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Interest rate capping and the determinants of growth of non-deposit taking microfinance institutions in Kenya.

Mutwiri, Josphine
Strathmore Business School
Strathmore University

INTEREST RATE CAPPING AND THE DETERMINANTS OF GROWTH OF NON-DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA

BY

JOSPHINE MUTWIRI

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DECLARATION

This dissertation is my original work and has not been submitted for any academic award in any University.

10/9/2020

Signature Date

JOSPHINE MUTWIRI

MBA/101053/2017

This dissertation has been submitted for the examination with my approval as the University's Supervisor.

……………………………………… 7th August 2020 ………………………………………

Signature Date

SUPERVISOR: DAVID MATHUVA

DEDICATION

This dissertation is dedicated to my family for the support and prayers. Special dedication goes to David Otieno and my Mother Jennifer for always challenging and keeping me on toes.

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ABBREVIATIONS AND ACRONYMS

MFI: Micro Finance Institutions

CBK: Central Bank of Kenya

ABSTRACT

There has been an unprecedented emergence and growth of Non-Deposit Taking Microfinance (credit only) institutions in Kenya in since 2003. The coming into effect of the interest capping law in September 2016 has seen most of the commercial banks become risk averse. Therefore, this study sought to analyses the effects of interest rate capping and the determinants of growth of non-deposit taking microfinance institutions in Kenya. The study was guided by the following specific objectives: to investigate the effect of loan officer expertise on growth of non-deposit taking microfinance business in Kenya; to examine the effect of customer service on growth of non-deposit taking microfinance business in Kenya; to establish the effect of products offered on growth of non-deposit taking microfinance business in Kenya and to determine the moderating effects of interest rate capping on the determinants of non-deposit taking microfinance business growth in Kenya. The study adopted a descriptive survey research design and it targeted 12 non-deposit taking MFIs in Nairobi where 102 operations managers were the respondents. A census was adopted because the target population could easily be accessed within Nairobi. The study collected primary data using questionnaires and the analysis of the collected data was done using means, standard deviation and regression analysis. The results were presented through tables and figures. From the results, all the variables (loan officer's experience, customer service offered and the products offered and interest rate capping) were significant determinants of growth of non-deposit taking microfinance institutions in Kenya. The study concludes that while loan officer's experience, customer service offered and the products offered all have positive and significant effect on growth of non-deposit MFUIs, interest capping regulation significantly moderates this relationship. The study recommends that the management of the non-deposit taking MFIs should high and recruit high qualified loan officers based on their level of education. The employees of the MFIs should be more creative and innovative with high adherence to work related ethics. Market research should be utilized in ensuring that the products offered to customers by the MFIs are easy to maintain and use. The Central Bank of Kenya (CBK) should work closely with the parliament in formulation of laws that would enhance the growth of MFIs like the interest rate capping.

Interest Rate Capping and the Determinants of Growth of Non-Deposit Taking Microfinance Institutions in Kenya

CHAPTER ONE

INTRODUCTION

This chapter presents discussions on the concepts of interest rate capping and growth of MFIs to help bring out the concepts under review. It also discusses in details the context of Micro finance Institutions so as to define them for better understanding of what they are. It is organized in terms of statement of the problem, objectives, questions, value of the study, scope and how the entire study is arranged.

1.1 Background of the Study

Every business owner seeks to increase their performance with the intent of growing their operations, returns and market share. As such growth of the business operations will determine that the venture can survive the turbulent environmental changes as well as thrive (Żelazny, 2017). The concept of growth is seen as increase in the number of products on offer to the market, improved quality of the products and services, expansion of operations, high returns in terms of earnings and profitability metric. According to Awdeh (2016), a growing business venture is one that is expanding and this growth is measured using several indicators like revenues, profits, value of the business, sales, number of customers, number of employees and at times the number of branches and locations the business has presence in.

If a business is to grow, Shibia and Barako (2017) notes that there are several factors that will determine its growth and which the management must strategically plan for. The business units must be able to access credit facilities in formal institutions for purposes of capital and funding their expansion ideas, as such they should also be afforded infrastructural amenities like water, electricity, security and transport networks, which ultimately will low rates of crime and allow the growth and thriving of the ventures. At the same time, growth and expansion of business units is dependent on educational level of entrepreneur as well as the staff, since their knowledge, skills and expertise know-how can determine the success or failure of the business venture. Simbaña, Rodríguez-Gulías and Rodeiro-Pazos (2017) mention that the growth of a company may as well involve innovation and invention through discovering new opportunities in the market place and modifying the available resources to fit the preferences and needs of the market and its consumers. Furthermore, growth of an investment largely depends upon resource use by successfully adapting to the opportunities available in the environment. The availability and sound resource management leads to growth of the business venture.

Unfortunately, many small and medium enterprises do not have access to a wide variety of sources of capital to finance their business expansion and growth. Majority of SMEs rely on family savings, donations and profits to run business operations which most of the time is not sufficient. To improve their financing, majority of the SMEs turn to Microfinance institutions for credit facilities. This is the point at which microfinance institutions became handy in supporting the operations of MFIs.

Microfinance involves availing of financial services like credit, savings, payments, and deposit facilities to poor households and enterprises with low income who in most cases do not have access to formal financial institutions (Mngolia, 2009). It is concerned with provision of financial services on a small scale with increased efficiency, breadth, and depth. They make available financial services to populations which would otherwise be excluded by formal financial institutions because of the small values of transactions and volume which may be difficult to operate for well developed financial institutions (Goyal, Marsh, Narayan, & Ahmed, 2011). The MFIs are further categorized into deposit taking and Non Deposit taking. Deposit taking MFIs are regulated under the Microfinance Act and the Microfinance Regulations, 2008 which prohibits them from engaging in trust operations; trade that is either of retail or wholesale in nature, investing in enterprise capital; underwriting or placement of securities; and purchasing (acquiring) any land except as may be reasonably necessary for the purpose of expanding the deposit-taking business. These limitations limit their operations in supporting the diverse needs of low income populations hence the entry of non deposit taking MFIs whose credit facilities extension remains unregulated to a large extent.

The Microfinance industry in Kenya began gaining prominence in the early 2000’s with the aim of supporting micro-enterprises to overcome possible negative effects of liberalization (Dondo, 2007). Initially, tailored to agricultural orientation to overcome the inability by established institutions to support farmers. The non-deposit taking microfinance institutions are regulated by the Ministry of Finance (National Treasury), and are not allowed to mobilize public funds unlike the formal financial institutions or deposit taking MFIs (Aduda & Kalunda, 2012). Overall, microfinance in Kenya is regulated under different laws: the banking law and the Microfinance Act, issued in 2006 and amended in 2013. The Microfinance Act 2006 and the Central Bank of Kenya Act primarily governs the Microfinance industry in Kenya (Muganga, 2010). The Microfinance Act was enacted specifically to provide the legal, regulatory and the supervisory framework for the Deposit-Taking Microfinance Institutions (DTMs). It provides directions on MFI licensing, revocation, and restriction; defines the minimum core capital provisions and prohibited activities; provides limits for loans or credit facilities; defines ownership and management structure; provides for supervision by CBK; and stipulates the terms for periodic reporting to the CBK. The Microfinance (Amendment) Bill 2013 increased the range of financial services that the DTMs can offer (Ndulu, 2016).

Successful enterprises, according to Żelazny (2017) are those that have effectively adopted the factors of production with the key ones as technical know-how, innovation within the processing and operations of the organization have sound management practices and acquiring highly skilled and experienced employees that can transform the strategy into products sought by the market. Sarwoko and Frisdiantara, (2016) agrees that employing well-experienced staff, who understand their roles and responsibilities works to improve the organizational performance and leads to the growth and establishment of the business venture. The growth of the enterprises and companies is based by technological advances, such that enterprises use modern equipment and advanced systems which lead to higher productivity and efficient production processes.

Ikupolati, Adeyeye, Oni, Olatunle and Obafunmi (2017) state that high performance and growth of small businesses is dependent on some of these factors, although it may change to in certain situations like the industry, size, age and location of the business. In general terms having a supportive entrepreneurial culture and the support from the government will lead to high performing sector. Stability of the political scene affords business people conducive time to work hard which improves their performance and growth, while ease in accessing resources like finances, qualified human resource, material and infrastructure systems lead to growth of business enterprises.

1.1.1 Interest Rate Capping

Interest rate caps are a useful tool to support a sector until it is able to sustain itself (Bwire, 2018). The main use of interest rate caps on loans, it is to discourage microfinance institutions, small and medium sized enterprises, non-governmental organizations (NGO) and other sources of finance for the poor from converting into licensed financial institutions. Kiseu (2017) defines interest rate as the money the borrower pays for the use of money they borrow from a lender or fee paid on borrowed assets. Enacting interest capping is done so as to protect consumers from excessive and predatory interest rate charged as well as afford financial sources to low income borrowers. Gibb (2016) noted that interest rates are put in place to control the flow of money into the economy, when the interest is high, it reduces inflationary pressures but also lowers the growth rate of the economy; and when the rates are low, it stimulates the economy through allowing the borrowers affordable means of financing their ventures.

In Japan, the 2006 Finance Act reduced interest rate cap under Capital Subscription Law from 29.2% to 20% level although in practice lenders had been forced into reducing rates to this level by the supreme court decisions at the start of 2006 (Iwata, Fueda-Samikawa & Takahashi, 2017). Although the lenders protested the move, financial services agency in Japan indicated that financial lenders were borrowing money from banks at 2% awhile lending to consumers at 27%. These lenders were making supernormal profits with operating profits of approximately 1 billion yen. The consumers welcomed the move and termed it wise, as it will allow them to access loans at a lower interest rate and one that will not be determined by changes in the market or fluctuations.

Many countries in Africa have tried to establish interest rate ceiling and floors to protect consumers from high interest rates charged by banks. Most of these emanates from political and cultural pressures from its citizens (Bwire, 2018). When these rates are reduced, they scare away investors who would invest through the banks in the country's stock exchange. Interest rate capping did not work in Zambia and was lifted in November

2018, despite its intended benefits, when it is not properly administered it can hurt the lowest- income generating groups as they will be unable to access finances and the prices will lack transparency (Kambole & Alhassan, 2018). The inability of realizing the benefits of interest rate capping, some countries like Democratic Republic of Congo (DRC) have opted for other measures in protecting the consumers. Some of these initiatives include setting up an enabling innovative financial service provide ecosystem and consumer protection guidelines that prevent unscrupulous business people and bad lending practices to the low income borrowers.

The interest rate capping in Kenya had been introduced severally in Kenya with different outcomes. In 2000, the infamous Donde Bill- named after a Member of Parliament-tried to raise the capping bill which did not get much support and especially from the banks. The draft bill aimed at having government of Kenya regulate how much interest the banks will charge to its citizens (Kavwele, Ariemba & Evusa, 2018). In 2015, Kiambu Member of Parliament, introduced another bill to cap interest rates. The bill was assented to by Kenya president on 24th August 2016. The bill introduced interest ceilings to cap interest rates that banks were charging to consumers based on a referencing rate- Central Bank Rate (CBR). Banks were to pay 70% on deposits or savings and charge a maximum interest rate of the CBR plus a maximum margin of 4%.

1.1.2 Determinants of Growth

Business ventures operate for the sole reason of making profits, earning high returns and growing their operations. For these reasons to be established the management and owners of the business enterprises must look at what factors do they need to improve their performance and which will lead to their growth. Păunescu, Popescu and Duennweber (2018) reveal that growth of entrepreneurial activities relies on smart adoption of technology as it increases efficiency and accuracy of operations. The use of technology also means that operational costs can be reduced as more work is handled by machines as opposed to humans. The leadership qualities, characteristics and their prowess can push the growth of expansion of the enterprise. Leaders within the enterprises must be visionary to understand the changes in the market and adjust their strategies (Awdeh, 2016).

One of the determinants of growth within the financial sector is having sound regulations and policy framework that provides grounds that protect the sector as well as ensure they have room for growth and development (Kachlami & Yazdanfar, 2016). The national government as well as local authorities should seek to introduce policies and laws that encourage financial inclusivity and alleviate poverty amongst the masses by increasing options for saving and investing money. In Kenya, Murimi (2017) shared that there have been structural adjustment policies that focus on strategies to develop the infrastructure and other amenities for the rural people and the poorest economies in an effort to develop the areas. Increase in uptake of CDF monies, easy regulations for registering community development organizations (CBOs) and Chamas which have increased financial resources leading to poverty eradication and sound resource allocation.

Wang (2016) mentions that to overcome the challenges that hinder the growth of small business units, these five factors must be put in place. Good sources of financing for different ventures, well trained and qualified staffing personnel, ability to invent new products and supply it to the market to keep attracting new customers which will lead to expanding the market reach and the use of technology and modern communication systems. It also involves good business planning skills and responding to the changes in the environment and the market, such that your brand is synonymous with freshness and meeting customer needs through its versatility. Nkwabi and Mboya (2019) make emphasis on the personality and character of the entrepreneur, one who can solve problems, shows openness to new ideas, norms and cultures will be successful in leading the business towards its growth.

Growth of business enterprises is dependent on many factors that are grouped into three areas. They cover the individual factors which look at individual competencies, skills and technical know-how, which will guide the management to employ skilled staff that will be the driving force of the growth strategy (Haggard, Maxfield & Lee, 2019). The management skills and competency are another aspect, since it involves development and implementation of strategies and sourcing for all relevant resources. In credit institutions like the non deposit taking MFIs, the ability to issue credit to persons who repay their loans as and when they fall due is important in growth and sustainability of these organizations. This therefore draws into sharp focus the role played by credit officers' right from the time of loan application appraisal to recovery of the advanced credit. The skills and expertise possessed by these staff if important in influencing the growth rate registered by their organisations. They need to appraise applicants well to ensure that only applicants that are able to repay advanced funds are advanced. For the credit advanced, they need to closely monitor it to ensure that the rate of default if kept low.

The organizational factors include availability and accessibility of the resources, the culture and structure that will lead the venture to winning ways; and on the environmental factors it covers aspects like regulatory framework, market needs and responding nature to changes in the environment, the location of the business venture and how attractive it is (Shibia & Barako, 2017). This also covers diversity of products offered and how well they resonate with the target market. Well designed products will attract more customers for greater growth. There are many different factors that will determine the growth of enterprises including technological use, personality of people in the firm, leadership qualities, management structure, organization culture and access to resources including finances as well as regulatory framework. This study will explore expertise of staff in the organization, quality of customer services and the products in leading to organization growth among credit only microfinance institutions.

1.1.3 Interest Rate Capping and the Determinants of Growth of Micro-Finance Institutions in Kenya

It is prudent to monitor macro-economic variables like real interest rate, inflation and exchange rate of different currencies so as to influence the economic market, its fundamental principles and economic status. When the interest rate is held below the forces of market demand and supply or below market equilibrium, it makes investment attractive hence there is an increase in investment demand which spurs economic activities (Gibb, 2016). But interest rate capping should be done with a lot of care as it can lead to market distortion, collapse of the financial market and its institutions and cause biases since many borrowers will be attracted to take loans and this leads to inefficiencies in the financial market. When the interest rates are capped, those borrowers who are considered high risk are more likely to be denied loans and credit which then discriminates some people in the economy (Safavian & Zia, 2018).

The relationship between profits of financial institutions like commercial banks as indicated by macroeconomic factors like interest rates has been given a lot of priority when looking at the workings of the financial sector (Mbithi, 2019). High interest rates charged by the financial institutions is linked to higher profit margins, which is the case in many developing countries, especially in Africa. The whole point of having the interest rate capped is to bring down the cost of getting credits and at times to respond to public pressure have low cost of acquiring loans and credits and to cut the 'abnormal profits that financial institutions made from their operations. When the interests are accommodative more people can access funds which they use to start business ventures or expand the already existing enterprises. Capping is dictating the maximum interest rate that a financial institution can charge its customers for any loans and credit they get for their development activities (Kiseu, 2017).

In Kenya, the interest rates are regulated through capping where the role is executed by the Central Bank of Kenya (CBK) which sets the regulating tool, the Central Bank Rate (CBR). The rates are set and published by the Monetary Policy Committee (MPC) of the CBK in which they set this Central Bank Rate (CBR). The CBR is the lowest rate of interest which CBK charges on loans to other banks and which it is obliged by law according to section 36(4) of the CBK act to publish.

Interest rate is often charged on a flat rate basis by these institutions. Kathomi, (2017) in their study noted that due to fast turnaround time of the MFIs credit facilities, most of these institutions prefer collateral such as motor vehicle logbook with a promise of money within 24 hours. Interest rate ceiling specific to the microfinance sector is calculated by applying a margin of 33% added to the average interest rate charged by each MFI during the previous six months (Ngure, 2018). Despite all the efforts by many MFIs such as Kenya Women Finance Trust (KWFT), K-Rep, Family Finance and others to enhance the banking of the poor through microfinance, this industry has not yet grown and expanded (Kenya Economic Survey, 2009). Bwire (2018) averred that there is a discrimination which leads to a situation where those in dire need of financial assistance are locked out of available finances because of being considered high risk. The poor are considered high-risk borrowers; their loan sizes are small requiring high transaction costs; they cannot present high valued collaterals; and their income sources are highly unstable

The MFI Act of 2008, gave the Kenyan's MFIs ability to accept deposits as opposed to before when they were forced to be dependent on other financial institution like banks for sources of their deposits. The word deposit-taking microfinance was later replaced by microfinance bank through amendments on the Act in 2013. The newly created deposit taking microfinance banks were licensed by the central bank of Kenya to provide all types of financial services among them savings and credit (Central Bank of Kenya, 2008). A report done by Central bank of Kenya in 2013 showed that there were about nine deposit taking microfinance banks at the time. These deposit taking MFIs are regulated by CBK while credit-only MFIs are not dependent on other financial institutions for finance.

This study settled on the moderating effect of interest rate capping in the growth of non deposit taking MFIs because of the reduction of credit to poor and low income individuals and businesses following the introduction of interest rate capping. The capping made is too risky to advance credit to this category because of the high risk. Orengo (2018) shared that after interest rate were capped and in the period of tightened lending, some institutions reduced the lending limits they extend to their customers. In addition, some customers were not able to get top-up loans while others applied for the loan facilities but these took longer than usual turnaround time which greatly inconvenienced customers.

1.2 Statement of the Problem

The enactment of the interest capping law in 2016 saw many commercial banks in Kenya become risk averse as the risk premium was significantly reduced (Aligonby, 2016). Many banks reduced their lending to small and medium enterprises because of their perceived high risks. There was recorded a slowdown in credit to private sector resulting in noticeable decline in the sector's growth rate; with recorded slowdown trends being

16.8% in January 2016; 5.4% by August 2016 and a further 4.3% slump by December 2016. The greatest decline of 2.1% was reported in May 2017 down from above 18% before the capping. This has consequently resulted into banks cutting down their operational cost to maintain it a manageable level (Olaka, 2017).

The financial institutions like commercial banks have in the past few years suffered due to reduced earnings from the capping of interest rates. Some had to close some branch network, reduce staff, cut down operational costs like relocation of shared functions for international banks. These actions have led to slowed growth in lending and deteriorating or stagnant growth of the overall economy, due to limited access to growth by economic players (Mbithi, 2019). Other banks have opted to lend to the government meaning there is little money going to the private sector, while others are investing in treasury bonds. Records show that banks have moved more than billion (Sh104 billion) of customer deposits into government securities since the capping law came to effect.

The consequence of all this is that the funding and liquidity spiral has benefitted "risk-free" borrowers and therefore counter-intuitive to the social contract of banks; that of taking risks and supporting the real economy. This has proved to be burdensome and inconveniencing to some customers as they have had such a long standing relationship with these banks and had fully depended on them for all sorts of business financing and as such, the caps have further restricted financial services to these very customers largely found in the poorer segments of the population or among SMEs, where loans have had the highest return on the local economy.

Moreover, the capping law has seen the incentive to lend declining and this could lead to a credit crunch that would affect high risk customers or those costlier to reach. In addition, this credit crunch will be further fueled by banks having less incentives to take deposits not forgetting that most of the Credit Only Microfinance institutions' customers are also clients of the mainstream banks (Rathore, Kumar & Deshpande, 2016). Most of the recent research on the effect of rate capping has been focused on consumers, the banks, Microfinance institutions (deposit taking) as well as the general economy while little research has been done on its effect on non-deposit taking microfinance institutions (credit only). Credit only microfinance institutions play a very critical role in the economy more so to the business people who need quick cash to conclude, fix or enhance their business deals/ventures (Nkwabi & Mboya, 2019).

With most banks adopting a conservative approach to loan book growth since the rate capping had a sweeping addendum that no lending institution should charge interest of more than 14% thereby affecting their interest income growth, the business community and individuals have been left with no option but to consider the available financial avenues that could support their businesses. Most of these businesses therefore resorted to obtaining credit from the credit only microfinance institutions. It's worth noting that most of these businesses had been borrowing in the banking sector whose interest rate was a bit low compared to the credit only microfinance institutions. This study therefore sought to investigate the moderating influence of interest rate capping on the determinants of growth of Non-deposit taking MFI.

1.3 Objectives of the Study

The main objective of this study was to analyses the moderating effect of interest rate capping on the determinants of growth of non-deposit taking microfinance institutions in Kenya. The specific objectives of the study are:

i. To investigate the effect of loan officer expertise on growth of non-deposit taking microfinance business in Kenya
ii. To examine the effect of customer service on growth of non-deposit taking microfinance business in Kenya
iii. To establish the effect of products offered on growth of non-deposit taking microfinance business in Kenya
iv. To determine the moderating effects of interest rate capping on the determinants of non-deposit taking microfinance business growth in Kenya.

1.4 Research Questions

i. What is the effect of loan officer expertise on growth of non-deposit taking microfinance institutions in Kenya?
ii. How does customer service impact the growth of non-deposit taking microfinance institutions in Kenya?
iii. How do products offered by these institutions impact the growth of non-deposit taking microfinance institutions in Kenya?
iv. What is the moderating effect of interest rate capping on the determinants of non-deposit taking microfinance institutions' growth in Kenya?

1.5 Significance of the Study

The findings of this study would be useful to various stakeholders as discussed below.

This study would be beneficial to the Central Bank of Kenya by sharing pertinent information on the effective and efficient interest rate capping implementation by acknowledging the strengths, opportunities, weaknesses and threats in financial institutions including banks and micro-finance institutions. The information shared would also help the CBK to guide policy implementation by other sector players like MFIs.

Secondly, the study would be significant to the government of Kenya as it would the government to understand the influence of interest rate capping on performance and growth of financial institutions in Kenya and either support interest rate capping or allow market forces to determine the interest.

Thirdly, the study would be beneficial to policy makers in the financial sector including the Central Bank of Kenya and government agents including the Ministry of Finance. The study would share pertinent information and data on implications of adopting the interest rate capping which would help policy makers in drafting policies and regulations that would grow the sector such as the case of Non-Deposit taking MFI in Kenya.

Theoretically, this study would help extend the application of different schools of thought considered. It helps improve the application of the financial intermediation theories as applied by other scholars in the past and extends its usage in the space of MFIs in Kenya.

The market power theory application to the current market environment setting will also be extended and help future scholars on its usage.

Lastly, the study would be beneficial to researchers, scholars and academicians by sharing information on interest rate capping and its influence on growth. This study would be a source of material for literature review, be a source of referencing material and give recommendations on policy formulation and in practice.

1.6 Scope of the Study

The study concentrated on analysing the moderating effect of interest rate capping and the determinants of growth of the non-deposit taking microfinance institutions in Kenya. Some of the determinants of growth that the study will explore include loan officer expertise, customer service and the products on offer in the non-deposit taking microfinance institutions. Specifically, the study is approached from the perception of staff on the effect of interest rate capping on the determinants of growth of non-deposit taking microfinance institutions in Kenya. The study concentrated on 12 credit only microfinance institutions that are registered and operate in Kenya. The study will collect primary data from the senior management staff of the MFIs, this choice is because the staff had sufficient information on interest rate caps, the determinants of growth and function and operations of the MFIs. The study collected data within the months of June 2020 at the head offices of the microfinance institutions. Geographically, the head offices were located within Nairobi County and that was where the senior managers from the training and HR, loans section and customer service will be located at.

1.7 Organization of the Study

The study is divided into five chapters. Chapter one presents the introductory part of the study with areas like the background of the study, the problem to be tackled in the study, objectives, research questions, significance and scope of the study. Chapter two covers the literature review of the study and it has the theories that anchor the study, the empirical literature, gaps and summary of literature and the conceptual framework of the study. Chapter three presents the research methodology by specifying the research design, population and its sampling method adopted to get the sample size. It also has the data collection instrument, procedure, data analysis procedures and the ethical considerations the researcher will observe. Chapter four shares the study findings and discussions and the last chapter five contains the findings, conclusions, recommendations made and give suggestions in areas for furthering studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews theoretical framework of determinants of growth of financial institutions. It has empirical literature on the study variables to better understand the determinants that influence growth of financial institutions. The study will concentrate on loan officer expertise, customer service provision and products on offer to lead to growth of the micro-finance institutions and the effect of interest rate capping. The chapter has a conceptual framework displaying the link between the variables, research gaps and summary of literature.

2.2 Theoretical Framework

This section presents a theoretical review. The theories presented here are; financial intermediation theories and market power theory. The following is a discussion on each of them.

2.2.1 Financial Intermediation Theories

Financial intermediation theories are broken down to traditional and modern theories. Traditional theories of intermediation rely on asymmetric information and transaction costs (Allen & Santomero, 1996). They are formulated to favor deposits taking institutions or the ones which offer insurance policies while channeling funds to institutions. In modern financial intermediation theories, there have been increased changes from traditional approach (Allen & Santomero, 1997). Asymmetric information and transaction costs have reduced while intermediation has been realized. Financial options and futures rely on markets demand and supply of intermediaries instead of firms or individuals. Intermediation plays a huge role in stressing of participation cost and risk trading. Non-deposit taking MFIs rely hugely on intermediation of the borrower’s risks and directly impose it to the cost of borrowing thus making profits.

The theories describe the four economic functions as applied in financial institutions like commercial banks that take deposits. These are financial intermediation, delegation of monitoring function, information specialization and payments for financial service provision. The four functions explain the main roles of financial institutions in an economy, such that financial institutions obtain confidential information on customers and access privileged information on the market which enable them to create risk profile for their different products and their customers (Scholtens & Van Wensveen, 2000). Developing the risk profile of the product and customers ensures that the interest of the stakeholders and investors are safeguarded against losses. For credit only MFIs, the information comes in handy when appraising loan applications to reduce the number of bad debts and losses from unpaying customers.

Financial intermediation theory works to reduce informational asymmetries and transaction costs, through use of information communication technology (ICT) deregulation where players can share information and deepening the financial market. The commercial banks, SACCOs, and MFIs can share information on customers and their borrowing history, and this information can help them make sound decisions and avoid loss making. Using advancing technologies, the information can be shared and accessed by a click of a button and at the same time the cost of transaction is lowered when using technological systems and applications.

According to Philippon (2015) financial intermediation seeks to create specialized financial commodities in response to the market changes and consumer needs and preferences. The financial products are adjusted and sold to the market at a price that will cover all the production costs including direct and opportunity costs. Adrian and Shin (2010) mentions that these intermediaries are created to operate in imperfect markets, like the information asymmetry in financial markets. This theory is relevant in the current study context because it helps explain the reasons behind the formation of MFIs in an economy. They are usually formed with the aim of helping households with deficits to access financing from households with surplus in an economical way. This process is what is normally called intermediation. It also helps explain the important role played by expertise possessed by staff in collecting adequate information about loan applicants to ensure that relevant information is available to inform underwriting process. This will also go along way in influencing the quality of customer service offered by the non deposit taking MFIs to their customers.

2.2.2 Market Power Theory

Market power theory is the ability of a firm to profitably increase market price of a good customer service over marginal cost. According to Chatterjee (1991), the perfect markets do not have market power. There are price setters in a market and price followers or price takers. When prices exceed marginal cost and long run average cost, the firm makes economic profit (Vatiero, 2010). The theory shares that many firms will merge their operations in order to improve their ability in setting prices of products and services. The main aim of the theory is for market players to increase the prices of the shares and earnings which will be distributed across the merging firms. Anytime firms perform vertical merging, they are able to gain by the increased market power where they are able to set price of products and earn more.

Monopolies have market power to determine prices. Monopolies control the market. They can raise prices and never lose customers to competitors. Some companies collude to have market power (Vatiero, 2010). Markets have power to determine their prices. Non-Deposit taking MFI's also have power to determine the interest rates they offer to consumers since they are not regulated by the Central Bank of Kenya but determine their rates based on their own risk assumptions. Even with the interest rate cap, the more market shares the MFIs control, the easier for them to dictate the prices of their products and services as long as the customers are willing to purchase it. This theory helps explain how MFIs can expand their market share through availing diverse products that meet the changing needs of their target customers. It explains the need to offer diverse product portfolio as their customers have diverse needs and collateral. This will help Non deposit taking MFIs attract and maintain a huge database of customers.

2.3 Empirical Review

2.3.1 Loan Officer Expertise and Growth of Micro-Finance Institutions

Experience and expertise are essential elements for high performance of any project and growth of the firm. Expertise covers the aspect that the staff have working knowledge of their job roles and responsibilities. According to Qaisar, Shahzad and Arif (2018) who investigated the adoption of Human Resource Information System (HRIS) system and its impact on performance of the organization with the role of HR staff expertise. The study revealed that when the HR staff lacked sufficient knowledge, skills and experience in handling HRIS, then its adoption process was hampered and its progress was slow. Adoption of HRIS is linked to high organizational performance due to its features of accuracy, quick processes and safety on the information. HRIS enabled ease in record keeping of all employee data and information, but its adoption into the organization is strongly linked to HR staff competency. The study revealed that competent and well trained HR staff benefit from the functions of HRIS like aligning the all HR functions and performance of the firm. The study concluded that there is a strong link between HR staff expertise and high performance of the firm in addition to adopting HRIS.

In China, Xiao and Ramsde (2016) in their study on founder expertise, strategic choices, formation, and survival of small and medium sized enterprises, revealing that knowledgeable and skilled business owners are likely to make strategic choices and decisions that make the SMEs grow and thrive. In instances where the founders lack experiences in running the SMEs, they can be mentored by people who have been in business for a longer period of time. While those who come from families that are in business can gain important skills in running business ventures by older members of the family. The study noted that for the growth and establishment of the SMEs the owners and managers must exhibit strategic choices innovation, understand their products and services and the production process. At the same time, they must gain insightful know-how on how to access sources of finances from different people that will be used in growing the high-tech SME businesses. The study concludes that the development of the SMEs is based on the inherent characteristics of the entrepreneurs and availability of financial sources for capital funding as well as expansion of business operations.

When looking at the at the Ghanaian pharmaceutical industry, Osei and Ackah (2015) explored employee competency and organizational performance, noting that despite high and advanced technological systems and innovations, the role of employees and the contributions they make in an organization cannot be underscored. It is the human resource that is at the core of the organization as they are the ones that execute the new systems, processes and use of the new technologies. The study showed that efficient human resources are those with sufficient educational and professional training and who are capable of efficiently handling their work tasks and achieve the organizational goals and targets. The only way to develop competent and experts in the staff is through training them and involving them in the decision making process, which improves their commitment levels in the firm. Continuous training and learning for the employees will help to improve their expertise levels in handling work tasks and also raise their competency levels. This study emphasizes the need to continuous and improved learning opportunities for staff so as to improve their skills, attitudes, knowledge levels and behaviors of staff while discharging their duties, leading to high performance at individual and corporate level.

Mejia, Osman, Yngente and Feliciano (2019) on professional nurses' competencies and performance, noting that well trained staff, who have a positive attitude and exhibit attentiveness at work make good workers with high performance. As such those competent and loyal employees are able to increase their performance, success of their projects and of the organization since they improve job efficiency by reducing wastes. At the same time, Alsabbah and Ibrahim (2016) advocated for training to improve the employee's competencies and their job performance. The training process helps build the soft and hard skills, attitudes and behaviors, such that the employees will know what to do and how to do it.

Berhanu (2019) in employee competency noting that motives, skills and self-concepts led employees to succeed in their assignments, the study noted that high performance of the development bank is based on employee competency in these key aspects; knowledge competency, trait, motive, value, self-concept and skill competency. If the employees are incompetent in certain areas, then the organizational management should invest in training both unstructured and structured to ensure their success and high performance. Siddique, Mufti and Khan (2019) advocated for employees to work together in collaboration to improve the overall organizational performance. Loan officers need to have marketing and communication skills and their expertise in smart lending and minimizing non-performing loans aids in growth of the financial institutions. At the same time, the MFIs are highly dependent on short term borrowing, inadequate liquidity monitoring system, politics, investment in non-earning assets and insufficient managerial competences as the main causes of failures. But when using experienced staff, they are able to change the tide and lead to high performance and growth of the MFIs.

Mutethia (2017) assessed external factors affecting growth of non deposit taking MFIs using the case of Speed Capital Limited. Through the main focus was on regulatory framework, the study added on technology, capital adequacy and experience among staff. It was noted that these institutions offer services through human intervention. Staff qualification and experience emerged as a key component of performance as it influenced the amounts advanced and collected from successful loan applicants within a given financial period. The ability of employees to work with technology was found to improve the financial performance. This increased the number of loans processed and recovered within a given period.

2.3.2 Customer Service and Growth of Micro-Finance Institutions

The current business world experiences high competition with many players having the same products to offer the market, then the only difference that makes one enterprise successful while another a failure is in customer service. According to Felix (2017) customer service is all the activities that go into the buying process, before, during and after the purchase of product. It is care given to the customer during the purchase decision making process, by providing helpful and insightful information about the product and services they want to buy. Shen and Tang (2018) in training and influence of customer service quality noted that exceptional customer service experience is when the business owners handled their customers in a professional manner, such that they are connected, responsive to the customer needs and they become insightful to their customers preference. While profit making is a key determinant to firm growth which is as a result of marketing and sales effort, in the modern terms customer service creates a long lasting experience that guarantees more business and profits in the long-run.

Cao, Ajjan and Hong (2018) investigation on post-purchase shipping, customer service experience of online purchases and their satisfaction level, noting that when all logistical activities are handled professionally post-purchase customer satisfaction levels are high. Some of the post-purchase activities involve shipping the bought products, return of defective products and tracking the progress which would improve customer experience thereby bringing high satisfaction. The study also revealed that in China and Taiwan, the online shoppers who received good customer service by getting all information on the services and products on offer and the agents explain to them in details all the process, their satisfaction level were higher during the entire purchase process. In conclusion, the study noted that customer service was strongly linked to customer satisfaction.

Janahi and Al Mubarak (2017) who investigated on the quality of customer service and its impact on customer satisfaction noted that since many of the commercial banks offer the same products, what differentiates the choice for the customers and the general public relies heavily on the quality of customer service they receive. In the current business world, customer service has been deemed a source of competitive advantage and the differentiating factor among industry players offering the market the same products and services. The study looks at customer service quality based on six main dimensions of compliance with laid down procedure and regulations, assurance, tangibility, reliability, responsiveness and empathy to their customers, which leads to customer satisfaction.

According to Mararo (2018) the growth of SMEs in Nakuru town in Kenya was strongly influenced by satisfied customers on use of mobile money services. The findings reveal that customers who received exceptional customer service such that their concerns on security, applicability, authenticity and accuracy in use of mobile money services, were high satisfied with the system which eased their business operations. The SME owners did not waste time in conducting banking transactions since the entry of money services which has led to growth of their firms. The study further shared that satisfied customers are loyal and that means continuous business activities into the foreseeable future for the SMEs which leads to their growth.

Customer service is based on relationship creation that is built on trust, commitment, proactiveness and visibility. It also means making strategic changes to shift the organizational activities to suit the viewpoint of the customer and the market. Narteh (2018) reveal that customer service is creating value for the customers by looking at new modern ways to improve the experience of their customers and creating memorable moments for them during the purchase process. Looking at service quality in public sector banks, Riaz and Simon (2016) share that the banking industry has evolved from the traditional viewpoint of the public coming to them for services, to the bank going to the customers to offer them their services. In it important that the Indian banks maintain their business of meeting the customer expectations and their stability and growth is based on their ability to retain their customer numbers. Accordingly, the study shared that service quality is an important factor that determines the ability of the bank to retain customer, attract new customers, retain its brand image and grow their market share by increasing their customer numbers. The study advocates for responsiveness and empathy as key aspects of customer service quality that leads to customer satisfaction, increase in business activities, high performance and profitability for the banks.

Customer service is essential for any organization to grow by creating a mental picture of the brand of a firm. The microfinance sector in Kenya, as per Nyangau (2018) study on customer service delivery and customer satisfaction is necessary for company success and its competitiveness. The expectations of the customers have increased due to globalization, internet usage with a lot of information and increase in number of business ventures offering alternative products and services. The study shares that to achieve customer satisfaction viewed as customer loyalty, commitment and meeting customer needs, the MFIs must offer excellent customer service. The study shares that the term productivity, quality and customer satisfaction are synonymous for customer service quality and key in the success of business ventures.

2.3.3 Products Offered and Growth of Micro-Finance Institutions

The product is the key item that a company offers to its customers for consumption for purposes of satisfy the needs. Many inventors, manufacturers and business people concentrate on the product itself to be able to meet customer and consumer demands and outwit their competition by making products with characteristics that are desired by the market while superior to other market players (Bocken, De Pauw, Bakker & van der Grinten, 2016). Looking at the products as a source of growth for the firm, then the enterprises must make products that can be bought easily to earn the firm returns and be able to expand their operations from the earnings achieved. Kanana, Gichohi and Moguche (2019) in product strategy and growth of small business, shared that in the current business environment, the product and its features are what should be the key selling point. Business units are using advanced technology and machines to improve the quality of products they make and offer to the market. An attractive and high quality product is an easy sale to the market and the customers.

According to Akotch (2018) who investigated the determinants of banking industry growth in Kenya, looking at the 43 banks, the study revealed that due to intense competition in the sector, the banking industry players have to look at ways to stay afloat as well as thrive. Some of factors included size of the bank in terms of assets and deposits, market penetration, adoption and usage of innovation and technology, profitability and product development to suit the changing consumer needs, are some of the factors that led to growth of the sector. In their quest to improve their products and services offered, the study recommends use of right technologies and innovative strategies to meet their targets and win over the market and consumers. At the same time, the banks that invest in market research are able to comprehend the market needs and come up with products and services as per the changing trends in customer needs and preferences.

Sinha and Sheth (2018) investigated on how to grow the pie in the case of emerging markets which are characterized by these key challenges including unbranded competition, shortage of resources most of the time majorly due to insufficient financial support and access, poor infrastructure, sociopolitical governance and market heterogeneity. The study reveals that to overcome these challenges and grow the new markets, the market players must adopt product innovation and invention to attract customers and expand their market share. The products must be of high quality, but they should also be accessible, affordable and acceptable. The business people must also adopt marketing strategies that will make the masses aware of the products on offer through advertising schemes. For the growth of these markets, it is important to consider customer centric approaches by making products and services as per their needs, tastes, wants and preferences, which will help to easily convert non-users to users.

According to Prajogo (2016) on innovation strategies and business performance, firms must adopt dynamism and competitiveness to improve their performance. Product and process innovation are two aspects that once incorporated into the business operations can improve their performance leading to growth of the business units. In addition, the study shares that for any business unit to survive, it simply cannot keep producing the same set of goods, employing the same set of inputs and use similar processing functions and realize higher outcomes, performance and growth. The study mentions that to be successful and have growth in the long run, business units must innovate and invent new products, service delivery measures and adopt advancing processes techniques. As the market needs and preferences keep changing, then the business units and its management must come up with products and services that respond to these changes. Innovation capabilities through the use of different raw products and stocks, technological advancement and efficient processes will lead to high quality products that improve the performance of the firm.

In the era of globalization and technological use which creates a lot of challenges to business units, the markets are flooded with millions of products to choose from when they want to satisfy their need. Visnjic, Wiengarten and Neely (2016) in product innovation and its impact on performance noted that introducing new products is a primary measure to capitalize on new market opportunities and to temporarily earn quasi-monopolistic rents. The study reveals that when product-oriented model and customer-oriented model are jointly implemented during the product processing stage, it leads to high quality, demand-driven products that satisfy customers' needs. Whenever the customers are satisfied with the products offered, the firm earns more in the long term from repeat business activities which grows the business units.

In the case of MFIs, their growth is based on satisfying their customers, who become loyal and committed to them, ensuring they have constant business. Wainaina, Shavulimo and Kiama (2018) noted that customer retention is an effective tool for survival and growth of microfinance institutions in Kenya. As retaining customers is one of the main factors in businesses that operate on relationship marketing model. While Munyoki and Ombui (2018) on the determining factors for performance of microfinance companies, revealing that the financial regulations, clients served, financial area coverage and the volume of credit transacting were the factors that rated highly to affecting the sustainability of MFIs’. The more products an MFI has then the wider the coverage and the more clientele they get. The non-deposit taking MFI’s should develop products according to the needs of their clients. Non-deposit taking MFI’s have one large target market that is made up of micro entrepreneurs who operate microenterprises by choice. They grow their business when something in their lives changes and they are pressed to generate more income.

2.3.4 Moderating Effect of Interest Rate Capping and Growth of Micro-Finance Institutions

A moderator is a variable that affects the relationship between the independent and dependent variable. Interest rate capping has a moderating effect on the determinants of non-deposit taking Microfinance institutions in Kenya. Regulations define legality of institutions, laying down prohibited and acceptable activities and define scope of institutions offering the services (Mia, 2017). Interest rate capping was a regulation to curb the rising interest rates charged by regulated banks. Kenyan government appreciates small and medium enterprises contribution to the economy and the role microfinance sector does to improve employment opportunities, goods and services production and provide innovation which support development strategies.

Mutemi and Makori (2019) considered the impact of interest rate capping and financial performance of Kenyan commercial banks. The study looked at all the 43 commercial banks and noted that their main source of income was from interest charged on their products as offered to their customers. When the interest rate cap came into effect, the banks lost some part of the income and some resorted to downsizing measures to cut down operational costs so as to remain functional. The study findings show that interest rate capping positively affected the financial performance by improving the quality of their assets measured by reduction of non-performing loans. As the interest rate was capped more business people could access loans which they invested leading to expansion of the economy. The more people borrow due to capped interest rates, the higher the earnings of the commercial banks and increase in their growth as indicated by customer numbers, market share and loan book. Ngele (2016) revealed that commercial banks can increase their return on assets by reducing instances of bad debts and nonperforming loans by assessing the credit worthiness of borrowers and offering short-term loans. Furthermore, when the cost of credit is low based on the interest rate, the performance of the financial institution improves since there is an increase in uptake of loans which raises the profits earned from interest payments.

Interest rate capping is a method of the government to control the activities of the financial sector. In many countries across the globe such control is unwelcomed and is decline as the industry players aim at adopting and implementing liberal financial policies. Jane (2019) on interest rate capping and commercial banks financial performance, realized that the government agents opt for interest rate capping for political and economic reasons. Interest rate capping is invoked where there is extensive market failure in an effort to support the industry and make it thrive again. The market failures are as a result of moral hazards, adverse changes in the environment, information asymmetry and when the financial sector fails to make differences between high and low risk clients, thus encountering huge loses. The study findings show that interest rates affect performance of the banks, since the interest charged is a factor of its income, hence when the government controls it, there is need for analysts to investigate its impact. The critical role of interest rates in determining the performance of commercial banks explains why government regulation is one of the factors that affect the return on bank stocks.

According to Mia (2017) the microfinance institutions are solely established to provide affordable financial services to the poor and low-income earners in an economy. Even though the microcredit sector has growth and registered high success levels, they still charge high interest rates to the poor which fails to solve the issue of financial inclusion and socioeconomic development for the poor. The MFIs should charge an interest rate that is as close as possible to its cost of funds. The initial idea behind the formation of MFIs is to offer informal banking services to the poor communities, but over time the institutions started charging high interest rate for financial gain. In an effort to control the high pricing of MFIs products, loans and credit facilities, interest rate cap was enacted. Some hold the school of thought that MFIs charging high interest rates will become sustainable and operate efficiently, and the surplus profits will be used to grow and expand the business; others think that charging high interest rates will deny the poor a chance to borrow and improve their livelihoods. To cut down on this debate, the formulation of interest rate capping has been approved and effected in MFIs.

The history of doing micro lending according to Wafula (2016) commenced in Bangladesh and has henceforth continued in human life. Yunus in 1974 gave the first microloans to basket weavers in an economically depressed area of Bangladesh, a case that eventually led to the evolution of the Grameen Bank. The word deposit-taking microfinance was replaced by microfinance bank following amendments on the Microfinance Act in 2013. Newly created DTMBs were licensed by the central bank to provide all types of financial services which included credit and savings (Central Bank of Kenya, 2008). Profitability of MFI is calculated from the operating environment, risk management capabilities, competitive strategies, quality of their management and the levels of capitalization (Thath, 2018). Findings by Mia, Dalla Pellegrina, Van Damme and Wijesiri (2019) averred that MFIs encounter difficulties to measure the borrower's creditworthiness when arriving at credit scoring decisions thus, raise two main fundamental issues: Clients with lower risk are adversely selected and receive some form of credit and those who remain will either be of high risk or low risk although unable to prove.

Non-deposit taking microfinance institutions are regulated by the Ministry of Finance (National Treasury), and they are not allowed to mobilize public funds. Non-deposit taking MFI's are broadly categorized under informal sector or the credit only and the deposit taking MFI's categorized under formal subsidized sector or prudentially regulated deposit taking category (Magomere & Otinga, 2019). Non-deposit taking microfinance institutions are licensed and mandated by law to provide financing. Non-deposit taking micro finance institutions play significant role in lives of the poor in Kenya by addressing their needs, voices and concerns by availing easy access of financial services and seen as the solution to include on a larger-scale the previously excluded poorer and vulnerable groups without accessibility to capital into the financial system (King'ori, Kioko & Shikumo, 2017). CBK regulatory environment in the microfinance industry in Kenya appears to lean towards operations of deposit taking MFI more than informal non-deposit taking MFI’s.

2.4 Research Gaps

The growth of business units is based on different factors which have been revealed by different studies, though the moderating effect of interest rate capping has not been considered. The studies reviewed have looked at different determinants of growth such that this section will consider the gaps that make it needful to conduct to the current study. The study considered loan officer expertise, customer service and products on offer as the determinants of growth, any gaps in empirical review are presented in Table 2.1

Table 2.1: Research Gaps

Determinant of Growth	Measures	Authors	Weaknesses
Loan Office Expertise	▪Level of education ▪Work ethic ▪Self-evaluation ▪Collaboration and teamwork ▪Loan disbursements	Qaisar et al., 2018; Xiao and Ramsde 2016; Osei and Ackah 2015; Mejia et al., 2019; Alsabbah and Ibrahim 2016; Berhanu 2019	▪The contexts used in the study is different from that of the current study hence making it difficult to apply their findings in the current study settings ▪Some were done in different sectors other than the financial one, making it difficult to adopt some of the findings
Customer Service	▪Creativity and Innovation ▪Work ethic ▪Turnaround time to serve a client ▪Ease of solving problems ▪Referred customers	2017; Shen and Tang 2018; Cao, et al 2018; Mararo 2018; Riaz and Simon 2016	▪There is a gap in concept as there is no direct link to growth but it is linked to customer satisfaction and performance. ▪The methodologies adopted and the variables used vary from the combinations adopted by this study
Products Offered	▪Affordability ▪Easy to maintain ▪Ease of use ▪Product per customer	a, et al 2019; Akotch 2018; Sinha and Sheth 2018; Visnjic, et al., 2016; Munyoki and Ombui 2018	▪The methodologies adopted and the variables used vary from the combinations adopted by this study ▪There have been new innovative products on offered and customer centric services which have not been explored in detail
Moderating Effect of Interes Rate Capping	▪Interest rate capping	i and Makori 2019; Ngele 2016; Mia 2017; Thath 2018; Magomere & Otinga 2019	The indicator is directly linked to the dependent variable hence its moderating effect is not considered for the growth of firms
Growth of non-deposit taking microfinance businesses	▪Customer numbers growth ▪Growth in the loan book size ▪Interest income growth ▪Growth in branch	Mia et al., 2019; Wafula 2016; King'ori, et al., (2017)	The studies mainly focused on performance and customer satisfaction and not on growth of non-deposit taking microfinance institutions.

	network

2.5 Summary of Literature Review

All businesses seek to growth, but for it to be able to achieve several determining factors must be considered and adopted into the functional and operations of the business unit. The existing literature has looked at different determinants with varying results like customer satisfaction, high performance in financial terms and necessarily linked it to growth of financial institution.

The studies have shown what leads to growth of the businesses with factors like use of technology, management competency, staff skills and experiences, business owner characteristics (Xiao & Ramsde, 2016) and the inherent features of the products and services on offer. This study explored the loan officer expertise, customer service and products on offer as the determinants of the MFIs growth, although there exist other factors like risk management capabilities, competitive strategies, quality of their management and the levels of capitalization (Thath, 2018).

The loan officer expertise is a measure of the level of education and professional background they have which will enable them to effectively handle their work tasks well and gain high performance that is needed for the growth of the firm. The specific performance is measured by the amount of loan disbursed as they work in collaboration with other credit team members. They should also be well-skilled to abide by the regulations of the MFI and financial institutions regulations. On customer service indicator, any financial institution seeking growth strategy must exhibit creativity and ease in handling and solving the issues and problems presented to them by their customers. The customer service agents must operate in a professional manner and work fast to serve better their clients. A successful customer service is where there is a long list of referrals on the basis of the quality of customer service offered.

The products offered to the market by financial institutions should be affordable, satisfy the individual customer needs and be easy to use. Innovative products are those that are responsive to the changing customer and market tastes and preferences (Prajogo, 2016) while growth is a measure of increase in customer numbers, branch network and income earnings. Since we are talking of non-deposit taking microfinance businesses then the growth of the loan book size comes into the forefront.

2.6 Conceptual Framework

As shown in Figure 2.1, functions of interest rate capping as a moderating variable on growth of MFIs business in Kenya. The conceptual framework shows the relationship represented by the independent variables and dependent variables. The independent variables are loan officer expertise, products offered and customer service while the dependent variable is the growth of non-deposit taking microfinance business.

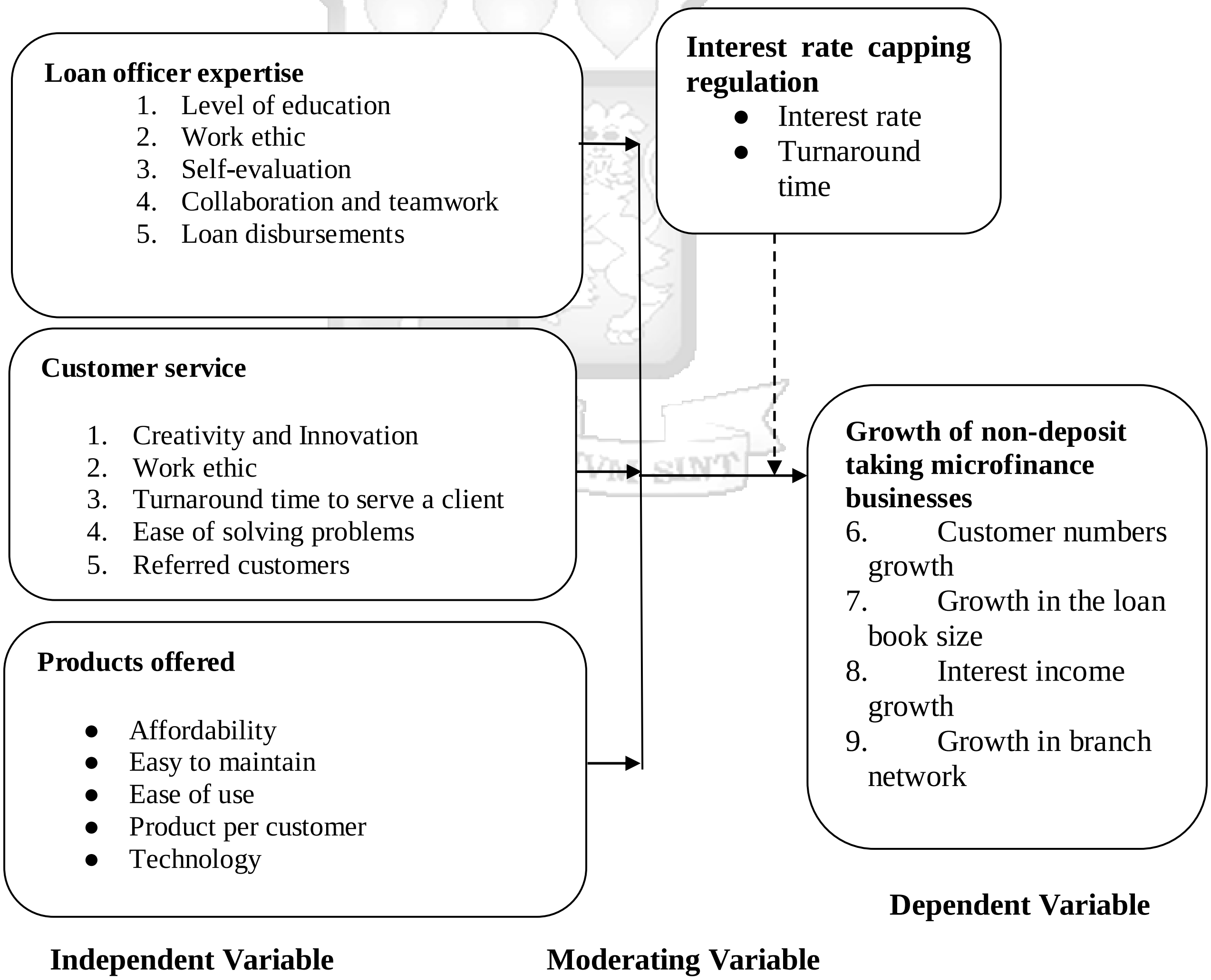


Figure 2.1: Conceptual Framework

2.6.1 Variable Operationalization

Table 2.2 gives a breakdown of the variables and how they are operationalized:

Table 2.2: Variable Operationalization

Type of Variable	Indicators	Scale of Measurement	Data Collection	Data Analysis
Independent loan officer expertise	• Level of education • Work ethic • Self-evaluation • Collaboration and teamwork • Loan disbursements	• Ordinal • Ordinal	Questionnaire, Qstn. 7-9	• Descriptive Statistics • Regression analysis
Independent customer service	• Creativity and Innovation • Work ethic • Turnaround time to serve a client • Ease of solving problems • Referred customers	• Ordinal • Ordinal	Questionnaire, Qstn. 10-12	• Descriptive Statistics • Regression analysis
Independent products offered	• Affordability • Easy to maintain • Ease of use • Product per customer	• Ordinal • Ordinal	Questionnaire, Qstn. 13-15	• Descriptive Statistics • Regression analysis
Moderating interest rate capping	• Interest rate • Turnaround time	• Ordinal • Ordinal	Questionnaire, Qstn. 16-18	• Descriptive Statistics • Regression analysis
Dependent growth of non-deposit taking microfinance	• Customer numbers growth • Growth in the loan book size • Interest income growth • Growth in branch network	• Ordinal • Ordinal	Questionnaire, Qstn 3-6	Descriptive Statistics

Source; Author (2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the research design that the researcher intends to use, the population from which the sample was chosen from, it also describes the methods which were used to collect data and the data analysis methods applied.

3.2 Research Philosophy

Research philosophy denotes how knowledge is developed about reality and the nature of that knowledge. There are two main research philosophies namely phenomenological or interpretivism and positivist paradigm or empirical science approach. Interpretivism philosophy assumes that the researcher is part of the reality and thus not independent and assumes existence of multiple realities that are socially constructed. Positivism holds a deterministic philosophy where causes determine effects or outcomes (Blumberg, Cooper & Schindler, 2005; Carson, Gilmore, Perry & Gronhaug, 2001).

The philosophical foundation of this study was thus the positivism which advocates for objective methods instead of being inferred subjectively by feeling, reflection and/or intuition (Creswell, 2012; Easterby, Thorpe & Lowe, 2002). Positivism encourages hypotheses development as well as use of quantitative data, thereby making it relevant for this study and equally since there was complete separation of the researcher and the phenomenon being investigated.

3.3 Research Design

The researcher adopted descriptive survey research design. The study focused on describing independent variables. This design was considered appropriate for the type of objective of this study as it enabled the researcher to describe the state of affairs as they exist. This scientific method of investigation involves collection and analysis of data in order to describe a phenomenal in its current condition or status. Creswell and Creswell (2017) indicate that this design is preferred because it is time saving and easy for the researcher to get current factual information from the employees in the organization.

Descriptive research design is ideal in this study as it allowed the researcher to express how the moderating effect of interest rate capping influences growth of microfinance institutions in Kenya.

3.3 Target Population

Target population is the totality of elements that has one or more characteristics in common and they are have features that are of interest to the researcher (Chilisa, 2019). The study population covered all the twelve (12) non-deposit taking Microfinance institutions in Kenya (Appendix III). All the twelve (12) MFIs were included in the study as they are few and to gain a comprehensive data and information of their operations impact from inception of the effect of interest rate capping. The study sought to collect data from their headquarters and from senior management staff that has sufficient information on the growth and it is central in decision making on the operations of the non-deposit taking MFIs.

3.4 Sample Size and Sampling Procedure

The researcher visited the headquarters of the twelve non-deposit taking MFIs based in Nairobi to conduct the study. The study purposely sought information from senior sectional managers in four key departments from all the MFIs to cover the study variables. The persons included human resource manager in the HR departments, Customer service managers in customer care department, product strategy managers from operations department, finance managers in finance departments and training managers in human resource management department. These respondents are as shown in Table 3.1.

Table 3.1: Sample Size

Non-Deposit Taking MFI	Department	Respondents
Progressive Credit	Human Resource	4
	Customer Care	3
	Operations	5
	Finance	2
Mwananchi Credit	Human Resource	3
	Customer Care	3
	Operations	4
	Finance	3
Ngao Credit	Human Resource	1
	Customer Care	4
	Operations	4
	Finance	3
My Credit	Human Resource	5
	Customer Care	4
	Operations	3
	Finance	3
Momentum Credit	Human Resource	4
	Customer Care	5
	Operations	3
	Finance	4
Platinum Credit	Human Resource	5
	Customer Care	7
	Operations	8
	Finance	5
Spring Board	Human Resource	2
	Customer Care	5
	Operations	4
	Finance	3
Izwe Credit	Human Resource	4
	Customer Care	4
	Operations	3
	Finance	4
Dream Credit	Human Resource	3
	Customer Care	4
	Operations	4
	Finance	3
Mogo Credit	Human Resource	5
	Customer Care	4
	Operations	5
	Finance	3
Baraka Credit	Human Resource	2
	Customer Care	5
	Operations	4
	Finance	3
Milhan Credit	Human Resource	3
	Customer Care	4
	Operations	5
	Finance	3
Total		**184**

Source: Human Resource Departments (2020)

The sampling frame covers the list of all units in the population of which the researcher is interested in and wherein the sample size was drawn from. A good and effective sampling frame should be inclusive and accurate so as to get valuable data from the elements under observation (Yin, 2015). In this study, the sampling frame covered all the twelve (12) non-deposit taking microfinance institutions in Kenya (Appendix III).

The study applied purposive sampling technique by specifically looking into the four departments (Human Resource, Customer Care, Operations and Finance departments). These departments had sufficient information on loan staff expertise, customer service quality, products on offer to the public and impact of interest rate capping to the growth of their MFIs, thus they were able to collect information that responded to the research questions. Census sampling was applied where all the 184 respondents from the four departments in each of the twelve MFIs, since the population was small. According to Martínez-Mesa, González-Chica, Duquia, Bonamigo and Bastos (2016), census is ideal when elements are below 200 units in number and they can easily be accessed.

3.5 Data Collection Instruments

The researcher used questionnaires to collect primary data from the source and to measure the variables of the study. Questionnaires were used because they were not expensive, are anonymous and allow standardization of questions, provide time for subjects to think about responses, and it is easy to score (Grove & Gray, 2018). The questionnaires were formulated in such a way as to meet the objectives of the study. The main reasons for using questionnaires was on the basis that it; ensures unanimity, uniformity, economy and time saving, suitability in special type of response and less pressure on the respondents. The researcher sought the consent from the head of departments and administrations involved to carry out the data collection.

The instruments were semi-structured having open-ended and closed-ended questions and it was divided into four sections (section A, B, C and D). Section A gathered demographic information of the respondents like level of education and experience, Section B gathered information on growth of non-deposit taking MFIs, section C had information on determinants of growth of non-deposit taking MFIs which included the loan officer expertise, customer service and products offered and D had information on the moderating variable interest rate capping.

3.6 Data Collection Procedure

The researcher collected data through questionnaires. The questionnaires were closed-ended to avoid biasness. The researcher engaged research assistants who assisted in data collection. The research assistants were trained to clearly understand the research instruments, purpose of the study and ethics of research. The researcher and research assistants administered the questionnaires to the target respondents on a working day when most respondents were available. The questionnaires were administered through drop and pick later method, however, the research assistants waited for respondents who have time to fill in as they wait. The other questionnaires were collected later for data analysis.

3.7 Data Analysis Techniques

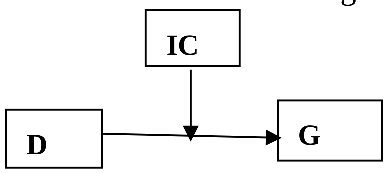
Response received was analyzed using descriptive and inferential statistics. According to Cresswell and Cresswell (2018) SPSS is designed especially for the analysis of social science data and contains most of the routines social scientists employ. Data analysis involved computation of certain measures along with searching for relationships that exist between the dependent variable and independent variables. The data was analysed according to variables and objectives of the study. Descriptive statistics were used to describe the data. Descriptive analysis involved the use of frequency distribution tables. The researcher also conduct inferential analysis which involved coefficient of correlation, coefficient of determination, ANOVA and a multiple regression analysis to establish the strength and relationship between the dependent and independent variables. The researcher applied factor analysis and then multivariate analysis.

The following model was used to predict the effect of the identified determinants on growth of non-deposit taking MFIs

$$\mathbf{G = \beta_0 + \beta_1 LoE + \beta_2 CS + \beta_3 PO + \varepsilon \ldots\ldots (I)}$$

Where G= Composite score of Growth of Non deposit taking MFIs

LoE= Composite score of loan officer expertise
Cs= Composite score of customer service
PO= Composite score of products offered
Ɛ=error term
The general moderation model is given below:



The general moderation model

Where **D**=Determinants of growth

IC=Interest rate capping

G=Growth of Non deposit taking MFIs

The following moderated equation was used to test for the moderation of interest rate capping:

$$\mathbf{G=\beta_0 + \beta_1 D + \beta_2 IC + \beta_1 D * \beta_2 IC + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (II)}$$

Where: D=Composite score of determinants of growth
$\beta_1 .. \beta_3$ =coefficients of the variables; $\beta_1 D * \beta_2 IC$ =interaction term,
Ɛ= error term

3.8 Research Quality

Before the main study, the researcher did piloting of research instruments among 10 respondents from the deposit taking MFIs which is 10% of the sample size. The piloting sample should be 1 to 10% of study sample depending on the study sample size. The pilot group was done through random sampling. Piloting helps in revealing questions that could be vague which allows for their review until they convey the same meaning to all the subjects (Grove & Gray, 2018). The opinions and suggestions were incorporated into the revised and final draft of the instruments.

Validity is the degree of which research instruments measure the intended information and consequently allows appropriate interpretation of scores (Chan & Idris, 2017). To ascertain the validity of research instrument, the researcher consulted with the research supervisor to compare questions in the instruments vis-à-vis objectives or research questions. This focused on content and construct validity.

Reliability measure degree of consistency in measures (Mohajan, 2017). Reliability refers to the tools being used to observe, measure, and examine the variable under study. The reliability depended on the research questionnaire that was used in this study and give reliable information that is to be used in decision making. The reliability of the instrument was estimated using Cronbach's Alpha Coefficient which is a measure of internal coefficient. The Alpha **(α)** measures internal consistency by establishing if certain item measures the same construct. Cronbach's Alpha was established for every objective in order to determine if each objective would produce consistent results should the research be done later on. A reliability of at least 0.70 at **α** = 0.05 significance level of confidence was acceptable in this study and regarded as satisfactory.

3.9 Ethical Considerations

The researcher obtained permission from the university to undertake the study by getting clearance from the university ethical review committee and obtaining an introduction letter. Thereafter, the researcher sought permission from the National Commission for Science, Technology and Innovation (NACOSTI) and obtains a permit for collecting data from the field. Afterwards, the researcher sought permission from the top management in the non-deposit taking MFIs to collect data from their headquarters and their staff.

The staff who took part in the study, were assured that participation is based on their individual consent. If any were willing to participate, they were given a consent form to read well on what was required in the ethical considerations. In regard to anonymity, the respondents were not required to disclose their names on questionnaires or any personal information. The researcher assured the respondents that the collected data was only to be used for academic purpose and the information was not to be shared with their competition, all the information was to be held in strict confidence.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter concentrates on data as collected from the field so as to provide meaningful information that will help draw conclusions. The study collected primary data collected using a questionnaire. The information is arranged in distinct sections: background information and descriptive statistics per variable and inferential statistics.

4.1.1 Response Rate

The study distributed a total of 184 questionnaires out of which 125 were filled up and returned translating into a response rate of 68% as shown in the Figure 4.1. The response rate is consistent with an empirical study conducted by Akotch (2018) who investigated the determinants of banking industry growth in Kenya that reported a response rate of 65%. Some of the factors that may have contributed towards this low response rate include the fact that respondents might have been busy and thus unable to fill in the questionnaires

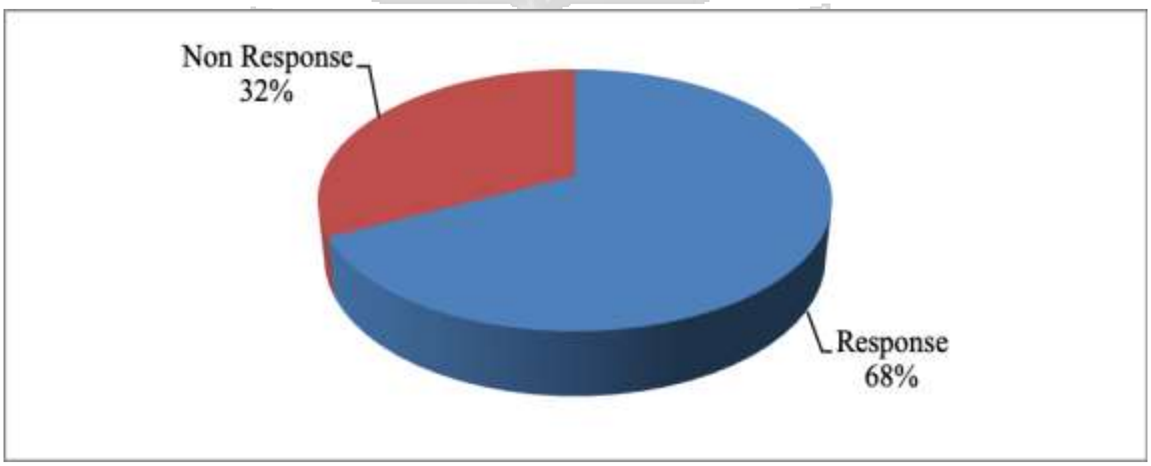


Figure 4.1: Response Rate

4.2 Background Information

The study sought to understand the background information of the respondents in terms of the years they had engaged in the MFI industry, years worked in with MFI, level of education and the duration of organizational existence. The results are summarized in Table 4.1.

Table 4.1: Background Information

Item	Classification	Frequency	Percentage
Years of Experience in the Microfinance Industry	Less than 1 year	7	5.6
	1 – 5 Years	24	19.2
	6 – 10 Years	51	40.8
	11-15 Years	38	30.4
	15 Years and above	5	4.0
	Total	**125**	**100.0**
Years of Experience in the Present Microfinance Institution	Less than 1 year	16	12.8
	1 – 5 Years	27	21.6
	6 – 10 Years	40	32.0
	11-15 Years	38	30.4
	15 Years and above	4	3.2
	Total	**125**	**100.0**
Level of Education	Certificate	2	1.6
	Diploma	13	10.4
	Bachelor’s Degree	68	54.4
	Masters	42	33.6
	Total	**125**	**100.0**
Years of Organizational Operation	Less than 1 year	11	8.8
	1 – 5 Years	31	24.8
	6 – 10 Years	38	30.4
	11-15 Years	36	28.8
	15 Years and above	9	7.2
	Total	**125**	**100.0**

Respondents were asked to indicate the number of years they had worked in the MFI industry. As shown in Table 4.1, while 24.8% of the respondents had worked in the MFIs for less than 5 years, 75.2% had over 5 years of experience in the MFI industry. This implies that respondents probably were knowledgeable on determinants of growth of a MFI institution. Respondents were further asked to indicate the number of years which they had worked with their current MFI. Table 4.1 indicate that 34.4% of the respondents had worked in their MFIs were less than 5 years while 65.6% of them had worked for over 5 years. This implies that the respondents of the study had acquired information on key factors that determined the growth of their institutions as sought by this study.

The findings in Table 4.1 further indicate that 54.4% of the respondents had bachelor's degree, 33.6% had masters, 10.4% had diploma and 1.6% had certificates as their highe4st levels of education. Therefore, most of the respondents were graduates and thus probably understood the determinants of growth of their MFIs which was key in this study. The results of the study indicated that 33.6% of the MFIs had been operations for less than 5 years while 66.4% had operated for over 5 years. This shows that the MFIs that were covered in the study had been operations for a longer period of time and thus probably had leveraged on a number of factors for their growth as sought by the study.

4.3 Descriptive Statistics

This section summarizes the results of frequencies and percentages, means and standard deviations.

4.3.1 Growth of Non-Deposit Taking Microfinance Institutions in Kenya

The dependent variable of the study was the determinants of growth of non-deposit taking MFIs in Kenya. In this regard, the researcher established a number of statements where respondents were requested to tick the relevant fields. The findings were summarized and presented in Table 4.2.

Table 4.2: Growth of Non-Deposit Taking Microfinance Institutions in Kenya

Category	Classification	Frequency	Percentage	Median	Mean	SD
Average growth in the number of customers	Less than 20%	8	6.4			
	20-40%	27	21.6			
	40-60%	25	20.0	4.00	3.36	1.201
	60-80%	41	32.8			
	0ver 80%	24	19.2			
	Total	**125**	**100.0**			
Average growth in loan book size	Less than 20%	3	2.4			
	20-40%	8	6.4			
	40-60%	43	34.4	4.00	3.64	.936
	60-80%	48	38.4			
	0ver 80%	23	18.4			
	Total	**125**	**100.0**			
Average growth in interest income	Less than 20%	3	2.4			
	20-40%	10	8.0	4.00	3.69	.943
	40-60%	32	25.6			

	60-80%	57	45.6			
	0ver 80%	23	18.4			
	Total	**125**	**100.0**			
Number of new branches opened	Less than 5 branches	9	7.2	2.00	2.82	1.122
	5-10 branches	55	44.0			
	10-20 branches	19	15.2			
	20-30 branches	33	26.4			
	0ver 30 branches	9	7.2			
	Total	**125**	**100.0**			

Table 4.2 reports the results on growth of non-deposit taking MFIs. From the findings, 32.8% of the organizations had realized 60-80% growth in their number of customers, 38.4% had realized 60-80% growth in their loan book sizes and 45.6% had grown their interest income by 60-80%. The results in Table 4.4 further indicate that 44.0% of the non-deposit MFIs had opened 5-10 new branches. This implies that loan book size was the most

4.3.2 Loan officer's Experience

The first objective variable of the study was loan officer experience. It In this regard, several statements were formulated on the variable and respondents were to indicate the extent of their agreement. A five point Likert scale where 1=strongly disagree and 5=strongly agree was utilized. The results of the analysis using means 1 and standard deviations are as presented in Table 4.3.

Table 4.3: Loan officer's Experience

	Median	Mean	Std Dev
Educational achievement of the loan officer affect performance outcomes in our MFI	4.000	3.571	0.936
The level of professional trainings received on credit administration improve the loan officers productivity	4.000	3.929	0.813
Regular online courses on credit administration improve the loan officers productivity	4.000	3.693	1.027
Loan officer's adherence to work ethics influence the level of nonperforming loans in our MFI	4.000	4.016	0.834
Loan officers possession of marketing knowledge helps improve the performance of MFIs	4.000	3.974	0.925
Individual officer's self-evaluation affect the performance outcomes in MFIs	3.000	3.417	1.073
The ability of a loan officer to work smoothly with their colleagues as a team affect the performance outcomes in MFIs	4.000	4.102	0.961
The ability of loan officers to work with computer technology	4.000	3.958	0.940

affects their personal performance on the job			
Loan Officer’s ability to adhere to loan administration policies and guidelines affects the performance outcomes in our MFIs	4.000	3.893	0.795
The overall loan disbursements by a loan officer affect the performance outcomes in our MFIs	4.000	3.948	0.971
Loan officers ability to deal with work pressure affect the performance outcomes in MFIs	4.000	4.042	0.952
Loan officers competency affects the internal processes efficiency	4.000	3.694	0.963
Loan officer’s ability to handle performance pressure from senior management affects the performance of the MFI	4.000	3.792	0.894

From Table 4.3, most of the respondents agreed with means of 4.102 that ability of a loan officer to work smoothly with their colleagues as a team affected performance outcomes in MFIs, loan officer’s adherence to work ethics influenced the level of nonperforming loans in our MFI with a mean of 4.016 and that loan officers ability to deal with work pressure affected performance outcomes in MFIs as shown by a mean of 4.042. The respective and corresponding values of standard deviations on these statements were all less than 1; showing that respondents shared convergent opinions on these statements. Respondents of the study further agreed 3.974 that loan officers possession of marketing knowledge helped improve the performance of MFIs, the ability of loan officers to work with computer technology affected their personal performance on the job with a mean of 3.958, overall loan disbursements by a loan officer affect the performance outcomes in our MFIs with mean of 3.948, the level of professional trainings received on credit administration improve the loan officers productivity with a mean of 3.929 and that the loan officer’s ability to adhere to loan administration policies and guidelines affected the performance outcomes in our MFIs with a mean of 3.893.

Furthermore, respondents agreed as shown by a mean of 3.792 that the loan officer’s ability to handle performance pressure from senior management affected the performance of the MFI, the loan officer’s competency affected the internal processes efficiency as shown by a mean of 3.694, regular online courses on credit administration improved the loan officer’s productivity with a mean of 3.693 and that educational achievement of the loan officer affected performance outcomes in our MFI as supported by a mean of 3.571. However, on whether individual officer’s self-evaluation affected performance outcomes in MFIs, the mean was 3.417 indicating that respondents were indifferent on this statement. The implications of the results in Table 4.5 are that respondents generally agreed on the various statements provided under loan officer experience. In other words, it means that loan officer experience was one factor that was considered by the covered MFIs.

The study sought further to establish the various perceptions of the respondents as it regarded loan officer's experience. In this respect, responded were requested to indicate the extent which loan officer's experience influenced the growth of non-deposit taking microfinance business in Kenya. The results are as presented in Table 4.4.

Table 4.4: Perceptions of Respondents on loan officer's experience

Option	Frequency	Percent
Very large extent	19	27.5
Large extent	24	35.3
Moderate extent	8	11.8
Little extent	12	17.6
No extent	5	7.8
Total	**69**	**100**

From the results in Table 4.4, majority of the respondents (35.3%) said that loan officer's experience had a large influence on the growth of their organization.

4.3.3 Customer Service Offered

The second objective variable of the study was the customer services offered and this was operationalized into the following indicators: creativity and Innovation, work ethic, turnaround time to serve a client, ease of solving problems and referred customers. The results of descriptive statistics on this variable using means and standard deviation are indicated in Table 4.5.

Table 4.5: Customer Service Offered

Statements	Median	Mean	Std De
The ability to offer right service the first time among staff affects performance outcomes in our MFI	4.000	3.864	0.962
The ability of our staff to come up with new ways of serving clients in a better way affects performance outcomes in our MFI	4.000	3.692	0.859
The level of service commitment among our staff affected performance outcomes in our MFI	4.000	3.894	0.917
The consistency in service delivery among our staff affects performance outcomes in our MFI	4.000	3.968	0.837
The average time taken by our staff to resolve customer issues affect performance	4.000	3.842	1.029

outcomes in our MFI			
The general level of transparency exhibited by our staff affects performance outcomes in our MFI	4.000	3.819	0.861
The confidence with which our staff serve customers affect performance outcomes in our MFI	4.000	3.713	0.973
Responsiveness of our services to customers' needs affect performance outcomes in our MFI	4.000	4.037	0.884
The overall level of dynamism among staff when serving customers affect performance outcomes in our MFI	4.000	3.619	0.944
The willingness of staff to help customers affect performance outcomes in our MFI	4.000	3.918	0.859
The appearance of our employees affect performance outcomes in our MFI	4.000	3.692	0.937
The quality of office spaces and their branding affects performance outcomes in our MFI	4.000	3.584	0.968
The level of kindles among our staff when serving customers affect performance outcomes in our MFI	4.000	3.829	0.892
The level of politeness among our staff when serving customers affect performance outcomes in our MFI	4.000	3.738	0.895

As indicated in Table 4.5, most of the respondents agreed with a mean of 4.037 that responsiveness of their services to customers' needs affected performance outcomes in their MFI, the consistency in service delivery among staff affected performance outcomes in the MFI with a mean of 3.968 and the willingness of staff to help customers affected performance outcomes in the MFI with the mean being 3.918. It was shown that the level of service commitment among staff affected performance outcomes in the MFI with the value of mean being 3.894, the ability to offer right service the first time among staff affected performance outcomes in the MFI with the value of mean being 3.864, the average time taken by the staff to resolve customer issues affect performance outcomes in the MFI with the value of mean being 3.842, the level of kindness among staff when serving customers affected performance outcomes in the MFI with the value of mean being 3.829 and that the general level of transparency exhibited by staff affected performance outcomes in the MFI as indicated by the mean of 3.819.

Respondents also agreed with a mean of 3.738 that level of politeness among our staff when serving customers affected performance outcomes in the MFI, the confidence with which the staff served customers affected performance outcomes in the MFI as shown by a mean of 3.713, the appearance of employees affected performance outcomes in the MFI as shown by a mean of 3.692, the ability of staff to come up with new ways of serving clients in a better way affected performance outcomes in the MFI with a mean of 3.692, the overall level of dynamism among staff when serving customers affected performance outcomes in the MFI as represented by a mean of 3.619 and that the quality of office spaces and their branding affected performance outcomes in the MFI as shown by a mean of 3.584. From the findings in Table 4.7, it can be deduced that respondents generally agreed on customer service as one of the practices in their organization. This implies that most of the studied MFIs practiced customer service. This is supported by low values of standard deviation on the statements provided under customer service, which means that respondents shared similar views and opinions.

Respondents were requested to indicate their perceptions on the customer services offered and the extent which they influenced the growth of the MFIs. The results are as shown in Table 4.6.

Table 4.6: Perceptions of Respondents on customer services offered

Option	Frequency	Percent
Very large extent	16	22.5
Large extent	26	38.2
Moderate extent	11	15.7
little extent	9	12.7
No extent	7	10.8
Total	**69**	**100**

The findings in Table 4.6 indicate that majority of the respondents (38.2%) were of the opinion that the customer services offered had a large influence on growth of the MFIs.

4.3.4 Products Offered

The other independent specific objective variable of the study was the product offered. It was operationalized into: affordability, easy to maintain, ease of use, product per customer and technology. The descriptive statistics on this variable as shown using means and standard deviation are indicated in Table 4.7.

Table 4.7: Products Offered

Statements	Median	Mean	Std Dev
The diversity of products offered to our customers affect performance outcomes in our MFI	4.000	3.892	0.977
The level of alignment of our products to customers changing needs affect performance outcomes in our MFI	4.000	4.026	0.793
Incorporation of technology in our product management affect performance outcomes in our MFI	4.000	3.928	0.921

Diversifying loan repayment channels affect performance outcomes in our MFI	4.000	3.852	0.852
The cost of our loan facilities to customers affect performance outcomes in our MFI	4.000	3.627	0.936
The level of securities required on our loans affect performance outcomes in our MFI	4.000	3.832	0.794
The flexibility of loan terms among our products affect performance outcomes in our MFI	4.000	3.592	0.975
Increasing product varieties per customer affect performance outcomes in our MFI	4.000	3.628	0.832

The results in Table 4.7 indicate that respondents agreed with a mean of 4.026 that the level of alignment of the products to customers changing needs affected performance outcomes in the MFI, incorporation of technology in the product management affected performance outcomes in the MFI with a mean of 3.928, diversity of products offered to customers affected performance outcomes in the MFI as represented by a mean of 3.892 , diversifying loan repayment channels affected performance outcomes in the MFI with a mean of 3.852 and that the level of securities required on our loans affect performance outcomes in the MFI as shown by a mean of 3.832. Respondents further agreed with a mean of 3.628 that increasing product varieties per customer affected performance outcomes in the MFI, the cost of our loan facilities to customers affect performance outcomes in the MFI as shown by a mean of 3.627 and that flexibility of loan terms among the products affected performance outcomes in the MFI with a mean of 3.592. The results in Table 4.7 generally indicate that respondents agreed on various statements provided under products offered. In other words, the studied non-deposit MFIs had different product offerings which probably helped in diversification to minimize risk exposure through the portfolio of products held.

The study sought to determine the various perceptions of the respondents on the products offered and how they influenced the growth of the MFI. The results are documented in Table 4.8.

Table 4.8: Perceptions of Respondents on Products Offered

Option	Frequency	Percent
Very large extent	18	25.5
Large extent	29	42.2
Moderate extent	14	20.6

little extent	6	8.8
No extent	2	2.9
Total	**69**	**100**

The results in Table 4.8 indicate that most of the respondents (42.2%) felt that the products offered had a large influence on the growth of the MFIs.

4.3.5 Moderating Variable Interest Charged

The moderating variable in the study was interest rate capping and the results of the descriptive statistics using means and standard deviations are as presented in Table 4.9.

Table 4.9: Moderating Variable Interest Charged

Statements	Median	Mean	Std Dev
The amount of loans disbursed is affected by the interest charged on our products	4.000	4.037	0.974
The variability on interest rate charged on our loans affect the performance outcomes of our MFI	4.000	3.749	0.831
Controls on the interest charged on credit facilities have affected the performance outcomes of our MFI	4.000	3.928	0.937
Additional charged imposed on our loans affect the performance outcomes of our MFI	4.000	3.817	0.859

From the results in Table 4.9, majority of the respondents agreed with a mean of 4.037 that the amount of loans disbursed was affected by the interest charged on products; controls on the interest charged on credit facilities had affected the performance outcomes of the MFI with a mean of 3.928, additional charges imposed on the loans affected the performance outcomes of the MFI as indicated by a mean of 3.817 and that variability on interest rate charged on loans affected the performance outcomes of the MFI as represented by a mean of 3.749.

The overall implication of the results in Table 4.9 is that respondents generally agreed on interest rate capping; meaning it was practiced in their respective organizations. The assertion is supported by low values of standard deviation on the statements provided under interest rate capping regulation. The low value of standard deviation in these statements indicates that respondents of the study shared similar opinions on the statements under interest rate capping.

The study probed to understand the extent which interest charged influenced client decision on where to borrow money. The results are indicated in Table 4.10.

Table 4.10: Perceptions of Respondents on Interest Rate Capping

	Frequency	Percent
little extent	15	12.0
Moderate extent	29	23.2
Large extent	61	48.8
Very large extent	20	16.0

Total	125	100.0

From Table 4.10, 48.8% of the respondents felt that the interact rate charged by their institution influenced client decision on where to borrow money to a large extent.

4.4 Factor Analysis on Determinants of Growth of Non-Deposit Taking Microfinance Institutions in Kenya

Factor analysis was used to identify the determinants of growth of non-deposit taking micro fiancé institutions in Kenya. Table 4.11 gives the results of the communalities that were used to decide on whether to retain or drop the items.

Table 4.11: Communalities

	Initial	Extraction
Educational achievement of the loan officer affect performance outcomes in our MFI	1.000	.506
The level of professional trainings received on credit administration improve the loan officers productivity	1.000	.649
Regular online courses on credit administration improve the loan officers productivity	1.000	.631
Loan officer's adherence to work ethics influence the level of nonperforming loans in our MFI	1.000	.570
Loan officers possession of marketing knowledge helps improve the performance of MFIs	1.000	.467
Individual officer's self-evaluation affect the performance outcomes in MFIs	1.000	.556
The ability of a loan officer to work smoothly with their colleagues as a team affect the performance outcomes in MFIs	1.000	.566
The ability of loan officers to work with computer technology affects their personal performance on the job	1.000	.314
Loan Officer's ability to adhere to loan administration policies and guidelines affects the performance outcomes in our MFIs	1.000	.358
The overall loan disbursements by a loan officer affect the performance outcomes in our MFIs	1.000	.197
Loan officers ability to deal with work pressure affect the performance outcomes in MFIs	1.000	.396
Loan officers competency affects the internal processes efficiency	1.000	.443
Loan officer's ability to handle performance pressure from senior management affects the performance of the MFI	1.000	.192
The ability to offer right service the first time among staff affects performance outcomes in our MFI	1.000	.257
The ability of our staff to come up with new ways of serving clients in a better way affects performance outcomes in our MFI	1.000	.260
The level of service commitment among our staff affected performance outcomes in our MFI	1.000	.426
The consistency in service delivery among our staff affects performance outcomes in our MFI	1.000	.223
The average time taken by our staff to resolve customer issues affect performance outcomes in our MFI	1.000	.471
The general level of transparency exhibited by our staff affects performance outcomes in our MFI	1.000	.253
The confidence with which our staff serve customers affect performance outcomes in our MFI	1.000	.424
Responsiveness of our services to customers' needs affect performance outcomes in our MFI	1.000	.309
The overall level of dynamism among staff when serving customers affect performance outcomes in our MFI	1.000	.239
The willingness of staff to help customers affect performance outcomes in our MFI	1.000	.424
The appearance of our employees affect performance outcomes in our MFI	1.000	.566
The quality of office spaces and their branding affects performance outcomes in our MFI	1.000	.171
The level of kindles among our staff when serving customers affect performance outcomes in our MFI	1.000	.291
The level of politeness among our staff when serving customers affect performance outcomes in our MFI	1.000	.621
The diversity of products offered to our customers affect performance outcomes in our MFI	1.000	.294
The level of alignment of our products to customers changing needs affect performance outcomes in our MFI	1.000	.645
Incorporation of technology in our product management affect performance outcomes in our MFI	1.000	.217

Diversifying loan repayment channels affect performance outcomes in our MFI	1.000	.353
The cost of our loan facilities to customers affect performance outcomes in our MFI	1.000	.431
The level of securities required on our loans affect performance outcomes in our MFI	1.000	.400
The flexibility of loan terms among our products affect performance outcomes in our MFI	1.000	.308
Increasing product varieties per customer affect performance outcomes in our MFI	1.000	.812

Extraction Method: Principal Component Analysis.

Table 4.11 shows 35 items that underwent factor analysis. From the results, some of these items have their values of communalities above 0.5. This means that they are a good measure of the growth of non-deposit taking MFIs and thus they are retained for further analysis. The study used the Total Variance Explained to establish the components and their respective variances. The findings are indicated in Table 4.12.

Table 4.12: Total Variance Explained

	Component		
	1	2	3
Educational achievement of the loan officer affect performance outcomes in our MFI	.637		
The level of professional trainings received on credit administration improve the loan officers productivity	.567		
Regular online courses on credit administration improve the loan officers productivity	.791		
Loan officer's adherence to work ethics influence the level of nonperforming loans in our MFI	.648		
Loan officers possession of marketing knowledge helps improve the performance of MFIs	.601		
Individual officer's self-evaluation affect the performance outcomes in MFIs	.658		
The ability of a loan officer to work smoothly with their colleagues as a team affect the performance outcomes in MFIs	.588		
The ability of loan officers to work with computer technology affects their personal performance on the job			
Loan Officer's ability to adhere to loan administration policies and guidelines affects the performance outcomes in our MFIs			
The overall loan disbursements by a loan officer affect the performance outcomes in our MFIs			
Loan officers ability to deal with work pressure affect the performance outcomes in MFIs			
Loan officers competency affects the internal processes efficiency		.649	
Loan officer's ability to handle performance pressure from senior management affects the performance of the MFI			
The ability to offer right service the first time among staff affects performance outcomes in our MFI			
The ability of our staff to come up with new ways of serving clients in a better way affects performance outcomes in our MFI			
The level of service commitment among our staff affected performance outcomes in our MFI	.574		
The consistency in service delivery among our staff affects performance outcomes in our MFI			
The average time taken by our staff to resolve customer issues affect performance outcomes in our MFI			
The general level of transparency exhibited by our staff affects performance outcomes in our MFI			
The confidence with which our staff serve customers affect performance outcomes in our MFI			
Responsiveness of our services to customers' needs affect performance outcomes in our MFI			
The overall level of dynamism among staff when serving customers affect performance outcomes in our MFI			
The willingness of staff to help customers affect performance outcomes in our MFI			
The appearance of our employees affect performance outcomes in our MFI			.693
The quality of office spaces and their branding affects performance outcomes in our MFI			
The level of kindles among our staff when serving customers affect performance outcomes in our MFI		.502	
The level of politeness among our staff when serving customers affect performance outcomes in our MFI		.563	
The diversity of products offered to our customers affect performance outcomes in our MFI			
The level of alignment of our products to customers changing needs affect performance outcomes in our MFI			.578
Incorporation of technology in our product management affect performance outcomes in our MFI			

Diversifying loan repayment channels affect performance outcomes in our MFI			.545
The cost of our loan facilities to customers affect performance outcomes in our MFI			
The level of securities required on our loans affect performance outcomes in our MFI		.582	
The flexibility of loan terms among our products affect performance outcomes in our MFI			.539
Increasing product varieties per customer affect performance outcomes in our MFI			.736

Extraction Method: Principal Component Analysis.

From Table 4.12, all the 35 items were reduced into 10 components that cumulatively explained 79.169% of growth of non-deposit taking MFIs in Kenya. A component matric was used to illustrate the loading of these factors on the identified components as illustrated in Table 4.13.

Table 4.13: Component Matrix

	Component		
	1	2	3
Educational achievement of the loan officer affect performance outcomes in our MFI	.637		
The level of professional trainings received on credit administration improve the loan officers productivity	.567		
Regular online courses on credit administration improve the loan officers productivity	.791		
Loan officer's adherence to work ethics influence the level of nonperforming loans in our MFI	.648		
Loan officers possession of marketing knowledge helps improve the performance of MFIs	.601		
Individual officer's self-evaluation affect the performance outcomes in MFIs	.658		
The ability of a loan officer to work smoothly with their colleagues as a team affect the performance outcomes in MFIs	.588		
The ability of loan officers to work with computer technology affects their personal performance on the job			
Loan Officer's ability to adhere to loan administration policies and guidelines affects the performance outcomes in our MFIs			
The overall loan disbursements by a loan officer affect the performance outcomes in our MFIs			
Loan officers ability to deal with work pressure affect the performance outcomes in MFIs			
Loan officers competency affects the internal processes efficiency		.649	
Loan officer's ability to handle performance pressure from senior management affects the performance of the MFI			
The ability to offer right service the first time among staff affects performance outcomes in our MFI			
The ability of our staff to come up with new ways of serving clients in a better way affects performance outcomes in our MFI			
The level of service commitment among our staff affected performance outcomes in our MFI	.574		
The consistency in service delivery among our staff affects performance outcomes in our MFI			
The average time taken by our staff to resolve customer issues affect performance outcomes in our MFI			
The general level of transparency exhibited by our staff affects performance outcomes in our MFI			
The confidence with which our staff serve customers affect performance outcomes in our MFI			
Responsiveness of our services to customers' needs affect performance outcomes in our MFI			
The overall level of dynamism among staff when serving customers affect performance outcomes in our MFI			
The willingness of staff to help customers affect performance outcomes in our MFI			
The appearance of our employees affect performance outcomes in our MFI			.693
The quality of office spaces and their branding affects performance outcomes in our MFI			
The level of kindles among our staff when serving customers affect performance outcomes in our MFI		.502	
The level of politeness among our staff when serving customers affect performance outcomes in our MFI		.563	
The diversity of products offered to our customers affect performance outcomes in our MFI			
The level of alignment of our products to customers changing needs affect performance outcomes in our MFI			.578
Incorporation of technology in our product management affect performance outcomes in our MFI			
Diversifying loan repayment channels affect performance outcomes in our MFI			.545
The cost of our loan facilities to customers affect performance outcomes in our MFI			
The level of securities required on our loans affect performance outcomes in our MFI		.582	

The flexibility of loan terms among our products affect performance outcomes in our MFI	.539
Increasing product varieties per customer affect performance outcomes in our MFI	.736

From Table 4.13, all the 35 items were reduced into three components. The first component was referred to as the loan officer experience and it had a total of 8 components. The item that regular online courses on credit administration improved the loan officers' productivity highly loaded on the offered products supported by a factor loading of 0.791. On the other hand, the item that the level of professional trainings received on credit administration improved the loan officers' productivity had the least factor loading of 0.567. The entire factor loading on the first component was all above 0.5.

The second component that was extracted from the factor loading was referred to as the customers' services offered. This component had a total of 4 items. Of these items, the one that highly loaded on offered customer service was that loan officers' competency affected the internal processes efficiency. The least factor that loaded on offered customers' services was the fact that the level of kindles among the staff when serving customers affected performance outcomes in our MFI with a factor loading of 0.502.

The third and last component that was extracted by factor analysis was referred to as the products offered and it had a total of 5 items. The item that highly loaded on the offered product was the fact that increasing product varieties per customer affected performance outcomes in the MFI whose factor loading was 0.736. On the hand, the factor that did not highly load on the offered product was the fact that the flexibility of loan terms among the products affected performance outcomes in the MFI with a factor loading of 0.539.

4.5 Correlation Results

Correlation analysis was used to establish the relationship between the established determinants and the growth of non-deposit taking MFIs in Kenya. The results are shown in Table 4.14.

Table 4.14: Correlation Results

		Growth	Loan Office Expertise	Customer Service	Products Offered	Interest Rate Capping
Growth	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	125				
Loan Officer Expertise	Pearson Correlation	.639**	1			
	Sig. (2-tailed)	.000				
	N	125	125			
Customer Service	Pearson Correlation	.852**	.718**	1		
	Sig. (2-tailed)	.000	.000			
	N	125	125	125		
Products Offered	Pearson Correlation	.407	.037	.027	1	
	Sig. (2-tailed)	.001	.679	.766		
	N	125	125	125	125	
Interest rate Capping	Pearson Correlation	.205	.101	.009	.411**	1
	Sig. (2-tailed)	.015	.262	.920	.000	
	N	125	125	125	125	125

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

The results in Table 4.14 indicate that loan officer expertise is a strong, positive and significant correlate of the growth of non-deposit taking MFIs in Kenya ($r=0.639$, $p<0.05$). At the same time, customer service offered was found to have a strong, positive and significant relationship with growth of the non-despot taking MFIs ($r=0.852$, $p<0.05$). The study further noted that the products offered ($r=0.407$, $p<0.05$) had a moderate, positive and significant correlation with the growth of non-deposit taking MFIs. The study also noted that interest rate capping ($r=0.205$, $p<0.05$) was found to have a moderate, positive and significant relationship with the growth of non-deposit taking MFIs.

4.6 Regression Results

Regression analysis was used to establish the determinants of growth of the MFIs as well as establishing the moderating role played by interest rate capping.

4.6.1 Determinants of Growth of Non-Deposit Taking Microfinance Institutions

The researcher regressed loan officer's experience, customer service offered and the products offered against the growth of MFIs. The findings are summarized in Table 4.15.

Table 4.15: Regression Beta Coefficient

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	**Std. Error**	**Beta**	**t**	**Sig.**	**Tolerance**	**VIF**
(Constant)	13.213	2.987		4.423	.000		
Loan Officer Expertise	.162	.070	.104	2.313	.027	.481	2.078
Customer Service	.190	.042	.168	4.515	.000	.481	2.077
Products Offered	.782	.102	.418	7.648	.000	.993	1.007
R=-.853[a]	**R Square=.728**		**Adjusted R Square=.721**	**Durbin-Watson =2.039**	**Std. Error =1.214**	**F=107.747**	**Sig=.000[b]**

a. Predictors: (Constant), Products Offered, Customer Service Offered, Loan Office Expertise
b. Dependent Variable: Growth of Non Deposit taking MFIs

From Table 4.15, the value of R square (coefficient of determination) is 0.728, which is interpreted to mean that the model of the study was fit. The value of adjusted R square was 0.721; this means that 72.1% variation in growth of MFIs is explained by loan officer's experience, customer service offered and the products as the key determinants. This implies that apart from the studied determinants, there are other factors that predict growth of MFIs which future studies should focus on.

The study conducted an Analysis of Variance at 5% level and the study compared the values of F-calculated with F-critical which is derived from the tables. From the findings in Table 4.15, the value of F calculated is 107.747; this means that the overall model of the study was significant. The p-value from the ANOVA Table is 0.000 which is lower than 0.05; this means that the at least one of the identified determinants of growth of MFIs was significant. The P-values were used to determine the significance of independent variables of the study. The interpretation of p values was done at 5% level of significance.

The established regression equation becomes:

$$\mathbf{Y = 13.213+0.162+0.190X_2 +0.782X_3}$$

From Table 4.15, it can be shown that when all the determinants are held constant, growth of MFIs would be at 13.213. A unit change in loan officer expertise while holding other determinants constant would bring about 16.2% increase in growth of the MFIs. A unit change in customer service holding other determinants constant would lead to 19.0% change in growth of the MFIs. A unit increase in products offered when other determinants are held constant would lead to 78.2% change in growth of the MFIs. Taking the significance level as 0.05, the study noted that loan officer experience ($p=<0.05$) has a positive and significant effect on growth of the MFIs. Customer services ($p<0.05$) was also found to have a positive and significant effect on growth of the MFIs. Products offered ($p<0.05$) was seen to have a positive and significant effect on the growth of the MFIs.

4.6.2 Test for Moderation of Interest Rate Capping

The three determinants of growth of MFIs were used to get an aggregate value which was regressed together with interest rate capping against growth of the MFIs. The results of the analysis are presented in subsequent sections. Table 4.16 gives the results.

Table 4.16: Regression Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
Model	**B**	**Std. Error**	**Beta**	**t**	**Sig.**	**Lower Bound**	**Upper Bound**	**Tolerance**	**VIF**
1 (Constant)	13.213	2.987		4.423	.000	-11.942	-5.169		
Loan Officer Expertise	.162	.070	.104	2.313	.027	-.036	.083	.481	2.078
Customer Service	.190	.042	.168	4.515	.000	.346	.484	.481	2.077
Products Offered	.782	.102	.418	7.648	.000	-.101	.056	.993	1.007
R=.853[a]	**R^2**= .728	Adj. **R^2**=.721	**R Square Change**=.728	**Sig. F Change**= .000	**F**=107.747	**Sig.**= .000[b]			
2 (Constant)	14.212	1.982		7.171	.000	-12.075	-5.202		
Loan Officer Expertise	.262	.080	.108	3.275	.027	-.035	.085	.473	2.116
Customer Service	.290	.062	.169	4.677	.000	.344	.484	.477	2.096
Products Offered	.882	.202	.419	4.366	.000	-.114	.058	.830	1.204
Interest Rate Capping	.117	.052	.019	2.250	.043	-.086	.120	.816	1.225
R=.853[a]	**R^2**= .728	Adj. **R^2**=.719	**R Square Change**=.000	**Sig. F Change**= .743	**F**=80.241	**Sig.**= .000[c]			
3 (Constant)	15.213	3.989		3.814	.020	-12.248	-4.211		
Loan Officer Expertise	.362	.075	.305	4.827	.017	-.037	.084	.468	2.137
Customer Service	.390	.047	.769	8.298	.010	.341	.482	.463	2.159
Products Offered	.882	.108	1.419	8.167	.000	-.114	.060	.827	1.209
Interest Rate Capping	.116	.052	.110	2.231	.016	-.087	.119	.814	1.228

Interaction Term	.118	.046	.107	2.565	.015	-.108	.072	.877	1.141
R=.853[a]	$\mathbf{R^2}$= .728	Adj. $\mathbf{R^2}$=.719	**R Square Change**=.000	**Sig. F Change**= .695	**F**=63.771	**Sig.**= .000[d]			

a. Predictors: (Constant), Products Offered, Customer Service Offered, Loan Officer Expertise
b. Predictors: (Constant), Products Offered, Customer Service Offered, Loan Office Expertise, Interest Rate Capping
c. Predictors: (Constant), Products Offered, Customer Service Offered, Loan Office Expertise, Interest Rate Capping, Interaction Term
d. Dependent Variable: Growth of Non Deposit taking MFIs

Table 4.16 indicates three models that were used to test for presence of moderation of interest capping. From model 1, the change in R square is 0.728. However, there was no change in R square in models 2 and model 3. From the results in Table 4.16, all the three models (model 1, model 2 and model 3) all have their F calculated values relatively high with p-values less than 0.05. This means that the three models of the study were significant. From Table 4.16, model is the relationship between the determinants and growth of non-deposit MFIs. From the results, all the determinants were found to have significant effect on growth (p<0.05). When interest rate capping is introduced as moderator in the model, its p-value is less than 0.05; indicating that it is significant. Model 3 is when an interaction is introduced in the model which together with interest rate capping is significant. Thus, the study infers that interest rate capping has a significant moderating effect in the relationship between the determinants and growth of non-deposit MFIs.

4.7 Chapter Summary

The chapter was set out to present the results of analysis from the data that was gathered in the study. The analyzed findings indicated that taking the significance level as 0.05, the study noted that loan officer experience (p=<0.05) has a positive and significant effect on growth of the MFIs. The results of regression analysis indicated that customer services (p<0.05) had a positive and significant effect on growth of the MFIs. From regression results, products offered (p<0.05) was seen to have a positive and significant effect on the growth of the MFIs. Regression results showed that interest rate capping regulation (p<0.05) has significant moderating role in the interaction between the identified determinants and the growth of MFIs.

CHAPTER FIVE

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is set out to present a discussion of the key findings, the conclusion and recommendations for policy and practice. The limitations of the study and the areas that require further research are also pointed out in the chapter.

5.2 Summary of the Findings

The broad objective of the study was to determine the moderating influence of interest rate capping on the determinants of growth of Non-deposit taking MFI. The study was guided by four specific objectives as: to investigate the effect of loan officer expertise on growth of non-deposit taking microfinance business in Kenya; to examine the effect of customer service on growth of non-deposit taking microfinance business in Kenya; to establish the effect of products offered on growth of non-deposit taking microfinance business in Kenya and to determine the moderating effects of interest rate capping on the determinants of non-deposit taking microfinance business growth in Kenya. A summary of the results is provided in subsequent sections:

5.2.1 Loan officer expertise and the growth of Non-Deposit Taking Microfinance Business in Kenya

The first objective of the study was to investigate the effect of loan officer expertise on growth of non-deposit taking microfinance business in Kenya. From descriptive statistics, respondents generally agreed on the various statements provided under loan officer experience. In other words, it means that loan officer experience was one factor that was considered by the covered MFIs. Agier and Szafarz (2013) noted that loan officers act as brokers by intermediating two parties with different backgrounds in terms of knowledge and access to information. They actively participate in screening and analysis of loan applicants, disbursement of credit and monitoring of repayment and overall management of recovery of loan facilities in full. From the results, majority of the respondents said that loan officer's experience had a large influence on the growth of their organization. According to Agier and Szafarz (2013), loan officers play a critical role in microfinance by creating the necessary linkage between institutions and their clients. This is achieved through collection of relevant information related to the borrowers which in turn influences the decision to extend credit.

From regression results, the study noted that loan officer experience had a positive and significant effect on growth of the MFIs. Agier (2018) examined the different roles played by credit officers in performance outcomes registered by MFIs using the VivaCred a Brazilian NGO and acknowledged existence of substantial heterogeneity among credit officers which differentiated the way they performed their duties. Sarker (2013) used ethical perspective to examine the effect that pressure on loan officers have on performance outcomes in MFIs, arguing that the ability of a loan officer to deal with this kind of pressures will affect the performance outcome in MFIs.

5.2.2 Customer Service and the Growth of Non-Deposit Taking Microfinance Business in Kenya

The second objective of the study sought to examine the effect of customer service on growth of non-deposit taking microfinance business in Kenya. The results of descriptive statistics indicated that most of the respondents generally agreed on customer service as one of the practices in their organization. This implies that most of the studied MFIs practiced customer service. This is supported by low values of standard deviation on the statements provided under customer service, which means that respondents shared similar views and opinions. Githinji (2009) studied factors influencing sustainability of microfinance institutions in Kenya and found that form of incorporation, customer service, level of subsidies, the flexibility of repayment schedule, savings mobilization, the per capital income, loans disbursed influenced sustainability of MFIs' in Kenya The findings indicate that majority of the respondents were of the opinion that the customer services offered had a large influence on growth of the MFIs. The result is consistent with a study in China which noted that in financial deepening, location of financial institutions is considered to be an influencer in the saving attribute of households (Chan & Jia, 2011).

The results of regression analysis indicated that customer services had a positive and significant effect on growth of the MFIs. Customer service can be through various touch points. Recently, there has been an increased emphasis on developing new delivery channels like agent banking, mobile phone money services as well as relaxed know-your-customer requirements for non-deposit taking microfinance institutions to enable them reach out to many unbanked and the underserved (Aduda & Kalunda, 2012). These have been enhanced by improve opening of branches in strategic locations. A study in China noted that in financial deepening, location of financial institutions is considered to be an influencer in the saving attribute of households (Chan & Jia, 2011).

5.2.3 Products Offered and the Growth of Non-Deposit Taking Microfinance Business in Kenya

The third objective of the study sought to establish the effect of products offered on growth of non-deposit taking microfinance business in Kenya. The results generally indicate that respondents agreed on various statements provided under products offered. In other words, the studied non-deposit MFIs had different product offerings which probably helped in diversification to minimize risk exposure through the portfolio of products held. These views are supported by Berger (2010) who argued that manager are conversant with their areas of operations and understand the products needed in those localities. Profits are a bank's reward for taking on risks like issuing loans that inherently carry some chance of default. They have a challenge to minimize risks and manage it to optimize profits without exposure of the MFI to unnecessary losses and in extreme cases, to cause institutional failure (Berger, 2010).

The results indicate that most of the respondents felt that the products offered had a large influence on the growth of the MFIs. The results is empirically supported by Kimando, Kihoro and Njogu (2012) who studied on the factors influencing the sustainability of micro finance institutions in Murang'a Municipality and found that the financial regulations, clients served, financial area coverage and the volume of credit transacting were the factors that rated highly to affecting the sustainability of MFIs' and that the more products an MFI has then the wider the coverage and the more clientele they get.

From regression results, products offered were seen to have a postive and significant effect on the growth of the MFIs. Kimando, Kihoro and Njogu (2012) study on the factors influencing the sustainability of micro finance institutions in Murang'a Municipality found that the financial regulations, clients served, financial area coverage and the volume of credit transacting were the factors that rated highly to affecting the sustainability of MFIs'. The more products an MFI has then the wider the coverage and the more clientele they get.

5.2.4 Moderating effects of Interest Rate Capping on the Determinants of Non-Deposit Taking Microfinance Business Growth in Kenya

The last objective of the study looked at the moderating effects of interest rate capping on the determinants of non-deposit taking microfinance business growth in Kenya. The study noted that respondents generally agreed on interest rate capping; meaning it was practiced in their respective organizations. The assertion is supported by low values of standard deviation on the statements provided under interest rate capping regulation. The low value of standard deviation in these statements indicates that respondents of the study shared similar opinions on the statements under interest rate capping. Kurgat (2012) argue that interest rate capping was a regulation to curb the rising interest rates charged by regulated banks. Kenyan government appreciates small and medium enterprises contribution to the economy and the role microfinance sector does to improve employment opportunities, goods and services production and provide innovation which support development strategies.

Regression results showed that interest rate capping regulation had significant moderating role in the interaction between the identified determinants and the growth of MFIs. Kipngetich, (2011) by using regression model while investigating the relationship between interest rates and ROE with financial performance as the independent variable and interest rate as the dependent variable established that there is a positive relationship between the two variables though the effect of interest rates on profitability is not significant in the all the banks while Mang'eli (2012) using descriptive research design in his study of relationship between interest rate spread and financial performance of commercial banks pointed out that interest rate spread affected the performance of commercial banks.

5.3 Contribution of the Study to Knowledge

The study contributes to the understanding the salient factors that determine the growth of non-deposit taking MFIs. The growth of these MFIs would definitely support the general intermediation role and this would positively contribute to the growth of the economy. It has been shown that the prices of the products and services of the deposit taking MFIs are important factors predicting growth.

5.4 Conclusion

The study sought to investigate the effect of loan officer expertise on growth of non-deposit taking microfinance business in Kenya. From the results, loan officer expertise had a positive beta coefficient. Based on this finding, the study concludes that loan officer expertise has positive and significant effect on growth of non-deposit taking microfinance business in Kenya. However, of all the identified determinants, loan officer expertise had the least effect on growth of on-deposit taking microfinance business in Kenya based on the beta coefficients.

The objective of the study was to determine the effect of customer service on growth of non-deposit taking microfinance business in Kenya. From the regression results, customer service had a positive beta coefficient which was more than that of loan officer expertise. In view of these results, the study concludes that customer service has a positive and significant effect on growth of non-deposit taking microfinance business in Kenya.

The study sought further to determine the effect of products offered on growth of non-deposit taking microfinance business in Kenya. The results of the study were that products offered had a positive beta coefficient which was the highest of all the determinants covered in the study. Based on these results, the study concludes that products offered have the highest positive and significant effect on growth of non-deposit taking microfinance business in Kenya.

The essence of the study was to determine the moderating effects of interest rate capping on the determinants of non-deposit taking microfinance business growth in Kenya. From the results, interest rate capping was found to have a positive beta coefficient. Thus, the study concludes that interest rate capping has significant moderating effect on the determinants of non-deposit taking microfinance business growth in Kenya The amount of loans disbursed by most non-deposit taking microfinance business is affected by the interest charged on products; controls on the interest charged on credit facilities had affected the performance outcomes of the MFI and additional charges imposed on the loans have affected the performance outcomes of the MFI and that variability on interest rate charged on loans affected the performance outcomes of the MFI.

5.5 Recommendations of the Study

5.5.1 Recommendations for Policy

The Central Bank of Kenya (CBK) should work closely with the parliament in formulation of laws that would enhance the growth of MFIs like the interest rate capping.

5.5.2 Recommendations for Practice

The loan officers should be encouraged to adhere to a high level of work ethics, effectively work in teams and collaborate with other staff of the MFIs. The loan officers should be equipped with skills on how to cope with work related pressure do as to effectively disburse the loans that customers of the MFIs have applied. Market researchers should be utilized in ensuring that the products offered to customers by the MFIs are easy to maintain and use.

5.5.3 Recommendations for Management

The management of the non-deposit taking MFIs should high and recruit high qualified loan officers based on their level of education. The employees of the MFIs should be more creative and innovative with high adherence to work related ethics. The staff should work on improving the turnaround time required in serving the customers and solve the complaints of the customers quickly. There should be customer referral programs among MFIs in Kenya. The management of MFIs should ensure benchmark with other industry plays to ensure that their product offering are affordable for the customers.

5.6 Limitations of the Study

The health care crisis brought about by Corvid-19 infection posed a challenge during collection of data from the respondents of the study. This is because during data collection, there were government directives of social distancing so as to curb the spreads of Ciorvid-19 virus. Furthermore, most of the respondents could not be found in their offices as they were working from home. This made it harder for the researcher to physically collect data from these respondents. However, to overcome this challenge, the researcher adopted an online method of distributing the questionnaires to respondents. Thus, the questionnaires were sent to the respondents through the email address.

Administering the questionnaires online to the respondents was in itself a challenge as some of the emails bounced back (because they were inactive. Making a follow up on respondents to fill in the questionnaires was a challenge for the study. This was reflected in the low response rate that was recorded in this study. It is possible that some of the respondents filled in the questionnaires but lacked the internet to send back the dully filled questionnaires. It is also possible that some of the respondents did not bother to respond to the emails and thus did not fill in the questionnaires hence explaining the low response rate recorded which was a limitation for this study was.

5.7 Areas for Further Research

The present study focused on non-deposit taking MFIs, future studies should therefore be conducted in other firms within the financial industry like the SACCIOs, commercial banks as well as investment banks. The dependent variable in the present study was growth of the MFI; future studies should cover other aspects like financial performance or operational performance. The present study covered three independent variables (loan officer's experience, customer service offered and the products offered) and one moderating variable (interest rate capping regulation) and all these were found to be significant. Future studies should include more variables.

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APPENDICES

Appendix I: Introduction Letter

Dear respondent,

RE: DATA COLLECTION

I am a postgraduate student at Strathmore University pursuing a Degree in Master of Business Administration. As a requisite for the award of the degree, I am carrying out a study on **THE MODERATING EFFECT OF INTEREST RATE CAPPING ON THE DETERMINANTS OF GROWTH OF NON-DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA.** You and your organization have been selected to participate in this study. The attached questionnaire has been designed to help gather data from respondents. The purpose of this letter is to kindly inform you that you have been identified as one of the respondents.

I therefore kindly request you to facilitate the collection of the necessary data by answering the questions as precisely and factually as possible. The information sought is purely for academic purposes. I assure that the information provided will strictly be treated as confidential, and will be used only for the purpose of carrying out the study.

Yours faithfully

JOSEPHINE MUTWIRI

MBA

Appendix II: Research Questionnaire

This questionnaire consists of seven major sections (Section A, B, C and D). Kindly respond to all questions by putting a tick [√**]** in the box matching your answer or write your answer in the space provided if it is not included in the choices. The information given here will only be used for purposes of academic study and will be treated with utmost confidentiality. Your cooperation will be highly appreciated.

SECTION A: BACKGROUND INFORMATION

1. Kindly indicate the number of years you have worked in the microfinance industry

Less than 1 year	[ ]
1 – 5 Years	[ ]
6 – 10 Years	[ ]
11-15 Years	[ ]
15 Years and above	[ ]

2. How many years have you worked in your present microfinance institution?

Less than 1 year	[ ]
1 – 5 Years	[ ]
6 – 10 Years	[ ]
11-15 Years	[ ]
15 Years and above	[ ]

3. Indicate your highest level of education

Certificate	[ ]
Diploma	[ ]
Bachelor's Degree	[ ]
Masters	[ ]
PhD	[ ]
Others (Specify.........	[ ]

4. Indicate the number years that your organization has been in operation

Less than 1 year	[ ]
1 – 5 Years	[ ]
6 – 10 Years	[ ]
11-15 Years	[ ]
15 Years and above	[ ]

SECTION B: GROWTH OF NON-DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA

5. Over the last Three years, kindly indicate the average growth in the number of customers in your institution. Use the scale provided below:

Less than 20% ( )

20-40% ( )

40-60% ( )

60-80% ( )

0ver 80% ( )

6. Over the last three years, kindly indicate the average growth in loan book size in your institution. Use the scale provided below:

Less than 20% ( )

20-40% ( )

40-60% ( )

60-80% ( )

0ver 80% ( )

7. Over the last three years, kindly indicate the average growth in interest income in your institution. Use the scale provided below:

Less than 20% ( )

20-40% ( )

40-60% ( )

60-80% ( )

0ver 80% ( )

8. Over the last three years, kindly indicate the number of new branches that your institution had opened. Use the scale provided below:

Less than 5 branches ( )

5-10 branches ( )

10-20 branches ( )

20-30 branches ( )

0ver 30 branches ( )

SECTION C: DETERMINANTS OF GROWTH OF NON-DEPOSIT TAKING MICROFINANCE INSTITUTIONS IN KENYA

This section will cover questions on the determinants of growth of non-deposit taking microfinance institutions in Kenya.

Loan Officer Expertise of Non Deposit Taking Microfinance

9. Please indicate the extent that the following aspects of loan officer expertise influence the growth of non-deposit taking microfinance business in Kenya. *Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Great extent, 5- Very great extent.*

Items	Statements	1	2	3	4	5
a.	Educational achievement of the loan officer affect performance outcomes in our MFI					
b.	The level of professional trainings received on credit administration improve the loan officers productivity					
c.	Regular online courses on credit administration improve the loan officers productivity					
d.	Loan officer's adherence to work ethics influence the level of nonperforming loans in our MFI					
e.	Loan officers possession of marketing knowledge helps improve the performance of MFIs					
f.	Individual officer's self-evaluation affect the performance outcomes in MFIs					
g.	The ability of a loan officer to work smoothly with their colleagues as a team affect the performance outcomes in MFIs					
h.	The ability of loan officers to work with computer technology affects their personal performance on the job					
i.	Loan Officer's ability to adhere to loan administration policies and guidelines affects the performance outcomes in our MFIs					
j.	The overall loan disbursements by a loan officer affect the performance outcomes in our MFIs					
k.	Loan officers ability to deal with work pressure affect the performance outcomes in MFIs					
l.	Loan officers competency affects the internal processes efficiency					
m.	Loan officer's ability to handle performance pressure from senior management affects the performance of the MFI					

10. To what extent do you think loan officer expertise influence the growth of non-deposit taking microfinance business in Kenya?

Very large extent	[ ]	Large extent	[ ]
Moderate extent	[ ]	little extent	[ ]
No extent	[ ]		

11. In your opinion, how does loan officer expertise influence the growth of non-deposit taking microfinance business in Kenya?

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Customer Service Offered By Non Deposit Taking Microfinance in Kenya

12. Please indicate the extent to which the following aspects of customer service influence the growth of non-deposit taking microfinance business in Kenya. *Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Large extent, 5- Very large extent.*

Items	Statements	1	2	3	4	5
n.	The ability to offer right service the first time among staff affects performance outcomes in our MFI					
o.	The ability of our staff to come up with new ways of serving clients in a better way affects performance outcomes in our MFI					
p.	The level of service commitment among our staff affected performance outcomes in our MFI					
q.	The consistency in service delivery among our staff affects performance outcomes in our MFI					
r.	The average time taken by our staff to resolve customer issues affect performance outcomes in our MFI					
s.	The general level of transparency exhibited by our staff affects performance outcomes in our MFI					
t.	The confidence with which our staff serve customers affect performance outcomes in our MFI					
u.	Responsiveness of our services to customers' needs affect performance outcomes in our MFI					
v.	The overall level of dynamism among staff when serving customers affect performance outcomes in our MFI					

w.	The willingness of staff to help customers affect performance outcomes in our MFI					
x.	The appearance of our employees affect performance outcomes in our MFI					
y.	The quality of office spaces and their branding affects performance outcomes in our MFI					
z.	The level of kindles among our staff when serving customers affect performance outcomes in our MFI					
aa.	The level of politeness among our staff when serving customers affect performance outcomes in our MFI					

13. To what extent do you think customer service offered influence the growth of non-deposit taking microfinance business in Kenya?

Very large extent [ ] Large extent [ ]

Moderate extent [ ] little extent [ ]

No extent [ ]

14. In your opinion, how does customer service influence the growth of non-deposit taking microfinance business in Kenya?

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Products Offered By Non Deposit Taking Microfinance

15. Please indicate the extent to which the following aspects of products offered influence the growth of non-deposit taking microfinance business in Kenya. *Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Large extent, 5- Very large extent.*

Items	**Statements**	**1**	**2**	**3**	**4**	**5**
bb.	The diversity of products offered to our customers affect performance outcomes in our MFI					
cc.	The level of alignment of our products to customers changing needs affect performance outcomes in our MFI					
dd.	Incorporation of technology in our product management affect performance outcomes in our MFI					
ee.	Diversifying loan repayment channels affect performance outcomes in our MFI					
ff.	The cost of our loan facilities to customers affect performance outcomes in our MFI					
gg.	The level of securities required on our loans affect performance outcomes in our MFI					
hh.	The flexibility of loan terms among our products affect performance outcomes in our MFI					
ii.	Increasing product varieties per customer affect performance outcomes in our MFI					

16. To what extent do you think products offered influence the growth of non-deposit taking microfinance business in Kenya?

Very large extent [ ] Large extent [ ]

Moderate extent [ ] little extent [ ]

No extent [ ]

17. In your opinion, how do products offered influence the growth of non-deposit taking microfinance business in Kenya?

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SECTION D: MODERATING VARIABLE INTEREST RATE CAPPING

18. Please indicate the extent to which the following aspects influence the growth of non-deposit taking microfinance business in Kenya. *Use 1- Very low extent, 2-Low extent, 3-Moderate extent, 4- Large extent, 5- Very large extent*

Items	Statements	1	2	3	4	5
jj.	The amount of loans disbursed is affected by the interest charged on our products					
kk.	The variability on interest rate charged on our loans affect the performance outcomes of our MFI					
ll.	Controls on the interest charged on credit facilities have affected the performance outcomes of our MFI					
mm	Additional charged imposed on our loans affect the performance outcomes of our MFI					

19. To what extent do you think interest charged influence client decision on where to borrow money?

Very large extent [ ] Large extent [ ]

Moderate extent [ ] little extent [ ]

No extent [ ]

20. In your opinion between interest rate charged and TAT, what do customers give more weight when considering where to borrow money?

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Thank you.

Appendix III: List of MFI's in the Sample

1. Progressive credit
2. Mwananchi Credit
3. Ngao Credit
4. My credit
5. Momentum Credit
6. Platinum Credit
7. Spring Board
8. Izwe credit
9. Dream credit
10. Mogo Credit
11. Baraka Credit
12. Milhan Credit

Source: Association of Microfinance Institutions in Kenya (AMFI-K) (2020)

Appendix IV: Ethical Approval

Strathmore
UNIVERSITY

21[st] May 2020

Ms Mutwiri Josephine
josephinemutwiri@gmail.com

Dear Ms Mutwiri,

RE: The Moderating Effect of Interest Rate Capping on The Determinants of Growth of Non-Deposit Taking Microfinance Institutions in Kenya

This is to inform you that SU-IERC has reviewed and **approved** your above research proposal. Your application approval number is **SU-IERC0703/20.** The approval period is **21[st] May 2020 to 20[th] May 2021.**

This approval is subject to compliance with the following requirements:

i. Only approved documents including (informed consents, study instruments, MTA) will be used
ii. All changes including (amendments, deviations, and violations) are submitted for review and approval by SU-IERC.
iii. Death and life threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to SU-IERC within 72 hours of notification
iv. Any changes, anticipated or otherwise that may increase the risks or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to SU-IERC within 72 hours
v. Clearance for export of biological specimens must be obtained from relevant institutions.
vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal.
vii. Submission of an executive summary report within 90 days upon completion of the study to SU-IERC.

Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI) https://oris.nacosti.go.ke and also obtain other clearances needed.

Yours sincerely,

fo/ Dr Virginia Gichuru,
Secretary; SU-IERC

STRATHMORE UNIVERSITY INSTITUTIONAL ETHICS REVIEW COMMITTEE (SU-IERC)
21 MAY 2020
TEL: +254 (0)703 034 000
P. O. Box 59857 - 00200
NAIROBI - KENYA

Cc: Prof Fred Were,
Chairperson; SU-IERC

Ole Sangale Rd, Madaraka Estate. **PO Box** 59857-00200, Nairobi, Kenya. **Tel** +254 (0)703 034000
Email info@strathmore.edu **www.strathmore.edu**