THE EFFECT OF FINANCIAL INNOVATION ON THE GROWTH OF MICRO-FINANCE INSTITUTIONS IN KENYA

BY

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DECLARATION

This research project report is my original work and has never been submitted for any degree award in this or any other university.

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DEDICATION

I dedicate this project to my parents Mr. and Mrs. Mathews Mugo, brothers and sister for their concern, enthusiasm and encouragement throughout my studies.

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ABSTRACT

The study sought to investigate the effects of financial innovation on the growth of Micro Finance Institutions (MFIs) in Kenya. This was motivated by the need to fill-up the academic gap on financial innovation left by previous researchers. This research was done to seek answers to the two research questions namely; which financial innovations were adopted by Micro Finance Institutions (MFIs) in Kenya, and how these affected the growth of Micro Finance Institutions (MFIs) in Kenya. A survey was conducted targeting all the thirty four registered MFIs in Kenya. After data collection, the research data was analyzed in a correlation design using SPSS program. The research findings showed that most Micro Finance Institutions (MFIs) have innovated new services like mobile banking, business accounts, SME loans, school fee loans, financial trainings and partnerships. Other Micro Finance Institutions (MFIs) have networked their offices, opened new branches and innovated new products in a bid to grow their firms. Besides, there was strong positive correlation between financial growth and reason like addressing clients' needs, clients' retention and reducing transaction time. The research concluded that financial innovation by MFIs lead to an aggregate growth of firm in various dimensions like number of products, market share, loan sales and the overall profitability. The research findings indicated that financial innovations were a crucial growth strategy adopted by various Micro Finance Institutions. Therefore the research recommended that financial innovation should be encouraged among MFIs. Further studies can be focused on the possible effect of innovation of the stock prices and the clients' perception on financial innovation.

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ABBREVIATIONS

AMFI : Association of Micro Finance Institutions

ATM : Automatic Teller Machines

K-Rep : Kenya Rural Enterprise Programme

KWFT : Kenya Women Finance Trust

MFIs : Micro Finance Institutions

NGO : Non Governmental Organizations

SACCO: Savings And Credit Cooperative

SGH : Self Help Group

S-Mep : Small and Medium Enterprise Programme

SPSS: Statistical Package for the Social Sciences

USAID: United State Agency for International Development

UNDP : United Nations Development Programme

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Financial innovation refers to the expanding the range of financial service / products, classes of financial institutions and the variety of processes and systems the finance institutions employ to do business. This can also be referred to as financial widening and deepening to satisfy all the stakeholders' needs. Micro finance is therefore a subset of financial innovation targeting the small scale clients with micro saving and credit facilities that they can afford (Tufano, 2002).

The idea of micro finance started as micro savings and credit in early 1700's. Its pioneer was Jonathan Swift, an Irishman who launched the Irish Loan Fund. This micro credit firm targeted the poor households in Ireland. After gaining acceptance, the idea has spread across the globe, targeting the neediest rural and urban poor residents (Lindsay, 2010).

In Kenya, Micro Finance Institutions (MFIs) were pioneered by Non-Governmental Organizations (NGOs) in collaboration with the government. The government aided the development of Micro Finance Institutions (MFIs) by providing the policy framework and platform for donor support; these NGOs include World Bank, USAID (U.S Agency for International Development), UNDP (United Nations Development Programme) and later the commercial banks supported NGOs by financing the operations (Mutua, 2006).

In Kenya Micro Finance Institutions play an essential role in the economic development by serving the population ignored by the big banks. This is the micro savings and credit service where banks failed to meet the needs of the poor customers and citizens. Currently, statistics indicate that banks serve approximately 22.6% of the population, 17.9% is served by the Micro Finance Institutions, 26.8% rely on the informal financial services; leaving a 32.7% of the population unreached by any financial service. In the last three decades, we have witnessed the emergence of numerous Micro Finance institutions (MFIs) to serve this segment. By serving the enormous poor population successfully we have witnessed transformation of some MFIs to fully fledged banks like Equity Bank, K-Rep Bank, Kenya Women Finance Trust (KWFT) and Family Bank (Mutua, 2006).

1.1.1 Financial Innovation

Financial innovation is defined as the creation or designing of new financial products, better process, efficient systems and institution alliances. It also entails the constant improvement of the existing products and activities of financial institutions in order to meet the emerging needs of the stakeholders (Tufano, 2002).

Financial innovation can be described as financial revolution in terms of instruments, institutions' structure and the processing systems to address the market inefficiencies and constraints that limit the earning capacity. Through financial innovation firms are poised to further growth potential resulting to deepening and widening of the market, attracting a new breed of investors. It also enables Micro Finance Institutions tackle the challenge of poor linkages between Micro Finance Institutions (MFIs) and other commercial cooperate clients which improves efficiency-flow, lending to better returns and clients' satisfaction (Miller, 1986).

Often Micro finance innovation is inclined towards improving the financial affordability, accessibility of financial services and reduces information asymmetry. Securitization is also a common feature in microfinance which refers to the use personal guarantees, group guarantees or personal saving as collateral to access loans (Imady & Seibel, 2003).

1.1.2 Micro Finance in Kenya

Given the growth trend in the finance industry, questions have been raised on how we can stimulate growth and further develop the micro finance sector. In the last few decades, Kenyan finance industry has grown immensely, in terms of width and depth, we have witnessed heightened competition and some MFIs have grown to become fully fledged banks (Mbogo and Ashika, 2011).

Currently the micro finance sector has received attention of banks and mobile money operator hence this sector is experiencing a transformation because of taking up larger roles in the economy and recognizing that it is a viable business practice. Of late the micro finance sector has gained acceptance with at least one out of five people being a member of a Micro Finance Institution (MFIs) or a SACCO. Micro Finance Institutions (MFIs) therefore must innovate and go beyond the micro loans to make this sector more profitable and sustainable (Imady and Seibel, 2003).

Most Micro Finance Institutions (MFIs) target different market segments hence recording different growth path and pace. Most Micro Finance Institutions (MFIs) start as saving and microcredit institutions and later they expand targeting wider market with different products and services like, savings, insurance and other deposit products that commercial banks do not offer to low-income clients (Mbogo and Ashika, 2011).

1.1.3 Financial Growth

Micro finance institutions start like other SMEs, and grow through the five stages of small business development from a simple firm to a complex institution with a sophisticated combination of products and systems. Along the growth path these firms change in size, geographical coverage, the range and the complexity of product. This continuous growth of the Micro Finance Institutions therefore present opportunities for seizing the unsatisfied competitors' clients and the unmet demand for microfinance services in our country (Churchill, 2007).

Given the potential and benefits of microfinance in Kenya questions have been raise on how we can further develop and stimulate the growth of the industry. The growth of the industry can be characterized by increased breadth and width of the existing Micro Finance Institutions, increased competition diversification of the products and connection to the private and commercial institutions (Mbogo and Ashika, 2011).

As long as there is a segment of our population living in poverty, there will be an urgent need for microfinance to provide them with opportunities to increase their economic activity, foster their spirit of entrepreneurship, facilitate employment and improve the quality of their lives and that of their community. More access to microfinance loans can therefore change the future on the poor communities. Thousands of these loans can transform an entire economy.

1.1.4 Micro Finance Institutions Growth Indicators

The effects of financial innovation on the growth of Micro Finance Institutions (MFIs) can be understood by measuring and analyzing the following quantitative performance parameters over a period of time. These are change in the number of products / services the firm offers to its clients, the features and the classes of financial products over a period of time. Likewise, any change in the number of clients or in the number of branches of Micro Finance Institutions (MFIs) has over the period of time signifies growth. This signifies increase in the market share or increase in targeted market segments (Otieno, 2006).

The change in geographical coverage or change in number of branches or representation in different regions brought about by innovation can also signify growth. Lastly change in the collective financial performance can also shed light on any financial growth, increase or decrease in the total assets, earnings, loan portfolio and the profitability indexes resulting from revenue from the new products (Otieno, 2006).

1.2 Research Problem

The concept of financial innovation is fundamental as it spurs growth of MFIs worldwide. Presently, innovation is a continuous process geared toward providing a wider range of financial products and financial intermediation which is a crucial factor in determining competitiveness and the progress of financial institutions (Mohanty & Panda, 2004). Therefore, micro finance innovation present opportunities to seize new markets from the unsatisfied or unbanked market segment in Kenya country. Study show that the proportion of new products and services is a key indicator of corporate success both in terms of revenue enhancement and total shareholders' returns. Besides, most financial firms generate marginal revenue for the new products and services (Chege, 2008).

Currently, the large finance sector has widened and deepened through the development of more financial institutions and better products. The research deems MFIs sector fertile context to carry out this research because the banking sector has been extensively covered, while the upcoming Micro Finance Sector has not received adequate attention. In addition, this research seeks to unveil how these Micro Finance Institutions (MFIs) have evolved by focusing more on the low-end clients over the last one decade, where four MFIs have become fully registered banks namely Equity Bank, Family Bank, K-Rep Bank and the Jamii Bora Bank, while the majority of MFIs have expanded slightly or have remained the same over the last one decade. Amid the witnessed economic growth, increased population and the technological advancement over the last decade, only a few innovative MFIs have recorded remarkable growth, while the majority has remained sluggish. The

Micro Finance Institutions are expected to grow in size, products, merge or have partnerships with other industries geared towards growing firms' products portfolio, the markets share and the profitability.

The study done by Silber (1983) just confirmed various factors that initiated financial innovation. Imady and Seibel (2003) looked at Micro finance innovation in Syria, which is in a different economic setup in relation to the current Kenyan economic situation. The previous Kenyan scholars who have shed light on the aspects of innovation in Kenya did not relate the innovation to the growth of MFIs in Kenya. These include Chege (2008) who analyzed a case of the common strategies applied by Equity Bank, which did not identify the trend of MFIs innovation over time. Mutua (2006) in her study "The linkage between MFIs and commercial banks in Kenya" focused on how the MFIs fill the gap by using new technology, methods and partnerships, where she analyzed the reasons for products innovation among the MFIs. Both Chege and Mutua did not relate the innovation to growth.

Apparently, the above scholars did not analyze how financial innovation by MFIs relates to the growth and how these affect the growth indicators. Therefore, this research sought to fill the knowledge gap by answering the questions; Which financial innovations are adopted by MFIs in Kenya? And how these innovations affect the growth of Micro Finance Institutions (MFIs) in Kenya?

1.3 Objectives of the study

The general objective of the study was to determine the effect of innovation on the growth of MFIs in Kenya. The specific objectives of the study were:

i. To determine the financial innovations adopted by the Micro Finance Institutions (MFIs) in Kenya.

ii. To investigate how each innovation does affect the growth of Micro Finance Institutions (MFIs) in Kenya?

1.4 Value of the study

The study findings will help to reinforce the existing innovation theories by providing a clear impact of innovation in the growth of Micro Finance Institutions. The study findings will also add to the existing theory of financial innovation the correlation between financial innovation and growth, which will be resourceful to the future scholars, for reference and academic advancement purposes.

The research findings will give insight to managers to enhance their precision in the practice by selection of the best innovations at various development stages. In addition, the findings will shed light on the relationship between the product innovation and the performance of Micro Finance Institutions (MFIs).

To the regulators, it will provide useful information regarding the innovations and its effects and hence help regulators to supervise Micro Financial Institutions (MFIs). It will also assist in setting-up of favourable policies and creation of condusive environment to encourage innovation at different levels (Llanto and Fukui, 2003).

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focused on the theoretical part and empirical evidence of financial innovation. The initial sections reviewed the theories of innovation, types of innovation and the benefits and the empirical evidence of financial innovation to Micro Finance Institutions (MFIs). The last section reviewed the empirical evidence of innovation and growth indicators of Micro Finance Institutions (MFIs).

2.2 Theories of Financial Innovation

Different scholars have looked at financial innovation in different contexts, while analyzing different variables they have given different theories behind the experienced financial innovation.

2.2.1 Traditional Theory of Financial Innovation

This theory was stipulated by Sundbo in 1997, where he suggested two paradigms based on the causal patterns, namely Technology – economic paradigm and entrepreneur paradigm based on two different models of innovation process. Technology – economic paradigm emphasizes on the technological development as the core of the innovation process which was pegged on the random technology advancements.

In the entrepreneur paradigm of innovation Sundbo (1997) pointed that financial innovation is largely driven by the entrepreneurial act of the players in the market. It involves the developments of new financial entrepreneurs and managing of the old entrepreneurships in addition to the products and process innovation.

2.2.2 Financial Constraints Theory

The theory of constraints dates back to 1950 when Schumpeter revealed that firms innovate to address the constraints and inconveniences caused by market imperfections, regulation, operation costs and taxes. Silber (1983) also added that financial innovation is done to lessen the financial constraints that limit the firm's earning capacity, therefore firms innovate to optimize the returns on capital in the light of the firms' goals. Silber further suggested that firms need to continuously renew themselves to prosper in this dynamic environment.

According to Tufano (2002) financial innovation came about as a result of high interest rates, taxes and regulation. Therefore, individuals and firms innovated to circumvent these constraints to lessen the cost of borrowing, reduce expenses and improve investment options. Innovation also seeks to tackle the financial investment constraints through low deposits, less interest income, constrained lending, consequently less demand for deposits and the desire for efficiency, among others.

2.2.3 Strategic Theory of Financial Innovation

Sundbo emphasized that the firm's strategy is a core determinant of the innovation. Consequently, innovation is formulated within the firm's strategy and must be kept within the firm's strategy to prevent firm's activities from getting out of hand. These often involve deliberate financial engineering, where innovation is systematically planned and strategically operationalized to improve performance of specific sections (Sundbo, 1997).

Tufano (1989) noted that innovation makes the financial market complete, wide and efficient. This reduces the cost of transactions and gives the participants greater freedom of investment choice thereby satisfying all the participants in the finance industry. Strategic continuous innovation therefore evens the growth curve, revenue, profits and divided payout to the shareholders (Chege, 2008).

2.3 Types of Financial Innovations

Financial engineers have placed greater emphasis on being able to tackle the new challenges by innovating new products, better processes and implementing more effective solutions to tackle the increasingly complex financial problems (Tufano, 2002). Financial innovation therefore represents a systematic process of change of instruments, institutions, operating procedures and policies that determine the products and the structure of our financial system. Lariviere and Martin (1998) classified micro finance innovations into various categories.

2.3.1 Financial Systems and Technology Innovation

System innovation can be termed as deliberate changes in the systems employed from manual book records to interconnected computer systems and currently to interconnected financial and other institutions. According to Omasaja (2007) as Micro Finance Institutions (MFIs) scale up their activities, the staff and the managers get overwhelmed by volume of tasks, necessitating for the need for better systems that are faster, effective in reports generation, improve performance and support high volume business.

2.3.2. Financial Institution Innovation

This is the introduction of new institutions or redesigning of the institutions to strategically serve the target market segments appropriately. It involves merging, splitting institutions to their specialties or inclusion of the related services. This enables these institutions to maximize on capital and serve different target groups effectively. Institution innovation has introduced economies of scale and the uses of technology and effective innovations have brought costs and interest rates down for MFIs. It has brought a vast opportunity for MFIs to offer more micro financial products to both rural and urban households under one roof. These include additional loan products, such as housing, auto and education; new insurance schemes for health, life, and assets, bills payment and money remittances, hence benefiting through economies of scale.

2.3.3 Process Innovation

These are technological processes that increase efficiency and effectiveness with regards to payment systems, communication, computing and transactions clearing methods. These are aimed at reducing transaction costs, reduce idle cash balances in response to higher interest rates and take advantage of quicker computer transactions (Finnerty, 1988).

Among the most notable differences of MFIs is the secularization feature during the loans processing. The very nature of its clientele lacks the collateral to backup their loan facility. All these aim at reducing transaction costs, time, maintaining clients and better portfolio management to increase the overall firm’s success (Kihumba, 2010). Process innovation will continue to be very important to company growth for the reason that without excellence process innovation, other innovations will be impossible to implement.

2.3.4 Products Innovation

This is products diversification through the development of either new instruments or modification of the existing financial products and services to align them with the clients needs. Product innovation can also be seen as bringing to life a new way to solve the customer's problem that benefits both the customer and the financial institution. Products invention is done though the ongoing research and development of new products, services or ideas which are more flexible and tailor made to satisfy customers.

Product innovations specific to MFIs, all focus towards providing a wider range of financial products and intermediation options. These innovations give a launching pad and a competitive edge to MFIs. For instance flexible savings facilities, loans to farmers, students, business people, asset financing among others. Likewise, there are also different accounts for short-term and long-term saving/investments (Tufano, 2002).

2.3.5 Partnerships and Collaboration with other Firms

Of late more Micro Finance Institutions (MFIs) are collaborating with telephone operators in money transfer, generating value to clients by enabling clients transfer or deposit money straight into the accounts. The partnerships and collaboration has increased the distribution channels and has reduced transaction cost, time, provided convenience and accessibility for the customer, hence increasing revenue and market share (The pillar, 2009).

Other MFIs with fully developed regional network are forming strategic alliances with international donors, to act as the strategic advisor and distributor of donor funds targeting low income rural and marginalized communities to support their economic activities. Other MFIs are often used by donors to access distant clients, evade corrupt government agencies hence they enable close monitoring of the funds application (Mbogo and Ashika, 2011).

2.4 The Reasons for Financial Innovation in the Micro Finance Sector

Mbogo and Ashika (2011) sought to identify the determinants of Micro Finance Innovation. Micro Finance Institutions (MFIs) innovation is stimulated by a variety of different needs.

Most Micro Finance Institutions (MFIs) innovate to expand the product distribution channels. Innovation has increased the distribution channels to reach more people in rural and urban centers by use of cheap and affordable means of distribution like Self-help groups, agencies, and temporally offices, these cut down operation costs. Micro finance has therefore addressed the plight of the poor; accessible banking, hence transforming their lives with a high success rates, thus increasing the market share (Imady and Seibel, 2003).

Some Micro Finance Institutions (MFIs) innovate to minimize transaction costs and time, through self-help groups the transaction costs and time has reduced significantly, reducing the need for office at every locality. Grinblatt and Francis (2000) added that the role of financial innovation in the financial market is to reduce frictions and transaction cost.

Many products enables institutions charge less fee but earn more from the client huge numbers. This has been enabled by embracing the mobile and internet banking (Mbogo and Ashika, 2011).

Miller (1986) observed that too much regulation constraints the financial activities, therefore Micro Finance Institutions (MFIs) innovate as a response to government taxes and regulation. Different tax codes induce more innovation, therefore, highly-taxed classes will seek ways of reducing or evading their taxes. According to Miller, the regulatory and tax factors have provided an impetus for financial.

Micro Finance Institutions (MFIs) also innovate to manage risks likely to affect the income and assets. Due to the increased interconnectivity, the world has become a global village which has increased globalization where firms, investors and governments are more exposed to new risks. Financial institutions therefore diversified to investment options that are immune for international price and interest fluctuations (Miller, 1986).

Technology advancement has brought a “supply-side” innovation like new technologies that permits gathering of data and management, its transmission and analysis, benefiting through reduced costs or earn extra revenues, like ATMs, debit cards, IT transactions. The technology also allows handling huge workload from different locations in real time. Managers can now monitor the performance, produce reports and make quick and accurate decisions from the reports (Mbogo and Ashika, 2011).

According to Mbogo and Ashika (2011) Micro Finance Institutions (MFIs) should analyze the market demand then innovate to meet these market needs. To a large extent financial innovation is market driven, where divergent market segment needs guide innovators to tap into different markets and the more diverse population of potential investor ranging from small-scale and short-term to large-scale and long-term investors. Most Micro Finance Institutions (MFIs) clients prefer small frequent denominations to increase the financial flexibility.

According to Llanto and Fukui (2003), Micro Finance Institutions (MFIs) innovate to counter competition in the market. Competition in financial sector is therefore healthy as induces financial innovation. Innovation gives Micro Finance Institutions (MFIs) a competitive edge to remain ahead of competitors and it’s used as reactive measure to prevent a massive shift of clients. Firms develop new products, new transactions-reducing procedures or modify existing products to attract new clients in order to increase or maintain the required market share.

2.5 Empirical Review

Generally, micro finance innovation brings about financial deepening, increased lending, financial flexibility and ability to monitor loan recipients that eases burden of default for lenders, which allows reduced interest rates on loans (Rousseau, 1998). Chege (2008) looked at the competitive strategies applied by Equity Bank, among these strategies, innovation guarantees firms' success through systematic innovation of new products. According to Chege (2008) the success of financial innovation can be pinpointed quite precisely to the method of its implementation. A successful innovation lies in commercializing the new products quickly to benefit from the first mover advantage.

Study done by Frame and White (2004) about innovation among the banks revealed that the number of branches of a bank induces centralization therefore necessitating for the adoption of innovative technology to encourage better decision making. Regulation does spur financial innovation while diffusion of new technologies by banks is positively related to institution size. Also the adoption of new financial technologies by consumers is positively related to an individual's education and income. The welfare effects of financial innovation appear to be generally positive. Moreover, this study targeted the American banking sector which is somehow different from Kenyan micro finance sector.

Franklin and Frederic (1995) analyzed the effect of innovation on the banks' income within the innovation period. During the innovation time between 1960s and 1990s the percentage of non-interest income rose tremendously as new products and off-balance-sheet activities increased. The high interest rates can be reduced by increasing competition and financial innovation (Fernando, 2006). Kihumba (2008) analyzed the reason for innovation and performance of 43 banks between 2000 and 2007, how each factor caused innovation in the Kenyan market and how innovation has increased annual revenue, business volume, customers' turnover, and reduced costs of operation, facilitated expansion of market share and geographical coverage of the bank. According to Kihumba (2008), some financial institutions do innovate to utilize their excess capacity and to maximize its revenue within the existing capacity.

Some Micro Finance Institutions (MFIs) provide the platform for nurturing the business idea into its commercial viability, formalizing its processes and marketing the idea across the board. Such Micro Finance Institutions (MFIs) have the chance of growing to become full autonomous banks (Mutua, 2006). Imady and Seibel (2003) confirmed that Micro Finance Institutions (MFIs) innovation leads to increase in its membership, increased accumulated assets and earnings. The development of new products, led to an increase in demand for the products resulting to regional growth.

Mbogo and Ashika, (2011) carried out a case study of the factors inflecting product adoption by MFIs in Kenya. The study elaborated adequate factors behind the innovation adoption but did not correlate it to any other variables. The research covered a single period of study, implying that the factors may have changed over time.

NGO's collaboration with Micro Finance Institutions (MFIs) improves outreach, reduces the cost and enables better assessment, selection and close monitoring of clients.

Provision of loans and education on financial literacy has a positive impact on the financial products uptake and clients' retention rate (Erica et al, 2008).

2.6 Summary of Literature Review

In conclusion, this research employed a cross sectional analysis of the financial innovation trend over a period of time, to add to the existing body of knowledge, the kind of financial innovations adopted by Micro Finance Institutions (MFIs) in Kenya and its impact on their growth. This will be resourceful to the future scholars and other interested parties in the finance industry, to reinforce the existing body of knowledge pertaining to reasons for innovation, types of innovations and the indicators used to assess the impact of financial innovation.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the research was conducted and data analyzed, with different sections showing the research design, target population, sample size, the data collection instrument and the data analysis methods that were used.

3.2 Research Design

The study was conducted using correlation study design to show the nature of relationship between financial innovation and the firm's growth. The relationship between financial innovation and growth is best handled using correlation analysis as it is a joint relationship of the variables but not a causal relationship, where it showed the nature of the relationship between the research variables and the direction of the relationship (Mugenda, 2005).

3.3 The Population and the Sample

The population comprised of all the registered Micro Finance Institutions (appendix III) as listed in the finance directory obtained from Central Bank of Kenya. There were thirty four (34) listed MFIs as at March 2012 whose mandates were to mobilizing saving and to promote access of funds to the poor households which are governed by the Micro Finance Act 2006. A census survey was conducted on all the thirty four (34) registered Micro Finance Institutions (MFIs). This is because the population is considerably small and manageable.

3.4 Data Collection

The research used a questionnaire as it is reliable and accurate in analyzing the trend of the innovation among the several MFIs within a limited financial and time frame (Mugenda, 2005). The research questionnaires targeted managers or senior employees of Micro Finance Institutions (MFIs) presumed to be knowledgeable on matters of financial innovation. The questionnaire (appendix II) consisted of both closed and open-ended statements to contextualize and understand the respondents' perception with regards to both the quantitative and qualitative aspects of financial innovation. It had four parts namely respondents' details, firm's details, innovation details and financial growth indicators details. To ensure reliability of the data, the questionnaires were self administered, which enabled the researcher and the respondents interact and obtain a reliable and accurate response.

3.5 Data Analysis

After collecting, editing and coding the data, the quantitative data was analyzed using SPSS software to generate the means, mode and correlation. These were then presented using various tables and bar graphs. The qualitative data were analyzed through content analysis to capture the unique features and aspects of financial innovation among the Micro Finance Institutions (MFIs).

After data analysis the research variables' relationship were portrayed in a correlation form where the growth parameters were linked to innovation variable. Coefficient of correlation analysis was conducted to show the magnitude and the nature of the relationship.

CHAPTER FOUR: DATA ANALYSIS

4.1 Introduction

The chapter presents an analysis of the data collected from 30 respondents from 30 firms out of the 34 Micro Finance Institutions who returned the filled questionnaire given out to them. This represents 88.9% response rate which is actually a good representative of the targeted population. Data analysis and the report of the findings were done using descriptive statistics in the form of tables, frequencies and percentages. The relationship between the elements was obtained using 2 - tailed Pearson correlation table.

4.2 Demographic characteristics of the respondents

About ten statements were used to assess the respondents' background characteristics. They are discussed herein under 5 broad themes.

4.2.1 Respondent position in the firms

The results of the analysis show that the respondents held various positions within their firms, a summary of which is represented in Table 1.

Table 1: Respondent's position in the firm

Position	**Frequency (f)**	**Percent (%)**	**Cumulative Percent (%)**
Administrative Assistant	6	20.0	20.0
Branch manager	9	30.0	50.0
Cashier	6	20.0	70.0
Customer Service Officer	9	30.0	100.0
Total	30	100.0	

Source: Research data

Table 1 which contains the results of the data analysis on the respondents' job designation which shows that 6 (20.0%) of them were administrative assistants, 9 (30.0%) were branch managers, another 6 (20.0%) were cashiers and the remaining 9 (30.0%) were Customer service officers. Though there existed a variation in their job designation, each of them worked in a vital department of their respective firm and was therefore capable of providing accurate information required for this study.

4.2.2 Respondents' years of service

Majority of the respondents were found to have served their MFIs for a relatively short time as is shown in Table 2.

Table 2: Respondents' years of service

Years of service	Frequency (f)	Percent (%)	Cumulative Percent (%)
1-5 yrs	17	56.7	56.7
6-10	10	33.3	90.0
Over 10	3	10.0	100.0
Total	30	100.0	

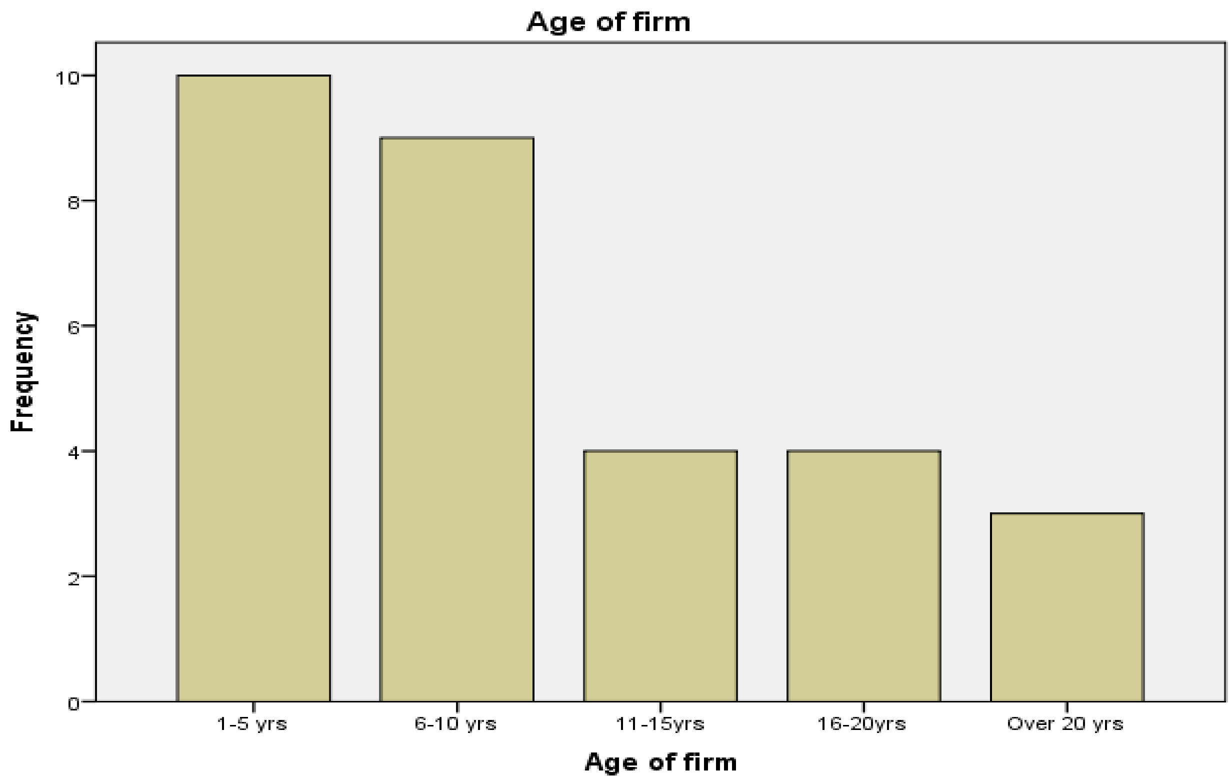
Source: Research data

Table 2 which gives a summary of the respondents' years of service shows that a majority of them, 17 (56.7%) had worked for their various MFIs for a period ranging between 1 and 5 years, 10 (33.3%) had 6 to 10 years work experience with their respective MFIs, and the remaining 3 (10.0%) had worked for more than 10 years with their MFIs.

4.2.3 Firms' age and category

The research findings indicated that out of the 30 firms sampled, 26 (86.7%) were autonomous and the remaining 4 (13.3%) were affiliates of other institutions which could have influenced the innovation. Further, the results show that only 3 (10.0%) firms had been in existent for more than 20 years, 4 (13.3%) had been operating for between 16 and 20 years and a similar set operated for 11 and 15 years. Consequently, majority of them, 19 (63.3%) had been in operation for ten years or less which therefore provides an insight as to why majority of the respondents had also only worked for Micro Finance Institutions (MFIs) for 10 years or less. This information is represented by the bar graph Figure 2.

Figure 2: Firm's age



4.2.4 Type and volume of clients

The data obtained from analysis showed that majority of the MFIs, 29 (96.7%) targeted both male and female clientele while only 1 (3.3%) firm served women.

Further, the results of the analysis also indicated that the MFIs served a clientele volume ranging between 1 and over 500,000 as is summarized in Table 3.

Table 3: Number of MFIs' client

Number of clients	**Frequency (f)**	**Percent (%)**	**Cumulative Percent (%)**
1-10,000	3	10.0	10.0
10,001-100,000	15	50.0	60.0
100,001-500,000	6	20.0	80.0
Over 500,000	6	20.0	100.0
Total	30	100.0	

Source: Research data

Table 3 which contains analyzed data about the MFIs' clients volume shows that a majority of them, 15 (50.0%) served between 10,001 and 100,000 clients, 3 (10.0%) served between 1 and 10,000 clients, while a set of 6 (20.0% each) catered for between 100,001 to 500,000 and 6 firms served over 500,000 clients. The results also show that only 11 (36.7%) firms said they were deposit taking institutions while a majority of them, 23 (76.7%) indicated that they emphasized on tangible collateral security for loans from their clients.

4.2.5 Number of branches

Data obtained from analysis showed that the Micro Finance Institutions under study had variable number of branches ranging between 1 to over 100 as is shown in Table 4.

Table 4: Number of branches

Number of branches	Frequency (f)	Percentage (%)	Cumulative Percent (%)
1 - 10	10	33.3	33.3
11-20	3	10.0	43.3
21-50	9	30.0	73.3
51-100	5	16.7	90.0
Over 100	3	10.0	100.0
Total	30	100.0	

Source: Research data

Results of the analyzed data on MFIs branches network, a summary of which is contained in Table 4 shows that 10 (33.3%) firms had less than 10 branches, 3 (10.0%) had between 11 and 20, 9 (30.0%) had between 21 and 50, 5 (16.7%) had between 51 and 100 and the remaining 3 (10.0%) firms indicated that they had over 100 branches indicating that only about 25% of the firms served a broader clientele base.

4.3 Results of Respondents' views based on the research objectives

4.3.1 The financial innovations adopted by Micro Finance Institutions (MFIs) in Kenya

About 8 statements were used to assess the respondents' view on financial innovations that the MFIs use in Kenya. They inquired about the quantity of new branches that each firm had opened in the last 5 years, different kind of product that they offer and new products that they had developed in the last 5 years among other issues.

4.3.1.1 Number of new branches opened in the last 5 years

Results from the analysis show that most of the MFIs had opened a branch in the last 5 years as is shown by Table 5.

Table 5: Number of new branches in 5 years

Number of new branches	Frequency (f)	Percent (%)	Cumulative Percent (%)
6-10	7	23.3	23.3
11-15	2	6.7	30.0
16-20	6	20.0	50.0
Over 20	3	10.0	60.0
Opened no branch	12	40.0	100.0
Total	30	100.0	

Source: Research data

Table 5 which contains information on the number of branches that the MFIs had opened in the last 5 years shows that of the 18 firms who indicated having opened a branch, 7 (23.3%) had opened between 6 and 10 branches, 2 (6.7%) had opened between 11 and 15 branches, 6 (20.0%) between 16 and 20 branches and the remaining 3 (10.0%) had opened over 20 branches. However, 12 (40%) respondents indicated that their firms had not opened any branch in the last 5 years.

4.3.1.2 Products offered by the MFIs

The respondents were given a list of 12 products from which they were to indicate those that their firms offered. A summary of their responses are shown in Table 6.

Table 6: Products offered

Categories	2007		2012		Deviation / growth	
	f	%	f	%	f	%
ATM	7	23.3	9	30.0	+2	6.7
Mobile banking	1	3.3	19	63.3	+18	60.0
Saving account	10	33.3	12	40.0	+2	6.7
Personal loans	17	56.7	24	80.0	+7	23.3
Individual business loans	17	56.7	24	80.0	+7	23.3
Group loans	13	43.3	21	70.0	+8	26.7
Money transfers services	4	13.3	8	26.7	+4	13.4
SME loans	10	33.3	17	56.7	+7	23.4
Asset financing loans	16	53.3	20	66.7	+4	13.4
Forex services	-	-	2	6.7	-	-
Insurance premium financing	6	20.0	10	33.3	+4	13.3
House mortgage	-	-	1	3.3	-	-

Source: Research data

Table 6 contains information on the type of products offered which shows that Micro Finance Institutions (MFIs) have extended their financial services to forex, mortgage and insurance premium financing. In 2007, 7 (23.3%) firms had ATM services, only 1 (3.3%) firm offered mobile banking, savings account and SME loans were offered by 10 (33.3%)

firms, group loans by 13 (43.3%) firms, money transfer services by 4 (13.3%) firms and insurance premium financing by 6 (20.0%) firms. Personal/ individual business loans which were offered by 17 (56.7%) seemed to be the most popular product followed by asset financing loans which were offered by 16 (53.3%) firms.

In 2012, personal/individual business loans which were offered by 24 (80.0%) firms were still the most popular products. This was closely followed by group loans (21-70.0%), asset financing (20-66.7%), and then mobile banking (19-63.3%), SME loans (17-56.7%), savings account (12-40.0%), insurance premium financing (10-33.3%), ATM (9-30.0%), money transfer services (8-26.7%), Forex services (2-6.7%) and lastly house mortgage (1-3.3%) in that order.

From the results of analysis of the products offered in 2007 and 2012, the following additional observations were noted, that all products registered a positive growth index. The greatest growth was observed in mobile banking (60%) followed by group loans (26.7%), SME loans (23.4%), money transfer services (13.4%) and insurance premium financing (13.3%). Secondly, two products; Forex services and house mortgage which had been anticipated but were not being offered in 2007 were being offered in 2012.

4.3.1.3 New products

Results from the analysis also show that in a span of 5 years, several products had been innovated by the Micro Financial Institutions. A summary of the products is represented in Table 7.

Table 7: New products innovated

Product	Score	
	f	**%**
Mifugo loans	1	3.3
Project loans	2	6.7
Mobile banking	13	43.3
Money transfer	2	6.7
SME loans	4	13.3
School fees loans	2	6.7
Personal loans	2	6.7
Group loans	1	3.3
Asset financing loans	1	3.3
Cash express loans	1	3.3
Car loans	1	3.3

Source: Research data

From table 7 which gives a list of products innovated in the course of 5 years shows that among the initiated products, mobile banking was the most popular having been embraced by 13 (43.3%) firms. This was followed by SME loans adopted by 4(13.3%) firms. However, within the same period 5 firms seemed to be less innovative having innovated only one product.

4.3.1.4 Micro Financial Institutions operations

Five statements were used to assess the changes in the operations within the Micro Financial Institutions relative to innovations. They include among other issues, financial education of their customers, change of the target clients and collaboration with other organizations. A summary of their responses are contained in Table 8.

Table 8: Micro Financial Institutions operations

Statement	Yes		No		Total	
	f	**%**	**f**	**%**	**f**	**%**
Firm carries out financial education to its customers or investment groups	9	30.0	21	70.0	30	100
Firm has changed the targeted clientele over the last five years	1	3.3	29	96.7	30	100
Firm uses Wide Area Network (WAN) to link the branch operating system	23	76.7	7	23.3	30	100
Firm has modernized the operating system in the last five years	6	20.0	24	80.0	30	100
The organization teams up or collaborates with other organization	17	56.7	13	43.3	30	100

Source: Research data

From Table 8 which contains a summary of the respondents views on the operations within the MFIs it is evident that only a minority of the firms, 9 (30.0%) were involved in financial education of their customers, only 1 (3.3%) firm had changed the targeted clientele over the last five years and only 6 (20.0%) had modernized the operating system in the last five years. This means that the majority of the MFIs, such innovations were not a priority and therefore they had not seen the sense of investing in them in the last 5 years and were instead operating using their normally accepted procedures. However, a majority of the respondents, 23 (76.7%) indicated that their firms used Wide Area Network (WAN) to link the branch operating system. Likewise, 17 (56.7%) respondents indicated that their organization teamed up or collaborated with other organization as an important aspect of innovation. They indicated the organization they were working with as is shown in Table 9

Table 9: Collaborating organizations

Organization	**Respondent's score**	
	f	**%**
Chase bank	1	3.3
Safaricom	14	46.7
CIC	1	3.3
K-Rep	2	6.7
Equity bank	1	3.3
AMF	2	6.7
Family bank	1	3.3
Kenswitch	3	10.0
Airtel money	3	10.0
Insurance companies	3	10.0
IFC	1	3.3
NGOs	2	6.7
Standard chartered bank	1	3.3
World vision	1	3.3

Source: Research data

4.3.2 How innovation does affect the growth of Micro Finance Institutions in Kenya

Two items were used to assess the effects of financial innovations on the growth of MFIs in Kenya. They include growth variables over the last one year and the extent to which innovations had benefited the institutions.

4.3.2.1 Growth variable

To determine the effects of growth variables on Microfinance Institutions (MFIs), respondents were required to score against 4 items which included number of branches in 2010 and 2011, number of services, number of clients and total loans given out. A summative summary of their responses is represented in Table 10.

Table 10: Growth variables

Variables	**2010**	**2011**	**Performance Index**	Growth percentage
Number of branches	464	517	53	11.4%
Number of products/ services	104	146	42	40.3%
Number of clients	26,163,326	29,807,809	3,644,483	13.9%
Total loan for the year (Ksh)	14,204,875,502	14,220,696,280	15,820,778	1.1%

Source: Research data

From Table 10 which shows a summative summary of effects of financial innovations on the growth variables, it is evident that the innovations positively affect the growth and operations of Micro Finance Institutions. The results show that the number of branches grew by 53 in a span of 1 year from 464 in 2010 to 517 in 2011; the number of products grew by 42 from 104 in 2010 to 146 in 2011 while number of clients grew by 3,644,483 from 26,163,326 in 2010 to 29,807,809 in 2011. The same trend was observed in the case of loans given out by the Micro Finance Institutions which grew by Ksh.15, 820,778 from Ksh.14, 204,875,502 in 2010 to Ksh. 14,220,875,280 in 2011.

4.3.2.2 Extent to which innovations have benefited MFIs

Five statements were used to assess the extent to which innovations has benefited Micro Finance Institutions. A summary of the responses are contained in Table 11.

Table 11: Extent to which innovation has benefited MFIs

Qualitative variable	NE		LE		SE		GE		VGE		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Improved customer satisfaction	17	56.7	1	3.3	1	3.3	3	10.0	8	26.7	30	100
Reduces transaction time	17	56.7	1	3.3	2	6.7	5	16.7	5	16.7	30	100
Reduced customer queue in the hall	17	56.7	2	6.7	2	6.7	5	16.7	4	13.3	30	100
Increases clients retention	15	50.0	2	6.7	2	6.7	4	13.3	7	23.3	30	100
Enables MFIs fight market competition	12	40.0	1	3.3	2	6.7	1	3.3	14	46.7	30	100

Source: Research data

Table 11 which contains the extent of the effect of innovations on the growth of MFIs show that according to a majority of the respondents, 17 (56.7%) there was no effect of improved customer satisfaction, 1 (3.3%) respondent felt there was little effect, 1 (3.3%) felt there was some effect, 3 (10.0%) indicated great extent while 8 (26.7%) said there was very great extent of effect. The item had a mean of 2.47, a median and a mode of 1.00 meaning that most of the respondents felt improved customer satisfaction had no effect on the growth of the Micro Finance Institutions.

The same trend was observed with the respondents view on reduced transaction time where a majority of the respondents, 17 (56.7%) indicated that there was no effect of innovations on reduced transaction time, 1 (3.3%) said there was little effect, 2 (6.7%) felt there was some effect, 5 (16.7%) felt there was great effect and a similar number of respondents indicating for the presence of very great extent of effect. With a mean of 2.33, a mode and median of 1.00, the respondents felt reduced transaction time had no effect on the growth of the Micro Finance Institutions. Similar observation was replicated with reduced customer queue in the hall where 17 (56.7%) respondents indicated that there was no effect, 2 (6.7%) either felt there was little effect or some effect, 5 (16.7%) said there was great effect and lastly 4 (13.3%) indicated there was very great effect of innovation on reduced customer queue in the hall. With a mean of 2.23, a mode and median of 1.00 means that the respondents considered reduced customer queue in the hall to have an insignificant effect on the growth of MFIs.

As regards to increased clients retention, 15 (50.0%) felt that there was no effect of innovation, 2 (6.7%) either said there was little effect or some effect, 4 (13.3%) indicated the presence of great effect while 7 (23.3%) said there was very great effect. Lastly, 12 (40.0%) respondents indicated that there was no effect of innovation enabling MFIs fight market competition, 1 (3.3%) felt there was little effect, 2 (6.7%) said there was some effect, 1 (3.3%) said there was great effect while 14 (46.7%) indicated there was very great effect. The item's mean of 3.13, median of 3.5 and mode of 5 means that the respondents considered competition to affect the growth of the MFIs.

To confirm the effect of financial innovations on the MFIs a 2 tailed Pearson's correlation of the effects of the innovations against the elements of growth of MFIs was computed and the results were as is represented in Table 12, below. Results obtained, (R= 0.848; P=0.000; N=30) showed a significant positive correlation between elements of increased client retention and elements of growth of the Micro Finance Institution at 0.01 level of significance, (R=0.8.21; P=0.012; N=30) showed significant positive correlation between elements of customer satisfaction and elements of growth at 0.01 level of significance, (R=-0.756; P=0.005; N=30) showed significant negative correlation between elements of customer queue in the line and elements of growth at 0.01 level of significance, (R=0.478; P=0.147; N=30) showed insignificant positive correlation between elements of transaction time and elements of growth at 0.01 level of significance, (R=-0.714; P=0.000; N=30) showed a negative but significant correlation between market competition and elements of growth of MFIs 0.01 level of significance.

Further, results from the correlation Table 12 shows that elements of increased customer retention had the greatest positive effect on the growth elements followed by elements of customer satisfaction and lastly elements of reduced transaction time. However elements of reduced customer queue in the hall and those of market competition were found to negatively affect the elements of growth.

Table 12: Correlation between financial innovation and the reasons for innovation

		Customer satisfaction	Transaction time	Customer queue in the hall	Clients retention	Market competition	Scores on growth
Customer satisfaction	Pearson Correlation	1	.915**	.929**	.947**	.689**	.821**
	Sig. (2-tailed)		.000	.000	.000	.000	.012
	N	30	30	30	30	30	30
Transaction time	Pearson Correlation	.915**	1	.984**	.925**	.636**	.478
	Sig. (2-tailed)	.000		.000	.000	.000	.147
	N	30	30	30	30	30	30
Customer queue in the hall	Pearson Correlation	.929**	.984**	1	.927**	.626**	-.756**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	30	30	30	30	30	30
Clients retention	Pearson Correlation	.947**	.925**	.927**	1	.738**	.848**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	30	30	30	30	30	30
Market competition	Pearson Correlation	.689**	.636**	.626**	.738**	1	-.714**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	30	30	30	30	30	30
Scores on growth	Pearson Correlation	.821**	.478	-.756**	.848**	-.714**	1
	Sig. (2-tailed)	.012	.147	.000	.000	.000	
	N	30	30	30	30	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

** Represent the significant negative and positive correlation figures

Source: Research data

CHAPTER FIVE: SUMMARYOF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter summarised the research findings on financial innovations adopted, its effect on the growth, recommendation for policy and practice and lastly the suggested areas for further research on financial innovation.

5.1 Summary of findings

5.1.1 Financial innovations adopted by MFIs

From the research findings, the MFIs have embraced financial innovation with at least 60% having developed a new product hence widening their product range. The findings in Table 6 also indicate that the majority of financial institutions have opened a branch or more in the last 5 years. Most MFIs offered mobile banking services (60.0%), group loans (23.3%), and individual business loans (23.3%), among other products as in Table 6. In addition, in the last five years most MFIs preferred innovating products like mobile banking (43.3%) followed by SME loans (13.3%) among others, all of which played a significant role in the growth of the MFIs in Kenya. About 11.4% of the MFIs launched new branches facilitating wider geographical coverage and opening up of new markets.

Likewise the MFIs extended their partnership with more firms. More financial collaborations were set up, as shown in Table 9, where 46.7% of MFIs extended partnership with Safaricom (mainly for money transfer), 10.0% partnered with

Kenswitch ATM points, 10.0% partnered with insurance companies and 6.7 % of MFIs partnered with NGOs.

5.1.2 Effects of innovation on growth

The research findings proved that financial innovation contributed to the expansion of the MFIs market share, number of clients and earnings, as shown in Table 10. Apparently the above innovations have contributed immensely to the growth of micro financial industry at large. The research links the growth to the above specific innovations which brought about the increase in the number of firm branches by 11.4%, products increment of 40.3%, clients base also increased by 13.9% and the total loans increased by approximately 1.1%, as shown in Table 10, confirming that financial innovation really spurs growth, which concurs with Frame and White (2004) findings that stated that financial innovation spurs growth among banks.

Finally, the research findings show that there is strong positive correlation between financial innovation and customer satisfaction (+ 0.821), clients retention (+0.848) and weak correlation between innovation and reducing transaction time, as indicted in the Table 12. However, the research indicated a strong negative correlation between innovations and its use to reduce time spent in the queues.

5.2 Conclusion

From the foregoing summary, it can be concluded that the financial innovations has a strong positive correlation with growth of MFIs and also a strong positive correlation with customer satisfaction, clients retention and transaction time among Micro Finance Institutions as shown in Table 12. Therefore the research encourages the industry to adopt the financial innovation to promote their growth. This research findings added to the body of knowledge that MFIs innovation increases customer retention, improves customer satisfaction and lastly elements of reduced transaction time were found to positively affect the growth of Micro Finance Institutions. However, elements of reduced customer queue in the hall and those of market competition were not among incentives for MFIs financial innovation.

5.3 Recommendations for policy and practice

Based on the findings of the study, financial innovation greatly contributes to the growth of financial institutions and should be employed by firms whose objective is to grow in depth and width. The research recommends a well strategized innovation process preceded by a market research to ascertain the market needs and competition trend.

5.4 Limitations of the study

The study focused on the concept of financial innovation as a key contributor to MFIs growth although there are other factors that contribute to MFIs growth whose effect could not be disaggregated from that of financial innovation.

The finance industry is very competitive thus many respondents had fear of disclosing some pertinent information. It therefore took a lot of time to gather adequate data for this research through the junior staff members who were more cooperative than the management as initially anticipated.

5.5 Suggestions for further research

The researcher hopes that findings will contribute to the existing body of knowledge and form a basis of further research. The following areas are considered appropriate for further research, what are the perceptions of the customers of financial innovation of Micro Finance Institutions in Kenya. Secondly, the findings of the research were confined to the recorded financial indicators, further research can be done targeting the finance institutions listed in the NSE to try and correlate the effects of financial innovation to the stock prices.

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APPENDICES

Appendix I

QUESTIONNAIRE COVER LETTER

August 2012,

Dear Respondent,

Re: MBA Research Project:

This questionnaire is designed to gather data/information pertaining to financial innovation in the Micro Finance Institutions in Kenya for academic purpose only.

The study is being carried out for management project paper as a partial fulfillment of the Degree of Masters in Business Administration at the University of Nairobi.

Your responses shall be treated with maximum confidentiality and in no instance name will be mentioned in my report.

Your cooperation will be highly appreciated.

Yours Sincerely,

Jesse Gitonga Mugo

MBA student

REG NO. D61/73601/2009

Appendix II

RESEARCH QUESTIONNAIRE

PART A: DEMOGRAPHIC DATA

Section I: Respondent Details

1. Your name (optional) ……..…………………………………................
2. Your Post in the Micro Finance Institution…………………………………….
3. How long have your served in this Micro Finance institution?

   1-5 yrs ( ) 6-10yrs ( ) over 10 yrs ( )

Section II: Micro finance Institution Details

4. Name of the Micro Finance Institution ………………………………......
5. Indicate the category where your Micro Finance Institution belongs.

   Autonomous ( )

   Affiliated to another institution ( )
6. How old is your firm? 1-5 yrs ( ) 6-10yrs ( ) 11-15yrs ( )

   16-20yrs ( ) over 20yrs ( )
7. Indicate the number of clients the firm currently serves as stipulated in the categories below (tick where appropriate):-

   1-10,000 ( ) 10,001-100,000 ( )

   100,001-500,000 ( ) Over 500,000 ( )
8. Which is firms' targeted client? Women ( ) Men ( ) both gender clients ( )
9. Is your firm a deposit taking institution? YES…….… NO…………
10. Does your firm emphasis on tangible security as collateral for loans.

    YES……. NO………

11. Indicate the total number of branches your MFI has…………………………………

PART B: FINANCIAL INNOVATION

12. Indicate the number of new branches that your MFI has opened in the last 5 years

    ………………………………………………………………………

13. The following Table show different kind of products, kindly indicate whether these products were available or not in your MFI in the years shown.

Categories	2007	2012
ATM		
Mobile banking		
Saving account		
Personal loans		
Individual business loans		
Group loans		
Money transfers services		
Sme loans		
Asset financing loans		
Forex services		
Insurance premium financing		
House mortgage		

14. Which new products has your MFIs developed or introduced into the market in the last five (5) years

    i.……………………………………………………………….

    ii.……….………………………………………………………..

    iii.……..….…………………………………………………….

    iv.…………………………………………………………….

15. Does your MFI carry out financial education to its customers or investment groups?

    YES …… NO……..

16. Has your MFI changed the targeted clientele over the last five years? Yes….No….

17. Does your MFI use Wide Area Network (WAN) to link the branch operating system

    YES……. NO…….

18. Has your MFI modernized the operating system in the last five years? Yes….No….

19. Has your organization teamed up or collaborated with any other organization?

    Yes ……. No……….

    If yes, specify the firms involved i………………………….ii………..………..

    iii………..……….………..…..iv………….………

PART C: EFFECT OF INNOVATION

20. In the Table below indicate the figures of the growth variables in the last one year?

Variables	2010	2011
Number of branches		
Number of products/ services		
Number of clients		
Total loan for the year (Ksh)		

21. In the table below indicate the extent to which each of these variable has benefited from financial innovation in a scale of 1 to 5

Qualitative variable	*1*	*2*	*3*	*4*	*5*
Customer satisfaction					
Transaction time					
Reduced customer queue in the hall					
Clients retention					
Enables MFIs fight market competition					

Thank you for your response.

Appendix III: LIST OF MICRO FINANCE INSTITUTIONS IN KENYA

1) AAR Credit Services
2) Adok Timo
3) Agakhan First Micro Finance Agency
4) Biashara Factors Ltd
5) Bimas
6) Blue Limited
7) Canyon Rural Credit Ltd, Nairobi
8) Elite Micro Finance
9) Faulu Kenya Dtm Limited
10) Fusion Capital Ltd, Nairobi
11) Jamii Bora Bank
12) Jitegemea Credit Scheme
13) Juhudi Kilimo Company Limited
14) K-Rep Advisory Services (Africa) Ltd, Nairobi
15) Kadet Ltd, Nairobi
16) Kenya Eclof
17) Kwft. Kenya Women Finance Trust
18) Kenya Entrepreneur Empowerment Foundation
19) M I C Micro Finance Ltd
20) Micro Africa Limited
21) Molyn Credit Limited
22) Oiko Credit
23) Opportunity International
24) Pamoja Women Development Pprogramme
25) Platinum
26) Renewable Energy Technology Assistance Programme
27) Rupia Ltd
28) Sisdo
29) Smep Limited (Small And Micro Enterprise Programme)
30) Swiss Contact East Africa
31) Taifa Option Microfinance
32) W E E C
33) U & I Microfinance
34) Yehu Microfinance Trust