THE EFFECTS OF THE BORROWER TRANSACTION COSTS, CREDIT RATIONING AND SEGMENTED MARKETS ON MICRO CREDIT MARKETS IN MALAWI: A STUDY IN THE MICRO CREDIT MARKETS IN MALAWI.

[1]Charles Alufaneti, [2]Dr. Judith

[1]Student, [2]Lecturer
School of Commerce,
DMI St Eugene, Chibombo, Zambia

Abstract- **The main objective of this study was to analysis of the effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi: A study in micro credit markets in Malawi, using micro finance institutions (MFI) across the country as the case study. The MFIs which have sampled are as follows Select Financial Services which commenced operations in Malawi in late 2009 with first disbursements occurring in February 2011. In August 2010, Select Malawi entered into a long-term debt financing agreement with the Soros Economic Development Fund, who were keen to support a housing-focused lending business in this economically disadvantaged country. This funding was converted into local currency using a back-to-back facility with FMB Malawi. Another MFI which has been used in this case study is National Economic Empowerment Fund Limited which is a Government owned Microfinance Institution whose mission is to economically empower ordinary and underserved Malawian (particularly women, youth and persons with disability) through the provision of quality, affordable and sustainable microfinance services for improved livelihoods. NEEF is a radical rebrand of the Malawi Enterprise Development Fund Limited whose reconstitution happened in September 2020 with a mandate is to look into the broader objectives of microfinancing with focus on economic empowerment. The institution operates on a license that was issued in January 2015 by the Reserve Bank of Malawi as a Non-Deposit Taking Microfinance institution. Ufulu Finance Limited is another micro-finance Company that provides loans to Civil Servants with low interest rates starting from K5, 000.00 to K2, 000,000.0 which the researcher sampled to carry the study and finally the researcher sampled PCL SACCO and UNDP SACCO.**

Based on the field data from Malawi microfinance industry and the general public, the research project analyses the effects of the borrower's transaction costs, credit rationing and segmented markets of micro loans. It shows how and what extend is the microfinance institutions and the general public are affected by the variables.

Two research hypotheses were formulated and tested using the chi square, to achieve the objectives of this study. Percentages and frequencies are also employed in the analysis. The research was descriptive in nature involving quantitative methods which was administered through secondary data. Findings revealed that borrower's transaction costs are fixed by the reserve bank of Malawi except other unknown costs which hidden, it is also revealed that borrower's transaction costs are higher as compared to Sub Sahara Countries due to poor ICT infrastructure since loans are not applied online which reduces borrower's transaction costs. It was also revealed that credit rationing is done by MFIs in order to hedge credit risks, finally it was also revealed that MFI market segmentation is done due to market risk and profitably.

Keywords: **Borrowers transaction costs, Credit Rationing and Segmented Markets.**

CHAPTER 1

1.0 INTRODUCTION

This chapter presents the statement of the problem, research gap, objectives of the study, scope of the study and research questions. This write up again considers the significance of the study as well as chapter summary of what has been documented

1.1 Background of the study

In Malawi, microfinance markets have played a crucial role when it comes in providing small medium enterprise (SMEs) micron loans, public sector micron loans and private sector micro loans for social development processes across the country. They also support the government to alleviate poverty by creating self-help initiating among the rural communities. The non-interest expenses incurred by lenders in evaluating, disbursing, and collecting loans, and by borrowers in applying, getting approval for, and repaying their loans is what is called the borrowers costs. Stiglitz's theory of imperfect information, Stigliz (1989) also defines markets as an important set of institutions. In particular, it is emphasized that markets operate in environments characterized by imperfect, costly, and incomplete information, and hence from opportunistic behaviour, including moral hazard and advertise incentives. Thus, institutions are seen to be created and refined to deal with various forms of markets failure. (Research Paper No. 2006/69 United Nations University. August 2006) Indeed, Stiglitz's theory of imperfect information is in many respects comparable to the analysis advanced by institutional economists such as Coase (1992), North (1990) and Williamson (1985, 1995). Both Schools criticize the convectional neo-classical model for failing to include the role of traction costs in exchange and for its inability to explain to include the role of intuitions in the formation and operate of markets by minimizing transaction costs and reducing uncertainty. Both schools emphasize the cost lines and incompleteness of information and enforcement to which agents in the real world have to act. The situation in which lenders are unwilling to advance additional funds to borrowers at the prevailing market interest rate – is now widely recognized as a problem arising because of information and control limitations in financial markets is what is called credit rationing in broad terms.

1.2 STATEMENT OF PROBLEM

The research explains this trend by arguing that the borrower costs will
hinder growth of MFI and deny the opportunity rural masses to access cheap capital. It is due to the additional burden incurred in the form of transaction costs in case of MFI borrowing.

1.3 RESEARCH GAP

A research gap as a topic or area for which missing or inadequate information limits the ability of reviewers to reach a conclusion for a given question. Several scholars have tried their best in looking into similar project but there is still need to look into the effects of effects of the Borrower transaction costs, credit rationing, and segmented market on micro finance in Malawi: A study in the micro credit market in Malawi.

1.4 OBJECTIVES OF THE STUDY

1.4.1 General Objective

The primary objective of this study is to do an assessment on the effects of borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi.

1.4.2 The specific objectives

- To study effects of Reserve Bank of Malawi directives on borrower transaction costs credit rationing and segmented markets in micro credit markets in Malawi.
- To assess how ICT affect the borrower transaction costs to the MFI and the general public.
- To examine the literacy level of the general public on micro credit markets in Malawi.
- To recommend that the solution and measures on effects of borrow transaction costs, credit rationing and segmented markets.

1.5 Research question

- What are the effects of borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi?
- What contributions do MFI responsible for reducing poverty among the general public?
- What factors of ICT affect borrower transaction costs, credit rationing and segmented markets in Malawi?
- What is the role of Reserve Bank of Malawi on borrower transaction costs, credit rationin and segmented markets in micro credit markets ion Malawi?

1.6 Characteristics of the phenomenon

Microfinance institutions in Malawi

Microfinance has been one of the strategies for poverty alleviation in developing countries. This paper attempts to take stock of the microfinance or micro credit revolution in Malawi, including assessment of factors of success and failure in the delivery of financial services to the poor. The paper also examines the efficacy and effectiveness of the existing institutional framework on poverty reduction.

The author notes that although micro credit programmes in Malawi date from 1992, the proliferation of micro credit schemes or microfinance institutions began after the democratic process in 1994.

Consequently, with improvements in the policy environment, the Malawi Microfinance Network (MAMN) has been established as a formal association of microfinance institutions. The objective of MAMN was developing, promoting, coordinating and regulating micro finance activities among member institutions.

Main findings of the paper are as follows:

- Malawi has several governmental and non-governmental organisations offering financial services to the poor
- most of these institutions operate localised and targeted programmes, and very few are operating at a national scale - however, the existing institutions are far from satisfying the demand for such services
- microfinance institutions in Malawi are largely unregulated and their programmes are not coordinated and accessibility to their services is not universal to the poor
- the lack of financial resources will remain a major constraint in the expansion of micro and small business enterprises in Malawi

- Nonetheless, the contribution of existing micro finance programmes to poverty reduction in Malawi is certain - their design best suits the conditions in Malawi.

1.7 FACTORS CONTRIBUTING TO THE PHENOMENON

Literature reviewed in this paper identified three main groups of factors considered central to micro-enterprise studies that included demographic factors, social economic factors and enterprise characteristics. Specifically, the empirical analysis based on logit model analyzed influence on borrowing and liquidity status by factors that included gender, age and marital status household head, education attained by household head, size of household, poverty status of household, age of enterprise, location of household, and enterprise sector. Logit model results showed that borrowing was influenced by age of household head, size of household, poverty status of household and enterprise size. The results also indicated that liquidity status was influenced by education attained by household head and poverty status of household. Poverty status of the households was found to influence both borrowing and liquidity non-constraint of households in Malawi.

1.8 GLOBAL STATISTICS SCENARIO

1.8.1 India

Overview of India's Micro Finance

In a developing country like India, there is a need to support low-income families as well as uplift and provide them with a better standard through supporting them financially in a more efficient way, and there came the concept of "microfinance," which is a form of financial service that provides small loans and other financial services to poor and low-income households in a consistent and legitimate way. It is an economic tool designed to promote financial inclusion, which enables poor and low-income households to come out of poverty, increase their income levels, and improve their overall living standards. It can facilitate the achievement of national policies that target poverty reduction, women's empowerment, assistance to vulnerable groups, and an improvement in the standard of living.

Broadly, two different approaches are followed in India for extending microfinance services:

- The bank-led approach, Self-Help Groups-Bank Linkage Program (SHG-BLG),
- The Micro Finance Institution (MFI)-led approach

The microfinance sector in India is varied, with a variety of firms providing low-income people with financial services like lending, insurance, and pensions. Five broad categories can be used to classify the various microfinance industry participants: Small Finance Banks, NBFC MFIs, Banks, and Non-profit MFIs. All of these, with the exception of non-profit MFIs, are under RBI regulation. The majority of non-profit MFIs are registered as trusts or societies, and they are regulated by the corresponding acts while majorly the non-profit organizations (NGOs) that have been operating in the industry as financial intermediaries are registered as trusts or societies.

India's History and Development of Microfinance

In India, microfinance has a long and illustrious history. It was first introduced by the SEWA Bank, a division of the Self-Employed Women's Association (SEWA), in Gujarat in 1974, and has ever since played a crucial role in providing financial services to numerous people who have been left out of the mainstream of society's economy.

For NBFC-MFIs with loan portfolios of US$ 1 billion or more, the Malegam Committee recommended a margin cap of 10%; for other NBFC-MFIs, it suggested a cap of 12%; and for individual loans, it suggested a cap of 24%. A consistent margin cap of 12% was imposed for all NBFC-MFIs in the final rules published on December 2, 2011, along with a cap of 26% on individual loans. The set interest rate ceiling of 26% was lifted in 2012 due to the fluctuating costs of borrowing and to allow for operational flexibility, although with the restriction that the maximum difference between the minimum and maximum interest rate for individual loans cannot be more than 4%.

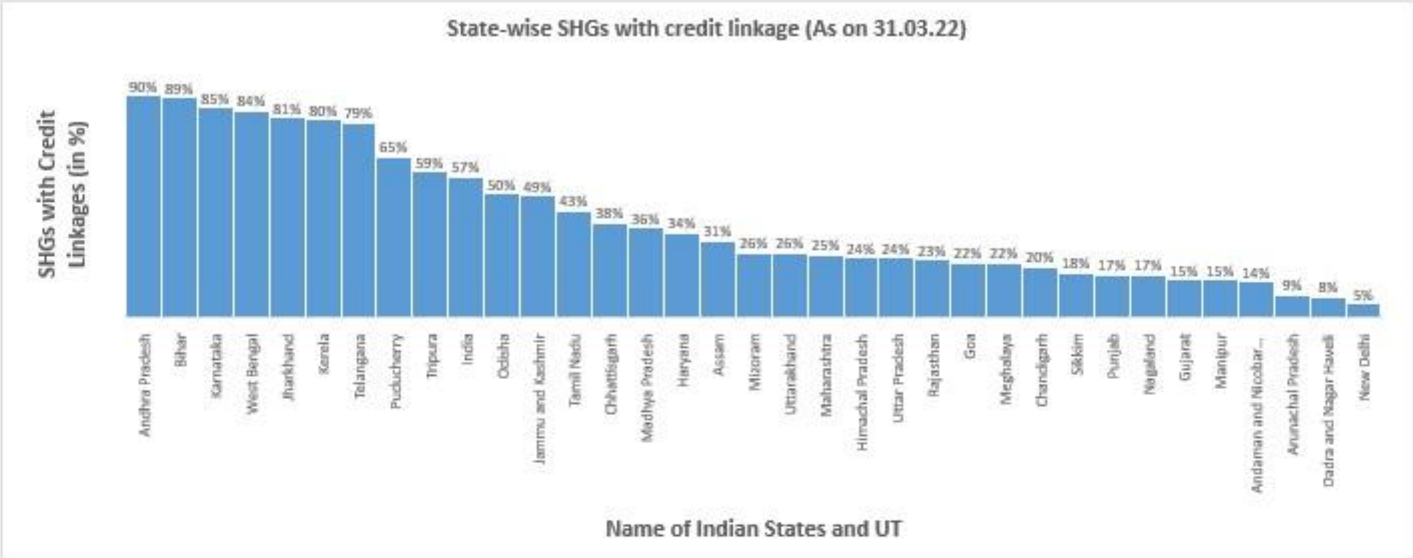
Therefore, it should come as no surprise that the industry saw 40% annual growth rates up until quite recently. Numerous crises and macroeconomic shocks, most recently the Covid-19 epidemic, have punctured this period of rapid growth.

Current Status of Micro Finance in India

As on 31 March 2022, the programme now covers US$ 140 million families, and US$ 11.9 million SHG groups having cumulative savings of US$ 472.4 billion. The credit linkage is also impressive so far that US$ 3.4 million SHGs have been credit linked during FY 2021–22 (as against US$ 2.9 million groups in 2020-21) and loans worth US$ 997.2 billion disbursed. The credit outstanding as on 31 March 2022 is US$ 1510.5 billion for US$ 6.74 million SHGs (an average of US$ 0.24 million per SHG). Though the average ticket size is not big, the impact can be life-changing as is reflected in the various success stories in this publication.

The E-Shakti programme, under which financial and non-financial data of over US$ 1.2 million SHGs has been digitized to give comfort to banks for credit linkage of SHGs, is hoped to improve credit linkage.

State-wise credit linkage of the status of SHGs as of December 31st, 2022, is depicted through the figure shown below, wherein: Overall, out of US$ 11.8 million SHGs savings, 57% SHGs have loans outstanding with banks. Nine states have credit linkage % higher than the all-India average. Andhra Pradesh is leading with 90% of its SHGs having loans outstanding, followed by Bihar (89%) and Karnataka (87%). Southern and Eastern states dominate the list along with Tripura.



Importance of Microfinance

In our nation, almost 50% of people lack a simple savings account. However, to achieve their goals of wealth accumulation and risk mitigation, they need financial services and individuals with limited access to capital can do so thanks to microfinance. These groups would have turned to borrowing money from friends or family if microfinance organizations had not been providing loans to this section of society. They have a greater likelihood of choosing payday advances or fast cash loans, both of which have extremely high-interest rates. Microfinance supports the government's goal of financial inclusion in the nation by assisting these groups in making informed investments in their enterprises.

Key Principles of Microfinance

The idea that the poor need more than just loans is one of the fundamental microfinance principles while financial institutions are the backbone of the underprivileged, and microfinance is a potent tool in the fight against poverty. Reaching a sizable portion of the underprivileged population requires financial sustainability and the creation of enduring regional financial institutions is the goal of microfinance. In addition to higher interest rates that might make it more difficult for the low-income group to receive financial assistance, microcredit is not always the best option. Meanwhile, governments do not directly provide financial services; rather, they serve as catalysts for the flourishing of those in need.

Role of Microfinance in India

Microfinance institution is focused on providing low-income individuals and groups with banking services. These organizations get funding from established financial institutions and aid the underprivileged. As a result, microfinance institutions are becoming one of the best tools for reducing poverty in India.

The following sources provide microfinance services:

- Formal institutions, such as rural banks and cooperatives
- Semiformal organizations, such as non-governmental ones
- Informal sources, including small-scale lenders and store owners
- Institutional microfinance includes both formal and semiformal institutions' offerings.

While some MFIs are well-managed and have a stellar record of accomplishment, others are self-sufficient in terms of operations. The various categories of institutions providing microfinance in India are as follows:

- Commercial banks
- Credit unions
- NGOs
- Sectors of government banks
- Cooperatives

The services provided by banks are supplemented by microfinance organizations. Financial services like insurance, savings, and remittance are additionally offered in addition to microcredit. Additionally, non-financial services like training, counselling, and support for borrowers are provided in the most practical way possible. The borrower receives the mentioned services at their convenience, as noted below. Interest rates charged by MFIs are typically higher than those of traditional banks. Interest rates vary depending on the loan purpose and borrower history. Borrowers also determine the repayment schedule.

Objectives of Micro Finance in India

The proposal has been made to start a pilot programme to identify SHG members and develop their capacities to become entrepreneurs, enable credit linkage, and facilitate market linkage. This is done in order to:

- Graduate to micro entrepreneurs using higher capital, employing more laborers, using better technologies, and operating continuously, without seasonal fluctuations.

- Development of new skill sets, in addition to assisting first-generation entrepreneurs and upgrading the operations of current companies.
- Conducting a trainers' training programme for NGOs to support and scale up start-ups among SHG and JLG members.
- Providing special emphasis to the under-served states in various regions of India.
- Introduction of digital banking for SHGs in collaboration with banks to maintain regular updates on financial and non-financial data on the portal.

Features of Micro Finance in India

- The borrowers are from low-income backgrounds
- Loans availed under microfinance are usually of small amounts, i.e., microloans
- The loan tenure is short
- Microfinance loans do not require any collateral
- These loans are usually repaid at higher frequencies
- The purpose of most microfinance loans is income generation

Structure of Microfinance

The structure of MFI has been created to address the difficulties that the traditional financial services sector encountered in satisfying the low-income segment's credit requirement at a reasonable and sustainable cost.

a) A Joint Liability Group (JLG) is an informal association of 4-10 people who work as a team to apply for bank loans either individually or collectively under mutual guarantee.

b) A SHG is a group of registered or unregistered micro entrepreneurs with similar socioeconomic origins that get together voluntarily to save modest amounts of money monthly, mutually agreeing to contribute to a common fund, and meeting their emergency needs through mutual assistance. To ensure proper credit use and prompt repayment, the group members typically rely on their collective knowledge and peer pressure.

The Road Ahead

Microfinance is very necessary for India to achieve financial inclusion for the poor in rural and urban areas. Lending to the poor population, if handled in an effective manner, can be a miracle for the development of the country and the alleviation of poverty. When the government and MFIs work together, Microcredit can play a significant role in poverty alleviation. The challenging issue of microfinance helps to reduce the financial problems faced by poor people. The inability of MFIs to get sufficient funds is a major challenge for the microfinance industry's growth, so these institutions should look for alternative sources of funding. Microfinance has a significant impact on poor people's confidence, courage, and skill development. Thus, external factors such as microfinance institutions are needed to help fix these problems.

1.8.2 Bangladesh

Micro Finance Institutions (MFIs)

The member-based Microfinance Institutions (MFIs) constitute a rapidly growing segment of the Rural Financial Market (RFM) in Bangladesh. Microcredit programs (MCP) in Bangladesh are implemented by various formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and Non-Government Organizations (NGOs). The growth in the MFI sector, in terms of the number of MFI as well as total membership, was phenomenal during the 1990s and continues till today.

Despite the fact that more than a thousand of institutions are operating microcredit programs, but only 10 large Microcredit Institutions (MFIs) and Grameen Bank represent 87% of total savings of the sector and 81% of total outstanding loan of the sector. Through the financial services of microcredit, the poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefited from microcredit programs.

Credit services of this sector can be categorized into six broad groups: i) general microcredit for small-scale self-employment based activities, ii) microenterprise loans, iii) loans for ultra-poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. Currently, 599 institutions (as of October 10 2011) have been licensed by MRA to operate Micro Credit Programs. But, Grameen Bank is out of the jurisdiction of MRA as it is operated under a distinct legislation- Grameen Bank Ordinance, 1983.

1.9 REGIONAL STATISTICS SCENARIO

1.9.1 Africa

Over three billion people in developing countries are still without effective access to loan and deposit services. The problem is particularly acute in Sub-Saharan Africa, where only between five and twenty-five percent of households have a formal relationship with a financial institution. The region is also home to just two percent of the world’s microfinance institutions.

Lack of access to financial services is therefore one of the largest constraints to private sector development in Africa. Addressing this shortfall requires creating new institutions and building operational and managerial capacity from the ground up.

Building ViaBle insTiTuTions

IFC’s Microfinance Program for Africa aims to increase the number of commercially viable microfinance institutions and broaden access to financial services so that the region’s smallest businesses can access the financial services they need to thrive. Working with development partners, IFC aims to establish 15 new microfinance institutions by 2011, reaching approximately 400,000 new borrowers. The program focuses on countries affected by conflict and where the private sector is at the very early

stages of development.
IFC helps establish new institutions and develop their capacity through:
Equity investments•
Debt instruments•
Credit guarantees•
Fund structuring•
Advisory services•
IFC also considers other options to promote microfinance on a case by case basis. These include working with commercial banks that want to move into microfinance and supporting local non-profit organizations that want to transform into licensed financial institutions.
ParTnering To CreaTe oPPorTuniTies
IFC's microfinance team works with partners that have considerable experience establishing new microfinance institutions in developing economies, including:
ProCredit Holdings•
Advans SA SICAR•
Access Microfinance Holding AG•
MicroCred Holding•
Accion International•
IFC, in addition, has a strategic arrangement with the German development bank Kf W to mobilize over $100 million to support the creation of new microfinance institutions across Sub-Saharan Africa.

our reach
IFC's support of microfinance in Africa started in 1997 with an equity investment in K-REP, a Kenyan microfinance institution that has since transformed into a commercial bank that still serves micro and small businesses. IFC expects its microfinance program to reach 22 countries by 2011.
1997 - 2006
Angola
Benin
DR Congo
Ghana
Kenya
Mozambique
Nigeria
2008
Cameroon
Tanzania
2007

1.9.2 South Asia
In South Asia, the modern microfinance movement was born in Bangladesh in the 1970s as a response to the prevailing poverty conditions among its vast rural population. Astonishing growth rates in Bangladesh, particularly during 1990s, created a new dimension for microfinance worldwide as microfinance institutions grew to include millions of clients. The start of the Twenty-first century reinforced this trend as the Bangladesh numbers continued to grow impressively; in India, a substantial microfinance system based on Self-Help Groups (SHGs) developed. Other countries of the region made slower and later starts but have since established active microfinance sectors. This working paper includes the following headings: the financial landscape and the emergence of microfinance; limitations and challenges; institutional structures and delivery systems; financing structures; product diversity; transparency and performance; impact and social performance; systems that support microfinance; and conclusions and future perspective.

1.10 LOCAL STATISTICS SCENARIO
1.10.1 Zambia
Micro Finance Zambia Limited is a registered deposit taking Non-Bank Financial institution regulated and supervised by the Bank of Zambia. The company's core business is the provision of credit facilities and various financial services to both the formal and informal sectors. As a wholly owned subsidiary of Atlas Mara Zambia, the company leverages on the strong brand and equity capacity of its parent company to deliver affordable products and services to the mass market and small and medium Enterprises. Our products include salary backed loans as well as facilities to small and medium enterprises and Gadget Financing. We endeavor to provide products and services to meet the market needs.
1.10.2 Kenya
Microfinance in Kenya consists of microfinance facilities and regulations in Kenya which has been developing since the mid-1990s. Legislation was passed in 2006 with the Micro Finance Act which became active in 2008. By 2010 there were more than twenty large micro finance institutions in Kenya, which provided US $1.5 billion to approximately 1.5 million active borrowers. With over 100,000 clients, Equity Bank Kenya had the largest share of business loans representing market share of 73.50% followed by Kenya Women Microfinance Bank with 12.06%. Most microfinance firms as in other countries have eligibility

criteria which may include gender (as in the case for special women's loans), age (at least 18 years of age), a valid Kenyan ID, a business, an ability to repay the loan and be a customer of the institution.
Corruption is a major problem in Kenya. In 2010 Kenya ranked 154th (out of 178) on the International Corruption Index.[1] Political riots such as during elections in year 2007, which led to violence and economic disturbance. As a result of this political risk, the Portfolio at Risk rate increased during the riots during the elections in 2007.[2] And infrastructure issues, where despite the economy having risen at a real growth rate of 4% in 2011, banking infrastructure remains weak.[2]

1.11 Significant of the study

This research will generate information to be used as basis for further research in to the contribution of reasons why borrower transaction costs, credit rationing and segmented markets affect micro credit markets in Malawi. The study will increase public awareness on how borrower transaction costs are charged to micro loans and how credit rationing affect MFI and the markets are operating in. This research will provide data to policy makers that will assist towards formulating for appropriate policy for policy maker's operation. This will permit specific plans and policies geared towards promoting.

1.12 Study limitations

The Political system of the areas where data will be collected will affect the data collection process since many project officials will be fearing giving information due to condemnation. However, the researcher will deal with this challenge by making a follow up activity and assurance of confidentiality in the usage of the information gathered.

1.13 Chapter summary

This chapter has explained the introduction of what the chapter contains, global, regional and local scenario, background of the study, research objectives and questions, the problem statement as well as significance of the study.

CHAPTER 2
Literature Review

2.1 Introduction

This chapter will presence the literature review by looking at the definition of terms and empirical evidence obtained globally and in local context. It is going to help in understanding the concept on the effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi. Small businesses are generally regarded as the driving force of economic growth, job creation, and poverty reduction in developing countries. Microfinance has been globally accepted as one of the credible tools to alleviate poverty and financial inclusion in developing nations (Chmelíková & Redlichová, 2020; Sun et al., 2020) Further, it plays an essential role in the provision of "micro" financial services to the financially excluded population, particularly the poor and the informal sector located at the Base of Pyramid (BoP) (Kasenge, 2011). Microfinance refers to the provision of financial services including micro-savings, micro-credit, working capital loans, consumer credit, pensions, micro-insurance, and transfer of payment services and remittances to the indigent population who live below the poverty line surviving on less than $1.25. Sataloff, Johns, & Kost, n.d. reiterated that MFIs could be non-governmental organizations (NGOs), savings and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions.
Likewise, Mutambanadzo, Bhiri, & Makunike (2013) described microfinance as the supply of financial services to an impoverished population who traditionally lack permission to financial services from conventional MFIs. The World Bank report of 2012 states that more than 75% of the poor populations globally who earn less than $2 per day are unbanked or do not use a formal financial institution due to their lack of stable income and absence of collateral (Kasenge, 2011).
They have been the means through which accelerated growth and rapid industrialization have been achieved. Koech (2011). Micro and Small Enterprises (MSEs) have been recognized as socioeconomic and political development catalysts in both developed and developing economies. Mwangi (2011). Maalu, et. al. (1999) discussed the role of Micro and Small Enterprises in the economy of Kenya and noted the important role it has played and continues to play. In addition to employment creation and income generation, the study noted other important roles in the economy such as production of goods and services and development skills.
A study by Cooper (2012) on the impact of microfinance services on the growth of SMEs in Kenya found a strong positive relationship between microfinance services and growth of SMEs. The Kenya Government's commitment to foster the growth of MSEs emerged as one of the key strategies in a 1986 report. It was reinforced as a priority in a 1989 report, a document that set out the mechanisms for removing constraints to growth of MSE sector. In 1992, the government published the MSE policy report. The study sought to address the main goal by answering the following research questions: 1) what are the effects of borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi? 2) What contributions do MFI responsible for reducing poverty among the general public? 3) What factors of ICT affect borrower transaction costs, credit rationing and segmented markets in Malawi? 4) What is the role of Reserve Bank of Malawi on borrower transaction costs, credit rationing and segmented markets in micro credit markets ion Malawi?

EMPIRICAL EVIDENCE

2.2.1 The effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets.

One of the main obstacles for the expansion of microcredit availability is the high transaction costs of credit operations for both lenders and borrowers. In order to decrease transaction costs, institutions adopt the solidarity groups lending system in order to transfer transaction costs to the group, making it assume a large amount of the risk. However, in Brazil, there are several microcredit institutions, such as Banco do Povo-Crédito Solidário, Vivacred, and others, which still adopt the individual credit lending system, instead of the solidarity system, and there are hardly any studies about the transaction costs to either the institutions or the borrowers. The success of microfinance group lending has led to an extensive and growing literature on the subject. The models of Stiglitz (1990), Besley and Coate (1995), Ghatak (1999) , Aghion (1999) and Aghion and Gollier (2000) show how Grameen type group lending with joint liability helps to mitigate the effect of information asymmetry between the lender and the borrower by exploiting the local information about the borrowers.

2.3.2 Credit Rationing

Credit rationing – a situation in which lenders are unwilling to advance additional funds to borrowers at the prevailing market interest rate – is now widely as a problem arising because of information and control limitations in financial markets. This article reviews various motivations behind research on credit rationing, recognized traces the history of theoretical efforts to explain how this phenomenon can persist in equilibrium, and reviews recent empirical research on its prevalence and effects .In the process, credit rationing is shown to be simply an extreme case of the more general problem of capital market misallocation. Broadly speaking, 'credit rationing' refers to any situation in which lenders are unwilling to advance additional funds to a borrower even at a higher interest rate. In the words of Jaffee and Modigliani (1969, pp. 850–1), 'credit rationing [is] a situation in which the demand for commercial loans exceeds the supply of these loans at the commercial loan rate quoted by the banks'. Key to this definition is that changes in the interest rate cannot be used to clear excess demand for loans in the market. In essence, this definition treats credit rationing as a supply-side phenomenon, with the lender's supply function becoming perfectly price inelastic at some point

2.3.3 Segmented Markets

Market segmentation is acclaimed as the heart and soul of marketing and unless a company spends time on it, driven from the board downwards, it is virtually impossible for the company to be market driven. The study sought to establish the segmentation practices by microfinance institutions in.Nairobi. The specific objectives of the study were: to identify the segmentation criteria commonly used by Microfinance institutions in Kenya, to identify variables used by Microfinance institutions in segmentation process and to determine the stages in segmentation process used by Microfinance institutions in Kenya. The study used primary data that was collected by use of a questionnaire and mode of collection was by personal interviews. The data was obtained from all the forty institutions forming the population of interest. It was then analyzed using descriptive statistics. Findings of the study reveal that Microfinance institutions have different segmentation practices, which are segmentation criteria, requirements for effective segmentation, and the segmentation practices. In view of the study's findings, the following recommendations have been made: The Micro and small enterprise (MSE) sector is very important for the development of this country, currently, and thus a lot of effort should be put in assisting the owners of these businesses to acquire more of the working capital, investment capital and other tools for their business. They therefore require all the support they can get form the Microfinance institutions and other capital providers. On the other hand, the Microfinance institutions are very important in assisting the MSEs. The use of market segmentation may help the Microfinance institutions to develop products, which will satisfy their customer's needs, and this will increase the productivity of the MSE'S. It is documented that the main constraint to MSE development is capital accessibility. The micro finance institutions should therefore be at a position to have a deep understanding of the market, and have creative segmentation and selection criteria. The micro finance advisors should train their clients on market segmentation practices. The variables commonly used by Microfinance institutions in the market segmentation were found to be: the nature of the industry, the location of the enterprise, cash-flow of the enterprise, client capability in terms of ability to repay the credit, the purpose which is either investment capital or working capital, size of the credit facility, the lender-borrower similarity, character of the proprietor, as well as material payment mode by the enterprise which could either be by cash or credit. The commonly used criteria by the micro finance institutions is that: a good market segment is measurable, identifiable, actionable, responsive, substantive, stable, substantial, compatible and differentiable. A market segmentation process should involve a clear identification of needs by the potential clients and should go through three main stages namely: survey stage, analysis stage and profiling stage. Microfinance institutions that are contemplating market segmentation can benefit from these findings. Still, each firm should carefully analyze its individual objectives, constraints, strengths, weaknesses and resources to determine its segmentation strategy. Policy makers should focus on the commonly used segmentation variables, criteria and process in order to develop the Microfinance institutions and attain industrialization by the year 2020. The development of this sector is very important to the government. Scholars should put more emphasis on the segmentation criteria, variables and process in the Microfinance institutions so as to add more to the existing knowledge. The study was only done for the Microfinance institutions in Nairobi while we have other urban areas in Kenya. The results of these findings are therefore applicable to the Microfinance institutions in Nairobi only. Secondly, no secondary data could be found pertaining to the use of market segmentation in Microfinance institutions in Kenya. This study mainly dwelt on the market segmentation in Microfinance institutions and was mainly interested in establishing the segmentation practices by Microfinance institutions in Kenya, with specific reference to Nairobi. Further studies can be done on Microfinance institutions in rural areas, to identify their market segmentation practices Also, studies can be done to establish the performance of Microfinance institutions that segment their markets.

2.3.4 Lack of knowledge of micro finance issues.

Over 75% of the loan products in Malawi are directed to business activities and a range of different lending methodologies are employed. The Price Graph shows that smaller loans are higher in price than larger loans. The data indicates that products with higher prices are being advertised in a less transparent way.

The interest rate calculation method used for microloans in Malawi is predominantly the flat interest rate, observed in 60% of the products analysed Additional charges in the form of fees and insurance are common, yet disclosure of these charges on repayment

schedules are rare – the availability of individual repayment schedules designed for clients is limited, highlighting the difficulty faced by many microloan borrowers in understanding and comparing cost of loans. Microloan prices seen in Malawi varied by the type of institution, the purpose of the loan and geographic location of the microloan borrowers.
In this graph, the y-axis indicates the "Full APR", defined by MFTransparency as the price including interest and all required fees, insurance, taxes and security deposits. This full price is then annualized with a nominal compounding procedure. For additional price calculations please click on the institution name in the table below

2.4 CONCEPTUAL FRAMEWORK

2.4.1 Conceptual scope

This study will be restricted on the assessment of the **effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets.**

2.4.2 Geographical scope

The research will take a sample of data from micro finance institutions and the general public i.e. the borrowers with the aim of underlying effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi in all major cities and rural areas.

2.4.3Time scope

The study will cover a period of one year (2023) and it will be in two phases thus Project Viva Voce Phase 1 and Phase 2.

2.5 RESEARCH GAP

Although several Interventions and strategies were made to address some problems hindering the success of MFIs, expertise of the workers and relationship with stakeholders affects a project but it is still paramount to look into the effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi in all major cities and rural areas**.**

2.6 -CHAPTER SUMMARY

The above is the chapter one which explained the introduction chapter two, definition of terms as well as the empirical evidence of the study. These were all explained in line with the project topic.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter will explain research design and methods, location of the study, target population, sampling methods, sample size, research instruments, construction of research instruments, data collection procedure, pilot study, validity and reliability of research instruments, data presentation and analysis, limitation of the study, ethical consideration and chapter summary.

3.2 RESEARCH DESIGN AND METHODS

Research design can be defined as any given arrangement of situation included in data collection and analysis with a key goal of combination research purpose to relevance of the study (Kothari, 2004). However, they are different types of research designs which are descriptive, analytical, fundamental, explanatory and experimental.

Descriptive research design

When describing an individual or a place or a thing, descriptive writing is often chosen by the writer to present the complete feeling to the reader. This requires choosing rich language and heavily loaded words full of metaphors to present before the reader a vivid image as if he was there to witness the scene of writing. Though some pieces are purely descriptive in nature, this style of writing is often a prelude to other styles of writing as an introduction. On the other hand, analytical is again a type of research design which dwells much on the evaluating and comparing features and it goes beyond merely describing an event, a person, or a thing. Why, what, and what next are the questions that are best answered with this style of writing. One needs to learn how to present his content in an argumentative manner. This requires knowing how to reason and present evidence to the reader. The basic purpose of analytical writing is not to provide information or facts to the reader but to examine the facts and to compare and evaluate them to pass a judgment.

Experimental research design

Experimental research is any research conducted with a scientific approach, where a set of variables are kept constant while the other set of variables are being measured as the subject of experiment. The simplest example of an experimental research is conducting a laboratory test. As long as research is being conducted under scientifically acceptable conditions. A true experimental research is considered to be successful only when the researcher confirms that a change in the dependent variable is solely due to the manipulation of the independent variable. It is important for an experimental research to establish cause and effect of a phenomenon, which means, it should be definite that effects observed from an experiment are due to the cause. As naturally, occurring event can be confusing for researchers to establish conclusions. Experimental research is conducted in a scenario like when time is a vital factor for establishing a relationship between cause and effect.

Fundamental research design

Fundamental research, also known as basic research or pure research and does not output results which have immediate applications in a practical level. Fundamental research is driven by curiosity and the desire to expand knowledge in specific research area. This type of research makes a specific contribution to the academic body of knowledge in the research area. The purpose of this type of studies can be known as gathering knowledge for the sake of knowledge. They mainly aim to answer the questions of why, what or how and they tend to contribute the pool of fundamental knowledge in the research area.

Explanatory research design
Explanatory Research is conducted for a problem which was not well researched before, demands priorities, generates operational definitions and provides a better-researched model. It focuses on explaining the aspects of your study in a detailed manner. The researcher starts with a general idea and uses research as a tool which could lead to the subjects that would be dealt with in the incoming future. It is meant to provide details where a small amount of information exists for a certain product in mind of that researcher.
However, this project is going to use descriptive research design because it is described as studies that are concerned with finding out the result. It attempts to gather quantifiable information that can be used to statistically analyze a target audience or a particular subject. Descriptive research is used extensively in social science, psychology and educational research. It can provide a rich data set that often brings to light new knowledge It is particularly useful when it is important to gather information with measure large numbers of samples. It allows researchers to observe natural behaviors without affecting them in any way.

Types of Research Method
Jonathan (2014) defined Research methodology as the approach and strategy used to conduct a research (Jonathan, 2014, p. 2). He continued to add that methodology involves everything from your theoretical application to the collection and analysis of your data.

Qualitative Method
According to Sekeran (2003:13) qualitative research is defined as an inquiry process of understanding a social or human problem based on building a complex, holistic, picture, conducted in natural setting.

Advantages of qualitative method
According to Denzin (1989) qualitative research approach produces the detailed description of participant's feelings, opinions and experiences and interprets the meaning of their action.
According to Maxwell (2012) qualitative research design has a flexible structure as the design can be constructed and reconstructed to as greater extent.

Disadvantages of qualitative method
According to Silverman (2010) qualitative research approaches leave out contextual sensitivities, and focus more on meanings and experiences.
According to Harry and Lipsky (2014) in terms of research method, smaller, sample size raises the issue of generalizability to the whole population of the research. Lan (2015) admitted that due to the small sample size the study results do not wish to claim wider generalization to other contexts.

Quantitative Research
Bryman (2012) defined quantitative research as a strategy that emphasizes quantification in the collection and analysis of data. Quantitative research denotes amounting something.
According to Sekeran (2003:13) defines quantitative research as an inquiry into a social or human problem based on testing a theory composed of variables, measured numbers and analyzed with statistical procedures, in order to determine whether the productive generalizations of the theory hold true.

Advantages of quantitative Method
According to Carrie (1994) the quantitative findings are likely to be generalized to a whole population or a sub population because it involves the larger sample which is randomly selected.
Connolly (2007) also reported that quantitative method data analysis is less time consuming as it uses the statistical software such as SPSS and excel package.

Disadvantages of quantitative Method
Quantitative research approach has a tendency of taking a snapshot of a phenomenon. It measures variables at a specific moment in time, and disregards whether the photograph happened to catch one looking ones best or looking unusually disarranged (Schofield, 2007).
Another limitation of quantitative research is that the positivism cannot account for how the social reality is shaped and maintained, or how people interpret their actions and others (Blaikie, 2007).
This study used quantitative research method since it is descriptive in nature.

3.3 Target Population
Arty, at el (2006) defines the term population as the larger group to which a researcher wishes to generalize and it includes all members of a defined class, event or objects. The study will target those experts working in monitoring and evaluation of project
3.4 Sampling
3.4.1 Sample size
The sample size of 100 respondents will be used to collect data.

3.4.2 Sampling technique
This study will use simple random sampling whereby the respondents will be selected randomly without bias.

3.5 METHODS AND TOOLS FOR COLLECTING DATA
This study will use questionnaires. The questions and writing answers was delivered to them and the respondents chose from the provided options. The survey questionnaires were pre tested to 10 Managers in from different departments in order to allow some questions that was difficult to be rephrased. Questions that did not add value to the answering of the researcher was removed.

3.6 Data Analysis
Data presentation is the process of presenting data that has been collected, which has to be classified and organized in such a way that it becomes easily readable and interpretable, and converted to information. (Hughes, 2015). Data can be presented in tables, charts, diagrams or graphs. Data analysis is the process of bringing order, structure and meaning to the mass of collected data (Marshall 2020). Data collected from this study will be presented through bar graphs and tables. This is because data was analyzed quantitatively, another reason of presenting data in tables and bar graphs is that it caused the reader to be able to capture easily the meaning of the study without problems.

3.7 ETHICAL CONSIDERATION
Both respondents and participants were assured of their safety and constitutional right to confidentiality on any information that was gathered by the researcher. The information was handled in anonymity and any inconvenience that may arise due to information will be attributed to the researcher. There was told in advance on the information they will provide and how beneficial to them, community and the nation at large in as far as development is concerned. They were also given a provision to withdraw their participation in the study if they felt that their rights were being violated.

3.8 Chapter Summary
This chapter has discussed the methodology and design that guided the researcher. The study considers quantitative approach and questionnaire. The sample size was 100. A pilot study will be done to some respondents. Data collected will be analyzed using Statistical Packages for the Social Sciences (SPSS). Issues of validity and reliability on data collection instruments was tackled together with ethical consideration.

CHAPTER 4
DATA PRESENTATION AND INTERPRETATION

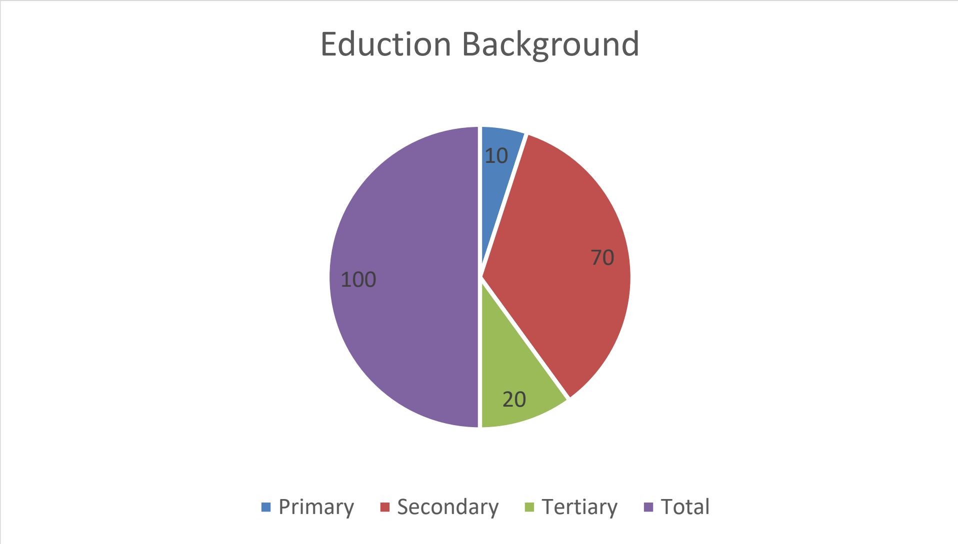
4.1 INTRODUCTION
This chapter depict the analyses of data, presentation and interpretation. The data from 100 participants was analyzed using SPSS, presented into graphs and then interpreted to explain more reasons on that.

4.2 RESPONSE RATE
The study was conducted to assess the effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi. A sample was drawn from respondents. A total of 100 questionnaires were distributed to them whereby all of them were answered which represents 100% of the response rate.

4.3 EDUCATION BACKGROUND
Out of 100 respondents 40% were of University graduates who specialized the field of commerce, management and economics. 50% were only secondary school certificate holders while 10% were from primary level. They acted as supporting staff when it comes to any work related to MFIs and the general public. This means that respondents were slightly better educated however most respondents from general public the borrowers were least educated hence cannot easily understand the concept and provide meaningful information about the study. This information can easily be illustrated in the table and histogram below.

Table 4.3.1

	Frequency	Percentage
Primary	10	10
Secondary	70	70
Tertiary	20	20
Total	100	100%



4.4 LEVEL OF EXPERIENCE

The figure below shows the level of experience of data collected from different respondents. It denotes that 25 respondents were having experience of 1 to 2 years which represents 50 %, 5 were having 3 to4 years, 6 respondents with 5 to 6 years which represents 12%,5 had 7 to 8 years which represents 10 % and 9 respondents with more than 9 years were represented by 18%. This means that more respondents were from those with a limited number of experience. This information can easily be shown below.

Table 4.3.2

	Frequency	**Percentage**
1 to 2 years	50	50
3 to 4 years	10	10
5 to 6 years	12	12
7 to 8	10	10
Above 9	18	18
TOTAL	100	100%

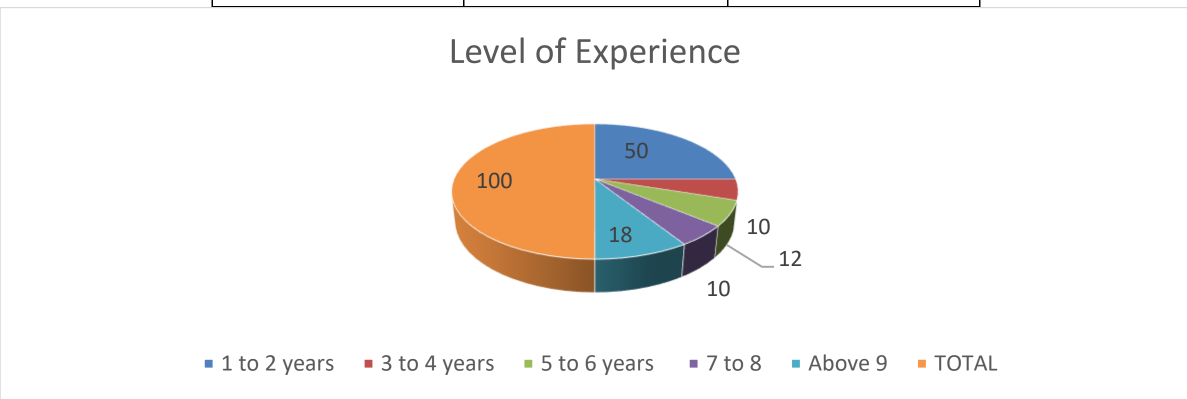


Figure 4.3.1 shows the level of experience

4.5 RESEARCH OBJECTS

4.5.1 To find out the effects of borrower transaction cost, credit rationing and segmented markets on micro credit markets in Malawi.

The figure below shows that 75% of the participants agreed that **borrower transaction cost, credit rationing and segmented markets** affect the micro credit markets in Malawi. Some respondents added that some of the main factors that affect the micro credit markets are business environment like Political, economic, Social, technological, legal and environmental. 25% disagreed stating that with government policies and restrictions on the operation of MFIs it is very hard for the business men to recognize the need to access the micro loans while 5% of them were not sure about the borrower transaction costs, credit rationing and segmented markets that they affect the MFIs and the borrowers in Malawi.

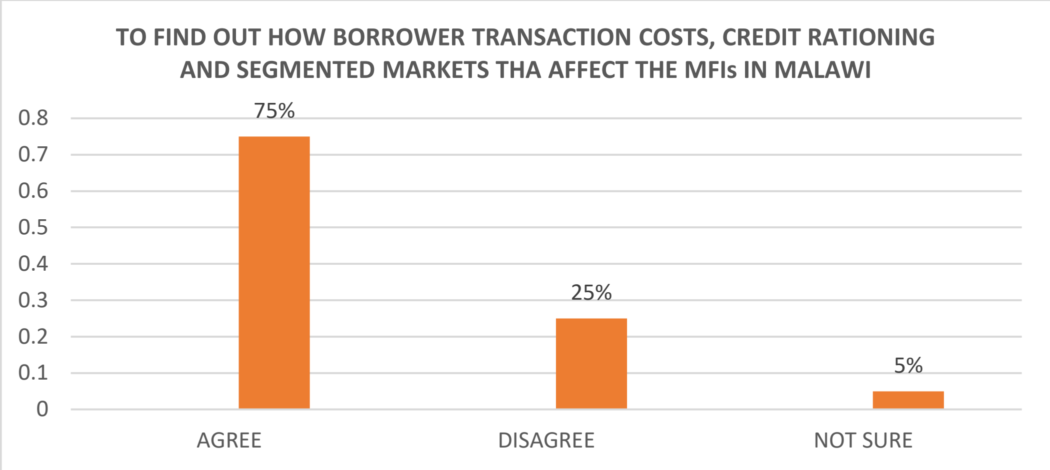


Figure 4.5.1 factors affecting micro finance institutions in Malawi.

- **4.5. 2 To assess the effects of borrower transaction costs on micro credit markets in Malawi**
  The figure below depicts that 75% of the participants strongly disagreed on the fact that borrower transaction costs are fair to be capitalised to the principal amount. 25% disagreed on the standardised of borrower transaction costs by the Reserve Bank of Malawi. While 5% of them were not sure about the effects of borrower transaction costs on micro credit markets on MFIs.

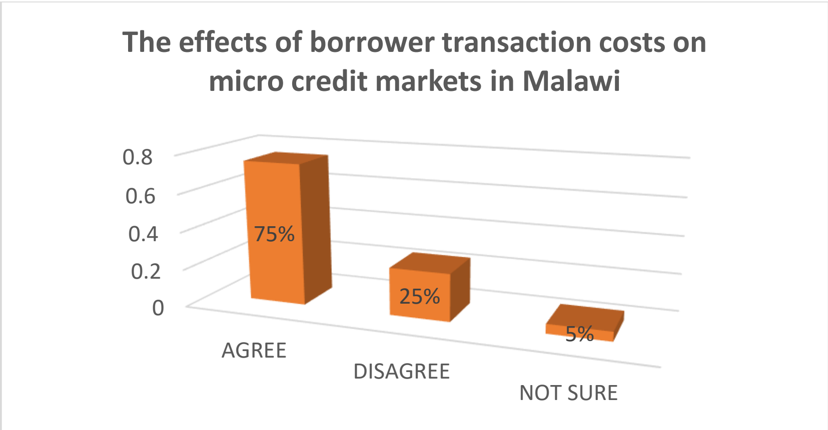


Figure 4.5.2. An assessment of effects of borrower transaction costs

4.5.3 To examine how credit rationing affects micro credit markers in Malawi.

The figure below shows that 85% of the participants agreed that credit rationing is used by most MFIs to limit the supplier of additional to the borrowers. 10% did not agree to that credit rationing is used by most MFIs to limit the supplier of additional to the borrowers, and the last 5% were not sure about credit rationing is used by most MFIs to limit the supplier of additional to the borrowers.

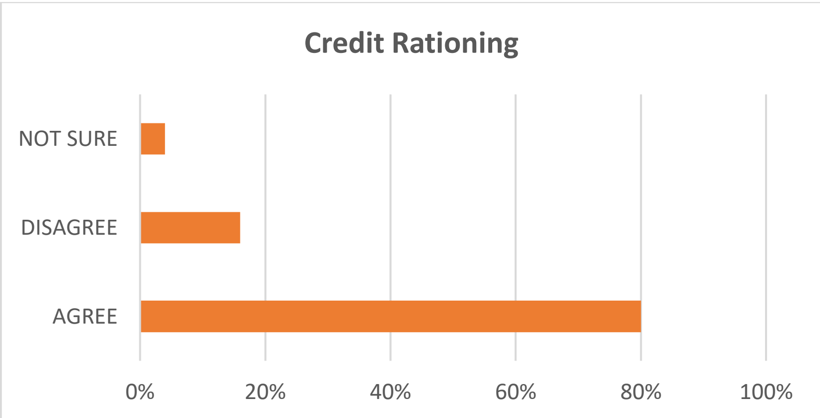


Figure 4.5.3 To examine how credit rationing affects micro credit markets in Malawi.

4.5.4 To examine the relationship between segmented markets and the growth of IMFs in micro credit markets in Malawi.

The figure below shows that 80% of the participants agreed that there is a bond between segmented markets and growth of MFIs.

15% disagreed on the ground that there is a relationship between the management policies and the growth of MFI, while 5% of them were not sure about the relationship between the two.

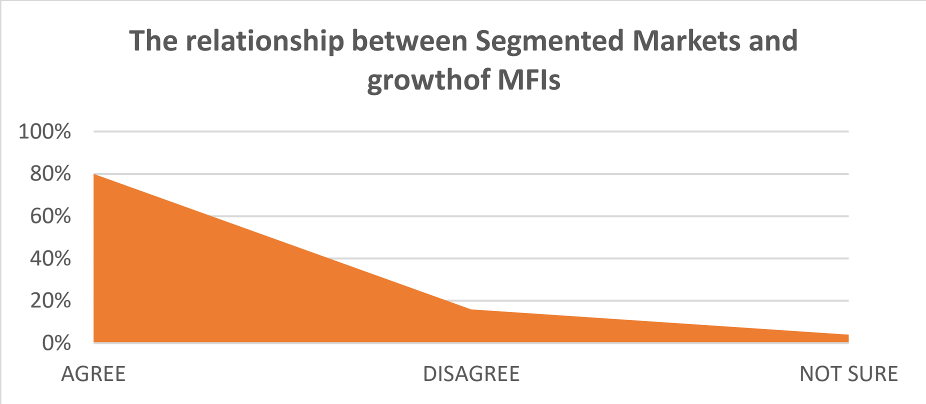


Figure 4.5.4 Relationship between segmented markets and MFIs.

4.6 CHAPTER SUMMARY

This chapter has discussed the analyses, presentation and interpretation of data. The data was analyzed using SPSS. It was presented into graphs and then interpreted to give a concrete meaning.

CHAPTER 5
CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

The aim of this research work was to assess on the effects of the borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi: A study in micro credit markets in Malawi, bases on the survey findings presented and discussed in the chapter 4, the following conclusion have been drawn and recommendations formulated in order to lay out a way forward for micro finance institutions and the general public in Malawi on micro credit markets in Malawi to follow so that they can consider effects of borrower transaction costs , credit rationing and segmented markets on growth of micro credit markets and fair charges of borrower transaction cots on loans to general public and MFIs should take that into consideration when running their business. As no research is ever 100% accurate, the limitations of the study are highlighted and suggestions for future research need were made.

5.2. Findings

The main objective of the study was to assess the effects of borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi: A study in micro credit markets in Malawi Based on the data collected from 100 respondents which represented all of them who were involved in the research as presented in chapter four, the following conclusions have been drawn by the researcher. The majority of the respondents amounting to 75% supported that 75% of the participants agreed that **borrower transaction cost, credit rationing and segmented markets** affect the micro credit markets in Malawi. In their argument they said that MFIs micro credit to the general public and SMEs, helps rural masses to access low interest micro loans by alleviating poverty, helps keep business operating by providing support through different products that suit economic environments.
The report also found out that borrower transaction costs are higher in Malawi as compared to neighboring countries such as Zambia, Mozambican.

5.3 Suggestions and recommendations

From the research findings, the following recommendations can be made to be the used on the impact of
Borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi. This is so because running MFIs have their own demands and challenges, some of which are business growth and financial risks.

- An awareness campaign or programs have to be conducted to the MFIs in order for general public to know more about borrower's transaction costs, credit rationing and segmented markets on micro credit markets in Malawi.
- The MFIs should introduce the schemes that are favorable to the SMEs and general pubic
- MFIs should revise the interest rate on the schemes given to the SMES and general public so that borrower transaction costs should be reduced.

Recommendations for Further Studies

The study is a milestone for further research in the field of uptake of borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi. The findings demonstrated the important factors to uptake of MFIs to include; borrower transaction costs, credit rationing and segmented markets on micro credit markets in Malawi. The current study should therefore be expanded further in future in order to determine the effect of strategic legal framework on uptake of MFIs. Existing literature indicates that as a future avenue of - 1065 - | The Strategic Journal of Business & Change Management. ISSN 2312-9492(Online) 2414-8970(Print). www.strategicjournals.com research, there is need to undertake similar research in other areas in Malawi and other countries in order to establish whether the explored factors can be generalized to affect uptake of micro finance institutions in Malawi.