

**AN INVESTIGATION INTO FACTORS INFLUENCING THE GROWTH
OF MICRO FINANCE INSTITUTIONS IN KENYA
A SURVEY OF MERU COUNTY**

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ABSTRACT

Microfinance institutions (MFIs) play a vital role in the economic development of many developing countries. They have a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank does not offer to low-income earning clients in the banking system. Notably, increased attention has been paid in recent years to what microfinance entails, its objectives, its successes and limitations and its linkage to poverty alleviation. This study sought to investigate the factors influencing the growth of MFIs in Kenya with reference to Meru County. Descriptive research design was adopted because the study was seeking to describe one variable (growth of MFIs in Kenya) in a population (MFIs employees at their branches). The study found that effective management information system, liability management, customer base and interest rate affect the growth of MFIs in Meru County. The study concludes that MFIs are not only relying on grants and concessional funding but they have also started using commercial sources of finance including deposits, loans and bond issuance. The study further concludes that MFIs management information system enables staff members handle large customer transactions. In addition, if MFIs charged rates are too high, it hinders their ability to help the poor, which may result in a rise in defaulter rates, and possibly results to an increase in losses. This study recommends that MFIs to place much greater emphasis on liability management. In particular, MFIs should have their objectives to guide them and act as their performance benchmarks which would be evaluated at the end of a specified duration. They have to come up with sophisticated information systems which will help in information sharing and giving the best data base for all the customers and also should offer competitive interest rates.