFI Respondents Nairobi

<table>
<thead>
<tr>
<th>Details of the Subject</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Chief Executive Officers/Executive Direct</td>
<td>23</td>
</tr>
<tr>
<td>2 Senior Management (Heads of Departments)</td>
<td>75</td>
</tr>
<tr>
<td>3 Credit/Loans Officers</td>
<td>105</td>
</tr>
</tbody>
</table>

Source: Author 2010 and AMFI Report (2010)
Table 3.2 Identified Sample Size

<table>
<thead>
<tr>
<th>Details of the Subject</th>
<th>Population</th>
<th>Percentage</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Chief Executive Officers/Executive Directors/General Managers</td>
<td>23</td>
<td>43.5</td>
<td>10</td>
</tr>
<tr>
<td>2 Senior Management (Heads of Departments)</td>
<td>75</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>3 Credit/Loans Officers</td>
<td>105</td>
<td>40</td>
<td>42</td>
</tr>
<tr>
<td>TOTAL</td>
<td>207</td>
<td>82</td>
<td></td>
</tr>
</tbody>
</table>

Source: Author and AMFI Report (2010)

The study specifically targeted the heads of the MFIs who are titled differently depending on the MFI. Their titles vary depending on the MFI, for instance there are those referred to as Chief Executive Officers, General Managers and Executive Directors. The other category of staff interviewed were the Senior Management staffs that are also the heads of the various departments in the MFIs. The last but most important persons interviewed were the operating staffs who meet the final recipient of services the MFI is presenting on a frequent basis. These are the Loans/Credit Officers who deal directly with the clients.

The challenge experienced during the sampling process was that because the MFIs selected were in different stages of formation, there were some that did not have the standard 3 departments of Finance, Operation and ICT, while there were others who had more than the set 3 departments. Hence, to compensate for the low number of departments in some MFIs, the researcher decided to interview more heads of departments in those MFIs that had higher number of departments. The sample percentage for the senior management was 40%. For the CEOs, the researcher decided to interview 10MFIs. This composed of 43.5% of the 23 MFIs in Nairobi. For the Credit Officers, because their number was high, the researcher decided to limit the percentage to be interviewed to 40%.
3.4 Sampling Design and Procedures

An initial random sampling of at least 10 MFIs within Nairobi was conducted. This involved listing all active MFIs operating in Nairobi (as indicated in the AMFI Microfinance Directory 2007) and conducting a simple random sampling. This method led to selecting 10 units (from a population of size 23) such that everyone had an equal chance of being chosen. The researcher used random number tables to come up with the sample. All the Chief Executive Officers/Executive Directors of these MFIs were interviewed. As for the Heads of Departments and the Operating Staff, the researcher used simple random sampling technique to select the various Managers and Loans/Credit Officers to be interviewed.

According to Sanders, Lewis and Thornbul (2000) the suitable sample size is the larger one, which lowers the likely error in generalizing to the population. They state that the final sample size is almost a matter of judgment rather than the calculation. They further say that a minimum number of 30 for statistical analysis is a useful rule of thumb for smallest number in any category within overall sample. Hence the researcher intends to select a large sample that is objective and representative of the study goals.

3.5 Data Collection Procedure

Self-administered semi-structured questionnaires were used to collect the required data. According to Hoepfl (1997), this instrument is chosen because of its credit for flexibility in asking probing questions, though not beyond the focus of the study. As per Saunders et al. (2003), in order to enhance respondent participation and minimize distortion of respondent’s answers, the questionnaires were delivered and collected by hand. The reason for using face-to-face method rather than mailing the questionnaires is that the issues of governance bares a lot of confidentiality and privacy which the respondent may need to explain in details and in privacy. To ensure objective response and reduced non-response rate, respondent guidance is therefore recommended. The questionnaires were administered by the researcher himself because the sample size was not very huge and also by the fact that the respondents all reside in Nairobi where the researcher also resides.
3.6 Data Collection Instrument
According to Mugenda and Mugenda (1999), semi-structured questionnaires are an effective method of data collection and can easily be analyzed by the researcher.

The questionnaire was divided into three parts; part one contains introductory details, part two includes questions regarding all the four objectives of the research while part three contains questions on the summary of the research while asking the respondent comments on how to enhance efficiency in service delivery.

3.7 Pre-Testing, Reliability and Validity
A pre-test is a trial run conducted to detect weaknesses in research design and the instrument of data collection (Peters 1994). 10% of the sample size will be drawn from the study area (subjects will not participate in the main research) to be part of the pre-test. After pre-testing, the instrument will be revised by the researcher based on the response obtained.

As also quoted in Mugenda and Mugenda (1999), a pilot study was also useful in testing the reliability and validity of the instruments. Reliability measures the degree to which a research instrument yields consistent results or data after repeated trials. Manimala (1999) also indicates that the questionnaire developed for such research includes items that were developed and tested for reliability by other researchers. However, since the context of their applicability is different, it is crucial to conduct a repeat reliability test.

Mugenda and Mugenda (1999) also describe validity as the accuracy and meaningfulness which can be based on research results. Construct validity can be achieved through organization of questions around central themes of the research. The questions in this research have been put into four main parts. Use of the Supervisor and other expert opinion will enhance content validity and criterion-related validity.
3.8 Data Management and Analysis
As quoted in Obure (2002), the primary data was coded and then a statistical analysis was conducted using the Statistical Package for Social Scientist (SPSS). Descriptive statistics such as frequency distribution measures of central tendency (mean, mode, median) was useful in data reduction and item analysis. Saunder et al. (2003) indicates that these assisted to give a clear picture of the shape of the distribution of data and a general impression of values that could be seen to be common, middling or average.

SPSS has been credited because it can take data from almost any source files and use them to generate tabulated reports, charts, plots of distribution and trends, descriptive statistics and conduct complex statistical analysis. It also provides user interface that makes statistical analysis more intuitive.
4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

After collecting data from the respondents, the data was edited, classified, coded and tabulated. The data analysis was based on the research objectives and questionnaire items which were analyzed using statistical tools like pie charts, frequency distribution tables and graphs and the results of the analysis presented. This chapter is divided into quantitative and qualitative analysis.

4.2 Response Rate

The response rate was as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>60</td>
<td>73</td>
</tr>
<tr>
<td>Did not respond</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>82</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)

Table 4.1 above shows the total number of the target sample who responded and those who did not respond. The total questionnaires that were distributed to the field were 82, and out of these, 60 questionnaires were returned fully answered which represent 73% of the total questionnaires that were administered to the field. Twenty Two (22) questionnaires which represent 27% were however not returned. From the study it can be concluded that the response rate was good.
4.3 QUANTITATIVE ANALYSIS

4.3.1 Gender of Respondents

On the gender of respondents, the findings were as follows:

Table 4.2: Gender of Respondents

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>40</td>
<td>67</td>
</tr>
<tr>
<td>Female</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
According to the above study the total number of male who responded was 67% percentage while female was 33%. From the study it can be concluded that male respondents were more as compared to male respondents.

4.3.2 Age of Respondents

On the age of respondents, the findings were as follows:

Table 4.3: Age of the Respondents

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-25</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26-35</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>36-40</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>41-44</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>45-50</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>50 and above</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
According to the study above, 33% of the respondents were at the ages of between 41-44, 27% were between the ages of 36-40 while those at the age of 26-35 were also 20%, 13% were 50 years and above, and 7% were between the ages of 45-50 respectively. Based on the study, it can be inferred that majority of the respondents were of between the age of 41-44 years.

### 4.3.3 Highest Level of Education of Respondents

On the highest level of various respondents, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>College</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>University</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the level of education of various respondents. According to the study, 60% of the respondents were university graduates while 40% were College graduates. From the study it can be deduced that majority of the respondents were university graduates.

**4.3.4 Period of having worked with your Organization**

On the period of having worked in the organization, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-2 years</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>3-5 Years</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>6-8 Years</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>9-11</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>12 and above</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
Figure 4.5: Period of having worked with your Organization

The study above shows the number of years that various respondents have worked in the organizations. From the study 40% of the total respondents indicated that they had worked in their organizations for a period of 3-5 years, 21% said that they had worked for a period of 9-11 years while 13% stated that they have worked for a period of 6-8 years, 0-2 years and above 12 years respectively. Based on the study it can be concluded that the majority of the respondents have worked for the organizations for a period of 3-5 years.

4.3.5 Department of Respondents

On the department of respondents, the findings were as follows:

Table 4.6 Operating Department of the Respondents

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit/Risk Mgt</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Marketing &amp; Business Development</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Finance</td>
<td>16</td>
<td>26</td>
</tr>
<tr>
<td>Operations</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>HR</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the department which various respondents work in. Based on the study 40% of the total respondents indicated that they were in the Operations and Credit department. Another 26% of the respondents indicated that they were in the Finance department, 20% of the total respondents stated that they were in the human resource department while those who were in the Audit/Risk Management department and Marketing and Business Development department were each 7%. From the study it can be deduced that the majority of the respondents were in the Operation department.

### 4.3.6 Job Position of the Respondents

On the occupation of respondents, the findings were as follows:

**Table 4.7: Job Position of Respondents**

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head of MFI</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Head of Department</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Credit/Loans Officer</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Others</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Source: Author (2010)**
The study above shows the position of various respondents. Based on the study 40% of the total respondents indicated that they were Credits/Loan Officers. 33% of the respondents indicated that they were head of departments, occupied other positions which included being branch managers, 20% of the total respondents stated that they occupied other positions which included being branch managers while the remaining 7% were the head of the MFI. From the study it can be deduced that the majority of the respondents were credit/loan officers.

4.3.7 Source of Capital

On the source of capital, the findings were as follows:

Table 4.8: Source of Capital

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loan</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Grant from International Donors</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Private Funds</td>
<td>28</td>
<td>47</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the source of capital. 47% of the respondents indicated that they got their capital from private funds, 40% indicated that they got their capital from bank loans while the remaining 13% of the respondents indicated that their source of capital was grant from International donors. From the study it can be deduced that the main source of capital is from private funds.

4.3.8 Number of Branches/Outlets

On the number of Branches, the findings were as follows:

Table 4.9: Number of Branches/Outlets

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-5 outlets</td>
<td>44</td>
<td>73</td>
</tr>
<tr>
<td>6-10 outlets</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>11-15 outlet</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Over 15 outlet</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the number of Branches of various organizations. Based on the study 73% of the total respondents indicated that they had between 1-5 Branches. The remaining 27% of the respondents indicated that they had between 6-10 branches. From the study it can be deduced that the majority of the respondents had between 1-5 Branches.

4.3.9 Services Offered by the MFIs

On the service offered, the findings were as follows:

Table 4.10 Services Offered by the MFIs

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit Facility</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Saving Services</td>
<td>44</td>
<td>73</td>
</tr>
<tr>
<td>Insurance Services</td>
<td>10</td>
<td>17</td>
</tr>
<tr>
<td>Training Services</td>
<td>48</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the various service offered by the organization. Based on the study, all the respondents indicated that their organizations offered credit facilities, 80% of the organizations offered training facilities, 73% of the organizations offered saving services while 17% of the total respondents indicated that their organization offered insurance services. From the study it can be deduced that all organizations offered credit facilities.

4.3.10 MFI Competitors

On the MFI competitors, the findings were as follows:

Table 4.11: MFI Competitors

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>SACCOs</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Other MFIs</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the various competitors of the MFIs. Based on the study, 40% of the respondents indicated that they faced the most competition from other SACCOs, 33% of the respondents indicated that they faced competition from other MFIs while only 27% of the respondents indicated that other banks were also a competitor. From the study it can be deduced that all organizations faced major competition from SACCOs in their operation.

### 4.3.11 Registration Type of the MFI

On the registration, the findings were as follows:

**Table 4.12: Registration Type of the MFI**

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Private Limited Company</td>
<td>32</td>
<td>53</td>
</tr>
<tr>
<td>Company Ltd. by Guarantees</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>NGOs</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Author (2010)
Figure 4.12: Registration Type of the MFI

The study above shows the registration of the MFIs. From the study, 53% of the respondents indicated their MFIs were registered as Private Limited Company, 27% of the MFIs were registered as Company Limited by Guarantees, and 13% were registered as Trust while only 7% were registered as NGOs. From the study it can be deduced that Majority of the MFIs were registered as Private Limited Companies.

4.3.12 Number of Members within the Board

On the members within the Boards, the findings were as follows:

Table 4.13: Number of Board Members

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>6-10</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Over 10</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the members within the board of the MFIs. From the study, 40% of the respondents indicated their MFIs had over 10 members in their board, 33% of the MFIs had between 6-10 members in their board while only 27% had below five members in their board. From the study it can be deduced that Majority of the MFIs were had over 10 members in their boards.

4.3.13 Number of Committees within the Board

On the committees within the board, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>1-2</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>3-4</td>
<td>26</td>
<td>43</td>
</tr>
<tr>
<td>Over 4</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the study, 43% of the respondents indicated their MFIs had 3-4 committees in their board, 27% of the MFIs had 1-2 committees, 20% had over 6 committees within in their board while only 10% had no committees within their board. From the study it can be deduced that majority of the MFIs were had 3-4 committees in their boards.

4.3.14 Whether the Board contributes towards enhancement of service delivery

On whether the Board contributed towards service delivery enhancement, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>54</td>
<td>90</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Not Sure</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The findings reveal that 90% of the respondents thought that their Boards contributed towards enhancement of efficiency of their service delivery. Only 10% thought that they did not.

4.3.15 Existence of MIS in your Organization

On whether the MFI used any MIS or not, the findings were as follows:

Table 4.16: Existence of MIS in your Organization

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56</td>
<td>93</td>
</tr>
<tr>
<td>Not Sure</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the study, 93% of the respondents indicated that they were aware of the existence of MIS in their organization while 7% indicated that they were not. It can be deduced that majority of the respondents are aware that their organization has an MIS.

4.3.16 Adequacy of the MIS Service to the organization

On whether MIS was serving them adequately, the findings were as follows:

Table 4.17 Adequacy of the MIS Service to the Organization

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
<td>79</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
Figure 4.17 Adequacy of the MIS Service to the Organization

Source: Author (2010)

The study shows that 79% of the respondents were satisfied with the performance of their MIS while 21% were dissatisfied. The deduction here is that majority of the respondents from the various MFIs were happy with the performance of their MISs.

4.3.17 Effects of the Limitations of the MIS on Service Delivery

Regarding what effects on service delivery from the limitations of the MIS, the findings were:

Table 4.18 Impact of the Limitations of the MIS

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late Decision-Making</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Poor Loan Tracking</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Negative MFI Image</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Unreliable Report</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The findings above indicate that there were several impact caused by limitations of the MIS. Late decision-making, poor loan tracking and unreliable reporting were some of the impacts as a result of this.

4.3.18 Adequacy of Staff Training in MIS

On how adequately the Staffs were trained in using the organization MIS, the findings were as follows:

Table 4.19: Adequacy of Staff Training in MIS

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the respondents interviewed, 60% indicated that the MIS training provided was not adequate to enable them fully utilize the MIS. 40% indicated that the MIS training was adequate. It can be deduced that lack of training leads to lack of full use of the MIS.

4.3.19 Presence of the Strategic Planning and Management Documents

On the presence of the Strategic Planning and Management Documents, the findings were as follows:

Table 4.20: Presence of Strategic Planning and Management Documents

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>54</td>
<td>90</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the study, 90% of the respondents indicated that their organizations had strategic planning and management documents, while 10% indicated that their MFIs did not have. From the study it can be deduced that most of the MFIs were had strategic documents for planning and management purposes.

4.3.20 Types of Strategic Planning and Management Documents

With regards to the types of Strategic Planning and Management Documents MFIs had, the findings were as follows:

Table 4.21: Types of Strategic Planning and Management Documents

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic plan &amp; Business plan</td>
<td>27</td>
<td>90</td>
</tr>
<tr>
<td>Risk Management manuals</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Marketing &amp; Communication plan</td>
<td>24</td>
<td>80</td>
</tr>
<tr>
<td>Human Resource plan</td>
<td>21</td>
<td>70</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The study above shows the various Strategic documents owned by MFIs. From the study, 90% of the MFIs had strategic plan and Business plan, 80% had Marketing and Communication plan, 70% had Human resource plan, while 60% of the MFIs had Risk management manuals. From the study it can be deduced that most of the MFIs were had Strategic plan and business plan documents.

4.3.21 Frequency with which the Strategic document are Reviewed

On the frequency of reviews, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semi-annually</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annually</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Every 5 years</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Never been reviewed</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the study, 60% of the MFIs reviewed their Strategic documents every 5 years, 27% of the MFIs have never been reviewed them, while 13% of the MFIs reviewed their documents annually. From the study it can be deduced that most of the MFIs reviewed their documents after every 5 years.

4.3.22 Importance of Strategic Planning and Management Documents

On the importance of Strategic Planning and Management Documents in enhancing efficiency in service provision, the findings were as follows:

Table 4.23: Importance of Strategic Documents in Service Delivery Enhancement

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td>No</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Not sure</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
From the findings, 70% of the respondents indicated that they appreciated the importance of Strategic Documents in facilitating enhancement in efficiency of their service delivery. 20% were not sure while 10% indicated that the strategic documents did not contribute towards enhancement of service delivery.

4.3.23 Existence of a Policy on Staff Training

On the existence of policy on staff training, the findings were as follows:

Table 4.24 Existence of a Policy on Staff Training

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>32</td>
<td>53</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>33</td>
</tr>
<tr>
<td>Not sure</td>
<td>8</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
According to the study above, 14% of the respondents indicated that they were not sure whether there was a Training policy for staff in their organization while 33% stated that there was none. 53% of the respondents indicated that there was a policy on Staff training. It can be deduced that if even though there may be a policy on staff training, 47% of those interviewed were not aware or were not sure.

### 4.3.24 Number of Professional Trainings attended by Staff in the last 3 years

On the number of training attended, the findings were as follows:

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>1</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>2 - 3</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Over 3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Author (2010)*
The study above indicates that 60% of the respondents mostly credit officers had not gone for any training in the last 3 years, 27% of the respondents had gone for 1 while those who had gone for between 2 and 3 trainings were 13%. The deduction is that training for staff and management has not been emphasized as it should and is not consistent.

4.3.25 Impact of Lack of Skills Upgrading on Work Performance

On the impact of lack of skills upgrading, the findings were as follows:

Table 4.26: Whether Lack of Skills Upgrading has Impacted of Work Performance

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>16</td>
<td>27</td>
</tr>
<tr>
<td>No</td>
<td>24</td>
<td>40</td>
</tr>
<tr>
<td>Do not Think so</td>
<td>20</td>
<td>37</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The findings indicate that 27% of the respondents were affected in their performance as a result of lack of skills upgrading. 37% were not sure while 40% were sure it had not affected their performance.

**4.3.26 How has Lack of Skills Upgrading Impacted on your Service Delivery**

On how the impact of lack of skills upgrading has been on Service Delivery, the findings were as follows:

**Table 4.27: Impact of Lack of Skills Upgrading**

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unaware of Best Practices</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Inability to Advice Clients and Organization</td>
<td>30</td>
<td>50</td>
</tr>
<tr>
<td>Lack of Innovation and Creativity</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source: Author (2010)**
The survey findings indicate that as a result of lack of skills, 30% of the respondents felt that their innovativeness was compromised, while 50% could not give proper advice to their clients and 20% were unaware of the industry best practices.

4.3.27 Importance of Constant Staff Skills Upgrade
On the importance of the constant staff skills upgrade, the findings were as follows:

Table 4.28: Importance of Constant Staff Skills Upgrade

<table>
<thead>
<tr>
<th>Population category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Important</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Important</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Not very Important</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author (2010)
The survey findings indicate that 60% of the respondents thought that constant staff skills upgrade was very important in enhancing service delivery while only 10% indicated that it was not very important.

4.4 QUALITATIVE ANALYSIS

Governance Structure

From the research, it was found that some of the committees in the MFIs included the Credit committee, Finance committee, and Personnel committee, Risk Management and Audit committee and the Executive committee.

From the research, the respondents indicated that the board has various roles that it plays which includes policy making, unifying, co-coordinating and strengthening the work carried out by the organization, receiving and ratifying management reports and staff appointments, receiving and approving the organization budgets, amendments to the constitution, providing the strategic direction for the organization and Ensuring that the management meet their set targets as per the budgets and strategic plan projections.
From the research, it was found that the board members are appointed through interviews and elections. The board which is appointed has a contributing factor towards the provision of enhanced efficiency in service delivery because they approve borrowing to boost loan portfolio, they also approve all structural and operational changes, make changes that enhances efficiency in service delivery by the organizations and also approve all budget for organization’s operation.

From the research, the respondents indicated that there were areas of improvement that the board needed to adopt to enable the organization enhance its service delivery to its clients, these included: Some level of interaction with the staff to get to appreciate the challenges they face in their day to day work, and taking time also to interact periodically with the clients to appreciate what they want from the organization.

**Strategic Planning and Management Documents**

From the research, the respondents indicated that the Strategic documents had various functions which included target setting, providing direction and strategic objectives and sustainability plan, performance management and helping in planning on sustainability and growth.

The respondents also indicated that the Strategic Planning and Management Documents had contributed a lot towards the enhancement of efficiency in service provision in various ways which included provision policies and procedures of managing clients, environmental scanning through Pestle and SWOT and identification of competitors with a view to enhancing their efficiency, mapping out the direction of the organization, strategizing the building up of portfolio, efficiency by the staff through targets and motivation.

**Staff/Employee Skills**

From the interviews conducted by the researcher, it was noted that most staff members were not aware about the existence of Staff Policy. This implies either that it does not exist or if it does, then it is only known to the senior management. This is not very good
for any serious institution because when one joins an organization, he or she is supposed to be taken through the Staff Policy for him to understand the roles, responsibilities, benefits and any other thing regarding his presence in that particular organization.

**Information, Communication and Technology**

From the research, the respondents indicated that MFIs use some Management Information System (MIS Software) which included eMerge, Bankers Realm, Temenos T24 and Navision.

Some of the respondents however indicated that the MIS was not serving them effectively. The respondents indicated that the MIS was not serving them effectively because they had not received appropriate training to use the programmes. The respondents thus indicated that some of the staff required to be trained on MIS on a frequent basis, manuals should be prepared to expose information to all staff, the MIS should be installed in all the branches, their need to be networking to connect all branches together, the MIS should always be updated as per the latest technology, the system need to be reviewed to check on its efficiency, senior staff should be fully trained on the use and operations of the MIS.
CHAPTER FIVE

5.0 SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
Microfinance Institutions in Kenya are currently at different stages of maturity. There are several factors that these MFIs need to focus on to enable them achieve or enhance their efficiency in service delivery to their clients. The main objective of this study was to determine the factors that enhance efficiency in service delivery in MFIs in Nairobi. This chapter therefore, focuses on the answers to the research questions derived from this study. It also concludes the study and covers the summary of the findings and recommendations of the same.

5.2 Summary of the Findings
The majority of the respondents, 60%, stated that the MIS training they received was not adequate. This implies therefore that the MIS is not adequately being used because the staffs do not fully how to make use of it. This implies that the reports they generate or receive maybe coming late or is are inaccurate. This in turn affects planning, monitoring and decision and ultimately efficiency in service delivery in MFIs in Nairobi because of either making of wrong decisions or delayed decision-making process. Most of the respondents (73%) indicated that the Board of Directors had a huge role to play in facilitating the sustainable provision of micro-finance services in the organization. The reason for this is that they were the final decision-making organ of the organization. Consistent upgrading of staff skills is also an important factor for enhancing service delivery in MFIs. Otherwise lack of staff skill upgrade will impact negatively on service delivery.
5.3 Answers to Research Questions

5.3.1 How does the governance structure enhance efficiency in service delivery in microfinance institutions in Nairobi?

The respondents appreciated the role played by the Board in the operation of the Microcredit Department. 64% of the respondents indicated that the Board members were recruited through referrals and not public announcement or competitive bidding. 90% of the respondents also indicated that the Board had a huge contribution towards enhancement of service delivery in the organization. Some of the critical roles played by the Boards included providing strategic direction to the organization, policy-making, approving budgets and ensuring the management met their set targets. With the above roles, the Board has a major role to play in enhancing efficiency in service delivery for MFIs. However, the respondents indicated that there were different changes their respective Boards needed to put in place to further enhance service delivery. The changes included interactions with the staff and MFI clients so that they appreciate what the staff and the client require to enhance their services and therefore for them to put in policy measures to enhance the same.

5.3.2 To what extent do the staffing skills have in enhancing efficiency in service delivery in microfinance institutions in Nairobi?

Regarding existence of the Staff Training Manual, only 53% of the respondents were aware of existence of a Training Manual in their respective MFIs. This is an indication of lack of focus on skills upgrade within some MFIs in Nairobi. This is also evidenced by the fact that out of those interviewed, 60% had not attended any training in the last 3 years. Those who had attended between 1 and 3 trainings in the last 3 years comprised of 40%. For those who indicated that lack of staff skills upgrade have an impact on enhancement of service delivery, listed the impact as being unaware of best practices within the industry, being unable to advice their clients and organizations accordingly and limitations in terms of creativity and innovativeness. Of the respondents interviewed,
60% indicated that constant staff skills upgrade is very important while 10% indicated that it was not very important. Without any training, seminars, workshops or refreshers courses, staffs become complacent with the old way of conducting business. This can affect enhancement of efficiency in service provision and also limit their ability to be innovative.

5.3.3 To what extent does information communication and technology enhance efficiency in service delivery in microfinance institutions in Nairobi?

Out of the respondents interviewed 93% of them indicated that they had an MIS for tracking and reporting. This is a clear signal that MIS is very critical for any proper lending business and that it enhances service delivery. 79% of the respondents also satisfied with the adequacy of their MIS, however 21% indicated that their MIS was not adequate and this inadequacy resulted in late decision-making, poor loan tracking, negative image of the MFI amongst its peers and their clients and more importantly, unreliable reporting. For any financial institution, the highlighted impacts of inadequate MIS are very huge. The reason for this is that trust, integrity and accuracy are very critical virtues for any financial institution. If there is any sign of non-existence of the above factors in any financial institution, then there can be massive customer walk-outs. However, existence of an MIS within a given MFI is one thing; the most important issue is that all the staff members of the MFI have to know how to make use of the MIS fully. It is only when this is done that efficiency in service delivery can be enhanced as the MFI clients will be able to access their loan and savings status accurately and whenever they want them. MFI staff will also have accurate and timely information to make decisions and therefore enhance service delivery. With a versatile and robust MIS, an MFI will not waste time going through piles of files; this implies there will be savings in terms of time wastages.
5.3.4 How does the strategic planning and management documents affect enhancement of service delivery in microfinance institutions in Nairobi?

Majority of the respondents (90%) indicated that they had different forms of Strategic documents that facilitated them in planning and management of their operations towards facilitating efficient service to their clients. 90% of those interviewed indicated that they had Strategic and Business Plans, while 80% indicated that they had Marketing and Communication plans while 70% had Human Resource Plan. The MFIs that did not have a Strategic and Business Plan were in the process of developing the documents. The Strategic Plan is the document that defines the direction an MFI is taking together with defining its mission, vision, core values, objectives, activities, products and services. The document also has a section on projections and targets that are supposed to be achieved and how they are to be achieved. The Marketing and Communication plan in turn elaborates how the MFI will attract and retain their clients. This document elaborates on how quality service will be maintained and how proper communication will be undertaken so that MFI clients are happy. With a good Human Resource plan, MFI staff are motivated as the reward scheme is clearly defined. This in turn encourages them to work hard, recruit and retain their clients through prompt service. All these activities are geared towards enhancing the efficiency of the service delivery within MFIs.

5.4 Conclusions

The aim of this study was to determine the factors that enhance efficiency in service delivery in MFIs in Nairobi. The following are some of the conclusions:

From the findings, the conclusion drawn with regards to the role of governance structures in enhancing efficient service provision in MFIs is that it has a critical factor towards ensuring efficiency of service delivery. The reason for this is that the roles enumerated by the respondents are very key roles that determine the direction which the MFI is going. The Board is the organ that determines what strategic direction the MFI will move. It is the Board that also approves new products, policies and procedures that will be used in rolling out and managing the products and services. As the oversight organ of the MFI,
the board has a role in ensuring that the management team meets their set targets. Some of the set targets include the retention and recruitment rate of clients. If clients are not happy with the level of services they are receiving from the MFI, then the rate of client drop-out will be high and there will be no recruitment of new clients. The Board picks this role and ensures that there is growth and retention of clients. These factors clearly imply that the Board is a very important factor in enhancing the efficiency of service delivery among MFIs Nairobi. However for the Board to perform better, they need to have the relevant sub-committees that are able to specialize in particular areas of operation in the MFI. At the same time, the Board members have to ensure that they are in touch with what is happening within the organization but strategically interacting with the staff and also with the clients so that they pick out key issues that they can use to come up with relevant policies for the benefit of the MFI clients.

On the effect of Strategic planning and management documents on enhancing service delivery among MFIs in Nairobi, the research found out that each MFI had a different variety of Strategic documents. However, the most common documents were the Strategic and Business Plan, the Marketing and Communication Plan and the Human Resource Plan. These documents are medium to long term documents such that they are supposed to be reviewed periodically. Most MFIs reviewed their documents every 5 years. Other MFIs had never reviewed their strategic document since their development. However, this is wrong because in the nature of their business, a lot of changes happen within the MFI sector. Hence for the documents to have any relevance, then they need to be reviewed annually or at least every two years. This will enable the MFI to continuously review their service quality with a view to enhancing them to meet the industry standards. The documents are critical because they facilitate the MFI to maintain a set uniform way of operation. The documents also are used as monitoring tools by the staff, management and ultimately the Board which also uses them to gauge the performance of the management. Lack of these Strategic and Planning documents may lead to lack of focus, lack of monitoring, lack of motivation, lack of set uniform organization standards and ultimately lack of enhanced efficiency in service delivery.
Staff or employee skill is a very important ingredient towards enhancement of efficiency in service delivery amongst MFIs. From the research however, there is an indication that MFIs have not embraced constant staff skills upgrade as compared to their fellow players in the financial sector like commercial banks. This has had several impacts on the staff and organization. One of the impacts has been a relatively low quality of service as compared to the commercial banks. This is in terms of customer management and timeliness of service delivery. The other impact has been low staff morale; the reason for this is that by virtue of there being no Training Policy for staff, identification of staffs to attend various training is done in an ad hoc manner thereby depriving some staffs while empowering a particular section of staff. Another impact of lack of constant staff skills upgrade is the relatively low level of innovation and creativity experienced in MFIs as compared to the MFIs. All of these factors hamper efficiency in service delivery among the MFIs in Nairobi. Hence for proper staff skills upgrade to be there, there is need for Staff Training policy to be available and fully abided so that staff continuously upgrade their skills for the benefit of their organizations and clients.

Information Communication Technology (ICT) has become a very central activity in dynamic and efficient financial institutions in the world. This is because it reduces costs, it enhances efficiency and an organization is able to provide more innovative services and products without facing challenges in terms of tracking and reporting. For the better part of their history, MFIs have grappled with challenges regarding their MIS. This has in turn slowed down their growth, limited the number of products and services that they can offer their clients. This has not been the case for their fellow players in the financial sector like the commercial banks. Clients need information real time and in whichever place that they are without necessarily going to the physical branches of their financial provider. As it is now, the financial sector is embracing Mobile Banking (M-Banking). Currently, commercial banks have been able to venture into this service easily. What has limited the MFIs from providing this service to their clients has been the fact that their ICT is not as robust as compared to the commercial banks. Without a reliable ICT, reports are inaccurate and if accurate sometimes they are late. This untimely and sometimes inaccurate report leads wrong which leads to late decision-making.
5.5 Recommendations

From the findings and conclusions drawn, the study highlights some recommendations on the factors that can enhance efficiency in service delivery among MFIs in Nairobi. By focusing on improving the said factors, the MFIs will be able to compete effectively with their counterparts in the financial sector that include the commercial banks.

5.5.1 Governance Structure

Specifically, on the governance structure which is the Board of Directors, MFIs have to ensure that the Board membership is composed of persons of integrity and from diverse backgrounds. It is also important to have the requisite number of committees to assist in oversight activities in the operations of the MFI. For instance there is need to have a Finance and Credit Committee, Staff Welfare Committee, Internal Audit and Risk Management Committee and a Marketing and Communication Committee. These committees will undertake their responsibility with the assistance of the Chief Executive Officer of the MFI together with the relevant head of department. The committees will then report to the full Board. At the same time, it is important for the Board members to strategically but periodically interact with the staff and clients of the MFI. This will enable them also appreciate the dynamics of the business at all levels so that when they are developing policies, they do so with this in mind.

5.5.2 Strategic Planning and Management Documents

MFIs just like any financial institution need to have certain pertinent strategic documents for planning and management of their business. These strategic documents include Strategic and Business plans, Marketing and Communication Plans, Human Resource Plan and Risk Management Framework. There are other documents that can accompany these ones for instance ICT Plan. Without having these strategic documents, MFIs cannot determine with clarity the direction that they are headed to; they cannot project and therefore they cannot place targets for the organization and therefore not possible to place targets amongst themselves. Without targets, there is usually complacency and business-as-usual attitude amongst the staff. This compromises on efficiency in service delivery. It is also important for all the Strategic documents to be reviewed periodically. This will
make them more relevant because the financial sector is usually a very dynamic sector with changes and innovations occurring frequently. Hence for the documents to be relevant to the market and therefore serve the organization and the clients efficiently there is need to review and update them periodically. The most common tendency in MFIs is that very good documents are developed yet they are not made use of. For efficient service delivery to be enhanced there is need for MFIs to ensure that they fully make use of the Strategic documents by making them a point of reference in their daily operations and meetings. It is also important to note that for these Strategic documents to be owned and used by the staff, these documents need to be developed with active participation of these staff. The reason for this is that targets emanate from the individual staff, to the branch level and ultimately compiled for the entire organization.

5.5.3 Staffing/Employee Skills
Provision of micro-finance services is a people-centered activity. It is therefore paramount that the skills of all the MFI staff are continuously upgraded so that the staffs do not become complacent. Constant training is also important to the staff as it enhances their motivation in doing their work as they acknowledge that their organization appreciates their effort also. Staff upgrade is also critical as it enables the staff to keep pace with the new developments in their areas of operations. Hence it enhances innovativeness and creativity. It is therefore recommended that new staffs who join the organization be taken through an elaborate orientation to enable them appreciate the organization’s mission, vision and also its operation methodology. Staff training also needs to be undertaken systemically so that all the staffs are considered in a fair and relevant manner. This can be done when there is clear and elaborate document that explains this; hence the need for a Staff Training policy. It can also be included as part of the programme’s Human Resource Plan. By being fair, the organization also motivates staff as they feel that the organization is also mindful of their welfare. When staff skills are upgraded periodically, in a fair process and in their relevant areas of specialization, then their efficiency in terms of service delivery both to the organization and to the clients will be enhanced.
5.5.4 Information Communication and Technology

Information Communication Technology (ICT) is a very critical element in any financial institution. With a robust and versatile ICT system, MFIs can be able to enhance their service delivery as they are able to cut costs, introduce more tailor-made products and services for their clients and be able to make correct and timely decisions as a result of having correct and reliable information. It is therefore recommended that MFIs source and installs robust and versatile ICT systems that are flexible enough to accommodate their geographical expansion, diverse range of products and services. It is also recommended that adequate training is provided to all the staff in the organization right from the receptionist to the head of the MFI. The reason for this is that there are some information that each staff can be able to access and therefore serve the clients without waiting for a specific staff to do so. Adequate training will also enable all the staff to fully make use of the ICT system. If the MFI has several branches or outlets, it is important that these branches or outlets be networked such all the branches can be able to transact business with one another together with the head office. By networking, clients will also be able to access their financial statuses from whichever branch they go to without necessarily having to go physically to their local branch. Once the ICT system is networked, then the MFI can be able to activate additional services for its clients like Automated Teller machines (ATMs) and M-Banking services. All these enhance efficiency in service delivery for the MFIs.

5.6 Suggestion for further Research

From the research findings, the researcher suggests that the research should be expanded to cover the following topics: Validity of Efficiency indicators in Micro-finance Institutions, the Impact of ICT in provision of Financial Services in Microfinance institutions and Factors that Enable Successful transformation of Micro-finance Institutions into Deposit-Taking Institutions.
REFERENCES


Biashara Leo Magazine May/June 2008, Asante Media Ltd

http://www.centralbank.go.ke/publications/annual/index.html


TO WHOM IT MAY CONCERN

RE: INTRODUCTION LETTER
MR PATRICK LUMUMBA OBADHI - REG NO D53/OL/13402/04

This is to confirm that Patrick Lumumba Obadhi - Reg. No. D53/OL/13402/04 is an Open Learning student at Kenyatta University, studying for Masters in Business Administration.

It is a requirement that he carry a research on KEY FACTORS THAT ENHANCE EFFICIENCY IN SERVICE DELIVERY IN MICRO FINANCE INSTITUTIONS IN KENYA.

Any assistance accorded to him will be highly appreciated.

Thank you

Rev. Dr Moses Mutwiri M’Ithinji
DEPUTY DEAN OF STUDENTS

The Vision of Kenyatta University is to be a dynamic, inclusive and competitive center of excellence in teaching, learning, research and service to humanity
Appendix ii QUESTIONNAIRE

I. DEMOGRAPHIC DATA

1. Name of your organization.........................................................

2. What is your Gender?  Male ( )  Female ( )

3. What is your age? (Tick as appropriate)
   Between 18-25 ( )  Between 26-35 ( )
   Between 36-40 ( )  Between 41-44 ( )
   Between 45-50 ( )  50 and above ( )

4. What is your highest level of education?
   Secondary ( )  College ( )  University ( )
   Others (Specify) .................................................................

5. How many years have you worked with the organization?
   1-2 Years ( )  3-5 Years ( )  6-8 Years ( )  9-11 Years ( )  2 and above ( )

6. What is your Department in the Organization?
   Audit/Risk Management ( )  Marketing & Business Development ( )
   Finance ( )  Operations & Credit ( )  Human Resource & Administration ( )
   Others (Specify) .................................................................

7. What position do you hold in the Organization?
   Head of the MFI ( )  Head of Department ( )
   Credit/Loan/Officer ( )  Other (please specify) ................................

II. PARTICULARS OF THE ORGANIZATION

1. When did your Organization start its operations? .........................

2. What was the source of capital for starting the business?
   Bank Loan ( )  Grant from International Donors ( )  Bank Loan ( )
   Public Funds ( )  Grant from Church/Local Community Organization ( )
   Private funds ( )  Others (please specify) ..................................
3. How many branches/office outlets does the organization have?
   1-5 ( )  6-10 ( )  11-15 ( )  Over 15 ( )

4. What services are offered by your Organization?
   Credit facilities ( )  Saving services ( )  Insurance services ( )
   Training services ( )  Others (please specify)..............................................

5. Who are the Organization key competitors?
   Banks ( )  SACCOs ( )  Other MFI ( )
   Mobile Telephony Financial Services ( )  Others (please specify)....................

III. GOVERNANCE STRUCTURE

1. What is the legal registration of your Organization?
   Trust ( )  Private Limited Company ( )  Company limited by Guarantee ( )
   NGO ( )  Public Trust ( )  Do not know ( )
   Others (please specify).....................................................................................

2. How many members are within the Board?
   0-5 ( )  6-10 ( )  Over 10 ( )

3. How many committees are there within the Board?
   None ( )  1-2 ( )  3-4 ( )  Over 4 ( )

4. Please name the committees that are there within the Board
   a..............................................................
   b..............................................................
   c..............................................................
   d..............................................................

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6. Mention the roles played by the Board in the running of your Organization:

   a. ...................................................................................................................
   b. ...................................................................................................................
   c. ...................................................................................................................
   d. ...................................................................................................................
   e. ...................................................................................................................

7. How are the Board members appointed in your Organization?

   a. Public advertisement ( )
   b. Referrals by other Board members ( )
   c. Appointed as a result of being an investor ( )
   d. Recommendation by the Head of the Organization ( )
   e. Any other (please specify) ( )
   f. I have no idea ( )

8. Do you think the Board of your Organization has been a contributing factor towards enhanced Efficiency in service delivery?
   Yes ( )   No ( )   Not sure ( )

9. If yes, why?

   a. ...................................................................................................................
   b. ...................................................................................................................
   c. ...................................................................................................................
   d. ...................................................................................................................
   e. ...................................................................................................................

10. If no, why?

    a. ...................................................................................................................
    b. ...................................................................................................................
    c. ...................................................................................................................
    d. ...................................................................................................................
    e. ...................................................................................................................
11. Mention areas of improvement that the Board needs to adopt to enable your Organization enhance its efficiency in service delivery:
   a. ..............................................................................................................
   b. ..............................................................................................................
   c. ..............................................................................................................
   d. ..............................................................................................................

IV. STRATEGIC PLANNING AND MANAGEMENT DOCUMENTS

1. Does your Organization have any Strategic Planning and Management Documents?
   Yes ( ) No ( )

2. If yes, what type of Strategic Documents does your Organization have?
   Strategic Plan ( ) Business Plan ( ) Risk Management Manual ( )
   Marketing and Communication Plan ( ) Human Resource Plan ( )
   Others (please specify) .............................................................................

3. How often are the Strategic Documents reviewed / updated?
   Semi-annually ( ) Annually ( ) Every 5 years ( ) Not sure ( ) They have never been reviewed ( )
   Others (please specify) .............................................................................

4. Do you think the Strategic Documents are important in Service Delivery?
   Yes ( ) No ( ) Not Sure ( )

5. What are the important functions of these Strategic Documents?
   a. ..............................................................................................................
   b. ..............................................................................................................
   c. ..............................................................................................................
   d. ..............................................................................................................
6. How has the presence of these Strategic Documents enhanced efficiency in service delivery in your Organization?
   a. ........................................................................................................................................
   b. ........................................................................................................................................
   c. ........................................................................................................................................
   d. ........................................................................................................................................

V. INFORMATION COMMUNICATION TECHNOLOGY

1. Does your organization use any Management Information System?
   Yes ( )   No ( )   Not sure ( )

2. What is the name of the Management Information System-MIS (software) your organization is currently using? ........................................................................................................................................

3. Is the MIS serving you adequately?
   Yes ( )   No ( )

4. If not, how have the MIS limitations affected your performance and service delivery?
   a. Late decision-making ( )
   b. Poor loan/savings tracking ( )
   c. Negative organization image amongst our clients ( )
   d. Delayed and sometimes unreliable reports ( )
   e. Any other (please specify) ........................................................................................................

5. Are you adequately trained to fully make use of the MIS? Yes ( ) No ( )

6. What specific actions does your organization need to undertake on the MIS to enhance efficient service delivery in the organization?
   a. ........................................................................................................................................
   b. ........................................................................................................................................
   c. ........................................................................................................................................
   d. ........................................................................................................................................
   e. ........................................................................................................................................

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VI. STAFF SKILLS

1. Does your organization have a Staff Training Policy?
   Yes ( )  No ( )  Not Sure ( )

2. How many organization-sponsored Trainings have you attended in the last 3 years?
   None ( )  1 ( )  2-3 ( )  Over 3 ( )

3. Do you think lack of Skills has impacted on your Work performance?
   Yes ( )  No ( )  Do not think so ( )

4. How has lack of Skills upgrading impacted on your service delivery?
   a. ..............................................................
   b. ..............................................................
   c. ..............................................................
   d. ..............................................................

5. Is it important for an organization to constantly upgrade the skills of its staff?
   Very Important ( )  Important ( )  Not very Important ( )

THANK YOU FOR YOUR VALUABLE TIME AND CO-OPERATION
MR. PATRICK LUMUMBA