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Challenges That Face The Operations Of Microfinance Institutions In Kenya: A Case Study Of Microfinance Institutions In Nairobi County.

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ABSTRACT :*The growth of MFI can be measured in two folds sustainability and performance. The MFI act was enacted in 2006 this has brought the regulation on the licensing, supervision and establishment of MFI under the control of central bank of Kenya. The Act is to create an enabling environment that would promote sustainability and performance of MFI and at the same time protect customer's interest. The study was anchored in two theories theory of innovation and financial intermediation theory with study variable being regulations, liquidity and technology. The study targeted MFI employees to provide the needed information for the study. The data was analysed using descriptive statistics, inferential statistics and SSPS version 24.0. The inferential statistics was employed to establish the relations that exist between the study variables. Pearson correlation matrix was used for predicting and describing the variables in terms of directions and magnitude while regression analysis was conducted at a level of 5%. The data analysis tools will be SSPS and the use of inferential statistics and simple tabulations and presentations of the report using spread sheets. The study established that the challenges that faces MFI and all the predictors as shown by beta coefficients: financial regulation (β = 0.271);liquidity (β = 0.241) and technology (β = 0.316). The implication is that financial regulation, liquidity and technology are major challenges that face MFI in Nairobi County. However, the study established there is a positive but statistically insignificant relationship (β =0.03, p= 0.660>0.05) between interest rates andMFI challenges. This implies that interest rates would not necessarily a challenge to MFI experiences.*

KEYWORDS: *Micro Finance Institutions, Micro Finance Institutions Challenges,Micro Finance Institutions Operations*

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I. INTRODUCTION TO THE STUDY

Goyal, Marsh, Narayan and Ahmed (2011) highlights the role of MFI as facilitation of financial services to people that earn low income or the less fortunate members of the society who don't have ready access to financial institutions and their business; some of the services include provision of loans, micro saving, payment services, training on business management and financial advice. The concept of microfinance can be traced back to the mid nineteen century when Lysander Spooner documented the benefits of micro credits to farmers and entrepreneurs as a way through which poor people would and can get out of poverty. While in Germanthe idea was established by Wilhelm Raiffeisen over 40years ago and the concept has reached over two million rural farmers. In Bangladesh in 1972 the concept was popularised by professor Yunus who started to provide loans to the people who were unable to access loans services through the formal services, that later evolved and led to formation of Grameen Bank in 1983 (Yunus, 2008).

It was until the late 1990's that microfinance revolution was actually felt across the globe. This was attributed to the lending model of Grameen Bank that required lenders to organize themselves into group of five to get a loan. The model was later referred to as joint liability contract. According to the World Bank report (2015), MFI services are largely common in developing countries and uses groups as technique to provide the services to less fortunate people in the society. Microfinance concept is relatively new in Africa compared to Latin America and Asia. MFI are able to serve poor clients with products and loans charged by low interest rates and their locations closer to their clients, despite their conditions MFI have been able to give loan with lower rates and still maintain financial stability. MFI success is mostly attributed to use of peer group as innovation mechanism. MFI in an African perspective are diverse in form and mostly depend on financial assistance from international organization and humanitarian organizations and they operate microproduct services that are highly priced (Etzensperger, 2013).

A study by Artadi and Salai-Martin 2003 attributed Africa biggest economic tragedy of twentieth century as dismal growth in the continent as my countries suffered negative per capita growth. Kenya financial sector is estimated to be the largest in east Africa by 2010 there were 24 big registered MFI that are controlled by Micro finance Act of 2008 (Goyal, Marsh, Narayan, & Ahmed, 2011). A survey conducted in 2013 by Shankar shows that MFI is a relatively small in Kenya financial sector but the outreach has double into 3.4% in 2009 with a loan portfolio of over 18 million US$ in 2012. Currently MFI provide loans and they are likely to increase their products and services portfolio. The growth of MFI can be measured in two folds sustainability (ability to generate funds to maintain and expand services without injection of subsidy) and performance (provision of services to the society and the optimal goal of microfinance intervention). The MFI act was enacted in 2006 this has brought the regulation on the licensing, supervision and establishment of MFI under the control of central bank of Kenya. The Act is to create an enabling environment that would promote sustainability and performance of MFI and at the same time protect customers interest (Ochanda, 2012).

With the operationalization of Micro Finance Act in May 2008, the MFI were licensed to mobilise saving from the general public hence the promoting competition, access and efficiency. Therefore it was expected that MFI will play an important part in expansion of financial markets by enhancing services and product access. MFI have contributed to the financial inclusion penetration in most parts of the country by opening new branches and have developed new financial products that are demand driven and are important to customers such as mobile banking (Cracknell, 2012). According to SECO (2010) financial expansion and growth of MFI can be understood as increasing use and coverage of financial services that requires the understanding and characteristics of the new clients and delivery mechanisms. The main objective of MFI is provision of soft landing for the poor people in the society, who have the mind to develop but lack accessibility to financial institutions, in order to borrow money to develop their lives. Hence the microfinance institutions look forward to foster change to its members economically, financially and socially, through investing in them by encouraging them to pull resources together for a better way of life. MFI are required to have a backup of their strategies and have initiatives that tackle causes of poverty and eradication of poverty and should seek ways of addressing social and political causes of poverty. In a country like Kenya where almost half of the population is estimated to be living under conditions of absolute poverty and increased accessibility to microfinance services in the fight against poverty. These institutions have become the transformation ground for the society, for their terms are favorable to the people within their operation level.

II. PROBLEM STATEMENT

The implementation of Micro Finance Act 2008 in Kenya has been a game changer in the performance of MFI but in the long term objective is to strengthen the banking system and protecting MFI clients. Some of the Act aspects are oriented towards developing and achieving government objective without compromising stability and regulation of sector. In 2008 the United States suffered a financial meltdown that called upon all players in the financial sector to focus on stable financial system. The financial system should provide avenue for equity and growth of MFI. One would expect that Micro Finance Act is to provide efficiency and lower risk of financial risk. The critics of the Act have argued that it will interfere with efficiency of the market while the central bank of Kenya thinks otherwise. The development of MFI is recognised as the prerequisite for poverty eradication. According to Goyal, Marsh, Narayan and Ahmed (2011) MFI are associated with providing loans to the poor as one of their core business that is believed to be a source of creation of jobs, provision of business skills and effective management of natural resources.

MFI are have challenges that affect their quest to enhance financial accessibility in Nairobi County especially in the informal settlements and this study focused on both internal and external factors that affect the operations of MFI within the city. There is a lot of pressure for MFI to adopt new delivery channels and achieving financial inclusion so they don't serve just a niche market. Notwithstandingthe growth of banking sector in Kenya; MFI are not spared either with their services that mostly target the poor people in the society who are considered as higher risk in the banking sector. Studies have been conducted in relation to MFI; Mureithi(2012) examined the how financial regulations affects financial performance of DTMs and her findings were that financial regulations has a positive relationship with financial performance of DTMs. Kurgat (2011) examined the role of saving in MFI; Ochieng (2012) researched on the effects of MFI loans on poverty; Karuri (2010) examined the influence of MFI on deficiency reduction. Studies have been conducted on MFI, few studies have focused on the challenges that MFI faces during their operations it's in this light that the study was conducted to establish the challenges that face the operations of MFI in Kenya with reference to selected MFI in Nairobi County.

III. THEORETICAL REVIEW

Theory of Innovation

Theory of innovative that was propagated by renowned scholar Schumpeter in 1934. This theory emphasized the role of entrepreneurship and the need to source for prospects that provides avenues for innovation as well as provision of activities that will definitely transform and expand income to people in the society. Innovation theory differentiates between intellectual and physical capital as well as the saving aspect that is associated with growth and innovation. The theory stipulates that technology progress determination depends on the organization ability to adjust to market demands with an aim of making profit as well as offer products and services that are new in the market place. This gives the organization upper hand over business rivals that still offer outdated (Schumpeter, 1934).

Financial Intermediation Theory

The financial intermediation theory is one of the theories that seek to explain the reasons for existence of financial intermediaries in an economy. Financial intermediaries are tasked with creating equilibrium between the spending units, deficit spending units and surplus spending units. The main reason propagated by the theory in favour of the financial intermediaries is the informational asymmetry which generates market imperfections by preventing savers and investors from trading directly with each other in an optimal way. The theory is based on informational asymmetry and agency theory in that the existence of MFI is described by the following factors cost of transaction, inadequate information and regulation methods adopted(Cuza, 2009).

Financial Regulations

Prior to the enactment of the Microfinance act of 2006, MFI's in Kenya were under the licensing of societies, co-operatives, trustee, companies and banking Act. However, when NARC formed the government in 2002 under the stewardship of the then Minister of Finance Mr. David Mwiraria, it was decided that there was a need to establish a comprehensive regulatory policies and where necessary regulatory bodies to govern the operation of all the different players in the countries financial industry (Mariara, 2006).This was clear evidence of the government's appreciation of the dynamic operations of financial institutions. As a result, institutions such as the Sacco Societies Regulatory Authority (SASRA) and the Kenya Bankers Associations (KBA), were established to oversee the activities of the country's biggest financial industry players namely; Deposit taking co-operative Societies and Banks. In 2005, a taskforce comprising of executives of MFI's, representatives of the CBK and the MFI's umbrella body AMFI initiated the process of establishing a governance framework for MFI's through a Micro-finance bill that would be tabled in parliament (Omino, 2005). This would later culminate in the gazettement of the Microfinance act of 2006.

The microfinance industry is currently regulated through the Microfinance Act of 2006 which sought to lay the framework of key policies governing the industry. However, a closer look at the policies adopted reveals a disparity in what policies are relevant to non-deposit taking MFI's. The regulatory environment within the microfinance industry in the country appears to lean more towards the operations of the deposit taking MFI than the informal non deposit taking MFI's (Ndulu, 2016). MFI's continue to face constraints in terms of growth despite the Government of Kenya recognizing the importance of the supporting informal sector in poverty alleviation and ultimately the growth of the economy. Some scholars have termed growth that is not regulated as unsustainable growth, hence, the importance of regulation in any industry seeking to grow and expand. MFI's have over the years played a pivotal role in fuelling the growth of the Informal sector otherwise referred to as SME's through capital availability (Mukama, Fish, &Volschenk, 2005).

Good governance can only take place if there is participation from all players in an organization / industry and impartial application of the rule of law. Good governance can take different forms for example political governance which involves embracing decision making and policy implementation by a legitimate and authoritative state that represents the interests of the society to economic governance whose major pillar is transparency and accountability (Chibba, 2009). The regulationof institutions help in drawing the line of prohibited and allowed activities as well as defining scope of the services offered by a given institution; that are important for creating conducive environment for MFI operations (Muganga, 2010). Players in the microfinance industry need to recognize the role played by non-deposit taking institutions and to lobby for policies that are inclusive and cognizant of the operations of those institutions. In 2007, the Government of Kenya launched the Vision 2030. The Kenya Vision 2030 is a long term development blueprint for the country encompassing 3 key pillars namely; Social, Economic and Political pillars (Aduda&Kalunda, 2012).

The contributions of the microfinance institutions towards the attainment of this vision cannot be over-emphasized. It is therefore important that adequate steps are taken to ensure proper governance of all participants and or players in the microfinance industry. The challenges that hinder the development in the microfinance industry still remain the high cost of finance and absence of a focused government approach to help little and rising organizations in Kenya. The Kenyan government considers the small and medium enterprises and by extension, the microfinance sector the centre of industrial development since it generates employment opportunities, provides goods and services and steers competition and innovation and should therefore hinge several development strategies on it (Kurgat, 2012).MFI's should constantly lobby with the government highlighting the immense benefit that citizens can generate from them (Mngolia, 2009)this will result in laws and regulations that favor their activities and as a result, improve their ability to reach out to a wider customer base. Institutions such AMFI and other umbrella bodies (MFI's with similar vision can establish) can be useful media through which they can advocate for review in laws that govern the operations of MFI and create awareness among policy makers (Muiruri, 2014).

Liquidity

The concept of Capital Adequacy Ratio can help indicate of an MFI's liquidity. Liquidity is important in ascertaining a firm's ability to meet its liabilities and cushion it from negative profitability which may impact on the going concern of a business. Poor liquidity can lead to a financial institution's closure regardless of its financial performance. The capital adequacy ratio is relevant to the microfinance industry in that weighs the capital assets MFI requires. MFI are required to have high quality liquid assets as protection against liabilities. They should be cognizant of the fact that under crisis, even the relatively "safer" sources of capital can be withdrawn (Berger, 2010). Financial institutions exist primarily due to market imperfections (Aduda&Kalunda, 2012).

MFI create an avenue through which ultimate savers and investors interact for their common good. Financial intermediaries are able to achieve this since they have the right level of information as compared to the ultimate savers and investors. Many of these imperfections lead to specific forms of transaction costs and financial intermediaries appear to overcome these costs, at least partially (Muli, 2013). In the 1990's, the government promoted the development of MFI's by providing a platform that supported donor support to the MFI's. This donor support was primarily from the established institutions such as the World Bank and Non-Governmental Organizations (NGO's) (Afifa, 2005). MFI are often associated with poverty reduction and provision of financial services to the poor. MFI's are often assessed based on outreach to the poor and their impact in improving the living standards through financial support. However, as the MFI industry grew in size, donor support became constrained with the increased number of MFI's triggering the need to establish self-sustainable MFIs that could stand on their own. MFIs would therefore need to start covering their operational expenses from their program incomes (Aduda&Kalunda, 2012).

It is believed that this initiative would ultimately increase the availability of capital for the lending institutions in the informal sector, notably, the non-deposit taking MFI's (Dondo, 2007). Unfortunately, the initiative was at best a pre-conceived one with limited resources being allocated to its achievement as was the case with most government sponsored projects. Major financial institutions experienced a meteoric rise in their performance boosted by earnings from lending and financing of small and medium enterprises. This unfortunately, continues to be the trend to date, with most MFI's still struggling to acquire sources of capital (Mariara, 2006). The success of most microfinance schemes depends on how competitive their interest rates are compared to the market interest rates (Afifa, 2005). MFI's should however charge interest rates that can enable them sustain their day to day operations. The administration of many small loans, processing, monitoring and evaluation is more often than not a very expensive exercise which may have a significant impact on the profitability of an MFI. Without self-sufficiency, there is little hope for MFIs to reach greater numbers of poor households (Mukama, Fish, &Volschenk, 2005).

Technology

Technology is broadly speaking the application of scientific knowledge domain for sensible functions and practical purposes. Technology continues to be one amongst the largest disruptions within the modern day economic setting and development of technology may be a vital facet of business aggressiveness within the 21st century (White &Bruton, 2011). Technology has been one of the greatest contributors of growth in literary all industries that have embraced it in their core businesses. The last decade has seen tremendous growth in the use of the internet in almost all industries with technology being a source of competitive advantage to those who have applied it in their day to day operations(Trott, 2012). The financial industry in Kenya has been recognized globally for the adoption of innovative platforms that have led to increased financial deepening (Anyasi&Otubu, 2009).

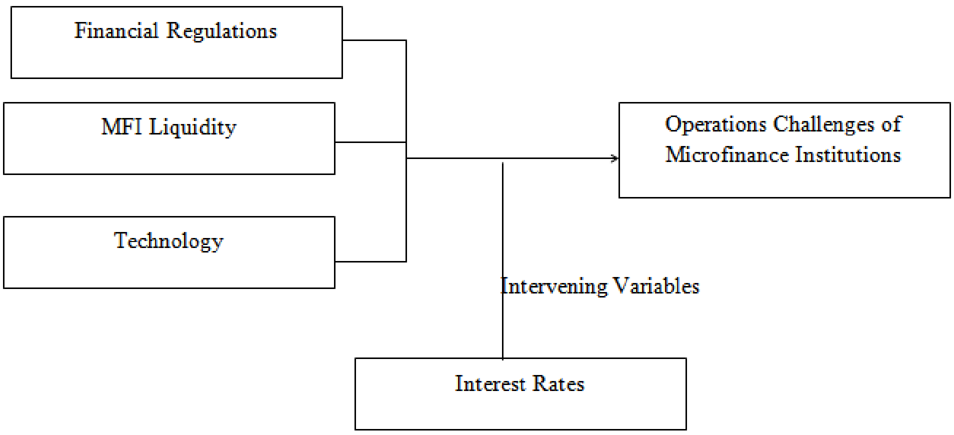
Chan and Jia, (2011) study focused on the efforts made by financial regulators in China in order to change the situation as far as rural finance services are concerned. It was established that mobile service providers are entering into strategic alliances with banks to provide banking services to the rural majority. It was also revealed that this strategic partnership enables commercial banks to achieve financial deepening. However, the study confirmed that the financial deepening in the banking industry enhanced by mobile technology cannot be successful without proper cooperation from the regulators. Rapid technological change demands a cross discipline approach if gainful development is to occur. Integration of technology requires bringing everything together and introducing tactical steps that drive day to day activities. It is through integration that a lot of visions and imaginations are visualized and are the premise upon which a shared vision is set. This vision helps stakeholders envision future opportunities and begin to set a road map going forward (White &Bruton, 2011).

The importance of adopting innovation is arguably the reduction in costs and risk of making loans available to the poor and isolated people. In fact, innovation leads to long term sustainability through driving out costs to invest in growth and improved operational efficiency within organizations. The latest revolution that financial institutions have adopted is with relevance to mobile banking in an effort to leverage on the synergies of mobile banking technology in telecommunication (Anyasi&Otubu, 2009). The main reason why Kenyan monetary institutions have managed to register growth even throughout times of global economic recession is as a result of "crossing the boundaries of conventional banking" and embracing new innovations (Muli, 2013). According to Economic survey (2015) internet users had increased by 23% to 26.2 million users primarily driven by a reduction in data bundle prices and affordability of internet enabled phones.

This has resulted in an increase in the mobile lending statistics with most financial institutions recording remarkable top line financial growth boosted by increased interest income from the largely unbanked population that has embraced mobile lending facilities (Ondiege, 2010).The development of technological capabilities requires rigor and focus of both the governments and enterprises. At the firm level, management needs to be cognizant and willing to develop technological capabilities. The firm should have available capital and be ready to investing in productivity enhancing efforts MFI's continue to grapple with limited resources thus aren't able to implement comprehensive innovative solutions in their business models and hence have not been able to leverage on technology to improve their outreach to a wider market. The mobile technology innovations have enabled most banks to expand their operations beyond national boundaries and this has enabled them to increase their profitability (Muli, 2013).

Unfortunately, many MFI's organizations are not considering the use of ICT based system to implement various growth and development strategies, ICT strategy implementation systems helps MFI's organizations to effectively respond to the changing business environment which they operate in. During strategy implementation process, some strategies require to be adjusted in order to be compatible with the dynamic characteristics of business environment such as change in demand and supply of MFI's services and change of interest rates polices by the central bank (Cole, 2009). Mobile technology has a very huge potential of availing financial and banking services to majority of unbanked populations and more specifically to the poor. (Ondiege, 2010) argues that Sub Saharan Africa has the highest percentage of penetration by Microfinance institutions when compared to other regions in the developing world. In order for these financial institutions to improve their revenue and performance, they have embraced the use of mobile banking technology to reach many customers in areas where conventional banking never existed (Ondiege, 2010).

Conceptual framework



Research Hypothesis

H_o1 There is a significant relationship between financial regulations and operations of MFI

H_o2 There is a significant relationship between liquidity and operations of MFI

Ho3 there is a significant relationship between technology and operations of MFI

IV. RESEARCH METHODOLOGY

The research was concerned with understanding of the present with a view to being able to predict the future situation. Research philosophy is the foundation of information and its nature contains vital assumptions on the way the research study views the world(Saunders, Lewis, & Thornhill, 2007). Research methodology is influenced by philosophical orientations. Epistemologically, there are two broad research philosophies that dominate the literature in the social sciences: positivism and phenomenology. Cooper and Schindler (2011) explains that positivism takes into account the quantitative approach and it's based on real facts, neutrality, objectivity, validity and measurement of results.Positivism maintains that information should be based on factual data or knowledge and not abstractions, therefore information is predicated on experiments and observation based on the existing theories. It sees the need to know in a context when the truth is one and to predict as the important means to knowledge creation(Cooper & Schindle, 2011).

Positivism underscores that the eyewitness is independent from what is being observed, the choice of the research is determined by objectives rather than beliefs and the concepts that are operationalized in a manner that they can be measured from a sample and generalization of the entire population. The research study was grounded on a research paradigm that is positive. The requirement is that the facts must be established for casual relationships that may be observed. Empirical studies based on hypothetical and deductive research approach in which the study begins with a hypothesis, are most appropriate for this type of investigations. This study therefore wasinclined to a positivist research approach. The phenomenological paradigm may be viewed as qualitative. Phenomenology suggests, that knowledge is subjective, based in the experiences, personal knowledge and interpretation of the individual. The emphasis placed on the world of experienced by an individual, not the reality as something separated from individual(Saunders, Lewis, & Thornhill, 2007).

The phenomenological approach doesn't start from the established theory and then procced to collect information that will either reject or vindicate the applied theory. This research study wasguided by the positivist paradigm because it was anchored on theory from which hypotheses were derived, followed deductive reasoning and employed quantitative methods to ensure precision, logic and evidence testing. The study target population were employees of MFI located in Nairobi County and were categorized into level of seniority in the organization from senior and middle level management and non-management staff. Zikmund (2010) also refer to a sampling frame as a source list containing all names of the universe. Specifying the sample frame was crucial as it itemizes all items in the population from which a sample is obtained for analysis so as to test the research hypotheses. Data was collected using questionnaires that were deemed reasonable because of the high literacy levels among the category of employees selected to participate in the study. Semi structured questions were used to obtain general information. Questions one to five required the respondents profile and institution profile. The rest of questions were designed to address research questions and objectives based on study variables. The use of questionnaire is preferred in this study because the respondents were literate and were able to understand the questions and respond appropriately. The study also used secondary sources of information for literature review.

The data wasanalysedusing descriptive statistics, inferential statistics and SSPS version 24.0. The inferential statistics were used to show the relationship that exists between the study variables. Pearson correlation matrix was used for predicting and describing the variables in terms of directions and magnitude while regression analysis was conducted at a level of 5%. The data analysis tools were SSPS and the use of inferential statistics and simple tabulations and presentations of the report using spread sheets. Tables were used for presenting data that was first coded and organized according to study variables from which generalizations will be made. The study used Pearson correlation matrix which will be used. The multiple linear regressions were adopted for the joint effect to research study liner relationship among the variables that will be contains a coefficient B1 for each predictor that indicates each predictor model.

The general model for predicting challenges that face MFI was represented by the following model: $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 \ldots \beta n X n + \varepsilon 1$. Where Y is the dependent variable and was a linear function of $X_1 X_2 X_3 \ldots X_4$ plus ε1, α is the regression constant or intercept, β_1...n are the regression coefficient or change induced in Y by each X, X_1…n are independent variables, ε1 is the error term that accounts for the variability in Y that cannot be explained by the linear effect of the predictor variables. To estimate model of composite index of organizational performance measure, **α** is a regression constant or intercept, β1-3 are the regression coefficient. EE represents the composite score of strategic leadership and is the independent variable. JRA represents the mediating variables composite index. The moderating variables are represented by IF which is the composite score of employee attitude and behaviour. ε1 is the random error term that accounts for the viability of the challenges that cannot be explained by the linear effect of the predictor variables.

Results of the study

The dependent variable was subjected to normality via descriptive analysis and it's expected that dependent variable should produce results that have a normal distribution.

Table 4.1: Model summary of financial regulation Pearson correlation computation

R	R square	Adjusted R Square	Std. Error of the Estimate
0.347[a]	0.141	0.136	4.224

a. Dependent variable : Financial Regulation
b. Predictors Challenges Facing MFI

The regression results show that financial regulation is one the major challenge that MFI encounters. The illustration of by regression results at 5% level of significance with beta coefficient of 12.511 and t-value of 12.589 with a P-Value of 0.000

Table 4.2: Model summary of liquidity Pearson correlation computation

R	R square	Adjusted R Square	Std. Error of the Estimate
0.382[a]	0.146	0.142	4.134

a. Dependent variable : Liquidity
b. Predictors Challenges Facing MFI

The results of regression show liquidity was found to be a challenge to most MFI and liquidity has positive influence on performance of microfinance institutions. The regression results at 5% level of significance with unstandardized beta coefficient of 0.241 and t value of 5.579 with a P – Value of 0.000

Table 4.3: Model summary of technology Pearson correlation computation

R	R square	Adjusted R Square	Std. Error of the Estimate
0.316[a]	0.131	0.126	4.226

a. Dependent variable : Financial Regulation
b. Predictors Challenges Facing MFI

The illustration by regression shows that beta coefficient of 0.316 and t-value of 4.226 with a P-Value of 0.000. The study findings indicate that technology is a major challenge that MFI grapples with all the time.

Coefficients Results

Model		Unstandardized coefficients		Standard coefficients	t	Sig
		B	Std. Error	Beta		
1	Constant	12.511	4.221		12.589	
	Financial Regulation	0.271	0.050	0.272	2.627	0.000
	Liquidity	0.241	0.043	0.693	5.579	0.000
	Technology	0.316	0.060	0.361	4.425	0.000

Results in table above shows the challenges that faces MFI and all the predictors as shown by beta coefficients: financial regulation(β = 0.271);liquidity (β = 0.241) and technology (β = 0.316).
The regression equation established was as following

$Y = 12.511 + 0.271X1 + 0.241X2 + 0.316X3$

The implication is that financial regulation, liquidity and technology are major challenges that face MFI in Nairobi County. However, the study established there is a positive but statistically insignificant relationship (β =0.03, p= 0.660>0.05) between interest rates andMFI challenges. This implies that interest rates would not necessarily a challenge to MFI.

Summary, Conclusion and Recommendations

The study established that favorable laws and regulations that will enhance the institutions ability to reach out to a wider customer base. However, good governance is an output of participation from different stakeholders. Good governance involves embracing decision making and policy implementation by an authoritative state that represents the interests of the society to transparency and accountability from an economic perspective. Regulators also need to understand that the microfinance sector is an integral part of the country's financial system .The study sought to answer the question on the challenges that face MFI and the descriptive statistics showed that respondents agreed that technology has impacted on the growth of Speed Capital over the years. The correlation results also showed technology and growth of MFIs and this was significant.

The findings support the fact that technology continues to be one of the largest disruptions within the modern day economic setting and development of technology may be a vital facet of business aggressiveness within the 21st century (Arranz&Arroyabe, 2009). The financial industry in Kenya has been recognized globally for the adoption of innovative platforms that have led to increased financial deepening (Anyasi&Otubu, 2009). This finding supports Muli (2013) arguments that technological innovations are more likely to enable financial institutions achieve competitive advantage by providing a variety of products to the clients. This reason why some MFI will have better performance in the banking sector. The Ability of Most of MFI providing affordable and competitive banking services across geographical boundaries largely depends on the technology adopted. The government has over the years encouraged the introduction of information communication technology (ICT). Consequently, mobile money services are being used widely in Kenyan communities. The ability to provide affordable and competitive services across geographical boundaries largely depends on the technology adopted (Anyasi&Otubu, 2009). Despite the relevance of technology, there is evidence to show that MFIs are facing several challenges in using technology to their advantage.

It is however important to note that MFI growth and expansion will be enhanced by technology if there is proper co-operation from regulators as was found out in a study done in China. It was established that mobile service providers are entering into strategic alliances with banks to provide banking services to the rural majority (Chan &Jia, 2011). Mobile technology has been recognized as the most convenient way of providing access to credit to most people who have no access to banking facilities (Ondiege, 2010). Adoption of an innovative culture requires support and involvement from top management for implementation to be successful and in line with the organizations objectives and vision (White &Bruton, 2011). It is important to note that the development of technological capabilities requires rigor and focus from different stakeholders such as governments and enterprises. At the firm level, management needs to appreciate and show willingness to develop technological capabilities and channel resources in an optimal way. The firm should have available capital and be ready to investing in innovative and productivity enhancing efforts.

The study established that MFI liquidity is also a challenge to the institutions. The descriptive statistics showed that respondents agreed that Speed Capital actively sought for funding and sources of financing on a regular basis. The correlation results also showed a positive and statistically significant relationship between liquidity and growth MFIs. Regression analysis further confirmed that liquidity influenced growth of MFIs by a factor of 0.241 and this was significant. This is due to the fact that inadequacies in MFI resources and the absence in provision of wide rage financial services in informal settlements where the outreach is predominantly via group based programmes that have limited capacity for financial resources. The study supports Lehner (2009) who noted that if MFI's continue to get better access to capital markets, individual loans in microfinance will gain importance in the future. Despite efforts by the government to provide incentives to attract savings and availability of capital from venture capitalists, most MFI's still struggle to acquire sources of capital inhibiting their ability to serve the growing demand for capital from the emerging entrepreneurs.

Based on the results of the study the researcher recommends various ways that MFI's can use to overcome the challenges that they face. The study recommends for unification of the legal and regulatory framework of MFIs to be regulated and supervised by the Central Bank of Kenya. This calls for consultation with stakeholders in the MFI industry to chart a way forward to enhance growth of MFIs. MFIs senior management should invest in information communication technologies that are emerging in the global financial markets as a means of creating, achieving and maintaining a sustainable competitive advantage in financial services provision in Kenya. MFI should be proactive in identifying and selecting a target group for their services and this should not be dependent on the location of their customers rather than where the targeted consumers are located.

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