EFFECTS OF CREDIT INFORMATION DISSEMINATION ON CREDIT ACCESS AND LENDING TARGETS: A CASE STUDY OF CREDIT LENDING INSTITUTIONS IN NAKURU DISTRICT

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DECLARATION

This research project is my original work and has not been submitted for a degree in any other University.

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DEDICATION

To my loving Dad, James

ABSTRACT

Credit product information that lending institutions provide and their effect on both product accessibility and performance are important but overtime has notably been lacking. This study sought to establish the effects of credit information dissemination on credit access and lending targets of lending institution in Nakuru district. The specific objectives were to identify major modes of information dissemination utilized and factors hindering their effective utilization, assess their effects on credit application, lending targets and approval rates. Data used was collected by use of a structured questionnaire that was administered on the basis of 'drop and pick later'. In the analysis, descriptive statistics were used to provide the general patterns and asses the extent of dissemination modes utilization, while ordinary least square regression, partial correlation and paired sample t-test were used to asses the effects of dissemination modes on new applications, lending targets and approval rates. TV, radio, posters and sales agents were found to be the most frequently used modes in disseminating credit related product information, while lending targets and approval rates were statistically established to be associated with levels of credit information dissemination attained by lending institutions. Based on the results, this study recommends lending institutions to decentralize some of their decisions relating to choice of dissemination modes used, allow for optimal combination of several dissemination modes and further review of telecommunication policies by the government.

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ABBREVIATIONS AND ACRONYMS

CBs	Commercial Banks
GOK	Government of Kenya
MFIs	Micro Financial Institutions
SPSS	Statistical Package for Social Science software
TV	Television

CHAPTER ONE: INTRODUCTION

1.1 Background Information

Liberalization policy since its inception in Kenya in July 1992 has brought dynamism in the financial sector more than ever before. Interest rates were decontrolled and banks and other lending institutions could charge different interest rates and lending conditions depending on their clients risk perception. Change in the government's domestic borrowing policy leading to low returns on the two major government securities (Treasury Bonds and Bills) has left more institutions with excess idle funds that are detrimental to their profitability. This has fuelled competition by these lending institutions for both corporate and non-corporate borrowers setting in motion the need for effective and efficient modes of credit information dissemination in the modern financial sector.

The growth of credit sector has significantly opened up characteristics of credit products that these institutions offer to their clients. A decade ago, only the interest rates were available under request from specific organization. Today in some of the lending institution not only is the interest rate publicly advertised but also the collateral requirements, processing and approval period and flexibility in repayment are considered. This has made borrowers informed of the institution's products now more than before. The financial sector has not been isolated from this revolution. This is evident through emergence of business units within these institutions that specifically deal with marketing their products. Information dissemination tools have also seen tremendous growth especially with the advancement of Information Technology. The introduction of Internet and e – business, expansion of both

electronic and print media over the last decade has fuelled more competition in the industry to the highest level. Other forms of information dissemination have also been developing at a fast rate that warrants that each institution be on high alert or be rendered obsolete, this include personal selling, use of credit rating agencies (credit bureaus) and sales promotion.

It is inherent that information dissemination within the financial sector has become an important element now than ever before (Nyaga, 1986). Subsequently, there is need to ascertain how well the institution of lending are keeping in pace with the competitive environment that they operate in and more so how well they are utilizing the available channels in marketing their credit products. It is also of great importance if the efforts that these institutions put forward bring forth the expected results.

1.2 Statement of the Problem

Given the dynamic and competitive environment that the credit lending institutions are facing as a result of excess idle funds arising from changes in government domestic borrowing policy, effective and efficient communication between the institutions and both existing and potential borrowers is critical. Adequacy of information that commercial banks and micro-financial institutions provide to their customers is important in determining how well these products are accessed by their targeted customers, yet it is notably lacking. Different modes of information dissemination are available for lending institution to use, but the extent of their utilization and their effects on credit accessibility and institution's levels of lending is unknown.

1.3 Objectives of the Study

The general objective of this study was to assess the effects of credit information dissemination on credit access and lending levels of credit lending institutions operating within Nakuru district.

The specific objectives were: -

(i) To identify the major modes of credit information dissemination utilized by credit lending outlets within Nakuru district.

(ii) To identify the factors that hinder effective utilization of the different modes of credit information dissemination.

(iii) To evaluate the extent that credit information dissemination has on the number of applicants and loan approvals.

(iv) To establish the effect of information dissemination on credit lending targets.

1.4 Research Hypotheses

(i) The number of new loan applicants is independent of the level of information dissemination.

(ii) Credit information dissemination levels do not significantly affect credit-lending targets.

1.5 Justification of the Study

It is hoped that the outcome of this study will benefit credit lending institutions to know their level of utilization of the existing modes of credit information dissemination. This is also expected to give the institution an insight into the constraints that they are facing in establishing, operating and utilizing the different modes of credit information dissemination and also the effects that they have on

their lending and access levels. For other organizations outside the credit sector the outcome of the study may form the basis for comparing the level of utilization of dissemination modes thus acting as benchmark. The outcome of this study is also an important input for policy makers in formulating policies that relate to efficient and effective information dissemination once the status of utilization and bottlenecks are established. Finally, the outcome is an important resource to institutions of higher learning and research in developing models relating to credit access and its effects on enterprise performance.

1.6 Scope and Limitation

This study was conducted within Nakuru district with major emphasis on its three sub regions: Nakuru municipality, Molo and its environs and Naivasha and its environs. The survey focussed on formal lending institutions registered and were operating within the district as per the beginning of the year (2004). Data collection was restricted to the first quarter of the year, this was in due consideration of tight schedules of respondents especially in commercial banks. Yearly data would however have given a better picture. Informal lending institutions such as merry-go rounds and savings and credit cooperative societies (SACCOs) were not included in the study due to their restricted operations and membership.

Some limitations were also encountered in the process of doing this research. Conducting research in financial sector, where bureaucracy and secrecy hinders free flow of information, may have compromised the degree of confidence in the information provided. Some respondents may have deliberately withheld or falsified information that they gave, however the researcher could not ascertain the degree of this effect and treated the information with total confidence.

A large sample size would have been better suited for the study but due to financial limitation, only outlets operating within Nakuru district were surveyed. A country wide study would however have increased the consistency and accuracy of data collected. Some of the outlets surveyed were found to have control over operations of other outlets within the district leading to repetition of information provided. This subsequently led to reduction in the number of responses analyzed.

1.7 Definition of Terms

Effective information dissemination: How well the information is being passed from the source to the recipient with least interference.

Efficient information dissemination: Transfer of information from the source to recipients, using the least possible resources.

Lending Target: This is the ratio of total amount of credit approved to the amount targeted for approval.

Credit access: The number of new loan applicants received within a specific period. (Monthly for this study).

Dissemination levels: The extent to which the different modes of information dissemination are used within a specific period. For this study it is the average number of days that the following modes were used per month: internet, TV, radio, daily newspapers, billboards, posters, trade exhibitions and promotions and sales representatives and agents. For magazines, it is the number of issues (weekly, monthly, quarterly, semi-annually or annually).

CHAPTER TWO: LITERATURE REVIEW

2.1 Importance of Credit

Credit is the use of loanable funds supplied by lenders to borrowers who agree to pay back the borrowed funds according to an agreed upon schedule. It can be inform of finance, goods or capital (Hyman, 1996).

Credit can be viewed as an input, along with business development, into micro-enterprise development. There are assumptions about economic development that form the basis for credit as an input into enterprise development (Helms, 2002). Thus focus on a firm expansion and development as the driving force of growth, assumes that credit facilitates growth of the enterprise from micro to small and medium. Through credit an enterprise is able to capitalize itself, generate employment and eventually contribute to economic growth. The linear growth path would therefore allow micro-finance clients to cross over the poverty line for good. This theory of productive enterprise growth has resulted in ever-increasing amount of credit demand that is very appealing to donors, hence the increased pumping of credit to micro, small and medium enterprises (Helms, 2002).

2.2 Credit Lending Institutions

In Kenya's banking sector the introduction of legislation (Central Bank of Kenya 'Amendment' Act, 2000) to deregulate interest rates has transformed lending to be one of the strategic sources of income for banking institutions. Due to high levels of competition triggered by interest deregulation, effective and efficient modes of credit information dissemination and new credit products targeting different groups

of customers have been developed. Some of these products have been extended to segments that were formally regarded as un-credit-worthy (areas that were formally dominated by micro finance institutions).

To solve the problem associated with formal banking institution, several micro-credit institutions have been formed around the world, which gives emphasis to poor communities especially women. By 1997, there were approximately 7,000 micro-finance institutions around the world, reaching to an estimated population of 16 million people (Wheat, 1997). Gramean bank of Bangladesh being the most outstanding example.

Over the past 10 years, micro-credit and lending institutions associated with it have received widespread international attention. This is because micro-lending is seen by most governments as cost effective way of building an enterprise culture, enhancing domestic economic capacity and reducing both unemployment and transfer payments (Evans, 1996). Micro-credit can be viewed in two dimensions, the informal and formal micro credit. The informal micro credit institutions consist of indigenous institutions that operate on commercial basis, popularly known as Merry –go- rounds or saving and credit cooperatives in Kenya. A formal micro credit is that which is extended to borrowers by the formal banks and micro-financial institutions (Mutiso, 2003).

2.3 Information Inadequacy

Lack of adequate information on where and how to access credit, is one of the major constraint that faces potential credit users (Njeri and Njoka, 1998). Most women

small-scale entrepreneurs in Kenya have not used credit, as they have not applied for it. Most of them lack knowledge of credit sources therefore could not apply for it, forcing them to depend mostly from the support from their husbands, family members and own capital (Kinyanjui & Munguti, 1999).

Information on where to go for credit has been identified to hinder the effective utilization of the credit facilities by small-scale entrepreneurs in Nakuru Municipality. Over seventy nine percent of them obtained information relating to the credit institutions from friends, and a mere 3.5% from credit officers and advertisements (Mutiso, 2003). It was further noted in this study that 40% of those who had not obtained credit failed to do so because they had no knowledge of any micro lending institution. In other studies 31.7% of small-scale enterprises dealing with second hand goods in Eldoret town had not accessed credit due to lack of information on credit lending institutions (Ngugi, 2003).

How to access credit is a constraint facing a large proportion of borrowers especially in the formal credit schemes. This is largely attributed to the literacy and formal education levels. Knowledge of procedures to follow is important if borrowers are to make better use of the lending institutions that have been established to assist them (Njeri & Njoka, 1998). Most of the borrowers especially women in the small-scale enterprise sector have low levels of formal education, literacy and numeracy. This makes it difficult for them to overcome the procedural barriers of taking out a formal loan as a result of having trouble completing the complicated application forms and financial statements that bank and financial lending institutions require. Their

limited experience with formal credit institutions adds to the problem (Njeri & Njoka, 1998).

2.4 Under Utilisation of Credit Facilities

Studies have shown substantial under utilization of the lending facilities partly due to lack of awareness of these institutions and their products as well as wrong perception of these institutions and their products. Nyoike (2003), in her study of small scales restaurant in Nakuru Municipality established that 12.5% of the sources of finance that restaurant owners used were through bank loan, 5% through co-operative loan while the rest was largely through informal credit.

A dismal proportion (3.3%) of second hand goods small-scale entrepreneurs in Eldoret town who are aware of lending institution had taken the initiative of utilizing this facility (Ngugi, 2003). Over fifty percent of small-scale entrepreneurs in Nakuru municipality having information on lending institutions had not utilized the lending opportunities available within the Municipality (Mutiso, 2003). Ninety three percent of Jua kali entrepreneurs based in Nairobi wished for external financial assistance but have not been able to access it (Otieno, 1988). Over eighty percent of music business within Nairobi Province have not utilized the credit facility and are looking forward to using loans and overdraft from financial institutions (Muturi, 2003).

2.5 Product and Institution Perceptions

Credit lending institutions and their products has been viewed as difficult, rigid, conservative, over obsessed with loan securities, generally inaccessible, and less perceived as source of credit. Fifty seven percent of small-scale music business

within Nairobi Province considered loan and overdraft to be very difficult to access (Muturi, 2003). Sixty four percent of those operating an account in commercial banks do not regard these institutions as a source of credit, while to the contrary ninety six percent of these joining savings and credit co-operatives do so with an aim of eventually obtaining a loan (Alila, 1992). Oketch and Kioko, (1993), established that jua kali firms have remained outside mainstream of banking industry on perception that financial institutions are conservative, over-obsessed with loan securities and generally inaccessible.

2.6 Modes of Credit Information Dissemination

There exists a number of ways that credit-lending institutions have at their disposal to effectively and efficiently disseminate information relating to their products and services. An institution's total communication mix (Promotional mix) may consist of a specific blend of advertising, personal selling, sales promotion and public relations that a company may use to pursue its information dissemination objectives (Kotler, 2001).

A study of commercial banks in Kenya shows that television and radio are the most commonly used form of advertising through the electronic media. Banks advertise their services and products in the print media through the use of brochures and bulletins. Others include newspapers, catalogues, posters, billboards and magazines (Kibet, 2003). Sales promotion tools used by commercial bank to market their services include trade fairs and shows, exhibitions, give-aways and special discounts, public relations tools include annual sports, press release seminars,

parties, sponsorship and donations, personal selling tools involve personnel in all levels of hierarchy in the organization (Kibet, 2003).

Due to dynamic technological advancement, new methods of disseminating information involving direct connection with carefully targeted individual customers to obtain an immediate response and cultivate lasting relationship have been developed. Less literature is available to provide its use status by financial institutions as a tool for disseminating information relating to its products. For this, it cannot be ignored that it is the most dynamic and potentially viable way of disseminating information. E-mail, internet, cellular phones, pagers and computers are becoming the central nerve of business communication at an alarming rate.

2.7 Credit Information Variables

Each credit product is specifically designed to suit a particular need of a defined group of borrowers. Failure to effectively communicate new product benefits and its related attributes has been identified to be one of the reasons bank products fail (Okutoyi, 1988). Regardless of the approach selected for credit delivery, the actual loan product needs to be designed according to the demand of the target market. This involves establishment of appropriate loan amount, collateral requirements (or substitutes), interest rates, and whether it is compulsory, voluntary, or group contribution based in the case of micro finance institutions (Magiri, 2002).

A clear definition of credit product characteristics or attributes is important for an intended borrower to make an informed judgement. Therefore credit products attributes such as interest rate (fixed or floating), collateral requirement or group

guarantees, repayment period, penalties on default, maturity period, procedure and criteria of obtaining the loan needs to be clearly defined (Marsh, 1988).

It is clearly evident that despite credit being a critical resource in enterprise development, substantial underutilization is still evident partly due to lack of awareness and wrong perception of both the lending institutions and their products. There exist a number of information dissemination modes that lending institutions have at their disposal to effectively and efficiently provide information relating to their credit products and services, however the extent to which they are utilized and their effects on credit product performance has not been given due consideration.

2.8 Conceptual Framework

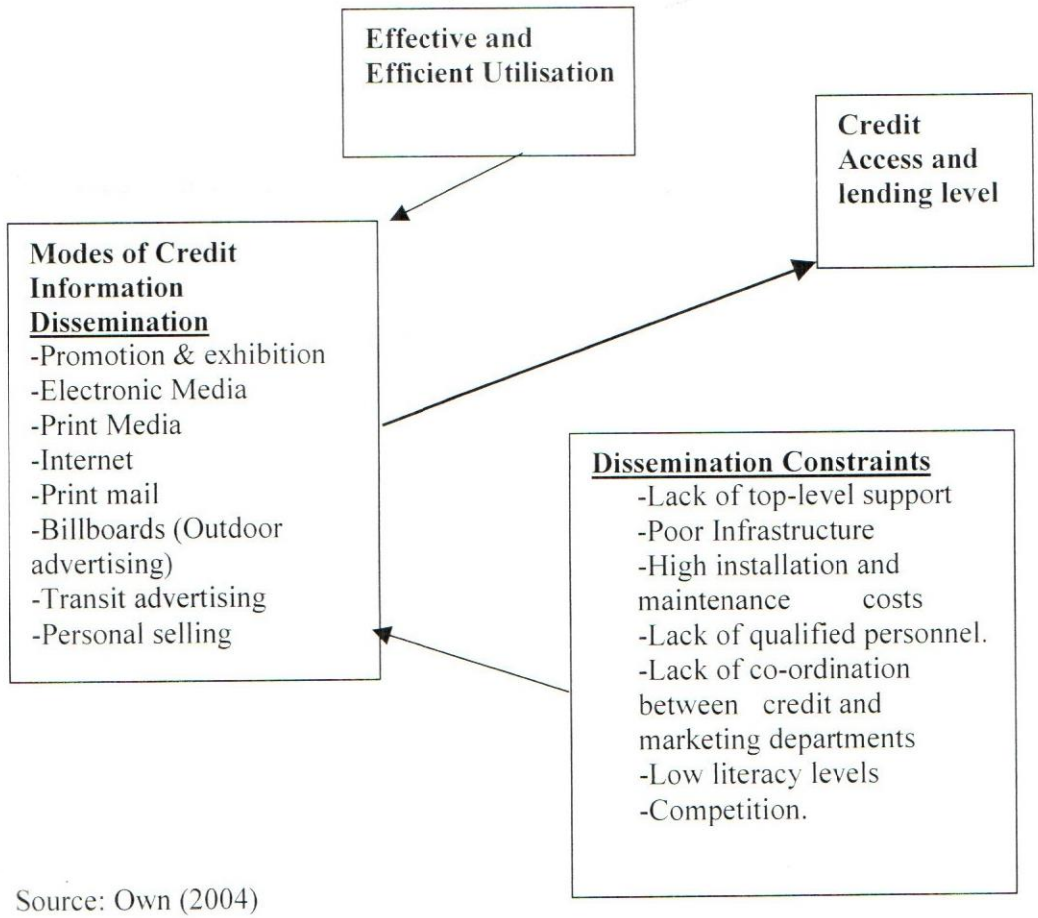
In the modern competitive business world, credit like other products needs to be marketed for it to reach the intended audience (Yearger & Sietzer, 1982). Different modes of credit information dissemination do exist. These include; internet, electronic media, prints media (Newspapers & magazines) outdoor advertising (Billboards), direct mail (Postcards, brochures) promotion and exhibitions, transit advertising (Buses, road signals, tickets), telephone, sales agents and representatives as well as personal selling.

Despite this wide range of methods being available, constraints too exist that inhibit their effective and efficient utilization in passing the information from the source to the recipients. These constraints may present themselves in form of poor infrastructure, lack of qualified personnel, lack of top management support, illiteracy and lack of formal education levels of the recipients, competition, high cost

of installation and maintenance of the system, and lack of co-ordination between marketing and credit department (Muturia, 1996).

It is the degree of effect that these constraining factors bear on the mode of credit information dissemination that will determine the final status of credit accessibility. High level of credit accessibility being attain at least constraints intervening the mode that is utilised to pass across the information and low levels for an environment where constraining factors heavily bears on the modes selected for disseminating the information.

Figure 1.0 Variables and Variable relationships



Source: Own (2004)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Population

The population of the study was made up of all 26 registered lending outlets operating within Nakuru district (GOK, 2001). This was composed of commercial banks, micro finance institutions and building societies.

3.2 Sampling and Sample Design

After taking into consideration the number of outlets operating within the district, time available for the research and financial limitations, a sample of 20 outlets was settled for. Random sampling technique was used to pick a sample size of 12 commercial banks and 8 Micro finance institutions. This was done by assigning each outlet a number, and from a random number table, numbers were picked representing selected outlets.

3.3 Data Collection

A questionnaire that was administered on the basis of "drop and pick later" was used to collect all the required data. In some cases, the researcher was present when the questionnaires were being filled to provide clarifications to the respondents. The questionnaire was designed to capture information on; extent of dissemination modes utilization and factors hindering their effective utilization, product offered and information about these products that are provided the lending institutions, new applicants received over the study period and lending targets achieved over the same period.

3.4 Data Analysis

Descriptive statistics in form of frequency tables and proportions were used to get a general pattern and the extent to which the different modes of credit information dissemination were utilised. Ordinary least squares regression and partial correlation analysis were used to examine the influence of dissemination methods on both credit access and lending levels, with partial regression and correlation coefficients explaining the degree of relationship between the respective independent variables and the dependent variables. Both hypotheses were tested using t-test. A Regression model was developed and used for the study as shown below:

$$Y_t = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \varepsilon_0$$

Where: -

Y_t	=	Credit access (Number of new applicants)
	=	Lending levels (Loan targets)
β_0	=	Constant term
X_1	=	Newspaper advertisements (Days/ month)
X_2	=	Billboards advertisements (Days/ month)
X_3	=	Trade exhibitions and promotions (Days/ month)
X_4	=	Magazines (Issues/ month)
X_5	=	Sales representatives and agents (Days/ month)
X_6	=	Posters (Days/ month)
X_7	=	Radio advertisements (Days/ month)
X_8	=	Television (Days/ month)
X_9	=	Internet advertising (Days/ month)
ε_0	=	Error term

CHAPTER FOUR: STUDY RESULTS AND DISCUSSIONS

4.1 Study Results and Analysis

4.1.1 Credit Facilities Offered

Survey of the outlets revealed that 37.5% of commercial banks (CBs) outlets offered group loans, while all had a personal loan, corporate loan and overdraft facilities. Large business loan were available in 37.5% of the outlets. Other products were credit cards (62.5%) and mortgage finance by 37.5%. Fifty percent of micro financial outlets (MFIs) surveyed offered group and personal loans, while small and large business loans were provided in all and by twenty five percent of the outlets surveyed respectively. (Table 1.0)

Table 1.0 Credit Products/ Services Offered by Lending Institutions

	Commercial Banks		Micro Finance Institutions	
Credit Product	Frequency	Percentage	Frequency	Percentage
Group loans	3	37.5	2	50
Personal loans	8	100	2	50
Corporate loans	8	100	0	0
Overdrafts	8	100	0	0
Small business loans	5	62.5	4	100
Large business loans	3	37.5	1	25
Credit cards	5	62.5	0	0
Mortgage finance	3	37.5	0	0

Source: Author, from survey data (2004)

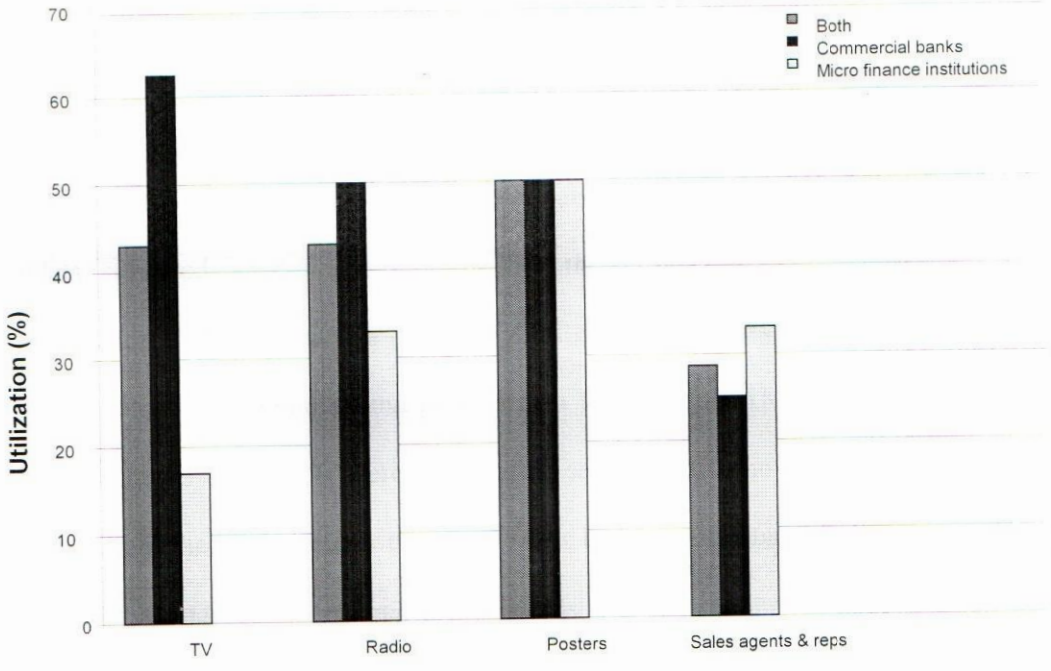
4.1.2 Existence of Credit Information Dissemination

In regard to the existence of credit information dissemination (credit marketing) facilities, study results indicate that all the firms surveyed had an established marketing system dealing with credit as well as other products offered by the

institutions. This reaffirms studies by Nyagah (1986) and Kibet (2003) that revealed existence and adoption of marketing as a core functional department in most financial institutions. This however seems to have infiltrated in to other organizations outside formal banking including micro financial institutions formally regarded as non market driven with the sole objective to uplift the living standard of the poor by providing financial support.

4.1.3 Levels of Dissemination Modes Utilization

Figure 2.0 Frequently Used Dissemination Modes



Source; Author, from survey data (2004)

Television, radio and posters were found to be the most frequently used mode of credit information dissemination by both CBs and MFIs. Television was frequently used by 43% of all outlets, over sixty percent of CBs and less than twenty percent of MFIs. Radio was used frequently by 43% of all outlets surveyed as compared to

33% and 50% by MFIs and CBs respectively. Poster displays both within and outside lending outlets were also notable and on average, half of all outlets used them more often. Notable also was the use of sales agents by majority of the micro financial institutions. It also emerged that some MFIs were extensively using door-to-door campaigns as well as group meeting as their main forum for disseminating information relating to their credit products. The least utilized forms were; magazines by all categories, Internet and billboards by MFIs and sales agents by most CBs.

4.1.4 Credit Product Characteristics

Information on credit application procedures and repayment period were found to be information freely available in all outlets surveyed. Despite interest rate being considered non confidential in all commercial banks, only a half (50%) of MFIs outlets surveyed were willing to disclose their rates through their modes of dissemination. Three quarters (75%) of CBs outlets were also willing to disclose their collateral requirements and penalties on loan default. However, only twenty five percent (25%) of MFIs were wiling to do so. Table 2.0 shows these results. It is evident from the above results that most MFIs have not adequately opened up their product characteristics compared to CBs. This supports earlier research by Mutiso (2003) attributing low micro-credit access to inadequacy of information that MFIs provide.

Table 2.0 Credit Products Attributes Provided by Lending Institutions

Product Characteristics	Commercial Banks		Micro Finance	
	Frequency	Percentage	Frequency	Percentage
Interest rates	8	100	2	50
Penalties on default	6	75	1	25
Collateral requirements	6	75	1	25
Procedures	8	100	4	100
Repayment period	8	100	4	100

Source: Author, from survey data (2004).

4.1.4 Credit Approval Rate

Survey data shows that majority (62.5%) of CBs surveyed considered between sixty and eighty percent of new loan applicants received within the study period for credit advancement. Over thirty seven percent had an approval rate of over eighty percent. Three quarters (75%) of MFIs considered over Eighty one (81%) percent of applicants for credit approval, while the rest attained a rate of between sixty one and eighty percent (Table 3.0).

Table 3.0 Credit Approval Rates Achieved by the Lending Institutions

	Commercial Banks		Micro Finance Institutions	
Approval Rate Attained	Institutions	Percentage	Institutions	Percentage
81%-100%	3	37.5	3	75
61%-80%	5	62.5	1	25
41%-60%	0	0	0	0
21%-40%	0	0	0	0
0%-20%	0	0	0	0

Source: Author, from survey data (2004).

Almost a similar outcome was also evident in lending targets achieved. Both CBs and MFIs were able to achieve over sixty one percent of their lending targets. Unlike in the case of approval rates, over sixty percent (62.5%) of commercial banks outlets attained over eighty percent of their approval rate, while the remaining (37.5%) attaining over sixty percent. One quarter of MFIs were able to lend over eighty percent of funds set aside during the period for credit advancement, while the rest (75%) did attain a rate of between sixty and eighty percent (Table 4.0).

Table 4.0 Lending Targets Achieved by the Lending Institutions

	Commercial Banks		Micro finance Institutions	
Lending Targets Achieved	Institutions	Percentage	Institutions	Percentage
81%-100%	5	62.5	1	25
61%-80%	3	37.5	3	75
41%-60%	0	0	0	0
21%-40%	0	0	0	0
0%-20%	0	0	0	0

Source: Author, from survey data (2004).

Despite most MFIs approving a substantial proportion of their new applications, most of them did not attain a corresponding proportion of their lending targets. This was quite the opposite with CB outlets. This was perceived to a great extent to be associated with the target market that each category of the lending institution focused their efforts on.

4.1.6 Effects of Dissemination Modes

4.1.6.1 Regression Analysis

When the dependent variables were regressed on all the nine independent variables in a single step, 75.1%, 80.2%, and 88.3% of variability in new applications,

approval rates and lending targets respectively were explained by the nine dissemination modes (Table 5.0). This shows that over seventy five percent, eighty percent and over eighty eight percent of variations in new applications, approval rates and lending targets respectively are attributed to the use of the nine dissemination modes.

Table 5.0 Dissemination Modes Linear Regression Un-standardized coefficients

Dissemination Modes	Un-standardized Regression Coefficients		
	New Applications	Approval Rates	Lending Targets
Internet	756.85	2.95	0.31
Television	354.92	18.83*	0.41
Radio	448.07	17.36*	0.30
Daily News Paper	-78.36	12.73	4.938E-02
Magazines	-65.38	2.42	0.18
Billboards	-70.34	-0.16	0.61**
Trade Exhibitions & Promotions	1202.33	11.94	0.38
Sales Agents and Reps	258.80	8.69*	0.18
Posters	215.35	5.03	4.35E-03
Constants	9885.32	-133.02	-2.264
R Squared	0.751	0.802	0.883
Standard Error of Estimate	1214.98	8.85	0.390
F-Statistic	1.342	1.805	3.358
Durbin-Watson Statistic	2.040	2.190	2.979

** Significant at 0.05

*Significant at 0.10

Source: Author, from survey data (2004)

Despite the high levels of variability being explained by the dissemination modes, only three (television, radio and sales agents and representatives) were significant at 0.10 in predicting approval rates. Only one (billboards) was significant in lending targets prediction. A one day increase in sales agents and representatives, radio and television use per week were found to yield 8.69, 17.36 and 18.83 units (percentage) increase in approval rates achieved respectively. This was attributed to their wide coverage as well as their interactive nature. Billboards use however was significant at 5% in influencing the lending targets achieved by the lending institutions. This was rather unexpected given their low levels of utilization especially by MFIs. The inability of the dissemination modes on the other hand to impact on new applications received can be attributed to low domestic borrowing by the government, high levels of campaigns and introduction of new credit products by most lending institutions in to the market most of which were unsecured prior and during the study period.

The generated regression results were further subjected to an F–test to establish their statistical significance. This was done by testing the null hypothesis that the true regression coefficients were all zero. The ratio of the mean sum of squares explained by the regression to the mean sum of squares not explained by the regression were computed for each of the regression relationship and compared with a critical value of an F distribution with the same degrees of freedom (k-degrees of freedom in the numerator and n-k-1 degrees of freedom in the denominator)

Where;k- Number of independent variables

n- Number of observations.

A decision rule to reject the null hypothesis that true regression efficient are all zero if calculated F value exceeds the critical F-value at 0.05 level of significance was adopted.

Table 6.0 Linear Regression Equations Significance F-Test Results

	New Applications	Approval Rate	Lending Targets
Calculated value	1.342	1.805	3.358
Critical F- value	6.00	6.00	6.00
Decision	Accept Ho	Accept Ho	Accept Ho

Source: Author, from survey data (2004)

In all the three regression equations, the null hypothesis failed to be rejected indicating that some of the true regression coefficients were zero. A further examination of existence of multi co-linearity and serial correlation in the data was carried out.

Tolerance, which is a measure of the strength of linear relationship among the independent variables (the proportion of the variability that is not explained by its linear relationship with other variables in the regression model) was used as a measure of multi co-linearity in the survey data. Existence of tolerance values of less than 0.1 indicates high levels of multi co- linearity (Norusis, 1999). From SPSS regression output (Appendix I), tolerance values of below 0.1 were evident in three independent variables (television, radio and trade & exhibition) indicating existence of multi co-linearity in the data. In support of this, it was also evident from Pearson's r correlation that, radio, television and daily newspaper use as well as

sales agents and trade exhibitions & promotions were significantly correlated at the 0.05 level (Appendix I)

Durbin-Watson test was also performed to establish the existence of serial correlation in the data that would violate one of the regression model assumptions (error terms must be independent). A two tailed hypothesis test of both negative and positive correlation, with a null hypothesis that there was no serial correlation rejected at 0.05 significance level if the competed Durbin-Watson test statistic (d) < dl (lower limit) and if d > 4-dl,(upper limit).

For n= number of observations (14)

K= number of independent variables including intercept (10)

From Durbin-Watson statistical tables,

Lower limit (dl) = 0.12726 Upper limit (du) = 3.36038

Table 7.0 Durbin-Watson Serial Correlation Hypothesis Test Results

	New Applications	Approval Rates	Lending Targets
Calculated d value	2.040	2.190	2.979
Decision	Accept Ho	Accept Ho	Accept Ho

Source, Author, survey data (2004)

The null hypotheses that there is no serial correlation were accepted and therefore serial correlation was significantly not a problem in the data. The existence of multi co-linearity therefore led to a conclusion that the regression model could not be developed to explain the effects of dissemination modes on the three dependent variables as it would be in violation of one of its core assumption.

4.1.6.2 Partial Correlation Analysis

Partial correlation analysis was however adopted to examine the effects of dissemination modes on the three dependent variables (new applications, lending targets and approval rates). Partial correlation coefficient is a measure of the relationship between dependent and the independent variable controlling or holding constants the effects of the other independent variables in the model constant. Partial correlation coefficients generated from SPPS outputs are presented in Table 8.0 below.

Table 8.0 Dissemination Modes Partial Correlation Coefficients†

	Partial Correlation Coefficients		
Modes of Dissemination	New Applications	Lending Targets	Approval Rates
Internet	0.603	0.332	*0.375
Television	0.171	0.526	0.785
Radio	0.214	0.420	0.759
Daily news papers	*0.041	0.080	0.674
Magazines	*0.033	0.273	0.166
Billboards	*0.054	0.845	*0.019
Trade Exhibitions & Promotions	0.514	0.509	0.632
Sales agents and rep	0.217	0.435	0.717
posters	0.193	0.012	0.534

* Negatively correlated

† At 0.05 significance level

Source: Author, survey data (2004).

Some of the partial correlation coefficients were found to be negatively correlated with the dependent variables and was attributed to the existence of multi co-linearity. It was however noticed that they were weak correlation and subsequently dropped from the analysis.

Dissemination modes that were found to significantly correlate with lending targets were; TV (0.562), trade exhibition and promotions (0.509), sales agents (0.435) and radio (0.42). Billboards, however had a correlation of 0.841, this was too high as compared with its level of utilization. TV, radio, sales agents and representatives, daily newspaper and trade exhibitions use were found to have partial correlation coefficients of 0.785, 0.79, 0.717, 0.674 and 0.632 with approval rates respectively. Further, new credit applicants were correlated with trade and exhibitions, Internet, sales reps, radio, posters and TV adverts by 0.514, 0.603, 0.217, 0.193 and 0.171 respectively. Six out of the nine dissemination modes were strongly correlated with approval rates attained, three with lending target and only two with new loan applications. Depending on the strength of the partial correlation coefficient that each dissemination mode displayed, it was equally accepted to represent the degree to which the respective dissemination mode influences a particular dependent variable.

4.1.7 Factors Constraining Effective Utilization

Firms surveyed cited several problems that inhibit effective utilization of the existing modes of information dissemination.

Low literacy level was cited by more than half (57%) of the respondents as the main problem and was found to hinder effective communication between the lenders and

the potential borrowers. This however, limits the use of some of the efficient modes that are available in the market.

Secondly, it was also found out that due to credit product differentiation, the institutions are faced with high costs of setting up and using the different modes specifically for a product, subsequently making their use unprofitable in the long run.

Thirdly, it was also established that due to centralization of operations especially by commercial banks, the central office did most of the decisions relating to credit and other products offered by the institutions. This leaves most of the individual outlets with less control over the mode of dissemination to use that their specific environment may otherwise demand.

Lastly, high cost of using the available modes of information dissemination as a result of poor infrastructure was also was cited as an impediment to their effective utilization. Frequent breakdown of telecommunication network and poor service delivery by government agencies and local authorities all add up to an extra cost in utilizing some of the disseminations modes.

4.2 Hypotheses Tests

To be able to ascertain the effects of information dissemination levels on new applications, lending targets and credit approval rates, paired sample T –tests of the difference between the means were carried out. The T-test statistic t for paired sample is given by:

$$t = \frac{d}{s_d / \sqrt{n}}$$ with n-1 degrees of freedom.

Where; d= Mean of the difference between related observations

s_d=Standard deviation of the distribution of the difference between the related observations

n = Number of paired observations.

A decision to reject the null hypotheses that mean difference between the new applications, lending targets and approval rates and dissemination level was zero, was accepted if the calculated t value was greater than or equal to the critical t value on both tails. That is, the null hypothesis was to be accepted if t critical (lower limit) < t calculated< t critical (upper limit) at 0.05 level of significance. Tests outcomes (Ms Excel two sample t test results, Appendix 1) are summarized in Table 9.0 below.

Table 9.0 Mean Difference T-tests Results

	Approval Rate	Lending Target	New Applications
t- Calculated	16.36	-17.19	1.65
Critical t value	t_{cu}=2.16 t_{cl}= -2.16	t_{cu}=2.16 t_{cl}=-2.16	t_{cu}=2.16 t_{cl}=-2.16
Decision	Reject null	Reject null	Accept null

Source: Author, from survey data (2004)

The null hypotheses that the mean difference between lending targets and approval rates and that of information dissemination levels achieved are zero were rejected. However, the null hypothesis that, the mean difference between number of new loan applicants and that of information dissemination levels was zero was accepted.

Subsequently, it was concluded that lending targets and approval rates were influenced by the level of information dissemination, while new loan applicants were independent of the dissemination modes used at any one time.

Non-association between the levels of information dissemination attained and new applications could be due to a number of economic and political issues that prevailed prior and during the study period. Low presence of government in the domestic credit market is seen as a major factor contributing to high levels of approval rates and lending targets being achieved by the lending institutions. Low levels of domestic borrowing by the government left most lending institutions especially commercial banks with excess idle funds that are detrimental to their profitability. This however, triggered low interest rates regime in the sector as a result of most lending institutions shifting their attention to borrowers that were initially categorized as un-credit worth. High levels of campaigns coupled with introduction of new products such as personal loans, business loans and school fees loans most of which are unsecured are some of the strategies that were adopted by the institutions to attain their desired credit performance. A campaign also by the government encouraging its citizens to take advantage of its exit from the domestic credit market was initiated during this period. This however, triggered a credit rush environment overshadowing the effects of dissemination tools on the number of new applications.

CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

It is evident that some modes of information dissemination are far more frequently utilized than others in disseminating credit related information within the district. Frequent use of television, radio and posters to disseminate information by most lending outlets surveyed can be attributed to a number of factors. Both radio and television command substantial coverage of the district and with emergence of several new stations broadcasting in different local languages, lending institutions are able to reach a wide number of potential borrowers in all social classes of the society. Frequent use of posters on the other hand can be attributed to its low cost, flexibility in design and use as well as the ability of each outlet to produce posters that well suits the prevailing consumer behavior.

Sales agents and representatives, trade exhibitions and door to door campaigns are frequently utilized by MFIs. This is partly due to the group set up structure that these institutions have adopted in providing their services. Weekly meetings convened to collect contributions and extend new credit forms a forum in which both new members and products are introduced to the groups. Members also extend the disseminating arm further verbally to their immediate friends who may not members of the group.

Internet and billboard are less utilized by MFIs as compared to CBs. This can be attributed to both cost and the economic classes that the institutions serve. Cost associated with internet and billboards advertising are far too high for most MFIs who more often depends on donor support to accomplish their objectives of uplifting

the living standards of the poor. Unlike commercial banks which are profit driven and are geared towards increasing shareholders value, MFIs target medium to low class borrowers who may not be able to access internet facilities and frequently notice the few billboards that are mainly displayed in major towns and highways. With the emergence of e- business, most commercial banks are encouraging e-banking in provision of their services making Internet advertising viable. Low levels of magazines utilization as a mode of disseminating information relating to credit can be highly attributed to its low levels of outreach and frequency. Most of the lending institutions have internal magazines that are produced monthly or quarterly and in most cases institution's staff and only a few members are able to have access to it.

Different modes of information dissemination were found to have varying effects on lending targets, new applications and approval rates. From the survey results it was evident that the level of utilization of different credit information dissemination modes by lending institutions were reflected in their lending target achieved and the proportion of loan applications that were approved. Exceptionally this effort was not statistically evident in the number of new applicants received.

Most of the dissemination modes used, except billboards had an average effect on the level of lending targets that were achieved by the lending institutions. This could be attributed to the characteristic of borrowers visiting a particular outlet at any one time. A corporate borrower has substantial effect on the lending target compared to small business loan client. Television and radio were frequently used dissemination modes and also were found to command a wide coverage of the district. Recent

emergence of new TV channels and FM stations broadcasting in different languages gives an edge in their use especially in reaching the illiterate poor majority. The two modes are highly recommended for MFIs. Approval rates on the other hand substantially respond to Television, radio and daily newspaper advertisement as well as sales agents and representatives. This also could be as a result of their wide coverage and interactive nature of their programs and the sales personnel. Target market of the lending institutions was also seen as an important factor. Commercial banks tend to use televisions and radio adverts targeting literate and medium to upper class economic. Unlike MFIs who prefer sales personnel due to the group set up that they have established in providing their services to medium and low income groups.

5.2 Recommendations

Based on research outcomes, lending institutions should come up with a combination of different dissemination modes that best suits their immediate environment. Since different modes of dissemination have varying influence on several aspects of credit, an optimal combination of different dissemination modes will enable lending institutions to accomplish their overall lending objectives efficiently and effectively. High correlation between trade exhibitions and sales agents and representatives stresses the need for lending institutions to acquire, train and maintain well trained personnel especially those who interact with potential clients.

In relation to the problems that lending institutions face both in setting up and utilizing the different modes of information dissemination, lending institutions need

to decentralize some of their decisions relating to choice and design of dissemination modes. Each individual outlet should be allowed to design and use dissemination modes that best suit their immediate customers. This will not only allow for optimal utilization of dissemination modes, but also effectively reaching out to their target audience.

Government on the other hand should take an immediate initiative to review some of its policies in the telecommunication sector in order to improve its infrastructure, subsequently lowering communication costs and allowing lending institutions to effectively interact with their target audience. Further liberalization of airwaves, Internet gateways and lowering of mobile telephony charges are some of key areas that require immediate policy change.

5.3 Recommendations for Further Research

In view of the survey outcome, the researcher recommends further research to be carried out with an aim of developing a predictive model that will allow lending institutions to combine different dissemination modes and effectively achieve their lending objectives at the lowest cost possible. Further there is need to assess the potential of using new and modern forms of communication. Mobile telephone is one such area. Lastly, further research should also be carried out to assess the effectiveness of group set up systems established by most MFIs as a way of disseminating credit related information.

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APPENDIX I: DATA ANALYSIS RESULTS

REGRESSION AND CORRELATION RESULTS

NEW APPLICATIONS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.867[a]	.751	.191	1214.98	2.040

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: NEWAPPL

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.8E+07	9	1981103	1.342	.415[a]
	Residual	5904735	4	1476184		
	Total	2.4E+07	13			

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: NEWAPPL

Coefficients[a]

Model		Unstandardized Coefficients		Sig.	Correlations	Collinearity Statistics
		B	Std. Error		Partial	Tolerance
1	(Constant)	9885.317	10786.618	.411		
	INTENETS	756.854	500.974	.205	.603	.289
	TELEVTVS	354.919	1020.187	.745	.171	.042
	RADIOUSE	448.725	1022.625	.683	.214	.063
	DAILYNPP	-78.347	956.923	.939	-.041	.156
	MAGAZINE	-65.379	986.080	.950	-.033	.409
	BILBORDS	-70.338	595.912	.912	-.059	.297
	TRADEEXH	1202.330	1004.200	.297	.514	.083
	SALEAGET	258.799	580.882	.679	.217	.139
	POSTERSS	215.346	546.955	.714	.193	.198

a. Dependent Variable: NEWAPPL

LENDING TARGETS

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.940[a]	.883	.620	.3903	2.979

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: LENDTGTS

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.605	9	.512	3.358	.128[a]
	Residual	.609	4	.152		
	Total	5.214	13			

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: LENDTGTS

Coefficients[a]

Model		Unstandardized Coefficients		Sig.	Correlations	Collinearity Statistics
		B	Std. Error		Partial	Tolerance
1	(Constant)	-2.264	3.465	.549		
	INTENETS	.113	.161	.520	.332	.289
	TELEVTVS	.406	.328	.284	.526	.042
	RADIOUSE	.304	.329	.407	.420	.063
	DAILYNPP	4.938E-02	.307	.880	.080	.156
	MAGAZINE	.179	.317	.601	.273	.409
	BILBORDS	.605	.191	.034	.845	.297
	TRADEEXH	.381	.323	.303	.509	.083
	SALEAGET	.181	.187	.388	.435	.139
	POSTERSS	4.353E-03	.176	.981	.012	.198

a. Dependent Variable: LENDTGTS

APPROVAL RATES

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.896[a]	.802	.358	8.85	2.190

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: APPRORAT

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1271.196	9	141.244	1.805	.298[a]
	Residual	313.056	4	78.264		
	Total	1584.252	13			

a. Predictors: (Constant), POSTERSS, RADIOUSE, SALEAGET, MAGAZINE, BILBORDS, DAILYNPP, INTENETS, TRADEEXH, TELEVTVS

b. Dependent Variable: APPRORAT

Coefficients[a]

Model		Unstandardized Coefficients		Sig.	Correlations	Collinearity Statistics
		B	Std. Error		Partial	Tolerance
1	(Constant)	-133.021	78.541	.166		
	INTENETS	-2.951	3.648	.464	-.375	.289
	TELEVTVS	18.829	7.428	.064	.785	.042
	RADIOUSE	17.355	7.446	.080	.759	.063
	DAILYNPP	12.723	6.968	.142	.674	.156
	MAGAZINE	2.416	7.180	.753	.166	.409
	BILBORDS	-.163	4.339	.972	-.019	.297
	TRADEEXH	11.936	7.312	.178	.632	.083
	SALEAGET	8.694	4.230	.109	.717	.139
	POSTERSS	5.026	3.983	.276	.534	.198

a. Dependent Variable: APPRORAT

PEARSONS (r) CORRELATION

	Internet	TV	Radio	DNP	Mag	Blbds	T&E	SA&R	Posters
Internet	1								
TV	0.288	1							
Radio	0.344	**0.916	1						
DNP	0.162	**0.736	*0.61	1					
Mag	0.543	-0.45	-0.48	-0.341	1				
Blbds	0.311	0.105	-0.06	-0.091	0.246	1			
T&E	-0.208	0.042	-0.15	0	-0.14	*0.63	1		
SA&R	-0.044	0.008	-0.12	0.046	0.014	0.478	**0.781	1	
Posters	-0.122	-0.01	-0.16	0.188	0.097	0.408	0.545	0.139	1

TV	Television
DNP	Daily news papers
Mag	Magazines
Blbds	Billboards
T&E	Trade and Exhibitions
SA&R	Sales agents and reps

** Significant at 0.01 level (2- tail)

- Significant at 0.05 level (2-tail)

T TESTS

T-Test: Two-Sample Assuming Unequal Variances

	Dissemination Levels	Approval rates
Mean	23.78571429	80.32142857
Variance	25.25824176	126.0233516
Observations	14	14
Hypothesized Mean Difference	0	
df	18	
t Stat	-17.19863011	
P(T<=t) one-tail	6.40361E-13	
t Critical one-tail	1.734063592	
P(T<=t) two-tail	1.28072E-12	
t Critical two-tail	2.100922037	

	Dissemination Levels	Lending Targets
Mean	23.78571429	1.642857143
Variance	25.25824176	0.401098901
Observations	14	14
Hypothesized Mean Difference	0	
df	13	
t Stat	16.35591819	
P(T<=t) one-tail	2.3627E-10	
t Critical one-tail	1.770933383	
P(T<=t) two-tail	4.72539E-10	
t Critical two-tail	2.160368652	

	Dissemination Levels	New Applications
Mean	23.78571429	619.5
Variance	25.25824176	1825742.885
Observations	14	14
Hypothesized Mean Difference	0	
df	13	
t Stat	-1.649602174	
P(T<=t) one-tail	0.061482512	
t Critical one-tail	1.770933383	
P(T<=t) two-tail	0.122965025	
t Critical two-tail	2.160368652	

APPENDIX II: QUESTIONNAIRE

The information contained in this questionnaire will not be used for any other purpose other than the intended research.

Designation of respondent: .....

Kindly answer the following questions by placing a tick on the space ☐ provided.

1. How do you classify your firm in regards to the following?

1 Commercial bank ☐

2 Micro finance institution ☐

Other (Specify).....

2. When was the outlet established?.....

3. How many employees work in your outlet?.....

4. Which credit products / facilities does your outlet offer?

Group loan ☐

Personal Loan ☐

Corporate Loan ☐

Overdraft ☐

Small business loans ☐

Other (Please specify).....

5. (i) Does your outlet utilise any form of credit information dissemination(credit marketing)?

Yes ☐

No ☐

(ii), If No in 5 (i) above, what are the reasons that hinder the establishment of any of this facility in your outlet?

Poor infrastructure, ☐

Lack of qualified personnel, ☐

Lack of top level Mgt support / initiative, ☐

High cost of installation & usage, ☐

Company policy, ☐

Rapid and inconsistent environment, ☐

Lack of funds ☐

Low literacy levels. ☐

6. Which of this credit characteristics / information of your credit products does your organization classify as confidential and is/are available only on request?

Interest rates ☐

Penalties for default ☐

Collateral requirements ☐

Procedures & criterion for applying for the loan ☐

Repayment Period ☐

Other please specify----------

7. Which of these modes of credit information dissemination does your outlet utilise and to what extent? (**1- Frequently used -------- 5-Never used**)

		1	2	3	4	5
Internet		☐	☐	☐	☐	☐
Electronic;	TV	☐	☐	☐	☐	☐
	Radio	☐	☐	☐	☐	☐
Print Media	Daily Newspaper	☐	☐	☐	☐	☐
	Magazines	☐	☐	☐	☐	☐
Billboards		☐	☐	☐	☐	☐
Trade exhibition & Promotion		☐	☐	☐	☐	☐
Sales agents / Rep		☐	☐	☐	☐	☐
Posters		☐	☐	☐	☐	☐

Others please specify----------

---

8. Of these Modes, to what extent did your outlet utilise in disseminating credit products information in the first quarter of the year 2004? (Fill in the number of times used in any convenient column).

Modes of Information Dissemination	**Number of Times**		
	Weekly	Monthly	Quarterly
Internet (days)			
TV (days)			
Radio (days)			
Daily Newspaper (Days)			
Magazines (issues)			
Billboards (Days)			
Trade exhibition& Promotion (Days)			
Sales agents / Rep (Days)			
Posters (Days)			

9. What are some of the constraints that you have encountered in setting up or using the above modes of credit information dissemination?

- ----------
- ----------
- ----------
- ----------
- ----------

10. Over the same quota, how many new applicants were received and how many were approved?

No of new Loan applicants ☐

No of loan Applications Approved ☐

11. To what levels were credit-lending target achieved over the same quota?

80 – 100% ☐

60 – 80 % ☐

40 –60 % ☐

20 – 40 % ☐

0 – 20 % ☐

THANK YOU FOR YOUR ASSISTANCE