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Debtors Management and Financial Performance of Selected Microfinance Institutions at Nairobi City County In Kenya

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Abstract: The purpose of this study was to assess the effect of debtors management on the financial performance of selected microfinance institutions (MFIs) at Nairobi County in Kenya. The independent variables for debtors management were: debt collection policy, internal control systems, client appraisal and legal framework. On the other hand, the dependent variable was financial performance of selected MFIs at Nairobi County in Kenya. Primary data was collected by the aid of self administered questionnaires and analyzed using multiple regression analysis. Both descriptive statistics and inferential statistics were determined. The nine licensed MFIs in Nairobi City, Kenya by the CBK as at 31st December 2014 were the target population of the Study. In each of the 9 MFIs, four individuals were purposively selected to participate in the study as respondents; these were the Branch Manager, Credit Officer, Debt Recovery Officer, and Finance Officer and hence the sample size was 36 Officers in the 9 MFIs. With the aid of SPSS version 21.0 and Excel software, quantitative results were tabulated and presented in the form of charts, bar graphs, and narratives. The study found out that debt collection policy, legal framework and internal control systems are statistically significant in influencing financial performance of selected MFIs at Nairobi City in Kenya. The study further established client appraisal had no statistically significant effect on financial performance of MFIs at Nairobi city in Kenya. The study found out that internal control systems had a significant effect on financial performance of MFIs in Nairobi city Kenya. The research recommends that all MFIs should have established debt collection Policy, adopt internal control system, closely monitor implementation of internal control systems and that the MFI Managers and the regulators should put more emphasis on compliance procedures.

Key Words: debt collection policy, internal control systems, client appraisal, legal framework, financial performance

1. Introduction

In East Africa, provision of Microfinance Institutions (MFIs) services is a function of Savings and Credit and Credit Cooperative Organizations (SACCOs). Kiiru (2007) indicates that getting access to microfinance loans and other services are limited in Kenya and other East African nations due to lack of collateral and the high-interest rates. The primary investment activity of microfinance institutions is extending these credits. For these financial services, poor people are willing to pay because of the added advantage they receive for not collateralizing anything (Gaurav, 2011). The management of debtors encompass the management of collection policy, internal control systems, client appraisal and legal framework systems.

Charitou, Elfani and Lois (2010) define debtors' management as a strategy that entails the process of designing a policy that governs how a company extends credit to its customer base and monitoring those systems. According to Pandey (2004), the term debt management refers to ensuring that the collection of book debts is done. Ijams (2005) indicates that the aim of this process is to minimize as much as possible the amount of bad debts that the company will incur as a result of customers failing to repay the total loan acquired.

If the company invest in excessive inventory and receivables it will reduce the profit, whereas there is a risk of not being able to meet commitments due to little investment to meet the risk of not being able to lend (Harris, 2005). Pandey (2004) concurs with the statement that debtors constitute a substantial portion of current assets of several businesses. For example, after inventories in the balance sheet, trade debtors are the major components of the current assets. The primary source of income of all businesses is the sale of goods and services. Without a credit facility, the sales of a company may not increase beyond a particular limit and these low sales have an impact on the profits and the liquidity of the firm. In the other hand if trade debts are not recovered in time they result in losses to the organization (Saleemi, 2003).

Stoner (2003) defines financial performance as the ability to survive, grow, operate efficiently, profitably, survive, and react to the threats of the environment and opportunities. Return on sales, return on assets, return on investment, return on equity, sales growth and return on capital employed forms part of financial measures of a firms' performance. Brennan and Soloman (2008) argue that the objective performance measures include indicators such as revenue growth, return on capital employed and profit growth. Many firms' weak performances are as a result of poorly performing assets. These findings are reflected in the company's return on investment, return on assets, on performing loans and value added. Today, microfinance institutions are seeking financial sustainability.

Recently, performance measurement in MFIs has undergone tremendous changes from both external and internal point of views. These factors include: business environment, changes in technology, the involvement of commercial banks in MFIs and increased competition resulted in a shift in performance measurement trend MFIs with most of the stakeholder requiring improvement in financial performance measures and also a balance between financial and non-financial measures (Hermes et al., 2011). Zeller & Meyer, (2002) states that MFIs performance can be viewed as a triangle comprising outreach to the poor, poverty impact and financial sustainability. MFIs financial performance measurements involve four core areas, outreach to poor, sustainability, repayment rates and efficiency (Rosenberg, 2002). Empirical evidence on the performance of microfinance institutions has reported different results across different MFIs.

Dinos et al. (2010) indicate that the microfinance institutions are popular among millions of Kenyans who rely on basic needs such as clothing, shelter, food, medical expenses and school fees. They exist as viable and credible alternatives to formal banking institutions that to a large extent are beyond the reach of ordinary Kenyans. The MFIs provide the financial support based on their stable structure. The MFIs are one of the major contributors to the national economy since they have mobilized funds over kshs.150 billion. The Micro-Finance Act 2008 requires that loans policy and procedures manual specify the criteria and procedures applicable to the evaluation, processing, approval process, documentation and release of credit facilities in writing by every individual licensed MFIs. Schreiner (2003) posits that disbursement of loans must be according to the established credit policy and procedures.Hence, despite the significance of MFIs to the Kenyan economy and importance of sound debtors management, it remains unclear as to whether MFI debtors management practices significantly affect financial performance of the institutions.

It is risky for microfinance to lend money without having an efficient debtor recovery systems. Most micro-lending is unsecured hence making credit risk a primary concern for MFIs. The MFIs mainly focus on individuals who due to lack of the ability to provide security or guarantee against the money borrowed cannot secure credit from banks. Most of the banks do not extend credit to these kinds of people due to high-risk of defaulting to repay of interest and in some cases the principal amount itself. Therefore, MFIs are required to craft sound credit management that comprises of identification of existing and potential risks inherent in lending activities (CGAP, 1999).

Sound debtors management is paramount for financial institution's continuous growth of profit while deteriorating credit quality is the primary cause of poor financial performance and condition.When credit standards have relaxed the probability of bad debts increases (Gitman, 1997). Organizations must, therefore, ensure that the Management of accounts receivables is efficient and effective. Delaying collecting cash from debtors has severe financial implications in the form of affecting customer relations and increased bad debts. Profitability is reduced if payment is made late, and failure to pay, then a total loss is incurred. Bearing this in mind, it is simply good business to put debt management at the front end by managing it strategically.

There is empirical evidence that links debtors management to firm performance. Gatuhu (2013) studied the effects of credit management on the financial performance of MFIs in Kenya and found the need to enhance client appraisal, credit risk control, and collection policy. Orua (2009) studied the relationship between capital structure and financial performance of MFIs in Kenya. Njeri (2010) studied the effects of liquidity on the financial performance of deposit taking MFIs in Kenya and found that the performance of MFIs in Kenya highly depends on the level of institutions liquidity. Much of the Empirical evidence has attempted to study Microlending and Micro financing with a primary focus on MFIs regarding poverty alleviation, particularly in Kenya, but still MFIs in Kenya experience high levels of non-Performing loans. If this trend continues viability and sustainability of MFIs will be threatened and their goals will not be achieved.Hence, it is by these gaps that the current study was anchored upon.

The study sought to investigate the effect of debtors' management and financial performance of selected Microfinance Institutions at Nairobi County in Kenya. The specific objectives of this study were: to establish the effect of debt collection policy on financial performance of selected MFIs at Nairobi County in Kenya, to determine the effect of the internal control system on financial performance of selected MFIs at Nairobi County in Kenya, to establish the effect of Client Appraisal on financial performance of selected MFIs at Nairobi County in Kenya and to determine the effect of legal framework on financial performance of Selected MFIs at Nairobi County in Kenya.

2. Literature Review

2.1. Theoretical Review

This is the theoretical anchorage of the study. The section captures relevant theories and models that inform the study.This section will highlight the following theories and models; the Grameen Solidarity group theory, Loanable funds theory and the 5 C's Credit Rating Model.

2.1.1. The Grameen Solidarity Group Theory

The Grameen model was invented in 1976 by Professor Muhammad Yunus, the founder and managing director of Grameen Bank. Since the model proved to be successful today, it's practiced in more than 250 outlets of Grameen Bank in more than 100 countries (Yunus, 1999). This model is based on peer group pressure whereby loans are made to individuals in groups of four to seven. For group members to access subsequent loans is dependent on successful repayment by all team members. It's evident from organizations such as Grameen Bank who use this type of microfinance model that these groups has proved effective in deterring defaults (Armendariz & Morduch, 2005).

A new branch of the MFI is set up in a village with a field officer and some qualified workers, who have already done research on the population there in advance and made their choice according to its potential demand and its need for financial support. These employees of the MFI support then up to 15 to 20 villages in the surrounding and strive to make the local, poor people aware of the microfinance possibilities through word of mouth and personal advisory. The lending process is similar to the solidarity group approach. Groups of five are created. However, in the beginning, only two members of the group receive a loan and are monitored for one month. The credibility of the group will then be based on the repayment performance of the first two individuals (Hazeltine & Bull, 2003).

If they are reliable and could pay back their loan, the remaining members qualify for a loan as well, since the group is jointly and severally liable for the single members. Loans go first to two members of the group, then to another two, and then to the fifth group member. Given that loans are being correctly and timely repaid, the cycle of lending continues (Armendariz & Morduch, 2005). This theory puts more emphasis on the group members monitoring one another much more efficiently than the lender hence the risk for such borrowers is thus shifted from the MFI to the borrowers themselves. In theory, this sounds prudent, in practice borrowers may not be able to evaluate the riskiness of each others' projects and the inherent riskiness of their partners effectively.Most MFIs have adopted the Grameen approach.They use the concept of Joint liability to reduce the risk as members have knowledge of the individual character and can screen potential borrowers.

2.1.2. The Loanable Funds Theory

The Loanable Funds theory was formulated in 1934 by British economist Robertson. The theory assumes that interest rates are determined by the supply of Loanable funds and demand for credit. This theory intends to improve upon the classical theory of interest. It recognizes the fact that money can play a fundamental role in the investment and saving processes and thus causes variations in income level. It is a monetary approach to the theory of interest, as distinguished from the theory of classical economists. According to Wensheng (2002), the loanable funds theory synthesizes both the monetary and non-monetary aspects of the problem.

According to this theory, the rate of interest is the price that equates the demand for and supply of loanable funds. At the equilibrium level where demand-supply of Loanable funds, savers and investors are the happiest possible. Ngugi (2001) argued that interest equates the demand for loanable funds with the supply of loanable funds as the price.This theory has implication on Microfinance savers and borrowers according to this theory this two groups should be adequately compensated at equilibrium. One party shoould not feel exploited by Interest rate which is widely spread. The interest rate should be structured in a way every party feel comfortable (Emmanuelle, 2003). Therefore, this theory comes in handy to provide knowledge on the pricing of Loanable funds, by unearthing the determinants of pricing of Loanable funds which have a direct implication on debtors' management.

2.1.3 The 5 C's Model

Pandey (1993) recognizes the 5 Cs as measurement parameters in setting credit standards. The lenders use this model to determine the creditworthiness of potential debtors. The model is based on the information declared by the applicant to the bank. The 5 C's model emphasizes on the capacity, character, collateral, capital, and conditions of the applicant who requires the financial assistance. 5 C's is an approach for evaluation of creditworthiness using the 5C's of credit summarized by Peavler (2013) as follows: capacity refers to borrower's ability to meet the loan payments of interest and principal.

According to Pandey (1995), the credit manager attempts to ascertain the applicant's willingness to pay and settle his or her obligation. In making an analysis of the client's character, the company should consider some of the aspects of the clients. These aspects include bank references, marital status, attachment to government agencies, the level of education contact Operation stability and historical background. Collateral is referred to as a form of security for the lender. Majorly banks usually require collateral as a type of insurance in case the borrower cannot repay the loan. They refer to items like land, houses, commercial and residential estates or any other property of value offered as the security of the value of the loan extended to the borrower (Kakuru, 2001). The collateral should be safe, easily marketed and that its value should be able to cover up the debt when sold in case the borrower defaults to pay (Van Horne, 1995).

Capital is the money invested in the business and is an indicator of how much is at risk should be the company fail. It is ascertained by the analysis of the financial statements with particular emphasis on the risks and the debt-equity ratios and also evaluating the customer firm working capital positions (Floucks, 2001). The financial manager can also assess the statement of financial position to ascertain how much the owner has invested in the business as his personal stake.Conditions refer to the economic and political situation in the country. According to Kakuru (2001), this includes the assessment of prevailing economic and other factors like social-political which may affect the customer's ability to pay. Due to the high cost which reduces their profits that may affect their payments (Pandy, 2001).

According to Pandey (1995), one should evaluate the customer's financial position by analyzing ratios and trends in cash and working capital positions. The attributes to consider are how much the owner of the business has put in the business as this determines the stake of the person in the business. Pandey (2008) contends that, in some situations, the applicant may be required to offer securities before credit is advanced. The character refers to the obligation that a borrower feels to repay the loan.The concept seeks to evaluate the key criteria of repayment ability, by analyzing the financial health of the borrower, the stream of cash flows and other qualitative factors and the character of financial discipline (Pride et al., 2008). The 5 C's model is relevant in this study as MFIs use this model to determine the creditworthiness of potential debtors.

The theory informs the study in that the CBK regulated Microfinance institutions will consider the cash flow from the business, the repayment timings, and the successful repayment of the loan. The success of MFIs mostly depends on the effectiveness of their debtor's management systems since they generate most of their income from savings, interest earned and on loans extended to members. The MFIs will use the 5Cs model of credit to evaluate a customer as a potential borrower. The 5Cs will help the MFIs to increase loan performance, as they get to know their customers better.

2.2 Empirical Review

The section reviews several studies on the study variables with an objective of documenting research gaps. These include local and foreign studies.

2.2.1 Debit Collection Policy

Kariuki (2010) found that for an organization to ensure that credit management is done various policies should be put in place, one of these policies is a collection policy that is needed since all customers do not pay the firms bills in time. Some clients take long to make payments while some do not pay at all. The aim of collection effort should be to accelerate collections from slow payers and reducing bad debt losses.

Ayodele, Thomas, Raphael and Ajayi (2014) carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place.

Byusa and Nkusi (2012) studied effects of credit policy on bank performance in selected Rwandan Commercial banks. The study sought to determine the effects of credit policy on bank performance using data on selected Commercial Banks. The results obtained indicated that the Rwanda's commercial banks increased their accounts, increased customer base, and improved their financial indices, thereby maximizing their profits.Usually, banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency.

2.2.2 Internal control system and Financial Performance

Wainaina (2011) examined the internal control function. He established that, other than the prevention and detection of fraud; internal controls should portray the overall strength of the accounting environment in an organization as well as the accuracy of its financial and operational records. There is also need to decide the form of contract with your customer. Thirdly to assess each client's creditworthiness this depends on your personal experience and available source of information for its customers. Fourthly establish practical credit terms after determining your customer standing credit. Finally, you must collect; this requires tactic and judgment.

Ali (2013) studied the relationship between internal control and organizational financial performance of people's bank Zanzibar Ltd. The objectives of this study entail; to establish the effectiveness of internal controls used in PBZ, to examine the level of performance in PBZ and to set up a relationship between internal control and financial performance in PBZ. The study found that the internal controls used in PBZ were efficient and satisfactory; the organizational level of performance was considered to be adequate, and there was a significant positive relationship existing between the internal control systems and organizational financial performance to some extent. The study recommended that; PBZ management should design more efficient internal control systems in all aspects.

2.2.3 Client Appraisal and Financial performance MFIs

Kiplimo and Kalio (2014) Study had sought to find out the Influence of Credit Risk Management Practices on Loan Performance of Microfinance Institutions in Baringo County. The objective of the study was to determine the client appraisal on loan performance of microfinance institutions in Baringo County. The descriptive research design methodology was employed based on a survey of Microfinance institutions in Baringo County. Since all branch managers and credit officers, were directly targeted in the study Census sampling technique was appropriate. Inferential and descriptive statistics was used in data analysis. The study findings indicated that there was a strong relationship between client appraisals and loan performance in Microfinance institutions. The study showed that an increase in client appraisal led to a rise in the performance of loans in MFIs in Baringo County.

The researchers used only one objective to conclude that credit risk management practices significantly influence loan performance of MFIs in Baringo County ignoring other factors that are likely to have influence on loan performance of MFIs in Baringo county. However, this study will help the research to determine the significance of client appraisal on financial performance of MFIs in Nairobi County.

2.2.4 Legal Framework and Financial performance

Latifee (2006) indicated that while collection procedures may vary from one company to another, they should all be compliant with existing laws. The set Acts must also be adhered to by third party collection agencies, not only in details of collection procedure but also the manner in which the selection takes place. A collection procedure is defined as a comprehensive statement of steps to be taken regarding when and how the past-due amounts of debt are to be collected. Each company has its collection procedure, with information such as grace periods, due dates, date of repossession, penalties, date of turnover of delinquent account to a collection agency. For any loan arrangement, the collection procedure should be clearly spelled out as part of the loan terms. It's essential for borrowers to be aware of the details of the collection process to avoid penalties, and in the case of secured loans or collateral, repossession of the collateral.

Robin and Mitten (2000) studied the legal frameworks and performance standards for Microfinance. This study was commissioned jointly by PRET/DAI and the KNFP to compare how various countries are approaching issues about the legal-regulatory framework for microfinance. The study found out that it is also critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms. Financial regulation is defined as the body of rules, laws, and compliance procedures that determine the entry, operations, and exit of various actors within the financial system.

2.3 Summary of Literature Review and Research Gap

From the review of Literature, debtors management plays a critical role in improving financial performance in commercial banking institutions.Most studies have been inclining to focus on determining the effects of credit management on financial performance of MFIs, rather than the provision of good debtors management framework.

Review of local studies had focussed on determining the effect of credit management on the financial performance of MFIs in Kenya and the relationship between capital structure, and financial performance of MFIs in Kenya.It's, therefore, evident that the studies assessing the effects of debtors management on financial performance of licensed MFIs in Nairobi, Kenya remain elusive.There is, therefore, a gap in the empirical evidence available.The purpose of this study seeks to bridge the gap.

3. Research Methodology

The research design is defined as a conceptual structure within which to conduct research (Kothari,2004). It contains the outline for data collection, measurement and analysis the research design focuses on turning research objectives and questions into a research project and considers research choices, strategies and time horizons (Saunders, Lewis & Adrian, 2009). The study adopted a descriptive design. The study used descriptive research design to obtain information concerning the current status of the phenomena to describe "what exists" on variables in a situation. This descriptive design was appropriate because it enabled the study to do a descriptive analysis of the relationship between debtors management and its effect on financial performance of deposit taking MFIs licensed by Central Bank of Kenya as at 31st December 2014 as per CBK website.

Mugenda and Mugenda (2003) defined population as an entire group of people, events or things of interest that the researcher wishes to investigate. The target population is the number of elements that a study is interested in building statistical inferences (Mugenda & Mugenda,2003). Hence, the target population of the study consisted of 36 respondents from selected 9 MFIs in Nairobi City, Kenya that was licensed by CBK as at 31st December 2014. The Branch Managers and Credit Officers, Debt recovery officer and Finance officer in MFIs in Nairobi City were targeted for the study.

The sample size describes the list of all population units from which the sample will be selected (Cooper & Schindler, 2003). The study focussed on all the nine licensed MFIs in Nairobi city center by CBK as at 31st December 2014. In each MFI, four individuals were purposely selected to participate in the study as respondents, that included the Branch Manager, Credit Officer, Debt Recovery officer and finance officer. This yielded a sample size of 36 respondents as shown in Table 3.1 below. Purposive sampling was used to select respondents. Bernard (2002) defines purposive sampling technique as the deliberate choice of an informant due to the qualities the informant possesses. Non-probability sampling focuses on sampling techniques where the units that are investigated are based on the judgment of the researcher. What needs to be known is determined by the researcher.They also sought to find people who can and are willing to provide the information by knowledge or experience.

Table 3.1: Sample Size

Category	**No. of respondents per MFI**	**No. of MFIs**	**Sample size(Respondents)**
Branch managers	1	9	9
Credit officers	1	9	9
Debt Recovery Officers	1	9	9
Finance Officer	1	9	9
Total	**4**	**9**	**36**

The study used questionnaires and secondary data collection sheet to collect data. Primary data was collected using questionnaires. Mellenbergh (2008) defined a questionnaire as a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents.Annual reports and financial statements of the respective MFIs for the period 1st January 2010- 31st December 2014 were used as the source for secondary data. The secondary data (from the financial statements) was collected using secondary data collection sheet. The data included the total assets, after-tax profit, written off debt and value of loans outstanding. The researcher administered the questionnaire to each respondent in the study. The questionnaire had Likert-type closed and open and ended questions. The closed-ended questions were used to test the rating of various attributes. Hence, helping in reducing the number of related responses to obtain more varied responses. The essence of open-ended questions is to provide additional information that will not have been captured in the close-ended questions.

Mugenda and Mugenda (2003) indicate that data validity is the degree to which the results obtained from analysis of data represents phenomenon under study. The questionnaire was pre-tested among five respondents within the study area who were excluded from the actual study for the purpose of reducing potential biases. To achieve content validity the researcher sought assistance from experts; supervisor was sought in the development of the questionnaire to ensure it collected relevant data to answer the research questions.

Reliability is the degree of consistency and precision in which the measuring of the instrument demonstrates under same circumstances (Mugenda & Mugenda,2003). Same research respondents using the same instrument should generate the same results under identical conditions (Amin, 2005). Cronbach's alpha coefficient was used to test for reliability of the instrument. Cronbach's alpha establishes the internal consistency or average correlation of items in a survey instrument to gauge its reliability (Dawson, 2009). Nunnly (1978) proposes 0.7 to be an acceptable reliability coefficient.

On getting approval to conduct the study, the researcher contacted the participants to inform them of the impending study. This was be achieved by visiting the premises. The purpose of this was to inform the respondents the purpose of the study and seek an appointment. On the material day, the research assistant was engaged for data collection purposes. The research assistants were trained on the purpose of the study and administration of the questionnaire. On filling the questionnaires, the 'drop-and-pick-later' technique was adopted.For the purpose of secondary data, the study obtained published financial statements from the MFIs under study. Secondary data collection sheet was be filled with the collected financial statements.

Data analysis refers to the process of ordering, structuring and giving meaning to collected data (Mugenda & Mugenda, 2010). Collected data was edited to ensure accuracy and completeness, and then items were coded and scored. Multiple Regression Analysis (Standard), Descriptive Statistics (means and standard deviations) and inferential statistics were used to analyze data. SPSS software (version 21.0) was adopted to assist in data analysis and presentation. The study used tables and charts to present the findings.The following regression model guided the study:

$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ Whereby;

Y_i= Financial Performance (Net income, Loan book, ROA, and NPL)

X_1 = Debt collection policy

X_2 = Internal control system

X_3 = Client Appraisal

X_4 = Legal framework

β_0 = Intercept

β_1 To β_4 = Coefficient

ε = error term

Note- Financial performance was measured over a five year period. The average performance was then computed for each of the financial performance indicators considering that the independent variable is cross-sectional in nature.

The study performed several preliminary diagnostic tests in view of multiple regression analysis. This study used Shapiro-Wilk test and quantile-quantile plots (Q-Q plots) to test for normality owing to its usefulness in comparing two samples to see if they arise from the same distribution.In linear regression, this helped to ascertain the normality of the residuals. Homoscedasticity refers to the assumption that the dependent variable exhibits similar amounts of variance across the range of values for an independent variable. The statistical method for evaluating homoscedasticity is the Levene statistic that SPSS computer test for the homogeneity of variances (Hedayat, 2009). Levene's test assesses the statistical assumption that variances of the population from which the different samples are drawn are equal. If the results show p-value the Levene's test is less than a significant level (0.05) the obtained differences in sample variances. If you reject a null hypothesis of equal variances, it is concluded that there is a distinction between the variance of the population (Gibbons, 2007). This study used Levene's test to test for homoskedasticity.

Multicollineality is state of very high inter-correlations or inter-associations among the independent variables. It's, therefore, a type of disturbance in the data. Statistical inferences made about the data may not be reliable if present in the data (Brook,2008).Two collinearity diagnostic factors can help identify multicollinearity namely variance inflation factor (VIF) and Tolerance (Gordon & Frye,2002). Tolerance is defined as a measure of collinearity as reported by most statistical programs such as SPSS. The variable under consideration is termed to be almost a perfect linear combination of the independent variables already in the equation if the tolerance value is small and that it should not be added to the regression equation. The small tolerance value is required for all variables involved in a linear relationship. Hence, a small tolerance value less than 0.1 should be investigated further.If a small tolerance is accompanied by large standard errors and no significant Multicollinearity may be an issue (Neeleman, 2000). According to Gurajarati (2004) to remedy this problem the researcher has to drop one none of the variables that cause this so as to be able to generate significant coefficient or more data can be obtained on the variables so as to produce precise parameter estimates. The study used variance inflation factor (VIF) and Tolerance to test for Multicollinearity.

According to Mugenda and Mugenda (2003), ethical considerations are important for any research. Ethical issues taken into account included: the proper conduct of the researcher and confidentiality of the information obtained from the respondents. An introductory letter to meet the respondents was obtained from the University. Respondents were encouraged to participate voluntarily and before administering the questionnaire; the researcher sought informed consent from respondents. The researcher ensured anonymity and confidentiality of all the information collected. The researcher did not induce respondents to provide data. The respondents were given adequate time to fill the questionnaires. The study was factual in reporting the findings and gave credit to other literature cited.

4. Data Analysis, Presentation, and Interpretation

4.1 Response Rate

The study targeted a population size of 36 respondents from which 30 filled in and returned the questionnaires making a response rate of 83.3%. This response rate was satisfactory to make conclusions for the study. The total response rate was above the 51 percent response threshold for questionnaire surveys in social sciences (Pinsonneault & Kraemer, 1993) and thus the use of the collected data was considered reliable for this study.

4.2 Reliability Statistics

The study used Cronbach's alpha coefficient to test for reliability of the instrument as indicated in the table below.

Table 4.1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.948	.595	.531

The result shows an overall Cronbach's Alpha value of 0.948. The research instrument was therefore considered as reliable since it surpassed the minimum threshold of 0.7.

4.3 Diagnostic Tests

4.3.1 Shapiro-Wilk Normality Test

Given multiple regression analysis, the study used Shapiro-Wilk to test for Normality of the residuals as shown in the table below.

Table 4.2: Tests of Normality

	Shapiro-Wilk		
	Statistic	**Df**	**Sig.**
	.964	30	.390

The P-Value is greater than 0.05, so the is no evidence of significance deviation from normality of the residuals.

Using Q-Q plot on Figure 2.1 below the points fall along the straight 45-degree line, this indicates that the sample data quantiles follow the normal distribution quantiles. The study can therefore safely conclude that data used is normally distributed.

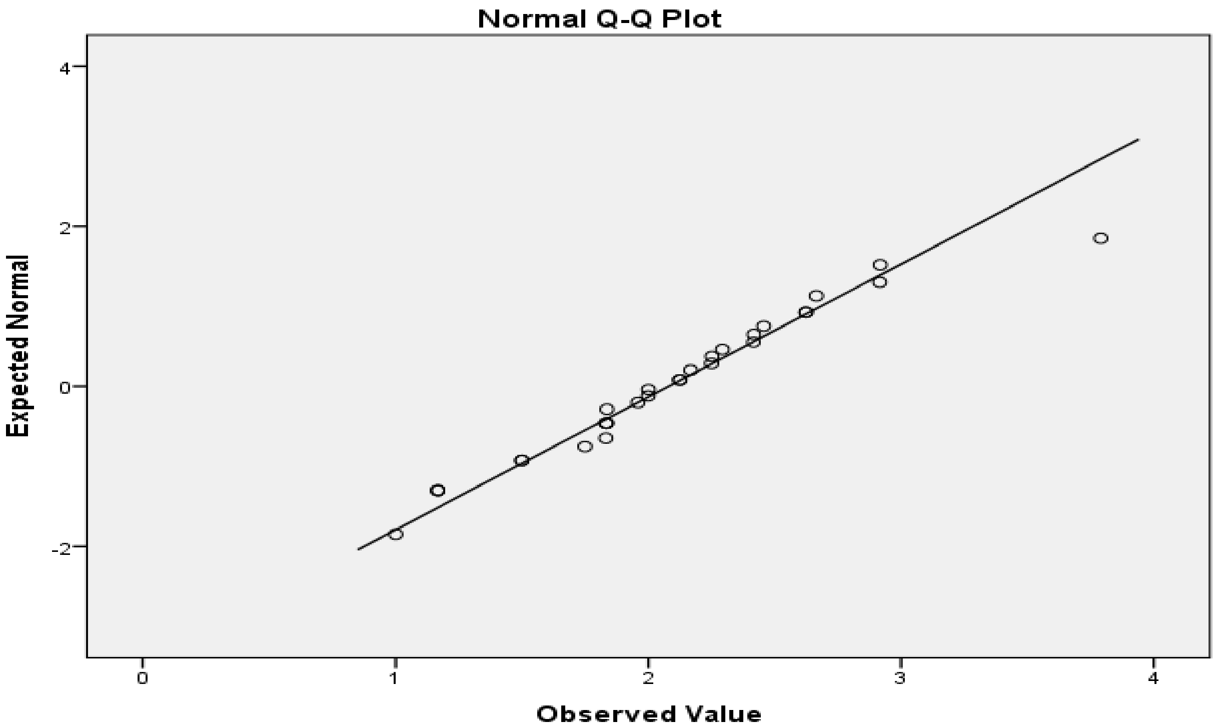

Figure 4.1: Normal Q-Q Plot

4.3.2 Tests of Multicollinearity

Kennedy (1992) recommends 10 as the maximum levels of VIF acceptable in measuring Multicollinearity. The table below provides the Output of Multicollinearity test using Tolerance and VIF.

Table 4.3: Tests of Multicollinearity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
	B	Std. Error	Beta			VIF
(Constant)	.202	.092		1.112	.277	
Debtors	.345	.077	1.057	4.448	.001	3.490
Appraisals	.019	.046	.076	.417	.680	3.922
Framework	.277	.147	.026	1.026	.012	2.044
Systems	.236	.162	.201	1.603	.029	1.978
a. Dependent Variable: MFI Performance						

Based on the coefficients output multicollinearity statistics obtained VIF Values above, meaning that the VIF Value obtained is between 1 and 10, it can be concluded that there are no Multicollinearity symptoms.

4.4 General Information

4.4.1 Gender of Respondents

The respondents were asked to indicate their sex to make the study gender sensitive. Their response is indicated in the table below.

Table 4.4: Gender of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent

Male Female **Total**	14 16 **30**	46.7 53.3 **100.0**	46.7 53.3 **100.0**	46.7 100.0

The research study sought to establish the respondent's gender distribution. From the findings above, the females were slightly above at 53.3% while the males at 46.7%.

4.4.2 Age Bracket of Respondents

To assess the responsibility of the respondents, the respondents were requested to give their age, and the responses were as below.

Table 4.5: Age Bracket of Respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Between 21-25 years Between 26-30 years Between 31-35 years Between 36-40 years **Total**	7 15 7 1 **30**	23.3 50.0 23.3 3.3 **100.0**	23.3 50.0 23.3 3.3 **100.0**	23.3 73.3 96.7 100.0

Findings in the table above indicates that 23.3% of the respondents were between the age of 21-25 years,50% were between 26-30 years,7% were between 31-35 years, and 1% were above 36-40 years. This implies that most of the respondents were youths hence they can easily understand the debt management policies.

4.4.3 Education Information

To be sure of the quality of the information given, the respondents were requested to provide their level of education, and the response is portrayed below.

Table 4.6: Education Information

	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma Degree Masters **Total**	3 26 1 **30**	10.0 86.7 3.3 **100.0**	10.0 86.7 3.3 **100.0**	10.0 96.7 100.0

Findings in Table 4.6 indicate that a small number of respondents were highly educated this is shown by the 3.3% of respondents who had masters degrees, 10% were Diploma holders while 86.7% of the respondents which is the majority were degree holders. By their education structures the researcher might assume that they know what the organization performance is and the hindrance to effective performance.

4.4.4 Duration in Employment

As a precondition to assess the reliability of the data collected, the respondents were requested to indicate the period they have worked with the organization. Their response was as given below.

Table 4.7: Work Experience

	Frequency	Percent	Valid Percent	Cumulative Percent

Less than 2 years	13	43.3	43.3	43.3
2-4 Years	11	36.7	36.7	80.0
5-6 Years	5	16.7	16.7	96.7
7-8 Years	1	3.3	3.3	100.0
Total	**30**	**100.0**	**100.0**	

From the analysis in the table above, 43.3% have served the organization for less than two years, 36.7% between 2-4 years, 16.7% between 5-6 years and 3.3% have served the organization for 7-8 years. Thus, this analysis indicates that probably they fail to embrace organizational policies as a result of low payments and lack of motivation since the majority of the respondents have only worked in the organization for less than two years.

4.4.5 Designation/Role in the Organization

The study also sought to find out the position of the respondents in the organization as indicated.

Table 4.8: Designation/Role in the Organization

	Frequency	Percent	Valid Percent	Cumulative Percent
Branch Manager	3	10.0	10.0	10.0
Credit Officer	11	36.7	36.7	46.7
Debtors rec officer	6	20.0	20.0	66.7
Others(specify)	10	33.3	33.3	100.0
Total	**30**	**100.0**	**100.0**	

The research study wanted to establish the current designation of the respondent in the organization. The findings as shown in Table 4.8 above indicate that 36.7% of the respondents were Credit officers, followed by others with 33.3%, while 20% were Debtors recovery officers and 10% of the respondents were Branch managers.

4.5 Descriptive Statistics

This section consists of descriptive findings on the dependent and independent variables as used in the study. Descriptive statistics enable the description of the distribution (mean) and variation (Standard deviation) of responses of the target population as well as allowing the researcher to determine average scores on the variables used in the study. The scores in the study used Likert-type scale where 1=strongly agree, 2=Agree, 3=Not sure, 4=Disagree and 5=strongly disagree.

4.5.1 Debt collection policy

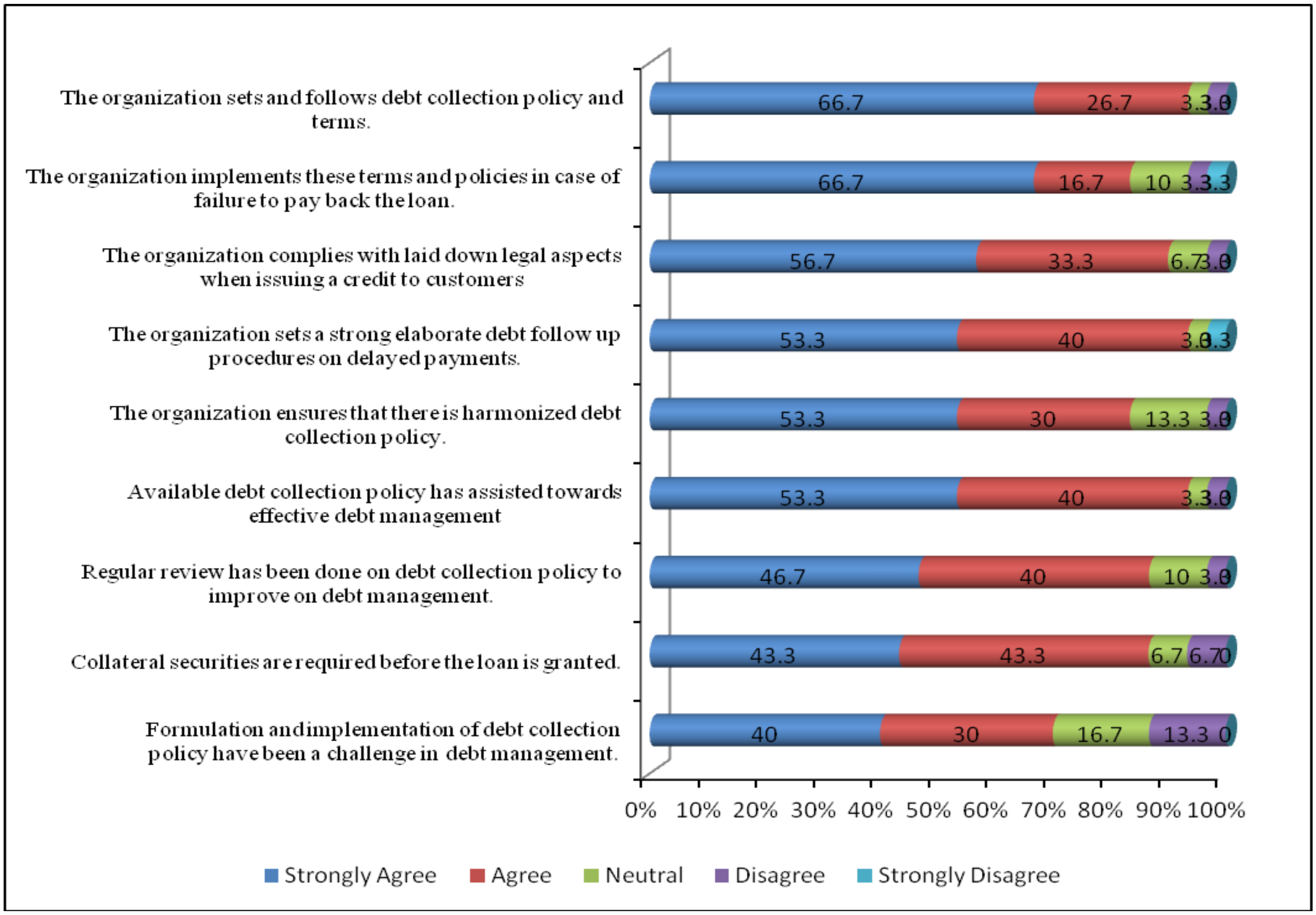

Figure 4.2: Statements in relation to debt collection policy.

From the findings, 70% of the respondents agree that Formulation and implementation of debt collection policy have been a challenge in debt management, 86.6% of the respondents agree that Collateral securities are required before the loan is granted, 86.7% agree that regular review has been to be done on debt collection policy to improve on debt management.93.3% are in agreement that the available debt collection policy has assisted towards effective debt management.83.3% are also in agreement that organization should ensure that there is harmonized debt collection policy.93.3% of the respondents agree that a strong elaborate debt follows up procedures on delayed payments should be set up by MFIs.90% agree that organization should comply with laid down legal aspects when issuing a credit to customers. 93.4% agree that the debt collection policy should be set and adhered to.

Table 4.9: Statement in relation to Debt collection policy

	Count	Min	Max	Mean	Std. Dev
In your opinion, the organization sets a strong elaborate debt to follow up procedures on the delayed payments	30	1	5	1.60	.855
The organization implements these terms and policies in case of failure to pay back the Loan.	30	1	5	1.60	1.037
The organization complies with laid down legal aspects on issuing a credit to customers.	30	1	4	1.57	.774
In your opinion, the organization sets and follows debt collection policy and terms.	30	1	4	1.43	.728
The organization ensures that there is harmonized debt collection policy.	30	1	4	1.67	.844
Available debt collection policy has assisted towards effective debt management.	30	1	4	1.57	.728

The regular review has been done on debt collection policy to improve on debt management.	30	1	4	1.83	.913
Collateral securities are required before the loan is granted	30	1	4	1.77	.858

The computed means for the statements range from 1.43 to 2.07 indicating a strong agreement with all the statements, with a standard deviation ranging from 0.728 to 1.112. The result is consistent with Kariuki (2010), who said that for an organization to ensure that credit management is done various policies effectively should be put in place, one of these policies is a collection policy that is needed since all customers do not pay the firms bills in time.

4.5.2 Internal control systems

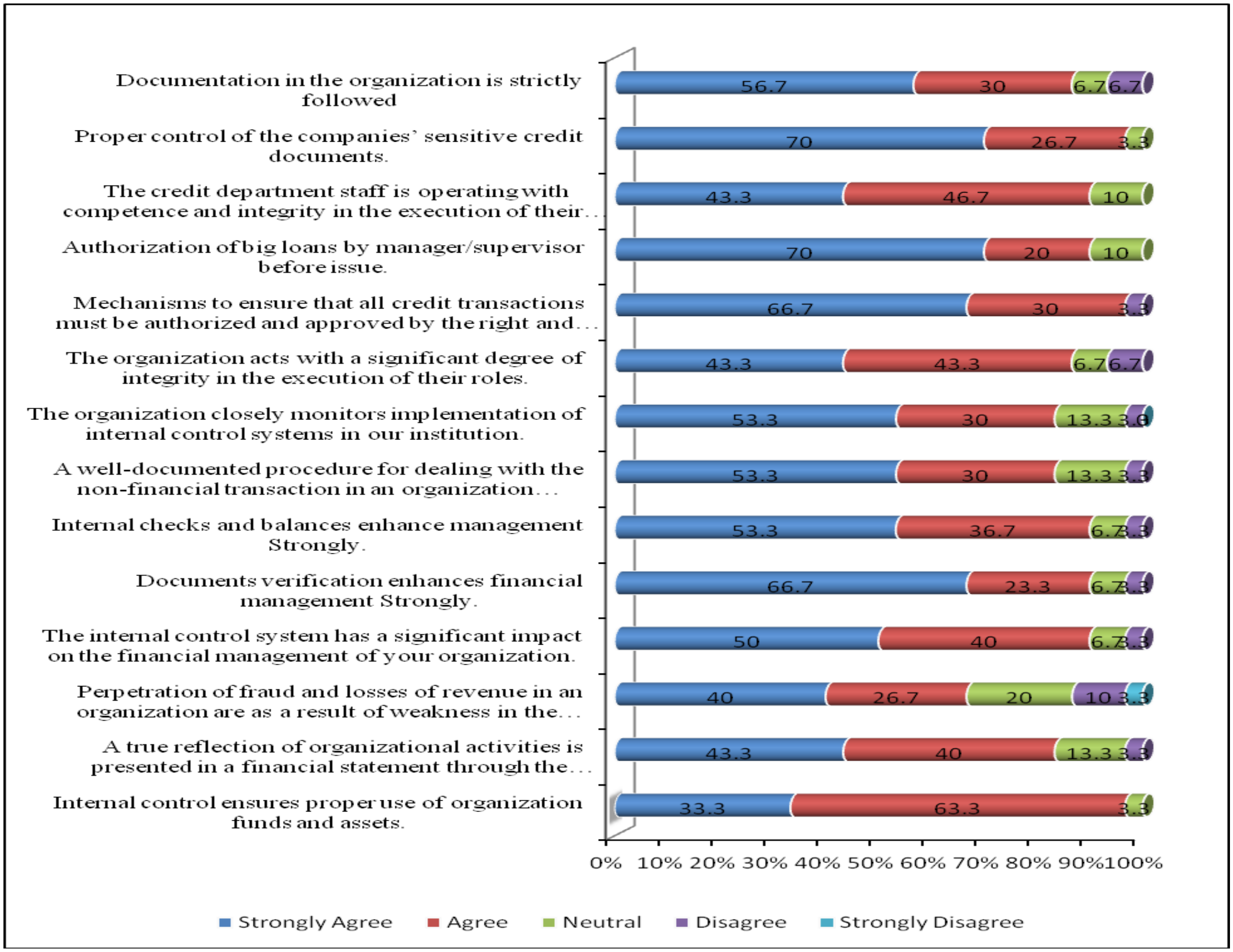

Figure 4.3: Statements in relation to internal control systems.

From the findings above, the majority of the respondents agreed that: internal control systems ensure proper use of organization funds and that a true reflection of organizational activities is presented in the financial statement through the performance of internal control systems. The researcher can, therefore, conclude that there are internal control systems in MFIs due to the large percentage that agreed. A high number of respondents agree that perpetration of fraud and losses of revenue in MFIs are due to weakness in the internal control system. Hence, this may imply that the internal control systems implemented do not meet the demands of the customers thus failing to answer their constant problems of failing to pay back their loans on time.

The majority of the respondents are also in agreement that the internal control system has a significant impact on the financial management of MFIs and hence need for documents verification, internal checks and balances to enhance financial management of

MFIs. The majority of the respondents agree that MFIs should closely monitor implementation of internal control systems. The organization and the in particular credit department staff should also act with a significant degree of integrity in the execution of their roles and loans should be properly authorized before issue.

The mean value for the statements on internal control systems ranged from 1.37 to 2.23, indicating a strong agreement with all the statements while the standard deviation ranged from .640 to 1.305 as shown in Table 4.9.The result is consistent with Ali (2013), who established that there was a significant positive relationship existing between internal controls and organizational financial performance to some extent.

4.5.3 Client Appraisal

From the findings, the majority of the respondents agree that aspects of collateral are considered while appraising clients.The majority of the responds agree that client appraisal is a viable strategy for debtors management and that client appraisal should consider the character of the customers seeking credit facilities.The respondents also agree that competent personnel should carry out the appraisal and failure to assess customer capacity to repay results in bad debts

Table 4.10: Statement in relation to Client appraisal

	Count	Min	Max	Mean	Std. Dev
Failure to assess customer capacity to repay results in bad debts.	30	1	4	1.50	.820
Client appraisal is a viable strategy for debtors management.	30	1	4	1.59	.814
Client appraisal considers the character of the customers seeking credit facilities.	30	1	5	1.67	1.061
The MFI has the competent personnel for carrying out the appraisal.	30	1	4	1.70	.794
Aspects of collateral are considered while appraising clients.	30	1	5	1.70	1.055

The mean value for the statements on client appraisal ranged from 1.50 to 1.70, indicating a strong agreement with all the statements while the standard deviation ranged from .794 to 1.055 as shown in Table 4.10. The result is consistent with Kiplimo and Kalio (2014), who indicated that there was a strong relationship between client appraisals and loan performance in Microfinance institutions.

4.5.4 Legal framework

From the findings, majority of the respondents agree that detailed statements of steps should be taken regarding when and how past due amounts of debt are to be collected and that the organization should have collection procedure, indicating due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to a collection agency. A large number of respondent are also in agreement that there should be defined compliance procedures, the body of rules and laws that determine the entry of actors, their operations, and exit within the financial system. The researcher can, therefore, conclude that there is a legal framework in MFIs due to the large percentage that agreed.

Table 4.11: Statement in relation to Legal framework

	Count	**Min**	**Max**	**Mean**	**Std. Dev**
The organization has a detailed statement of steps taken regarding when and how the past-due amounts of debt are to be collected.	30	1	5	1.70	1.022
The organization makes borrowers aware of the details of the collection process to avoid penalties, and in the case of secured loans or collateral, repossession of the collateral.	30	1	5	1.70	.952
The organization has its collection procedure, indicating due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to a collection agency	30	1	5	1.77	.858
The organization has defined the compliance procedures, the body of rules and laws that determine the entry of actors, their operations, and exit within the financial system.	30	1	4	1.80	.847

The mean value for the statements on client appraisal ranged from 1.70 to 1.80 in a scale of 1-5, indicating a strong agreement with all the statements while the standard deviation ranged from .847 to 1.022 as shown in the table 4.11. The result is consistent with Robin and Mitten (2000), who studied the legal frameworks and performance standards for Microfinance and concluded that it is critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms.

4.5.5 Debtors management and financial performance

In Table 4.12, the majority of the respondents strongly agree that legal framework affects financial performance of MFI with a mean of 1.67 on a scale of 5 with a standard deviation of 1.184. The majority of the respondents also agree that internal control system affects financial performance of MFIs hence cannot be overlooked by MFIs. On whether Credit appraisal affects financial performance of your MFI majority of the respondents agree that it has a significant effect on financial performance of MFIs with a mean of 1.87 which is in agreement on the Likert scale of 1-5.Lastly on whether the debt collection policy affects financial performance of the MFI organization most of the respondents were in agreement. The results are shown in table 4.12:

Table 4.12: Statement in relation Debtors management and financial performance

	Count	Min	Max	Mean	Std. Dev
In my opinion, legal framework affects financial performance of your institution	30	1	5	1.67	1.184
The organization's Internal control system affects financial performance	30	1	5	1.77	1.278
Credit appraisal affects financial performance of your institution	30	1	5	1.87	1.358
In my opinion debt collection policy affects financial performance of the organization.	30	1	5	1.90	1.373

4.6 Regression Analysis

A multiple linear regression analysis was undertaken to examine the effect of debtors' collection policy, client appraisal, internal control systems and legal framework on financial performance of selected MFI in Nairobi City.

Table 4.13: Regression and Model Summary

Model Summary				
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
	.872 (a)	.695	.631	.230094858
a. Predictors: (Constant), Systems, Appraisals, Framework, Debtors				

Adjusted R-squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable, from the findings in the above table the value of R squared was 0.695 an indication that there was variation of 69.5% of changes in financial performance of MFIs in Kenya are attributed to changes in client appraisal, debt collection policy, internal control systems and legal framework taken jointly at 95% confidence interval. This shows that 69.5% changes in financial performance of MFIs could be accounted for by client appraisal, debt collection policy, internal control systems and legal framework is the correlation coefficient which indicates the relationship between the study variables, from the findings shown in the table above there was a strong positive relationship between the study variables as shown by 0.872.

Table 4.2: ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	.623	4	.156	9.201	$.00012^b$
Residual	1.423	25	.107		
Total	**2.046**	**29**			

From the ANOVA statistics in table above, the processed data, which is the population parameters, had a significance level of 0.0012 (p=0.0012), which is below 0.05 an indication that, client appraisal, debt collection policy, internal control systems and legal framework jointly have a statistically significant effect on financial performance of MFIs in Nairobi city Kenya.

Table 4.3: Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.202	.092		1.112	.277
	Debtors	.345*	.077	1.057	4.448	.001
	Appraisals	.019*	.046	.076	.417	.680
	Framework	.277*	.147	.026	1.026	.012
	Systems	.236*	.162	.201	1.603	.029
a. Dependent Variable: MFI Performance						

From the data in the above table, the established regression equation is extracted as shown below:

$$Y_i = 0\ .202 + 0.345 X_1 + 0.277\ X_3\ + .236 X_4$$

The regression equation above revealed that holding client appraisal, internal control systems, legal framework and debt collection policy to a constant zero, financial performance of MFIs would be 0.202, a unit increase in client appraisal leads to increase in performance of MFIs in Kenya by a factor of 0.019, a unit increase in debtors collection policy would lead to 0.345 increase in financial performance of MFIs in Kenya,unit increase in Internal Control systems would result in increase in performance of MFIs by a factor of 0.236 and also unit increase in legal framework would result in increase by factor of 0.277 in financial performance of selected MFIs in Nairobi city Kenya.

The study also found that the p-values of debt collection policy, internal control systems and legal framework were less than 0.05, an indication that the three variables have a statistically significant effect on financial performance of selected MFIs in Nairobi City Kenya. Client appraisal had a P-value of 0.680, which is above 0.05 an indication that, client appraisal did not have a statistically significant effect on financial performance of MFIs in Nairobi city Kenya.

4.7 Key Findings

From the findings in Table 4.12, the value of adjusted R-squared indicated that there was variation of 69.5% on financial performance of MFIs in Nairobi City Kenya due to changes in client appraisal, debt collection policy, internal control systems and legal framework at 95% confidence interval.R is the correlation coefficient which indicates the relationship between the study variables, there was a strong positive relationship between the study variables as shown by R. From research finding, there was a significant effect of client appraisal, debt collection policy, internal control systems and legal framework on financial performance of MFIs in Nairobi city Kenya at the $p<0.05$ level for the four conditions

The regression equation established showed that that holding client appraisal, debt collection policy, internal control systems and legal framework to a constant zero, financial performance of selected MFIs in Nairobi City Kenya would be 0.202, a unit increase in client appraisal would lead to increase in financial performance of selected MFIs in Nairobi City Kenya by a factor of 0.119, a unit increase in debt collection policy would result in increase in financial performance of selected MFIs in Nairobi City Kenya by a factor of 0.345, a unit increase in internal control systems would result in increase in financial performance of selected MFIs in Nairobi City Kenya by a factor of 0.236 and also unit increase in legal framework by a factor of 0.277 would lead to increase in financial performance of selected MFIs in Nairobi City Kenya. The significance of the variables was supported by the t values whose significance values were less than 0.05.This indicates that the variables were statistically significant in influencing financial performance of selected MFIs in Nairobi City Kenya.

Finally, the study found out that internal control systems had a significant effect on financial performance of MFIs in Nairobi city Kenya. The respondents strongly agreed that Perpetration of fraud and losses of revenue in MFIs is due to weakness in the internal control system.The majority of the respondents are also in agreement that the internal control system has a significant impact on the financial management of MFIs and hence need for documents verification, internal checks and balances to enhance financial management of MFIs.

4.8 Discussion of the Findings

From the study, debt collection policy had a statistically significant effect on financial performance of selected MFIs in Nairobi City Kenya. The result is consistent with Kariuki (2010), who said that for an organization to ensure that credit management is done various policies effectively should be put in place, one of these policies is a debt collection policy that is needed since all customers do not pay the firms bills in time.

The findings are in agreement with Van Horne et al. (1997) who contend that credit policies are the major influences on the firm's level of debt management. The study is also consistent with Ayodele, Thomas, Raphael and Ajayi (2014) who carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place.

The study also found that internal control systems and legal framework have a statistically significant effect on financial performance of selected MFIs in Nairobi City Kenya. The findings are in line with Ali (2013) who studied the relationship between internal control and organizational financial performance of people's bank Zanzibar Ltd. The study found that the internal controls used in PBZ were efficient and satisfactory; the organizational level of performance was found to be adequate, and there was a significant positive relationship existing between internal controls and organizational financial performance to some extent. The study is also consistent with the studies of Robin and Mitten (2000) who studied the legal frameworks and performance standards for Microfinance. The study found out that it is also critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms.

The study revealed that client appraisal did not have a statistically significant effect on financial performance of MFIs in Nairobi city Kenya. These findings contradict the studies of Kiplimo and Kalio (2014) who had sought to find out the Influence of Credit Risk Management Practices on Loan Performance of Microfinance Institutions in Baringo County.The objective of the study was to determine the client appraisal on loan performance of microfinance institutions in Baringo County.The study findings indicated a strong relationship between client appraisals and loan performance in Microfinance institutions. The study showed that an increase in client appraisal led to a rise in the performance of loans in MFIs in Baringo County. Hence, the study concludes that credit risk management practices significantly influenced loan performance of MFIs in Baringo County.

5. Summary, Conclusion, Recommendations and Areas for Further Study

5.1 Summary of the Findings

The study found out that debt collection policy was statistically significant in influencing financial performance of selected MFIs in Nairobi City Kenya. The study further found out that debt collection policies are vital in effective debt management and hence the organization should set strong elaborate debt follow-up procedures on the delayed payments. Also, the respondents agree that the MFIs should formulate, implement and regularly review debt collection policy to ensure that they are harmonized. The respondents also agreed that the collateral should be required before a Loan facility is issued and clear policies should be set in place in case there is delayed payments of the debts. The respondents also agreed that the MFIs should have laid down legal aspects when issuing a credit to customers and all staff involved in debt management should adhere to the debt collection policy.

Also, the study found out that legal framework was statistically significant in influencing financial performance of selected MFIs in Nairobi City Kenya. The respondents strongly agreed that detailed statements of steps should be taken regarding when and how past due amounts of debt are to be collected and that the organization should have collection procedure, indicating due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to a collection agency. A large number of respondent are also in agreement that there should be defined compliance procedures, the body of rules and laws that determine the entry of actors, their operations, and exit within the financial system.

The study further indicates that client appraisal had no statistically significant effect on financial performance of MFIs in Nairobi city Kenya. However, the study revealed that MFIs use client appraisal in debt Management to a great extent. Aspects of collateral are considered while appraising clients, failure to assess customer's capacity to repay results in default in loan repayment; client appraisal examines the character of the client looking for credit facilities, and that MFIs have personnel who are competent in carrying out client appraisal.

Finally, the study found out that internal control systems had a significant effect on financial performance of MFIs in Nairobi city Kenya. The study also found out that weakness in internal control system results to the perpetration of fraud and losses of revenue in MFIs. The study also indicates that internal control system has a significant impact on the financial management of MFIs and hence need for documents verification, internal checks, and balances to enhance financial management of MFIs.

5.2 Conclusion

The study concludes that debt collection policy affects financial performance of selected MFIs in Nairobi City Kenya to a great extent. Also, strong elaborate debt follow-up procedures on the delayed payments, laid down legal aspects when issuing a credit to customers, staff competency and integrity in adhering to the debt collection policy, formulation, implementation and regular review of debt collection policy have been observed to be crucial while managing debts in MFIs.

Moreover, the study concludes that internal control systems affect financial performance of selected MFIs in Nairobi City Kenya. The study also concludes that legal framework has statistically significant influence of Legal framework on financial performance of selected MFIs in Nairobi City Kenya to a great extent. Finally, the study concludes that client appraisal had no significant effect on financial performance of MFIs in Nairobi city Kenya.

5.3 Recommendation

The research recommends that all MFIs should have in place well established debt collection policies that clearly outlines the senior management's view of business development priorities and the terms and conditions that should be adhered to for loans to be approved. The debt collection policy should be reviewed and regularly updated to reflect changes in the economic outlook and the evolution of the MFI's loan portfolio, and be distributed to all lending/marketing officers. The debt collection policy should be approved by the Managing Director/CEO & Board of Directors of the MFIs based on the endorsement of the MFI's Head of Credit Risk Management. Also there should be laid down legal aspects when issuing a credit to customers and all staff involved in debt management should adhere to those legal aspects in place.

The research also recommends that all MFIs should adopt internal control system. The MFIs should closely monitor implementation of internal control systems which should be able to define the risk profile of borrower's to ensure that account management, structure, and pricing are commensurate with the risk involved. A strong internal control system with internal checks and balances will curb perpetration of fraud and losses of revenue in an organization that is as a result of weakness in the internal control system.

Since legal framework, in general, has very significant contribution to financial performance of MFIs, the MFI Managers, and the regulators are advised to put more emphasis on compliance procedures, the body of rules and laws that determine the entry of actors, their operations, and exit within the financial system. The managers should also define detailed statements indicating its collection procedure, due dates, grace periods, penalties, date of repossession, date of turnover of delinquent account to a collection agency and make borrowers aware of the details of the collection process to avoid penalties, and in the case of secured loans or collateral, repossession of the collateral. This will curb non-performing loans and improve financial performance.

The study recommends that there is a need for MFIs to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques such as assessing customer capacity to repay loans and considering aspects of collateral before issuing loans, the MFIs will be able to know credit worth clients and thus reduce their non-performing loans.

5.4 Areas for Further Study

Further research should be undertaken to find out why customer appraisal does not have a statistically significant effect on financial performance of selected MFIs in Nairobi County Kenya despite the fact that past literature is suggesting otherwise. Further research should also be undertaken on the effect of regulation and supervision on loan performance in microfinance institutions in Kenya. Further research should also be done on the relationship between debt management and non-performing loans on Microfinance Institutions in Kenya and the reasons behind loan default in microfinance organizations from the clients' perspective.

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