

**DEBTORS MANAGEMENT AND FINANCIAL PERFORMANCE OF  
MICROFINANCE INSTITUTIONS IN NYERI COUNTY, KENYA**

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**DECLARATION**

This research proposal is my original work and has not been presented for a degree at any other university or for any other award.

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## **DEDICATION**

I dedicate this work to my parents for their guidance and inspiration.

## **ACKNOWLEDGEMENT**

My sincere appreciation goes to God and my Parents who helped me complete my studies successfully. Much appreciation also goes to my supervisor Dr.Job Omagwa for giving me the required guidelines all the way till I was through. I also thank the entire management of Kenyatta University for their cooperation towards providing library facilities where I accessed much information concerning this study.

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## **ABBREVIATIONS AND ACRONYMS**

ACP:	Average Collection Period
AMFI:	Association of Microfinance Institution
CBK:	Central Bank of Kenya
CDF:	Constituency Development Fund
LGD:	Loss Given Default
MFI:	Micro Finance Institutions
NSE:	Nairobi Securities Exchange
ROA:	Return on Asset
SMES:	Small Micro Enterprises
US:	United States

## OPERATIONAL DEFINITION OF TERMS

- Microfinance:** The provision of financial services primarily savings and credit to the poor and low income households that do not have access to commercial banks.
- Financial Performance:** It refers to a measure of how well a firm is able to utilize its assets from its primary mode of business to generate more revenues.
- Return on Assets:** It is a measure of how management uses its assets to generate earnings calculated by dividing a company's annual before interest and tax by its total assets.
- Return on equity:** A profitability ratio that measures the ability of a firm to generate profits from its shareholders investments in the company calculated by dividing the net income by the shareholders equity.
- Debtors Management:** Set of policies, procedures, and practices employed by a company with respect to managing sales offered on credit.
- Profitability:** It refers to the excess of revenue over all the expenses in any business Entity.
- Loss Given Default:** It refers to the percentage of loss suffered by a lender on a credit exposure if the client defaults, even if the party fails to repay the Amount owed, the lender succeeds in recovering some percentage of the current amount owed.
- Rescheduling:** It refers to extending the terms of a loan or payments schedule

or both, when a client is unable to pay a loan due to illness, disaster or mismanagement.

**Quick ratio:** It's a financial measure that measures the ability of a business to pay its short term liabilities by having assets that are readily convertible into cash.

## ABSTRACT

The financial health of the Microfinance banking industry is an important element for economic stability and growth. Microfinance banks are part of the financial sector in an economy performing valuable activities on both sides of the balance sheet and provides financial support to other segments. In the recent past performance among MFIS has continued to attract attention not only globally but regionally, this shift has caused a very big gap in terms of their profit margins. It is evident that their performance has been on a declining trend despite the efforts made to counter their lost profits this is due the fact that they are over indebted. While MFIS in other continents have been reporting positive profits over the years, those operating in Africa continue to post negative profits and thus the study sought to explain this gap by assessing the debtors management practices that have been adopted by the MFIS in Nyeri, County, Kenya. This was mainly to reduce the amount of money that is left outstanding which accumulates to form doubtful debts in any financial year. Management should thus be in a position to adopt debtors management techniques and use them appropriately to find solutions and encourage financial performance. The general objective of the study was to assess the effect of debtors management on financial performance of MFIS in Nyeri County, Kenya. Whereas the specific objectives of the study were: To determine the effect of credit extension policy, debt control and monitoring and debt collection policy on financial performance of Micro Finance Institutions in Nyeri county, Kenya. Various theories were incorporated in this study. Transaction cost theory establishes the need for qualified staff in the MFIS sector in order to minimize cost, Loanable funds theory provides knowledge on pricing of loanable funds, while the liquidity preference theory reveals the equilibrium point where demand meets the supply of money. The target population was eight (8) Microfinance Institutions in Nyeri County which targeted the operations manager, finance manager and the debt collection officers. The researcher used purposive sampling to pick respondents and a sample size of 48 respondents was picked. The validity and reliability of the research instrument was tested and a Cronbach alpha coefficient threshold of 0.8 was used. The researcher used a semi structured questionnaire to collect data. Data was analyzed using descriptive analysis (mean, standard deviation and percentages) and Multiple Regression Analysis. The results showed that the independent variables in consideration had a relatively strong positive correlation where credit extension policy had a Beta value of -0.351 and a p-value of 0.000, debt control and monitoring had a Beta value of 0.208 and a p-value of 0.010, while debt collection policy had a Beta value of 0.266 and a p-value of 0.023. Recommendations of this study were that management of MFIS should be keen while coming up with credit extension policies since this affects financial performance if not adhered to, MFIS should adopt and implement stringent debt collection policies as this significantly increases financial performance. MFIS should also strictly monitor outstanding debt on a continuous basis as this improves financial performance.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Study

The health of a financial system has a major role to play in the country. This is so because its failure will hinder economic development of the country. Financial performance refers to the ability of a company to generate revenues from its daily operations over a given period of time and is determined by net profit after tax and cash from operation (Das & Gosh, 2007). The financial health of the Microfinance banking industry continues to be an integral element for economic stability and growth, Microfinance banks are part of the financial sector in a growing economy performing activities on both sides of the balance sheet. On the asset side of the balance sheet they enhance the flow of funds by meeting the demand for users of the funds and on the other side supply liquidity to savers (Schreiner, 2003).

According to Hermes et al; (2011) financial performance in Africa has undergone various changes from both external and internal point of view, These factors include: changes in technology, changes in business environment, involvement of Commercial banks and increased competition which have all resulted to a decline in financial performance since most of the stakeholders require improvement in financial measures and a balance between financial and non-financial measures. Zeller & Meyer (2002) states that financial performance among MFIS can be viewed as a triangle comprising of outreach to the poor, which aims at alleviating poverty. According to Rosenberg (2002), empirical evidence on the performance of microfinance institutions has reported different results among different scholars.

Waddock and Graves (2011) financial performance refers to how well a firm utilizes its core assets from its main activities to generate profits. Ongaki (2012) financial performance among MFIS has continued to raise various concerns as the institutions are facing severe difficulties in revenue generation. This has led to a situation where these institutions have to be funded by other commercial banks that are making strides even with the increasing competition (Zhou & Ruland 2006). The root cause of this problem is lack of effective debtors management techniques. Thus this study sought to assess the effect of debtors management on financial performance of the MFIS in Nyeri County, Kenya.

According to Kesson (2011), the most important asset to any profit making institution is debtors. For a lending institution to thrive in the competitive world it must be very keen when it comes to issuing credit, implying that history of the borrowers should be well understood ,since lack of this crucial information will cause huge losses due to the transaction cost incurred. According to Gill et al., (2010), bad and doubtful debts results from delay by clients which leads to minimal profits in any given financial year. According to him, before extending any form of credit, the client's worthiness should be established as this minimizes possibilities of default.

Management of debtors is a very sensitive process and therefore requires attention as well as frequent follow up and commitment of the company's resources. Its only when debtors are well managed that a firm will operate profitably. However with the rise in competition in this industry most of the MFIS will cease from operations if they fail to effectively manage debtors.(Prere, 2010).According to Eliots (2009),for a firm to stand competition in the ever changing business world it must have appropriate strategies as well as have well laid out lending procedures as this forms the basis of the principles of debtors management. It must also have trained employees to monitor outstanding arrears before they accumulate to bad debts, it's only by implementing this that maximum profits will be attained (Damilola, 2005).

According to Kungu et al., (2014), debtors management does not only involve identifying problematic customers but must also ensures that all outstanding balances are monitored on a month to month basis, this eliminates possibilities of getting into too much debt which might be very costly to the MFI. The fact that MFIS concentrate more on attracting new customers, rather than monitor those who are lagging behind becomes a potential ground for bad and doubtful debts. Fabozzi et al., (2002).In the event that a debtor fails to pay on the maturity date, the institution is at risk of becoming over indebted which leads to losses in future (Nyunja, 2011).

One of the key objective of debtors management is wealth maximization as debtors constitute quite a large proportion of the current asset of any firm, thus the need for their continuous evaluation (Emery et al.,2004). To a lending institution provision of credit remains the most significant activity. However the high level of indebtedness has led to decline in financial performance among MFIS over the last few years, the most common challenge being faced by these institutions being minimizing the cost associated with cost of collection (Harris, 2005).The process should not only

consider customers who are unable to repay their installments, but should also focus on potential accounts that are likely to fall into default to enable prompt management (Bellie et al., 2000).

Competition creates innovation of new products, as well as protection of existing consumers (Motta, 2004). This in turn provides a ground for efficiency of operations and chances of client's retention. (Mcintosh et al., 2005), an increase in competition in combination with lack of information between lenders with regard to history of their target borrowers creates an ideal situation for borrowers to do multi borrowing which leads to declining repayment rates. According to Baskin et al., (2012), MFIS should be regulated frequently in order to achieve sustainable delivery of financial services to the lower income bracket of the population.

According to Colman & Osei, (2008) microfinance is the provision of financial services to the low income earners. It refers to provision of such services as deposits, loans, payment services, to the poor and low income households .it is due to this that, MFIS are considered to be of more benefit to the poor since they improve their access to financial services, (Basu et al., 2004). According to Chiumya (2006) the need for growth in this industry has led to the need for regulation and supervision which helps improve performance, protects depositors and ensure financial system stability.

### **1.1.1 Debtors Management**

Accounting Coach (2009) debtors are assets that arise from any sale of goods on credit to borrowers. According to Lynch (2005) any organization that is out to make profit must align itself with appropriate lending procedures in order to stand the competition in the market since debtors management affects all areas of operations. This can be implemented by adopting flexible policies that can easily be changed to fit the organizations structure. Thus debtors should be continually evaluated on a month to month basis just like capital expenditures. Emery et al., (2004), a firm that is efficient in its debtors management system will increase profitability due to the fact that the transaction cost involved is quite low.

Debtors management refers to all the activities that a firm adopts when it comes to delivering and collection of payments upon issuing credit (Murkhejee, 2014). According to Omondi (2014) debtors management incorporates all functions of management, implying that every department should be well versed with this process as it sustains all departments. It further entails reducing

the collection period as this leads to further transaction cost. All this is aimed at improving financial performance. Miller, (2002) further asserts that microfinance institutions should document all their policies as this enhances debt collection as a practice.

Debtors management as a process is quite difficult to establish as the main variables involved in its determination are quite complex to establish. In order to develop sound management practices MFIs will change their debtors management strategies frequently (Pandey, 2005). This is attributed to the fact that these institutions mostly derive their income from loans extended to the low income population in form of the interest charged (Central Bank annual report 2010). Murkhejee (2014) further asserts that sound management practices assist firms to reduce their level of bad debts, thus the need to adopt appropriate strategies.

Various practices have to be taken into consideration when it comes to managing the sales made on credit, these factors are the length it takes for a borrower to repay back the borrowed amount, the terms of repayment and the average collection period which should also be considered as a longer time affects the profitability of the firm. According to Miller (2002), in order for a lending institution to enhance its operations it must have a well-documented credit policy. According to Wallitsh (2007) a debtor management process is any practice that is involved in either debt settlement, or loan forfeiture this includes other techniques that assist to recover outstanding debts.

#### **1.1.1.1 Credit Extension Policy**

This involves taking into consideration all the factors that involve credit terms and credit period as the key variables in a loan agreement. Terms of credit are the conditions under which a firm offers its goods or services, on credit to customers .Periasamy (2009) defines credit period on the other hand is the length of time for which credit is granted and is signed by the borrower as an agreement that he will repay the debt in the stipulated duration. The length of credit period is based on other factors such as the payment record of the borrower and nature of business (Houston, 2009).

The reason why a lending institution establishes lending policies is to be able to accomplish the objectives that are aligned to lending such as minimizing accounts that are in default, and be in a position to convert debtors into cash on a timely manner and as well maintain a stable financial system (Muntean, 2008). According to Chambers and Lacey (2011) it's the duty of every lending

institution to see to it that it takes into consideration any cost and benefit that is associated before issuing any form of credit as this eliminates uncertainty that may arise. The cost of extending credit emerges if a borrower fails to pay, while the benefit of extending credit is the value that accrues to a firm.

A major factor in determining the length of period for which credit is advanced is history of the borrower which implies that credit terms should not be advanced to those who have been earmarked as potential for default (Pike & Neale 2009). According to Seiden (2008) credit period has a major effect on investment in debtors and this can be felt on the net worth of the company. A longer credit period will boost the sales of a company but on the extreme end will lower the quality of trade credit. According to him a company should take into consideration various factors such as competitors approach, availability of funds, amount of the loan and history of the borrower before determining the credit period to be advanced.

#### **1.1.1.2 Debt Control and Monitoring**

It refers to the continuous assessment of the outstanding amounts to determine if the customers are on the right track when it comes to payment. This practice indicates the ability of a company to keep their debtors updated on their outstanding amounts and due dates, as lack of information increases the transaction cost to the firm by increasing the average collection period (Megginson & Scott 2008). For a firm to thrive in the competitive world it should review its debtors on a continuous basis (Richard, 2008). Kaleb (2014) further asserts that a business should continually control its debtors to avoid getting into difficulties and asserts that a firm should have more information from other lending institutions, and as well as have an agreement with the guarantors.

The average collection period is one of the method that a firm uses to determine the number of days it takes for a customer to pay the amount owed (Graham et al., 2010). According to Sheba (2012) the presence of a short collection period indicates that the lending institution has fully implemented debt monitoring and has fully committed its resources towards minimizing debtors. On the other hand a long credit collection period shows that the firm is not in a capacity to monitor its outstanding debts and thus inefficiency in its management.

MFIS have also resulted to using The Loss given default technique as another practice that is used in monitoring and control of debtors, however this method is encouraged since the firm will focus

on the deposits made by the customer in return for a loan, the more the savings the better as the MFI is in a position to consolidate the outstanding balance with the savings made. The technique is commonly used in developing countries as most clients will be willing to save, as savings are considered an investment (Baxxauli and Alvarez 2009). According to Cantor et al., (2006). Lgd is set depending on the lending and savings policy of the firm and is often a percentage of the loan advanced. This form of debt management practice is commonly used in developing countries (Kalunda et al., 2012).

### **1.1.1.3 Debt Collection Policy**

It refers to the practices used by a financial institution to collect unpaid amounts (Megginson & Scott 2008). MFIS mostly collect the debt at the group level or if the debt is too high it's handed to a collection agency (Bricham et al., 2012). Agents are always preferred since they have high chances of recovering the debt compared to the debt collection officers, however the agencies charge high fees which is paid out of the debt recovered (Early, 2006). According to Otley (2008) an effective debt collection policy should not end up using more than the amount which was advanced as this proves inefficiency in business.

Rescheduling is a practice that is used by the MFIS in unavoidable circumstances and is defined as the change in the terms and condition of a loan. However this is considered when the debt collection department is sure that the debt will be fully settled (Marphatia, 2004). According to Bangladesh Institute of Bank Management (2011), rescheduling allows for alterations i.e. a credit term can be extended or a loan contract can be reduced, this is done when circumstances arise that are beyond the control of the borrower, it is therefore important that lenders discourage any informal arrangements with debtors. Each lending institution should come up with strategies of recognizing a loss once it arises.

According to Mishra (2008) MFIS should come up with strategies that insist on timeliness. A collection policy should be formulated with the aim of speeding up operations as debt collection is time consuming and later develops to be a cycle of unending issue. According to him collection practices and procedures must be upheld with care to avoid intimidating customers as this will discourage them from borrowing but should always apply equally to all members regardless of their professional status.

### **1.1.2 Financial Performance**

Financial performance is defined as the ability to grow, survive as well as be in a position to withstand all the negative forces that arise in the lending portfolio (Stoner, 2003). (Laffont & Guessan, 2000), a growing microfinance industry provides room for development of other products that will impact the lives of the low income earners. Low profits hinder the growth of any micro finance institution and thus it affects their ability to meet the demand therein. It is due to this that most institutions turn to borrow from other banks, where the banks also charge higher interests. This instability has led to the decline in financial performance over the years (Muranaga & Ohsawa 2002). To measure financial performance quick ratio and return on assets is used as the determining variables.

Revenue in MFIS is derived from interest charged on loans and penalties that arise due to late payments and commissions. For a profitable institution the income derived from operation will exceed the total expenses by far (Lafoucarde et al., 2005). According to Berk (2009) liquidity is another measure used in determining quick ratio. A high quick ratio shows that the firm is in a position to pay its outstanding debtors such as paying their suppliers. According to Chakraborty (2008) low liquidity leads to inability of a company to pay its creditors.

According to Penman (2007) Return on Assets gives a reflection of how well management is in the utilization of its assets to achieve profits. According to him in order for a firm to survive for a long period it must make profit. It is therefore important to measure its past performance, and compare it with the current performance as well as any prospects for future profits. Pandey (2005) further asserts that profitability determines economic success of the firm since it commenced its operations. Though there have been improvement in terms of performance of the MFIS most of the MFIS in developing countries are still making losses (Oloo, 2009).

### **1.1.3 Micro Finance industry in Kenya**

Microfinance is the provision of: affordable loans, deposits which can be in form of products that are meant to improve the living standards of the population under the low income bracket, Apart from deposits MFIS advance credit which are delivered in form of products such as tanks, solar, community based housing and other life touching products, this differentiates MFIS from any other business (Hartasaka, 2005). The World Bank defines MFIS as institutions that engage in micro activities such as group lending and also caters for multiple but small business owners. Chu (2008)

defines microfinance as the provision of life touching products in order to empower the population for more productive activities.

The concept of microfinance in developing countries has led to increased competition since every year there are new entrants in the market and still serve the same clientele. According to McIntosh & Wydick (2005) it is due to this competition that MFIS focus on reaching out to a large number of clients which leads to multiple lending and this causes a major drawback, as the client is unable to service all the loans at the same time and therefore becoming indebted. On the other hand efficiency in operations must be adhered to, the fact that MFIS operate in rural areas implies that it must value its employees since its through their productivity that maximum amount of output is achieved (ILO, 2007). Efficiency is hence achieved if the MFI is seen to be more productive compared to those operating at the same level and are still lagging behind (Nyamsogoro, 2010).

MFIS must strive in order to ensure that their operation are profitable, since they need to continue growing and achieve financial sustainability as this is their core business (Schreiner, 2003). However Many MFIS still seem to have difficulties in maintaining a stable financial system and thus most must rely with performing commercial banks for their sustainability, thus there is need that these institutions focus more on managing debtors as this will create room for sustainability. There is therefore a need for a debt management strategy to be used as this will assist measure and assess the cause of the decline in financial performance (Meyer, 2002). MFIS are regulated by the Microfinance act which was enacted in 2006 (Muthuma, 2011). The institutions have continued to develop financial products that are tailored to match customer needs. (The Standard newspaper August 2013).

## **1.2 Statement of the Problem**

The aim of every institution is to operate without experiencing challenges that will hinder its business continuity. To boost the growth in the MFI sector debtors management must be put at the fore front since it forms the basis of almost each and every activity and thus it should be fully implemented in all levels of the organization. This will help shift the focus from following on doubtful debts to new ways of doing business. The main objective of management is to increase shareholders wealth as well as grow in terms of profits (Moore, 2009).

MFIS in Kenya play a significant role since Kenya is one of the most densely populated countries, however in terms of financial performance of these institutions, it's still lagging behind. However debtors management challenges continue to hinder achievement of objectives and has led to poor performance in the recent past (Munyiri, 2006). The problem being too much funding and failure to do background checks before appraisal is done; this has led to some branches closing down due to lack of business and too much debt. As the commercial banks are making strides in the money market, their counterparts in the Microfinance industry are really struggling to recover the outstanding amounts; this has led to the decline in their performance which has been witnessed year by year. According to Gathurithu (2011) MFIS offer similar products like banks but their performance is not something to be proud of.

Due to the rising inflation rates coupled with various macro-economic factors have all contributed to the increased losses. Resources that were committed towards debt monitoring are no longer available and thus management must be at the center stage of allocating enough resources towards debtors management such as trained personnel on debt monitoring and control as well as collection to minimize incidences of hiring third parties this not only creates confidence to the employees of these institutions but will also help nurture experts in this field. Therefore it is important that management concentrate on addressing this issue (Scheufler, 2002). Aging amounts by debtors lead to incurring further finance costs thus a firm may end up borrowing further from the stable banks (Nzotta, 2004).

Various scholars have studied debtors management though in a different setting which is far much different from the MFI sector. A study was done by Mukhoma (2014) on debtors management on financial performance of manufacturing firms in Nakuru County Kenya. Omondi (2014) studied debtors management practices in sugar companies in Kenya. Mary (2016) studied debtors management practices and growth of SMES in Kakamega County, Kenya and Mwangi (2013) did a study of debtors management practices in CDF funded projects in Kenya. Mureithi (2009) studied debtors management challenges among SMES in Kenya, However none of the studies has focused on the issue of debtors management which is the gap this study sought to fill.

### **1.3 Objectives of the Study**

The research study was guided by the following objectives:

#### **1.3.1 General Objective**

The main objective was to assess the effect of debtors management on financial performance of Micro Finance Institutions in Nyeri County, Kenya.

#### **1.3.2 Specific Objectives**

The study was guided by the following specific objectives:

- (i) To determine the effect of credit extension policy on financial performance of Micro Finance Institutions in Nyeri county, Kenya.
- (ii) To assess the effect of debt control and monitoring on financial performance of Micro Finance Institutions in Nyeri county, Kenya.
- (iii) To establish the effect of debt collection policy on financial performance of Micro Finance Institutions in Nyeri county, Kenya.

### **1.4 Research Hypotheses**

The study sought to test the following null hypotheses:

H<sub>01</sub>: Credit extension policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri county, Kenya.

H<sub>02</sub>: Debt control and monitoring does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri county, Kenya.

H<sub>03</sub>: Debt collection policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri county, Kenya.

### **1.5 Scope of the Study**

The study is about debtors management and financial performance, and was carried out on MFIS in Nyeri County, Kenya for a period of five years 2013-2017. The study focused on the financial sector in Micro Finance institutions category and considered the independent variable of debtors management of, credit extension policy, debt monitoring and control and debt collection and how they affect financial performance which is the dependent variable. Various parameters e.g. Net income, current liabilities, total assets were estimated to give an over view of the financial performance of MFIS.

### **1.6 Significance of the Study**

The research findings were to benefit the MFIS in Nyeri County on adopting debtors management practices suitable to the situation to achieve a positive impact on debtors management .The findings were also to benefit the regulator (SASRA) as they would get information on the performance of MFIS, thus ensure compliance of the set policies, rules and regulations and also benefit the government policy makers since use of this knowledge will enable the government to formulate policies inclined towards improving debtors management among MFIS. The research was also a valuable source of information to scholars, students and researchers studying debtors management in Organizations. It was hoped that the study formed the basis for further research on a similar subject.

### **1.7 Organization of the Study**

Chapter one highlighted the background information, and also defined debtors management and financial performance of MFIS, objectives, scope, and the significance of the study to various parties. Chapter two gave a summary of both empirical and theoretical reviews of past research literature, and shows the effect of the independent variables on the dependent variable in a conceptual framework i.e. debtors management and financial performance of MFIS in Nyeri County, Chapter three comprises of research methodology that is research design, target population, sampling and sample size, data collection instruments, and ethical issues, Chapter four was an analysis of the research findings and interpretation and Chapter five was a summary of the study, conclusions and recommendations.

## CHAPTER TWO

### LITERATURE REVIEW

#### **2.1 Introduction**

The chapter reviews various theories which revolve around the effect of debtors management and financial performance of the MFIS in Nyeri County, It further reviews the work that has been studied by various scholars by highlighting both the empirical and theoretical reviews of preexisting literature. Theoretical review provides the researcher with information on the research topic while the empirical review helps in understanding the suggestions of various researchers. The reviews have helped to develop a conceptual framework which indicates the association between the variables in the study.

#### **2.2 Theoretical Review**

This section focuses on the relevant theories that were found to relate to the variables and the study as a whole (Saunders et al., 2007) defined a theory as a statement which uses evidence to support a certain situation.

##### **2.2.1 The Loanable Funds theory**

This theory was developed by the economist Wicksell and D.H Robertson (1851-1926). Loanable funds refer to the amount of money that is demanded by the consumers and the amount of money that is available for supply by the lenders in an economic entity. According to Wenshen (2002) the rate of interest is determined at the point where demand equals supply of the funds. At this point there is enough opportunity, investors utilize that opportunity and invest more, while savers make more deposits with an expectation of higher interest, at this point the cost of credit is determined (Ngugi, 2001).

The theory creates a major impact to both savers and borrowers, since at the equilibrium position the two parties should be compensated (Emmanuele, 2003). Fluctuations in the rate of interest in a money market arise from a combination of various factors such as demand and the supply of loans and the availability of funds for lending (Nduati, 2012). The theory is linked to this study since it provides knowledge on pricing of loanable funds by identifying the determinants of loanable funds which has an overall implication on debtors' management.

### **2.2.2 The Liquidity Preference Theory**

This theory was developed by Keynes (1973). Liquidity is defined as the rate of interest prevailing in the money market and this interest depends on the current supply of money from the lenders and the demand from consumers. According to this theory the rate of interest is determined by the market forces i.e. demand and supply of money. The interest here is the price paid for lending money in terms of credit for a stipulated duration. According to the theory borrowers prefer short term loans as long terms loans are seen to be quite cumbersome and eventually could be a burden. Therefore borrowers will tend to prefer to make short term loans rather than wait for a long time. (Pandey, 2003), the theory is related to the loanable funds theory except that equilibrium interest rate is determined in terms of supply and demand for money (Mishkin, 2009).

According to Howels and Bain (2007), demand for money will increase when people think that interest rates in the market will increase rather than fall, however the theory is limited since it assumes that incomes remains stable, and only supply and demand for money should be considered. (Gorder, 2009) The theory is linked to this study since demand and supply of money must be at equilibrium before determining the actual interest rate in the market, as high interest rates discourage borrowing while low interest rates will not attract savings, hence it's important to arrive at an equilibrium rate.

### **2.2.3 The Transaction Cost Theory**

Ronald 1937 developed the Transaction cost theory. Transaction cost are defined as the costs associated with running a firm and include: costs of negotiating and monitoring which is normally between the firm and its customers (Kamyabi et al., 2011). This theory recognizes that MFIS can achieve their profitability through reducing cost in their operations. According to him MFIS will grow and expand as long as its core activities can be performed on a low cost budget. Lower transaction costs are ideal for increased MFIS income. MFIS will continue to achieve their growth potential, if they perform their activities cheaply and hence enjoy large margins of profit.

Transaction cost theory aims at reducing the cost of operation such as labor costs and other expenses that are associated with running an institution this can be achieved through cost cutting. In a financial market transaction costs relate to both deposit and lending costs which make up the largest share of an institutions lending portfolio (Beck, 2006). In developing countries financial

costs are associated with high transaction costs (Hiehejes et al.,2013),According to him market fluctuations have an effect on the cost of various transactions carried out by the firms implying that financial performance of MFIS will be affected by the transaction cost incurred .According to this theory any revenue incurred should be charged based on the duration it was incurred. The theory is significant to the study since financial performance will be achieved through minimization of costs, this can be attained by having competent staff in their various departments.

### **2.3Empirical Review**

The empirical review brings out the actual findings of various scholars about the related topic, since debtors management is common in developing countries.

Norell (2001) study in Accra Ghana sought to establish the various methodologies that MFIS in that country had adopted to reduce outstanding debt. The study found that in order to reduce the debtors outstanding credit officers should monitor debt on a continuous and as well have flexible credit policies which should be updated regularly before being enforced, educate clients frequently before issuing any loan and entice the credit officers since they spend most of their time in the field. The Bank of Jamaica (2003) also conducted a study on adoption of debtors risk management practices of banks in that country and the results of the findings revealed that only 46% of the commercial banks had adopted them in full. For debtors management practices to be effective, they should be implemented through all levels of the organization and should be revised periodically.

Padachi (2006) study on debtors management and its effect on a firm's performance used a sample of 58 manufacturing firms. The results of the study revealed that debtors management practices contribute positively towards financial performance. Solano (2007) also carried out a similar study on debtors management on several Spanish firms, to determine the relationship between debtors management and profitability. The study found a negative relationship between the two variables in consideration. A study done by Ebaid (2009) in Egypt on the firms listed under the Egyptian stock exchange sought to determine the relationship that exists between the debt level and financial performance of the listed companies, the study used return on assets as the main financial measure the study found a negative relationship between debt levels and overall financial performance.

Gill (2010) study in Newyork assessed the relationship between profitability and average collection period, The study used a sample of 8 companies listed on the Newyork Securities Exchange and was conducted between the period 2005-2007, The study found a negative relationship between profitability and average collection period. The researcher recommended that management can boost the profitability of their companies by reducing the number of days that credit sales are outstanding. In another study done by Kwame (2010) in Ghana on debtors management practices adopted by the SMES in that country and their overall effect on liquidity, The findings revealed that managers can increase liquidity by reducing the number of days that debt is recovered which applies to both large and small firms.

Dong and Su (2010) conducted a study on the effects of debtors management practices on financial performance on the companies listed under Vietnam Stock Exchange; the study used data between 2006 and 2008 and found out that there exists a negative relationship between debtors management and profitability, implying that profits are greatly influenced by a longer cash conversion cycle. Kariuki (2011) study in Kenya assessed the debt collection practices adopted by large Kenyan firms. The findings found out that the companies do not outsource debt collection agents since debt management is a sensitive process and thus wish to retain flexibility in credit extension and collection.

A research study was carried out in Kenya by Nyamao et al., (2012) to determine the effect of debt levels on the financial performance of small scale enterprises in Kisii County, Kenya, the study revealed that debtors management practices had not been put into practice among the small business enterprises. Ogolla (2012) in Kenya did a study on debt recovery strategies used by NIC bank to manage their debt in terms of non-performing loans, She collected the data by administering questionnaires to the staffs in the debt department, the study revealed that the various strategies adopted by this bank are: debt management strategies, legal strategies and relationship strategies, The study also revealed that enough effort has to be put in place to avoid bad debts.

In another study carried out by Egbido and Enyi (2012) in Nigeria on profitability in the manufacturing firms used debtors collection period as a key variable. The study revealed that a longer collection period has a negative impact on debtors management. A study done by Owolabi (2012) on effect of liquidity on corporate profitability found out that managers can increase profit by putting in place a flexible credit policy and a short conversion cycle. The study used data from

selected manufacturing companies quoted on the NSE. Lartey et al.,(2013) study on the relationship between modern liquidity and profitability on the institutions listed on the stock exchange in Ghana, found out that there exists a very weak positive relationship between liquidity and the profitability of these institutions.

Waweru (2013) study on the principles and practices of debtors management in manufacturing firms in Thika Town, Kenya found out that the factors that affect debtors management include: lack of formal credit policy, Inconsistency on lending procedure and the credit terms. The study also found that there was fluctuation in the average collection period and the debts outstanding written off. Raphael and Ajayi (2014) study on the effect of credit policy on the performance of Commercial banks in Nigeria using Zenith bank as a case study found out that incidences of bad debts would be minimized if a good credit policy is put in place.

In another study carried out by Mwangi (2014) on effect of liquidity management on the financial performance of commercial banks listed under the Nairobi stock exchange in Kenya, the researcher used secondary data obtained from the published accounts of the commercial banks and found out that liquidity has a negative relationship with commercial banks profitability. A study done by Alshatti (2015) on effects of credit management on the financial performance of the Jordanian commercial banks during the period 2005 to 2013. Thirteen commercial banks were used as a sample and the results revealed that credit management affects financial performance of the Jordanian commercial banks as measured by ROA .

A study done by Otieno et al., (2016) to determine the relationship between debtors risk management and financial performance of microfinance banks in Kenya used pearsons correlation coefficient, the population comprised of 12 licensed microfinance banks. The results were that debtors risk management has a negative effect on return on assets. Kimotho and Gekara (2016) study on the effect of credit management and financial performance of commercial banks in Kenya used descriptive research design and target population consisted of credit managers and recovery managers. The study found a negative relationship between credit management and profitability.

## **2.4 Summary of Literature and Research Gaps**

From the literature review done, debtors management plays a critical role in improving financial performance in the MFI sector. Review of local studies has focused on determining the effects of credit management on the financial performance of MFIS in Kenya and the relationship between working capital and financial performance of MFIS, similar studies have been carried out on debtors management though in different industries of manufacturing companies as well as the SME sector. It is therefore evident that only few studies have been advanced on debtors management and financial performance of MFIS which is the gap this study sought to fill.

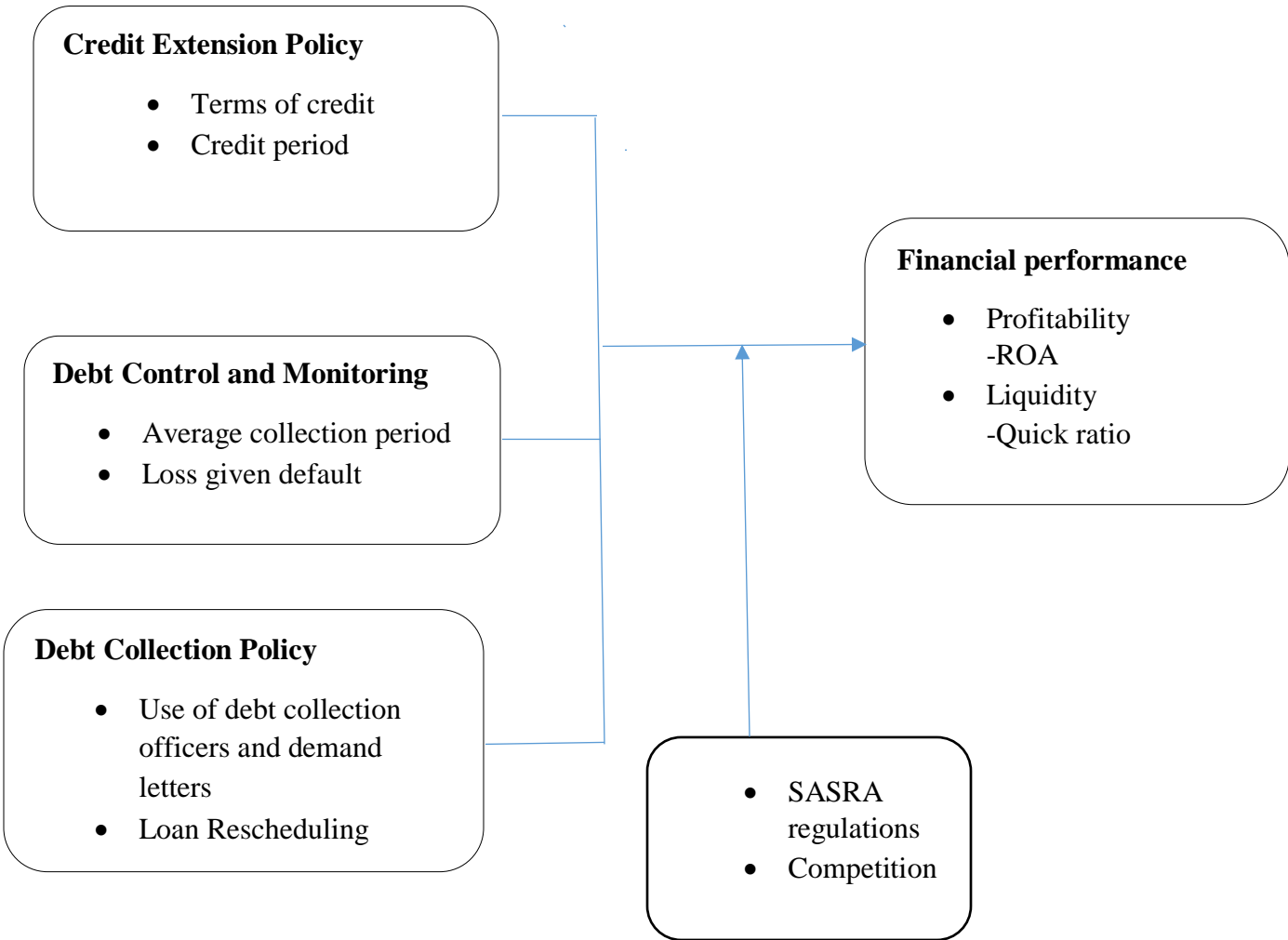
As earlier highlighted the issue of debtors management has been studied widely, however most studies have concentrated more on the commercial banks leaving out the MFIS. Biwott (2011) recommended similar studies in different sectors and industries. This study therefore sought to fill this research gap by determining the effect of debtors management on financial performance of Microfinance Institutions in Nyeri County, Kenya.

## **2.5 Conceptual Framework**

The conceptual framework focuses on the independent variables and the effect on the dependent variable. The independent variable in the framework is about the debtors management practices and the dependent variable is about financial performance in micro finance institutions in Nyeri County. Therefore the conceptual framework gives a brief summary of how the variables relate with each other in a diagrammatic format as shown below:

## Independent Variables

## Dependent Variable



**Figure 2.1 Conceptual Framework**

**Source; Researcher (2018)**

The conceptual framework shows the relationship between the independent variable of debtors management and the dependent variable financial performance of MFIS in Nyeri County, Kenya. Financial performance of MFIS was determined using liquidity which was computed using quick ratio. The independent variable, debtors management constitutes of three key variables i.e. credit extension policy, debt control and monitoring and debt collection policy. All these practices are crucial for efficient debtors management in MFIS.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter reviews the research design and the various methodologies of the study. The chapter incorporated all the techniques that facilitated the research such as identifying the target population, the research design adopted, data collection methods, data analysis, procedures and results presentation that helped achieve the main purpose of the research study. The aim of the research methodology was to produce reliable data that is free from influence and errors and the data to be both reliable and valid (Cooper et al., 2011).

#### 3.2 Research Design

This refers to the ways or strategies adopted by the researcher to enable him or her integrate the various components of the study in a meaningful way hence efficiency in dealing with the research problem in consideration, it outlines in details the format used in data collection, measurement and data sorting (Kothari, 2004). According to Robinson (2002) descriptive research design involves observing and describing the behavior of certain objects using scientific tools without influencing it. This study used descriptive research survey to obtain information on debtors management on financial performance of MFIS.

#### 3.3 Target Population

It refers to the entire population which the researcher is interested in generalizing his conclusions (Walliman, 2011). The target population is all about the population from which information is drawn from and the study focused on all the Micro finance institutions which are licensed under the Central Bank and the Association of Microfinance banks which are eight in number i.e. KWFT, SMEP, Faulu, Bimas, Eclof Microfinance, Platinum Credit and Getbucks ltd. The target respondents comprised of: Operations Managers, Finance Managers and Debt collection officers of the MFIS in Nyeri County, Kenya.

**Table 3.1 Summary of Target Population**

<b>Microfinance Institution</b>	<b>Operations Manager</b>	<b>Finance Manager</b>	<b>Debt Collection Officers</b>	<b>Target Population</b>
Kenya Women Microfinance Bank	1	1	8	10
Smep Microfinance Bank	1	1	7	9
Faulu Microfinance Bank	1	1	9	11
BIMAS Microfinance	1	1	5	7
Eclof Kenya Microfinance	1	1	7	9
Platinum Credit Limited	1	1	6	8
SISDO Microfinance	1	1	4	6
Getbucks Limited	1	1	5	7
<b>TOTAL</b>	<b>8</b>	<b>8</b>	<b>51</b>	<b>70</b>

**Source: HR Departments, 2018**

### **3.4 Sampling Design**

A sample refers to a set of individuals selected from a population and represents the actual population in a research study, therefore the main objective is to study the sample and make a conclusion (Neuman, 2000). Gravetta and Forzano (2006) the degree of representativeness of a sample refers to how closely the sample reflects the population. According to Orodho (2004), sampling is the procedure where a researcher gathers people or things to study, the researcher collects individuals or objects from a population which represent the characteristics found in the entire group.

The criteria for choosing the MFIS was based on the availability of data between (2013-2017) this period was quite favorable as most organizations file their financial results for the past five years. Based on the sample size and the time coverage, the sample comprised of 48 respondents. Purposive sampling was used to collect data from the operations manager, finance manager and debt collection officers by use of structured questionnaires. Singh (2006) when the subjects used in a sample is homogenous using purposive sampling is appropriate. The sample size was calculated on the basis of: Sample size = 6 respondents per MFI consisting of (1 Operations Manager, 1 Finance Manager & 4 Debt collection Officers) \* 8 Micro Finance Institutions = 48 respondents.

### **3.5 Data Collection Instrument**

Data collection methods used were questionnaires and a secondary data collection guide. According to Kothari (2004) primary data is that data which is collected for the first time and thus its original in nature. Mugenda and Mugenda (2003) further asserts that questionnaires are free from bias of the interviewer, as respondents have adequate time to give well thought out answers and that the results are more reliable, questionnaires were both open and close ended to capture all that the researcher intended to study. The research was carried out using secondary data obtained from the MFIS annual reports, published audited accounts and annual reports from the Association of Microfinance Institutions (AMFI).

Primary data was collected using a semi structured questionnaire administered to the respondents. The questionnaire was subdivided into various sections, Section A for general background information, section B, C and D for debtors management practices, Section E for SASRA regulations and section F for financial performance. The questionnaire used both open and close

ended questions to obtain the information required. A five point Likert scale was used in designing the debtors management practices questions. Secondary data on the other hand was obtained from the published financial statements of the Microfinance Institutions.

### **3.5.1 Validity**

The validity is about analyzing and collecting data to determine how accurate and appropriate the research instrument is (Kumar, 2011). The researcher evaluated the questionnaire and based it on content validity which revealed whether the collected data reflected the research questions and objectives of the study, face validity was used to find out if the research instrument had a connection to the objectives of the research study and construct validity was used to determine whether the data collected reflects the statements and theoretical concepts questions of the questionnaires (Mugenda & Mugenda, 2003).

### **3.5.2 Reliability**

Reliability is the ability of the research instrument to yield the same results when repeated. Measurements are taken into consideration Kothari, (2004). According to (Cohenon & Morrison, 2000) reliability is the same as consistency which is measured over a certain duration, and in a group of respondents. In this study, reliability of the research instrument was determined by administering 2 questionnaires in 2 MFIS and after sometime administered them again. A Cronbachs Alpha coefficient value of 0.8 was used to determine the reliability of the instrument. Value above 0.8 indicate presence of reliability (internal consistency) while value below signify lack of reliability.

### **3.6 Data Collection Procedure**

According to Kothari (2004), data collection is the process of acquiring subjects and gathering information that is needed for a study. Primary data was collected using a semi structured questionnaire administered to the operations manager, finance manager and debt collection officers, in the selected MFIS to collect information. The researcher attached a letter of introduction which explained the reason for the study. The drop and pick later approach was used as it gave the respondents enough time to complete the questionnaire and also gave the researcher an opportunity to review the questionnaire before picking to ensure completeness of the responses.

### **3.7 Data Analysis and Presentation**

According to Kothari (2004) data collected has to be organized and sorted for presentation according to the outlined procedures. Measures of central tendency such as mean, mode, percentages as well as weighted averages were computed and the results compared to the findings from literature review. Data was analyzed using descriptive analysis, multiple regression analysis and correlation coefficient was used to determine the effect of the independent variable on the dependent variable. The multiple regression analysis model is as below:

$Y=B_0+B_1X_1+B_2X_2+B_3X_3+e$ : Where:

Y=Financial Performance

$B_0$ =Intercept

$B_1$ - $B_3$ =Regression coefficients

$X_1$ =Credit extension policy

$X_2$ =Debt monitoring and control

$X_3$ =Debt collection policy

e=error term.

### **3.8 Ethical considerations**

Ethics can be defined as moral principles or values that govern the conduct of an individual or group (Schulze, 2002). Researchers have to conduct themselves in a responsible manner when conducting their profession and relating with respondents. Therefore the researcher followed ethical guidelines which included ethical review process before engaging respondents, to ensure that procedures were fair and unbiased to all who were involved. The researcher requested for permission from Kenyatta university graduate school and National Commission for Science, Technology and Innovation (NACOSTI) in order to carry out the research. Permission was sought from the Microfinance institutions through a letter to undertake the research study.

## **CHAPTER FOUR**

### **DATA ANALYSIS PRESENTATION AND INTERPRETATION**

#### **4.1 Introduction**

This chapter introduced data analysis and presentation following the research objectives. The general purpose of this study was to assess the effect of debtors management on financial performance of Microfinance institutions in Nyeri County, Kenya. This is due to the fact that financial performance has been on a declining trend. The researcher used both open and close ended questions to ensure collection of data from respondents within a short time. The data collected was analyzed using Statistical package for social scientist (SPSS). The study used a sample size of 48 and questionnaires were issued to the operations manager, Finance manager and debt collection officers.

#### **4.2 Background Information**

Out of the 48 questionnaires distributed the researcher was able to collect 42 questionnaires which formed 87.5% of the respondents which was deemed sufficient. Mugenda and Mugenda (2003) a response rate of above 50% is sufficient. Table 4.1 shows a summary of the respondents' demographic data in terms of: gender, age, level of education, number of years worked in the organization, job level, and the percentage represented by debtors.

**Table 4.1: Respondents Demographic Data**

<b>Demographic Data</b>	<b>Classification Factor</b>	<b>Frequency</b>	<b>Percentage</b>
Gender	Male	28	66.67
	Female	14	33.33
	<b>Total</b>	<b>42</b>	<b>100</b>
Age	18-25 years	6	14.3
	26-36 years	22	52.38
	36-45 years	8	19.04
	46-55 years	6	14.3
	Over 55 years	-	
	<b>Total</b>	<b>42</b>	<b>100</b>
Level of Education	PHD	-	-
	Masters	3	7.1
	Bachelors	16	38.1
	Diploma	23	54.8
	Certificate	-	
	<b>Total</b>	<b>42</b>	<b>100</b>
Work Experience	Less than 1 year	5	11.90
	2-5 years	12	28.6
	5-10 years	25	59.5
	<b>Total</b>	<b>42</b>	<b>100</b>
Position Held	Debt officers	30	71.4
	Operations manager	6	14.3
	Finance manager	6	14.3
	Subordinate staff	-	-
	<b>Total</b>	<b>42</b>	<b>100</b>
Percentage of debtors	Below 25%	-	-
	Between 25%-50%	15	35.7
	Between 50%-75%	21	50
	Above 75%	6	14.3
	<b>Total</b>	<b>42</b>	<b>100</b>

Source: Research Data (2018)

From the Table 4.1, majority (66.67%) of the respondents were male while the rest (33.37%) were females implying that majority of the MFIS are managed by males. On experience of respondents, over 59.5% had worked in the organization for over five years and above, implying that the respondents were knowledgeable on debtors management and financial performance of MFIS in Nyeri County, Kenya. Majority (52.38%) of the respondents were between ages between 26-36 years which represents a fairly aging population in the MFI sector which implies that the younger population has been empowered for proper succession planning.

From Table 4.1, 54.8% of the respondents had a diploma certificate, 38.1% had bachelor's degrees, while 7.1% had master degrees. From this analysis it is evident that the respondents were well informed on debtors management and its effect on financial performance of the MFIS .On average 21 respondents indicated that 50% of the company's assets were represented by debtors, while 15 respondents indicated that 35.1% of the company's assets were represented by debtors, while the rest suggested that 14.3% of the assets were represented by debtors this implies that the highest percentage of the institutions assets lies in debtors.

### 4.3 Descriptive Analysis

Descriptive statistics such as mean and standard deviations were used to present the quantitative data with the use of statistical package for social sciences SPSS version 17.0. These were presented as per the study objectives as follows:

**Table 4.2 Level of agreement on Credit extension policy in MFIS**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
The institution has standardized loan forms	42	4.24	.932
There is regular assessment of borrowers' financial position	42	3.31	1.199
A maximum period is given to borrowers to repay their loans	42	4.62	.582
Members are eligible for the loan after subsequent savings	42	4.40	.964
The institution has a well-documented credit policy	42	3.93	1.276

The institution strategies for granting credit focus on what should be done at the branches while assessing borrowers	42	3.38	1.011
The institution contacts the credit bureau to assist in decision making before lending	42	4.02	.811
That credit terms are evaluated before credit extension	42	3.33	1.052
The institution considers borrower characteristics, collateral security in credit extension	42	3.79	1.094
<b>Credit extension policy mean</b>	<b>42</b>	<b>3.9</b>	<b>0.93</b>

**Source: Research findings, 2018**

Most of the item means were above average given that they were measured out of a maximum of 5. This means that the respondents were mostly in agreement with statements, an indication that the credit extension policy is implemented by MFIS as mentioned by the statements. An examination of the information contained on table 4.2, reveal that the standard deviations of the items were relatively high as they ranged from 0.81 to 1.27. The high standard deviation implies that there were wide variations in responses of the items. There were those who strongly agreed with the statements and those that strongly disagreed with them. This is an indication that there were wide variations in terms of how these MFIS handle credit extension policy. Generally, as evidenced by the above average mean, majority strongly agreed with the statements.

**Table 4.3 Section C: Debt Control and Monitoring in MFIS**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Internal audit does a verification of the loans advanced	42	4.33	.846
The institution regularly uses LGD as a debt monitoring technique	42	4.48	.862
The institutions monitor timely repayments of loans	42	4.10	.821
The Institution keeps track of payments using the average collection method	42	3.79	1.001
The institution frequently reminds borrowers on their outstanding amounts	42	3.83	.762
The institution has a strict system on monitoring to ensure better loan performance	42	3.79	.842
There is adequate annual budget allocation for debt monitoring	42	3.43	.887
There is adequate annual budget allocation for debt monitoring	42	4.36	.618
The institution regularly educates clients on borrowing terms and conditions	42	4.43	.737
<b>Debt Control and monitoring mean</b>	<b>42</b>	<b>4.06</b>	<b>0.71</b>

**Source: Research findings, 2018**

Table 4.3 shows that the means ranged were very high. The high means is an indication that the MFIS consider debt control and monitoring a fundamental aspect of their financial performance. An examination of the results in table 4.3 show that most of the item means and were high given that they were out of a maximum of 5. These results suggest that debt control and monitoring is done particularly well by MFIS. The results in table 4.3 also reveal that the standard deviations of the items were generally low (most were below 1.0) except for “The Institution keeps track of payments using the average collection method” (SD = 1.001). A low standard deviation is an

indication of similarity in responses of subjects to an item while a high standard deviation means inconsistency in responses of subjects to an item. The standard deviation of the debt control and monitoring index (SD = 0.71) was relatively low compared to credit extension policy an indication of comparable responses in the former than in the latter.

**Table 4.4 Section D: Debt Collection Policy in MFIS**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Would you rate your debt collection policy to be Excellent compared to your peers in the microfinance sector?	42	3.81	.862
Would you rate your debt collection policy to be Good compared to your peers in the microfinance sector?	42	4.29	.596
Would you rate your debt collection policy to be Average compared to your peers in the microfinance sector?	42	2.50	1.194
Would you rate your debt collection policy to be Below Average compared to your peers in the microfinance sector?	42	1.71	.596
There exists a written collection policy	42	4.16	.677
Collection policies apply to equally to all borrowers irrespective of their social standing	42	4.10	.656
A loan is considered delinquent when its one day past due	42	3.86	.843
All loans are subject to penalties after a specified number of days of delinquency	42	4.02	1.107

The institution provides vehicles for staff mobilization while carrying out their duties	42	2.06	.840
The institution provides airtime for staff in debt collection department for follow up on calls	42	2.72	1.114
The institution has enough number of staffs in the debt collection department	42	2.90	1.100
The employees at the bank are well remunerated to avoid corruption issues	32	2.56	.878
<b>Debt collection policy mean</b>	<b>42</b>	<b>3.31</b>	<b>0.69</b>

**Source: Research findings**

The results on table 4.4 shows that the item means were high given the maximum was 5, A particular case is the mean for the item “Would you rate your debt collection policy to be Below Average compared to your peers in the microfinance sector?” (M = 1.71, SD = 0.596), majority disagreed with the statement implying that most of the MFIS have adopted debt collection policy as a practice. Generally, no one would rate their MFIS to be below average as far as debt collection is concerned. In fact, the item “Would you rate your debt collection policy to be Good compared to your peers in the microfinance sector?” (M = 4.29, SD = 0.596) and item “Would you rate your debt collection policy to be Excellent compared to your peers in the microfinance sector?” (M = 3.18, SD = 0.862) concurs with strong disagreement on rating their MFIS below average. An examination of the items standard deviations reveals that most of them were relatively high several were above one and some nearing one. This means that there was a disparity in responses.

**Table 4.5: Ways used in communicating SASRA regulations**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Regular meetings	42	3.7381	.82815
On job training	42	3.2381	1.05483
External facilitators	42	3.1667	1.39540
Written materials/publications	42	2.9762	1.09295
<b>SASRA regulations mean</b>	<b>42</b>	<b>3.279</b>	<b>0.998</b>

**Source: Research findings, 2018**

Table 4.5 results shows means for items used to communicate SASRA regulations. All the items can be seen to be above average under the measurement of a maximum of 5. This implies that the respondents agreed strongly with the ways used in communicating SASRA regulations in the MFIS. Further examination of the table reveals that the standard deviations of the items were relatively high as they were above one. The high standard deviation implies that there were wide variations in responses of the items. Basically, there were those who strongly agreed with the statements and those who strongly disagreed with them. This is an indication of wide variations in ways used by SASRA to communicate to the MFIS.

**Table 4.6: Approaches used in screening customers before awarding credit.**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
History of the borrower	42	3.2143	1.20032
Collateral	42	3.8333	1.01011
Terms and conditions	42	3.5000	1.19450
Credit period	42	3.4762	.96873

**Source: Research findings, 2018**

Table 4.6 shows the means of the items for approaches used in screening customers before awarding credit ranged from 3.214 (SD = 1.2) to 3.83 (SD = 1.01). All the means were high given

they were measured out of a maximum of 5. The results indicate that most of the respondents agreed with the statements. The above results also reveal that the standard deviations of the items were generally high as most of them were above one. A high standard deviation means a variation in the responses to an item. Thus, the responses were not comparable. There were those that strongly agreed with approaches and those that strongly disagreed with the same.

**Table.4.7: Change of institutional performance since the inception of SASRA regulations**

	N	Mean	Std. Deviation
Speed of loan processing	42	3.4048	1.23089
Accessibility of funds	42	2.6429	1.07797
Performance on loan book	42	3.6905	1.23936
Growth in terms of Assets	42	3.8095	.77264
Legal compliance	42	3.9762	.89683

**Source: Research findings, 2018**

Table 4.7 shows that the item means ranged from 2.6429 to 3.9762 indicating that majority of the respondents strongly agreed with the statement. An examination of the standard deviation showed that most of the respondents had inconsistent responses.

The findings are in agreement with those done by Ali (2013) on the impact of regulation and supervisory framework on Microfinance Institutions in Kenya which found out that the Microfinance sector including Sacco's require regulations in order to achieve a stable financial system and deliver financial services to the low income section of the population. Ferri and Kalmi (2014) also did a study on the effect of regulation on credit institutions in Kenya. The results indicated that high capital requirements by regulatory authorities affect the growth of credit institutions.

Waiganjo, Wanyoike and Koitaba (2015) did a study on the effect of SASRA regulations on financial performance of the Sacco's in Nairobi County. The study used staff competence, corporate governance and quality of the board of directors as the key variables in determining their effect on financial performance. The findings revealed that the quality of the Board members was

an important factor in improving the Sacco's financial performance as per the SASRA regulations. Staff competence was also found to have a strong influence on financial performance of the SACCOS as required by the SASRA regulations.

#### **4.4 Inferential Analysis**

Inferential statistics was applied through the use of correlation analysis to establish with statistical significance the nature of the relationship between the dependent variable and the independent variables. The dependent variable was the financial performance of the Microfinance institutions in Nyeri County which was measured using Credit extension policy, Debt collection policy and Debt control and monitoring.

##### **4.4.1 Correlation analysis**

From the results of the study, coefficient of correlation was used to check whether there exists a linear relationship between the variables. The Pearson correlation coefficient was used to measure the statistical relationship that exists between the independent and dependent variables.

Table 4.8 Correlations between Financial performance (Quick Ratio), debt control and monitoring, debt collection, and credit extension policy

A bivariate test was used to determine the influence of debt control and monitoring, debt collection policy and credit extension policy on the financial performance of MFIS. A Pearson product-moment correlation was run to determine the association between financial performance for the years 2013 to 2017 and the index for of the above-named independent variables. The results of the bivariate analysis are summarised on the table below.

		Debt control and monitoring	Debt collection policy	Credit extension policy
Quick Ratio	Pearson Correlation	.727*	.401*	.512*
	Sig. (2-tailed)	.046	.008	.002
	N	42	42	42

The results in table 4.8 reveal the relationship between financial performance and debt control and monitoring in MFIS. There was a strong positive correlation that was statistically significant at 5% level of significance ( $r = 0.727$ ,  $n = 42$ ,  $p = .046$ ). The strong positive association implies that financial performance of Micro Finance Institutions in Nyeri County is influenced by debt control and monitoring of these institutions. The table also shows the relationship between financial performance and debt collection policy. The association between the two was moderately positive and statistically significant at 0.05 level of significance ( $r = 0.401$ ,  $n = 42$ ,  $p = 0.008$ ). The significant relationship between the two variables indicates the influence of debt collection policy on financial performance of MFIS in Nyeri County. The table shows the association between financial performance and credit extension policy. The relationship between the two was also moderately positive and significant at 0.05 level of significance ( $r = 0.512$ ,  $n = 42$ ,  $p = 0.000$ ). A positive relationship means better credit extension policies better financial performance of the Institutions. The significant relationship between the two is an indication that financial performance is influenced by credit extension policies.

The table shows the association between financial performance and credit extension policy. The relationship between the two was also moderately positive and significant at 0.05 level of significance ( $r = 0.512$ ,  $n = 42$ ,  $p = 0.000$ ). A positive relationship means better credit extension policies better financial performance of the Micro Finance Institutions. The significant relationship between the two is an indication that financial performance is influenced by credit extension policies.

#### 4.4.2 Multiple regression analysis

A multiple regression was run to predict the financial performance from credit extension policy, debt control and monitoring, and debt collection policy. The table below shows the multiple regression model summary.

**Table 4.9 Determining how well the model fits.**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.732 <sup>a</sup>	.671	.418	1.0213376

a. Predictors: (Constant), Credit extension policy, Debt collection policy, Debt control and monitoring.

The R column in table 4.9 represents the value of R, multiple correlation coefficients. Multiple correlation coefficient is the measure of the quality of the prediction of the financial performance variable. The R value ( $R = 0.732$ ) indicates an appropriate level of prediction. The result implies that the correlation between the observed and the predicted values of dependent variable (financial performance) is very strong. The R Square column represents the  $R^2$  value, the coefficient of determination. The coefficient of determination shows the proportion of variance in the financial performance dependent variable that can be explained by the independent variables (credit extension policy, debt collection policy and, debt control and monitoring). The value (R Square = .471) simply means that the independent variables explain 47.1% of the variability of the dependent variable, financial performance. The Adjusted R Square column shows the value of the adjusted  $R^2$  which is simply an adjustment of  $R^2$ .

**Table 4.10 Statistical significance of the model.**

An ANOVA test was done to test whether the overall regression model is a good fit for the data.

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.197	3	.066	.721	.000 <sup>b</sup>
	Residual	3.469	38	.091		
	Total	3.666	41			

a. Dependent Variable: Quick Ratio

b. Predictors: (Constant), Credit extension policy, Debt control and monitoring, Debt collection policy.

From the ANOVA statistics, Credit extension policy, debt control and monitoring, Debt collection policy significantly predict the independent variable,  $F(3,38) = .721$ ,  $p < 0.05$  (i.e. the regression model fits the data significantly). This shows that the data is ideal for making conclusions on the financial performance of the MFIS as the p-value is less than the significance level of 0.05.

**Table 4.11 Estimated model coefficients.**

The table below shows the estimated coefficients of the regression model and the statistical significance of the independent variables.

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta	t		Lower Bound	Upper Bound
	(Constant)	1.173	.394			2.982	.005
Credit extension policy	-.351	.248	1.087	1.419	.000	-.852	.150
Debt control and monitoring	.208	.321	.494	.650	.010	-.441	.858
Debt collection policy	.266	.288	.613	.925	.023	-.316	.849

Table 4.11, B column shows the coefficient of the independent variables. From the results of the table the regression equation to predict financial performance from credit extension, debt control and monitoring, debt collection policy, as below:

$$\hat{Y} = 1.173 - 0.351X_1 + 0.208X_2 + 0.266X_3$$

Where:

$Y$ - Financial performance (measured using Quick Ratio).

$X_1$ - Credit extension policy.

$X_2$ - Debt control and monitoring.

$X_3$ - Debt collection policy.

In view of the results in table 4.11 above, credit extension policy was statistically significant in predicting financial performance of MFIs as shown by ( $\beta = - 0.351$ ). This shows that credit extension policy had significant negative relationship with financial performance of the MFIs. A unit increase in credit extension policy will result to a corresponding decrease in financial performance of the Micro Finance Institutions. Debt control and monitoring was statistically significant in explaining financial performance of MFIS in Nyeri as shown by ( $\beta = 0.208$ ). This shows that debt control and monitoring had significant positive relationship with financial performance of the Micro Finance Institutions in Nyeri County.

This implies that a unit increase in debt control and monitoring will result to an increase in financial performance of the MFIS. Debt collection policy was statistically significant in explaining the financial performance of MFIs as shown by ( $\beta = 0.266$ ). This shows that debt collection policy had significant positive relationship with financial performance. This is an indication that any unit increase in debt collection policy would result to an increase in financial performance of the MFIs. In addition, the statistical significance of the predictor variables in predicting financial performance is captured by the p-values after the t column.

Debt control and monitoring was statistically significant in explaining financial performance of the MFIs as indicated by ( $p = 0.010$ ). This implies that debt control and monitoring had a significant and positive effect on financial performance of the Micro Finance Institutions Studied.

In addition, debt collection policy had a statistically significant effect in explaining financial performance of the MFIs as shown by ( $p = 0.023$ ). This suggests that debt collection policy practices had positive and significant effect on financial performance of the Micro Finance Institutions. Credit extension policy was found to be statistically significant ( $p = 0.000$ ) in explaining the financial performance of MFIs in Nyeri County. This indicates that credit extension policy has a relatively weak positive effect on financial performance of MFIs studies.

#### **4.5 Summary of key findings and discussion**

The following are the key findings of the study and discussion:

##### **4.5.1 Effect of credit extension policy on financial performance of Micro Finance Institutions in Nyeri County**

The first hypothesis of the study stated that credit extension policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya. Credit extension policy was measured using 5-point Likert scale data generated by the questionnaire while financial performance was measured using Quick ratio computed using data obtained from the questionnaires. The association between the two variables was determined using Pearson correlation test.

Data on credit extension was collected using 9 items in the questionnaire. The items were close ended, 5 points (1: Strongly Disagree to 5: Strongly Agree) Likert type statements based on the extent to which the respondents agreed with them. The responses to each item was averaged, summated and then transformed into Credit extension policy index (overall mean) and results presented in table 4.2. The overall mean was 3.9 (SD = 0.93). The high mean is an indication of strong agreement with the statements. Pearson correlation test ( $r = 0.512$ ,  $p = 0.002$ ) yielded a statistically significant moderately positive relationship between credit extension and financial performance. The significant relationship between the two variables implies that credit extension policy has significant effect on the financial performance of Micro Finance institutions in Nyeri County.

Based on these results the first hypothesis which stated that credit extension policy does not have significant effect on financial performance of Micro Finance Institutions in Nyeri County was rejected. These results are consistent to the findings by Matunda (2014) in her study in Nairobi

County which showed that there was significant relationship between credit extension policy and financial performance of Micro Finance Institutions in Nairobi County. The results also concurred with Maiti (2014) study on credit policy and financial performance of financial institutions which showed that there existed a strong relationship between credit standards and financial performance. He concluded that the application of credit standards led to significant increase in financial performance. The results are also consistent to the findings by Kimotho and Gekara (2016) study on credit policies and financial performance of commercial banks in Kenya, and the results revealed that there exists a negative relationship between credit policies and profitability.

#### **4.5.2 Effect of Debt control and monitoring on financial performance of Micro Finance Institutions in Nyeri County**

The second hypothesis of the study stated that debt control and monitoring does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya. Debt control and monitoring was measured using data collected from 8 Micro Finance Institutions in Nyeri County using questionnaires while financial performance was computed from the financial data collected using the same questionnaires. Quick ratio is a financial performance measurement that measures how well a company is able to meet its short-term financial liabilities.

Data on debt control and monitoring was gathered using 9 close-ended items in the questionnaire. The close ended items were based on the extent to which the respondents agreed with them. The responses to the items were averaged and then transformed into the debt control and monitoring index. The items mean and standard deviations were presented on table 4.3. From table 4.3, debt control and monitoring had an overall mean of 4.06 (SD = 0.71). The mean was high given it was measured out of a maximum of 5. The high mean is an indication that debt control and monitoring was strongly considered important in financial performance. Majority of the respondents strongly agreed with the statements. The low standard deviation (SD = 0.71) implies that there was consistency in the responses on the extent to which the respondents agreed with the items statement.

In order to determine the nature and strength of the relationship a bivariate test was used. Results showed that the two variables strongly correlated positively ( $r = 0.727$ ,  $p = 0.046$ ) statistically significant. The significant correlation between the variables is an indication that debt control and monitoring affect financial performance of Micro Finance Institutions in Nyeri County. In

accordance with these results the second hypothesis that debt control and monitoring does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya was rejected. This denotes effectiveness of debt monitoring and control as a practice in management. According to Richard et al ;( 2010) a lending institution, needs to monitor carefully its outstanding debtors as this ensures long term survival. According to him monitoring of borrowers is essential as potential exposures change with time.

#### **4.5.3 Effect of debt collection policy on financial performance of Micro Finance Institutions in Nyeri County**

The third and last hypothesis of this study stated that debt collection policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya. Data on debt collection was collected using questionnaires. The responses to the debt collection policy were averaged and transformed into debt collection policy index (overall mean) and presented in table 4.4. The overall mean was 3.31 (SD = 0.69).

The relationship between financial performance and debt collection policy was determined using the Pearson correlation test. Debt collection policy (M= 3.31, SD = 0.69) was correlated with financial performance measure, Quick ratio. The results of the bivariate test yielded a moderate positive significance relationship ( $r = 0.401$ ,  $p = 0.008$ ). The significance of the correlation implies that debt collection policy has an effect on financial performance of Micro Finance Institutions in Nyeri County. The results contradict the third hypothesis which stated that debt collection policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya. The hypothesis was rejected as it was not supported by the results.

The findings are in agreement with other studies which observed that debt collection improves financial performance, They include Lewis (2005) debt collection has taken a modern approach and has become a major concern with increasing emphasis on early intervention techniques. Gathuya (2010) further asserts that debt collection is a legitimate and a necessary business activity. Since without it lending institutions are not in a position to take reasonable measures to secure payment from borrowers. A multiple regression was run to predict financial performance from credit extension policy, debt control and monitoring, and debt collection policy. These variables statistically significantly predicted ( $F(3,38) = 0.731$ ,  $p = 0.000$ ,  $R^2 = 0.671$ ) financial performance

of Micro Finance Institutions in Nyeri County, Kenya. All three predictor variables added statistically significantly to the prediction.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### **5.1 Introduction**

Based on the results and analysis of the research data and findings, this chapter gives a summary of the study finding and conclusions drawn. Recommendations and limitations encountered and areas that need further research have all been presented. The study makes conclusions from the results obtained and provides a summary for the entire research whose conclusions are drawn based on the research objectives. Recommendations are also done to various stakeholders.

#### **5.2 Summary**

The study was guided by the following objectives: To determine the effect of credit extension policy on financial performance of Micro Finance Institutions; To assess the effect of debt control and monitoring on financial performance of MFIs; and to establish the effect of debt collection policy on financial performance of Micro Finance Institutions in Nyeri county, Kenya. Based on the above objectives the following are the major findings of the study: -

##### **5.2.1 Effect of credit extension policy on financial performance of Micro Finance Institutions in Nyeri County**

In line with most of the previous studies, this study found out that adoption of effective credit extension policy improves the financial performance of Micro Finance Institutions in Nyeri County. The results on the relationship between credit extension policy and financial performance was positive and significant at 0.05 level of significance ( $r = 0.512$ ,  $p = 0.002$ ). Therefore, on the second hypothesis stating that credit extension policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya was rejected. This means that Micro Finance institutions with appropriate extension policies tend to perform in terms of financial performance. On multiple regression model, credit extension was significant at predicting the financial performance of Micro Finance Institutions in Nyeri County, Kenya.

### **5.2.2 Effect of Debt control and monitoring on financial performance of Micro Finance Institutions in Nyeri County**

This study found out that debt control and monitoring index was ( $M = 4.06$ ,  $SD = 0.71$ ) which is an indication that debt control and monitoring had a positive influence on the financial performance of Micro Finance Institutions in Nyeri County. The results on the relationship between financial performance and debt control and monitoring was strong, positive and statistically significant at 0.05 level of significance ( $r = 0.727$ ,  $p = 0.046$ ). Thus, the second hypothesis stating that debt control and monitoring does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya was rejected. The significance of the relationship between the two variables indicates that debt control and monitoring affects the financial performance of Micro Finance Institutions in Nyeri County. This implies that debt control and monitoring practices has a positive impact on the financial performance of MFIS. The variable was also found to be statistically significant in predicting the financial performance of MFIS.

### **5.2.3 Effect of debt collection policy on financial performance of Micro Finance Institutions in Nyeri County**

The study found out that debt collection policies had a positive influence on the financial performance of Micro Finance Institutions. Debt collection policy index was 3.31 ( $SD = 0.69$ ) meaning that most of the respondents gave a positive response on debt collection policy of their Micro Finance Institution. The relationship between debt collection and financial performance was moderate, positive and significant at 0.05 level of significance ( $r = 0.401$ ,  $p = 0.008$ ). Therefore, on the third hypothesis that debt collection policy does not have a significant effect on financial performance of Micro Finance Institutions in Nyeri County, Kenya was rejected. This means that financial performance and debt collection policies are strongly correlated. An increase in one lead to an increase of the other.

### **5.3 Conclusions**

Based on the findings of this study the following conclusions are made on the influence of selected variables on financial performance of MFIS in Nyeri County. The study found that credit extension was not statistically significant in explaining financial performance of MFIs. This means that credit extension had a negative relationship with financial performance. The study concludes that a unit increase in credit extension would lead to a decrease in financial performance. In addition, debt collection policy was statistically significant in explaining the financial performance of MFIS studied. This implied that debt collection policy had a significant association with financial performance of the MFIs in Nyeri County.

A unit increase in debt collection policies would result in a corresponding increase in financial performance of the studied MFIS. Finally, the study established that debt control and monitoring was statistically significant in explaining financial performance. This shows that debt control and monitoring had a significant relationship with financial performance of MFIs studied. The study concludes that positive increase in debt control and monitoring would lead to an increase in the financial performance of Micro Finance Institutions.

### **5.4 Recommendations**

The study recommends that the management must be keen not to set up credit extension policies that can negatively affect the profits of the Micro Finance Institutions. Micro Finance institutions should adopt and implement stringent debt collection policies as it would result into significant increase in financial performance. Micro Finance Institutions should endeavour to advance more on debt control and monitoring practices as a way of improving their financial performance.

The study also recommends that MFIS need to improve their credit appraisal techniques so as to avoid getting into defaults. By doing so, the MFIS would improve financial performance by having positive performing debtors' portfolio when it comes to loan recovery. MFIS may have suffered loan losses through relaxed debt collection policies, debt control and monitoring standards, the study thus recommends that Micro Finance should enhance their debt control and monitoring standards, and their debt collection policies, By creating a portfolio assessment database of current and prospective borrowers that can be shared among MFIS.

### **5.5 Limitations**

The study focused only on Micro Finance Institutions in Nyeri County which had certain characteristics that may not be similar to all other regions in Kenya, and thus the findings may not be generalized to all MFIs in Kenya. All due diligence was exercised to ensure the study ran smoothly. However, some limitations arose like return of incomplete questionnaires and this affected the targeted sample size, The study was also limited by inconsistency of information especially by the MFIS licensed under the Association of Microfinance Banks(AMFI)where all published sources seemed quite different and thus had to rely on information obtained from the AMFI and disregarded any other source that differed with the figures .

### **5.6 Contributions to knowledge**

This study makes several contributions. Academicians and researchers will use the study outcome as a basis for discussion on debtors management and financial performance for financial institutions specifically Micro Finance Institutions. The research will also be an addition of knowledge in the realm of financial discipline and to bridge the gap that exists in the study of debtors management more so in the Kenya Microfinance framework where there is shallow empirical literature.

### **5.7 Areas of further research**

The study suggests that further studies be done on other MFIS in Kenya as each MFI has its own debtors management techniques and would influence financial performance differently. Factors influencing financial performance of the MFIS e.g. credit appraisal could also be researched, debtors management in sacco is another area that would require thorough review Also, a study should be done to determine the influence of SASRA regulations on financial performance of Micro Finance Institutions. Finally, further studies can be done on the effectiveness of debt control and monitoring, credit extension policies, and debt collection policies.

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## APPENDICES

### **Appendix 1: Letter of Introduction**

Irene Nyawira

P.O Box 303

Nyeri,

Kenya.

To whom it may concern,

Microfinance Institution,

P.O BOX #

Nyeri,

Kenya.

Dear Sir/Madam

### **RE: REQUEST FOR PERMISSION TO COLLECT DATA**

I am an MBA student from Kenyatta University-Nyeri Campus, pursuing a Masters degree in Business Administration. Am kindly requesting for permission to conduct my research on: **Debtors Management and Financial Performance of Microfinance Institutions in Nyeri County, Kenya** as a requirement for the degree. I wish to be granted permission to collect data from your employees based on a semi structured questionnaire. The data will be strictly for study purposes and will be administered with utmost confidentiality.

I hope my request will be considered.

Thank you

Yours Faithfully

Irene Nyawira

## Letter from Graduate School



### KENYATTA UNIVERSITY GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 4150

#### Internal Memo

FROM: Dean, Graduate School

DATE: 18<sup>th</sup> October, 2018

TO: Irene Nyawira Gichugu  
C/o Accounting and Finance Dept.

REF: D53/NYI/PT/33139/2015

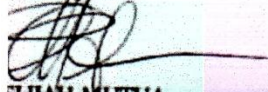
#### SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 11<sup>th</sup> October, 2018 approved your Research Project Proposal for the M.B.A Degree Entitled, "**Debtors Management and Financial Performance of Microfinance Institutions in Nyeri County, Kenya**".

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

  
**ELIJAH MUTUA**  
**FOR: DEAN, GRADUATE SCHOOL**

s.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. Job Omagwa  
C/o Department of Accounting and Finance  
Kenyatta University



**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

NACOSTI, Upper Kabete  
Off Waiyaki Way  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref. No. **NACOSTI/P/18/48682/26585**

Date: **13<sup>th</sup> December, 2018**

Irene Nyawira Gichugu  
Kenyatta University  
P.O. Box 43844-00100  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on "*Debtors management and financial performance of micro finance institutions*" I am pleased to inform you that you have been authorized to undertake research in **Nyeri County** for the period ending **13<sup>th</sup> December, 2019.**

You are advised to report to **the County Commissioner and the County Director of Education, Nyeri County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

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

Copy to:

The County Commissioner  
Nyeri County.

The County Director of Education  
Nyeri County.

### **List of MFIS in Nyeri County**

- Kenya Women Microfinance Bank
- Smep Microfinance Bank
- Faulu Microfinance Bank
- BIMAS Microfinance Bank
- Eclof Kenya Microfinance
- Platinum Credit Limited
- Getbucks Limited



**Section B: Credit Extension Policy**

1. The following statements relate to credit extension policy. Answer by putting a tick where appropriate. **Key:** Strongly Agree(SA)=5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The institution has standardized loan forms					
There is regular assessment of borrowers financial position					
A maximum period is given to borrowers to repay their loans					
Members are eligible for the loan after subsequent savings					

2. Does your company have a credit policy manual?

Yes [  ]      No [  ]

Please explain

.....

.....

.....

.....

3. The following statements relate to your institution’s credit policy. Tick where appropriate. **Key:** Strongly Agree (SA)=5, Agree(A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
The institution has a well-documented credit policy					
The institution strategies for granting credit focus on who, how and what should be done at the branches and corporate division levels while assessing borrowers					
The institution considers borrower characteristics, capacity and collateral security in credit extension					
The institution contacts the credit bureau to assist in decision making before lending					

4. To what extent do you agree with the following statement in relation to debtors management? Tick where appropriate. **Key:** Strongly Agree (SA)=5, Agree(A) =4, Neutral (N) =3, Disagree(D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
That credit terms are evaluated before credit extension					
That credit history of a debtor is always evaluated before extending credit					
That credit terms are considered before extending credit					
That credit extension terms and conditions are taken into consideration before advancing any form of debt					

5. What terms of payment do you give to your highly esteemed customers?

14 -30 days 60-90 days

30-60 days 90 -120 days

6. Does the institution subject the credit proposals to a rigorous assessment before lending?

Yes [    ]      No [    ]

Please explain

.....  
.....

**Section C: Debt Control and Monitoring**

1. Does the institution strictly monitor the account operations of its customers for early corrective measures in case of default?

Yes [ ]      No [ ]

Please explain

.....  
.....  
.....  
.....

2. What challenges do you encounter in debt monitoring?

.....  
.....  
.....  
.....

3. Do you keep proper records for debtors?

Yes [ ]      No [ ]

Please explain

.....  
.....

4. Are there daily, weekly or monthly credit reports generated to monitor debtors?

Yes [ ]      No [ ]

Please explain

.....  
 .....

5. The following statements relate to debt monitoring and control answer by putting a Tick where appropriate. **Key:** Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
Internal audit does a verification of the loans advanced					
The institution regularly uses LGD as a debt monitoring technique					
The institutions monitor timely repayments of loans					
The Institution keeps track of payments using the average collection method					
The institution frequently reminds borrowers on their outstanding amounts					

6. The following statements relate to debt monitoring and control answer by putting a Tick where appropriate. **Key:** Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
The institution has a strict system on monitoring to ensure better loan performance					
There is adequate annual budget allocation for debt monitoring					
The LGD technique reduces the level of bad debts					
The institution regularly educates clients on borrowing terms and conditions					

**Section D: Debt Collection Policy**

1. What strategies do you have in place for effective debt collection? Please explain

.....

.....

.....

2. What challenges do you encounter in debt collection? Please explain.

.....

.....

.....

3. How would you rate your institution debt collection policy compared to its peers in the microfinance sector? Tick where appropriate **Key:** Strongly Agree (SA)=**5**, Agree(A)=**4**, Neutral (N) =**3**, Disagree(D) =**2** and Strongly Disagree (SD) =**1**

<b>Statement</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Would you rate your debt collection policy to be Excellent compared to your peers in the microfinance sector?					
Would you rate your debt collection policy to be Good compared to your peers in the microfinance sector?					
Would you rate your debt collection policy to be Average compared to your peers in the microfinance sector?					
Would you rate your debt collection policy to be Below Average compared to your peers in the microfinance sector?					

4. The following statements relate to debt collection policy in debtors management. Tick where appropriate. **Key:** Strongly Agree (SA)=5, Agree(A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
There exists a written collection policy					
Collection policies apply to equally to all borrowers irrespective of their social standing					
A loan is considered delinquent when its one day past due					
All loans are subject to penalties after a specified number of days of delinquency					

5. Do the resources provided affect debt collection? Tick where appropriate. **Key:** Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

Statement	1	2	3	4	5
The institution provides vehicles for staff mobilization while carrying out their duties					
The institution provides airtime for staff in debt collection department for follow up on calls					
The institution has enough number of staff in the debt collection department					
The employees at the bank are well remunerated to avoid corruption issues					

**SECTION E: SASRA REGULATIONS**

1. Through what means is awareness about the SASRA regulations conducted among staff?

Tick where appropriate. **Key:** Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

<b>Means</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Regular meetings					
On job training					
External facilitators					
Written materials/publications					

2. What are some of the regulatory requirements that your microfinance institution must comply to? Please explain.

.....

.....

3. What are the challenges faced by your institution in conforming to the regulatory requirements? Please explain

.....

.....

4. SASRA has stringent measures of debtors management to ensure that loans are promptly serviced hence reduces incidences of default among Microfinance institutions. Which approach among the following does your institution use in screening before awarding credit to a customer? Tick where appropriate. **Key:** Strongly Agree (SA) =5, Agree (A) =4, Neutral (N) =3, Disagree (D) =2 and Strongly Disagree (SD) =1

<b>Measures</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
History of the borrower					
Collateral					
Terms and Conditions					
Credit period					

5. On a scale of 1 to 5 please rate the overall performance of the Institution improvement in terms of the following aspects since SASRA legislation: Key: Tick where appropriate. Strongly Agree (SA) =5, Agree(A)=4, Neutral (N) =3, Disagree(D) =2 and Strongly Disagree (SD)=1

<b>Institutional Performance</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Speed of loan processing					
Accessibility of funds					
Performance on loan book					
Growth in terms of Assets					
Legal compliance					

### **SECTION F: FINANCIAL PERFORMANCE**

The table below contains the various indicators of financial performance between the years 2013-2017, kindly fill it in.

<b>Financials</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
Net Income ( Ksh)					
Total current Assets (Ksh)					
Prepayments(Ksh)					
Current Liability(Ksh)					

**Thank You**