

**THE EFFECT OF CHANGE IN BASE LENDING RATE ON GROWTH OF MICROFINANCE
BANKS IN KENYA**

BY

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ABSTRACT

The main aim of the study was to investigate the effect of change in base lending rate by CBK on the growth of microfinance banks in Kenya. The study is guided by market segmentation theory, classical theory and loanable funds theory. The study adapted the

descriptive research design. The target population of this study comprised of 9 microfinance banks regulated by CBK and registered by AMFIs as at 31st December 2014. Out of the 12 registered microfinance banks by June 2015 by CBK only 9 were registered by 31st December 2014.

Kenya's microfinance sector comprises of nearly 250 MFIs, with only 62 of these being registered with their umbrella body, Association of Microfinance institutions (AMI). The study used secondary data obtained from the following sources; Data on credit lending rate trends for the last five years from CBK. The study used Statistical package for Social Sciences-SPSS version 22, to aid in data analysis. Descriptive statistics, Pearson's correlation analysis and ordinary least squares regression model was used in the study.

The study revealed that a weak positive correlation coefficient between growth of microfinance banks and increase base lending rate, as shown by correlation factor of 0.221. Further the research established that interest rate affects the profit as well as the net worth of MFIs. The research found strong positive correlation between growth of microfinance banks and credit terms as shown by correlation coefficient of 0.825. The study revealed that management decisions about credit methodology, credit terms and markets in which to operate directly affect efficiency and productivity. In relation to growth of microfinance banks in Kenya the study revealed, increased competition is an issue that creates a problem in growth and expansion of the organization.

Based on the research findings the study recommends that microfinance can bring their interest rates down by continuing to increase the operational efficiency, increasing innovations

in the products offered and the technology used to service and offer loans to the poor. The CBK also have a vital role to play in getting interest rates lower, not by imposing rate ceilings which are more harmful than beneficial, but rather through setting the right environment and providing the infrastructure (human, physical and institutional) necessary to nurture increased competition.

Key words: interest rates, microfinance banks, base lending, growth

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