

**UNIVERSITY OF NAIROBI**  
**DEPARTMENT OF SOCIOLOGY AND SOCIAL WORK**

**FORMS OF UTILIZATION OF FINANCES OBTAINED FROM MICRO  
FINANCE INSTITUTIONS AND THEIR EFFECTS ON THE LIVING  
STANDARDS OF THE RECIPIENTS: A CASE OF MURANG'A TOWN**

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**DECLARATION**

This research project is my original work and has not been submitted for examination in this or any other university for examination or any other academic purposes.

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This research project has been submitted for examination with my approval as the University supervisor.

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## **DEDICATION**

To Julita Leon and Jacinta for their love inspiration and trust in me

## TABLE OF CONTENT

<b>DECLARATION</b> .....	ii
<b>ACKNOWLEDGEMENTS</b> .....	iii
<b>DEDICATION</b> .....	iv
<b>TABLE OF CONTENT</b> .....	v
<b>LIST OF TABLES</b> .....	ix
<b>LIST OF FIGURES</b> .....	x
<b>LIST OF ACRONYMS AND ABBREVIATIONS</b> .....	xi
<b>ABSTRACT</b> .....	xii
<b>CHAPTER ONE: INTRODUCTION</b> .....	1
1.1 Background to the study .....	1
1.1.1 Definition, dimensions and measurement of standards of living.....	3
1.1.2 Standards of living in Murang’a County .....	4
1.1.3 Microfinance .....	5
1.1.4 Micro financing in Kenya .....	5
1.1.5 Micro financing in Murang’a County.....	6
1.2 Statement of the Problem.....	7
1.3 Research questions.....	11
1.4 Objectives of the study.....	11
1.4.1 General objectives of the study.....	11
1.4.2 Specific objectives of the study .....	11
1.5 Importance of the study .....	12
1.6 Scope and Limitations of the Study.....	12
<b>CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK</b> .....	13
2.1 The history of microfinance.....	13
2.1.1 History of micro financing in Kenya .....	13
2.1.2 The role of microfinance in improving living standards .....	16
2.1.3 An overview of standards of living in Kenya .....	17
2.1.4 Murang’a County .....	18
2.2 Theoretical framework.....	20
2.2.1 Functionalist theory .....	20
2.2.2 Rational Choice Theory .....	22

2.3 Conceptual Framework .....	23
2.4 Definition of terms .....	26
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>27</b>
3.1 Introduction.....	27
3.2 Area of study.....	27
3.3 Research Design.....	29
3.4 Target Population.....	29
3.5 Sample size and sampling procedure.....	30
3.6 Methods of data collection.....	30
3.6.1 Collection of quantitative data .....	31
3.6.2 Collection of qualitative data .....	31
3.7 Data analysis .....	32
3.8 Ethical Issues .....	32
<b>CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION .....</b>	<b>33</b>
4.0 Introduction.....	33
4.1 Response Rate.....	33
4.2 Social Demographic Information.....	34
4.2.1 Gender distribution .....	34
4.2.2 Respondents age bracket.....	35
4.2.3 Level of education of respondents .....	36
4.2.4 Respondent’s marital status .....	37
4.2.5 Number of people in the household .....	38
4.2.6 Religious orientation.....	39
4.3 Reasons for and perceived benefits of obtaining finances from MFIs .....	39
4.3.1 Respondents history of borrowing a loan .....	39
4.3.2 Respondent’s microfinance institution/s of current loan/s.....	40
4.3.3 Reasons for the choice of the named microfinance institution over commercial banks	40
4.3.4 Whether Respondents had procured another loan from another financial institution	41
4.3.5 Source of additional loan .....	41
4.3.6 Reasons for taking an additional loan.....	42
4.3.7 Whether respondents discussed with anyone on whether to take a loan .....	42
4.3.8 Individuals consulted .....	43

4.3.9 Worthiness of discussing the matter .....	43
4.3.10 Need for discussion.....	44
4.4 Forms of utilization of finances obtained from MFIs .....	44
4.4.1 Opinion on statements on utilization of finances obtained from MFIs .....	44
4.4.3 Ranking of the priority items on utilization of the money .....	47
4.5 Factors that influence the way money obtained from MFIs is spent .....	47
4.5.1 Factors affecting decision(s) on spending finances in their household .....	47
4.6 Effect of Finances from MFIs on living standards .....	49
4.6.1 Rating statements on the effect of Finances from MFIs on living standards.....	49
4.6.2 Respondent’s opinion on whether MFI loan has improved their households well being	51
4.6.2.1 Relationship between gender and whether MFI loan improved living standards in the household .....	51
4.6.2.2 Relationship between age and whether MFI loan improved living standards in the household .....	53
4.6.2.3 Relationship between education and whether MFI loan improved living standards in the household .....	54
4.6.2.4 Relationship between marital status and whether MFI loan improved living standards in the household .....	55
4.6.2.5 Relationship between household size and whether MFI loan improved living standards in the household .....	57
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>59</b>
5.1 Introduction.....	59
5.2 Summary of findings.....	59
5.2.1 Reasons for obtaining finances from MFIs.....	59
5.2.2 Forms of utilization of finances obtained from MFIs.....	59
5.2.3 Factors affecting decisions on spending finances obtained from MFIs.....	60
5.2.4 Effect of finances from MFIs on living standards .....	60
5.3 Overall conclusion .....	61
5.4 Recommendations.....	61
5.5 Areas for further studies.....	62
<b>REFERENCES.....</b>	<b>63</b>
<b>APPENDICES .....</b>	<b>71</b>

Appendix 1: Questionnaire for beneficiaries of loans from MFIs .....	71
Appendix 2: Focus group interview guide .....	78
Appendix 3: Interview guide for credit officers .....	79

## LIST OF TABLES

Table 4.1: Response rate on the questionnaire that was administered to the respondents .....	34
Table 4.2: Respondents age bracket .....	35
Table 4.3: Level of education of respondents .....	36
Table 4.4: Distribution of respondents by marital status.....	37
Table 4.5: Number of people's in the household .....	38
Table 4. 6: Response whether current loan was first time borrowing .....	39
Table 4.7: Respondent's microfinance institution/s of current loan/s.....	40
Table 4.8: Source of additional loan .....	41
Table 4.9: Whether respondents discussed with anyone on whether to take the loan .....	42
Table 4.10: Individuals consulted .....	43
Table 4.11: Opinion on statements on utilization of finances obtained from MFIs.....	45
Table 4.12: Expenditure items of the MFI loan money.....	46
Table 4.13: Factors that would affect decisions on spending finances obtained from MFIs ....	48
Table 4.14: Extent to which respondents agree with statements related to the effects of MFI loans.....	50
Table 4.15: Relationship between gender and whether MFI loan improved living standards in the household.....	52
Table 4.16: Relationship between age and whether MFI loan improved living standards in the household.....	53
Table 4.17: Relationship between education and whether MFI loan improved living standards in the household.....	54
Table 4.18: Relationship between marital status and whether MFI loan improved living standards in the household .....	56
Table 4.19: Relationship between household size and whether MFI loan improved living standards in the household .....	57

## LIST OF FIGURES

Figure 1: Conceptual framework .....	25
Figure 4.2: Gender distribution.....	34

## LIST OF ACRONYMS AND ABBREVIATIONS

<b>ASCAS</b>	Accumulating Savings and Credit Associations
<b>BRAC RD- 12</b>	Bangladesh Rural Advancement Committee Project 12
<b>CBoK</b>	Central Bank of Kenya
<b>CRDAID</b>	Catholic organization for relief and development aid
<b>ECLOF</b>	Ecumenical Loans Fund
<b>GoK</b>	Government of Kenya
<b>HDI</b>	Human Development Index
<b>IMF</b>	International Monetary Fund
<b>JLBS</b>	Joint Loans Board Scheme
<b>KPSOB</b>	Kenya Post Office Savings Bank
<b>KSTES</b>	Kenya Small Traders and Entrepreneurs Society
<b>KWFT</b>	Kenya Women Finance Trust
<b>MAL</b>	Micro Africa Limited
<b>NGOs</b>	Non-governmental Organizations
<b>PAWDEP</b>	Pamoja Women Development Programme
<b>ROSCAS</b>	Rotating Savings and Credit associations
<b>SACCOS</b>	Savings and Credit Co-operatives
<b>SMEP</b>	Small and Medium Enterprise Programme
<b>TV</b>	Television
<b>UN</b>	United Nations

## ABSTRACT

The provision of financial services to the low-income households, provide an enormous potential to support the economic activities of the poor and thus improving their living standards. Though proper utilization of finances from financial institutions may lead to improved standards of living, the effectiveness in attaining this noble objective may be hindered by improper utilization of the funds and the consequences thereof of such money. The purpose of the study was to examine forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients.

The objectives were to establish reasons for obtaining finances from micro finance institutions by recipients, determine the different forms of utilization of finances obtained from micro finance institutions by recipients, examine factors that influence decision on the expenditure of the acquired finances and finally assess the effects of the expenditure on the standards of living in the households of the recipients.

Descriptive survey design was used to establish forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients of Murang'a town. Simple random sampling was used to identify 10 MFIs operating in Murang'a town. Purposive sampling was used to reach 240 recipients of loans from MFIs in Murang'a town.

The study established loan recipients in Murang'a town choose MFIs over other financial institutions like commercial banks because of low interest rates. Items of expenditure of recipient's loans included marital life, medical expenses and housing. Key factors affecting decisions on expenditure at recipients' households include emergencies, necessities and pressure from spouses. Overall, MFI loans have improved recipients households, because they got profits from their investments made from loans which help them to improve their standards of living as well as expanding their business, save for those who defaulted in payment of the loans.

The study recommends that an inclusive comprehensive framework of stakeholders' engagements must be formulated so as to ensure business collaboration with all stakeholders to enhance customer awareness. This is because, from the study, most of the recipients have multiple accounts in MFI's. In order to improve usability of the loans and thereby ensuring improved customer loyalty, the study recommends that financial institutions should devise proper mechanisms and seminars to educate their customers on the best alternative of investment to ensure maximum gains from the loans. By doing so will lead to improved performance in financial institutions as well as improved livelihood to the recipients with minimum cases of defaulters.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background to the study**

In terms of income, individuals can be categorized as high income or low income net worth individuals. High income earners are individuals enjoying better living standards. In contrast, low income worth individuals have poor living standards. According to the UNDP report (2013), there are two commonly used measurements of standards of living; the per capita income and the human development index (HDI). The Human Development Index (HDI) is a composite statistic of life expectancy, education, and income indices used to rank countries into four tiers of human development. These are very high human development, high human development, medium human development and low human development. The indice system was created by the Pakistani economist Mahbubul Haq and the Indian economist Amartya Sen in 1990 and was published by the United Nations Development Programme in 2013. Insufficient outcomes with respect to health, literacy, deficient social relations, insecurity, low self-confidence and powerlessness are a reflection of poor living standards, meaning insufficient income or consumption. (UNDP, 2013)

Consumption expenditures reflect not only the goods and services that a household can command based on its current income, but also whether that household can access credit markets or household savings at times when current income is low or even negative. Financial institutions play a key role in ensuring that households that need credit and are able to repay can access it, according to Coudouel et al (2000). In this respect, micro finance institutions, commercial banks and community-based organizations avail credit in different forms but all with a common goal; to improve the living standards of the beneficiaries of their funding. To the funding organizations, lending is an opportunity to accrue incomes through interest charged on the money loaned out, with the expectation that good use of the money by the recipients will lead to improvement of their living standards.

In Bangladesh, according to Abed (2000), a comprehensive study on the impact of microfinance conducted by World Bank in the early 1990s on two of the largest microfinance lending programs - Grameen and BRAC RD-12 found that, female clients increased household consumption in every 18 takas borrowed, and 5% of clients graduated out of poverty each year by borrowing and participating in microfinance programs. Households were able to sustain these gains over time.

There are some indirect benefits of microfinance on the borrower which include alleviation of poverty, improvement of health care, increased literacy rates among other social gains. This is according to Zahid (2008) in a study carried out in Pakistan to study the role of MFIs as a tool to alleviate poverty. Therefore, provision of loans at low interest rates and allowing for flexible collateral against the loans borrowed encourages borrowing and is instrumental in growth of people's livelihoods.

In a study to investigate the impact of microfinance on living standards, empowerment and poverty alleviation of the poor people in Ethiopia, Chirkos (2013) reported that majority of clients reported an increase in their incomes which has improved their standards of living, have sent their children to school, have been able to pay for medical bills and can feed their families, can cope with future crises using their savings, have been empowered economically and their positions in the family as well as in the society.

In Kenya, Wambugu (2009) evaluated the financial and social impact of group lending by MFIs which focused on K-Rep bank's Juhudi Credit Scheme in Kawangware region. According to the study, consumption witnessed high scores in increased ability to afford school fees, improved diet, better clothing and better household goods. The study on the same line deduces that members were able to address their basic needs than before. Purchase of vehicle and installation of electricity did not score highly, which the study attributes to this being not basic needs for the poor.

### **1.1.1 Definition, dimensions and measurement of standards of living**

According to Platt (2006), standard of living is conceptualized in terms of the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. Further, standard of living includes such factors as income, quality and availability of employment, quality and affordability of housing, number of holiday days per year, affordable access to quality healthcare, quality and availability of education, life expectancy, cost of goods and services, infrastructure, political and religious freedom, environmental quality, climate and safety among others. Human Development Index (HDI) has recently become the most acceptable form of measurement of standard of living since it is a comparative measure of life expectancy, literacy, education, standards of living, and quality of life in countries worldwide.

According to Livingstone and Ord, (1980), standard of living is measured in terms of person's ability to attain certain universally recommended basic needs for survival such as food, clothing, health, education and shelter. For example, the human body requires a minimum food energy intake to maintain bodily functions at rest. In addition, different people require different levels of food energy intake depending on their type of work and their geographical position.

However, food energy intake alone cannot be a valid welfare indicator because there are some essential non-food goods and services that even the poorest person cannot do without. For example health is essential for most activities, and being healthy requires spending on clothing, shelter and health care.

The quality of living standards is measured in monetary terms, using either income or consumption as indicators of better living standards. According to Coudouel et al (2000) consumption is a better indicator of better living standards than income for the following reasons: actual consumption is more closely related to a person's well-being in the sense of having enough to meet current basic needs. Income therefore is only one of the elements which will allow consumption of goods including access and availability.

Where income is not monetized or where households consume their own production or exchange them for some other goods, it might be difficult to price these. Therefore, estimating consumption has its own difficulties but it may be more reliable if the consumption in the household is well prioritized.

### **1.1.2 Standards of living in Murang'a County**

Murang'a County is one of the 47 counties in Kenya. Geographically, it is located in central Kenya. It is comprised of seven constituencies; Kandara, Kigumo, Maragua, Kangema, Kiharu, Mathioya and Gatanga. Administratively, it is comprised of Murang'a North and Murang'a South. According to Kenya Integrated Household Budget Survey, GoK (2006) about 36 per cent of the population in Murang'a lived below the poverty line. A survey by GoK (2009), identified Murang'a County as having about 255,696 households. The survey revealed that in Murang'aNorth-83.2% own radio, 19.0 TV sets, 64.3 mobile phone,0.5 landline, 1.5 computer, 9.6 bicycle, 1.4 motorcycle, 3.0 car, truck or tuktuk on percentage of households by ownership of household assets. On urban population activity status, the census reported that, there is a total of 27,460 people aged 5 years and above living in urban centers in Murang'a North, 12,961 males, 14,499 females. For the males, 7,666 are employed, 538 seeking work, 4,229 are economically inactive while 528 are unclassified. For the females, 7,389 are employed, 660 are seeking work, 5,837 are economically inactive and 613 are unclassified. The poor are not able to access the basic necessities of life such as food, shelter and education. Poverty in the county manifests itself in many ways including inaccessibility to health services, food insecurity, inadequate potable water, lack of good and proper clothing, inaccessibility to proper education and landlessness.

Raising and improving living standards involves concerted efforts by all stakeholders and especially the effort of those whose living standards ought to be raised. Improving living standards sometimes involves individual efforts whereby, as entrepreneurs, employed or self-employed persons take credit facilities from financial institutions which include micro finance institutions. This is just but one of the steps towards attaining of their

objective. The forms the finances are utilized in order to improve living standards whether by design or default is an area of concern for this research.

### **1.1.3 Microfinance**

Otero (1999) defined microfinance as the provision of financial services to low income and very poor self-employed people. On the other hand Shreiner & Colombert (2001) argues that microfinance is generally the attempt to improve access to small deposits and small loans for poor households which have been neglected by banks. To Charitonenko and Campion (2003) micro financing is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to the poor and low income households and their farm or nonfarm micro-enterprise. A main goal of many MFIs according to Baumann (2001), especially rural institutions, is to provide sustainable micro finance facilities to the poor to facilitate income generation and reduce poverty. One should add, and to improve living standards.

### **1.1.4 Micro financing in Kenya**

In Kenya, Microfinance institutions are established along the framework of either NGOs or as savings and credit co-operative societies. Microfinance institutions are important sources of credit for a large number of low income households and in the rural and urban areas of Kenya. The Government of Kenya (CBoK, 2005) recognizes that greater access to, and sustainable flow of financial services, particularly credit, to the low-income households is critical to poverty alleviation efforts and the improvement of living standards as a whole.

According to Central Bank of Kenya (2013) over 100 organizations, including about 50 NGOs, practice some form of microfinance business in Kenya. About 20 of the NGOs practice pure micro financing, while the rest practice micro financing alongside social welfare activities. Major players in the sector include Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd, Wedco Ltd, Small and Medium Enterprise Programme (SMEP), Kenya Small Traders and Entrepreneurs Society (KSTES), Ecumenical Loans

Fund (ECLOF) and Vintage Management (Jitegemee Trust). The Kenya Post Office Savings Bank (KPSOB) is also a major player in the sector but only to the extent of providing savings and money transfer facilities. Many microfinance NGOs have successfully replicated the Grameen Bank method of delivering financial services to the low-income households and MSEs. According to Alila (1992), in addition to these mainstream microfinance organizations, other micro finance organizations exist. These include Savings and Credit Co-operatives (SACCOs), moneylenders, Rotating Savings and Credit associations (RoSCAs), Accumulating Savings and Credit Associations (ASCAs), and informal insurance groups.

The Micro Finance Act of Kenya (GoK, 2006) aims at ensuring that licensed MFIs contribute to poverty alleviation and at the same time comply with the requirements of financial sector safety and soundness. The MFIs regulated under the bill provide savings, credit, and other financial services to MSEs and to low-income households in both rural and urban areas.

According to the Consultative Group to Assist the Poor (2003), microfinance helps safeguard poor households against extreme vulnerability that characterizes their everyday existence. Loans, savings and insurance help smooth out income fluctuations and maintain consumption levels during rough times. The availability of financial services acts as a buffer for sudden emergencies, business risks, seasonal slumps, or events such as a flood or a death in the family that can push a poor family into destitution. Micro finance allows poor people to protect, diversify, and increase their sources of income, which results into breaking from poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay school fees, or bridge a cash flow gap can be a first step in breaking the cycle of poverty. Other uses could be fixing a leaky roof or pay for health care.

### **1.1.5 Micro financing in Murang'a County**

According to the Murang'a County fiscal strategy paper (Murang'a, 2014), banks were a hindrance to credit due to stringent collateral requirements and high interest rates charged

to borrowers. This situation is one of the causes of persistent poverty in the county and beyond. To correct this, micro finances set basein Murang’awith advice on howto exploit savings and credit available to them.

Some of the MFIs operating within Murang’a town include: Faulu Kenya, Kenya Women Finance Trust (KWFT), Small and Micro Enterprise Programme (SMEP) Kenya Economical Church Loan Fund (Kenya ECLOF) Equity Bank (MF Section) Women Economic empowerment Consort (AFC), K-Rep Development agency Bank, Catholic organization for relief and development aid (CRDAID), Micro Africa Limited (MAL) and Murata SACCO.

According to a fiscal strategy paper prepared in pursuant to the provisions of Sec 117 of the PFM Act 2012 (Murang’a, 2014), one of its pillars is to facilitate business financing where possible and create economic empowerment, as part of the programmes aimed at uplifting the living standards of her people.

## **1.2 Statement of the problem**

Some proper forms of utilization of finances from microfinance institutions may lead to improved standards of living by the beneficiaries. For example Kawuor (2009), analyzed the economic enhancement of borrowers in Busia town who bought ‘bodabodas’ with MFI funds for use in the economic activity of transport. However, according to Platt (2006), the effectiveness in attaining this noble objective may be hindered by the improper utilization of the funds and the consequences thereof. According to Ahmed (1997) an example of improper utilization of MFI funds is the use of borrowed funds as basis or deposit for other loans in other institutions, therefore perpetuating the culture of perpetual debt.

In this regard, studies have been conducted on utilization, repayment and sustainability of lending programs by microfinance institutions. A study by Kihoro, Kimando and Wachera (2012) studied factors influencing the sustainability of micro-finance institutions in Murang’a Municipality. The study focused on government policies related

to MFIs as factors influencing the success and the sustainability of microfinance institutions. Though the study mentions repayment rates as a factor leading to sustainability, it did not address forms of utilization of the money obtained from the microfinance institutions and their effects on the living standards of the recipients within Murang'a Municipality.

Maghanga-Mtuweta (2007) carried out a study in Nairobi central business district, on the perception of micro finance loan borrowers on the effects of loans on their businesses and as a poverty alleviation tool. In one of the questions, the respondents were asked to describe how they perceived their welfare before they took a loan from MFI and after. The largest change according to the study was on leisure, the lowest being on health. The researcher noted that, 96% of respondents were in business and the remaining in formal employment, by the time they were taking the loan facility. The researcher emphasized that, most of respondents were above poverty line in the study. On the same issue, the researcher goes forth to conclude that loans advanced helped in improving their businesses, increasing savings and improving the welfare of the borrower in the borrower's perspective. According to this study, the highest indicator of improved welfare was leisure. The sample used was biased towards the upper middle income earners.

Bichanga & Makanga (2014) carried out a study on effects of microfinance institutions on poverty reduction in Kenya, focusing on Pamoja Women Development Programme (PAWDEP) located in Kiambu County. The study revealed that PAWDEP as a microfinance institution had been providing microfinance services to different groups of women - "productive" or "active poor" and that the institution uses various strategies to deliver its services such as granting small loans to women to help them start business, grow their business and educate their children.

Mbogo (2004) analyzed the socio-cultural factors in loan repayment taken from microfinance institutions in Mathira division of Nyeri District in Kenya. Social hierarchy in society was found to influence aspects of group formation, savings and even loan repayment in MFI loan groups. The study emphasized that, the problem of unsatisfactory

repayment rates is much more than a problem of poor economic conditions, rather a product of the intervention of various socio-cultural factors. The study notes that, lessening the occurrence of default is critical to ensuring that the borrowed funds fulfilled the objective of borrowing, by eliminating penalties that would make the standards of living even poorer. Though the study touched on loan repayment, it did not capture forms of utilization of the loans and their effects on the living standards of the recipients of such financing.

Miseti (2005) studied social-cultural institutions influencing participation in user owned microfinance organizations in Bondo District. The study concluded that, socio-cultural institutions influence participation in these organizations. That rotating savings and credit associations (RoSCAs), together with accumulating savings and credit associations (ASCAS) in the study area are organized based on kinship ties, marital status and gender. In addition, values such as trust and reciprocity, mutual aid, and collective work in the community spirit continue to be maintained in these organizations. The study concluded by noting that cultural values continue to be maintained in the savings and credit organizations. Cultural values in this case have therefore played a significant role in ensuring proper utilization of funds and the realization of the objective of improving living standards.

Nzioki, Tarason & Kalio (2013) carried out a study on utilization of microfinance institutions funds by borrowers in arid & semi-arid lands in Kenya. The study established that economic characteristics of entrepreneurs determine the use of borrowed funds from MFIs. Literacy levels were found to have a significant relationship with use of borrowed funds. On the other hand, Kamau (2014) evaluated gender relations in access, control and utilization of MFI resources amongst women in Kiharu Constituency. The study concluded that gender relations influence access, control and utilization of resources. These include cultural expectations that dictate the power relations at the household level, lack of assets for collateral among women beneficiaries among other factors. That in Kiharu, MFIs play a significant role in poverty reduction and in the improvement of standards of living. Women have been able to access resources from such institutions and these have enabled them meet their basic needs in households as well as gaining

economic empowerment. Economic empowerment has translated into improved gender relations as women are able to negotiate power in households with the resources from MFIs.

Wambugu (2009) evaluated the financial and social impact of group lending by MFIs which focused on K-Rep bank's Juhudi Credit Scheme in Kawangware region. According to the study, borrowed funds were utilized to pay school fees, improve diet, better clothing and better household goods. The study concluded that members were able to address their basic needs than before. Significantly, however, utilization of funds for purchase of vehicles or installation of electricity to mention just a few did not feature prominently, which the study attributed to these not being priority needs for the poor in Kawangware. The study focused on the urban poor in Kawangware, Nairobi County, whose needs differ significantly from those of urbanizing rural area like those in Murang'a town. The focus of the study was also on group lending where recipients had to meet certain criteria to qualify for the loans. This included being part of a group.

The above studies have focused on MFI related issues. However, none has been carried out to study the forms of utilization of the finances obtained and their effects on the standards of living in the households of individual recipients, leave alone targeting recipients in Murang'a town.. This research therefore aims to fill the literature gap by studying the forms of utilization of finances borrowed from micro finance institutions and their effects on the living standards of individual recipients in an urbanizing rural area like Murang'a town.

### **1.3 Research questions**

- i. What informs decisions to obtain finances from micro finance institutions in Murang'a town?
- ii. What are the different forms of utilization of finances obtained from micro finance institutions in Murang'a town?
- iii. What factors affect decisions on spending MFI finances in Murang'a town households?
- iv. To what extent do MFI finances obtained affect the living standards of the recipients' households in Murang'a town?

### **1.4 Objectives of the study**

#### **1.4.1 General objectives of the study**

The general objective of the study was to look at forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of their recipients in Murang'a town.

#### **1.4.2 Specific objectives of the study**

The specific objectives of the study were:

- i. To establish reasons for obtaining finances from micro finance institutions by recipients in Murang'a town.
- ii. To determine the different forms of utilization of finances obtained from micro finance institutions by recipients in Murang'a town.
- iii. To examine factors that influence decisions on the expenditure of MFI finances in Murang'a town
- iv. To assess the effects of the expenditure on standards of living in the households of the recipients in Murang'a town.

### **1.5 Importance of the study**

The study focused on forms of utilization of finances obtained from microfinance institutions and their effects on the living standards of the recipients in Murang'a town. By establishing the overall effect, the study has assessed the role of micro finance institutions in development in an urbanizing rural setting. This can help financiers in designing more helpful products that are demand oriented, as well as for the policy makers at the county level understand the impact of the MFIs in their locality. To researchers and academicians, the research can be basis for further research on forms of utilization of finances obtained from MFIs and the effects on living standards of the recipients in urbanizing rural setups.

### **1.6 Scope and Limitations of the Study**

The scope of the study involved establishing forms of utilization of finances obtained from microfinance institutions and their effects on the living standards of the recipients in Murang'a town. The respondents were the recipients of loans from microfinance institutions in Murang'a town. The informants were from microfinance institutions those whose offices are physically located within Murang'a town or their contacts and existence are in the public domain within Murang'a town.

The study aimed to establish reasons for obtaining finances from micro finance institutions by recipients, determine the different forms of utilization of finances obtained from micro finance institutions by recipients, examine factors that influence decision on the expenditure of the acquired finances and finally assess the effects of the expenditure on the standards of living in the households of the recipients.

The study was limited to residents of Murang'a town in Murang'a County due to financial and time constraints. The study findings therefore cannot be generalized to account for the forms of utilization of MFI funds in all of urbanizing rural Kenya.

## **CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

### **2.1 The history of microfinance**

Microfinance can be traced back in nineteenth century in Europe, as conceived by cooperatives such as Haas, Schulzel-Delitzsch and Raiffesein, who gave loans to the poor people who lacked collateral to borrow from the commercial banks. These institutions utilized the opportunity of the local communities to provide loans on conditions that the available commercial banks would not. Their techniques formed the basis for cooperative movements in many other nations (Guinnane, 2001).

Although cooperatives in Africa now resemble those that were in Germany in nineteenth century, the origin of the contemporary microfinance institutions can be traced in 1970s when several development programs began providing credit services to the poor from the rural areas that lacked collateral and could not borrow from the banks. Microcredit institutions in those times were not profit oriented unlike today's micro financing. Poverty eradication and social change was their main aim (Stieglitz & Weiss, 1981)

The year 2005 was declared the year of Micro Credit by the United Nations with over three thousand Microfinance institutions and over 1.1 million beneficiaries according to Daley-Harris (2006). The Nobel Foundation (2006) awarded Professor Yunus and the Grameen Bank with the peace prize for their innovation in uplifting living standards of the least economically endowed groups. The microfinance model has been since adopted globally; in India, in Brazil by Bancosol and locally by Equity Bank, K-Rep Bank among others, both locally and globally.

#### **2.1.1 History of micro financing in Kenya**

Kenya became part of an international commitment to eradicate poverty in 1945 during the World Social Summit held in Copenhagen. Consequently, successive governments have developed plans for improving standards of living in the country. These include the

Poverty Reduction Strategy Paper (2000) the National Strategy for Growth and reduction of Poverty (2005) and the National Poverty Eradication as outlined in the Kenya Vision 2030 program. All these are indication of efforts to achieve equitable sustainable economic growth and improvement of people's living standards.

Kenya has undergone tremendous change as a nation and as a society in the improvement of living standards. A study by Masini and Stratigos, (1991) on women, households and change was carried out as regards households and historical change on plantations in Kenya. The study examined the impact of the irreversible changes of the past century on the lives of plantation workers and the patterns of relationships within their households. One of the key aims of the study was to establish the main causal links between situations on the plantations and the households' structure and dynamics.

In colonial Kenya, coffee estates had a number of houses for permanent workers. Electricity was not available but bathrooms, toilets, and kitchens had water laid on. The houses themselves remained as they were when the plantations were first set up in the colonial period. They consisted of single units that were previously meant to accommodate a sole worker but which were now housing families as many as 10 workers (Masini and Stratigos, *op. cit.*). As for the tea plantations, poverty and illiteracy were important factors. They observed that, 36% of the respondent workers had not been to school. For the desperate, the low but regular monthly wage was better than the predictable levels of poverty in other rural areas. In all plantations, they relied on a pool of destitute workers who had no alternatives. The study noted that, due to underpayment, workers could not afford a balanced diet. Poor health amongst children was common due to poor diet and the fact that parents could not afford medical care.

Children lacked parental care and their parents could not afford to pay someone else to look after them, so the older children had to take care of the infants, who are thus exposed to numerous hazards. In most cases, they were carried along to school so that they could be taken care of there by older siblings. The children took either cold lunches or did without food if they were unable to cook for themselves. The study also noted that, the emerging nuclear family represents a new type of household formation. Polygamy

and extended families survive, but with the indelible mark of poverty on them. The polygamous homestead is no longer in one location, and while the extended family alleviates some of the stress of plantation life, plantation life puts a heavy strain on kinship ties (Adagala in Masini and Stratigos, 1991). The changing composition and structure of all these household types has important implications for their functioning and the well-being of their individual members. In conclusion, the researcher felt that housing, nutrition, clothing, education for the workers and their families needed upgrading. This is where MFIs come into play with the provision of finances to cater for education, clothing and housing projects.

The history of the microfinance sector in Kenya can be traced in mid 1950s when the colonial government set up a Joint Loans Board Scheme (JLBS) to facilitate credit for small business. Few decades later, credit was to become part of the rural development strategy, which led to organisational arrangements for distribution of official credit to smallholders in the agricultural sector (Alila, 1992). The Kenyan government in 1970s through its various agencies was the main source of credit to the farmers. To promote the agricultural sector, cheap credit was required. Therefore, based on the German Raiffeisen co-operative union model, credit societies were developed and used as a means of imparting a saving culture to the rural farmers. However, by 1980s the approach had begun to show failure. Many, especially the international development agents felt that the cooperative movements were drawing heavily on the public expenditure while not generating the intended growth. This saw other approaches to financial arrangements, among them the microfinance approach, which was viewed as an essential part of helping communities build local and sustainable services (Ledgerwood, 1998).

In 1980s in an effort to build institutions and sustainable development initiatives for the poor, the NGO sector introduced credit schemes, which consisted of small loan grants without the aspect of collateral requirement. The sector, especially in the devolved government system is receiving a lot of attention as a tool in improving standards of living through poverty alleviation. According to CBoK (2005) the provision of financial services to the low-income households, provide an enormous potential to support the economic activities of the poor and thus contribute to better living standards. Widespread

experiences and research have shown the importance of savings and credit facilities for the poor. The following section will cover the role of micro finance in availing credit to the households that need it to acquire consumption capability.

### **2.1.2 The role of microfinance in improving living standards**

Services offered by MFIs enable the poor organise their finances towards raising their capacities, increase incomes, tidy up consumption and on the whole, improve their quality of life (Kinyanjui, 2002). Concern Worldwide Micro finance Policy (1999) emphasizes that, microfinance is about providing financial services to the poor who are not served by the conventional formal financial institutions.

The main objective of MFIs is to alleviate poverty by providing these groups of people with credit facilities that are not available to them through conventional banking institutions. The key distinguishing features of microfinance from formal financial provision is the smallness of loans advanced together with savings collected and the absence of asset-based collateral. The provision of such financial services requires innovative delivery channels and methodologies (Dondo, 1999). Microfinance is also associated with a positive impact on social and human development. For example, impact assessments have found positive changes in micro-enterprise output, assets, employment and income. Sebstad and Gregory (1996) notes that, in addition to these effects on the entrepreneurial activity of the poor, microfinance is being attributed with positive effects on issues such as household income, savings, children's education, health and nutrition, and women empowerment.

The appropriateness of micro credit as a tool for reducing poverty depends on the local circumstances. Poverty is often the result of low economic growth, high population growth, and extremely unequal distribution of resources. The proximate determinants of poverty are unemployment and the low productivity of the poor. When poverty results from low productivity and low income, reducing poverty requires investing in human and physical capital to increase workers' productivity, as argued by Khandker (1998).

Proponents of micro credit consider increasing the poor's access to institutional credit as an important means of improving their living standards. The argument is that by virtue of their design, such programs can reach the poor and overcome problems of credit market imperfections (Yunnus, 1983). Khandker (1998) concurs by arguing that, in their view, improved access to credit smoothers consumption and eases constraints in production, raising the incomes and productivity of the poor.

Credit-a major microfinance service- should play a facilitating role rather than lead in the poverty eradication war. Though microfinance has played a major role in development, there are certain misconceptions regarding it. For instance, microfinance is believed to help the poorest of the poor (Hulme and Mosley, 1996). Certainly, the sector has targeted the poor, however not all categories of the poor benefit from this arrangements. Microfinance helps the entrepreneurial poor who are able to put the credit into enterprises as noted by Kinyanjui (2002). This means that, microfinance is just one among the many tools that the poor need to come out of poverty.

### **2.1.3 An overview of standards of living in Kenya**

Benton and Judith (1967) carried out a study where they statistically analyzed consumer behavior as regards household expenditure in Nairobi. The study presented estimates between household expenditure patterns and other major variables, for use in predicting urban household demands for selected groups of goods and services. The estimates are obtained from a sample of 300 middle income African households in Nairobi. Household budget surveys have been undertaken by many governments in Africa for the compilation of cost of living indices. Surveys like these inform governments in their regulation of MFIs in terms of the reasonable amounts of funds to borrow for a given need and the like.

Gross Domestic Product per capita is the total output divided by the total population. It is favourable when the growth of output exceeds population growth. It therefore reflects the value of goods and services received by the average man. Real income per head is only an index of economic welfare or material well-being. By this we mean if income per head increases, material welfare will increase; but we cannot say by how much it has

increased. We cannot, in other words measure material welfare on arithmetic scale in the same way as we can measure real income per head (Livingstone and Ord, 1980).

Countries fall into four broad human development categories, each of which comprises 47 countries: Very High Human Development, High Human Development, Medium Human Development and Low Human Development (46 countries in this category). According to the UN report, Kenya is among the countries with low human development together with Pakistan and Ethiopia (United Nations Development Programme, 2013).

The HDI takes into consideration both food and non-food goods and services in measuring living standards. Efforts to determine people's well-being have therefore concentrated on estimating the aggregate value of all goods and services considered necessary to satisfy an individual's basic needs. According to GoK (2000), the welfare monitoring survey collects information mainly on household consumption expenditures, which is then analysed to assess the welfare of households. Although the above approach is widely used as a measure of well-being, it should however be noted that it may ignore some peoples' perception of welfare (subjective view). In an attempt to include the ordinary person's view of who is poor, the government of Kenya has carried out participatory poverty assessments in some districts, which have been used to complement the statistical information from the welfare monitoring survey series.

#### **2.1.4 Murang'a County**

It was created with the implementation of the new constitution promulgated in the year 2012. In the fourth schedule of the constitution of Kenya and the County Governments Act (2012) it is County Number 21. It is located in central Kenya and carved from the former central province, one of the 8 administrative units that existed under the old constitution. The county borders Nyeri, Nyandarua, Kiambu and Kirinyaga counties. According to Kenya Bureau of Statistics; it has a population of about 942, 581 with 49% being male and 51% female. Predominantly, it is an agricultural county (tea, coffee, maize, beef and dairy products). Tourist attractions include the Aberdare forest and Mt. Kenya. The county is a hub for trade and commerce in the region, due to its proximity to

Nairobi and its high population. Murang'a has two law courts, one in Murang'a South and two in Maragua.

According to a survey by GoK (2009), Murang'a County had about 255,696 households. In total, Central Kenya had a 2.81 household growth rate. In terms of education, 37.9 % of the population in central Kenya aged 3 years and above were at school. 53.9 % had left, 6.9 never attended school, and 1.3 had not started school. At household level, information was collected on ownership of assets. The items included: radio, TV sets, mobile phones, landline telephone, computers, bicycles, motorcycles and cars/trucks. The survey revealed that in Murang'a North-83.2% own radio, 19.0 TV sets, 64.3 mobile phone, 0.5 landline, 1.5 computer, 9.6 bicycle, 1.4 motorcycle, 3.0 car, truck or tuktuk on percentage of households by ownership of household assets. On urban population activity status, the census reported that, there is a total of 27,460 people aged 5 years and above living in urban centers in Murang'a North, 12,961 males, 14,499 females. For the males, 7,666 are employed, 538 seeking work, 4,229 are economically inactive while 528 are unclassified. For the females, 7,389 are employed, 660 are seeking work, 5,837 are economically inactive and 613 are unclassified.

According to GoK (2006), about 36 per cent of the population in Murang'a lives below the poverty line. The poor are not able to access the basic necessities of life such as food, shelter and education. Poverty in the county manifests itself in many ways including inaccessibility to health services, food insecurity, inadequate potable water, lack of good and proper clothing, inaccessibility to proper education and landlessness.

According to the County Government fiscal strategy paper (Murang'a, 2014), stringent collateral requirements and high interest rates by banks is one of the causes of persistent poverty. This hindrance to credit is what the micro finances within Murang'a try to deal with, though the presence of many micro credit advisors who exploit savings and credit groups is cited as major challenge in the sector, as well as reluctance of people to take loans from credit institutions.

## **2.2 Theoretical framework**

The study uses the functionalist perspective of family, where the focus is on the functions of the family to the individual and to the society. According to functionalists the society operates like a body and the different structures are like organs.

The rational choice theory is also utilized in evaluating reasons for expenditure by recipients of loans from micro finances. Careful calculations and needs must be key on what and how any incomes are spent in a household and as much as needs are met, the loans must be repaid.

### **2.2.1 Functionalist theory**

The functionalist theory in sociology was coined by Auguste Comte who saw it as closely intertwined with his overall perception about the society. The function of an institution is the contribution it makes to the smooth running of the general society. The best way to understand the functionalist theory is to understand the organic analogy. It relates the function of one organ in an organism to the rest of the organs, for the wellbeing of the whole. According to Aidan (1986), all social reality is in some sense a seamless robe, and disciplinary divisions are arbitrary.

Functionalists pay particular attention to moral accord in keeping order and stability in the society; order and stability are the accepted state of social organization. The moral stability is embedded in the state of moral consensus among the society. In a similar way, the study acknowledges the fact that micro finance institutions are social institutions that are established to achieve certain objectives which is provision of credit to individuals in order to help alleviate poverty, make fully sufficient individuals who can meet their basic needs and those of society.

Parsonian functionalism sees the family as contributing to the stability and continuity of the generally observed modern industrial order. According to Elliot (1986), on development of the modern family observes that, middle-class life-styles are maintained

by channelling aid from the parental to the younger generation, while working-class family bonds protect the individual from the uncertainties of capitalism and engender class solidarity.

Sociologists of all persuasions point to the separation of productive activity from the family, to the 'take over' by the state and other public institutions of welfare and related activities such as education, health and the care of the aged, as well as to the structuring of the family as a private realm of intimacy and emotionality in opposition to the impersonal of the economic and the political (Robertson, 1986). The form and role of the families in urban rural Kenya is peculiar in its character. This is as opposed to what would be generally referred to as the western modern industrial family. While the latter exists in a welfare state, the former exists in what can be said to be a semi-welfare state. The functions of the family in a welfare state are less as compared to those of urban rural Kenya.

Perhaps, not to run into the danger of oversimplifying, the functions of the family in the developed world are shared with the state unlike in the developing world where families carry out the functions with little or no intervention from the welfare state. Douglas (1964) observed that, early learning and play experience within the family provide children with the stimulation and motivation necessary to success in the formal education. Health care studies show that the day to day surveillance of children's health remains with parents. It can then be concluded that modern industrial families are complementing public institutions in the provision of education, health care etc and vice versa.

Most industrialized and industrializing countries in the world today are welfare states. By this it is meant that the state plays a central role in the provision of welfare, which it does through a system which offers services and benefits that meet people's basic needs for things such as healthcare, education, housing and income. An important role of the welfare state is managing the risks faced by people over the course of their lives: sickness, disability, job loss and old age (Giddens, 2006).

According to Parsons (1949), the nuclear family in modern societies is economically independent of their kin, forms a separate household unit and is bound neither to the mother's nor father's family of origin by clearly descent rules. Obligations to kin are limited, but nuclear family members are at the same time deprived of kin support and become singularly dependent on each other. Bonds between spouses and between parents and children are thus intensified and the marital bond becomes the structural keystone of the modern family.

The functionalist view of the family is deemed most appropriate in this study as it explains the role of the adults in the family as partly economic provision hence a major role in improving standards of living of its members. It explains the role played by adults who are continuously making choices on what is good for each individual as well as the whole group, therefore, the study in this regard appeals to the rational choice theory.

### **2.2.2 Rational choice theory**

Rational choice theory starts with the idea that individuals have preferences and choose according to those. In other words, they capitalize on gains. If costs outweigh gains, then they don't act (Coleman & Feraro 1992). To Hechter et al, (1997) sociological rational choice is an inherently multilevel enterprise. It seeks to account for social outcomes on the basis of both social context and individual action. Individuals act in terms of their interests, but these interests have to benefit them. According to Levin and Milgrom (2004), rational choice is the process of determining what options are available and then choosing the most preferred one according to some consistent criterion.

All men are biological beings. As such, they are confronted with the realities posed by physical survival and maintenance. Economic institutions have their roots in this elemental fact. But men are not only biological beings; they are also social beings. Accordingly, human needs are seldom simply biological cravings. Regardless, however, of whether human wants derive from biological or social sources, men are confronted with the fact that many things are not available in unlimited amount; they are scarce. Hence, scales of preference - value priorities and hierarchies - are needed (Zanden, 1970).

Parsons (1958) on motivation of economic activities noted that, a certain necessary assumption is that, economic analysis is empirically significant only in so far as there is scope for a certain kind of “rationality” of action, for the weighing of advantages and disadvantages, of utility and cost, with a view to maximizing the difference between them. In so far, for instance, as behaviour is purely instinctive or traditional it is not susceptible of such analysis.

It is in this light the rational choice theory forms part of the theoretical framework under which the study will be carried out. It is essential in meeting part of the objectives of the study to find out forms of utilization of the loans obtained from microfinance institutions on the part of the recipients, in terms of development and repayment of the loans.

### **2.3 Conceptual framework**

A conceptual framework involves forming an idea about the relationship between the variables in a study showing the relationship graphically or dramatically (Mugenda and Mugenda, 2003). The conceptual framework of this study is based on the concepts that governments offer frameworks within which institutions formed operate for the benefit of all so as to achieve development. In this case, the institutions are MFIs. This, although requires individuals to make steps towards reaping the maximum benefits from this MFIs either formed by them or others, in improving their housing, healthcare, leisure education and general well-being. This is generally regarded as human development. The choices individuals make regarding what to spend on in terms of improving their standards of living exists in both a cultural set up and individual mind-set.

Figure 1 below illustrates the flow of influence from independent variables via intervening variables (microfinance loans, other loans and forms of utilization) on standards of living which can be enhanced upwards or downwards.

Age, education and occupation lead to prudent use of monies obtained from microfinance institutions and other loans, for example in improved farm inputs and outputs thus catering for basic needs, child welfare and household demands. Alternatively, low levels

of education and imprudent use of micro finance institutions and other loans can have the opposite effects of declining ability to meet basic needs, child welfare and household demands

Existing sources of income lead to prudent use of other loans, including money obtained from micro finance institutions, for example, if someone has a business as a source of income, their decision to go for extra finances would be to boost their business or for another specific use whose gains are mostly well calculated. Alternatively, lack of other sources of income can have a direct impact on how money obtained from microfinance institutions and other loans are utilized, with a direct effect ability to meet basic needs, child welfare and household demands.

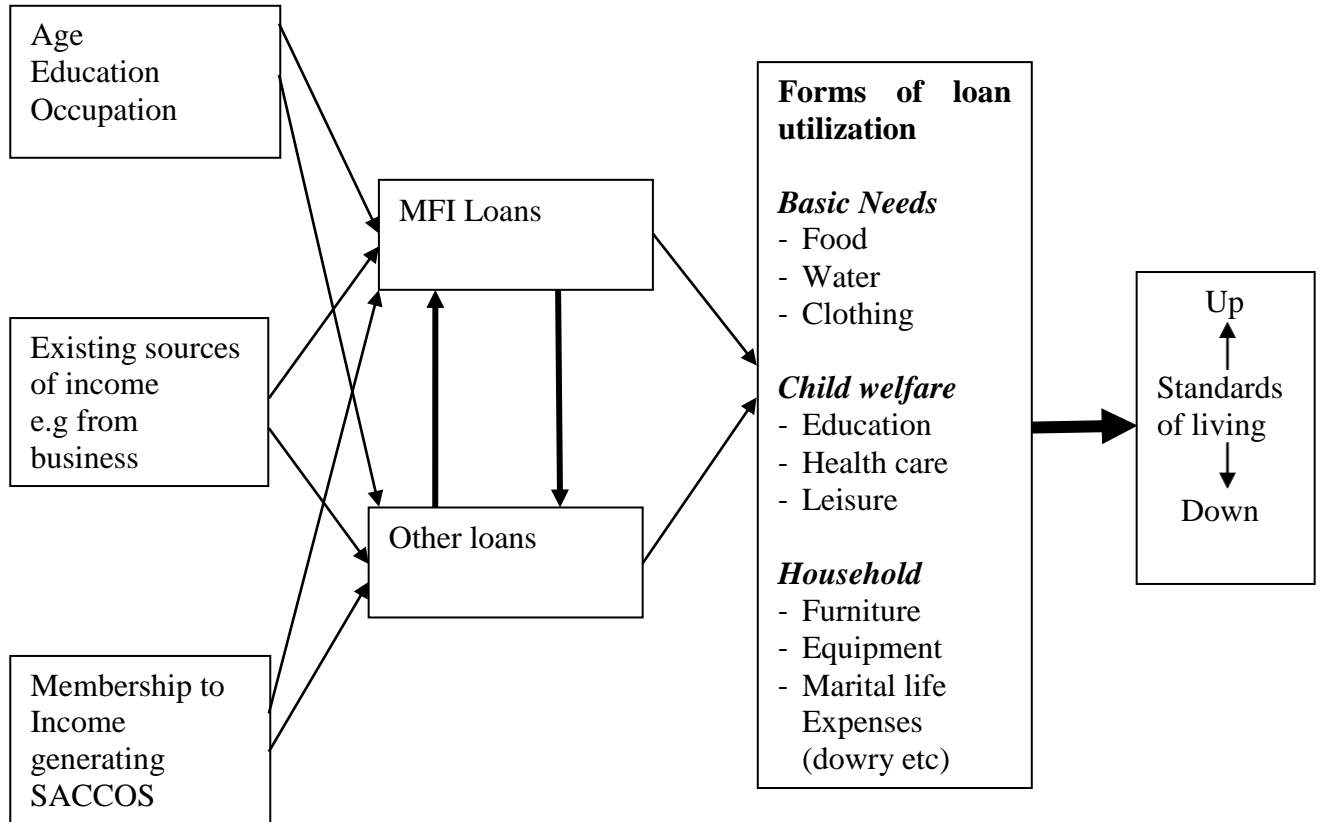
Likewise, membership to income generating SACCOs determines one's ability to obtain money from microfinance institutions as well as other loans. Majority of microfinance institutions require that, for one to qualify to access funds from the institution, they must be members of the same institutions for a while. Their savings will also determine the amount they qualify to obtain in form of loans.

**Figure 1: Conceptual framework**

**Independent variables**

**Intervening variables**

**Dependent variable**



## **2.4 Definition of terms**

Forms of utilization of finances: food and non-food expenditure in households

Micro finance institutions: financial service institutions such as deposit taking, loan advancing, payments services, money transfers and insurance

Living standards: level of wealth comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area.

Recipients: those who qualified and were granted the loan from the microfinance institutions.

SACCOs: Savings and Credit Co-operatives

RoSCAs: Rotating Savings and Credit associations

ASCAs: Accumulating Savings and Credit Associations

Household: housing unit occupied by an individual (s) related by blood or not

Family: a social system consisting of an adult(s) and children, all related by marriage or living system.

Chama: Informal rotating savings and credit groups

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter describes the procedures followed in conducting the study. The main sections of this chapter include: research design, target population, sampling processes and procedures, data collection and analysis.

### **3.2 Area of study**

Murang'a town (former Fort Hall in colonial times) is located approximately 85 Kilometers North East of Nairobi. The main highway connecting Murang'a to Nairobi is marked A2 (Nairobi-Thika superhighway) before joining C71 (A2 Kenol- C72 Murang'a Rd.) by making a left turn at Kenol town.

Murang'a town is in Murang'a County which covers an area of about 1,000sq km at an average attitude of 1675 M above sea level. Like any other growing town, Murang'a town is full of people who are investing heavily in microfinance institutions due to easy accessibility. The main aim is to improve their standards of living. Murang'a town is within Township Ward, which is one of the thirty five administrative wards within the county.

According to GoK (2006), about 36 per cent of the population in Murang'a lived below the poverty line. The poor are not able to access the basic necessities of life such as food, shelter and education. Poverty in the county manifests itself in many ways including inaccessibility to health services, food insecurity, inadequate potable water, lack of good and proper clothing, inaccessibility to proper education and landlessness. Murang'a is an agro-ecological zone, that is, it is characterized by steep terrains and receive rainfall all year around, save for one to two dry months. Consequently, it supports crop cultivation. Indeed, there is production of large quantities of tea and coffee, among other crops such as maize and potatoes. In addition, Dairy farming is an important industry in the county.

Tourist attractions include the Aberdare forest and Mt. Kenya. The county is a hub for trade and commerce in the region, due to its proximity to Nairobi and its high population. Murang'a has two law courts, one in Murang'a South and two in Maragua. According to the Kenya Police Service (2014), Murang'a was ranked 5<sup>th</sup> highest in crime prevalence after Nairobi, Nakuru, Kiambu and Mombasa counties, with two thousand, five hundred and one (2,501) cases reported that year.

According to the Kenya National Bureau of statistics, Murang'a was ranked the second largest town in Murang'a County with a population of 28,775 people (GoK, 2009). In the county, 51% households had improved water, 237.9% households had improved sanitation, 14% households had Electricity, 9.7% of roads were paved as a percentage of total roads within the county and 45.0% of the roads were in a good/fair state, as a percentage of total roads. 54.7% of the population was delivered in a health centre with 54.7% attended to by a qualified medical assistant during birth. 77.5% of the population had all vaccinations and 82.9% of the population can read & write with 76.2 of the population aged 15-18 years attending School.

According to a report done by the Finance and Planning ministry (Murang'a, 2014) HIV and AIDS pandemic poses a serious threat to the development of the county as the prevalence rate stands at 3.7per cent. AIDS related deaths are common and those mainly affected are those within the productive age group of 15-49 years of age. Also, the number of HIV/AIDS orphans is on the increase. Poverty is viewed as a major cause and consequence of HIV/AIDS. Poverty increases vulnerability of people with HIV, hence there is need to redirect resources towards support services to poor households. The situation is further aggravated by the fact that HIV/AIDS mostly affects people in the productive age leaving minors and the elderly people to take care of households. Progressive gains on poverty reduction may be reversed if concerted efforts are not urgently put in place to bring the HIV/AIDS pandemic under control.

The county has had its share of impact of global warming. According to GoK(2012) the evidence of climate change in Murang'a include; drying of rivers, deepening of water tables, e.g. people now have to sink deeper wells to obtain water unlike in the past,

unpredictable rainfall, occurrence of new pests and diseases like high land malaria and disappearance of seasonal rivers. Impacts of these include; water scarcity for farming and domestic use, food shortages, change of lifestyle of the local people, new diseases such as upper respiratory diseases among others.

### **3.3 Research design**

Sharma et al (1983) define research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose by selecting subjects, research sites and data collection procedures to answer the research question(s). The design shows which individuals were studied, when, where and under what circumstances they will be studied. According to Sogunro (2001) a researcher should know and apply both qualitative and quantitative research paradigms. He argues the usage of number and descriptions which anchor in both are mutually complimentary and the strength of both can produce a synergy in which the whole collective benefits are greater than what is obtained from either approach alone.

Descriptive survey design was used to establish forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients of Murang'a town in Murang'a County. According to Michael (1990), a descriptive survey determines and reports the way things are and commonly involves assessing the attitudes and opinions of individuals, organisation and procedures. This design was considered appropriate for this research because it attempts to collect information from members of a population in order to determine their current status with respect to one of more variables.

### **3.4 Target Population**

A population is the aggregate of all cases that conform to some designated set of specification (Babbie, 2004). The target population was composed of loan recipients from MFIs within Murang'a town. Mugenda and Mugenda (2003), explain that the target

population should have some observable characteristics, to which the researcher intends to generalize the results of the study.

The target population for this study was made up of recipients of loans from more than ten MFIs operating within Murang'a town. The study also targeted credit officers of the MFIs that were included in the study.

### **3.5 Sample size and sampling procedure**

Mugenda and Mugenda (2003) define sampling as the process of selecting a number of individuals for a study in such a way that the individual selected is representative of the larger group from which they were selected. It is the process of selecting a sufficient number of elements from the population, so that the study of the sample and understanding of its properties or characteristics would make it possible for one to generalize such properties or characteristics to the population elements. Both probability (simple random) and non-probability (purposive) sampling procedures were used to determine the sample in this study.

Simple random sampling was used to identify a maximum of ten MFIs operating within Murang'a town. The study utilized purposive sampling to select the recipients in Murang'a town. The sample size was 24 beneficiaries from each MFI, giving a total sample size of 240. Purposive sampling starts with a purpose in mind and the sample thus include people of interest and exclude those who do not suit the purpose (Oso and Onen, 2005). Soderlund et al (2005) also posited that purposive sampling is useful when one want to access a particular subset of people.

### **3.6 Methods of data collection**

The study employed both qualitative and quantitative research methods. According to Haralambos, Holborn and Robin (2004) quantitative methods are also referred to as numerical statistics and include the use of questionnaires among other methods. These methods are favoured by sociologists who have tried to adopt methods of natural

sciences. Qualitative methods on the other hand are usually presented in the form of words. Methods of collection of data include interviews and focus group discussions. According to Haralambos, Holborn & Robin (2008) compared to quantitative data, qualitative data are usually seen as richer, more vital, as having greater depth and as more likely to present a true picture of a way of life, of people's experiences, attitudes and beliefs.

The study used questionnaires and interview guides as instruments for collecting data. The questionnaires were for all the recipients. Interview guides were for credit officers in the MFIs selected as well as focus groups for some recipients.

### **3.6.1 Collection of quantitative data**

#### **Questionnaires**

A questionnaire is a carefully designed instrument (written, typed or printed) for collecting data directly from people. Questionnaires are economical, ensure anonymity, permit use of standardized questions, have uniform procedures, provide time for the respondents to think and are easy to score (Michael, 1990). The questionnaires used were semi-structured hence contained both open ended and close ended questions.

### **3.6.2 Collection of qualitative data**

#### **Interviewer guide**

Credit officers interact with the recipients as they sell different products to them. The researcher used interviewer guides which had open ended questions. These supplemented the questionnaire and provided more insight into intended utilization of the loans acquired from the MFIs.

#### **Focus group discussion**

Focus group discussions comprising between 6 and 10 individuals were conducted among carefully selected recipients of loans from different MFIs. Margaret Peil (Rukwaru, 1995) defines focus group as a state where several people discuss various

topics with the researcher acting as the moderator and recording what is said and suggesting new topics from time to time. Interview guide were used by the researcher who acted as the moderator.

### **3.7 Data analysis**

The data obtained was both qualitative and quantitative. The analysis of these data required a number of closely related operations such as establishment of categories, application of these categories to raw data through coding, tabulation and then drawing statistical inferences. SPSS v21 and Microsoft Excel were used in the analysis.

### **3.8 Ethical issues**

The researcher upholds the moral obligation to treat all the information gathered from the respondents with propriety, cognisant of the sensitivity of some of the information that was obtained.

## **CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION**

### **4.0 Introduction**

This chapter presents analysis and findings of the study as set out in the research methodology. The results were presented on forms of utilization of finances obtained from microfinance institutions and their effects on the living standards of the recipients in Murang'a town. The study sought answers to the following research questions: What informs decisions to obtain finances from micro finance institutions by recipients within Murang'a town? What are the different forms of utilization of finances obtained from micro finance institutions? What factors affect decisions on spending finances in the households of the recipients? And to what extent do finances obtained affect the living standards of the recipients' households? The chapter covers the demographic information and the findings based on the objectives. The findings were then presented in tables, graphs and charts as appropriate with explanations being given in prose thereafter.

### **4.1 Response rate**

The study targeted all beneficiaries of loans from all micro finance institutions within Murang'a town in collecting data with regard to investigating the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients. From the study, 207 out of 240 responded contributing to a response rate of 86.25% (Table 4.1) this commendable response rate was as a result of the personal efforts made by the researcher through frequent contacts and visits reminding the respondents to fill-in and return the questionnaires.

**Table 4.1: Response rate on the questionnaire that was administered to the respondents**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	207	86.3
Never responded	33	13.7
<b>Total</b>	<b>240</b>	<b>100.0</b>

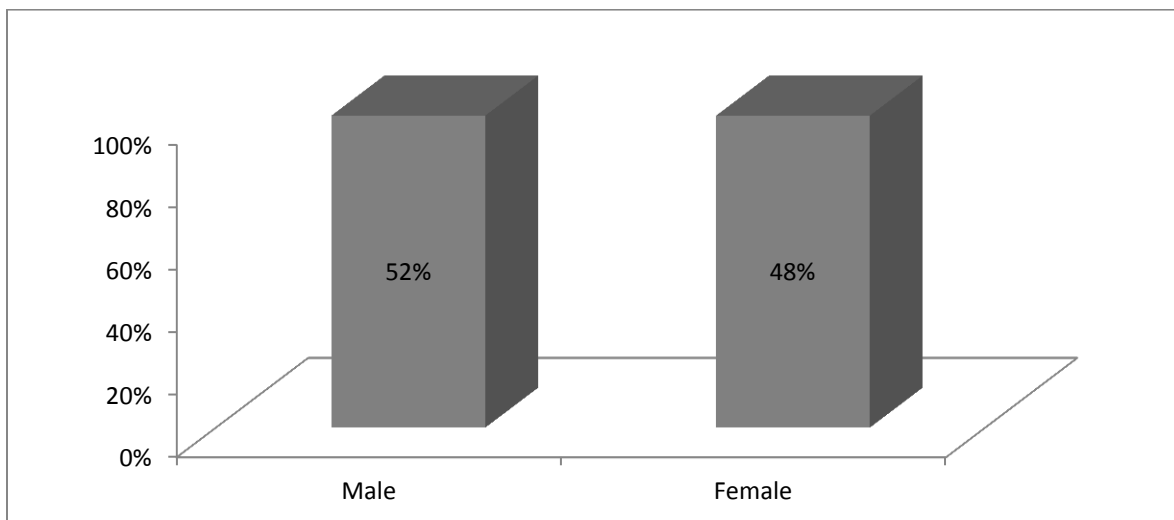
## **4.2 Social demographic information**

The study sought to ascertain the background information of the respondents involved in the study. The background information points at the respondents' suitability in answering the questions on the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients in Murang'a town.

### **4.2.1 Gender distribution**

Figure 4.2 shows gender distribution of the respondents. Accordingly, 52% of the respondents were male while 48% were female. This implies that there was average gender distribution among microfinance institutions recipients within Murang'a town.

**Figure 4.2: Gender distribution**



As noted by the Murang’a Finance and Planning ministry (Murang’a, 2014), gender concerns have implications on economic growth and poverty reduction. During formulation of policies, gender concerns are integrated as there is proof to show that a greater percentage of women constitute the agricultural workforce but only a small percentage of them hold ownership documentation for fixed assets. This imposes a great constraint on their ability to make major land-related investment decisions, including obtaining credit using land ownership documents as collateral. Gender will determine items of expenditure on loans from MFIs, impacting on the recipient’s living standards as well.

#### 4.2.2 Respondents age bracket

The study sought to ascertain the information on the respondents involved in the study with regards to age. Table 4.2 indicates an analysis of age distribution.

**Table 4.2: Respondents age bracket**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
20 yrs and below	6	2.9
21-25	19	9.2
26-30	37	17.9
31-35	33	15.9
36-40	60	29.0
41-45	25	12.0
46-50	19	9.2
51 and above	8	3.9
<b>Total</b>	<b>207</b>	<b>100.0</b>

As shown in table 4.2, majority of respondents (29%) were aged 36 to 40 years, 18% were aged between 26 and 30, 16% were aged between 31 and 35 years, and 12% were between 41 and 45 years, while 9% were between 21 and 25 years, and 46 to 50 years.. This implies that majority of beneficiaries of micro finance institutions within Murang’a town were aged 36-50.

Age is an important factor in acquisition and utilization of finances. Age determines productivity, that is, the youth against those above thirty six years. The youth are defined as those aged between 18 and 35 years. This is the productive age group and represents 46 % of the total population in the county according to a report done by the Finance and Planning ministry (Murang'a, 2014). On the downside the youth are likely to lack entrepreneurial skills that can help them access money from financial institutions because of lack of proper training and business skills exposure, whereas those above thirty six years possess more entrepreneurial skills, can access financing easily, coupled with more training and exposure. Age will directly determine forms of expenditure of finances obtained from MFIs that will or will not directly or indirectly affect the recipient's living standards.

#### 4.2.3 Level of education of respondents

The study asked the respondents to indicate their level of education. Findings are as shown in table 4.3

**Table 4.3: Level of education of respondents**

<b>Level of education of respondents</b>	<b>Frequency</b>	<b>Percentage</b>
Diploma holders	85	41.0
KCSE holders	64	31.0
Degree holders	29	14.0
Masters and above	17	8.0
KCPE & below	12	6.0
<b>Total</b>	<b>207</b>	<b>100.0</b>

According to table 4.3, majority of the respondents (41%) were diploma holders, 31% were KCSE holders while 14% were degree holders.

This means that, majority of the respondents are well trained thus had rich information and knowledge on the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients. According to

“Mutirima”, a key informant, a key factor affecting decisions on spending finances obtained from MFIs is the exposure of the groups targeted and their education level.

#### 4.2.4 Respondent’s marital status

The study sought to ascertain the information on the respondents involved in the study with regards to the marital status. Table 4.4 indicates an analysis of marital status of the respondents

**Table 4.4: Distribution of respondents by marital status**

<b>Marital status</b>	<b>Frequency</b>	<b>Percentage</b>
Married with children	81	39.0
Married with no children	25	12.0
Single with children	37	18.0
Single with no children	50	24.0
Widowed	14	7.0
<b>Total</b>	<b>207</b>	<b>100.0</b>

According to table 4.4, majority of respondents (39%) were married with children, 24% were single with no children, 18% were single with children, and 12% were married with no children, while 7% were windowed. This implies that majority of the respondents were married with children.

According to Seeborg (2004), changes in marital status have very different effects on women and men. Women receive large increases in their income-to-needs ratios when they marry, and they incur large declines in their income –to-needs ratios after experiencing a divorce or separation. Men, on the other hand, do not experience significant changes in their income-to –needs ratios when their marital status changes.

Marital status could mean that, those who are married with dependants have more responsibilities and will tend to be keen in their spending, but also likely to incur unexpected expenditure even with good planning depending on the nature of those under their care e.g. old, disabled or sick dependants among other factors. On the other hand, those without dependants are likely to have a less burden in terms of responsibilities and likely to take more risks than those with dependants. This translates directly to the different forms of utilizing finances obtained as well as the impact on the living standards.

#### **4.2.5 Number of people in the household**

The study asked the respondents to indicate how many they are in their household (including house helps /relatives/friends). Findings are as shown in Table 4.2

**Table 4.5: Number of people’s in the household**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
3 and below	75	36.3
4-6 people	93	44.9
7 or more	39	18.8
<b>Total</b>	<b>207</b>	<b>100.00</b>

Table 4.2 above, shows that majority of the respondents (44.9%) had 4-6 persons in their households, 36.3% had 3 and below while the remaining 18.8% indicated that they had 7 or more people in their household.

The number of individuals in the household is directly related to the need for borrowing, ability to repay and the improvement of living standards. Many household members mean more needs, more reasons to borrow, and varied forms of utilization.

#### 4.2.6 Religious orientation

The study sought to ascertain the information on the respondents involved in the study with regards to their religious orientations. The study established that all the respondents (100%) were Christians.

#### 4.3 Reasons for and perceived benefits of obtaining finances from MFIs

The first objective of the study sought to examine the reasons for and perceived benefits of obtaining finances from micro finance institutions by recipients within Murang'a town. Findings are as discussed in subsequent sections.

##### 4.3.1 Respondents history of borrowing a loan

In order to understand respondents history of borrowing a loan, respondents were kindly requested to state whether that was their first time to borrow a loan from an institution. Results findings are as presented in Table 4.6 and Figure 4.5 below:

**Table 4. 6: Response whether current loan was first time borrowing**

<b>Responses</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	91	44.0
No	116	56.0
<b>Total</b>	<b>207</b>	<b>100.0</b>

According to the figure 4.3 above majority (56%) of the respondents indicated that it was not their first time to borrow a loan from an institution, while 44% ascertained that it was their first time to borrow a loan from an organization.

This implies that most of the respondents had an earlier experience with loans. This is likely to affect forms of utilization obtained from MFIs and effects thereafter on the living standards of the recipients.

### 4.3.2 Respondent's microfinance institution/s of current loan/s

Respondents were asked to indicate the institution/s they have taken their current loan/s. Findings are as summarized in Table 4.7.

**Table 4.7: Respondent's microfinance institution/s of current loan/s**

Name of institution	Whether source of loan		Total	
	Yes	No	Percent	N
Faulu Kenya	22.0 <b>46</b>	78.0 <b>161</b>	100.0	<b>207</b>
Kenya Women Finance Trust (KWFT)	53.0 <b>110</b>	47.0 <b>97</b>	100.0	<b>207</b>
Small And Micro Enterprise Programme (SMEP)	12.0 <b>25</b>	88.0 <b>182</b>	100.0	<b>207</b>
Mentor	6.0 <b>12</b>	94.0 <b>195</b>	100.0	<b>207</b>
Equity Bank (MF Section)	68.0 <b>141</b>	32.0 <b>66</b>	100.0	<b>207</b>
K-Rep Development agency Bank	17.0 <b>35</b>	83.0 <b>172</b>	100.0	<b>207</b>
UNAITAS	6.0 <b>12</b>	94.0 <b>195</b>	100.0	<b>207</b>
Murata SACCO	26.0 <b>54</b>	74.0 <b>153</b>	100.0	<b>207</b>
Mutirima SACCO	13.0 <b>27</b>	87.0 <b>180</b>	100.0	<b>207</b>
Mwalimu SACCO	33.0 <b>68</b>	67.0 <b>139</b>	100.0	<b>207</b>

From the findings, majority of the respondents (68%) stated that they secured their current loans from Equity Bank (MF Section), 53% acquired from Kenya Women Finance Trust (KWFT), 33% from Mwalimu SACCO, 26% from Murata SACCO, 22% from Faulu Kenya, while 17% from K-Rep Development agency Bank. This illustrates that, most of the respondents acquired their current loans from equity Bank (MF Section).

### 4.3.3 Reasons for the choice of the named microfinance institution over commercial banks.

Respondents were kindly to give reasons why they chose to take a loan from the named institution. Among the reasons the respondents stated are; low interest rate, security of

the loan, to expand their business, limited requirements with friendly lending rates and quality among others.

According to key informant “Murata”, loan recipients choose MFIs over other financial institutions like commercial banks because interest rate is low, interests are shared as dividends at the end of the year unlike in the banks and the sense of voluntary.

Another key informant “Mentor” argued that loan recipients choose MFIs over other financial institutions like commercial banks because most of the recipients have accounts in MFI’s hence they find it easier taking loan from them. “SMEP” one of the key informants was on the view that loan recipients choose MFIs over other financial institutions like commercial banks because of bank phobia, rigidity of the banks, and accessibility of the MFI’s. Also “KWFT” argued the reasons to include; the amount involved, can be loaned without an account and that services are at doorstep.

#### **4.3.4 Whether Respondents had procured another loan from another financial institution**

The study sought to establish whether respondents had procured another loan from another financial institution. The study established that majority of the respondents (63%) had not procured another loan from another financial institution.

#### **4.3.5 Source of additional loan**

The study sought to establish sources of additional loan. The results are shown in the table 4.8 and figure 4.16 below.

**Table 4.8: Source of additional loan**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Chama	51	67.1
Another MFI	25	32.9
<b>Total</b>	<b>76</b>	<b>100.00</b>

From table 4.8, 67.1% of the 37% who procured additional funding stated that the source of their additional loan was from Chama, while 32.9% was from a microfinance institution. This implies that the source of majority's additional loan was from Chama.

#### **4.3.6 Reasons for taking an additional loan**

In order to understand why respondents procured another loan, respondents were kindly requested to explain why they chose to take additional loan from the named institution. Respondents said they secured another loan from another financial institution in order to settle their previous loans and that because they were offered at a lower interest rate. According to Ahmed (1997), an example of improper utilization of MFI funds is the use of borrowed as basis or deposit for other loans in other institutions, therefore perpetuating the culture of perpetual debts.

#### **4.3.7 Whether respondents discussed with anyone on whether to take a loan**

The respondents were asked whether they discussed with anyone (spouse/children/friend/relative/credit officer) on whether to take the loan. Results are as in table 4.9 below.

**Table 4.9: Whether respondents discussed with anyone on whether to take the loan**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	180	87.0
No	27	13.0
<b>Total</b>	<b>207</b>	<b>100.0</b>

From the findings indicated in table 4.9 above, 87% agreed that they discussed with somebody on whether to take a loan, while 13% said they never discussed. This implies that majority of the respondents consulted before taking a loan.

#### 4.3.8 Individuals consulted

In order to ascertain the individuals who were consulted by the respondents, they were asked to kindly choose the one whom discussed with before taking a loan. The results of the findings are as summarized in Table 4.10.

**Table 4.10: Individuals consulted**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Spouse	60	29.0
Children	4	1.9
Friend	27	13.1
Relative	39	18.8
Credit officer	77	37.2
<b>Total</b>	<b>207</b>	<b>100.0</b>

According to the table 4.10 above, 37.2% of the respondents indicated that they prior taking the loan they discussed with a credit officer, 29.0% discussed with their spouse, 18.8% discussed with their relative, while 13.1% discussed with a friend. This implies that credit officers were the highest category of individuals consulted before taking the loan. According to “KWFT” a key informant, loan applicants inquired the terms of the loan and possibility of loan transfers between MFIs. According to “SMEP” another key informant, the loan applicants sought information on successful business projects, while for “MENTOR” the question revolved around implications of loan default.

#### 4.3.9 Worthiness of discussing the matter

A question was posed to the respondents in order to probe further whether it was worth discussing the matter. Among the respondents who said yes, they were further asked if they found it worthy discussing the matter. All of the respondents who said they engaged themselves to discussion prior taking loan agreed that there was great worth to consider

discussion before undertaking the loan because they borrowed some very beneficial ideas.

#### **4.3.10 Need for discussion**

Among the respondents who said they never discussed with anybody before taking the loan, respondents were asked to give their opinion on whether they would have been better if they discussed the matter with their spouse/ children. All of them agreed that it would have been better if they discussed the matter with their spouse/ children.

#### **4.4 Forms of utilization of finances obtained from MFIs**

The second objective of the study sought to determine the different forms of utilization of finances obtained from micro finance institutions by recipients in Murang'a town. Findings are as discussed in subsequent sections.

##### **4.4.1 Opinion on statements on utilization of finances obtained from MFIs**

The respondents were asked to indicate their level of agreement with various statements on the different forms of utilization of finances obtained from MFIs. The responses were placed on the five Likert scale where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5 strongly agree. The findings are as shown in table 4.5.

**Table 4.11: Opinion on statements on utilization of finances obtained from MFIs**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>%</b> <b>N</b>	<b>Mean</b>
I/we am utilizing the loan for its intended use	- -	1.9 <i>4</i>	5.3 <i>11</i>	76.8 <i>159</i>	16.0 <i>33</i>	100.0 <i>207</i>	4.213
I/we should have put the loan money into better use	15.0 <i>31</i>	80.7 <i>167</i>	3.4 <i>7</i>	0.9 <i>2</i>	- -	100.0 <i>207</i>	2.125
I/we should have not taken the loan	1.9 <i>4</i>	97.1 <i>201</i>	1.0 <i>2</i>	- -	- -	100.0 <i>207</i>	2.689
I would take another loan if I was able	- -	5.3 <i>11</i>	8.2 <i>17</i>	75.4 <i>156</i>	11.1 <i>22</i>	100.0 <i>207</i>	3.874
It is good to invest money taken from a loan	- -	0.5 <i>1</i>	1.0 <i>2</i>	98.5 <i>204</i>	- -	100.0 <i>207</i>	4.132
Family use on loan money is good	4.3 <i>9</i>	5.3 <i>11</i>	20.3 <i>42</i>	63.8 <i>132</i>	6.3 <i>13</i>	100.0 <i>207</i>	3.012
I will never take another loan	6.3 <i>13</i>	90.8 <i>188</i>	2.4 <i>5</i>	0.5 <i>1</i>	- -	100.0 <i>207</i>	2.875

**Key: SA=Strongly agree; A=Agree; N=Neutral; D=Disagree; SD=Strongly Disagree**

From the findings, respondents to a very great extent agreed that they utilized the loan for its intended use (mean= 4.213) and that it is good to invest money taken from a loan (mean= 4.132). In addition, the respondents agreed that; they would take another loan if they were able (mean= 3.874), and that family use on loan money was good (mean= 3.012). However, respondents disagreed that they would never take another loan (mean= 2.875), they should have not taken the loan (collaboration mean= 2.689), and that they should have put the loan money into better use (mean= 2.875). This illustrates that,

respondents utilized the loan for its intended use and that they were on the view that is good to invest money taken from a loan.

#### 4.4.2 Items of expenditure of the MFI loan money

In order to understand how money from the MFI loan was used, respondents were asked to indicate how they have used their loan money. Table 4.12 summarizes the responses.

**Table 4.12: Expenditure items of the MFI loan money**

Statement	Frequency	Percentage
Diet	50	24.2
Clothing	33	15.9
Fees for dependents	110	53.1
Housing	79	38.2
Water and sanitation	88	42.5
Home furniture	48	23.2
Health	95	45.9
Leisure goods	21	10.1
Marital life	124	59.9
Invested in business	132	63.8

From the findings, 63.8% of the respondents used MFI loans to invest in the business, 59.9% on marital life, 53.1% on fees for dependents, 45.9% for health, 42.5% on water and sanitation and 38% on housing. The study reveals that majority of the respondents used MFI loan money for investing in businesses, marital life and fees for dependents.

Consequently, according to “KWFT”, a key informant in the study, the key items of expenditure in the households of recipient’s loans were school fees for dependents and business investments. According to “Mutirima” a key informant, water tanks and farming. “UNAITAS”, a key informant argued that the loans were utilized for medical, farming and buying cars.

According to Parsons (1949) as noted earlier, the nuclear family in modern societies is economically independent of their kin, forms a separate household unit and is bound neither to the mother's nor father's family of origin by clearly descent rules. Obligations to kin are limited, but nuclear family members are at the same time deprived of kin support and become singularly dependent on each other. Bonds between spouses and between parents and children are thus intensified and the marital bond becomes the structural keystone of the modern family. This could explain why a significant percentage investing in their marital life.

#### **4.4.3 Ranking of the priority items on utilization of the money**

In order to understand the priority of acquiring loans, respondents were asked to rank the first five items in the order of priority in which they are utilizing/utilized the money. Majority of the respondents, ranked investment in business, marital life, fees for dependents, health, housing, and water and sanitation to be the major items they utilized their loans in.

#### **4.5 Factors that influence the way money obtained from MFIs is spent**

The third objective of the study sought to examine factors that affect decision on the expenditure of the acquired finances by recipients within Murang'a town. Findings are as discussed in subsequent sections.

##### **4.5.1 Factors affecting decision(s) on spending finances in their household**

In order to understand factors affecting decisions on spending finances obtained from MFIs, respondents were asked to briefly list three things that would affect decision(s) on spending finances in their household. Table 4.13 summarizes the responses.

**Table 4.13: Factors that would affect decisions on spending finances obtained from MFIs**

<b>Factor</b>	<b>Frequency</b>	<b>Percentage</b>
Level of income	72	34.8
Installment amount	50	24.2
Purpose of loan	45	21.7
Others	40	19.3
<b>Total</b>	<b>207</b>	<b>100.0</b>

From the findings 34.8% of the respondents indicated their levels of income as a determinant of how they spend finances from micro finance institutions. Installment amount accounted for 24.2%, purpose of loan 21.7%, while other factors accounted for 19.3% in determining how money obtained from micro finance institutions is spent.

This implies that respondents were conscious of determinants in their expenditure. Majority of the respondents indicate that their level of income is more likely to affect their decision than installment amount, purpose of loan among other factors. Other factors include what the study established as key factors as discussed by key informants. Through “KWFT”, a key informant, the study established that the key factors affecting decisions on spending at recipients households to include; emergencies, necessities e.g. school fees, and pressure from spouses. “Most clients appeal for loans on the basis of attending to emergencies, which they would argue as the key factor influencing their expenditure. Some would cite school fees as a matter of urgency. I have also heard from a majority of our customer base discuss how their spouses influence expenditure based on the fact that financial commitments need to be thought through together to maximize on returns,” the key informant observed.

“Mutirima”, another key informant, said the key factors include; the exposure of the groups targeted and their education level. This has a direct implication on expenditure patterns as exposure means awareness on consequences of decisions made regarding

usage of the money. Their education level means priorities are ranked and thought through before money is put into use.

“Faulu” one of the key informants said the factors include status in the society, implying items of expenditure has to be in line with the clients social standing in the society. “The customer’s level of income has a direct influence on their expenditure most of the times; it’s a deliberate balancing act between income and expenditure” noted the key informant. The key informant also highlighted peer influence as another factor. The reason for this would probably be the fact that the loanee requires guarantor ship from an existing customer, meaning they probably don’t want to disappoint their peers who are in most cases their guarantors, as expounded by the informant.

This agrees with what Zanden (1970), noted, that regardless, however, of whether human wants derive from biological or social sources, men are confronted with the fact that many things are not available in unlimited amount; they are scarce. Hence, scales of preference - value priorities and hierarchies - are needed.

#### **4.6 Effect of Finances from MFIs on living standards**

The final objective of the study sought to assess the effects of the expenditure on the standards of living in the households of the recipients within Murang’a town. Findings are as discussed in subsequent sections.

##### **4.6.1 Rating statements on the effect of Finances from MFIs on living standards**

The study sought to establish respondent’s level of agreement on the statements concerning the effect of Finances from MFIs on living standards. The responses were placed on the four Likert scale where 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5 strongly agree. The findings are as shown in Table 4.13.

**Table 4.14: Extent to which respondents agree with statements related to the effects of MFI loans**

<b>Statement</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>	<b>%</b>	<b>N</b>	<b>Mean</b>
My household has improved since I took the loan	- -	- -	3.4 7	80.2 166	16.4 34	100.0 207		2.125
Life is the same before and after I took the loan	1.4 3	93.8 194	4.8 10	- -	- -	100.0 207		1.023
The people I know have always benefitted from loans taken from MFIs	- -	- -	3.4 7	89.4 185	7.2 15	100.0 207		3.124
Life would be very difficult without loans from MFIs	- -	- -	3.9 8	96.1 199	- -	100.0 207		3.321
Loans from Banks charge high interests than MFIs	- -	- -	12.9 27	85.2 176	1.9 4	100.0 207		3.734

**Key: SA=Strongly agree; A=Agree; N=Neutral; D=Disagree; SD=Strongly Disagree**

From the findings, respondents said that it is very true that loans from Commercial Banks charge high interests than MFIs (mean= 3.734). In addition, respondents agreed that it was true that life would be very difficult without loans from MFIs (mean= 3.321) and that the people they knew have always benefitted from loans taken from MFIs (mean= 3.124). However, respondents said that somehow, their household has improved since they took the loan (mean= 2.125),and that they should have not taken the loan (collaboration mean= 2.689), and it was not true that life is the same before and after they took the loan (mean= 1.023). This illustrates that, it is very true that loans from Banks charge high interests than MFIs.

#### **4.6.2 Respondent's opinion on whether MFI loan has improved their households well being**

In order to further understand the effect of Finances from MFIs on living standards, respondents were kindly requested to explain whether and how the loan has improved their household's wellbeing. Respondents said that the loan has improved their household, because they got profits from their investments made from loan which help them to improve their standard of living as well as expanding their business. In addition, other respondents argued that they have been able to own a house out of the loan.

According to "Faulu", one of the key informants, loans have improved recipients household through business set-ups that are income generating, house upgrading and improved living standards. However, "UNAITAS", one of the key informants, argued that loans have not always improved recipients household and specifically the defaulters, because their property are +auctioned once they default in payments.

It was evident from both the recipients and key informants that loans obtained from MFIs had led to a significant improvement in the living standards of the recipients. The study revealed that there is a noteworthy link between recipient's gender, age, level of education, marital status and household size, and perceived benefits of the loans obtained from the MFIs. Findings are as discussed in subsequent sections.

##### **4.6.2.1 Relationship between gender and whether MFI loan improved living standards in the household**

According to the analysis on gender distribution (section 4.2.1), majority (52%) of the respondents were male while 48% were female, implying an average gender distribution among micro finance institutions recipients in Murang'a town. Furthermore, the study revealed that there is a significant link between recipient's gender and perceived benefits of the loans obtained from the MFIs. A cross-tabulation of the findings is shown in table 4.14 below

**Table 4.15: Relationship between gender and whether MFI loan improved living standards in the household**

Gender	Whether true standards of living improved				Total	
	Not True	Somehow True	True	Very True	Percent	N
Male	14.8% <i>16</i>	10.2% <i>11</i>	47.2% <i>51</i>	27.8% <i>30</i>	100.0	<i>108</i>
Female	5.1% <i>5</i>	21.3% <i>21</i>	41.3% <i>41</i>	32.3% <i>32</i>	100.0	<i>99</i>
Total	10.1% <i>21</i>	15.5% <i>32</i>	44.4% <i>92</i>	30.0% <i>62</i>	100.0	<i>207</i>

According to table 4.14, a higher percentage of females felt that the loans went a long way in improving their standards of living compared to males who held a similar opinion. This agrees with a study done by Sebstad and Gregory (1996) that micro finance is being attributed with positive effects on issues such as household income, savings, children's education, health and nutrition, and women empowerment.

Women are known to have been discriminated against when it comes to access to ownership of property and finances. Through MFIs, women now have another avenue to empower themselves outside of constraints of social factors that previously restricted their choices. Although empowered on financial choices, their role within the household significantly remains. Hence, when it comes to changes within the household, the effects will be largely be felt by them. Mostly, utilization of the finances from MFIs will be to impact directly on their households leading to improved living standards.

#### 4.6.2.2 Relationship between age and whether MFI loan improved living standards in the household

As noted in section 4.2.2 above, majority of respondents (29%) were aged 36-40, 18% were aged 26-30, 16% were aged 31-35, and 12% were between 41-45, while 9% were between 21-25 and 46-50 respectively. The study further reveals that there is a notable link between recipient's age and perceived benefits of the loans obtained from the MFIs. A cross-tabulation of the findings is shown in table 4.15 below

**Table 4.16: Relationship between age and whether MFI loan improved living standards in the household**

Age	Whether true standards of living improved				Total	
	Not true	Somehow true	True	Very true	Percentage	N
Below 35	22.1% <i>21</i>	20.0% <i>19</i>	36.8% <i>35</i>	21.1% <i>20</i>	100.0	<i>95</i>
36-50	13.5% <i>14</i>	9.6% <i>10</i>	48.1% <i>50</i>	28.8% <i>30</i>	100.0	<i>104</i>
51 & Above	- <i>-</i>	12.5% <i>1</i>	37.5% <i>3</i>	50.0% <i>4</i>	100.0	<i>8</i>
Total	17.0% <i>35</i>	14.5% <i>30</i>	42.5% <i>88</i>	26.0% <i>54</i>	100.0	<i>207</i>

From table 4.15 Majority of respondents aged 36-50 years agreed that the loans went a long way in improving their living standards at 87% compared to 78% of respondents below 35 years of age. This can be attributed to lack of entrepreneurial skills that can help the youth access and utilize money from financial institutions because of lack of proper training and business skills exposure, whereas those above thirty six years of age possess more entrepreneurial skills, can access financing easily and have more training and exposure. Consequently above the age of 36, utilization of finances from MFIs will

be made to maximize on the returns hence the increased perceived positive impact on their living standards within their households.

#### **4.6.2.3 Relationship between education and whether MFI loan improved living standards in the household**

The findings in section 4.2.2 had revealed that majority of the respondents (41%) were diploma holders, 31% were KCSE holders while 14% were degree holders. This means that majority of the respondents are well trained thus had rich information and knowledge on the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients in their households. The study further reveals that there is a noteworthy link between recipient's level of education and perceived benefits of the loans obtained from the MFIs. A cross-tabulation of the findings is shown in table 4.16 below

**Table 4.17: Relationship between education and whether MFI loan improved living standards in the household**

Education Level	Whether true standards of living improved				Total	
	Not true	Somehow true	True	Very true	Percent	N
Diploma & above	7.9% <b>14</b>	10.3% <b>18</b>	50.2% <b>89</b>	31.6% <b>57</b>	100.0	<b>178</b>
O level & Below	21.1% <b>6</b>	20.5% <b>6</b>	42.6% <b>12</b>	15.8% <b>5</b>	100.0	<b>29</b>
Total	9.8% <b>20</b>	11.7% <b>24</b>	49.2% <b>101</b>	29.3% <b>62</b>	100.0	<b>207</b>

It is important to note that according to a government survey (GoK, 2009) 82.9% of the population in Murang'a could read & write. It was ranked eleventh highest county out of the 47 counties in Kenya in literacy levels. It also important to note that, fees for

dependents was ranked as a top item of utilization of finances obtained from MFIs in this study (section 4.4.2 Usage of loan money). This probably explains the high percentage (92%) of diploma holders and above feeling that the loans were beneficial in improving their living standards as compared to 79% of 'O' level and below perceiving the same as shown in table 4.16.

This concurs with what was discussed by "Mutirima", a key informant that a key factor affecting decisions on spending finances obtained from MFIs is the exposure of the groups targeted and their education level.

#### **4.6.2.4 Relationship between marital status and whether MFI loan improved living standards in the household**

The study in section 4.2.3 (respondent's marital status) had reported majority of respondents (39%) as being married with children, 24% as single with no children, 18% as single with children, and 12% as married with no children, while 7% were widowed, implying that majority of the respondents were married with children. The study further reveals that there is an important link between recipient's marital status and perceived benefits of the loans obtained from the MFIs. A cross-tabulation of the findings is shown in table 4.17 below

**Table 4.18: Relationship between marital status and whether MFI loan improved living standards in the household**

Marital Status	Whether true standards of living improved				Total	
	Not true	Somehow true	True	Very true	Percentage	<i>N</i>
Married with children	11.9% <b>10</b>	19.8% <b>16</b>	35.2% <b>29</b>	33.1% <b>27</b>	100.0	<b>81</b>
Married with no children	3.5% <b>1</b>	12.5% <b>3</b>	47.5% <b>12</b>	36.5% <b>9</b>	100.0	<b>25</b>
Single with children	4.5% <b>2</b>	14.5% <b>5</b>	36.5% <b>14</b>	44.5% <b>16</b>	100.0	<b>37</b>
Single with no children	10.2% <b>5</b>	12.2% <b>6</b>	52.6% <b>26</b>	25% <b>13</b>	100.0	<b>50</b>
Widowed	4.5% <b>1</b>	6.5% <b>1</b>	79% <b>10</b>	10% <b>1</b>	100.0	<b>14</b>
Total	13.6% <b>19</b>	13.6% <b>31</b>	42.7% <b>91</b>	30.1% <b>66</b>	100.0	<b>207</b>

At 94%, the respondents with children whether married, single or widowed agreed that living standards improved as a result of the MFI loans, while at 73%, those without children were of the same opinion.

Seeborg (2004) observed that poverty is experienced usually in single parent families as the burden of economic provision is rested on a single individual. Although living together may lessen economic constraints and improve living standards, this may not be the case among people with low education. This explains why the impact of MFI loans is greatly perceived by those with children in improving their living standards.

#### 4.6.2.5 Relationship between household size and whether MFI loan improved living standards in the household

In terms of household size as reported in section 4.2.4 of this study, majority of the respondents (44.93%) had 4-6 persons in their households, 36.23% had 3 and below while the remaining 18.84% indicated that they had 7 and more people in their respective households. The study further reveals that there is an important link between recipient's household size and perceived benefits of the loans obtained from the MFIs. A cross-tabulation of the findings is shown in table 4.18 below

**Table 4.19: Relationship between household size and whether MFI loan improved living standards in the household**

Household Size	Whether true standards of living improved				Total	
	Not true	Somehow true	True	Very true	Percentage	<i>N</i>
3 & below	13.3% <i>10</i>	14.0% <i>11</i>	42.4% <i>32</i>	30.3% <i>22</i>	100.0	<i>75</i>
4-6 people	7.5% <i>7</i>	10.1% <i>9</i>	40.1% <i>37</i>	42.3% <i>40</i>	100.0	<i>93</i>
7 or more	20.5% <i>8</i>	15.6% <i>6</i>	38.2% <i>15</i>	25.7% <i>10</i>	100.0	<i>39</i>
Total	12.0% <i>25</i>	12.6% <i>26</i>	40.6% <i>84</i>	34.8% <i>72</i>	100.0	<i>207</i>

According to table 4.18 above, out of households with 3 members and below, 87% felt that the loans had led to improved living standards, 93% of respondents with households with 4-6 members felt the same while 80% of respondents with households of more than 7 members were of the same opinion. Not everyone regarded the impact of loans from MFIs as positive which was also discussed by “UNAITAS”, a key informant as argued that loans have not always improved recipients household and specifically the defaulters, because their property are auctioned once they default in payments.

According to the Kenya National Bureau of statistics, (GoK, 2009), 51% of households in Murang'a had Improved water, 237.9% households had improved sanitation, 14% households had Electricity. It was ranked position 1 out of the 47 counties in improved sanitation. This indicates deliberate efforts in the improvement of households by the residents. With this in mind, the impact of the efforts seems to be greatly felt in households of between 4-6 members.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the summary of the data findings on the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients in Murang'a town as well as the conclusions and recommendations drawn thereof. The chapter is hence structured into summary, conclusions, recommendations and areas for further research.

### **5.2 Summary of findings**

#### **5.2.1 Reasons for obtaining finances from MFIs**

The study revealed that loan recipients choose MFIs over other financial institutions like commercial banks because most of the recipients have accounts in MFI's hence they find it easier taking loan from them, low interest rate, security of the loan, to expand their business, limited requirements with friendly lending rates and quality among others. The study established that most of the respondents had an earlier experience with loans. Also from the findings, most of the respondents acquired their current loans from Equity Bank (MF Section). In addition, the study established that majority of the respondents (63%) had not procured other loans from another MFI and that the source of majority of those who procured additional loan was from a Chama.

Finally, the study revealed that majority of the respondents consulted their credit officer before taking loan and that there was great worth to consider discussion before undertaking the loan because they borrowed some very beneficial ideas.

#### **5.2.2 Forms of utilization of finances obtained from MFIs**

The study established that the key items of expenditure of recipient's loans were; school fees for dependents, marital life, business investments, water tanks and farming, medical expenses and housing. The study also revealed that respondents felt that they had utilized

the loan for its intended use and that they were on the view that it is good to invest money taken from a loan.

It is evident that marital life (e.g paying dowry) became an important item of expenditure by a significant majority of the respondents. However this was never mentioned by any of the key informants as a key item of expenditure. This could explain cases of defaulting on payments as this money was initially obtained for one reason but utilized differently. Finally, the study shows that majority of the respondents used loans for investing in the business, marital life and fees for dependents, and that majority of the respondents, ranked investment in business, fees for dependents, marital life, health and housing to be the major items they utilized their loans in.

### **5.2.3 Factors affecting decisions on spending finances obtained from MFIs**

The study established that the key factors affecting decisions on spending at recipients' households to include; emergencies, necessities e.g. school fees, and pressure from spouses, the exposure of the groups targeted, their education level, status in the society, level of income and peer influence.

### **5.2.4 Effect of finances from MFIs on living standards**

The study revealed that majority of recipients felt that MFI loans have improved their households, because they got profits from their investments made from loans which help them to improve their standards of living as well as expanding their business. Further, loans have improved recipients household through business set-ups that are income generating, house upgrading and improved general living standards.

The study found out that it is very true that loans from banks charge high interests than MFIs. It was evident from the study that loans obtained from MFIs had led to a significant improvement in the living standards of the recipients. The study revealed that there is a noteworthy link between recipient's gender, age, level of education, marital status and household size, and perceived benefits of the loans obtained from the MFIs.

On the other hand, the study findings indicated that loans have not always improved recipients household and specifically the defaulters, because their property are auctioned once they default to pay.

### **5.3 Overall conclusion**

The key conclusion is that loan recipients in Murang'a town choose MFIs over other financial institutions like commercial banks because of low interest rates and limited requirements with friendly lending rates. Most of the respondents had acquired their current loans from Equity Bank (MF Section). The key items of expenditure of recipient's loans were business investments, school fees for dependents, marital life, medical expenses and housing. Key factors affecting decisions on spending at recipients households include emergencies, necessities and pressure from spouses. Overall, MFI loans have improved recipients households, because they got profits from their investments made from loans which help them to improve their standards of living as well as expanding their business, save for those who defaulted in payment of the loans.

### **5.4 Recommendations**

In order to improve usability of the loans and thereby ensuring improved loan customers, the study recommends that microfinance institutions should devise proper mechanisms and seminaries to educate their customers on the best alternatives of investment to ensure maximum gains from the loans. By doing so will lead to improved performance in microfinance institutions as well as improved livelihood to the recipients with minimum cases of defaulters. It is evident that marital life was ranked a second most important item of expenditure which none of the key informants mentioned as to a reason for taking a loan by the recipients.

The study revealed that majority of loan recipients choose MFIs over other financial institutions like commercial banks because most of the recipients have accounts in MFI's hence they find it easier taking loan from them, low interest rate, security of the loan, limited requirements with friendly lending rates and quality among others. In relation to

this, the study recommends that MFIs should devise strategies and products to ensure enhanced customer loyalty through reducing the interest rates and increasing security measures of their loans.

In order to ensure improved customer loyalty to loans in MFIs, the study recommends that an inclusive comprehensive frame work of stakeholders' engagements must be formulated so as to ensure business collaboration with other stakeholders thus enhancing customer awareness. This is because, from the study, most of the recipients have accounts in MFI's and still seek additional loans from other MFIs.

Finally, the study recommends that financial institutions should offer loans that cater for key issues like emergencies; necessities e.g. school fees, and health at a comparative low interest rate for the safety of the customers.

### **5.5 Areas for further studies**

Since this study explored on the different forms of utilization of finances obtained from microfinance institutions and their effects on the living standards of the recipients in Murang'a town, the study recommends that similar studies should be performed to evaluate the forms of utilization of finances obtained from microfinance institutions and their effects on the living standards of the recipients within other regions, for comparison purposes and to allow for the generalization of findings on the forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients.

The study also recommends that MFIs should come up with effective relationship marketing strategies which focus on the needs and wants of the customer. Identified market markets should also have managers who are able to identify the dynamic needs of the customer in order to keep abreast with the changing needs of the customer's preferences.

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## APPENDICES

### Appendix 1: Questionnaire for beneficiaries of loans from MFIs

UNIVERSITY OF NAIROBI

FACULTY OF ARTS

DEPARTMENT OF SOCIOLOGY

P.O BOX 68241-00200

NAIROBI – KENYA

I am a student at the University of Nairobi. Currently I am carrying out a study on Forms of utilization of finances obtained from micro finance institutions and their effects on the living standards of the recipients: A Case of Murang'a town, Murang'a County. Your assistance in answering all questions in the questionnaire will generate important information for the study. Your responses will be treated as confidential and will only be used for research purposes. Please fill in all the items of the questionnaire as directed.

Please put a tick [√] in the brackets after the most appropriate response (s) and provide your explanation if required in the space provided.

#### PART A: Demographic Information

Instructions: *Kindly tick or write in the spaces provided as appropriate.*

Kindly indicate your gender:      Male [ ]      Female [    ]

1. What is your age bracket

20 yrs and below [    ]

21-25                    [    ]

26-30                    [    ]

31-35                    [    ]

36-40                    [    ]

41-45                    [    ]

46-50 [ ]

51 and above [ ]

2. What is your highest level of academic qualification

Masters and above [ ]

Bachelor's degree [ ]

Diploma [ ]

KCSE [ ]

KCPE [ ]

Any other (kindly specify) \_\_\_\_\_

3. a) Kindly indicate your marital status and number of children if any.

Married with children [ ] how many? [ ]

Married with no children [ ]

Single with children [ ] how many? [ ]

Single with no children [ ]

Widowed [ ]

b) How many are you in your household (including house helps/relatives/friends)?

1 [ ] 6 [ ]

2 [ ] 7 [ ]

3 [ ] 8 [ ]

4 [ ] 9 [ ]

5 [ ] 10 [ ]

4. What is your religious orientation?

Christian [ ]

Muslim [ ]

Hindu [ ]

Atheist [ ]

African traditional [ ]

None [ ]

Other \_\_\_\_\_ specify.

PART B: What informs decisions to obtain finances from MFIs?

Is this your first time borrowing a loan from an institution?    Yes [    ]            No [    ]

From which institution/s have you taken your current loan/s?

Tick appropriately

Faulu Kenya [    ]

Kenya Women Finance Trust (KWFT) [    ]

Small And Micro Enterprise Programme (SMEP) [    ]

Kenya Economical Church Loan Fund (Kenya ECLOF) [    ]

Equity Bank (MF Section) [    ]

Women Economic empowerment Consort (AFC) [    ]

K-Rep Development agency Bank [    ]

Catholic organization for relief and development aid (CRDAID) [    ]

Micro Africa limited (MAL) [    ]

Murata SACCO [    ]

Jamii Bora [    ]

Mwalimu SACCO [    ]

Other/s \_\_\_\_\_ (specify)

Briefly explain why you chose to take a loan from the named institution(s)

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Have you procured another loan from another financial institution e.g a bank/chama (currently)?

Yes [ ] No [ ]

If yes indicate the source

Bank [ ]

Chama [ ]

Briefly explain why you chose to take a loan from the named institution

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a) Did you discuss with anyone (spouse/children/friend/relative/credit officer) on whether to take the loan? Yes [ ] No [ ] (go to 9(c))

If yes, tick appropriately (go to 9(b))

Spouse [ ]

Children [ ]

Friend [ ]

Relative [ ]

Credit officer [ ]

b) If yes, did you find it worthy discussing the matter/ did you benefit from the discussion?

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c) If No, do you think it would have been better if you discussed the matter with your spouse/ children?

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**PART C: Different forms of utilization of finances obtained from MFIs**

Kindly indicate the extent to which you agree with the following statements

Statement	Strongly agree	Agree	Not Sure	Disagree	Strongly disagree
I/we am utilizing the loan for its intended use					
I/we should have put the loan money into better use					
I/we should have not taken the loan					
I would take another loan if I was able					
It is good to invest money taken from a loan					
Family use on loan money is good					
I will never take another loan					

The loan money has been put into use as follows (tick all uses)

Diet [ ]

Clothing [ ]

Fees for dependents [ ]

Housing [ ]

Water and sanitation [ ]

Home furniture [ ]

Health [ ]

Leisure goods [ ]

Marital life (e.g. dowry) [ ]

Invested in business [ ]

Others \_\_\_\_\_ (specify)

Rank the first five items ticked in the order of priority in which you utilizing/utilized the money

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PART D: Factors affecting decisions on spending finances obtained from MFIs

Briefly list three things that will affect decision(s) on spending finances in your household

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PART E: Effect of finances from MFIs on living standards

Kindly rank the extent to which you agree with the following statements.

Key: 1= strongly disagree, 2= disagree, 3= not sure, 4= agree and 5 strongly agree

	5	4	3	2	1
My household has improved since I took the loan					
Life is the same before and after I took the loan					
The people I know have always benefitted from loans taken from MFIs					
Life would be very difficult without loans from MFIs					
Loans from Banks charge high interests than MFIs					

In your view, briefly explain whether and how the loan has improved your households well being

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## **Appendix 2: Focus group interview guide**

1. Why do you choose to take loans from MFIs over other financial institutions like commercial banks?
2. What are the key items of expenditure in your household with the loan last obtained?
3. What are the key factors that affect decision making on spending at your household?
4. Do you think your life and that of your dependants have been improved by the loans you have obtained?

### **Appendix 3: Interview guide for credit officers**

1. Why do you think your loan recipients choose MFIs over other financial institutions like commercial banks?
2. Do loan applicants seek advice before taking loans and what are the key items of expenditure they settle for?
3. What are the key items of expenditure in the households of your recipients with the loans given?
4. What do you think are the key factors that affect decision on spending at their households?
5. Do you think the lives of your recipients and that of their dependants have been improved by the loans you advance to them?