UTILISATION OF MICRO FINANCE INSTITUTIONS FUNDS BY BORROWERS IN ARID AND SEMI-ARID LANDS IN KENYA: A SURVEY OF MARALAL TOWN.

GEOFFREY TARAGON

GMB/NE/0611/05/10

A Research Project Submitted In Partial Fulfilment for the Award of Master of Business Administration of Kabarak University

OCTOBER 2012

DECLARATION

This research Project is my original work and has not been presented for the award of a degree in any other university/institution or for any other purpose.

Signature…………………………….. Date ……………………………..

Geoffrey Taragon GMB/NE/0611/5/10

APPROVAL

This research Project has been submitted for examination with my approval as the university supervisors;

Signature……………………………… Date………………..……………..

Dr. Kalio A.M.

Signature………………………………Date ….……………..……………..

Dr. Nzioki P.M.

DEDICATION

First I want to dedicate this project to the Almighty God who has given me good health and the gift of life without which I could not have done this project. I would also want to dedicate this project to my wife Marciah Cherotich and children Babra Chebet, Cynthia Chemutai and Bethuel Kiprotich who gave me a lot of encouragement throughout my study.

ACKNOWLEDGEMENT

I express my sincere gratitude to the colleagues for their support in academics in order to carry out my study. I also pass my gratitude to my family members who have always been supportive. I would like to express my sincere gratitude to the Kabarak fraternity with special emphasis to my supervisors who fine-tuned my focus towards the achievement of the objectives of this study. Finally, I thank God for giving me life and strength.

God bless you all.

ABSTRACT

The study sought to establish whether borrowed funds from MFIs are effectively applied and used for the intended purposes. Despite a lot of effort in terms of resource availability, the poverty levels are still very high and the defaulted loans in Maralal town amounts Kshs. 15 million. There is a number of Microfinance Institutions within Maralal town like the Kenya Women Finance Trust (KWFT), Jamii Bora Trust, Government of Kenya Youth Enterprise Fund, Women Enterprise Fund and the Kenya Industrial Estates. Despite this intervention, Samburu is still among the poorest districts in Kenya. The study was based on the following objectives: To find out whether policies of Microfinance institutions affects access to credit; To find out whether economic characteristics of entrepreneurs affect applicability and usage of borrowed funds; To examine whether literacy levels affect applicability and usage of borrowed funds; To find out the relationship between capacity building initiatives and applicability and usage of borrowed funds. Data collection was done using questionnaires. The data collected was analyzed through both descriptive and inferential statistics (Spearman Rank Correlation). The analyzed data is presented in form of tables. The study has established that income levels, expenditure levels, poverty levels and access to credit are factors that determine the use of borrowed funds from MFIs. The literacy levels of borrowers identified in the study are: no formal education (77.7%), primary education (72.85%), secondary education (78.9%), tertiary education (78.9%) and university education (78.9%). These literacy levels are a determinant of credit access and use from the MFIs. Besides, the literacy levels have a significant relationship of 0.01 level with use of borrowed funds. The MFI policies that affect the use of borrowed funds are related to lending, interest rates, credit recovery and MFI regulation. These policies are not friendly to credit access and use. Capacity building initiatives that influence the use of borrowed funds have been identified as entrepreneurial skills, innovativeness, and fund raising skills. The findings of the study will be useful to the surveyed MFIs, the Government and other researchers interested in this field.

Key words: micro-finance, economic characteristics, policy, credit, literacy levels, borrowed funds and capacity building initiatives.

TABLE OF CONTENTS

ABBREVIATIONS

IFAD	–	International Fund for Agricultural Development
KWFT	–	Kenya Women Finance Trust
MFI	–	Microfinance Institutions
SACCOs	–	Savings and Credit Co-operative Societies
SPSS	–	Statistical Package for Social Sciences
DMC	–	Development Member Country
ADB	–	Asian Development Bank
SA	-	Strongly Agree
A	–	Agree
N	–	Neither agree nor disagree
D	–	Disagree
SD	–	Strongly disagree

DEFINITION OF TERMS

Applicability-	The term applicability in this study is used to refer to how the borrowed funds affects the borrowers. For example, whether the loan affects the borrowers income levels, poverty levels, savings habits, business skills
Usage -	A term used to refer to the utilization of borrowed funds by the applicant. The term includes the various ways in which the borrowed credit is used by borrowers.
Credit -	In this study, the term is used to refer the amount of trends borrowed from micro-financial institutions. This amount to utilized by clients for various proposes.

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

During the last two decades, microfinance has evolved from an informal sector into a semi-mature, professional industry. Microfinance institutions begin to face some of the main challenges of regular retail banks: dealing with competition, offering goods and services at low cost and monitoring credit risks. The latter is particularly important when microfinance institutions become big or start to accept savings. Nevertheless, little research has been done on the analysis of credit risk and loss distributions of microfinance loan portfolios. One of the topics in relation to this subject is the idea that women have better repayment records than men, explained by for example Armendariz and Murdoch (2005, p. 183). Studies with large amounts of data that give proof for this hypothesis are not available yet. Studies on small data sets include a survey of 358 micro-entrepreneurs in Guatemala by Kevane and Wydick (2001). A report on the Grameen bank (Kevane and Wydick, 2001) finds that men are more likely to default than women.

Since 1980, microfinance services have generated considerable infers among academics, donors and development practitioners as alternative to the documented failure of government rural credit assistance to reach low income household (Mansuri and Sunjay, 2003).The failures are attributed to cause such as urban- biased credit allocation, high transaction costs, interest rates restrictions, high default rates and corrupt practices. The reasons for poor loan recovery are related to inappropriate design feature leading to incentive problems and politicization that made borrowers view credit as a political largesse (Hulme and Arun, 2009).

The development of the microfinance sector is based on the assumption that the poor possess the capacity to implement income generating economic activities but are limited by lack of access to and inadequate provision of savings credit and insurance facilities. This approach also breaks from the directed credit strategies by reducing the government’s involvement paying close attention to the incentives that drive efficient performance (Carey, 1998). The developments in microfinance services have been based on the prototype delivery model that is considered the best answer to capture financial needs of the poor in various socioeconomic and institutional systems.

Large data sample over a time frame of 10 years in Kenya has been used to calculate the loss distribution for two portfolios of loans, one consists of loans granted to male clients, the other comprises loans granted to female clients. The loss distributions are calculated with a re-sampling technique similar to the one used by Carey (1998), Calem and LaCour-Little (2004) and Schmit (2004) to estimate credit risk in private debt portfolios, in mortgage loan portfolios and in the leasing industry respectively. To our knowledge this is the first study that applies the technique on microfinance loan portfolios. These studies can be used to show a difference between the credit risks of loans granted to female clients versus male clients. We also compare the obtained loss distributions with those obtained by Carey (1998) for private debt portfolios, in order to discuss the level of credit risk of microfinance compared to that of retail banking. Inadequate financial infrastructure is a major problem in most developing countries. Financial infrastructure includes legal, information, as well as regulatory and supervisory systems for financial institutions and markets. Most developing countries, government have focused on creating institutions or special programs to disburse funds to the poor with little attention to building financial infrastructure that supports, strengthens, and ensures the sustainability of such institutions or programs and promote participation of private sector institutions in microfinance (Basel Committee, 2004)..

Kenya’s microfinance industry has come a long way since the 1980s, and particularly since the landmark Microfinance Intermediaries Act of 2006. The country now has five deposit-taking microfinance intermediaries (MFIs) operating under a regulatory framework assessed by the Economist Intelligence Unit (EIU) as the best in Africa (EIU 2010). Overall, the EIU rates Kenya as having the second best business environment for MFIs in all of Africa and one of the top ten in the world

Kenya has the second largest borrower base in the continent and Schmit (2004), and its largest savings and credit cooperatives (SACCO) movement and Schmit (2004). This is not unrelated to the country's world-leading position in mobile banking (EIU 2010), which has been proven to be a significant driving force in financial inclusion

Nonetheless, the microfinance industry globally is meeting difficulties as funding dries up, delinquencies rise and sceptics begin to question its efficacy in driving poverty reduction and development. Much of this critique focuses on some of the bolder claims, made more often by policymakers and consultants, than by practitioners themselves (Schmit 2004). It is against this background that the current study is envisaged.

1.2 Statement of the Problem

Access to financial service has been identified as a major problem experienced by many in attempt to do business in Kenya. Though there have been sustained efforts to finance the low income earners of the society which has been facilitated by the upcoming microfinance institutions which operate in most parts of Kenya. Despite all these interventions, a large percentage of the rural people are still living below the poverty line yet microfinance institutions have continued to offer financial service to these members of the society for a long period. Besides this, large percentage of the rural poor have been unable to effectively service the credit borrowed from micro-financial institutions (EIU, 2010).Whether this is as a result of problems in applicability and usage of the credit from the MFIs remains to be seen. Therefore this study examined the applicability and use of credit from MFIs.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to find out the applicability and usage of borrowed funds from the MFIs. The study found out that effectively utilisation of borrowed funds by borrowers of MFIs are affected by many factors that need to be looked into for it makes impact.

1.3.2 Specific Objectives

i. To find out whether policies of Microfinance institutions affect access to credit.
ii. To find out whether economic characteristics of entrepreneurs affect applicability and usage of borrowed funds.
iii. To examine whether literacy levels affect applicability and usage of borrowed funds.
iv. To find out the relationship between capacity building initiatives and applicability and usage of borrowed funds.

1.3.2 Research Questions

i. What policies of Microfinance institutions affect access to credit?
ii. What particular economic characteristics of entrepreneurs affect applicability and usage of borrowed funds?
iii. Do literacy levels of borrowers affect applicability and usage of borrowed funds?
iv. What is the relationship between capacity building initiatives and applicability and usage of borrowed funds?

1.4 Significance of the Study

The findings of this study will be useful to both organizations and individual. Foremost, the study can form a basis for future research by scholars who are interested in studying microfinance in Maralal town. The study can also benefit the Microfinance institutions, currently engaged in lending out their credit to the economically marginalized groups.

The borrowers of micro-finance credit will also benefit from this study in the sense that they will understand their responsibility in servicing the credit. This will enable the MFIs to recover their credit in time and consequently lower the default rates.

1.5 Justification of the Study

Currently, the government is working towards the realization of vision 2030. To realize this vision, the MFIs must compliment the government efforts towards poverty alleviation and sustainable development. The current study was justified as it sought to determine the applicability and use of borrowed funds in the quest for realization of the sustainable development, through poverty alleviation

Given that the defaulted loans in Maralal town amounts to Kshs. 15 million (KWFT, 2010, (EIU 2010), The current study was justified as it sought to determine the applicability and use of borrowed funds and its relationship with the recovery of credit from MFIS

1.6 Scope of the Study

The research concentrated on all microfinance institutions in Maralal town. The study constituted both the Microfinance institutions and the customers and was limited to applicability and use of credit from the surveyed MFIs.

1.7 Limitations of the Study

In the view of the sensitivity of data required, it was expected that lack of co-operation from the respondents to volunteer information may affect the results. This was overcome by designing a questionnaire in such a way that information collected will be confidential and not direct.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the theoretical aspects and besides giving the conceptual framework of previous studies.

2.2 Theoretical Literature

2.2.1 Poverty Levels in Rural Kenya

Poverty in rural Kenya has been a subject of wide research since the early 1990s to date. Researchers have shown trends in poverty indices have risen to about 59.6 percent of the rural population (Growth, Poverty and Income Inequality in Kenya, 2010, UNDP and National Economic and Social Council Report) as at 2000. According to UNDP, Human Development report (2006), 22.8 percent of Kenyans get less than I US S a day while national poverty rate was at 56 percent, with low adult literacy rate of 26.4 percent. However, poverty estimates for 2005- 2006 show that there has been a general reduction in poverty declining from 56 per cent to 45.9 per cent. This is attributed mainly to the robust economic growth witnessed in the country from 2004 to 2006.

It is likely that the poverty situation was adversely affected by post election violence which arose after the 2007 national elections. 79 percent of Kenya's population live in rural areas and rely on agriculture for most of their income (IFAD report on poverty in Kenya 2007). The report indicates that semi-skilled and unskilled workers reside in rural areas where lack of credit access hinders their potential in using their skills. In Kenya, poverty manifests itself in the forms of hunger, malnutrition, illiteracy, lack of shelter and failure to access essential social services such as basic education, health, water and sanitation, as observed in the Republic of Kenya.

Sessional Paper No. 3 of 1999 and Kenya Vision 2030, the current Blue-Print that is guiding the Government Development Agenda up to 2030. Majority of the Kenyan poor are women, as few of them access educational opportunities due to the low value placed on the girl child, as compared to the boy (Malaki and Kuria, 2011). Based on the traditional beliefs and practices, women have had less or no ownership, access and control to family assets and resources as compared to their male counterparts. In this respect, the incidences of deprivation through poverty, women are more vulnerable.

Achieving economic growth and poverty reduction has been central to the development process in Kenya, since its independence in 1963. At that time, one of the Kenya Government's development objectives was to achieve a high and growing per capita income as stipulated in its Sessional Paper No. 10 of 1965 on the African Socialism and its application to planning in Kenya. Subsequent national development plans from 1965 focused on rapid growth aimed at alleviating poverty.

Microfinance Institutions have focused on the role of women in poverty reduction and creation of wealth despite the fact that this was not recognized as important ventures in poverty reduction interventions by both the government and most early MFIs. According to a report by Latifee (2003), despite progress in some areas like life expectancy, education, fertility rates, maternal mortality rates etc. in different countries, women still face many barriers to economic, social and political opportunities. In many countries, women are facing continuing legal discrimination. They are not treated as equal to men whether in property rights, rights of inheritance, laws related to marriage and divorce, or the rights to acquire nationality, manage property or seek employment. For many women, life is shadowed by a threat of violence "both physical and psychological". For all these reasons, credit is much more significant for women than men. With credit, poor women turn out to be better fighters. They have immense potential to move up.

Women are hard working. They are concerned about their human dignity, and about the future of their children. They are ready to make personal sacrifices to increase benefits to their family and for building a brighter future for their children (Latifee, 2003). Women do not like to see their children suffer from poverty as they suffered through out their own lives. Once they have access, to credit they are better equipped to manoeuvre the forces around them to their best advantage. They try their best to earn more, to build and expand their capital base and improve their quality of life. If women are empowered, they are able to enjoy their human right which is definitely a difficult and challenging task but achievable. As such, gender as a variable in the planning process has been identified and used in designing economic reforms and investment programs especially in rural Kenya by both the Government and MFIs (Latifee, 2003).

Need for a development strategy for microfinance; During 1988 -1998, Asian Development Bank (ADB) approved 15 microfinance projects totalling about $350 million, 6 projects with microfinance components valued at about *$53* million, and 34 technical assistance activities for about $18 million to support microfinance operations. ADB has, however, provided this assistance without a well-defined strategy and as a result, has not been able to fully harness the potential of microfinance for poverty reduction. (Ruthrford and Arora, 1997).

Once almost exclusively the domain of donors and experimental credit projects, institutional microfinance has evolved during the last decade into an industry with prospects for financial viability, offering a broader range of services and significant opportunities for expansion (Murdoch, 1999). The prospects for financial sustainability are revolutionizing the microfinance field and suggest that a large proportion of the millions of poor people can be provided access to institutional microfinance.

This change has important implications for ADB. ADB needs to take cognizance of the challenges and prepare to effectively harness the opportunities in its Developing Member Country [DMCS]. Given the diverse requirements in the sector, the competing demands for ADB funds, the increasing pressure on resources in the Asian Development Fund, and the growing complexities and challenges of improving the quality of life of over 900 million poor people in the region, ADB must reinforce its emphasis on efficient allocation and use of resources at its command. A strategy is necessary to ensure that ADB addresses these concerns effectively and constituently within its objective of poverty reduction. A strategy can also provide a clear and consistent link between ADB's microfinance operations and its over-arching objective of poverty reduction, facilitate promotion of a common approach to microfinance operations throughout the ADB, which will also contribute to better coordination with other funding agencies, provide a consistent basis for policy dialogue with the DMCs on microfinance and related issue, assist ADBs ongoing efforts to improve the quality of project design, processing, and implementation of microfinance operations and facilitate adoption of a longer term perspective than in the past in providing assistance for microfinance.

Despite this growth, as concluded in the recently completed Rural Asia Study, "rural financial markets in Asia are ill-prepared for the twenty-first century" About *95* percent of some 180 million poor households in the Asian and Pacific region (the region) still have little access to institutional financial services. Development practitioners, policy makers, and multilateral and bilateral lenders, however, recognize that providing efficient microfinance services for this segment of the population is important.

Microfinance in the Asian and Pacific Region; Out of 900 million people, about 180 million households in the region live in poverty. Most of the region's poor (i.e. those who earn less than $1.00 a day) or more than 670 million people live in rural areas, although urban poverty is also a growing problem in virtually all Developing Member Country [DMC]. Most rural poor people are engaged in agricultural or related activities as labourers or small- scale farmers. Many are also involved in a variety of micro-enterprises. In many counties, women, who are a significant proportion of the poor and suffer disproportionately from poverty, operate many of these micro-enterprises.

Most formal financial institutions do not serve the poor because of perceived high risks, high costs involved in small transactions, perceived low relative profitability and inability of the poor to provide the physical collateral usually required by such institutions. The business culture of these institutions is also not geared to serve poor and low-income households. Lacking access to institutional sources of finance, most poor and low-income households continue to rely on meagre self- finance or informal sources of microfinance. However, these sources limit their ability to actively participate in and benefit from the development process (McIntosh, 1998). Thus, a segment of the poor population that has viable investment opportunities persists in poverty for lack of access to credit at reasonable costs. The poor also lack access to institutional credit for consumption smoothing and to other services such as payments, money transfers, and insurance. Most of the poor households find it difficult to accumulate financial savings without easy access to safe institutions that provide deposit services.

2.2.2 Gender

In Kenya, most of the working poor are in the informal economy and they are overwhelmingly women. The majority of the Kenyan women have become the primary producers of subsistence for families. Many women are working to produce food, in farm activities, craft production and engage in informal trade with regards to the productive activities, (Malaka and Kuria, 2011). In general, tremendous challenges remain especially for poor women. Women organizations continue to bring attention to economic justice for women to end poverty and enable suitable livelihood.

According to studies by Malaka and Kuria (2011), it is women and women's organizations that have been in the forefront of setting up institutions to advance credit finance to women. A key example is the Kenya Women Finance Trust (KWFT). KWFT was founded in 1981 to enable and support the entrepreneurial activities of women given failure of the formal banking system in meeting financial needs of women especially poor, low income and vulnerable women. Currently KWFT works with 100,000 women through their sixty four centres countrywide. Methods of lending are to individuals who are part of a group whose members act as guarantors for outstanding loans. Repayment rates are very high averaging *95-97* per cent as the group is responsible for ensuring that each instalment is either met by the individual member or else the group raises the money itself.

2.2.3 Income Inequality in Kenya

It is now widely recognized that economic growth on its own might not bring about reduction in absolute poverty. The reason is that the economic growth might increase or decrease or have no effect on income inequality which has a bearing on the degree of reduction in absolute poverty. The term inequality is used in a variety of ways. However the literature on growth and poverty focuses on inequality of income. Income inequality is a relative term, which indicates the extent to which distribution of income in an economy differs from that of equal shares among the population. It is concerned with variation in the standards of living in the whole population. Most discussions of inequality focus mainly on the more easily observed inequalities in outcomes such as income, wealth, employment and education (Rutherford and Arora, 1997).

Inequality in outcomes can partially be accounted for by the normal functioning of the market economy; for example participation in the labour market. However a substantial component of inequality in people's circumstance may reflect differences in opportunities which vary in the region of residence, parental circumstance and gender. The personal or size of distribution of income is commonly used to quantify income inequality. It is concerned with the total incomes that individuals or households receive. The income gap between the rich and the poor is the most visible and widely discussed form of inequality. This gap is characterized by one segment of the population having a disproportionately large share of income than other segments of that population thus give rise to differences in lifestyles and standards of living in a society (Wambugu et al., 2010).

2.3 Empirical Literature

A large literature in development economics examines the optimal design of credit contracts when clients are unable to provide collateral and there is limited liability (Shanker, 2006). However, this literature has paid scant attention to a central feature of the typical credit contract offered by micro-finance institutions (Armendariz and Morduch, 2005). MFIs are increasingly a central source of credit for the poor in many countries. The typical repayment schedule offered by a MFI consists of weekly repayment starting 1-2 weeks after loan disbursement. The weekly repayment amount is usually calculated as the principal and interest due divided by the number of weeks until the end of term and payments are generally collected in a group meeting led by the MFI loan officer. Weekly collection of repayment instalments by bank personnel is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. On the other hand, it also dramatically increases MFI transactions costs, thereby limiting the set of loan sizes and client types that are profitable under this model. However, recovery of credit still remains a challenge for many MFIS. This prompted the current study so as to determine applicability and usage of credit from MFIS

Given this trade-off, an important question is whether reduced repayment flexibility, as exemplified by high frequency of repayment, actually reduces the likelihood that a client defaults on her loan. If individuals are rational, and function in a full information environment, then a less rigid repayment schedule should never increase default or client delinquency. Rather, by encouraging longer term investments it may improve clients' long run repayment capacity McIntosh (2007). However, micro-finance practitioners frequently suggest that a more realistic model is one in which clients benefit from the fiscal discipline afforded by a more rigid payment schedule. More frequent repayment, by providing clients a credible commitment device, enables them to form the habit of saving regularly. It also serves as a savings mechanism for clients without access to banking services. In addition, frequent meetings with a loan officer may improve client trust in loan officers and their willingness to stay on track with repayments. For all of these reasons, micro-finance practitioners believe that more frequent repayment schedules improve client repayment rates, as is evidenced by the almost universal practice of weekly repayment among MFIs. However, given the literacy levels, economic characteristics and business skills of borrowers default rates continue to soar. This prompted the current study so as to determine applicability and use of credit from MFIS

Despite the sharp disjunction in the predictions afforded by the rational economics model and the behavioural model, evidence on whether repayment frequency influences default rates in micro-finance remains limited. Armendariz and Morduch (2005) report anecdotal evidence from Bangladeshi micro-finance providers suggesting that micro-finance contracts with less frequent repayment saw higher client default. The current study seeks to study this trend by taking a case of local MFIs so as to determine applicability and use of credit by borrowers.

McIntosh (2007) exploits spatial variation in the repayment schedule associated with micro-finance contracts offered by FINCA in Uganda to provide a more formal analysis. In 2000, FINCA offered clients in the east and north of the country the option to elect (by a unanimous vote) to change from the standard weekly repayment practice to repaying the loan every other week. Relative to weekly repayment schedule, groups which opted for the fortnightly weekly schedule saw lower drop-out and increased repayment. While supportive of the predictions from economic theory, the fact that clients chose their repayment schedule makes it possible that better clients self-selected into the fortnightly repayment schedule. The current study seeks to study this trend, but by taking a case of MFIs in Maralal town so as to determine applicability and use of credit by borrowers.

In a study by McIntosh (2007) data was obtained from a field experiment on repayment schedules conducted in urban India to examine whether repayment frequency affects loan default and delinquency. One hundred micro-finance groups, each consisting of ten first-time borrowers, were randomly assigned to either a weekly or a monthly repayment schedule after group formation had been completed and clients approved for the loan. Since treatment assignment occurred after loan approval, no clients dropped out of the assigned group at this stage. Therefore, we can be confident that any observed differences in default patterns across clients on the weekly and monthly re-payment schedule are attributable to features of the repayment schedule. We find that switching from weekly to monthly instalments did not affect client repayment capacity. Consistent with the patterns observed among the bank's clients outside of our experiment, there was no default among either the weekly or monthly clients. Likewise, delinquency rates were low and not statistically different across clients on weekly and monthly repayment schedules.

These results suggest that switching to lower frequency repayment schedules could allow MFIs operating in comparable settings to save dramatically on the transaction costs of instalment collection while facing virtually no added risk of default. It is often held that high MFI transaction costs, in a large part, is driven by the cost of frequent payment collection out informal sector loans. The MFI, in turn, benefits from the superior monitoring technology of moneylenders and therefore prefers a repayment schedule which makes it more likely that the client also takes out informal sector loans (Shankar, 2006) and keep MFI interest rates high and limit their ability to scale up operations and reach new clients in more remote locations (Armendariz and Morduch, 2004). The findings suggest that a slight variation of the traditional micro-finance model could allow MFIs to reach up to four times as many clients without hiring additional collection officers, and thereby significantly expand operations without incurring a loss. It is, however, important to note that this policy implication rests on the assumption that the risk composition of borrowers is not negatively influenced by a more flexible repayment schedule. It is for this reason that the current study seeks to determine the relationship between MFI policy and use of credit from these MFIs.

Armendariz and Morduch (2004) did a field experiment on repayment schedules in collaboration with a leading micro-finance institution in Kolkata, Village Welfare Society' (VWS). The loan product we study is the classic joint liability loan made by VWS to groups of 10 women living in the same neighbourhood. VWS officers uniform loan amounts, interest rates and repayment schedules to every first-time borrower (Rs. 4000 ($100) loan to be repaid, together with an interest fee of Rs. 400, over 44 weeks starting two weeks after loan disbursement. At any point after 20 weeks clients have the option of repaying the remaining balance on the loan in one instalment and graduating to a larger loan.

The relatively low initial loan size, combined with VWS policy of targeting self-employed women with household income of less that two dollars a day, implies that the VWS client base is largely drawn from low- to low-middle income households who are recruited from peri-urban neighbourhoods of Kolkata. The majority of the VWS clients are self-employed, and common business enterprises include garment retail and servicing (Shanker, 2006).

Client groups that participated in our experiment were formed through the normal VWS process by having loan officers recruited specifically for this project. To form a group the loan officers visited a potential neighbourhood and conducted an "Eye Survey" to identify whether the neighbourhood had a sufficient number of potential clients. This was followed by a large meeting in which the loan officer provided potential clients information about VWS loan products. Interested individuals were invited to a five- day intensive Continuous Group Training program. These women met for an hour each day during which the loan officer described the benefits and responsibility associated with the loan product. At the end of the five- day training, women participated in a Group Recognition Test and women who were considered sufficiently informed and interested to be eligible for a VWS loan were formed into a group by the loan officer (Shanker, 2006).

Armendariz and Morduch (2004) administered a baseline survey to clients as soon as group formation was completed. A randomization check using these data indicate that our experimental groups are balanced across a wide set of observable household and group characteristics, including month of group formation, and client income, education, occupation, age and family size. They tracked clients' repayment behaviour using two data sources: repayment date and amount recorded on a continuous basis in clients' passbooks and compiled into a bank database by VWS, and client-wise data collected by loan officers at each group meeting. The group meeting data include whether a client attended a meeting, whether she repaid the full amount at that meeting herself and whether another group member repaid for her. They first examined the influence of repayment schedule on default. As MFI loans are not backed by collateral, clients' main motivation for re- paying is their expectation of future loans from the MFI if they repay promptly. It is therefore appropriate to measure loan delinquency as non- repayment by the date beyond which the client is barred from future loans. It is for this reason that the current study seeks to determine the relationship between MFI policy, capacity building initiatives, business plans and use of credit from these MFIs.

2.4 Conceptual Framework

The study will be based on conceptual relationship between Independent variable and the Dependent variable. The independent variables will be policy of microfinance institutions, literacy levels, income inequality, business plans and Capacity building initiatives, while the dependent variable will be access to credit. The intervening variable will be infrastructure, and government policy.

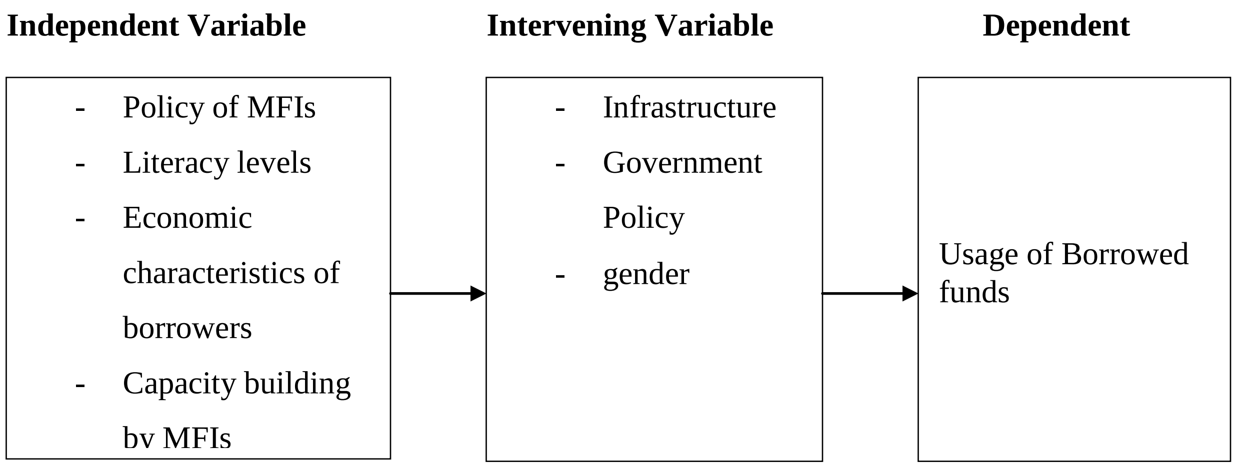

Figure 1: Conceptual Framework

The applicability and usage of MFIs credit will be measured in terms of the recovery rates, the extent of use of borrowed credit, business performance in situations where the money borrowed is committed to finance business activities. All these will be used as proxy variables for applicability and usage of MFI credit.

The relationship between the independent variable and the dependent variable will be affected by factors such as economic infrastructure under which the MFIs operate and the government policy regulations governing the operation of the MFIs.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter presents the procedures and methods that the researcher followed in conducting the present study. It discusses the research design, geographical location of the study, population and sample, research variables, research instruments, data collection procedure and data analysis.

3.1 Research Design

The researcher was interested in investigating the applicability and usage of funds by borrowers of micro-financial institutions by use of a survey design. The study was quantitative research in the sense that it typically involved a large number of subjects and elaborate statistical analysis (Cohen et al., 1996). Since the relationship between the main variables (independent and dependent variables) already exists, *ex-post facto* study design was considered appropriate for the research. According to Fraenkel and Wallen (1996), *ex post facto* study design, also known as causal – comparative research design, involves comparing groups in order to explain the existing differences between the variables of interest. Kothari (2003) argues that the main characteristics of the causal comparative design is that the researcher has no control over the variables but can only report what has happened or what is happening. Consequently, this study examined the existing relationships, the applicability and usage of funds by borrowers of micro-financial institutions. The researcher did not have control over the independent variable because the manifestations have already occurred or they are inherently not manipulatable (Kerlinger, cited in Black, 1999). Thus, this study was concerned with the existing relationship between the applicability and usage of funds by borrowers of micro-financial institutions

3.2 Geographical Location of the Study

The study was carried out in Maralal town and targeted all the MFIS within the town. Maralal town is located in the Rift Valley Province and has a total of four MFIs. These are Kenya Women Financial Trust, Faulu Kenya, Samburu Teachers Sacco and Samburu Trader.

3.3 Target Population

The target population involved all employees and customers of the four micro-financial institutions. The employees consisted of all the three levels of management that is, management, middle and lower levels. The customers consisted of those who have accessed credit facilities from the MFIs for the last five years. This five year period of accessing credit was enough to determine how the credit has been used and the recovery rates of such credit from the customers. There are a total of 40 employees in the five MFIs. On the other hand, the MFIs have a total of 10,600 customers who have accessed credit for the last five years. Thus the total number of employees and customers of the MFIs was 10640. This was broken down in the table below:

Table 3.1. Target Population

Micro-finance Institution	Employees	Customers
Kenya women finance trust	5	1,500
Faulu Kenya	5	2,300
Samburu Teachers Sacco	10	2,500
Samburu traders employees	20	4,060
Total	**40**	**10,600**

Source: Survey data, 2010

Out of the 10,600 customers, only 4,000 had accessed credit for the last five years and were currently servicing it. Therefore the study opted to include only those customers who had accessed credit for the last five years and were currently servicing it.

3.4 Research Sample

According to Leid and Mason (1997), there is no best method of collecting a probability sample from a population of interest. The writer further argues that all probability sampling methods have a similar goal, that is, to allow a chance to determine the items or persons to be included in the sample. For this study, stratified random sampling method was used to divide the target population into three strata: strategic, tactical and operations. Then from each stratum, simple random sampling was used to select cases that constituted the sample for the study.

The division of the population into strata allowed a more representative sample in that a sample will be selected from each stratum. Employees in each stratum were asked to pick a paper from a container in which the papers will be written ‘yes’ or ‘no’. The total numbers of papers to be picked were 10% of the total number of employees and customers of MFIs. All the managers that picked ‘yes’ paper were constitute the sample.

A sample of 10% of the total population is justified as representative of the active population in *ex-post facto* studies, according to Cohen et al. (1996). Thus, from Cohen at al. (1996) perspective, a sample of 10% of the total population was deemed representative enough. Consequently, the study targeted a sample of 416 cases.

3.5 Research Instruments

According to Beashel (1996), questionnaires can be used effectively to determine the knowledge and behaviour of individuals. The data for this study was therefore collected using the questionnaire administered to all cases that constituted the sample. The questionnaire comprised of 20 items covering all the objectives of the study. The reduction of the items to 20 is a common practice and is usually for the purpose of reducing boredom and fatigue in the respondents which could produce responses of questionable meaningfulness (Cohen et al., 1996). Source researchers have used a 20 – item questionnaire (Hudson cited in Cohen et al., 1996:37; Witt and Ellis cited in Goshin and Van Wyk (2005). The 20 items will be rated on a 5-point Likert Scale.

The Likert Scale on the questionnaire provided the respondents with an opportunity to indicate the degree of agreement or disagreement on each statement concerning employee development programmes and organizational goals. The Likert scale questionnaire was preferred because it is extensively used to determine attitudes and behaviour or respondents in respect to existing phenomena. Besides, the Likert Scaled questionnaires are highly reliable (Cohen et al., 1996). In developing the instrument, the researcher will construct some items and adapt some from the Macer and Kneer Attitude Inventories (Jensen and Hirst, 1980).

3.6 Data Collection Procedures

The researcher obtained permission from the Dean's office, School of Business and Economics, Kabarak University. Informal consent will be obtained before administration of research instruments. Then the participants were asked to complete the questionnaire and biographical form. The completed research instruments were collected and returned to the researcher for coding and subsequent data analysis.

3.7 Ethical Considerations

In carrying out the study, the researcher assured the respondents that their responses to the questionnaire and biographical form would treated as confidential, and that there would be no right and wrong answer. The employees were instructed not to write their names anywhere on the research instruments.

Furthermore, the employees were given the option of withdrawing freely if they deemed fit. This option helped avoid responses of questionable meaningfulness, as Cohen et al. (1996) puts it.

3.8 Data Analysis and Presentation

The collected data was analyzed quantitatively. Inferential statistics was used to analyze the relationships between the variables in the objectives. Descriptive statistics was used to describe the sample characteristics where measures of relationships do not apply. The level of significance for inferential statistical analysis was 0.05. According to Aiken (1994), this level of significance is most commonly used in behavioural science, hence its adoption in this study.

The analysed data was presented using frequency tables and spearman rank correlation tables.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.0 Introduction

This chapter presents the results of data analysis on the utilization of funds by borrowers of micro-finance institutions. The chapter reports the results on the effects of literacy levels on the use of borrowed funds; the relationships between economic characteristics of entrepreneurs and the use of borrowed funds; micro finance institution policies and use of credit; the relationship between capacity building initiatives and use of borrowed funds; and the relationship between business plans and the use of borrowed funds.

The data analysis begins with a statement of the research question, followed by data on the variables in the research question and finally the interpretation of the data presented. Descriptive statistics has been used to describe the data or the variables of the study, while inferential statistics was used to examine the relationships between the variables in the research questions. Descriptive statistics enables the reader to examine the characteristics of individual variables before looking at the results of inferential statistics (Gravitter and Wallnau, 1999).

4.1 Research Questions

The study was based on four research questions. Data was collected so as to answer these research questions. The research questions are answered as follows:-

4.1.1 What is the Effect of Economic Characteristics of Entrepreneurs on the Use of Borrowed Funds?

In order to answer this question, the respondents were asked to respond to the item on the questionnaire on the economic characteristics of entrepreneurs. The responses of economic characteristics of entrepreneurs were scored and the results prosecuted in Table 4.1.1a.

Table 4.1.1a Economic Characteristics of Entrepreneurs

Variable	**S. deviation**	**Mode**	**S.A (5)**	**A (4)**	**N (3)**	**D (2)**	**S.D (1)**
Income levels	1.07	5	47.0	33.7	5.3	13.0	1.0
Poverty levels	1.34	5	42.8	28.1	7.9	12.0	9.1
Expenditure levels	1.07	5	47.6	33.2	5.3	13.0	1.0
Availability and access to credit	1.10	5	44.5	33.9	5.5	14.9	1.2

n = 416

Table 4.1.1 (a) and (b) shows that there were four economic characteristics of entrepreneurs who had accessed credit from MFIs in Maralal town. These characteristics were income levels, poverty levels, expenditure levels and availability and access to credit. The results of descriptive statistics imply that the respondents were in agreement that income levels (80.7%), poverty levels (70.9%), expenditure levels (80.8%) and access to credit (78.4%) were positively perceived as the economic characteristics of entrepreneurs who had accessed /borrowed funds from MFIs. These characteristics therefore serve as indicators of use of borrowed funds. For instance the income levels, poverty levels, expenditure levels, and levels of access to credit show the extent of use of borrowed funds in various business ventures by the entrepreneurs.

In order to determine the relationship between economic characteristics and use of borrowed funds, Spearman Rank Correlations technique was used to correlate the two variables table 4.1.1b. Spearman Rank Technique was used because the data on the questionnaire was ranked in a scale of 1 to 5. The results of Spearman Rank Correlation showed that there was a significant positive relationship between the economic characteristics of borrowers and the use of borrowed funds.

Table 4.1.1b Relationship between Economic Characteristics of Borrowers and Use of MFI Credit.

			income levels	poverty levels	expenditure levels	availability and access to credit	use of borrowed funds
Spearman's rho	income levels	Correlation Coefficient	1.000	.003	.611(**)	.088	.289(**)
		Sig. (2-tailed)	.	.000	.000	.073	.000
		N	416	416	416	416	416
	poverty levels	Correlation Coefficient	.003	1.000	.698(**)	.241(**)	.330(**)
		Sig. (2-tailed)	.000	.	.000	.000	.000
		N	416	416	416	416	416
	expenditure levels	Correlation Coefficient	.611(**)	.698(**)	1.000	.157(**)	.314(**)
		Sig. (2-tailed)	.000	.000	.	.001	.000
		N	416	416	416	416	416
	availability and access to credit	Correlation Coefficient	.088	.241(**)	.157(**)	1.000	.510(**)
		Sig. (2-tailed)	.073	.000	.001	.	.000
		N	416	416	416	416	416
	use of borrowed funds	Correlation Coefficient	.289(**)	.330(**)	.314(**)	.510(**)	1.000
		Sig. (2-tailed)	.000	.000	.000	.000	.
		N	416	416	416	416	416

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

From Table 4.1b, an increase in income levels leads to an increase in expenditure levels and use of borrowed funds while an increase in poverty levels leads to an increase in expenditure levels, access to credit and use of borrowed funds. On the other hand, expenditure levels, positively relates to access to credit and use of borrowed funds. Indeed, access to credit positively correlates to use of borrowed funds. In finality, the results of the Spearman Rank Correlation thus imply that there is a significant relationship between all the economic characteristics and use of borrowed funds.

4.1.2 What is the Effect of Literacy Levels on the Use of Borrowed Funds?

In order to answer this research question; the respondents were asked to respond to the item on the questionnaire concerning literacy levels. The literacy levels were identified as: No formal education, primary level of education, secondary level of education. Respondents from each of these levels were scored, as the results presented in Table 4.1 2a. `

Table 4.1.2a Literacy Level of Borrowers

Variable	S. deviation	Mode	S.A	A	N	D	S.D
No formal education	1.11	5	42.1	35.6	6.7	13.2	2.4
Primary education	1.20	4	31.4	41.1	6.5	17.5	3.1
Secondary education	1.08	5	44.5	34.4	5.8	14.4	1.0
Tertiary education	1.08	5	44.5	34.4	5.8	14.4	1.0
University education	1.08	5	44.5	34.4	5.8	14.4	1.0

The results of descriptive statistics in Table 4.1.2a suggest that the respondents were in agreement that there are five literacy levels that affect the use of borrowed funds. These literacy levels were no formal education (77.7%), primary education (72.85), secondary education (78.9%), tertiary education (78.9%) and university education (78.9%).

Having established the literacy levels, the study further sought to determine the relationship between literacy levels and use of borrowed funds. Spearman Rank Correlation was used to correlate the two variables and the results presented in Table 4.1.2b.

Table 4.1.2b Relationship Between Literacy Levels and Use of Borrowed Funds

			use of borrowed funds	secondary education	primary education	tertiary education	university education
Spearman's rho	use of borrowed funds	Correlation Coefficient	1.000	.854(**)	.730(**)	.854(**)	.854(**)
		Sig. (2-tailed)	.	.000	.000	.000	.000
		N	416	416	416	416	416
	secondary education	Correlation Coefficient	.854(**)	1.000	.862(**)	1.000(**)	1.000(**)
		Sig. (2-tailed)	.000	.	.000	.	.
		N	416	416	416	416	416
	primary education	Correlation Coefficient	.730(**)	.862(**)	1.000	.862(**)	.862(**)
		Sig. (2-tailed)	.000	.000	.	.000	.000
		N	416	416	416	416	416
	tertiary education	Correlation Coefficient	.854(**)	1.000(**)	.862(**)	1.000	1.000(**)
		Sig. (2-tailed)	.000	.	.000	.	.
		N	416	416	416	416	416
	university education	Correlation Coefficient	.854(**)	1.000(**)	.862(**)	1.000(**)	1.000
		Sig. (2-tailed)	.000	.	.000	.	.
		N	416	416	416	416	416

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

The results of Spearman Rank Correlation show that there was a positive significant relationship between literacy levels and the use of borrowed funds. The literacy levels thus determine the accessibility and use of credit. The tables also imply that literacy levels increase as the accessibility and use of borrowed funds increase. Thus, education is a determinant factor in the borrowers' use of credit from MFI institutions. Education determines how, where, when and why MFI credit is being sought and how it will be used by borrowers.

4.1.3 What is the Relationship Between MFI Policies and Access to Credit?

To answer this research question, the respondents were asked to respond to the item on the questionnaire concerning the list of MFI policies. The responses to each of these policies were scored and presented in Table 4.1.3 a.

Table 4.1.3: MFI Policies

Variable	S. deviation	Mode	S.A	A	N	D	S.D
Lending policies	1.30	4	2.81	39.9	8.4	13.5	10.1
Interest rate policies	1.30	5	36.5	32.7	7.7	15.6	7.5
Credit recovery	1.20	5	41.3	32.2	4.3	17.5	4.6
Duration of credit	1.10	4	8.8	32.2	4.8	13.7	0.5
MFI regulation policy	1.30	5	50.2	31.5	4.6	13.0	0.7

N= 416

The results in Table 4.1.3 shows that the respondents were in agreement generally that there are five MFI policies that affect the use of borrowed funds. These are lending policies (68.0%), interest rate policies (69.2%), credit recovery (73.5%), duration of credit (81.0%) and MFI regulation policy (81.7%). The low standard deviations associated with these policies suggest that there were no significant variations from the respondents concerning the responses to the MFI policies. The responses were therefore consistent across all the MFI policies.

4.1.4 What is the Relationship Between Capacity Building Initiatives and Use of Borrowed Funds.

To answer this question, the respondents were asked to respond to the item on the questionnaire containing a list of capacity building initiatives. The list of capacity building initiatives were given as entrepreneurial skills, business management practices, information management skills, research and innovative skills and fund raising skills. The responses were scored and the results presented in Table 4.1.4 a.

Table 4.1.4a Capacity Building Initiatives

Variable	**S.A**	**A**	**N**	**D**	**S.D**
Entrepreneurial skills	44.5	34.4	5.8	14.4	1.0
Business management skills	44.7	34.6	5.5	14.4	0.7
Innovation skills	43.0	32.9	6.3	15.6	202
Fund raising skills	44.5	34.4	5.8	14.4	1.0
N = 416					

The results of descriptive statistics shows that the respondents generally agreed that there are four capacity building initiatives that affect the use of borrowed funds. These are entrepreneurial skills (79.9%), business management skills (78.3%), innovation skills (75.9%) and fund raising skills (78.9%). The small percentages associated with negative perception of the capacity building initiative are attributed to the respondents who were not able to link the initiatives with use of borrowed funds.

Having established the capacity building initiatives, the researcher further sought to determine the effect of these initiatives on the use of borrowed funds. Spearman Rank Correlation analysis technique was used to establish whether or not the capacity building initiative could predict the use of borrowed funds. The results of analysis are summarized in Table 4.1.4 b.

Table 4.1.4b Relationship Between Capacity Building Initiatives and Use of Borrowed Funds

			use of borrowed funds	entrepreneurial skills	business management skills	innovation skills	fund raising skills
Spearman's rho	use of borrowed funds	Correlation Coefficient	1.000	.854(**)	.847(**)	.751(**)	.854(**)
		Sig. (2-tailed)	.	.000	.000	.000	.000
		N	416	416	416	416	416
	entrepreneurial skills	Correlation Coefficient	.854(**)	1.000	.992(**)	.877(**)	1.000(**)
		Sig. (2-tailed)	.000	.	.000	.000	.
		N	416	416	416	416	416
	business management skills	Correlation Coefficient	.847(**)	.992(**)	1.000	.866(**)	.992(**)
		Sig. (2-tailed)	.000	.000	.	.000	.000
		N	416	416	416	416	416
	innovation skills	Correlation Coefficient	.751(**)	.877(**)	.866(**)	1.000	.877(**)
		Sig. (2-tailed)	.000	.000	.000	.	.000
		N	416	416	416	416	416
	fund raising skills	Correlation Coefficient	.854(**)	1.000(**)	.992(**)	.877(**)	1.000
		Sig. (2-tailed)	.000	.	.000	.000	.
		N	416	416	416	416	416

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

The results of Spearman Rank Correlation show that all the capacity building initiatives had a significant positive relationship. The relationship was stronger for entrepreneurship skills (.854, $p<.05$) and fund raising skills (.0854, $p<.05$). This implies that these skills are more relevant to credit access and use, just like the business management skills (.847, $p<.05$). These results imply that the more the borrowers are exposed to capacity building initiatives, the more their use of MFI credit is enhanced. The capacity building initiatives, the more their use of MFI credit is enhanced. The capacity building initiatives emphasize business management units, food raising skills, entrepreneurial culture and innovativeness. These skills are essential in the use of MFI credit.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusions and recommendations based on the study findings. In retrospect, the study was carried out so as to establish the utilization of funds by borrowers of MFIs in Maralal town in terms of effect of economic characteristics of entrepreneurs on used of borrowed funds; effect of literacy levels on the use of MFI credit, the relationship between MFI policies and credit access; and effect of capacity building initiatives on the use of MFI credit.

The sample size was 416 respondents comprising of employees of MFIs in Maralal town and customers to MFIs in the town. Data was collected through questionnaires and later analyzed through descriptive statistics and inferential statistics.

5.2 Summary of Findings

5.2.1 Effect of Economic characteristics of borrowers on the use of borrowed funds

The study has established that income levels, poverty levels, expenditure levels and access to credit are the key economic characteristics essential in the use of borrowed funds. These characteristics were positively perceived by the respondents as essential in the use of borrowed credit. The study established that the characteristics are indicators of use of MFI credit. Since the data sought in the questionnaire was ranked, Spearman Rank Correlation technique was used to determine the relationship between the economic characteristics and use of borrowed funds. The study finally established that there is a significant relationship between the economic characteristics of borrowers and the use of MFI credit.

5.2.2 Effect of Literacy Levels on the Use of Borrowed Funds

The literacy levels of borrowers were operationalized as the borrowers' level of education. This level of education ranged from no formal education, primary education, secondary education, tertiary education and university education. The descriptive statistics of these levels of education were ascertained and suggested that the respondents positively perceived the levels of education as essential in the use of borrowed funds. The results of Spearman Rank Correlation confirm a significant relationship between the literacy levels of respondents and their access and use of MFI credit. Education, that is, formal skills, is therefore a determinant of MFI credit use.

5.2.3 Relationship Between MFI Policies and Use of Credit

The study wanted to establish whether or not there is a relationship between MFI policies and use of credit. This was necessary so as to determine whether the MFI policies such as lending policy, interest rate policy, credit recovery policy and MFI regulation policy enhance the access and use of credit by MFI.

The study established that there is no significant relationship between all the MFI policies and credit use by borrowed of MFIs. This implies that the MFI policies are not friendly to borrowers. This was evident in the number of reported cases of credit default by borrowers, with male borrowers registering high default rates.

5.2.4 Effect of Capacity Building Initiatives and Use of Borrowed Funds

The respondents identified the capacity building initiatives as entrepreneurial skills, business management skills, innovation skills and fund revising skills. These skills were seen by respondents as essential in the use of borrowed funds. The study therefore established that there was a significant relationship between capacity building initiatives and use of credit from MFIs. Some skills such as entrepreneurial skills, fund raising and business management strategies were strongly associated with credit access and use by borrowers. The capacity building initiatives are thus essential not only in credit access by borrowers but also in the borrowers' use of credit.

5.3 Conclusions

The study has established that income levels, expenditure levels, poverty levels and access to credit are factors that determine the use of borrowed funds from MFIs. These economic characteristics also are indicators of the use of borrowed funds from the MFIs. The study therefore concludes that there is a significant relationship between the economic characteristics of borrowers and their use of credit from MFIs. To this extent, the first research question of the study is answered.

The literacy levels of borrowers identified in the study are no formal education, primary education, secondary education, tertiary education and university education. These literacy levels are a determinant of credit access and use from the MFIs. Besides, the literacy levels have a significant relationship with use of borrowed funds.

The MFI policies that affect the use of borrowed funds are related to lending, interest rates, credit recovery and MFI regulation. These policies are not friendly to credit access and use. This has been ascertained by the registered high default rates among borrowers in Maralal town. Thus, the MFI policies are met significantly related to credit access and use.

Capacity building initiatives that influence the use of borrowed funds have been identified as entrepreneurial skills, innovativeness, and fund raising skills. These skills are essential in the proper utilization of borrowed funds. They are also essential in the borrowers' access and to credit.

5.4 Recommendations

From the study findings, the researcher recommends the following:-
MFIs need to revise their policies relating to credit access, use and recovery. The policies have been found to be user unfriendly. The policies need to be borrower sensitive and friendly.

i. The micro-finance sector needs to come up with policies of insuring credit given to the poor. The poor possess the capacity to implement income generating economic activities but are limited by lack of access to and inadequate provision of servicing credit and insurance facilities.
ii. The government is called upon to institute viable financial infrastructure such as legal, information and regulatory and supervising systems for financial institutions and markets. The government needs to refocus on special programmes that disburse funds to the poor to ensure sustainability of such programmes and promote private sector institutions in micro-finance.
iii. The MFIs need to strengthen the capacity building initiatives through seminars and conferences that help promote credit use and recovery. This will educate borrowers on the proper utilization and investment of borrowed funds. This will in turn lower the default rate on credit.

   Formal financial institutions need to focus more on the poor currently, these institutions do not focus on the poor because of perceived high risks high risks involved in small transactions, and how profitability as well as the inability of the poor to provide collateral for credit. By opening up to the poor, the burden on the poor relying on MFIs will be eased. This will diversify credit access.

5.5 Suggestion for Further Study

The researcher wishes to recommend the following areas for further study.

i. The effect of MFI policy on credit access and use among how-income borrowers.
ii. A Longitudinal study on the use of credit by borrowers in marginalized areas. This will help establish the long term relationship between the independent and dependent variables in this study.

REFERENCES

Armendáriz A.B, and Murdoch. J (2005). *The economics of microfinance.* Cambridge Massachusetts : MIT Press, 346.

Armendariz, B and Morduch J (2004), *Micro-Finance: Where do We Stand?*, Financial Development and Economic Growth: Explaining the Links Basingstoke: Palgrave, Macmillan.

Basel Committee on Banking Supervision (2004). "International Convergence of Capital Measurement and Capital Standards", 239.

Black, T.R. (1999). *Doing Qualitative Research in the Social Sciences*. London: SAGE Publications Ltd.

Calem, Paul S., Lacour-Little, Michael (2004). "Risk-based capital requirements for mortgage loans." *Journal of banking and finance* 28 (3): 647-672

Carey, Mark. (1998), "Credit risk in private debt portfolios." *Journal of finance* 53 (4): 1363-1387.

Cohen, R J. Swerdlik, M.E. and Philips, S.M. (1996). *Psychological Testing and Assessment: an Introduction to Tests and Measurements* (3rd ed.). California: Mayfield Publishing Company, Ltd.

David Hulme and Thankom Arun, (2009), *Microfinance*, Routledge Studies in Development Economics

Economic Intelligence Unit (2010), Does Meeting Repay? Contract Design and Investment Behaviour of Micro-credit Clients, Mimeo, Harvard.

Frankel, J.R. and Wallen, N.E. (1996). *How to Design and Evaluate Research in Education* (3rd ed.). New York: McGraw Hill.

Goslin, A.E., and Van Wyk, J.W U. (2005). Recreation Functioning of Hearing-impaired Individuals: A cross-national Study. *African Journal for Physical, Health Education, Recreation and Dance*, 11 (4) 335.

Jensen, C.R. and Hirst, C.C. (1980). *Measurement in Physical Education and Athletics*, New York: Macmillan Publishing Co., Inc.

Kothari, C.R. (2003). *Research Methodology, Methods and Techniques* (2nd ed). New

Delhi: New Age International (p) Ltd.

Lind, D.A. and Mason, R.D (1997). *Basic Statistics for Business and Economics* (2nd ed.) IOWA: McGraw-Hill.

Mugenda, O.M. and Mugenda, A.G. (1999). *Research Methods: Quantitative and Qualitative Approaches***.** Nairobi: ACTS Press.

Ingrid M, Maier J.D, (2009), *New partnerships for innovation in Microfinance,* London: Springer Publishers,.

Jain, Sanjay and Ghazala Mansuri (2003), A Little at a Time: The Use of Regularly Scheduled Repayments in Micro-finance Programs," *Journal of Development Economics*, 72 253-279.

Kevane, M and Wydick B (2001). "Micro-enterprise lending to female entrepreneurs: sacrificing economic growth for poverty reduction*?" World development* 29(7): 1125-1236

Latifee H.I, (2003) Report on Poverty Reduction through Micro-credit, www.grameentrust.org, 2011.

Malmaki, M and Kuria W, (2011), *Tackling the frontiers of Microfinance in Kenya; the role of decentralized services*, www.globalenvision.org

McIntosh, C (1998).Estimating Treatment Effects from Spatial Policy Experiments: An Application to Ugandan Microfinance," *Review of Economics and Statistics, forthcoming* Ray, Debraj, *Development Economics* Princeton, NJ: Princeton University.

Mooney, Christopher Z. and Robert D. Duval (1993). *Bootstrapping: a nonparametric approach to statistical inference*. London: Sage, 73.

Morduch, J. (999), The Microfinance Promise, *Journal for Economics Literature*. IFAD report on poverty in Kenya (2007), www.ifad.org, 2011.

Rosenberg, Richard (1999), "Measuring Micro-credit Delinquency: Ratios Can Be Harmful to Your Health," occasional Paper No. 03, CGAP.

Ruthrford, S. and S.S Arora (1997) *City savers .Urban poverty office*. New Delhi Department for international Development.

Schmit, Mathias (2004). "Credit risk in the leasing industry." *Journal of banking and Finance* 28 (4): 811-833.

Shankar, S (2006), Transaction Costs in Group Micro Credit in India: Case Studies of Three Micro Finance Institutions, centre for Micro-finance, IFMR Working Paper.

UNDP (2006), Human Development Report for www.ke.undp.org 2011.

.

APPENDIX I: INFORMED CONSENT LETTER

RE: PARTICIPATION IN MY STUDY

I am a post graduate student pursuing a Master of Business Administration (Financing Option) at Kabarak University. I am currently conducting a research for my Masters Project on **the Effectiveness in Applicability and usage of funds by borrowers of Micro-financial Institutions: A survey of Maralal town.** May I kindly request you to participate in my study. Your responses to the items in the questionnaire will be treated with utmost confidentiality, and will not be used for any other purposes except for this study.

You are free to withdraw from the study at any time you deem fit. You may also request the researcher to inform you about the findings of this study.

Thank you very much for accepting to participate in this study. Please sign in the space provided in this letter below:-

Yours faithfully,

Geoffrey Taragon Sign ……………………………………….

Participant Sign……………………………………….

Date: ……………….……………………….

APPENDIX II: QUESTIONNAIRE

Based on the Lickert scale below, how do you agree or disagree with the statements relating to the applicability and usage of credit by borrowers of MFIs.

5 – Strongly agree, 4 – agree, 3 – undecided, 2 – disagree, 1-strongly disagree.

1. MFI policies

To what extent do you agree that the following MFI policies affect the applicability and use of credit?

			Scale		
Lending policies	5	4	3	2	1
Policy on interest rates	5	4	3	2	1
Policy on credit recovery	5	4	3	2	1
Policy on duration of credit	5	4	3	2	1
MFIs regulation policies	5	4	3	2	1

2. Economic characteristics of entrepreneurs

To what extent do you agree that the following economic characteristics of entrepreneurs affect applicability and use of credit?

Income levels	5	4	3	2	1
Poverty levels	5	4	3	2	1
Expenditure levels	5	4	3	2	1
Inflation levels	5	4	3	2	1
Availability and access to credit	5	4	3	2	1

3. Literacy levels of borrowers

To what extent do you agree that the following literacy levels affect applicability and usage of borrowed funds?

No formal education	5	4	3	2	1
Primary level of education	5	4	3	2	1
Secondary level of education	5	4	3	2	1
Tertiary education level	5	4	3	2	1

University level of education	5	4	3	2	1

4. Capacity building initiatives

To what extent do you agree that the following capacity building initiatives influence applicability and usage of borrowed funds?

Entrepreneurial skills	5	4	3	2	1
Business management practices	5	4	3	2	1
Information management skills	5	4	3	2	1
Research and innovative skills	5	4	3	2	1
Fund raising skills	5	4	3	2	1

5. Business plans

To what extent do you agree that the following information relating to business plans affect applicability and usage of borrowed funds?

Formulating business plans	5	4	3	2	1
Interpreting business plans	5	4	3	2	1
Using business plans	5	4	3	2	1
Evaluation of business plans	5	4	3	2	1
Sourcing funds using business funds	5	4	3	2	1

APPENDIX V: BUDGET

EXPENSES	COST (KSHS)
Stationery	
Pens	300
Printing papers	4,700
Travelling	10,000
Data analysis	
Data collection	1,000
Data coding	2,000
Data interpretation	2,000
Phone expenses	5,000
Miscellaneous	10,000
TOTAL	**35,000**