EFFECT OF CREDIT COLLECTION STRATEGIES ON PERFORMANCE OF MICROFINANCE BANKS IN KENYA

Submitted

BY

MAINA BENSON MACHARIA

MBA/LMR/ 1895 /13

A Dissertation Submitted in Partial Fulfillment of the Requirements for the Award of Master of Business Administration (MBA) Degree from St. Paul's University, School Of Business and Communication, Limuru Campus

September, 2017

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SUPERVISORS:

1. Dr John Muhoho
2. Dr Job Omagwa

September, 2017

DECLARATION

Declaration by the Student

This dissertation is a product of my own work and is not the result of anything done in collaboration. It has not been previously presented to any other institution. I agree that this project may be available for reference and photocopying at the discretion of the University.

SIGNATURE…… DATE……..

BENSON MACHARIA MAINA

MBA/LMR/ 1895 /13

I/we confirm that the work reported in this project has been done by the student under my/our supervision

SIGNATURE …… Date ……

Supervisor 1,

Dr John Muhoho

SIGNATURE …… Date ……..

Supervisor 2,

Dr Job Omagwa

ABSTRACT

Microfinance banks' major focus is mobilizing deposits from the public and lending the resources to borrowers with the aim of maximizing their returns in order to be guaranteed of their own sustainability and meeting the stakeholder's obligations. In the process, they assume various risks which directly affect their general performance threatening the future of the banks. The main purpose of this study was to establish the effects of the credit collection strategies on the performance of Microfinance banks in Kenya. The study was guided by the following specific objectives: to determine the effect of loan portfolio monitoring , to determine the effect of credit information sharing , to establish the effect of legal framework in debt collections and to establish the effects of external debt collection on performance of microfinance banks in Kenya. Census survey was adopted as the best research design. The study targeted 12 microfinance banks registered and licensed by Central Bank of Kenya as at 31st December, 2015.Purposive sampling technique was used to select the 56 respondents drawn from the credit department. Secondary data was collected from the banking annual and supervision reports (2011-2015), Association of microfinance institutions of Kenya annual reports and the microfinance banks' audited financial reports. Questionnaires were used as the research data collection instrument which comprised of both open and closed ended questions. The data was analyzed using descriptive and inferential statistical tools and presented using figures, tables and charts. The Pearson's simple correlation (r=.824) indicates a strong positive correlation between credit collection strategies and the performance of microfinance banks in Kenya. Further, the study findings revealed that significant majority of the banks had an operational credit collection strategy in place which influenced the banks performance greatly. The study also found that an effective credit collection strategy translates to high profitability of the bank since it leads to low credit risk and portfolio at Risk (P.A.R).Credit information sharing during debt collection was found to have a significant influence on performance of microfinance banks. The study concluded that the banks' had an operational credit collection strategy in place which affected their performance. External debt collection, Legal framework in collections and loan portfolio monitoring had insignificant effect on microfinance banks performance. It is recommended that embracing of information communication technology (ICT) in credit management should be a priority for microfinance banks since the new technology will help in automation of many tasks in the credit department and minimize the collection efforts. The study further recommends that the microfinance banks should embrace credit information sharing to help them recover loans, especially when borrowers know that their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts. The researcher further recommends that the microfinance banks should embrace credit information sharing more to help them recover loans, especially when borrowers know that their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts. On the other hand, the microfinance banks management must ensure regular and periodical reviews on credit collection strategies are done to make it more effective. The credit market is always dynamic and may render the existing strategies obsolete hence affecting debt collection and performance of the banks. The researcher focused on microfinance banks regulated by central bank of Kenya and therefore recommends a further study based on the variables under study and their effects on performance of non-deposit taking microfinance institutions in Kenya

DEDICATION

I dedicate this project to my wife, Anne and my son, Boaz for their moral support and encouragement throughout the entire project. Thank you for being patient and understanding while I was working on the project. To my parents James and Rose, thank you for your love and supporting me all the way since the beginning of my studies, you're inspiration and motivation to me.

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ABBREVIATIONS AND ACRONYMS

AMFI	Association of Microfinance Institutions
CBK	Central Bank of Kenya
CRB	Credit Reference Bureau
DPFB	Deposit Protection Fund Board
ICT	Information Communication Technology
IMF	International Monetary Fund
IFC	International Finance Corporation
KWFT	Kenya Women Finance Trust
MFB	Microfinance Bank
MFI	Micro finance Institution
MIX	Microfinance Information Exchange
MRP	Money Remittance Providers
NPA	Non-Performing Account
NPL	Non-Performing Loans
PAR	Portfolio at Risk
RMB	Rafiki Microfinance Bank

OPERATIONAL DEFINITION OF TERMS

Assets-Items owned by a business that has a measurable value and is expected to be of economic value.

Credit Policies They are rules set by the microfinance institutions to govern loans issuing.

Credit risk-The risk of loss due to non-payment of a loan or other credit

Debt-Amount owed to an organization as borrowed funds.

Past due-This is a loan installment that has not been paid at the period stipulated in the loan contract

Delinquency-Refers to a situation where the loan advanced is past due. The payments are in arrears since the borrower has failed to honor the payment obligation at stipulated time

Arrears-Refers to late payment, partial or skipped payment

Default-Failure by a borrower to meet a scheduled loan payment on a timely basis or comply with other conditions of an obligation or agreement.

Performing portfolio-The loans advanced are current and consistently being paid in time. Interest and principal amount is paid as per the schedule.

Provision-A liability in the balance sheet, where the amount or possibly timing of liability is uncertain. When provision is created or increased in amount, there is an equivalent charge in the income statement.

Non performing portfolio-The loans advanced are in default. The loans advanced are not consistently paid in time. Interest and principal amount are overdue as per the schedule

Principal-The amount borrowed on a credit and owed to the lender, excluding the interest and other charges.

Gross loan portfolio-This is the outstanding principal balance of all the microfinance loans including the delinquent and restructured loans.

Portfolio at Risk-It's a situation where some or all loans are in arrears or delinquent.

Microfinance Banks-They fall under central bank of Kenya regulation applicable to regular financial institutions such as commercial banks

Non-deposit-taking microfinance institutions-They are not regulated or covered by specific microfinance regulations.

Community Based Microfinance Institution-Institution Restricted to carry out deposit taking microfinance business within one Government administrative division or any other specified region as CBK may deem appropriate.

Nationwide microfinance institution-Institution licensed to carry out deposit taking microfinance business in any part of Kenya.

Write-off-An accounting process in which the amount owed is recognized as irrecoverable, and a loss is recognized in the income statement.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

According to UN (2013), Microfinance is the provision of a variety of financial services to the poor, low-income people and micro and small enterprises that lack access to banking and related services vital, in empowering communities. Many development experts agree that microfinance, when properly harnessed and supported can economically empower individuals and small enterprises that in turn contributes to economic growth. Ledgerwood and White (2006) on the other hand refers microfinance to provision of financial services but not exclusively savings and credit to the poor households that do not have access to formal financial institutions.

Amin & Sheikh (2011) further describes Microfinance as an economic development approach that involves providing financial services through institutions to low income clients where the market fails to provide services. The services provided by microfinance institutions include credit saving and insurance services. Other MFI's (Microfinance Institutions) provide social intermediation services such as training and education, organizational support, health and skills in line with development objectives.

Providing credit is one way of enabling the poor to acquire assets and become productive. Targeted programs for the poor were initiated in 1976 when Muhammad Yunus, a Bangladesh economic professor engineered a project to experiment the credit worthiness for the poor and whether credit can be extended without collateral. After seven years of experimentation with a variety of group-based mechanism, Grameen bank was established in 1983 forming part of great history of microfinance evolution worldwide (Amin & Sheikh, 2011).

Another micro credit organization providing small loans to rural poor without collateral is the Irish Loan Fund system which was initiated in the early 1700s by Dean Jonathan Swift. His idea began slowly but by the 1840s, it became a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak, they were making loans to 20% of all Irish households annually (Hollis & Sweetman, 1996).

In Africa, evidence has shown microfinance is an indispensable financial service sector which supports the development plans through channeling of funds for productive purposes and in supporting financial and economic policies of the government in the environment the financial institutions operate in. UN (2013) shows that microfinance in Africa is developing at all the three levels of the financial system-the micro (financial service providers), meso (support service providers) and macro (policy regulatory framework and supervision). At the micro level, there are many stakeholders and growing interest from banks and private investors.

On the other hand, the MIX (Microfinance Information Exchange) cross market annual analysis report done in Kenya showed an increment in demand for loans and borrowing with an outstanding number of loans standing at 11,997 and 14,461 in 2012 and 2013 respectively. Despite this trend in borrowing, the provision for loan impairment in Kenyan MFI's also rose from 0.85% in 2012 to 1.29% in 2013 due to increased NPAS in the sampled MFIs. During the same period, the loan loss rate rose from 0.39% to 1.13%.To add on this, the 90 days portfolio at Risk (PAR) for the period under reporting rose from 3.32% to 4% in 2012 and 2013 respectively raising alarm on the risk factor in lending in the microfinance sector (MIX, 2012 and 2013).

In comparison, a banking sectorial distribution of loan accounts, gross loans and non-performing loans indicated that the personal loans accounted for 26 percent of the banking sector credit, 25 percent of the NPLs (Non-Performing Loans) and 83.6 percent of the sector loan accounts in 2014.In the subsequent year, personal loans accounted for 25.45 percent of banking sector credit, 17.71 percent of the NPLs and 91.87 percent of the sector loan accounts. The absolute gross NPLs stood at 27.47 and 26.09 Billion respectively showing a slight improvement but the trend is still worrying and posing a threat to financial institutions. (CBK, 2014 & 2015).

In spite of the microfinance playing a pivotal role in financial inclusion, poverty alleviation and economic development, the chance that a microfinance institution may not receive its money back from the borrowers is the most common and often the most serious vulnerability in MFI's today due to the nature of business microfinance banks undertake.

1.1.1 Credit Collection Strategies

In the wake of challenging credit market, the leadership and management of microfinance banks ought to craft strong collection strategies to minimize on bad debts. Adams (2016) argues that effective debt collection provides lenders with latitude to continue extending credit to consumers and the institution to remain solvent. In addition, it helps in reducing passing of costs of both monetary loss and risks to consumers by ensuring effective realization of defaulted loans. Kairu (2009) further argues that a key requirement for effective and efficient credit management is the ability to intelligently manage and monitor customer credit lines at all times. In order to minimize exposure to bad debts, financial institutions must have a greater insight into customer financial strength, credit score history and changing payment patterns

Pandey (2008) argues that Microfinance Institutions and other financial institutions must develop a credit policy. This tool helps in governing their credit management operations owing to the fact that these institutions generate their huge portion of the total revenue from credit extended to individuals in the form of interest charged on the funds granted and considering that the loan repayments may be uncertain. However, it has been argued (Austin & Kisielius, 2010) that credit collections should be leveraged as an instrumental customer retention tool and capable of augmenting contributions to an institution financial health and performance. The ability to retain customer is essential to meeting new market and regulatory pressures that are making customer acquisition more costly and increasingly risky.

Adams (2016) further proposes that debt collection and recovery process may be very involving and overwhelming if any organization tends to do it by itself. It is prudent to involve a third party to undertake this risky task, preferably an established and professional debt collector who can carry out this process maintaining ethical standards. An engagement of a third party will therefore dictate that you seek legal advice from a lawyer to avoid potential lawsuits that may arise during recovery of bad loans.

1.1.2 Performance of Microfinance Banks in Kenya

According to Ombaba (2013), the success of any bank or microfinance is based on the profit made and the quality of the loan portfolio it possesses which are critical to its growth and sustainability in spite of its social objective of lending to various sectors and employment creation above others. Therefore a major threat to growth and sustainability of these financial institutions is the prevalence of non-performing loans which eats on the banks' profits posing a threat to the organization stability and liquidity due to provisions for bad debts.

In the wake of the crisis, the microfinance banks and other financial institutions must come to realization that retail operations forms an important source of funding for the asset side of balance sheet and hence the need to balance the loan products and increasing the deposit size (Tracey, 2011).Over the last few years, the microfinance sector has experienced a positive growth in assets, deposits, profitability and products offering contributed by integration and automation of information communication technology in products development and branch network expansion. Players in this sector have experienced a tight competition which has yielded to innovation and even licensing of new entrants to the market (CBK, 2015)

However, the sector has not been spared threat of high credit risk in form of Non-performing loans. The financial institutions have to rethink and tighten their credit standards and scoring for customers especially in the personal or household sectors aimed at mitigating high default rate. The gross non-performing loans (NPLs) increased by 31.6% from Ksh.77.3 billion in June 2013 to Ksh.101.7 billion in June 2014. Similarly, the ratio of gross NPLs to gross loans increased from 5.3% in June 2013 to 5.7% in June 2014 (CBK, 2014).

1.1.3 Credit Collection Strategies and Performance of Microfinance Banks

According to Migwi (2013), loan collection process is a set of coordinated, appropriate, and timely activities aimed at full or partial collection of loans from clients. The process is intended to convert the MFI's receivables into liquid assets as quickly and efficiently as possible, while at the same time maintaining the goodwill of the borrower in case of future transactions. The standards and procedures of this process are usually elaborated in a financial institution credit collection policy. Debts occurring to an MFI as a result of delinquency and default have negative effect on MFI loan portfolio. It is therefore important

to have an effective debt management or collection policy which makes collection procedures easier to be followed by credit officers or those involved in recovery of arrears (Kairu, 2009).

Ledgerwood and White (2006) notes that MFI's that mobilize savings from the public need to protect savers funds from risks such as loan default arising from Non-performing loans. The measures may include putting into place effective procedures for borrower's selection, reporting systems and loan recovery procedures where (Rouse,2011) holds an opinion that loan monitoring standards needs to be sustained across the economic cycle and should not be relaxed in good times or over-tightened in bad times. The management strategies must be able to spot portfolio deterioration and the quality of reaction but mostly avoid a panic reaction to the situation.

It's worth noting that any organization engulfed in a bad debt trend will be exposed to sluggish growth rate and the scenario affects greatly its profitability and cash flow trend in the long run. An escalating nature of bad debts and non-performing accounts which remains uncollected usually forces the organization to lock horns with the borrowers which may even lead to a legal tussle to ensure the accounts are regularized. The process may take longer than expected and is also costly which can even discredit the organization brand in the market.

1.1.4 Micro Finance Sector in Kenya

As at December 2015, The Kenyan banking sector comprised of the Central Bank of Kenya as the regulatory authority, 42 commercial banks, and 1 mortgage finance company, 12 microfinance banks (MFBs), 3 credit reference bureaus (CRBs), 15 money remittance providers (MRPs), 80 foreign exchange (forex) bureaus and 8 representative offices of foreign banks (CBK, 2015).

There has been a considerable growth in the number of microfinance banks in Kenya as per the CBK statistics which recorded 10 MFBs in 31st March, 2015 compared to 12 MFBs in 31st March, 2016 licensed as either community based or national wide entity with private ownership. The microfinance banks are further classified into three peer groups namely large, medium and small on a weighted composite index which comprises of assets, deposits, capital, number of deposits and loan accounts. The weighted composite index therefore defines the market share of the MFBs (Microfinance Banks) where a large microfinance bank controls a market share of 5 percent and above whereas a medium MFB is defined by a market share between 1 per cent and 5 per cent. On the other hand, a small MFB has a market share of less than 1 per cent (CBK, 2016).

As at 31st December 2015, there were only 3 large MFBs with an aggregate market share of 92.26 per cent, one medium MFB with a market share of 3.79 per cent and 8 small MFBs with an aggregate market share of 3.95 percent (CBK,2015).The stability of banking and microfinance is a prerequisite for economic development and the two cannot be separated as supported by AMFI annual report (2013), which showed a trend in growth of microfinance sector by reaching out to 832,794 active borrowers with a gross loan portfolio of Ksh.49.1b achieving a 15.7% annual growth. On the other hand, MIX (Microfinance Information Exchange) analysis on the number of micro enterprises financed by MFI's in Kenya showed 16,470 micro-entrepreneurs' were financed in 2010 from a sample of 6 MFIS in Kenya (MIX, 2010).

1.2 Statement of the problem

Most financial institutions engaging in lending have been quoted as being over burdened by Non-performing loans which now runs into millions of shillings. But not only do the MFB's have a huge challenge on their hands to collect debt, they also have to do it against a

dynamic and changing environment they are operating in hence a need for effective and efficient collection strategies.

In Masinde et al (2012) it has been shown that success of MFIs largely depend on the effectiveness of theirs credit management systems because these institutions generate most of their income from interest income and other fees on loans extended to small and medium entrepreneurs. However, there is a high incidence of credit risk reflected in the rising levels of non- performing loans by the MFI's in the last 10 years, a situation that has negatively impacted on their profitability due to provisions for bad debts (CBK, 2010).This trend not only threatens the viability and sustainability of the MFI's but also slows the achievement of the goals for which they were intended aimed at providing credit to the rural unbanked which forms a huge proportion of population and bridging the financing gap in the mainstream financial sector.

Kipchumba (2013) studied the relationship between credit information sharing, loan book size and non-performing loans of commercial banks in Kenya and found out that credit information sharing among commercial banks lead to decrease in the level of nonperforming loans. Mbatha (2013) further assessed the effectiveness of debt collection strategies at standard chartered bank Kenya limited where the interviewees indicated that the existing debt collection strategies were hinged on assigning responsibilities to lawyers and debt collection agencies at the expense of building internal capacity through training and research. The study findings further indicate that constant reminders strategy was not highly effective in debt collection and added that telephone calls and written correspondences instead of actual visits to the loan defaulters was a wrong approach in collections. However, intensification of field visits would mean lack of business for the debt

collection agencies and increased cost in enhancing the capacity of the current crop of staff engaged in debt collection.

Kago (2014) assessed the effects of credit reference bureau on financial performance of DTMS and observed that credit information sharing has helped The MFI's and other financial institutions recover loans especially when borrowers know that their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts

In the view of the preceding paragraphs, several empirical work has been done on effects credit management and Non-performing loans in commercial banks and MFI's and none has focused specifically on credit collection strategies and performance of microfinance banks and therefore there is a research gap and a need to formulate studies to provide an understanding and knowledge on how credit collection strategies affects the performance of microfinance banks.

1.3 Research Objectives

1.3.1 General Objective

The general objective of the study was to establish the effects of credit collection strategies on performance of Microfinance Banks in Kenya.

1.3.2 Specific Objectives

1. To determine the effect of loan portfolio monitoring on performance of microfinance banks in Kenya.
2. To determine the effect of credit information sharing on performance of microfinance banks in Kenya.
3. To establish the effect of legal framework in debt collection on performance of microfinance banks in Kenya.

4. To establish the effects of external debt collection on performance of microfinance banks in Kenya.

1.4 Research Questions

The study sought to answer the following research questions in view of the specific objectives:

i. What are the effects of loan portfolio monitoring on performance of microfinance banks in Kenya?
ii. Which are the effects of credit information sharing on performance of microfinance banks in Kenya?
iii. What are the effects of legal framework in debt collection on performance of microfinance banks in Kenya?
iv. What are the effects of external debt collection on performance of microfinance banks in Kenya?

1.5 Scope of the study

The study was carried out in 12 microfinance banks with headquarters located in Nairobi which formed the study population. The study focused on the credit collection strategies such as loan portfolio monitoring aspects, credit information sharing, external debt collection and legal framework in debt collection. The target respondents were the heads of credit, debt collection managers, credit managers, credit officers and debt collection officers within the financial years 2011-2015.

1.6 Significance of the Study

First, the microfinance banks and other financial institutions would be able to enhance their risk management structures by providing a wider scope of emerging credit risk parameters within the dynamic and volatile banking industry since the study provides an insight into

various and effective credit collection strategies. The study findings are also be paramount to the management of financial institutions through improving its credit collection policy in order to improve on its financial reporting and minimizing its efforts in collections and recovery of NPL's. This ensures sustainability and agility and these institutions in their market of operation.

In addition, the findings of the study helps the new entrants in the sector in setting up various parameters and risk scale based on prevailing operating environment since the study creates both practical and theoretical lessons in debt management and collections. The regulators in this case the central bank of Kenya would be provided with feedback in regard to the financial institutions preparedness and readiness towards credit risk management especially on the current volatile credit environment where non-performing loans are on increase. Finally, the study adds value to existing knowledge and contributes to broader realm of academic research in area of credit risk management and debt collection practices and provide a foundation for future studies.

1.7 Justification of the study

Credit risk management is the single largest factor affecting the soundness of financial institutions and the financial system and which should never be overlooked by the management of any organization. The long-term success of any banking organization is always based on its stable credit management strategies and ability to tame the default rate for loans advanced to its customers. The shareholders and other stakeholder's interests must be catered for to avoid the institution running into bankruptcy.

Whereas lending is the principal business for most microfinance banks, a healthy loan portfolio must be maintained to avoid loss of income through provisioning for bad debts as well as avoiding diversionary of the company strategy and synergy from the core focus of

growth by unnecessary legal battles and engagements during the debt recovery process. Effective and efficient credit collection strategies remains to be an essential consideration in ensuring accounts receivables are up to date for an organization to realize its goals and obligations. It's therefore crucial to investigate on the effects of the credit collection strategies on performance of MFBs aimed at curbing the rising trend of the Non-performing assets. This in turn improves on the organization profitability and sustainability

1.8 Limitations of the study

The researcher foresaw a number of challenges related to the research specifically during the data collection process. The researcher conducted the research under tight and controlled resources specifically time and finances. In addition, the microfinance employees' feared to disclose all the information and data requested which they treat as confidential and may land in the hands of their competitors.

More so, the researcher encountered delayed feedback especially in filling of questionnaires due to the tight work schedule of the respondents since most of the were located in head office credit support departments. The research was carried out towards the end of quarter one of the banking calendar where many staff especially the senior management were engaged in strategy meetings. On the other hand, the study used only four variables which may not have the overall effect on performance of the microfinance banks and therefore a need to carry out a study with other different parameters aimed at establishing other major determinants of microfinance banks performance is deemed necessary.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The review looked into the recent and related research to the topic of study which then contributes the body of knowledge. It also presents the review of the relevant theories that explains the relationship between credit collection strategies and performance of microfinance banks.

2.2 Theoretical Review

2.2.1 Asymmetric Information Theory

The theory was first developed by Akerlof (1970) in his work entitled market for "Lemons" where he stated that car buyers see different information than sellers hence giving the sellers a motivation to sell goods of less than average market quality. Akerlof uses the term "lemons" to refer to bad cars. His opinion and belief is that buyers cannot effectively tell lemons apart from good cars. Thus, sellers of good cars cannot get better than average market prices.

Information asymmetry refers to a situation where business owners know more about the prospects and risks facing their business than the lenders. It describes a condition in

In which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are channeled. The lender on the other hand does not have sufficient information concerning the borrower (Claus & Grimes, 2003).

Information asymmetry poses two problems for the banks, moral hazard (monitoring entrepreneurial behavior) and adverse selection (making errors in lending decisions). Banks find it difficult to overcome these problems because it is not economical to devote resources

to the loan appraisal and monitoring where lending is for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers are not freely available to banks. In relation to the study, information shared and gathered from credit reference bureaus and other parties involved during loan appraisal process assists in screening of borrower's ability and in turn help in overcoming asymmetric of information which can lead to bad loans and non-performance of banks.

2.2.2 Transaction Cost Theory

It was first developed by Schwartz (1974), this theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

Rajan & Peterson (1996) classifies the three sources of cost advantage follow: information acquisition, controlling the buyer and salvaging value from existing assets. The first source of cost advantage can be explained by the fact that sellers can get information about buyers faster and at lower cost because it is obtained in the normal course of business. That is, the frequency and the amount of the buyer's orders give suppliers an idea of the client's situation; the buyer's rejection of discounts for early payment may serve to alert the supplier of a weakening in the credit-worthiness of the buyer, and sellers usually visit customers more often than financial institutions do.

In relation to this study, the focus is on the performance of microfinance banks which largely depends on reduction of costs such as provisions for bad loans and maximizing returns (profits) as a major strategy in ensuring its sustainability (Ongaki, 2012).The intermediaries offer services aimed at reducing transaction costs since direct transaction by

microfinance banks is more expensive than indirect one. This can be efficiently measured by costs reduced to the system in terms of counterparty search costs, screening costs and loan monitoring costs. A reduction in operational expenses will translate to high profitability in the microfinance banks.

2.2.3 Theory of Financial Intermediation

New markets of financial futures and options are mainly markets for intermediaries rather than individuals or firms and many current theories of intermediation are too heavily focused on functions of institutions that are no longer crucial in many developed financial systems (Allen & Santomero, 1998).In addition, Intermediaries centers on two different roles that the firms currently play. They are facilitators of risk transfer and deal with the increasingly complex network of financial instruments and markets. Risk management has become a key area of intermediary activity though intermediation. The facilitation of participation in the sector is an important service provided by these firms. Reducing participation costs which are costs of learning about effectively using market as well as participating in them on a day to day basis plays an important role in understanding changes that have taken place.

According to Andries (2009), information asymmetry approach focuses especially the problem of relationship between bank and creditors and also bank and debtors. In the relationship between bank and borrower the main aspect of focus is the function of the bank selection and tracking of the granted loans as well as the problem of adverse selection and moral hazard. In the relationship between bank and depositors (creditors), the attention is given to the factors that determine the depositors to withdraw their money before due date.

According to Claus and Grimes (2003), Intermediaries which specialize in collecting information, evaluating projects and borrowers, and monitoring borrower's performance,

can help overcome the information problem. Financial intermediaries thus exist because there are information and transactions costs that arise from imperfect information between borrowers and lenders. The theory is therefore relevant to the study since it seeks to lower the costs and minimize the risks that the microfinance would undergo in the event of imperfect information in a debt market which can adversely affect the bank performance.

2.3 PERFORMANCE

2.3.1 Non-performing Loans Portfolio

One of the major indicators of distress in the banking sectors that has closely been monitored across the world since the global crises is the sharp increase in non-performing loans. A non-performing loan is defined as any loan that is past due for more than 90 days and poses a threat to financial institution financial stability and survival (Tracey, 2011).

2.3.1.1 Portfolio at Risk

According to (Rosenberg, 2009) a retail lender ability to collect loans is critical for its success and it's the most revealing performance area. The portfolio at risk (P.A.R) refers to a situation where some or all loans in a portfolio are in arrears or delinquent beyond a specified number of days. It's a standard international measure portfolio quality and performance. This is because the major source of risk in MFI's is the loan portfolio. P.A.R is a ratio that expresses the relationship between the outstanding principal balances of all loans past due more than specified number of days and outstanding principal balance of all loans. The ratio is expressed in percentage terms and the higher the P.A.R, the less the interest income and the likelihood of increased risk and less sustainable the institution is.

2.3.1.2 Provision for Bad debts and Write offs

Given the unconventional collateral used in microfinance operations and prevalence of short term loans with frequent repayment periods, provisions and write offs may need to be stricter for MFI's than for traditional lenders. This should be based on the amount of loans

overdue (portfolio at Risk) and the number of days any payments (principal or interest) are overdue (Ledgerwood & White, 2006)

A write off is an accounting procedure that removes the outstanding balance of the loan from the gross loan portfolio and from loan loss reserve. It reflects a prudent financial management practice and not a legal acknowledgement that borrowers no longer owe fund. Rosenberg (2009) defines write off ratio as a relationship between the value of loans written off during a specified period and average gross loan portfolio over the same period expressed in percentages. This does not mean that the MFI's has stopped following up the defaulted loans.

2.3.2 Profitability

Any ordinary business is most concerned with its profitability since if there is no basis for profit or break even, the business will cease to exist. Profit is therefore the sole and ultimate goal of microfinance banks. All the strategies and plans are geared towards achieving this major objective. However, the banks have other goals which they engage in geared towards socio economic growth. Ongaki (2012) argues that there is a positive relationship between profit ratio and interest income ratio. An increase in interest income leads to an increase in profit margin to a financial institution. This indicator shows the ability of an institution to offer high-quality services at reduced costs. However, despite offering low-cost services, it is paramount that the institution meets its financial obligations such as generating sufficient income to finance all liabilities.

According to Jorgensen (2011), profitability ratios are used to determine the company bottom line and are important to company managers and owners alike. If a company has outside investors, the manager has to show the profitability to the equity investors. The major ratios are margin ratios and return ratios which shows a company overall efficiency

and performance. Atrill (2009) further argues that return on capital employed (ROCE) is a fundamental measure of business performance and considered by many as the primary measure of profitability. It compares inputs(capital invested) with outputs (operating profit) .The ratio expresses the relationship between the operating profit generated during a period and the average long term capital invested in the business during that period expressed in percentage terms.

Atrill (2009) also defines organization performance through its administrative efficiency ability which evaluates both the direct and indirect costs of managing an institution's assets. Efficiency can also be measured through operational efficiency, which determines whether the institution generates sufficient revenue to finance all operations.

2.3.3 Customer Growth and Retention

According to Rosenberg (2009), Outreach is a major indicator of an organization customer base and defines the number of active clients which includes borrowers, depositors and other clients accessing financial service. Almost all MFBs' interventions aim ultimately on expanding the number of clients being as supported by CBK (2015) that microfinance banks and other financial institutions leverage on opening marketing offices in order to grow their customer base and boost their efforts to mobilize deposits. This in turn boosts their number of transactions and the value of transactions which will determine organization performance. On the other hand, consumer protection is critical in ensuring customer growth and retention. Both consumer protection agencies and microfinance associations are deploying initiatives in the area of financial literacy in helping clients to be more aware of the implications of their financial decisions and more critical towards the information that is supplied by the microfinance institutions (Karim, Sheya & Sluijs, 2015).

Adeoye & Lawanson (2012) observes that the ultimate measure and indicator of customer satisfaction is growth in the customer base of the bank. Profit level may not be a sufficient parameter for measuring customer satisfaction and bank performance. It's crucial for each bank to establish deliverables which should be well known by customers, staff and other stakeholders. Where the bank falls short of its deliverables, it should review its operations and services. Service providers in banks should create good impressions and be solution providers. They should demonstrate in their promises and conduct that the bank is indeed a friend of the customer

2.4 Credit Collection Strategies

2.4.1 Loan Portfolio Monitoring

According to Rouse (2011), successful monitoring of a loan portfolio requires close collaboration between different parties concerned in loan underwriting in order to have key information necessary to make informed decisions on debt collection. There is need to be selective and concentrate efforts on those accounts that are likely to give cause for concern as observed by Kairu (2009) who holds a view that a better understanding of the portfolio mix or composition is critical in credit risk management due to other unexpected economic factors that fall into place affecting the effective repayment rate of the client.

2.4.1.1 Credit Management Systems

Embracing of information communication technology (ICT) in credit management should be a priority for microfinance banks since the new technology will help in automation of many tasks in credit department and minimizes the collection efforts. Harle et al.,(2015) shows that a vast amount of customer data is available and accessible to banks in a faster, cheaper and computing power enabling the banks to leverage on new information in risk decision making and not only for better credit-risk decisions, but also for portfolio monitoring and early warning and prediction of operational losses.

2.4.1.2 Credit Management Reports

According to World Bank (2015), the top management of an institution may need management information systems (MIS) reports for decision-making, strategy formulation and mid-term corrective actions. They may for instance need an overview of portfolio growth, peer performances, asset quality and delinquencies, portfolio earnings, portfolio concentration, and underlying risk profile of the portfolio. These reports may also provide customer information in regard to loan defaults by overdue durations and earnings as supported by Kairu (2009), who classified the reports as age analysis report, selective overdue report, disputed debt analysis report, and portfolio at risk (P.A.R) reports aimed at ensuring effective and efficient loan portfolio management for maximum returns.

2.4.1.3 Utilization of Payments Reminders and Demand Letters

Quin (2015) observes that collectors quite universally initiate the recovery of a debt by notifying debtor by mail that they have been retained to collect the bill and perhaps hinting at unpleasant ramifications of a failure to pay. If there is no response, the letters become increasingly frequent and cruel. The letter may trigger a legal process ordering the debt to appear at a specified address to answer charges or may be otherwise misleading. However, letters are not very effective with habitually late payers, and there is not enough time to engage every delinquent borrower through a telephone conversation or door to door visit. A reminder letter is usually the first to be sent to a borrower if he or she is yet to pay the loan installment. A demand letter is the final and captures responses to previous reminders on the overdue debt and also communicates the next course of action (Rouse, 2011).

2.4.2 Credit Information Sharing

2.4.2.1 Credit Reporting Agencies

World Bank (2011) defines a credit reference Bureau as a company that collects information from various sources and provides consumer credit information on individual

consumers for different uses. Credit bureaus generally enter into agreements with different parties to exchange data in a systematic manner, based on agreed conditions such as the frequency of data updates, the use of standardized formats including common line items, the frequency of data access and the price. It has been shown (DPFB, 2013) that since the rollout of credit referencing mechanism in Kenya, close to 3 million credit reports had been requested from the credit reference bureaus (CRB's) by banks while approximately 41,681 reports had been requested by individuals as at June 2013. As at the end of June 2013, two Credit Reference Bureaus CRB Africa and Metropol CRB Ltd were in operation and all institutions licensed under the statutes were required to share credit information through licensed credit reference bureaus

Nyaoke (2007) observes that in the wake of increasing non-performing loans, information sharing regarding customer loan status is critical amongst the institutions. The advent of Credit Reference Bureau (CRB) has brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks. Many banks in their credit policy now check with CRB before issuing loans to borrowers'.

The central bank of Kenya report further shows that banks have incorporated credit reference reports in their credit risk appraisal processes. It is expected that borrowers with good track record are able to negotiate for competitive credit terms including accessing credit based on their credit history without a requirement for collateral. Even the MFBs are to share both negative and positive credit information with commercial banks through credit reference bureaus (CBK, 2013).

2.4.2.2 References Provided by the Borrower

The borrower may provide reference persons who may assist the bank in obtaining more information about him or her. The information may include the borrower residence, business location and his background. This is one of the cheapest means of acquiring information and the providers' details must be kept confidential (Kairu, 2009).

2.4.3 Legal Framework in Debt Collection

2.4.3.1 The Legal Framework and Infrastructure

According to Rouse (2011), a financial institution will initiate legal proceedings against the borrower if satisfactory arrangements for loan repayment are not provided. However, the lender must always be ready to re-open negotiations with a debtor if it's thought a better chance of recovery exists by doing so but care needs to be taken that the debtor is merely using delaying tactics.

IFC (2012) on the other hand shows that there is a strong correlation between the legal infrastructure available for enforcement of claims and the sophistication of the controls employed by collectors. Less evolved markets, tend to make more use of field (door-to-door) collections than call centers whereas more advanced markets use negligible field contact and usually focus on phone collections and letters. Jurisdictions with strong legal recovery mechanisms tend to have more evolved collections practices although emerging markets have insufficiently developed legal support for collections.

Zywicki (2015) however observes that litigation is expensive and disruptive for consumers, collectors and the judicial system. The debtor may not only be liable for the debt but also for court costs, interest and creditors attorneys' fees. In addition, using litigation to enforce debts is an entirely permissible manner of enforcing contractual obligations but in some

cases the suit may actually benefit the consumer or borrower either by giving them an opportunity to contest the claim or by bringing the debtor and creditor together to try negotiating a compromise.

2.4.4 External Debt Collection

2.4.4.1 Debt Collection Agents

Debt collection comprises of creditors in the process of trying to recover debts owed to them. It's the primary mechanism of contract enforcement in consumer credit markets and affects thousands of consumers as Adams (2016) argues that creditors may try to collect on their own or they may outsource collections to third party firms and existence of such firms may fundamentally change the equilibrium in the credit market and affect the supply of credit and borrower welfare as supported in Zywicki (2015) where debt collectors would be less constrained by concern about goodwill and other reputational issues than would be creditors collecting their own debts because creditors would be collecting from their customers and thus be unwilling to damage the relationship.

Kairu (2009) observes that debt collection and recovery process is very involving and may be overwhelming if any organization tends to do it by itself. On this note, it may be necessary to have a third party undertaking this risky task, preferably an established debt collector who can carry out this process maintaining ethical standards. An engagement of a third party therefore dictates that you seek legal advice from a lawyer to avoid potential lawsuits that may arise during recovery of bad loans. Since lending cannot exist without repayment, and repayment requires collections, debt collection practices are integral to the responsible finance agenda and collectors must not only effect repayment but they must also conduct their work in an open, honest and legal manner (IFC, 2012).

2.5 Empirical Review

In the wake of rising number of defaulting clients, financial institutions must plan on how to intensify credit collections and recovery levels to reduce bad debts and improve the quality of their loan books. Saxena & Wadhera (2010) observes that the key to a successful strategy is to understand business objectives, resource optimization and selectively targeting the right collection strategies at the right time in order to increase collections efficiency and reduces delinquency. Proper monitoring of loan accounts performance should be observed to avoid slippages of loan accounts from one classification level to another.

Kiiru (2007) studied delinquent loans and observed that borrowers in small medium enterprise level under group co-guarantee mechanism were forced to sell their household goods to repay back their loans due to the pressure from their peers in the group and the organization credit officers. On the other hand, the clients opted to borrow from other organizations or unregulated financiers such as shy locks to pay their outstanding debts hence a vicious cycle of multi borrowing. From the study, 17 percent of clients were able to repay their loans from their business returns. The majority, 62 per cent of borrowers, repaid their loans under duress – repayment due to excessive peer pressure. Another 17 per cent had to sell their pre-existing assets, while four per cent had their property confiscated by their peers.

Debt recovery and collection process on the unsettled debtor's accounts has its implications to both the borrower and the organization. The organization staff may find themselves is vicious cycle of debt collection and filing of law suits diverting the attention of the whole organization machinery from the major goal of business growth, funds mobilization and expansion which in the long run affects the profitability of the firm (Ombaba, 2013).To avert this situation, an efficient credit collection mechanism anchored in a strong credit policy needs to be established.

Adams (2016) on the other hand argues that without a third party debt collectors, creditors would be forced to collect on their own and would tend to use lenient collection practices for fear of damaging their individual reputation which would reduce the demand for their products. A third party agency collecting on behalf of several creditors, on the other hand, may use harsher debt collection practices than the creditors would. This is because those practices are associated with all creditors that hired this agency, in which case, borrowers cannot discriminate against individual creditors, as a result, all creditors that hire hired party collectors may have bad reputations but no individual lender may be seen as worse than the other.

Kago (2014) assessed the effects of credit reference bureau on financial performance of (Deposit Taking Microfinance Institutions) DTMS observed that credit information sharing has helped The MFI's and other financial institutions recover loans especially when borrowers know that their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts.

Kipchumba (2013) investigated the relationship between credit information sharing, loan book size and non-performing loan of commercial banks in Kenya found out that credit information sharing among commercial banks lead to decrease in the level of non-performing loans, as it was revealed that there was negative relationship between non-performing loans and credit information sharing.

The Karungari (2012) study on effect of debt collection strategies on financial performance of local authorities in Kenya found out that there should be an effective and documented debt collection plan. A council that has an elaborate plan of collecting its rates and levies are able to implement the plan more easily that one which does not have such a debt collection plan. subcontracting the task of debt collection to a third parties came out as an

effective system that leads to more revenue collection to the councils since the debt collection agents have necessary expertise and incentive to collect more since they are paid on the basis of the total collection. In addition, their approach is also found to consider the care of customers which increases compliance by the residents.

Kemei (2014) studied the effects of information asymmetry in the performance of the banking industry .The case study of the banks in Mombasa county showed that an efficient and water tight legal system is more efficient in enforcement of financial contracts in the banking sector. The legal system helps in curbing the problems caused by information asymmetry. She also observed that credit information sharing is one of the mechanism the bank may use to minimize default rate which adversely affects the performance of the bank.

Mbatha (2013) assessed the effectiveness of debt collection strategies at standard chartered bank Kenya limited where the interviewees indicated that the existing debt collection strategies were hinged on assigning responsibilities to lawyers and debt collection agencies at the expense of building internal capacity through training and research. The study showed that constant reminders strategy was not highly effective in debt collection and added that telephone calls and written correspondences instead of actual visits to the loan defaulters was a wrong approach in collections. However, intensification of field visits would mean lack of business for the debt collection agencies and increased cost in enhancing the capacity of the current crop of staff engaged in debt collection.

2.6 Conceptual Framework.

Independent variables **Dependent variable**

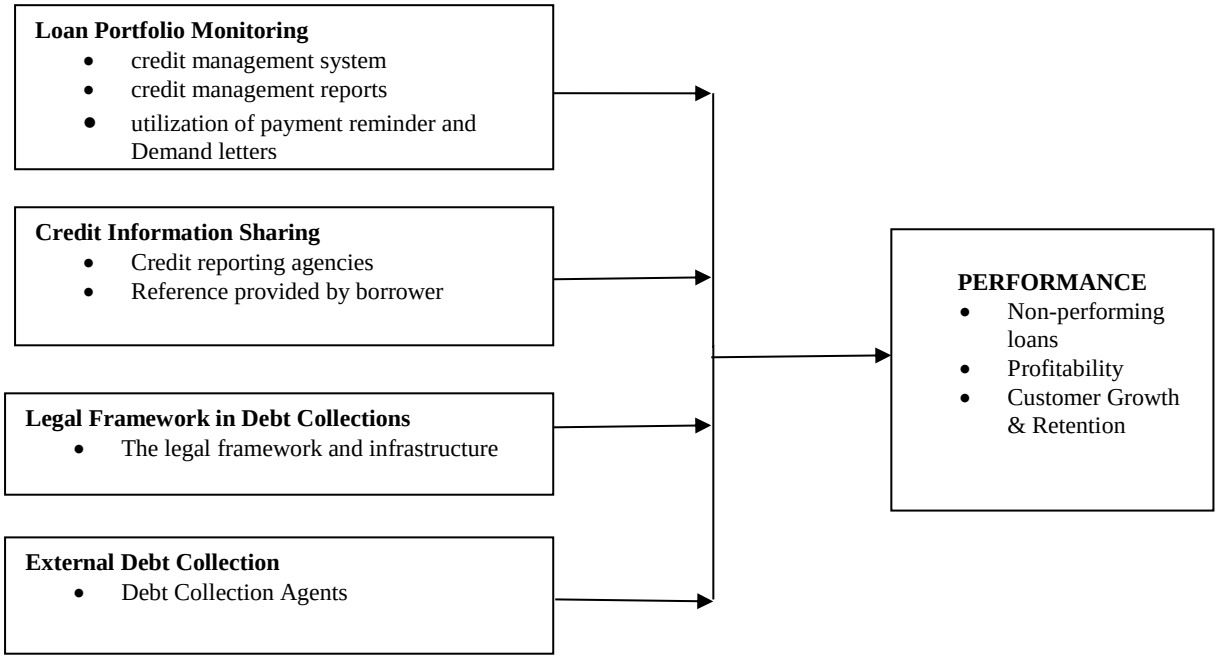


Figure 2.1: Conceptual Framework

Source: Researcher (2017)

The conceptual framework highlights the relationship between dependent and independent variables in the evaluation of performance of MFBs.

Neeru (2012) defines variables as the characteristics that the experimenter manipulates, controls or observes. The independent variables are the experimenter manipulates or controls in his or her attempt to ascertain their relationship to observed phenomena. On the other hand, the dependent variables are the characteristics that experimenter introduces, removes or changes independent variables

The study adopted Loan portfolio monitoring aspects, credit information sharing, Legal framework in collections and external debt collection as the independent variables. The variables were defined and presented in a view of getting a solution in improving the performance of MFB's by reducing the level of non-performing loans portfolio ,growth in loan portfolio and customer base together with maximizing profitability.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter outlines the appropriate research design that was used in conducting the study. The target population, sampling technique and sample size adequate for the study was outlined. The chapter also presents the type of instruments that was used to collect data and how the data was analyzed and presented.

3.2 Research Design

Kothari (2004) defines a research design as the conceptual framework within which research is conducted and contains a blue print for collection, measurement and analysis of data. A descriptive research design was used to carry out the study. Descriptive design was preferred since it is possible to demonstrate relationships between credit collection strategies and performance of microfinance banks in Kenya. It is concerned not only with the characteristics of individuals but with the characteristics of the whole sample thereof (Neeru, 2012). A census survey is a way of collecting the necessary information by administering questionnaires to the respondents from the whole population under study. The researcher adopted a cross sectional survey which was conducted to the 12 Microfinance Banks. According to Lavrakas (2008), a cross-sectional survey collects data to make inferences about a population of interest (universe) at one point in time. Cross-sectional surveys have been described as snapshots of the populations about which they gather data.

3.3 Target Population

The study population was the 12 MFB's operating as national wide and community based microfinance banks licensed by CBK as at December, 2015. These financial institutions are involved in lending and handling non-performing loan portfolios. The MFB's under study have their headquarters based in Nairobi Kenya (CBK, 2015).

3.4 Sampling

Purposive sampling technique was used to select the respondents. The respondents consists employees from the credit department and management of the microfinance banks under study. The study targeted 84 respondents including the Heads of credit, debt collection manager, credit manager's credit officers and debt collection officers**.**

Table 3.1: Target Population and Respondents

Microfinance Bank	Head of Credit	Debt Collection manager	Credit Manager	Credit Officer	Debt collection Officer	Total No of Respondents
Kenya Women Finance Trust MFB	1	1	1	2	2	7
Faulu Kenya MFB	1	1	1	2	2	7
Rafiki MFB	1	1	1	2	2	7
Daraja MFB	1	1	1	2	2	7
Choice MFB	1	1	1	2	2	7
SMEP MFB	1	1	1	2	2	7
Caritas MFB	1	1	1	2	2	7
Remu MFB	1	1	1	2	2	7
Century MFB	1	1	1	2	2	7
U & I MFB	1	1	1	2	2	7
Sumac MFB	1	1	1	2	2	7
Uwezo MFB	1	1	1	2	2	7
TOTAL	**12**	**12**	**12**	**24**	**24**	**84**

Source: (Researcher, 2017)

3.5 Study setting

The geographical area within which the study was conducted consisted of all MFBs operating in Nairobi region. The majority of MFBs have their headquarters in Nairobi which gave a good representative sample of the whole population. The setting was sufficient and appropriate for examination of the study objectives guiding the research.

3.6 Data Collection

Noting that debt collection is mainly a credit department function, the main respondents were the head of credit, debt collection manager, credit manager, credit officer and debt collection officer from the headquarters of the 12 microfinance banks. The study used both primary and secondary data .Primary data was obtained using Questionnaires which contained both close ended and open ended questions. They researcher self-administered the questionnaires to the respondents who included the heads of credit, credit officers, the credit managers, debt collection managers and debt collection officers as the best tool to elicit self-report on people's opinion, attitudes, beliefs and values. Drop and pick method was used since it gave the respondents time and free environment in which to respond.

Secondary data was collected from the financial statements and management reports of the banks. The association of microfinance institutions (AMFI) annual reports together with the central bank annual and banking supervision reports was utilized in data collection. The respondents were selected because they are in positions of authority, possess key strategic and operational experience on matters related to loan underwriting and debt collection in the MFB's selected. Permission to conduct research was sought through a letter of introduction from the university and license from NACOSTI (National Commission for Science and Technology) was also granted.

3.7 Data Analysis and Presentation

After collecting the questionnaires from the respondents, the data was examined and checked for completeness and comprehensibility. The responses were edited, classified, coded and tabulated to analyze quantitative data using the Statistical Package for Social Science (SPSS).Descriptive analysis (means and standard deviations), correlation analysis and multiple regression analysis were adopted to study relationships. Inferential statistics was used to establish the relationship between credit collection strategies and performance

of MFB's. The inferential statistics sought to establish a causal effect relating independent variables to the dependent variable. While the variable credit collection strategies were quantified from likert questions, correlation analysis was used to establish the strength of the relationship between credit collection strategies and performance of microfinance banks. A multiple regression analysis of microfinance banks performance against credit collection strategies factors was applied to examine the relationship. The model took into account performance of the MFB's as the dependent variable while the independent variables were the loan portfolio monitoring, credit information sharing, External debt collection and legal framework in debt collection. The responses on credit collection strategies were measured by computing indices based on the responses derived from likert scaled questions. The regression model is captured below:

$$\mathbf{Y}=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon$$

Where **Y**=PERFORMANCE

$\boldsymbol{\beta_0}$=Constant term

β=Beta coefficient

$\mathbf{X_1}$= Loan portfolio monitoring

$\mathbf{X_2}$=Credit information sharing

$\mathbf{X_3}$=External debt collection

$\mathbf{X_4}$=Legal Framework in debt collection

ε=Error term

3.8 Preliminary Diagnostics

Given the assumptions of the classical linear regression model the following basic diagnostic test was conducted to ensure that the model is properly specified. These include: Normality, Multicollinearity, and Homoscedasticity.

3.8.1 Normality

In statistics, normality tests are used to determine if a data set is well-modeled by a normal distribution and to compute how likely it is for a random variable underlying the data set to be normally distributed (Cooper & Schindler, 2008). In this study normality shall be tested by Q-Q plots and testing whether the coefficient of skewness and the coefficient of excess kurtosis are jointly zero. A normal distribution is not skewed and is defined to have a coefficient of kurtosis of 3 (Brooks, 2008).

3.8.2 Multicollinearity

Multicollinearity is a statistical phenomenal in which two or more independent variables in a multiple regression model are highly correlated implying that one can be linearly predicted from the others with some degree of accuracy (Cooper & Schindler, 2008). The classical linear regression model assumes that the error term and the independent variables are not related. Running a regression model in the presence of multicollinearity has the consequences of obtaining individual coefficients that have high standard errors and the regression model becomes very sensitive to small changes in the specification (Farrar, Donald, Glauber, and Robert, 1967). In this study, Multicollinearity will be tested using the Correlation Matrix, Tolerance, and VIF.

3.8.3 Homoscedasticity

Homoscedasticity describes a situation in which the error term, that is, the "noise" or random disturbance in the relationship between the independent variables and the dependent variable, is the same across all values of the independent variables (Statistics Solutions, 2013). According to Mwituria (2012), the classical linear regression model assumes that the variance of the errors is constant and this is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedasticity. In this

study, the presence of homoscedasticity shall be tested using the Levene's test.

3.8 Ethical Issues

The research has put into consideration key ethical issues to protect the rights of the research participants. The principle of voluntary participation was upheld and no targeted participant was coerced to provide information. The researcher guaranteed the respondents the confidentiality of their personal identification or information provided to ensure no harm on their career as a result of participation. The requirement of informed consent was adhered to requiring that the potential respondent be informed of the research procedures and the risks involved and must provide consent to participate. In addition honesty and integrity was observed in the whole process including keeping of agreements with respondents and acting sincerely in data collection and presentation over exaggerating findings.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATIONS

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research objective and research methodology. It also discusses the findings by comparing and contrasting with other previous studies conducted. The study findings are presented on the effects of credit collection strategies on performance of microfinance banks in Kenya. The data is quantitative in nature and was collected through questionnaires.

4.2 Response Rate

The researcher in attempt to collect data relevant to the study distributed 68 copies of questionnaire to the microfinance banks staff. Out of 68 questionnaires distributed, it's notable that only 56 which forming 82% of the total were filled and returned as shown by Figure below.

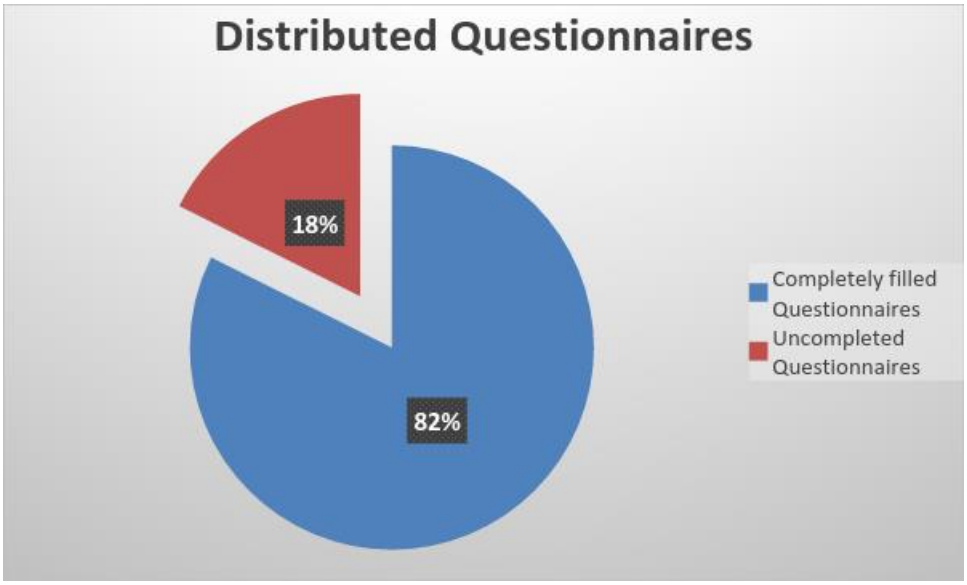


Figure 4.1: Questionnaire Distribution in Percentage

The researcher distributed 68 questionnaires and only 56 questionnaires were filled and returned as indicated in Figure 1. This response rate is acceptable and representative and

conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.3 Demographic Data

4.3.1 Gender

The research sought to determine the gender of the respondents who participated in the study as shown in the figure below.

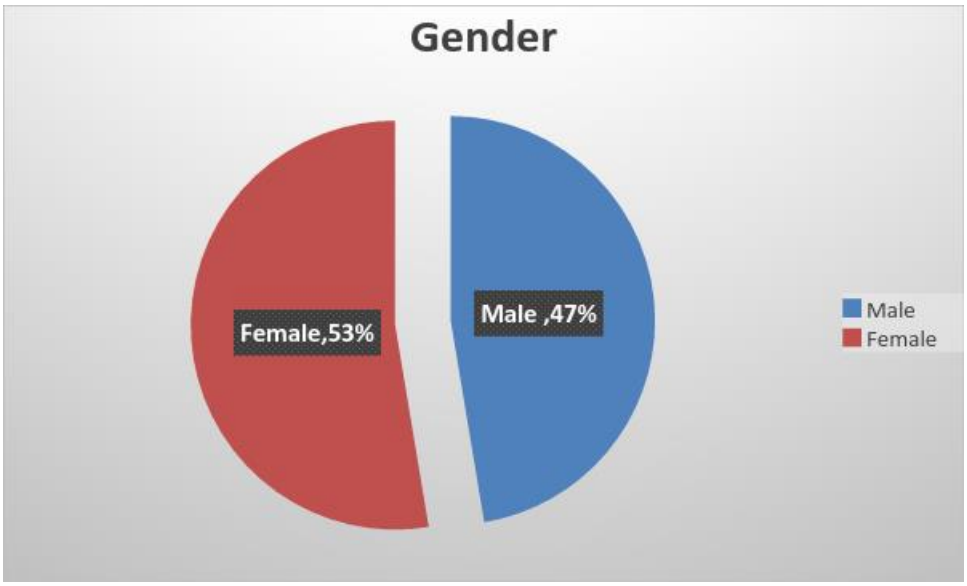


Figure 4.2: Gender Interpretation

From the findings presented above, the studies found out that majority of the respondents were female while the minorities were male. The results implied that there was gender balance and no biasness that could have resulted. Further, the number of females who participated in the study may imply that the microfinance banks had a high number of female staff than the males.

4.3.2 Age Bracket

The study sought to establish the age bracket of the respondents. The findings were shown in figure 3 below.

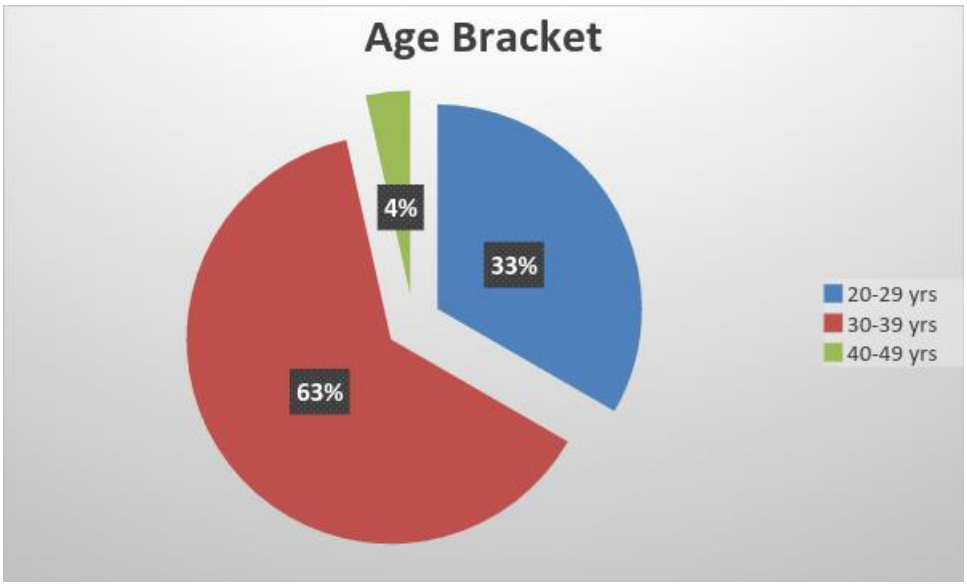


Figure 4.3: Age bracket distribution

Research findings as indicated in Figure above show that significant majority of the respondents were aged 30-39 years, followed by 20-29 years and the least in the category was 40-49 years. The findings imply that majority of the staff were young and in early stages of career growth and development.

4.3.3 Education Level

The study sought to identify the education qualifications of the respondents and findings as shown in Figure 4.

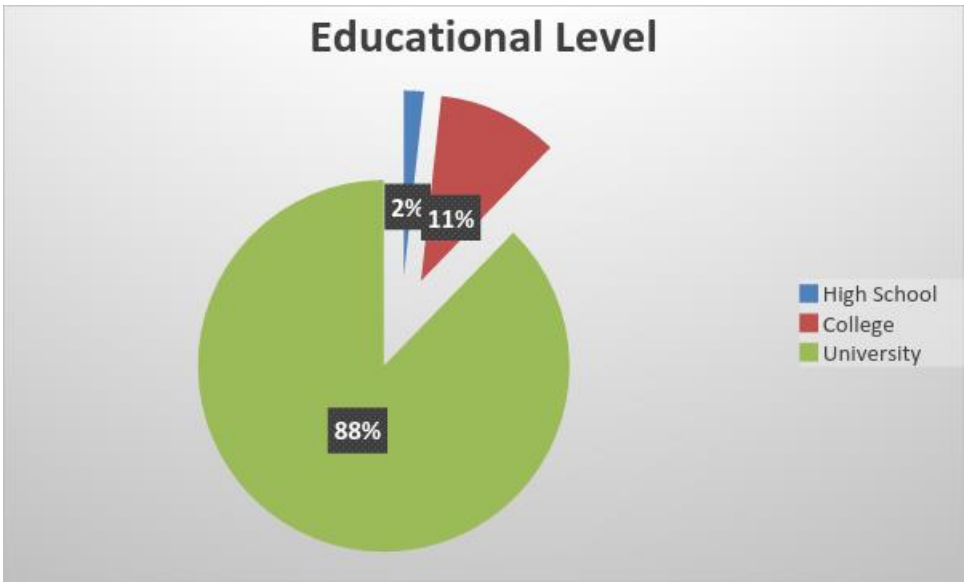


Figure 4.4: Level of education distribution

Research findings from the study reveal that minority of the respondents were at least secondary certificate holders while there were no respondents who had primary level education. Graduates and college graduates had a greater representation an indicator that they were aware of the issues being addressed under the study. The findings indicate that most the respondents were educated with at least a high school certificate and this implies that they were knowledgeable on the aspects under study.

4.3.4 Designation

The study sought to establish the position of the respondents in their respective microfinance banks. The findings were shown in the Figure 5 below.

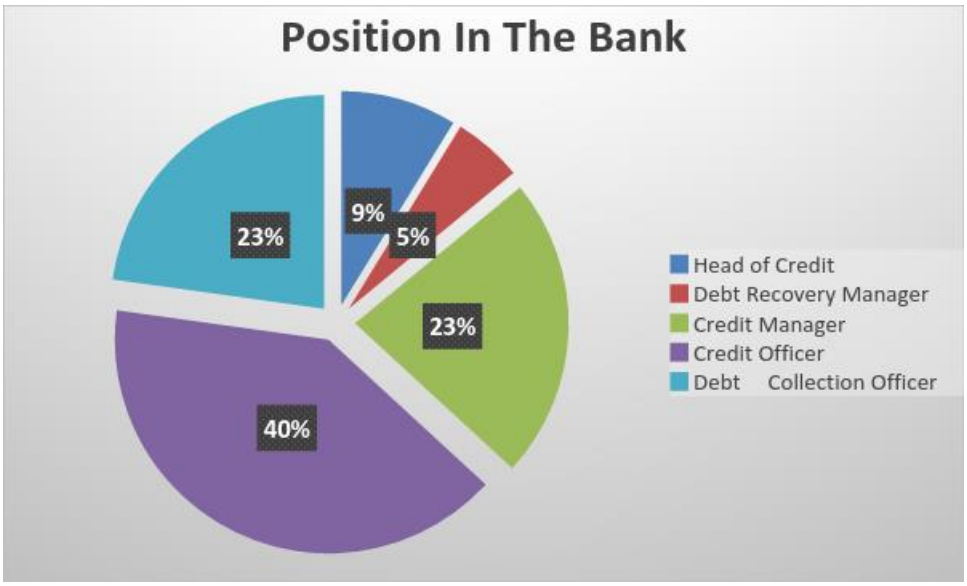


Figure 4.5: Designation in the Bank distribution

From the findings presented in Figure 5, the research found out that majority of the respondents were credit officers in their respective microfinance banks, followed by second majority who were both debt collection officer and credit manager followed by head of credit and debt recovery manager respectively. The numbers of the managers is minimal since they are the institutions policy makers and their role is more of supervision. The results also imply that most microfinance banks had credit officers and prove that the core business of microfinance banks is lending in enhancing its performance and returns to the stakeholders. The banks therefore had employed a qualified workforce with minimum skills essential in execution of their credit duties to ensure high performance. Further, the staff had varying capacities and that aspect gave the researcher confidence of obtaining reliable and valid results.

4.3.5 Duration in Employment

The study sought to establish the period the respondents had worked in the bank and the findings as shown in Figure 6.

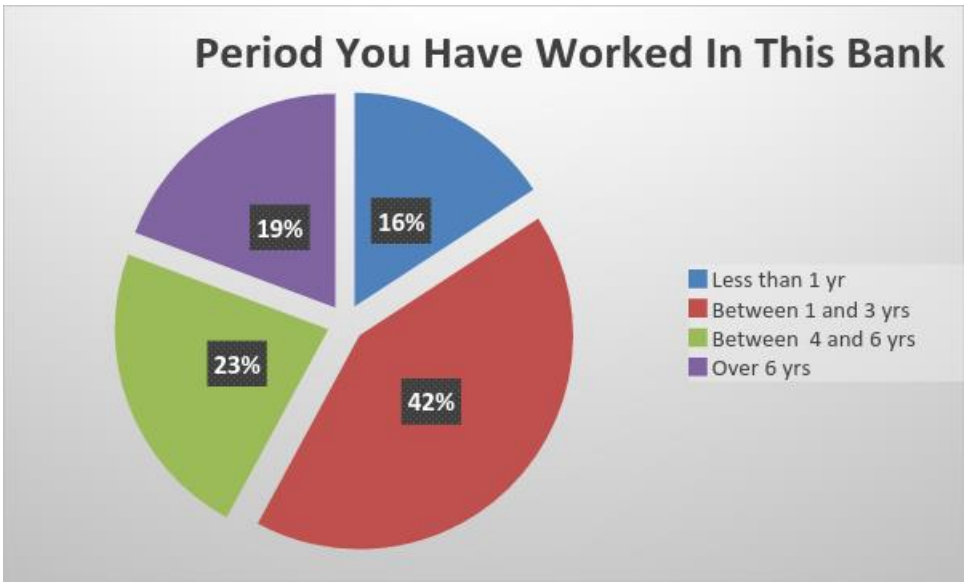


Figure 4.6: Duration in employment distribution

Research findings from the study as shown in Figure 6 indicate that majority of the respondents had been working in their respective banks for 1-3 years, followed by 4-6 years, over 6 years and less than a year. The findings indicate that majority had worked for less than 5 years that gives a reasonable experience to give a valid data that has no much variance. The findings also prove that most of the employees were knowledgeable about the credit internal processes and operations of their institutions. Experienced workforces reduce the training costs to an organization and also guarantees quality service delivery to the customers which has an impact to the organization performance.

4.3.6 Years of Experience

The study sought to know the number of years the respondents had worked in the bank. Figure 7 below presents the results.

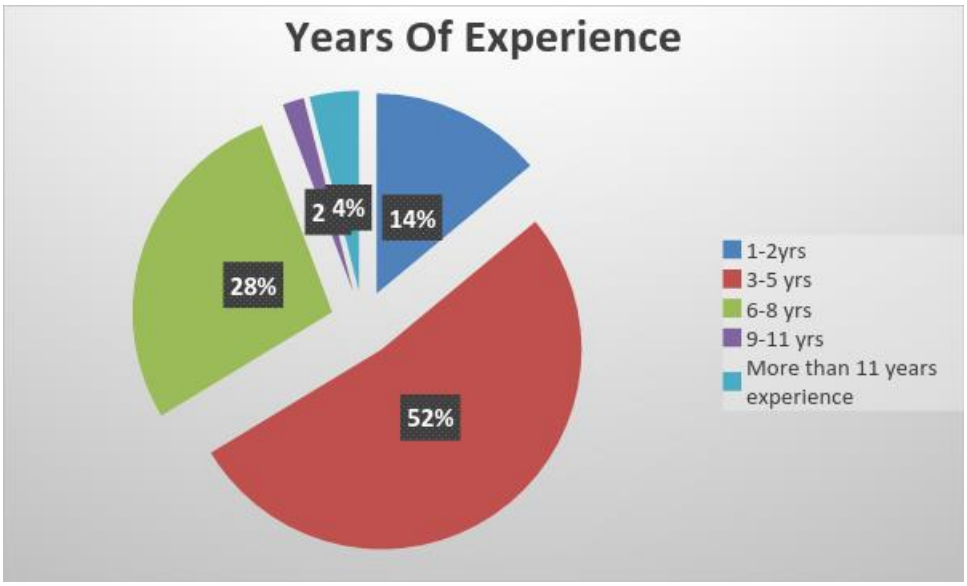


Figure 4.7: Years of experience distribution

Research findings from the study as shown in Figure 5 indicate that majority of the respondents had been employed for less than 5 years, followed by 6-10 years, 11-15 years and 15 & above years. The findings indicate that majority had worked for less than 5 years that gives a reasonable experience to give a valid data that has no much variance. However, a 52% of respondents with over 3-5 years and 28% with 6-8 years of experience indicates that the microfinance banks must have hired experienced employees from either other microfinance banks or commercial banks owing to the fact that some of the MFB's were licensed by CBK less than 4 years ago.

4.4 Descriptive Analysis

The section focuses on the research findings of the credit collection strategies that were investigated under the study and their effect on performance of microfinance banks in Kenya. The section presents the means and standard deviations of loan portfolio monitoring

aspects, credit information sharing, legal framework on collections and external debt collection. The performance of the Banks was also examined.

4.4.1 Credit Collection Strategies

The study sought to establish the credit collection strategies that the banks were adopting. Several aspects were reflected in the questionnaires as reported below.

4.4.1.1 Existence of operational credit collection strategies

The research wanted to establish whether the organization had an operational credit collection strategy. Figure 8 below presents the results.



Figure 4.8: Response distributions

Credit collection strategies are not optional for any financial institution engaging in lending as revealed by the findings above that a significant majority of the banks had an operational credit collection strategy in place in which 95% of the respondents agreed while a small percentage of 5% indicated that they had no operational strategy in place. The findings reveal that the banks had operational credit collection strategies in place and therefore the research can as well test for influence on the banks performance.

4.4.1.2 Extent the Banks Used Credit Collection Strategies in Debt Collection

The study sought to know the extent the banks used credit collection strategies in debt collection. The study results are presented in Figure 9 below.

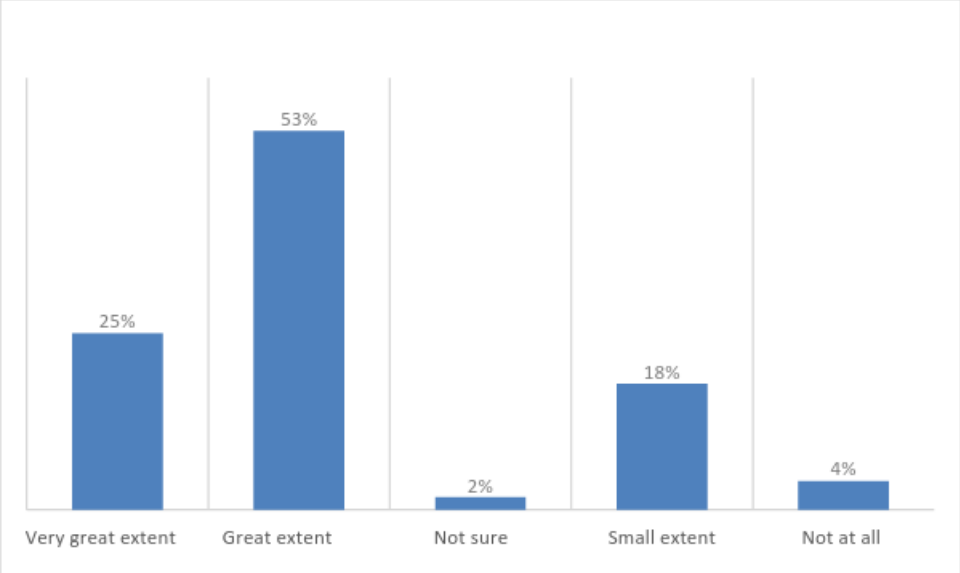


Figure 4.9: Response Distribution

In a bid to investigate the extent the banks used credit collection strategies, the study findings reveal that majority of the respondents indicated that the banks used credit collection strategies to a great extent while a small number indicated that the banks didn't use credit collection strategies in debt collection. Credit collection strategies serves as guidelines and a standard application in collecting debt to achieve results, however, a small percentage of respondents disagreed on staff compliance to the organization requirement. Adams (2016) argues that effective debt collection provides lenders with latitude to continue extending credit to consumers and the institution to remain solvent. In addition, it helps in reducing passing of costs of both monetary loss and risks to consumers by ensuring effective realization of defaulted loans.

4.4.1.3 Effectiveness of Credit Collection Strategies

The research aimed to know whether the credit collection strategies had worked effectively. The study results are presented below.

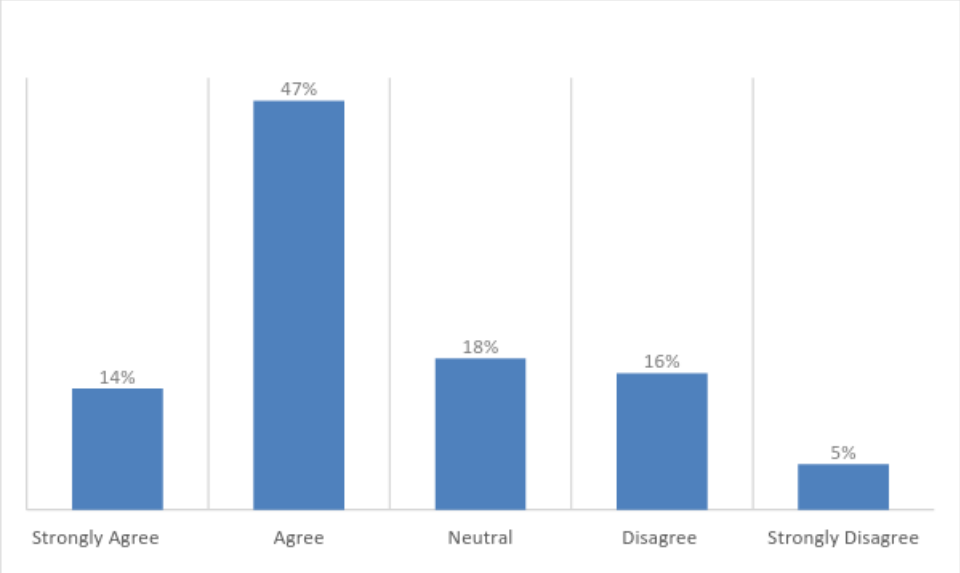


Figure 4.10: Response Distribution

Findings from the study reveal that majority of the respondents agreed with the aspect that credit collection strategies have worked positively for the banks during debt collection. In banking, the effectiveness in debt collection is usually achieved when the portfolio at risk is low and provisions for bad debts and write offs decreases. A small insignificant number disagreed with that aspect. This is an implication that credit collection strategies were in use in the banks and worked effectively and therefore the researcher could further test its influence on the banks performance.

4.4.1.4 Effect of Credit Collection Strategies on Performance of Microfinance Banks

The study sought to establish the extent the respondents agreed with various aspects of credit collection strategies. Table 4.1 below presents the results.

Table 4.1: Credit Collection Strategies Responses

Descriptive Statistics			
	N	Mean	Std. Deviation
An effective credit collection strategy translates to high profitability of the bank	56	4.5536	.68542
An effective credit collection strategy translates to low credit risk and P.A. R	56	4.4107	.84803
Formulation of credit collection strategies is the duty of everyone in credit department	56	4.3393	.90004
Existing credit collection strategies have assisted in debt management	56	4.0714	.87089
Staff understands well the credit collection strategies and enforcement	56	3.9821	.86321
Regular and periodical reviews on credit collection strategies have usually done to make it more effective	56	3.9643	1.04384
Valid N (list wise)	56		

The study investigated several aspects under credit collection strategies that the banks utilized. The scores of strongly disagree and disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on the continuous Likert scale; ($0 \leq$ L.E <2.4). The scores of 'moderate' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: ($2.5 \leq$M.E. <3.4) and the score of both agree and strongly Agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; ($3.5 \leq$ G.E. <5.0).

From the study, the findings revealed that majority of the respondents agreed to a great extent that; an effective credit collection strategy translates to high profitability of the bank, an effective credit collection strategy translates to low credit risk and P.A. R, formulation of

credit collection strategies is the duty of everyone in credit department, existing credit collection strategies have assisted in debt management, staff understands well the credit collection strategies and enforcement, and regular and periodical reviews on credit collection strategies have usually done to make it more effective. Therefore, the findings imply that Credit Collection Strategies had a significant effect on the performance of the microfinance banks in Kenya.

4.4.2 Loan Portfolio Monitoring

The study sought to establish the loan portfolio monitoring aspects that the banks were adopting. Several aspects were reflected in the questionnaires as reported below.

4.4.2.1 Existence of a credit management system

The study sought to establish whether the banks had a credit management system in place. The study findings are presented in Figure 11 below.



Figure 4.11: Credit management system response distribution

Study findings reveal that majority of the respondents agreed that the banks had a credit management system in place. The findings are an indicator that the banks used credit management system and that aspect could as well influence their performance.

4.4.2.2 Utilization of credit management systems in loan portfolio management

The study aimed to find out the extent the staff utilized the credit management systems in loan portfolio management. The study findings are presented in Figure 12 below.

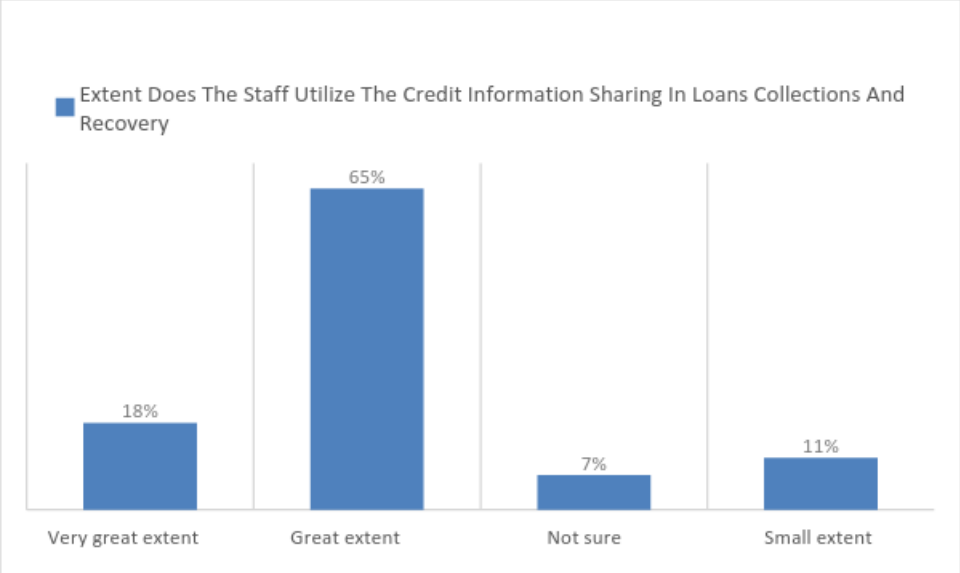


Figure 4.12: Response Distribution on Utilization of credit management systems

Findings from the study reveal that majority of the respondents agreed to a great extent that the staff utilized credit information sharing in loans collection and recovery. The findings imply that the researcher could further test any influence of this aspect on the performance of the banks.

4.4.2.3 Utilization of credit management reports in loan portfolio management

The study aimed at establishing the extent the staff utilized the credit management reports in loan portfolio management. The findings are presented in Figure 13 below.

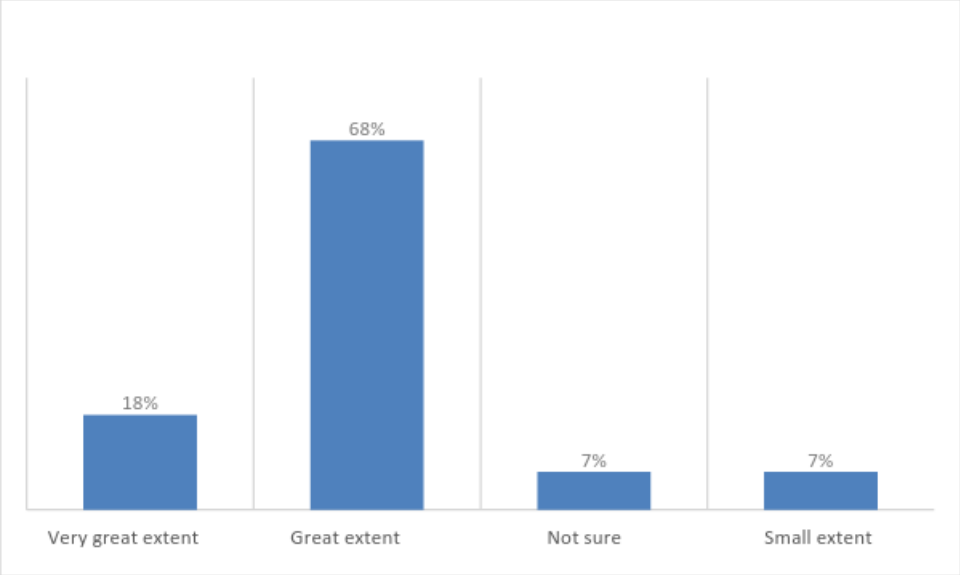


Figure 4.13: Response Distribution on Utilization of credit management reports

Study findings reveal that majority of the respondents agreed to a great extent that credit management reports in loan portfolio management was important during debt collection. This is an indicator that the researcher would further evaluate any ties with the performance of the banks.

4.4.2.4 Effect of Loan Portfolio Monitoring on performance of Microfinance Banks

The study sought to establish the extent the respondents agreed with various aspects of Loan Portfolio Monitoring Aspects. Table 4.2 below presents the results.

Table 4.2: Loan Portfolio Monitoring Distribution

Descriptive Statistics

	N	Mean	Std. Deviation
Generating of periodical reports on credit management is possible	56	4.4821	.63220
Periodical reports on loan portfolio status are made available to credit staff in time	56	4.4464	.63014
Borrowers are served with demand and payment reminder letters and are effective in debt collections	56	4.1786	.85508
Is there correlation between credit management reports and loan Non- performance	56	4.0893	.92002
The credit management system has assisted in effective and efficient debt collection hence low provisions for bad debts	56	4.0536	.90292
The credit management systems are real time, automated and enhanced with modern technology	56	3.8571	1.03447
Valid N (list wise)	56		

The study investigated several aspects under Loan Portfolio Monitoring Aspects that the banks utilized. The scores of strongly disagree and disagree have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ L.E <2.4). The scores of 'moderate' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E. <3.4) and the score of both agree and strongly Agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤ G.E. <5.0).

Findings from the study reveal that majority of the respondents agreed to a great extent that; generating of periodical reports on credit management is possible, periodical reports on loan portfolio status are made available to credit staff in time, borrowers are served with demand and payment reminder letters and are effective in debt collections, there correlation between credit management reports and loan Non- performance, the credit management system has assisted in effective and efficient debt collection hence low provisions for bad debts and the credit management systems are real time, automated and enhanced with modern technology.

The study findings imply that there was a significant effect of loan portfolio monitoring aspects on the performance of microfinance banks in Kenya.

4.4.3 Credit Information Sharing

The study sought to establish the credit information sharing that the banks were adopting. Several aspects were reflected in the questionnaires as reported below.

4.4.3.1 Utilization of credit information sharing in loans collections and recovery

The research wanted to determine the extent the staff utilized the credit information sharing in loans collections and recovery. Study findings are presented in Figure 14 below.

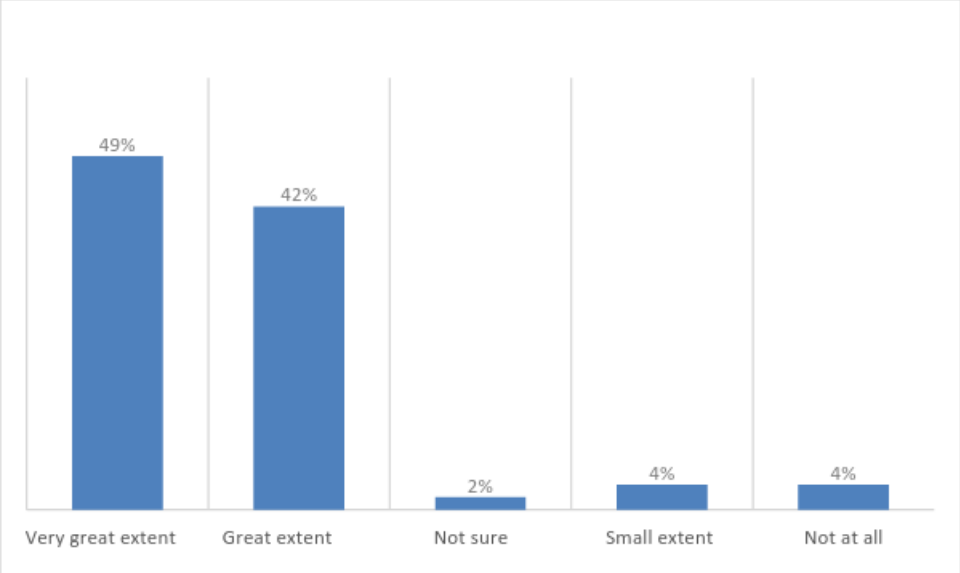


Figure 4.2: Response distribution on Utilization of credit information sharing

Study findings reveal that majority of the respondents agreed to a great extent that credit information sharing was important during debt collection. This is an indicator that the researcher would further evaluate any ties with the performance of the banks.

4.4.3.2 Importance of credit information sharing in debt collection

The research sought to evaluate to what extent didn't the respondents agreed that information sharing is important during debt collection. Findings are presented in Figure 15

below.

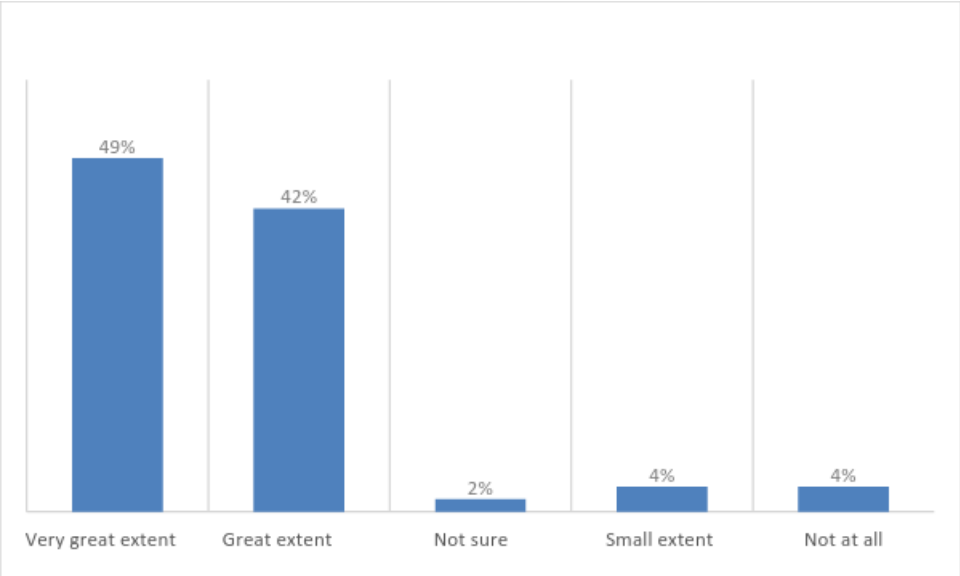


Figure 4.3: Response distribution on Importance of credit information

Findings from the study reveal that significant majority agreed to a great extent that the count for credit information sharing was important during debt collection. This is an implication that credit information sharing influences the performance of the banks.

4.4.3.4 Effect of Credit Information Sharing on the Performance

The study sought to establish the extent the respondents agreed with various aspects of credit information sharing on performance. Table 4.3 below presents the results.

Table 4.3: Credit information sharing distribution

Descriptive Statistics			
	N	Mean	Std. Deviation
The bank is connected with the credit reference bureaus systems for easy access of borrower's credit information	56	4.5893	.59625
The bank periodically updates borrowers credit information at credit bureaus	56	4.3036	.78438

References provided by customers are effective during loan collection process	56	4.1607	.84803
Credit bureau agents provides sufficient and updated borrower credit information during loan collections process	56	3.8571	1.03447
Obtaining credit information during the loan collection process incurs cost on the bank side	56	3.7321	1.08697
Valid N (list wise)	56		

Findings as indicated in the study reveals that significant majority of the respondents agreed to a greater extent for all the aspects that featured in this study. They agreed that; the bank is connected with the credit reference bureaus systems for easy access of borrower's credit information, the bank periodically updates borrowers credit information at credit bureaus, references provided by customers are effective during loan collection process, credit bureau agents provides sufficient and updated borrower credit information during loan collections process and obtaining credit information during the loan collection process incurs cost on the bank side. This is an implication that there was an influence of the aspect on the performance of the microfinance banks.

4.4.4 External Debt Collection

The study sought to establish the external debt collection methods that the banks were adopting. Several aspects were reflected in the questionnaires as reported below.

4.4.4.1 Does your organization have external debt collection mechanisms in place?

The researcher wanted to find out whether the banks had an external debt collection mechanism. Study results are as shown in Figure 16 below.

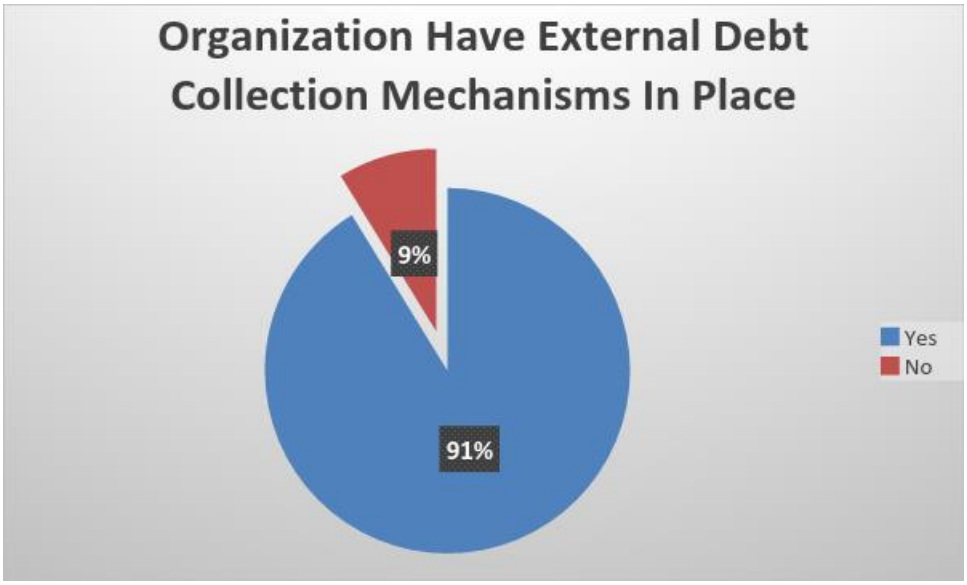


Figure 4.4: Response Distribution on external debt collection mechanisms

4.4.4.2 Utilization of external debt collection agents in loan recoveries

The study sought to know what extent the banks utilized external debt collection agents in recovering loans. The findings are as shown below.

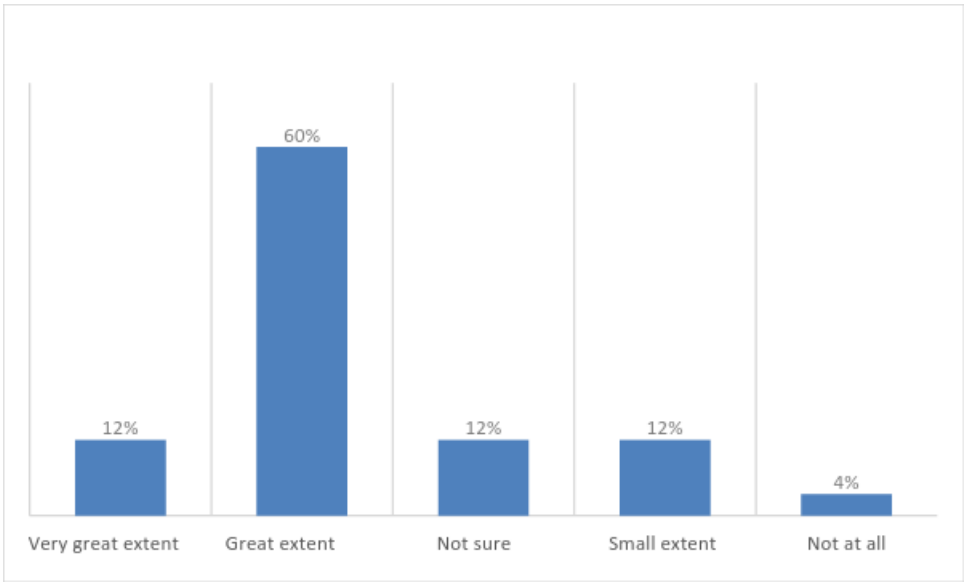


Figure 4.5: Response Distribution on Utilization of external debt collection agents

Study findings show that majority of the respondents indicated that the banks utilized external debt collection agents in loan recoveries. This aspect is expected to play a role in the overall performance of the banks.

4.4.4.3 The number of external debt collection agents in the banks panel

The researcher wanted to establish the number of external agents the banks had. The findings are presented in the Figure below.

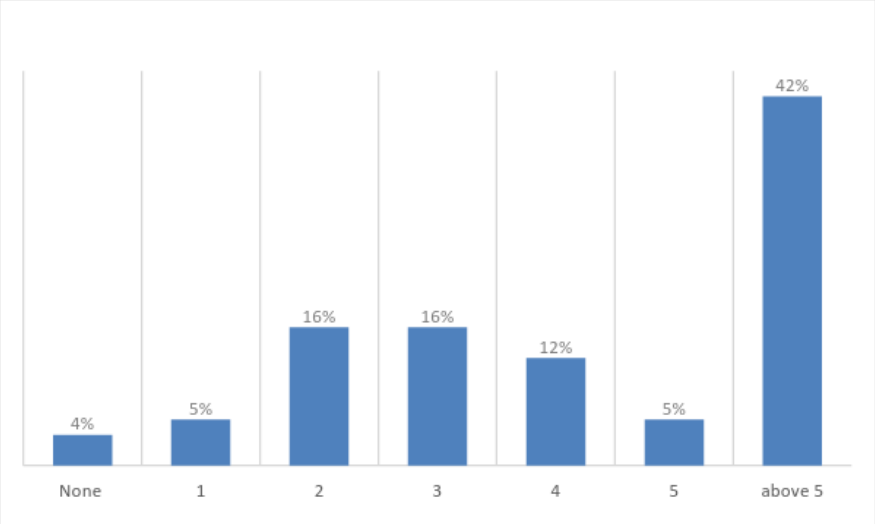


Figure 4.6: Response Distribution on the number of external debt collection agents

Study findings show that majority of the banks had external debt agents more than 5 in the bank panel. The findings imply that majority of the banks utilized the external agents in recovering back their loans. This aspect could play a role on the performance of the banks.

4.4.4.4 Effect of External Debt Collection on Performance

The study sought to establish the extent the respondents agreed with various aspects of external debt collection in microfinance banks in Kenya. Table 4.4 below presents the results.

Table 4.4: External Debt Collection responses

Descriptive Statistics			
	N	Mean	Std. Deviation
External debt collectors are vetted before being engaged as	56	4.4643	.71260

external service providers			
The bank uses external collection efforts when internal mechanisms fails	56	4.3750	.84342
The external debt collectors are highly skilled and embrace ethical standards during loan collection	56	4.0714	.91168
External debt collection affects customer's retention after the loan recovery process	56	3.7500	1.14812
External debt collection mechanism is more effective than internal mechanisms in loans collection.	56	3.1607	1.17205
Valid N (list wise)	56		

The study investigated several aspects under external debt collection that the microfinance banks utilized. The scores of strongly disagree and disagree have been taken to represent a variable which had mean score of 0 to 2.5 on the continuous Likert scale; (0≤ L.E <2.4). The scores of 'moderate' have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: (2.5≤M.E. <3.4) and the score of both agree and strongly Agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; (3.5≤ G.E. <5.0).

Study findings as shown in the Table above indicate that majority of the respondents agreed to a great extent that; external debt collectors are vetted before being engaged as external service providers, the bank uses external collection efforts when internal mechanisms fails, the external debt collectors are highly skilled and embrace ethical standards during loan collection and external debt collection affects customer's retention after the loan recovery process. Moreover, they agreed to a moderate extent that external debt collection mechanism is more effective than internal mechanisms in loans collection. The study findings imply that there was a significant effect of external debt collection on the microfinance banks performance.

4.4.5 Legal Framework in Debt Collections

The study sought to establish the legal framework in credit collections that the banks were adopting. Several aspects were reflected in the questionnaires as reported below.

4.4.5.1 Existence of established legal framework in enforcing debt collections

The researcher wanted to establish the legal framework in credit collections the banks had. The findings are presented in the Figure below.

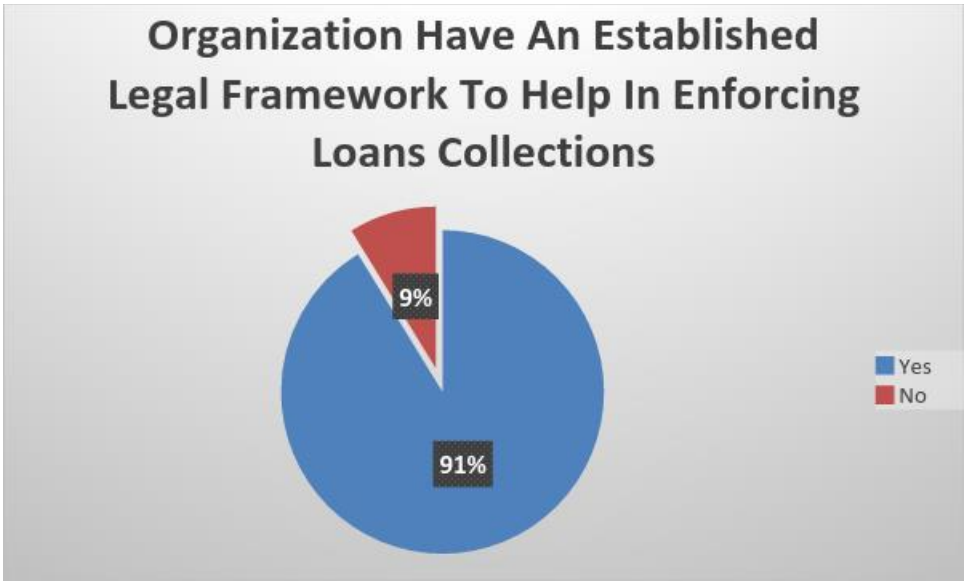


Figure 4.7: Response Distribution on Existence of established legal framework in enforcing debt collections

From the study, findings reveal that majority of the respondents agreed that the banks had an established legal framework that helped in enforcing loans collections. The study results could further lead to testing any relationship of the aspect on the bank's performance.

4.4.5.2 Effect of Legal Framework in Debt Collection on Performance of Microfinance Banks

The study sought to establish the extent the respondents agreed with various aspects of legal framework in debt collection in microfinance banks in Kenya. Table 4.5 below presents the results.

Table 4.5: Legal Framework Distribution

Descriptive Statistics			
	N	Mean	Std. Deviation
I often do engage the legal department in collection and recoveries of loans	56	4.4107	.82631
The legal framework on loans collections and recovery is effective	56	4.1607	1.12455
I would prefer a legal proceeding in debt collection as opposed to dialogue and setting a repayment to a great extent	56	4.1071	.92792
I am conversant with the legal process in collecting debts	56	3.9464	1.03431
Valid N (list wise)	56		

From the results as indicated in Table above, its revealed that majority of respondents agreed to a great extent that; I often do engage the legal department in collection and recoveries of loans, the legal framework on debt collections and recovery is effective, they would prefer a legal proceeding in debt collection as opposed to dialogue and setting a repayment to a great extent and am conversant with the legal process in collecting debts. The findings imply that there is a significant influence of the aspect on the banks performance.

4.4.6 Microfinance Banks Performance

The study sought to establish the performance of the banks. Several aspects were reflected in the questionnaires as reported below.

4.4.6.1 To what extent is your knowledge on expected key performance indicators for your organization?

The researcher wanted to establish the extent the staff had knowledge on the expected key performance indicators in the banks. Study results are presented below.

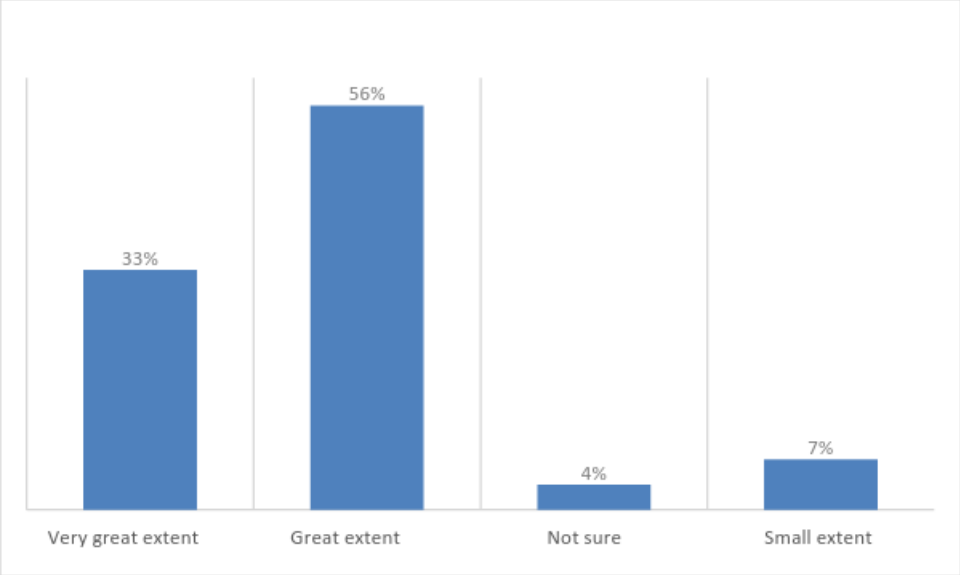


Figure 4.20: Response Distribution on knowledge on expected key performance indicators for your organization?

Findings from the study reveal that majority of the respondents agreed to a great extent that they had knowledge on the expected key performance indicators for the banks. The findings showed that majority of the respondents agreed to a great extent that they had knowledge on the expected key performance indicators for the banks showing a dedicated workforce working towards achieving the laid down targets and organization vision and mission. The study results can lead to further investigations on how performance is measured in the banks.

4.4.6.2 Effects of credit collection strategies on microfinance bank image

The researcher wanted to establish the extent the current collection strategies affected the image of the banks. The study results are shown below.

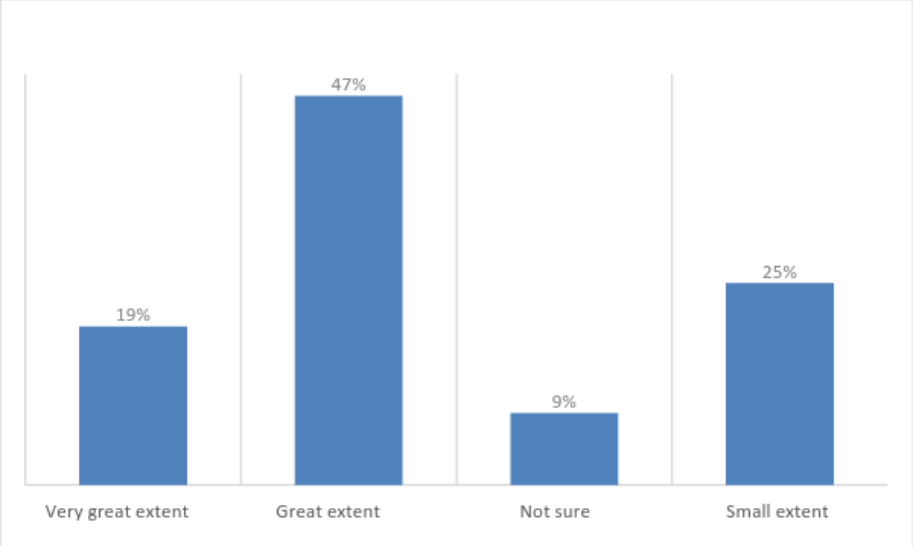


Figure 4.21: Response Distribution on Effects of credit collection strategies on microfinance bank image

Findings from the study show that majority of the respondents agreed that the current strategies affected the image of the bank.

4.4.6.3 Performance of the Microfinance banks

The study sought to establish the performance of the banks. Several aspects were reflected in the questionnaires as reported below.

Table 4.6: Performance Responses

Descriptive Statistics			
	N	Mean	Std. Deviation
The nature of credit collection strategies increases or decreases the level of no-performing loans in your bank	56	4.4286	.70986
The profitability of the bank has improved due to credit collection strategies	56	4.1786	.83355
Growth in number of customers both borrowers, depositors and financial services consumers is affected by credit collection strategies	56	3.5179	1.12801
Valid N (listwise)	56		

From the findings, its indicated that majority of the respondents agreed to great extent that the nature of credit collection strategies increases or decreases the level of no-performing

loans in your bank, the profitability of the bank has improved due to credit collection strategies and growth in number of customers both borrowers, depositors and financial services consumers is affected by credit collection strategies.

4.5 Preliminary Tests

4.5.1 Normality Test

Normality test was done to determine whether the data was normally distributed. The results are shown in Table 4.7 below.

Table 4.7: Normality Tests

Tests of Normality						
	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Performance	.258	56	.200*	.954	56	.740
*. This is a lower bound of the true significance.						
a. Lilliefors Significance Correction						

The p-value is (.258>0.05) indicating that the data plotted was from a fairly normal distribution. The data passed the normality test due to the resulting large p-value.

4.5.2 Multicollinearity Test

The researcher carried out Multicollinearity test to find out whether there were any issues that could have affected the findings of the study. Table 4.8 below present the study results.

Table 4.8: Multicollinearity Test

Coefficients[a]					
Model		95.0% Confidence Interval for B		Collinearity Statistics	
		Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	-2.133	-.042		

	loan portfolio monitoring aspects	-.297	.456	.329	3.039
	credit information sharing	.359	1.280	.239	4.182
	external debt collection mechanism	-.128	.419	.547	1.828
	legal framework in Debt collection	-.022	.392	.613	1.632
a. Dependent Variable: performance					

Multicollinearity test is used for testing the correlation between the predictors. From the table above, we can see that VIF were 1.632-4.182 of which the values lay 1-5 indicating that there are no excessive multicollinearity concerns relating to be concerned about credit collection for the microfinance banks in Kenya. A VIF beyond 5 is an indicator of serious issues to do with multicollinearity.

4.5.3 Homoscedasticity Test

The researcher carried out a Levene's test on the collected data to evaluate whether the errors had constant variance. Table 10 presents the study results.

Table 4.9: Homoscedasticity test

Levene's Test of Equality of Error Variances[a]			
Dependent Variable: financial performance			
F	df1	df2	Sig.
.	53	4	.
Tests the null hypothesis that the error variance of the dependent variable is equal across groups.			
a. Design: Intercept + IV1 + IV2 + IV3 + IV2 * IV4			

The p-value is zero which is less than 0.05 indicating the null hypothesis of equal variances will be rejected and it is concluded that there is a difference between the variance in the population.

4.6 Inferential Analysis

4.6.1 Multiple Regression Analysis

The study sought to know the relationship between credit collection strategies and the performance of microfinance banks in Kenya. Inferential statistics was done on the variables. Multiple linear regressions were done to obtain the r coefficient and r-square that determined the relationship. The results below present a summary of the results.

4.6.1 Model Summary

To establish the relationship between credit collection strategies and the performance of microfinance banks in Kenya, the study conducted a multiple regression analysis. Table 4.10 below presents the findings.

Table 4.10: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824[a]	.679	.654	.33006
a. Predictors: (Constant), legal framework in loans collection, external debt collection mechanism, loan portfolio monitoring aspects, credit information sharing				

From the model summary, the values of and the standard error are given. These values of R, R^2, and adjusted R explain how well the regression model fits the analyzed data. From the summary, the value of Pearson's simple correlation (r=.824) indicates a strong positive correlation between credit collection strategies and the performance of microfinance banks in Kenya. Similarly, the value of adjusted R^2 (coefficient of determination) is .654 which is an indication that loan portfolio monitoring aspects, credit information sharing, legal framework on debt collection and external debt collection explain 65.4% of the variability of performance. The other 34.6% is not explained by the model. This indicates that performance of microfinance banks in Kenya is affected much by said factors under consideration.

4.6.2 ANOVA

Table 4.11: ANOVA Table

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.747	4	2.937	26.957	.000[b]
	Residual	5.556	51	.109		
	Total	17.302	55			
a. Dependent Variable: performance						
b. Predictors: (Constant), legal framework in Debt collection, external debt collection , loan portfolio monitoring , credit information sharing						

The analysis of variance table shows how the independent variables are statistically significant in predicting the dependent variable. This is in view of the p-value of 0.000 hence, the model overall is a good fit. The F-ratio tests whether the regression model is fit for the data. From the ANOVA table, it can be observed that the F-ratio can be stated as F (4, 51) = 26.96, P<0.05 meaning that there is a significant effect of loan portfolio monitoring, credit information sharing, legal framework on debt collections and external debt collection to the performance of microfinance banks in Kenya.

4.6.3 Coefficients

Table 4.12: Coefficients

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-1.088	.521		-2.089	.042	-2.133	-.042

	loan portfolio monitoring	.079	.188	.058	.422	.675	-.297	.456
	credit information sharing	.819	.229	.580	3.572	.001	.359	1.280
	external debt collection	.145	.136	.115	1.068	.291	-.128	.419
	legal framework in Debt collection	.185	.103	.182	1.795	.079	-.022	.392
a. Dependent Variable: performance								

The researcher conducted a regression analysis to determine the relationship of credit collection strategies and the performance of microfinance banks in Kenya. The established regression equation was:

$$Y = -1.088 + .079X1 + .819X2 + .145X3 + .185X4 + .521$$

Where; $Y = Performance$

$\beta 0 = Intercept$

$X1 = loan\ portfolio\ monitoring$

$X2 = credit\ information\ sharing$

$X3 = external\ debt\ collection$

$X4 = legal\ framework\ in\ loans\ collection$

$\beta 1 - \beta 4 = Regression\ Coefficients$

$\varepsilon = error\ term.$

From the above regression model, taking loan portfolio monitoring aspects, credit information sharing, legal framework on debt collections and external debt collection, the performance of the microfinance banks will be -1.088. The data findings analyzed also shows that taking all other independent variables at constant, a unit increase in loan portfolio monitoring aspects will lead to a .079 unit increase in performance of microfinance banks in Kenya with a p value of .67; a unit increase in credit sharing information will lead to a .819 increase in performance of microfinance banks in Kenya with a p value of .001.The study also found that a unit increase in external debt collection would result to a .145 increase in performance of microfinance banks in Kenya with a p

value of .291 while a unit increase in legal framework in debt collection will lead to a 0.185 increase in performance of microfinance banks in Kenya with a p value of .079.

This withstanding, the study shows that there is a significant effect of credit collection strategies (0.000) on performance of microfinance banks in Kenya since they have a p-value that are less than 0.05.However, the study found out that there is an insignificant effect between loan portfolio monitoring aspects, external debt collection mechanism, and legal framework in loans collection and performance of microfinance banks in Kenya.

4.7 Summary of Key Findings and Discussion

The study sought to establish the effect of loan portfolio monitoring , credit information sharing, external debt collection mechanism, and legal framework in debt collection on performance of microfinance banks in Kenya.

From the findings, it's revealed that there was an insignificant effect of loan portfolio monitoring on the performance of microfinance banks in Kenya with a p value .0675 while Saxena & Wadhera (2010) study observes that proper monitoring of loan accounts performance should be observed to avoid slippages of loan accounts from one classification level to another an aspect that is linked to the overall performance of the microfinance banks. However, as per the study findings, there is no significant effect of loan portfolio monitoring aspects on performance contrary to the Saxena & Wadhera (2010) findings.

Study findings reveal that there was a significant effect of credit information sharing on performance of microfinance banks in Kenya with a p value of .001.The study findings are in line with Kago (2014) study who found out that credit information sharing has helped the MFI's and other financial institutions recover loans especially when borrowers know that their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts therefore influencing their performance. In addition the

findings are supported by Kipchumba (2013) who studied the relationship between credit information sharing, loan book size and non-performing loans of commercial banks in Kenya and found out that credit information sharing among financial institutions leads to decrease in the level of nonperforming loans.

Further, the study found out that external debt collection mechanism had an insignificant effect on the performance of microfinance banks in Kenya with a p value of .291.The findings could be linked to Adams (2016) findings which revealed that without third party debt collectors, creditors would be forced to collect on their own and would tend to use lenient collection practices for fear of damaging their individual reputation which would reduce the demand for their products. He further adds that the creditors who use third party agencies to recover their debts may end up having bad reputation thus losing customers. The researcher established that majority of the microfinance banks in the study didn't use third party agencies in recovering their debts and that's why it's established that there is an insignificant effect of external debt collection strategy by the banks.

Evaluating the effect of legal framework in debt collection on the performance of microfinance banks in Kenya, it was revealed that there was an insignificant effect on microfinance banks performance with a p value of .079. Moreover, according to Zywicki (2015) observations that litigation is expensive and disruptive for consumers, collectors and the judicial system, is an aspect to support our findings on insignificant effect as we can establish that majority of the banks that took part in the study avoided litigation as a strategy of loan recovery and that's why the aspect had an insignificant effect on the performance of microfinance banks in Kenya.

From the multiple regression model summary, the values of Pearson's simple correlation (r=.824) indicates a strong positive correlation between credit collection strategies and the

performance of microfinance banks in Kenya. Similarly, the value of adjusted R^2 (coefficient of determination) is .654 which is an indication that loan portfolio monitoring aspects, credit information sharing, legal framework on collections and external debt collection explain 65.4% of the variability of performance. The other 34.6% is not explained by the model an indication that performance of microfinance banks in Kenya is affected much by said factors under consideration.

However, a study by Kiiru (2007) on delinquent loans brings into perspective other factors or aspects that would contribute to microfinance banks performance. His findings showed that borrowers in small medium enterprise level under group co-guarantee mechanism were forced to sell their household goods to repay back their loans due to the pressure from their peers in the group and the organization credit officers. On the other hand, the clients opted to borrow from other organizations or unregulated financiers such as shy locks to pay their outstanding debts hence a vicious cycle of multi borrowing. From the study, 17 percent of clients were able to repay their loans from their business returns. The majority, 62 per cent of borrowers, repaid their loans under duress – repayment due to excessive peer pressure. Another 17 per cent had to sell their pre-existing assets, while four per cent had their property confiscated by their peers.

From the ANOVA analysis, it can be observed that the F-ratio can be stated as $F(4, 51) = 26.96$, $P<0.05$ meaning that there is a significant effect of loan portfolio monitoring aspects, credit information sharing, legal framework on collections and external debt collection to the performance of microfinance banks in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents a summary of the entire study guided by the objectives, research questions and the research methodology stated earlier. It also presents conclusions and recommendations drawn from the findings on the effects of credit collection strategies on performance of microfinance banks in Kenya. The chapter also captures the suggestion on further areas of study.

5.2 Summary

The purpose of the study was to establish the effects of credit collection strategies on performance of Microfinance Banks in Kenya. The study was guided by the following research questions; what are the effects of loan portfolio monitoring on performance of microfinance banks in Kenya? Which are the effects of credit information sharing on performance of microfinance banks in Kenya? What are the effects of legal framework in debt collections on performance of microfinance banks in Kenya? What are the effects of external debt collection on performance of microfinance banks in Kenya? Drawn from specific objectives; to determine the effect of loan portfolio monitoring on performance of microfinance banks in Kenya. To determine the effect of credit information sharing on performance of microfinance banks in Kenya. To establish the effect of legal framework in debt collections on performance microfinance banks in Kenya. To establish the effects of external debt collection on performance of microfinance banks in Kenya.

The study employed a descriptive research design and a census survey was conducted in all 12 microfinance banks registered in Kenya. Data was collected using questionnaires from a sample size of 56.The questionnaire captured their perception about the credit collection strategies on performance of microfinance banks. The data collected was analyzed using descriptive statistics, multiple regression analysis; Analysis of Variance (ANOVA).The researcher used the statistical package for social sciences (SPSS) as an aid in analyzing the data collected. From the multiple regression model summary, the values of Pearsons simple correlation (r=.824) indicated a strong positive correlation between credit collection strategies and the performance of microfinance banks in Kenya. Loan portfolio monitoring

was insignificant with a p value of .675; Credit information sharing significant with a p value of .001; Legal framework in debt collections insignificant with a p value of .291 and external debt collection insignificant with a p value of .079.

5.3 Conclusion

The study drew its conclusions from the information collected from the respondents and based on the major findings of the study.

The researcher concludes that loan portfolio monitoring aspects had an insignificant effect on performance of microfinance banks. The credit management systems were found to have less impact on performance of the microfinance banks hence the need for the banks to invest in new technology to enhance debt collection and maximize productivity. The banks uses early arrears management approach, interest waivers on defaulted loans, loan restructures and period extensions together with references provided by guarantors as strategies and tools to ensure effective debt collection.

In addition, the researcher concludes that credit information sharing during debt collection improves the performance of the microfinance banks by reducing the portfolio at risk and increasing profitability. When the number and value of non-performing loans increases in a bank, the institution is required to raise provisions for bad debts which reduce the margin of profitability. However, the data obtained from credit reference bureau is provided at a fee which is incurred by the financial institutions. The institutions should therefore continue embracing the practice to increase profitability.

Further, the researcher concludes that legal framework and litigations for debt collection was found to be insignificant to the performance of the microfinance banks. A significant number of staff in microfinance banks were unaware of legal procedures and processes in loans collections. In addition, initiating legal proceedings on debt collections may be time

consuming and costly and sometimes may taint the organization corporate image hence found ineffective.

More so, the researcher concludes that external debt collection mechanism is less effective compared to internal mechanisms in loans collection. The banks preferred using external collection efforts when internal mechanisms failed. However, the external debt collectors are highly skilled and vetted before being admitted to carry out debt collection on behalf of the bank and their practices therefore did not affect the customer retention negatively after the recovery process was over.

The collected data indicated that the majority of the respondents were credit officers in their respective microfinance banks, followed by second majority who were both debt collection officer and credit manager followed by head of credit and debt recovery manager respectively. In view of the above, the researcher concludes that the targeted respondents had varying capacities and that aspect gave the researcher confidence of obtaining reliable and valid results.

5.4 Recommendations based on findings

It is recommended that embracing of information communication technology (ICT) in credit management should be a priority for microfinance banks management since the new technology will help in automation of many tasks in credit department and minimizes the collection efforts. Vast amount of customer data will be available and accessible to banks in a faster, cheaper and computing power enabling the banks to leverage on new information in risk decision making and not only for better credit-risk decisions, but also for portfolio monitoring and early warning and prediction of operational losses.

The researcher further recommends that the microfinance banks should embrace credit information sharing more to help them recover loans, especially when borrowers know that

their credit information is shared making them have an additional incentive to pay their loans as per the loan contracts.

On the other hand, the microfinance banks management must ensure that regular and periodical reviews on credit collection strategies are done to make it more effective. The credit market is always dynamic and may render the existing strategies obsolete hence affecting debt collection and performance of the microfinance banks. The heads of credits in various banks should therefore conduct regular reviews and bench marking activities with peers in the sector in ensuring an effective credit collection policy is in place.

5.5 Areas of further research

The study used only four variables which may not have the overall effect on performance of the microfinance banks and therefore a need to carry out a study with other different parameters aimed at establishing other major determinants of microfinance banks performance. It is recommended that more research study to be undertaken based on other different parameters aimed at establishing other major determinants of microfinance banks overall performance.

From the multiple regression model summary, the values of Pearson's simple correlation indicated a strong positive correlation between credit collection strategies and the performance of microfinance banks in Kenya. However, Loan portfolio monitoring aspects, Legal framework in collections together with external debt collection were found to have an insignificant effect on performance of microfinance banks. The researcher therefore recommends to other academicians and researchers to carry out studies aimed at establishing the effects of each variable on performance of microfinance banks.

The researcher focused on microfinance banks regulated by central bank of Kenya and therefore recommends a study based on the variables under study and their effects on performance of non-deposit taking microfinance institutions in Kenya. The CBK which is the regulator of the microfinance banks should come up with a mandatory regulation that

will require every registered MFB has an established internal debt recovery unit before engaging in lending and which will complement the efforts of debt collection with external debt collectors which was found to have an insignificant effect on performance.

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APPENDICES

Appendix 1: List of Microfinance Banks in Kenya

Caritas MFB
Century FMB
Choice MFB
Daraja MFB
Faulu Kenya MFB
Kenya Women Finance Trust MFB
Rafiki MFB
Remu MFB
SMEP MFB
Sumac MFB
U & I MFB
Uwezo MFB

Source: Bank Supervision Report (2015)

Appendix 2: Questionnaire

Dear Respondent,

My name is **BENSON MACHARIA MAINA** an MBA (Strategic Leadership & Management) student at St Paul's University. I am undertaking a research on **EFFECT OF CREDIT COLLECTION STRATEGIES ON PERFORMANCE OF MICROFINANCE BANKS IN KENYA.** By virtue of an employee of this microfinance bank in credit department, you form part of the respondents for this research. Please accept my invitation to participate in this research by sparing some time to fill the questionnaire.

This questionnaire is being administered for research purposes and any information provided will be used purely for academic purposes and will be treated with confidentiality. Attached to this questionnaire is a Letter of Introduction from the Associate Dean, School of Business Studies.

Thank you so much for your participation in this research. You can request for a final version of this research work through my email address **maina.benson9@gmail.com**

Thank you.

Please read the questions carefully and feel free to respond to them by giving your response by ticking (√) whichever option best describes you or applies to you.

SECTION A: PERSONAL AND EMPLOYMENT DEMOGRAPHICS

Kindly tick the box that best describes your personal and employment characteristics **(WHAT DESCRIBES YOU TODAY)**

1. Your **gender** Male □ Female □
2. Your **Age bracket**

   □ 20-29 □ 30-39 □ 40-49 □ 50-59 □ 60-69 □ 70-79
   □ 80-89
3. Your **educational level**

   □ Primary □ Secondary □ High School □Certificate □College
   □ University
4. Your current **position in the bank** *(Includes whether you're on acting capacity)*

   □ Head of Credit □ Debt Recovery Manager □ Credit Manager □ Credit Officer
   □ Debt Collection Officer

5. The **Period you have worked in this bank(***Do not consider years worked in other commercial banks or microfinance banks)*

   □ Less than 1 yr □ Between 1 and 3 yrs □ Between 4 and 6 yrs □ Over 6 yrs

6. How many **years of experience** do you have in your current role*(including years in other banks you have worked at)*

   □ 1-2yrs □ 3-5 yrs □ 6-8 yrs □ 9-11 yrs □ More than 11 years experience

SECTION B: CREDIT COLLECTIONS STRATEGIES

The following questions are meant to establish the existence and usage of credit collection strategies in debt collection in your organization.

7. Does your organization have an operational credit collection strategies in place?
   □ Yes □ No
8. To what extent does your organization use credit collection strategies in debt collection?
   □ Very great extent □ Great extent □ Not sure □ Small extent
   □ Not at all

9. To your opinion ,do you agree the existing credit collection strategies have worked effectively*(Based on increased non-performing loans in the sector*)

   □ strongly Agree □ Agree □Neutral □ Disagree
   □ Strongly Disagree

10. If yes in (7),please list at least 4 strategies adopted by your bank in credit collection
    a,……
    b……..
    c,……
    d,……..

11. The following statements relate **to credit collection strategies** presumed to have had an influence on the performance of your organization**.** Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (**5**-) Strongly Agree, (**4**) Agree, (**3**) Neutral, (**2**) Disagree, (**1**) Strongly Disagree.

	Statement on Credit collection strategies formulation and implementation	**5**	**4**	**3**	**2**	**1**
1	Formulation of credit collection strategies is the duty of everyone in credit department					
2	Staff understands well the credit collection strategies and enforcement					
3	Existing credit collection strategies have assisted in debt management					
4	Regular and periodical reviews on credit collection strategies have usually done to make it more effective					
5	An effective credit collection strategy translates to low credit risk and P.A.R					
6	An effective credit collection strategy translates to high profitability of the bank					

SECTION C: LOAN PORTFOLIO MONITORING

The following questions are meant to establish the existence and effectiveness of credit management system in your bank

12. Does your organization have a credit management system in place?

□ Yes □ No

13. To what extent does the staff utilize the credit management systems in loan portfolio management?

□ Very great extent □ Great extent □ Not sure □ Small extent

□ Not at all

14. To what extent does the staff utilize the credit management reports in loan portfolio management?

□ Very great extent □ Great extent □ Not sure □ Small extent

□ Not at all

15. The following statements relate to **loan portfolio monitoring aspects** presumed to have had an influence on the performance of your organization**.** Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (**5**-) Strongly Agree, (**4**) Agree, (**3**) Neutral, (**2**) Disagree, (**1**) Strongly Disagree

	Statements on effectiveness and efficiency of loan portfolio management aspects	**5**	**4**	**3**	**2**	**1**
1	The credit management systems are real time, automated and enhanced with new technology					
2	Generating of periodical reports on credit management is possible					
3	Periodical reports on loan portfolio status are made available to credit staff in time					
4	Is there correlation between credit management reports and loan Non- performance					
5	Borrowers are served with demand and payment reminder letters and are effective in debt collections					
6	The credit management system has assisted in effective and efficient debt collection hence low provisions for bad debts					

SECTION D: CREDIT INFORMATION SHARING

The following questions are meant to establish the existence, effectiveness and efficiency of credit information sharing in your organization

16. To what extent does the staff utilize the credit information sharing in loans collections and recovery?

□ Very great extent □ Great extent □ Not sure □ Small extent

□ Not at all

17. Do you agree credit information sharing is important during debt collection?

□ strongly Agree □ Agree □Neutral □ Disagree

□ Strongly Disagree.

18. The following statements relate to **credit information sharing presumed** to have had an influence on the performance of your organization**.** Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (**5**-) Strongly Agree, (**4**) Agree, (**3**) Neutral, (**2**) Disagree, (**1**) Strongly Disagree

	Statements on utilization, effectiveness and efficiency of credit information sharing	**5**	**4**	**3**	**2**	**1**
1	Credit bureau agents provides sufficient and updated borrower credit information during loan collections process					
2	References provided by customers are effective during loan collection process					
3	Obtaining credit information during the loan collection process incurs cost on the bank side					
4	The bank periodically updates borrowers credit information at credit bureaus					
5	The bank is connected with the credit reference bureaus systems for easy access of borrowers credit information					

SECTION E: EXTERNAL DEBT COLLECTION

The following questions are meant to establish the existence of an external debt collection mechanism and its effectiveness

19. Does your organization have external debt collection mechanisms in place?

□ Yes □ No

20. To what extent does the bank utilize external debt collection agents in loan recoveries?

□ Very great extent □ Great extent □ Not sure □ Small extent

□ Not at all

21. How many external debt collection agents do you have in your bank panel?

□ None □ 1 □ 2 □ 3 □ 4 □5

□ H

22. The following statements relate to **external debt collection presumed** to have had an influence on the performance of your organization**.** Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (**5**-) Strongly Agree, (**4**) Agree, (**3**) Neutral, (**2**) Disagree, (**1**) Strongly Disagree

	Statements on recruitment,utilization,effectiveness and efficiency of external debt collection agents	**5**	**4**	**3**	**2**	**1**
1	The bank uses external collection efforts when internal mechanisms fails					
2	The external debt collectors are highly skilled and embrace ethical standards during loan collection					
3	External debt collectors are vetted before being engaged as external service providers					
4	External debt collection affects customers retention after the loan recovery process					
5	External debt collection mechanism is more effective than internal mechanisms in loans collection.					

SECTION F: LEGAL FRAMEWORK IN DEBT COLLECTION

The following questions are meant to establish the existence of an established legal framework in loans collection in your organization

23. Does our organization have an established legal framework to help in enforcing loans collections?

□ Yes □ No

24. The following statements relate to **legal framework in debt collection** presumed to have had an influence on the performance of your organization. Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (5-) Strongly Agree, (4) Agree, (3) Neutral, (2) Disagree, (1) Strongly Disagree

	Statements on legal framework in debt collection	5	4	3	2	1
1	I am conversant with the legal process in collecting debts					
2	I often do engage the legal department in collection and recoveries of loans					
3	I would prefer a legal proceeding in debt collection as opposed to dialogue and setting a repayment to a great extent					
4	The legal framework on loans collections and recovery is effective					

SECTION G: PERFORMANCE

The following questions are meant to establish the factors that contributes to performance levels of your organization

25. To what extent is your knowledge on expected key performance indicators for your organization?

□ Very great extent □ Great extent □ Not Sure □ Small Extent

□ Not at all

26. To what extent do the current collection strategies affect the image of your organization?

□ Very great extent □ Great extent □ Not Sure □ Small Extent

□ Not at all

27. Please list some of the key performance indicators embraced by your organization

a……
b……
c,……
d,……

28. Please list other factors that influences the performance of your organization

a,……
b,……
c…….
d……..

29. The following statements relate to **performance levels** of your organization presumed to be influenced by credit collection strategies**.** Kindly tick the extent to which you agree or disagree with the statements on a scale of 5 (Strongly Agree) to 1 (Strongly Disagree).

KEY: (**5**-) Strongly Agree, (**4**) Agree, (**3**) Neutral, (**2**) Disagree, (**1**) Strongly Disagree

	Statements on performance levels of the banks	**5**	**4**	**3**	**2**	**1**
1	The nature of credit collection strategies increases or decreases the level of no-performing loans in your bank					
2	Growth in number of customers both borrowers, depositors and financial services consumers is affected by credit collection strategies					
3	The profitability of the bank has improved due to credit collection strategies					

Appendix 3: Secondary Data Collection Template on Microfinance Banks 5 years Performance

Financial Institution	Performance Indicator	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
FAULU MFB	Non-performing loan					
	Profitability					
	Customer base					
KWFT MFB	Non-performing loan					
	Profitability					
	Customer base					
CHOICE MFB	Non-performing loan					
	Profitability					
	Customer base					
REMU MFB	Non-performing loan					
	Profitability					
	Customer base					
UWEZO MFB	Non-performing loan					
	Profitability					
	Customer base					
RAFIKI MFB	Non-performing loan					
	Profitability					
	Customer base					
U & I MFB	Non-performing loan					
	Profitability					
	Customer base					
SMEP MFB	Non-performing loan					
	Profitability					
	Customer base					
DARAJA MFB	Non-performing loan					
	Profitability					
	Customer base					
SUMAC MFB	Non-performing loan					
	Profitability					
	Customer base					
CENTURY MFB	Non-performing loan					
	Profitability					
	Customer base					
CARITAS MFB	Non-performing loan					
	Profitability					
	Customer base					

Appendix 4: University Introduction Letter

ST. PAUL'S UNIVERSITY

Private Bag 00217 LIMURU, KENYA
Email: bps@spu.ac.ke
Website: www.spu.ac.ke

Tel Office: +254(0) 20-2020505/10
Mobile: +254(0) 728- 669000
(0) 728- 062420
(0) 736- 424440

BOARD OF POSTGRADUATE STUDIES

8th March 2017

National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

Re: Recommendation for Maina Benson Macharia to conduct a Masters of Business Administration (MBA) research.

This letter confirms the above named person is a second (final) year student of the MBA Programme at St. Paul's University.

The final year consists of a major research work leading to a dissertation comprising 20,000 words. The student's selected topic is '*Effect of credit collection strategies on performance of microfinance banks in Kenya'.*

The research will take place in Nairobi County from March 2017 to May 2017.

Kindly grant this student the required permit.

Yours Faithfully,

Dr. Sammy Githuku
Director, Postgraduate Studies

Appendix 5: NACOSTI Research Authorization Letter

NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,
2241349,3310571,2219420
Fax: +254-20-318245,318249
Email:dg@nacosti.go.ke
Website: www.nacosti.go.ke
when replying please quote

9th Floor, Utalii House
Uhuru Highway
P.O. Box 30623-00100
NAIROBI-KENYA

Ref: No. **NACOSTI/P/17/58147/16656**

Date: **28th April, 2017**

Benson Macharia Maina
St. Pauls University
P.O. Private Bag - 00217
LIMURU.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on ***"Effect of credit collection strategies on performance of micro finance banks in Kenya,"*** I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **28th April, 2018.**

You are advised to report to **the Chief Executive Officers of selected Banks, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

On completion of the research, you are expected to submit **two hard copies and one soft copy in pdf** of the research report/thesis to our office.

GODFREY P. KALERWA MSc., MBA, MKIM
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The Chief Executive Officers
Selected Banks.

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

National Commission for Science, Technology and Innovation is ISO 9001: 2008 Certified

Appendix 5: NACOSTI Research clearance permit

THIS IS TO CERTIFY THAT:
MR. BENSON MACHARIA MAINA
of ST PAULS UNIVERSITY, 0-20300
NYAHURURU,has been permitted to
conduct research in *Nairobi County*

on the topic: *EFFECT OF CREDIT COLLECTION STRATEGIES ON PERFORMANCE OF MICRO FINANCE BANKS IN KENYA*

for the period ending:
28th April,2018

.....
Applicant's Signature

Permit No : NACOSTI/P/17/58147/16656
Date Of Issue : 28th April,2017
Fee Recieved :Ksh 1000



.....
Director General
National Commission for Science, Technology & Innovation