

**DEBT RECOVERY STRATEGY AND LOAN PERFORMANCE BY WOMEN  
BANKING AT KENYA WOMEN MICROFINANCE BANKS IN SOUTH RIFT  
REGION, KENYA**

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## DECLARATION

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I confirm that the work reported in this research project was carried out by the candidate with my approval as the university appointed Supervisor

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## **DEDICATION**

This research is dedicated to my wife, Mercy Cherotich and my parents, Michael Ndiritu and Charity Ndiritu.

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## OPERATIONAL DEFINITION OF TERMS

<b>Account Transactions</b>		It refers to bank terms, operating cost, mobile banking, and account balances.
<b>Auctioning of assets</b>	<b>of</b>	It refers to public auctions, private bidding live auctions and property auctions.
<b>Debt Recovery Strategy</b>		Debt recovery strategy refers to the monitoring of account transactions, auctioning of assets pledged as security, the use of multiple guarantors and the retention of collateral securities.
<b>Loan performance</b>		It refers to the extent to which the loans advanced to women get repaid. It is a measure of the proportion of the loans portfolio that gets repaid to the total loans advanced.
<b>Multiple Guarantors</b>		It is the use of several guarantors during loan advancement. The action involves social screening, group loan advances, joint liability, and group mentoring.
<b>Retention of collaterals</b>		It refers to simple guarantees, repayment capacity, and social collateral and economic capital.

## **ABBREVIATIONS AND ACRONYMS**

<b>CBK</b>	Central Bank of Kenya
<b>CMA</b>	Capital Market Authority
<b>IFC</b>	International Finance Corporation
<b>KWH</b>	Kenya Women Holding
<b>MFI</b> s	Microfinance Institutions
<b>NACOSTI</b>	National Council of Science Technology and Innovation
<b>SPSS</b>	Statistical Package for Social Sciences

## ABSTRACT

The loan performance of microfinance banks has recently shown a decline, leading to an increase in non-performing loans and hindering their ability to meet their goals. This study aimed to examine how debt recovery strategy affects loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region, Kenya. The specific objectives of the study were: to assess the effect of account transactions on loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region, to examine the effect of asset auctions on loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region, Kenya, to determine the effect of multiple guarantors on loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region, Kenya, and to assess the effect of collateral retention on loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region. The study was grounded in transaction cost theory, customer-supplier relationship theory, and stewardship theory. Descriptive research design was used. Target population was 139 staff members at Kenya Women Microfinance Banks in South Rift Region, which include 1 regional manager, 1 credit risk manager, 12 branch managers, 5 credit analysts, 60 business development officers, and 60 randomly selected customers. The sample size was 103 selected using simple random technique with the aid of Krejcie and Morgan formula, collection was carried out using closed and open-ended questionnaire distributed on a drop-and-pick basis. Validity was determined using expert opinion and reliability was assessed using Cronbach's alpha method with the help of statistical package for social sciences. The data was analyzed using both descriptive and inferential statistics utilizing the Statistical Package for Social Sciences. It was presented on tables and charts. Qualitative data was subjected to content analysis and presented in narrative form. It was established that, debt recovery strategy affects loan performance by women banking in Kenya Women Microfinance However, multiple guarantors are not a significant determinant of loan performance. In conclusion, account transactions, auctioning of assets and retention of collateral were significant to loan performance whereas use of multiple guarantors was negative and insignificant to loan performance. It was recommended that microfinance institutions should enhance accounts transactions by their clients. There should be perfection and retention of collateral to ease the auctioning process while sensitizing and involving their clients in the auctioning process to enhance transparency and accountability. Microfinance institutions should review their guarantor model. The study adhered to research ethics, including obtaining informed consent from respondents. This study has significance to the Microfinance institutions, policy makers, researchers, and scholars.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Loan performance is a critical indicator of the health and sustainability of microfinance institutions, reflecting the ability of borrowers to repay loans as agreed, (Ledgerwood, 2013). In the context of Kenya Women Microfinance Bank (KWFT), loan performance among women borrowers not only influences the institution's financial stability but also determines the success of its mission to empower women economically, (Baidoo, Yusif & Ayesu, 2020). Poor loan performance, characterized by high default rates and non-performing loans, can undermine the bank's capacity to lend and support more women, especially in rural areas like the South Rift region, (Ledgerwood, 2013). Microfinance institutions all over the world have not hesitated to auction assets to sustain liquidity and recover their loans. More often, MFIs have been caught in the delicate act of balancing between profit and liquidity throughout their operations (Bika, Subalova & Locke, 2022). Maaka (2018) holds the view that profit and liquidity have their importance, and none should be sacrificed over the other; A financial institution that neglects profit cannot sustain itself in the long term, and one that overlooks liquidity risks facing insolvency or bankruptcy. Weak performance signals risk and can limit future lending (Armendáriz & Morduch, 2010).

In India, Mirpourian, Caragliu, Maio, Landoni, and Rusina (2016) contend that, loan repayment rates improve as borrowers approach the maximum available loan limit. Sangwan, Nayak, and Samanta (2020) contend that households experiencing low incomes, substantial debt burdens, elevated instances of loan diversion, and heightened borrowing expenses are at a greater risk of defaulting on loans. Additionally, Sangwan, Nayak, and Samanta (2020) emphasize that the supervision of microfinance institutions is crucial in reducing loan

delinquency. However, they found that emotions and indebtedness do not have a notable impact in this regard. Loan performance remains a significant challenge for financial institutions in developing nations, hindering their ability to contribute effectively to sustainable development efforts (Baidoo, Yusif & Ayesu, 2020).

Loan performance by women banking at Kenya Women Microfinance Bank South Rift Region worsened in the last few years that has necessitated a rise in loan loss provision and subsequent write-off of loans, increased deposit-loan multiplier ratio and most importantly has affected the financial performance of the bank as argued by Ndungu (2021). Omolo (2018) established that most of the defaulted loans were held by individual borrowers. In cases where the borrowers are not willing to join group membership or where the borrower is being advanced with a huge amount of loans, the bank has made it mandatory for them to pledge collateral security to reduce credit risk, (Omolo, 2018).

Financial institutions across the world have put in various debt recovery strategies aimed at improving loan performance as argued by Bika, Subalova and Locke (2022). Amin (2020) argue that loan restructuring has been of importance to ensure that loan repayment requirements match the customers' income sources and pattern in Malaysia. Italian financial institutions have ensured maintenance of customer history through the program popularly known as Know Your Customer (KYC) Amin (2020). The KYC program requires one to understand customers' sources of income and their business and residence as indicated by Rajapurohit, Bhaskar, Kumar and Jadon (2023). In the event of default, the Italian banks make visitations to their customer and in other cases, realization of assets pledged as collateral security (Stanescu, 2021). Atikah (2020) argues that Indonesia has been focusing to three areas in improving loan performance through understanding the customers' creditworthiness prior to advancement of any credit, automation of collections and real-time monitoring of customers' activities.

Rwanda has employed artificial intelligence in debt recovery that has resulted in efficiency in loan performance, (Dushimimana, Wambui, Lubega & McSharry, 2020). The authors artificial Intelligence model has been able to automatically compute the loan qualification limits for various customers based on pre-defined credit scoring criteria and automatically recover past due loans without any human interventions. Debt recovery in Ghana has been a challenge and Ghana's financial institution have been adopting three methods of debt recovery which include, legal proceedings to recover the debt, realization of security interest where the credit agreement was registered with the Collateral Registry and appointment of a receivers in bankruptcy cases, (Volz, Akhtar, Gallagher, Griffith-Jones, Haas and Kraemer, 2021).

Muthama (2021) argues that Kenyan banks have engaged several strategies for debt recovery. The author further argues that debt recoveries have been initiated by issuing demand letters to the debtor, realization of security and even passing of debt obligation to the guarantors. Debt management literacy positively affects digital loan repayment performance as argued by Tarus and Tarus (2023). Macharia, Moore, Mwangi, Kombo, and Lorway (2023) contend that borrowers' character and capacity are two factors pertinent in the determination of loan repayment. Muthama and Warui (2021) argue that loan standards positively affect loan performance of Kenya women microfinance banks. The credit period is a factor of consideration in loan performance of microfinance banks. To manage the loan performance, Kenya Women Microfinance bank has been issuing loans only to group members. The group membership has been providing social security for the advancement of loans. In addition, Kenya women microfinance bank has been requiring collateral in the form of deposits and assets prior before the clients are advanced with loans. Muthama and Warui (2021) argue that collateral value is positively correlated to loan performance.

Kenya Women Microfinance banks in South Rift Region, Kenya has not been left out in implementation of strategies for loan recovery. The microfinance bank has put in place debt recovery strategies which include setting up a debt recovery unit, engagement of external debt collector, demand letter, defaulter visitations, account transactions monitoring, auctioning assets owned by defaulters, the use of group guarantees and retention of client collaterals throughout out the loan tenure and passing loans defaulted to group guarantors, (Kenya Women Microfinance Bank, management report of 2019. Microfinance institutions relying on savings deposits for loan funds must also ensure sufficient cash reserves for both lending and withdrawals (Kinuthia, 2021).

### **1.1.1 Loan Performance**

Loan performance refers to the extent to which a borrower complies with the agreed-upon terms of a loan, particularly in making timely repayments of both principal and interest Rose & Hudgins (2013). It is a key measure used by financial institutions to assess the quality of their loan portfolios and the effectiveness of their credit management practices (Greenbaum, Thakor & Boot, 2015). Good loan performance indicates that loans are being repaid on time and in full, while poor performance is characterized by delays, defaults, or the need for restructuring, (Rose & Hudgins, 2013). Loan performance is a critical indicator of the health and sustainability of microfinance institutions, reflecting the ability of borrowers to repay loans as agreed. In the context of Kenya Women Microfinance Bank, loan performance among women borrowers not only influences the institution's financial stability but also determines the success of its mission to empower women economically. Common indicators of loan performance include repayment rates, delinquency rates, and portfolio at risk (Mwangi, 2014). In microfinance, particularly among women borrowers, loan performance can be influenced by factors such as income stability, loan utilization, group lending dynamics, and the availability of support systems (Armendáriz & Morduch, 2010).

The concept of loan performance is closely linked to the timely and consistent repayment of both interest and principal on a loan, as highlighted by Gitman (2015). Defaults on borrowed funds can stem from adverse circumstances impacting the borrower's ability to service loans as noted by Ndichu (2021). The main reasons for defaults in loan performance include financial institutions' lax attitude toward loan repayment, borrowers' reluctance to repay, lack of accountability among financial institution staff to generate profits for shareholders, unforeseen crises in clients' lives such as illness or family deaths, loans exceeding business cash needs leading to personal use of funds, and loans granted without proper business evaluation, as discussed by Arnone, Costantiello, Leogrande and Magazzino (2024).

Ensuring revenue or interest income is crucial for financial institutions, prompting them to implement measures that safeguard their profits and loan recoveries (Didier, Huneus, Larrain & Schmukler, 2021). The aim in the current study was to address these concerns, as discussed by Nyebar (2021). Furthermore, Nyebar (2021) defines a quality loan as one that meets the bank's profit maximization objectives while minimizing default risks. Wakuloba (2005) identified poor business performance, fund diversion, and personal issues as the primary causes of loan defaults. Breth (1999) contends that various institutional as well as socio-economic and impact loan performance.

Key factors on the lender's side include frequent collections, stringent controls, effective information management systems, incentives for loan officers, and diligent follow-ups, as noted by Ngetich (2011). Additionally, factors such as loan size, maturity, interest rates, and timing of disbursement also influence repayment rates (Ngetich, 2011). Loans are performing when all agreed-upon installments and interest payments are made on time. However, there is always a chance that members won't be able to fulfill their obligations as anticipated (Didier, Huneus, Larrain & Schmukler, 2021). Whenever this happens, these loans are designated as "nonperforming," which somewhat drives down the lenders' earnings, (Ngetich, 2011).

Kenya Women Microfinance banks measure its loan performance using the amount of loans in arrears, the number of customers who have not attained their loan repayment requirements, (Kenya Women Microfinance bank report of 2020). However, nonperforming loans have been used by many researchers as a measure of loan performance (Rachman, Kadarusman, Anggriono & Setiadi 2018). Non-performing loan ratio is computed using the amount of nonperforming loans as a fraction of total loan portfolio, (Rachman, Kadarusman, Anggriono & Setiadi, 2018). The choice of non-performing loan ratio is informed by the fact that the indicator is quantitative in nature and tends to be accurate making it suitable for this study. In addition, data relating to non-performing loan ratio is available. The current study used non-performing loans to measure loan performance. From the background of this study, it is evident that past researchers unanimously contend that non-performance loan ratio measures the extent of loan performance. The non-performing loan is considered a suitable measure of loan performance since it objectively indicates the level of loan performance, (Rajha, 2016).

### **1.1.2 Debt Recovery Strategy**

Kamar and Ayuma (2018) define debt as a sum of money, or some other asset owed by one person or group to another. Debts result from deferral of payment for a good or from borrowing to purchase a good or service, a debt which matures within one year is defined as floating debt, that which matures between one to five years is often regarded as short-term debt (Kamar & Ayuma, 2018). A debt which is due for repayment between five and ten years usually qualifies as medium term while that which matures after ten years is a longtime debt, (Nawai & Shariff (2021). Debt recovery is a process in which a loan has not been repaid and the lender institutes measure to ensure loan is repaid which may include hiring third parties to focus on collecting the money, (Wade, 2023).

A debt recovery strategy is a comprehensive plan designed to collect outstanding debts owed to an individual or organization. To the extent necessary, the strategy may include legal and collection procedures, such as filing lawsuits, obtaining judgments, or engaging collection agencies to enforce repayment, (Dorfleitner, Oswald & Zhang, 2021). Offering structured repayment plans or settlements can also be part of the approach, allowing debtors to make partial payments or modify terms if they cannot pay the full amount immediately. The success of a debt recovery strategy relies on a well-organized approach that balances effective communication, legal measures, and flexibility tailored to each debt situation, (Kinyua, 2023).

Migwi (2018) conceptualized the debt recovery strategy as the repossession of assets pledged as security and transfer of loan obligation to the guarantors of the loan. According to Migwi (2018) the debt recovery process may involve valuation and realization of security through appropriate means. The proceeds from the repossession of the asset are used to pay off the defaulted loan balances and cater for the related expenses, (Drozd & Serrano-Padial, 2017). Choosing the most suitable debt recovery method involves evaluating the costs and advantages of each method, considering factors such as duration that have passed the loan due date as well as the possibility of recovering the loan in full as contended by Montana (2020). Contact policies should encompass preventive measures like payment reminders and establish a clear plan outlining collections process (Montana, 2020). In the current study, debt recovery strategy was measured using account transactions, auctioning of women assets, the use of multiple guarantors and retention of collaterals as adopted by Branchfield (2020) and Phillips and Moggridge (2019).

Misino (2019) contends that among the strategies used in debt recovery are account transactions, the use of internal debt collection unit and outsourcing. Before a firm decides on the choice of debt recovery strategy, options regarding the nature and amount should be

analyzed (Phillips & Moggridge, 2019). Account transactions are business activities that include opening an account with the financial institution and both physical over the counter transactions and even mobile transactions, (Dorfleitner, Oswald & Zhang, 2021). Essentially, borrowers are required to have transacted in their own accounts for a specified period prior to being advanced with any credit facility (McCarthy, 2019).

Mersland and Strom (2012) argue that financial institutions require their clients to maintain certain minimum balances in their accounts. Regarding matters of customer deposits and account balances, Ibok, Etuk and Acha (2012) affirm that microfinance institutions become financially sustainable once they can retain their customers. Many institutions across the world have achieved this objective by giving small loans to poor people especially women (Mersland & Strom, 2012). Harjono, Tehupeiory and Kandou (2022) argued that lending institutions across the world have embraced the use of guarantor as a way of minimizing the non-performing. They must have a strong credit history and enough income to cover loan payments if the borrower defaults, as outlined by Harjono, Tehupeiory and Kandou (2022). In case of default, the lender may seize the guarantor's assets. If a borrower triggers an event of financial default, the preferred course of action is to fix the default or have the exposure refinanced with another creditor (Berg, Fuster & Puri, 2022).

Microfinance institutions worldwide adopt various lending models, including joint liability group lending, individual liability group lending, village banking, or a combination thereof, as discussed by Murthy and Mariadas (2018). The joint liability group lending model originated from the Grameen Bank, where small groups of around five borrowers are formed and meet weekly under the supervision of a loan officer (Tegambwage & Kasoga, 2022). In joint liability group lending, two group members initially receive a loan and are required to repay it at weekly meetings as explained by Pamuk, Asseldonk, Ruben, Kweka, Watte & Hella (2022). Subsequently, one or two members may receive a larger loan, (Grameen, 2012).

This incentive structure, promising a bigger loan in the absence of default, serves as extra motivation for borrowers to repay, as highlighted by den Berg, Lensink and Servin (2014).

Alexeev, Nurmakhanova and Polishchuk (2021) argue that the purpose of group lending is to mentor each other. By forming groups of people in the same communities that can guarantee each other, the members can also learn from each other and have been mentored by the successful members of the group, (Alexeev, Nurmakhanova and Polishchuk, 2021). Mentorship and development are therefore an invaluable asset that a group member can obtain from the group over and above access to credit facility (Alexeev, Nurmakhanova and Polishchuk (2021). The variable measured using social screening, group loan advances, group mentoring and group development. Hadi and Kamaluddin (2019) propose a collateral model based on social capital, group pressure, and training as a supportive mechanism. This model aims to encourage loan performance and assist borrowers in improving their human and economic capital. Successful implementation of social sanctions requires addressing challenges related to delegation, while denying credit lacks market value and is vulnerable to adverse selection issues (Hadi & Kamaluddin, 2019)

Bi, Zhang, Yang, Wang and Bi (2022) argue that social collateral is an important tool in ensuring the reduction of non-performing loan portfolio by lending institutions and its application is through the adoption of multiple guarantors. According to the authors, the social guarantors do not only aid in repaying the defaulted loan but also in screening the borrower to determining the loan amount qualified based on their risk appetite and in monitoring the performance of the borrowers' business. Charles and Mori (2016) measured the strategies adopted by the lending institutions to include the depositing of collateral security by the borrower with the lender.

Bond and Rai (2002) argue that microfinance institutions (MFIs) encounter challenges operating in environments with limited collateral availability and potential diversion of funds. They employ social sanctions and credit denial as measures to deter defaulters, although these methods are not perfect substitutes for collateral (Bond & Rai, 2002). Acceptable collateral typically includes personal guarantees, mortgage of fixed assets, and mortgage of movable assets (Bond & Rai, 2002). This inability of formal financial institutions to cater to the financial needs of the poor has led to the rise of informal financial institutions (Hadi & Kamaluddin, 2019). According to Akolokwu (2021) lenders advance two categories of credit, that is, secured credit and unsecured credit. Secured credit systems govern loans backed by security or collateral, regulated by relevant laws and institutions. Recovery of these facilities may be done through auctions, (Akolokwu (2021). Omar, Hasan, Jayaraman, Salah and Omar (2021) argue that an auction may take the form of open public auctions, closed public auctions and online auctions. The authors also contend that e-auctions or online auctions offer convenience by allowing bidders to place bids without geographic limitations, unlike traditional auctions.

Kanoria and Nazerzadeh (2020) describe that in a closed auction, like when a company is being sold, bidders do not have information about the bids placed by competitors. Conversely, in an open auction like a livestock auction, bidders are aware of other bids being placed. Participants gather either physically or online to bid on assets, as noted by Kanoria and Nazerzadeh (2020). Interested parties are aware of competing bids and continue bidding until they either win the auction or choose to withdraw (Feldman & Mehra, 2019).

In this study, the account transaction model was employed as a debt recovery strategy by leveraging transaction records and account activity data to facilitate the recovery of outstanding debts. By systematically analyzing transaction histories, the model helps identify patterns and inconsistencies that can inform and strengthen collection efforts. Key metrics

used in this approach include bank terms—such as transaction limits, fees, and interest rates—which are critical for evaluating how banking conditions affect transaction efficiency and the cost of recovery processes. Additionally, operational costs such as transaction processing fees and administrative expenses are assessed to determine the financial impact of account management. The use of mobile banking is also evaluated, as it enables real-time monitoring, ease of payment, and improved debtor engagement, all of which contribute to more effective recovery efforts. Monitoring account balances further offers insights into a debtor’s liquidity and repayment capacity, helping tailor strategies based on the debtor’s financial status. Together, these elements support a more efficient, data-driven approach to debt recovery

This research incorporates the use of auctioning as a debt recovery method, evaluated through public auctions, private auctions, live auctions, and property auctions. An auction involves the disposal of assets pledged as security, where bidders compete by submitting offers, and can be conducted either openly or in a closed format. Auctions are preferred because they create a perception of advantageous deals for both buyers and sellers, and they can occur in live settings or online. In measuring auctioned assets, the key metrics used were public auction, private bidding, live auction, and property auction. Public auctions are open to anyone, conducted either in a public venue or online, and emphasize transparency to ensure competitive bidding and fair market value. In contrast, private bidding restricts participation to select, often pre-qualified individuals, allowing for more controlled and strategic bidding. Live auctions take place in real time, usually at a physical location or through online platforms, encouraging dynamic, immediate responses among bidders. Lastly, property auctions focus specifically on real estate, such as land or buildings, offering a quicker and often more profitable way for microfinance institutions to recover debts through competitive bidding.

John (2018) argues that banks and other financial institutions have adopted several techniques to ensure assets performance which has included the use of guarantors and/or tangible collateral security. The author further argues that guarantor is useful at the point of advancing credit as the guarantor is consulted to also assess the loan qualification of the borrower prior. In the event a potential borrower is not able to obtain a guarantor, Partovi and Matousek (2019) argue that pledging of collateral security is used as an alternative which is required to be registered with the interest of the lender noted.

In measuring the use of multiple guarantors as a debt recovery strategy, four key approaches were employed: social screening, group loan advances, group mentoring, and joint liability. Social screening assesses potential borrowers based on their social and behavioral characteristics to ensure they meet specific criteria before receiving a loan. Common in microfinance and community-based lending, this method helps identify reliable borrowers, thereby improving repayment prospects. Group loan advances involve issuing loans to a group of borrowers who collectively share the responsibility for repayment. Within this structure, multiple guarantors, typically group members, work together to meet their obligations, creating a support system that can enhance repayment rates and lower default risks.

Group mentoring provides borrowers and their guarantors with financial guidance and support to strengthen their financial management and repayment strategies. This assistance includes financial education, strategic advice, and practical tools that help maintain repayment schedules and improve loan outcomes. Joint liability, on the other hand, means that multiple guarantors are collectively and legally responsible for the full loan amount. In the event of default, all guarantors are liable, which increases their motivation to support the borrower and ensure repayment. Together, these strategies leverage social dynamics and collective responsibility to improve debt recovery efforts.

This study adopts collateral retention as a strategy for debt recovery to minimize loan performance problems. Collateral retention is measured using simple guarantees, repayment capacity, and social collateral and economic capital, following the approaches of Shee, Turvey, and Marr (2021), Bond and Rai (2002), and Hadi and Kamaluddin (2019). According to Shee, Turvey, and Marr, loan uptake is influenced by the level of collateral required, the borrower's repayment ability, and the interest rate charged. They argue that collateral requirements serve as a form of assurance for lenders, reducing default rates. Similarly, Kangogo and Olweny (2015) note that in cases where borrowers lack sufficient credit history, collateral security is essential for guaranteeing and securing loans.

Additionally, in measuring the use of multiple guarantors as a debt recovery strategy, this study considers social screening, group loan advances, group mentoring, and joint liability. Social screening involves evaluating borrowers based on their social and behavioral traits to ensure reliability before loan issuance (Greenbaum, Thakor, & Boot, 2015). This approach, commonly applied in microfinance, enhances the chances of repayment. Group loan advances, where borrowers and guarantors collectively share repayment responsibility, create a supportive network that strengthens repayment rates and minimizes default risks (Armendariz & Morduch, 2010). Through these strategies, debt recovery efforts are reinforced by leveraging both individual collateral security and group-based accountability.

Social collateral refers to the use of social relationships and community standing as a form of security. It includes aspects such as the borrower's reputation, connections, and support from influential community members. Social collateral can positively influence loan performance by providing informal security and fostering trust between borrowers and lenders, which can enhance repayment behavior. Economic capital denotes the borrower's financial resources and assets, including savings, investments, and property. In evaluating loan performance, economic capital is crucial for assessing the sufficiency of collateral. A higher level of

economic capital provides additional security, mitigates lending risks, and ensures that the borrower has adequate assets to support the loan, which can improve overall loan performance and increase confidence in repayment.

### **1.1.3 Kenya Women Microfinance Banks**

Kenya Women Microfinance Bank originally known as Kenya Women Holding (KWH) when it was established in 1982 has positioned itself as a pioneer in microfinance in Kenya and Africa with a focus on empowering women. The mission of Kenya Women Microfinance Bank Limited is "to partner with women in their creation of wealth." The institution underwent a name change in 2008, transitioning from Kenya Women Finance Trust to Kenya Women Microfinance Bank. In developing its products, the bank adopts a triple bottom line approach, considering Profit, Planet, and People. This approach ensures that products not only generate returns (profit) but also have a positive impact on the environment (planet) and contribute to improving the lives of their customers (people) (Kenya Women Microfinance Bank report, 2018).

Since 2008, Kenya Women Microfinance Bank has experienced remarkable growth, becoming a leading player in the Kenyan microfinance market with a market share exceeding 45% and serving over 800,000 clients nationwide. The bank has established an extensive branch network comprising more than 245 offices and employs over 2500 staff across 45 counties. Kenya Women Microfinance Bank has successfully expanded its reach to remote, rural, and peri-urban areas through its Agency Banking Business Model. Kenya Women Microfinance Bank has transitioned into a fully-fledged Microfinance Bank, providing a comprehensive range of banking services that include savings and credit products designed specifically for micro, small, and medium-sized women entrepreneurs. These services are accessible to individuals, organized groups, and corporate entities. As of December 2022, the

bank's loan portfolio amounted to Kshs 15.8 billion, while its assets were valued at Kshs 27.3 billion, with deposits totaling Kshs 18.4 billion, as indicated in the audited financial statement of the Bank (Kenya Women Microfinance Bank report, 2018).

The microfinance bank has also devised methods of enforcing stipulated procedures before lending, and of monitoring arrears to ensure they are manageable. Kenya Women Microfinance bank has a scheme called loan guarantee deposit which a client contributes per month to cover for the loan and the amount is refunded once the loan has been cleared. The institution also conducts constant follow-up of clients with repayment issues to ensure that the clients are kept abreast of the need to be up to date on loan performance. On a few cases Kenya Women Microfinance bank also involves the local administration to convince clients in rural areas on the need to pay up their loans. It also uses Bulk messaging to communicate to clients on loan performance and overdue balances. The bank has also moved from the traditional methods of impounding securities pledged in affidavits to listing clients in Credit Reference Bureau, (Kenya Women Microfinance Bank, Debt recovery report, 2017).

Kenya Women Microfinance bank South Rift Region has a total of 12 branches spread across the region. The bank has diversified its lending to include less risky loans including check off loans which require minimum security and have far much less default rates. Only in extreme cases has Kenya Women Microfinance bank engaged auctioneers to recover pledged securities. The institution gives statutory notices in cases where securities involve land which takes long process before they are disposed. However, despite such evolution in debt collection strategies, Kenya Women Microfinance bank South Rift Region, Kenya is still grappling with the problem of high non-performing loan ratio compared to the rest of the regions in Kenya, (Kenya Women Microfinance Bank, management report, 2019). This justifies the need to conduct a study in Kenya Women Microfinance Bank in South Rift Region, Kenya.

## **1.2 Statement of the Problem**

Kenya Women Microfinance Bank has faced challenges with low loan performance in recent years. The success of microfinance institutions is heavily dependent on the efficiency of their credit management systems and their ability to manage non-performing loan portfolios effectively. According to Central Bank Annual Supervision Report of 2010, there has been, high incidence of credit risk, as evidenced by the increasing levels of non-performing loans among MFIs over the past decade. This situation has had a detrimental impact on the profitability of these institutions. Loan performance by women banking in Kenya Women Microfinance Bank has worsened over the last five years. This is evidenced by the fluctuating number of provisions for write-off of un-repaid loans that the institution has been making, (Mung'aho, Ondiek & Odhiambo, 2016).

Provision for bad debts in 2017 was Ksh. 141Million which rose to Ksh.328Million in 2018, dropped to Ksh. 10Million in 2019. A drastic rise was reported in the year 2020 which was Ksh.641Million then dropped again to Ksh. 89Million in 2021. A rise was also reported in 2022 at Ksh. 195Million (Kenya Women Microfinance Bank's Audited Financial Statements of2017-2022). This fluctuation in the provision for bad debts indicates inconsistency in the loan performance. The 2013 report from the Central Bank of Kenya (CBK) indicated significant challenges in the microfinance banking sector, particularly the escalating credit risk leading to an increase in nonperforming loans. This growing trend poses a serious threat to sustainability and viability of Microfinance Institutions (MFIs) and undermines their primary objectives of extending credit to the unbanked rural population and bridging the financing gap in the mainstream financial sector (Navin & Sinha, 2021).

Whereas recent studies have focused on debt recovery strategies, a gap in knowledge exists. Studies have been conducted in developed economies, leaving a gap in understanding how

these strategies apply to developing economies. Research conducted in developing regions has generally addressed microfinance impacts broadly without isolating gender-specific outcomes. This suggests a need for more targeted research into gender-sensitive recovery methods and their effectiveness in improving loan performance for women borrowers. The study aims to identify effective, gender-sensitive recovery strategy and their potential to enhance loan repayment rates and financial stability among female borrowers in this context. This research seeks to address these gaps by examining the impact of debt recovery strategies on loan performance specifically for women banking with Kenya Women Microfinance Bank in the South Rift Region of Kenya.

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

This study was guided by the following objectives.

#### **1.3.1 General Objective**

The general objective of the study was to establish the effect of debt recovery strategy on loan performance by women banking at Kenya Women Microfinance Bank in South Rift Region, Kenya.

#### **1.3.2 Specific Objectives**

The specific objectives were.

- i. To determine the effect of account transactions on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.
- ii. To assess the effect of auctioning of assets on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.
- iii. To establish the effect of multiple guarantors on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.

- iv. To assess the effect of collateral retention loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.

#### **1.4 Research Questions**

- v. What is the effect of account transactions on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya?
- vi. What is the effect of auctioning of assets on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya?
- vii. What is the effect of multiple guarantors on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya?
- viii. What is the effect of collateral retention on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya?

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

The study focused on the effect of debt recovery strategies on loan repayment by women borrowers at Kenya Women Microfinance Bank, specifically investigating the role of account transactions, auctioning of assets, use of multiple guarantors, and retention of collateral in loan repayment behavior. The study was conducted within the South Rift region of Kenya, targeting KWFT branches in counties such as Nakuru, Bomet, Kericho, and Narok. Theoretical underpinnings were drawn from microfinance and loan repayment behavior theories, which suggest that institutional strategies and borrower characteristics significantly influence loan repayment outcomes. The theories included transactional cost, customer-supplier relationships and the financial accelerator theories. Methodologically, the study employed a quantitative cross-sectional survey design, utilizing structured questionnaires to collect data from 86 women borrowers. Statistical analysis, including descriptive statistics, correlation, and regression models, was used to assess the relationships between debt

recovery strategies and loan performance. The time scope of the study covered data from 2021 to 2024, providing insights into the current practices and their immediate effects on loan repayment behavior.

### **1.6 Limitations of the Study**

One limitation of the study was its focus on a specific geographical area—the South Rift region of Kenya—which may limit the generalizability of the findings to other regions where socio-economic and cultural dynamics may differ. However, this does not dispute the validity of the study’s findings, as the selected area is a representative region where Kenya Women Microfinance Bank operates extensively. The insights gained provide a valuable understanding of the relationship between debt recovery strategies and loan performance within similar microfinance contexts.

### **1.7 Significance of the Study**

This research was of importance to Kenya Women Microfinance Bank, policy makers, researchers, and scholars. It provides insights into the challenges that lead women borrowers to become loan defaulters, particularly focusing on factors specific to Kenya Women Microfinance Bank. This understanding enables the management, especially top management, and heads of sections, to design better tools and strategies to support women-owned businesses and improve loan repayment rates. The study helps the lending managers understand the challenges that make women borrowers to become loan defaulters, and they will consequently design better tools to help women business grow so that the MFIs can also cash volume to empower more women. This includes advice on how to get maximum returns from business to comfortably repay their loans in time and avoid going down in life upon taking up the loans. The study provides insights to financial institutions that offer credit facilities to women borrowers and women group borrowers on how to reevaluate loan

policies, procedures, disbursement, and recovery. From the information from the research MFIs will be able to reduce overhead costs, maximize profits, and reduce financial risks related to loan default.

The theoretical value of this study lies in its contribution to the understanding of debt recovery strategies within the context of microfinance, particularly in relation to women borrowers. The study adds to the existing body of knowledge on microfinance lending and repayment behavior. It expands on theories related to loan default and repayment, providing empirical evidence on how specific debt recovery strategies can impact financial outcomes for women. Empirically, the study offers valuable data that can inform future research and practice in the field of microfinance. The findings shed light on the challenges women borrowers face in repaying loans and the effectiveness of various debt recovery strategies employed by Kenya Women Microfinance Bank.

### **1.8 Organization of the Study**

This study is organized into five chapters. Chapter one presents the background of the study, statement of the problem, research objectives, research questions, significance, scope, limitations, and the definition of key terms. Chapter two reviews relevant literature on debt recovery strategies, loan performance, and related empirical studies, while also identifying gaps that the current study seeks to fill. Chapter three outlines the research methodology, including the research design, target population, sampling techniques, data collection instruments, and data analysis procedures. Chapter four presents the results and findings of the study, using both quantitative and qualitative data. Chapter five provides a summary of findings, conclusions, recommendations, and suggestions for further research.



## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter offers an overview of previous literature pertinent to this research. It is organized into two main sections: the first section delves into the theories underpinning the study, and the second section examines prior research related to this study's focus.

#### **2.2 Theoretical Literature Review**

According to Sekaran (2018), a theoretical framework introduces and delineates the theories that elucidate the existence of the problem being investigated by a researcher. In this section, the study examines the principal theories that elucidate the connections among the identified independent variables and loan repayment.

##### **2.2.1 Transaction Costs Theory**

The transaction cost approach to the theory of the firm, initially introduced by Coase in 1937 and later expanded upon by Williamson in 1985, explores the rationale behind outsourcing activities rather than keeping them in-house. As per this theory, a transaction takes place when goods or services are exchanged through a technically distinct interface. Morgan and Hunt (2018) emphasize that transaction cost theory entails strategic decision-making by companies to manage external market coordination expenses alongside internal control costs. They also emphasize the role of relational resources, such as partnerships and alliances, in fostering trust, enhancing informal institutions, promoting innovation, and managing knowledge. Ruben-Rock (2018) distinguishes this theory from neoclassical economics by incorporating two keys among human agents and the potential for opportunistic behavior among some agents.

This theory enables individual actors to analyze the make-or-buy decision from the perspective of a firm, considering how financial indicators represent value. Ghatak and Guinnane (2018) attribute the transactions-cost argument to the effectiveness of group lending in reducing transaction costs per loan. They explain that administering a group of loans is more cost-effective than handling individual loans separately. Furthermore, when projects share similar characteristics, return timelines, and geographic locations, coordinating lender-borrower interactions within a group helps save costs related to processing, screening, and loan collection. This theory was adopted in the current study to anchor the independent variables, account transaction and auctioning of assets. The theory suggests that firms and individuals seek to minimize transaction costs to improve efficiency. In the realm of account transactions, this implies that the costs associated with managing and processing these transactions—such as fees, time, and administrative overhead—can impact how effectively accounts are managed. The theory further emphasizes the importance of efficiency in transactions. Efficient transaction processes can lead to better account management, which is crucial for loan performance.

Further, the theory focuses on the idea that organizations seek to minimize transaction costs associated with economic exchanges. In the context of asset auctions, transaction costs include the expenses related to the auction process, such as advertising, bidding, legal fees, and administrative costs. By examining how auction mechanisms are designed to reduce these costs, it helps in understanding how efficient auction processes can lower overall transaction costs and improve asset sales outcomes. In auctions, the auctioneer's role in facilitating competitive bidding and the design of auction rules can influence how effectively assets are sold (Morgan & Hunt, 2018)

### **2.2.2 Customer-Supplier Relationship Theory**

The theory was advanced by Robert and Gary in 1980, who systematized the Customer-Supplier Relationship theory by affirming that creating and maintaining a good customer-supplier relationship between two parties involves the adoption of essential characteristics. In the area of banking the theory postulates that both the lender and the borrower incur costs and derive benefits out of a relationship that arises from debt recovery techniques. In the relationship between the debtor and the creditor, both parties incur costs throughout various stages such as presale, production, distribution, and post-sale service. Brealey and Myers (2018) further emphasize that these two parties derive benefits from factors like power dynamics, customer economics, the linkage between the debtor and the creditor and the unit's decision-making structure. Thus, in the case of an advanced loan, and depending on the level of the interest charged, a creditor will gain profit margins from debt repayment, and the debtor shall incur losses of similar magnitude if they fail to pay the debt.

This theory was useful in the current study as it anchored independent variable, retention of collateral and multiple guarantors. In the context of the theory, the women borrowers presume the position of the customers since they are the customer base within which the microfinance institutions advance credit being their main business. On the other hand, the microfinance institutions are the suppliers who ensure that customers' needs are met. The theory offers a valuable framework for understanding the dynamics of collateral retention in lending. This theory highlights the importance of managing relationships, trust, and commitment between parties. In the context of lending, collateral serves as a crucial instrument for aligning the interests of both the lender (the credit supplier) and the borrower (the customer). Retention of collateral acts as a mechanism for risk management and value creation, ensuring that the lender's interests are protected while providing the borrower with necessary credit. By retaining collateral, lenders manage the risk of borrower default more

effectively, which helps in building and maintaining a trusting relationship. This trust is vital as it reflects the lender's commitment to safeguarding their interests while also providing a form of security for the borrower.

### **2.2.3 The Financial Accelerator Theory**

This theory was first proposed by Coric in 1999, it explains how turbulences in the economy can negatively impact the operations of small-scale businesses, leading to unfavorable consequences. This theory underscores the correlation between members' net worth and external finance, which is impacted by information asymmetry between lenders and borrowers. Net worth is described as the sum of assets and collateral value minus outstanding liabilities, whereas the external finance premium denotes the disparity between the expense of external funds and internal opportunity costs (Bernanke & Gilchrist, 1999). The theory suggests that borrowers with lower contributions to a project's funding are more inclined towards riskier ventures, as riskier projects offer higher returns. However, lenders view these projects unfavorably due to bearing most of the costs in case of low returns. Economic shocks can further exacerbate this situation, leading borrowers to struggle with repayment and impacting the performance of Microfinance banks in Kenya. Hence, it is crucial for managers of these banks to implement strategies to mitigate non-performing loans in light of this theory.

The theory is useful in this study as it anchors the study dependent variable, loan performance. The theory is used to explain how borrowers' financial conditions influence loan performance through feedback loops that amplify economic fluctuations. When borrowers experience deteriorating financial health, such as declining asset values or increased credit constraints, it often leads to poorer loan performance due to higher default risks and repayment difficulties. Conversely, improvements in financial conditions can

enhance borrowers' ability to meet loan obligations, thereby improving loan performance. This theory illustrates how shifts in borrowers' financial stability and broader economic conditions interact to impact the performance of loans, making it crucial for understanding and managing financial risk.

## **2.3 Empirical Literature Review**

A number of researchers have been conducted on the question of debt collection strategies and the strengthening of microfinance institutions but few have done laser targeted studies on how the action contributes to loan repayment. As much as the microfinance lay claim that their mission is to alleviate poverty, studies have concentrated on how the microfinance sector can increase financial performance, (Okibo & Makanga, 2014). This section presents past literature related to debt recovery and loan performance.

### **2.3.1 Account Transactions and Loan Performance**

Prina (2020) studied the behavior of banking among rural population in Nepal. The study was experimental research design and targeted 326 household in nineteen slum areas in Nepal. The research showed that 54% of the banked households transacted their accounts less than once a month, and only 37% of the households with savings accounts had deposited money in their accounts in the previous year. The survey participants expressed dissatisfaction with the high charges associated with bank services, including opening, withdrawal, and maintenance fees, along with the requirement of a minimum balance. Analysis results also indicated that a 1% rise in transportation expenses relative to monetary assets led to a 9% decrease in the probability of owning a bank account. The focus of the current study was account transactions. These findings contrast with the current study findings which indicated that mobile banking has improved the level of banking suggesting that accessible and affordable services promote more active account usage.

Mersland and Strom (2019) conducted a study that sought to measure the social performance in Social Enterprises using microfinance institutions in Malaysia. Data collection was conducted through a questionnaire, and analysis was performed using SPSS version 22. The findings revealed that from 2004 to 2008, the overall foreign capital investment in microfinance surged over sixfold, reaching US\$ 6.5 billion. According to the mix market website, there are currently more than 100 international Microfinance Investment Vehicles (MIVs) investing in MFIs across the globe. MFIs have also adopted internet banking which allows personalized online lending across borders. One notable innovation in the microfinance sector is Kiva, an online platform that connects individual lenders with impoverished individuals and small businesses in developing nations. Kiva merges microfinance with the power of the internet, and as of April 2010, it had facilitated loans totaling US\$ 130 million to nearly 340,000 entrepreneurs. The current study focused on account transactions in terms of bank terms, operating costs, mobile banking and account balances. These digital innovations support the current study's focus on account transactions, especially the role of user-friendly mobile banking services in influencing loan performance.

Sonenshein, Herzenstein, and Dholakia (2020) conducted a study to examine how borrower accounts influence lending decisions by enhancing perceived trustworthiness. The researchers employed both correlational and experimental research designs, targeting banking employees as participants. The study found that lenders often base their decisions on the narratives and financial accounts presented by borrowers, which contribute to perceptions of credibility. Additionally, peer-to-peer lending environments were shown to increase the likelihood of favorable lending decisions. However, while borrower accounts had a positive influence on the loan approval process, they were found to have a negative predictive effect on actual loan performance. This suggests that while compelling account narratives may help secure loans, they do not necessarily correlate with successful loan repayment or financial discipline. In

contrast, the current study assessed actual account transactions such as mobile banking usage, transaction costs, and banking terms and found a positive association with loan performance, indicating that concrete banking behaviors may be more reliable indicators of loan outcomes than perceived borrower trustworthiness. The study made use of bank employees as the target population and used experimental research design where the current study used women banking with microfinance institution and adopted descriptive research design. The findings revealed that most respondents agreed that banking terms were favorable, account operation costs were low and mobile banking services were user-friendly

Millan, Kamau, and Idua (2023) carried out a study to explore the influence of mobile banking technology on the loan performance of Deposit Taking Savings and Credit Cooperatives in Mombasa County. The study evaluated mobile banking technology using parameters such as transaction volume, loan disbursements, and transaction costs. It utilized a combination of descriptive research methods, which involved analyzing mean, median, and standard deviation, along with inferential statistics, including analysis of variance and regression analysis. The study gathered data from 63 participants, including board members, management, and staff of six Savings and Credit Cooperatives based in Mombasa County. Descriptive analysis revealed a widespread belief among respondents that mobile banking technology significantly influences loan performance. Additionally, regression analysis and hypothesis testing affirmed the substantial impact of mobile banking technology on loan performance. While their study was limited to deposit-taking SACCOs, the current study extends the scope by focusing on microfinance institutions and examining a broader range of account features. These include transaction costs, banking terms, and account balances, all of which recorded favorable mean scores.

### **2.3.2 Auctioning of Assets and Loan Performance**

Studies have indicated both genders are not immune to loan default. Nawai and Shariff (2021) conducted a survey research design to investigate the factors influencing loan repayment performance in microfinance programs in Malaysia. The study surveyed 309 respondents from TEKUN Nasional clients in Malaysia using simple random sampling. The study found that lack of pressure from MFIs made clients delay their loan payment and encouraged a few MFI clients to divert their loans for other uses leading to default. The previous study suggested that microfinance institutions (MFIs) should offer rebates to reliable borrowers to incentivize timely loan repayment. However, the focus of that study was on identifying the factors influencing loan repayment. In contrast, in the current study the focus was the effect of auctioning on loan performance by women banking at Kenya Women Microfinance Banks. Notably, the study found that property auctioning has a positive effect on loan performance indicating that the use of asset disposal mechanisms may serve as an effective deterrent against default and enhance loan recovery among women clients.

Czura, Englmaier, and Spantig (2022) investigated the behavior of microfinance loan officers in India before and during the Covid-19 pandemic. Their study employed an exploratory research design and analyzed 350 MFIs, representing 73% of microfinance customers across 70 countries. The study focused on women's loan repayment in microfinance, examining at-risk and lower portfolio write-offs while controlling various MFI-specific and institutional factors. The findings indicated that women generally pose a lower credit risk for MFIs, and MFIs with more women clients have lower loan loss provisions. However, despite the favorable credit risk profile of women, instances of loan defaults among women have been reported, leading to asset auctioning. The study examined auctions in form of public auctions, private bidding, live auctions, and property auctions. The current study noted that banks

conduct periodic auctioning of assets for defaulted loans highlighting the role of structured recovery mechanisms in reinforcing loan discipline.

Moti, Masinde, Mugenda, and Sindani (2018) recommended the implementation of a more robust credit referencing system to improve the loan performance of MFIs. Similarly, Muturi (2018) assessed factors contributing to microcredit default in Kenya, identifying borrower's credit history and ability as significant factors affecting loan repayment domestic factors (4.01%) and diversion of loan (4.00%), among others, contributed to loan default. The study revealed that the default rate for MFIs in the year 2014 was 6.91% compared to that of other financial institutions which stood at 6.25 per cent. However, the study was focused on credit terms, client appraisal, credit risk control measures and credit collection policies. In addition, the study was focused on Meru County only making replication of the study findings difficult due to regional and cultural differences and beliefs. The current study targeted 1 regional manager, 12 branch managers, 1 credit risk managers, 5 credit analysts, 60 business development officers and 60 group women. Findings in the current study showed that auctioning women's assets has been conducted and linked to improved loan performance indicating that recovery strategies can yield better repayment outcomes when implemented consistently.

Kitonga (2018) undertook research to pinpoint the factors crucial for successful debt collection practices in commercial banks across Kenya. This study sought to evaluate how staff competency, the availability of resources, and the management of information influence the efficacy of debt collection in these financial institutions. The study findings showed that the banks emphasized high staff competence, inducted new employees to enhance performance, provided short term training to enhance staff competency, and instituted staff exchange programs, with the overall goal of reducing non-performing loans. This study had independent variables which are not related to loan characteristics such as staff competency,

institutional resources, and information management. The study focused on Kenya Women Microfinance Banks. In the current study findings indicated that the high cost of auctioning often reduces proceeds from the disposal of assets and negatively impacts loan recovery indicating the need for more efficient auctioning processes.

### **2.3.3 Multiple Guarantors and Loan Performance**

Banerjee and Duflo (2018) sought to respond to the question, “how much do existing borrowers value microfinance? The study was conducted in microcredit and insurance in India. It has been observed that microfinance loans are characterized by their small amounts and short durations, with group loans being a significant innovation in this sector. Unlike commercial loans that often require collateral, such as a mortgage on property, microfinance loans are usually not backed by substantial collateral due to customers' limited assets and legal enforcement challenges in local contexts. To address this, the microfinance industry has introduced loan types that combine features like group-based lending, small loan sizes, and short repayment periods, aiming to overcome the barriers associated with collateral requirements and legal enforcement. This study was conducted in India and there is need to perform a similar study in developing economies. The focus in the current study was on group multiple guarantors. The use of multiple guarantors has led to improved loan performance implying that group lending mechanisms and joint liability contribute to better repayment rates in microfinance institutions.

Field, Pande, and Papp (2018) explored whether the classic microfinance model discourages entrepreneurship among the poor in India. Their experimental study targeted individuals in this demographic. The outcome of the study was that clients who had a brief grace period before beginning loan performance made larger initial investments in their businesses. However, the study also highlighted several drawbacks of the classic microfinance model,

including substantial social pressure to maintain high-interest rates and questions about the effectiveness of joint liability group lending in assisting clients. While some micro-entrepreneurs can repay their loans even when their businesses fail, the success of microfinance institutions cannot be claimed when loan performance is sourced from other means. The study focused on guarantors in terms of social screening, group loan advances, and group mentoring within the microfinance context. In the current study results showed that the use of multiple guarantors has contributed to favorable relationships between group members which helps strengthen group cohesion and ensures better collective responsibility in loan repayment.

Murthy and Mariadas (2018) carried out research in Shah Alam, Selangor, aiming to uncover the reasons behind loan repayment defaults among borrowers in Microfinance Institutions (MFIs). Their investigation provided numerous significant findings. Firstly, they identified a strong relationship that existed amid the business type and default in loan servicing, suggesting that certain types of businesses may be more susceptible to defaulting on their loans. However, they found a low correlation between fund diversion and loan repayment default, indicating that fund diversion may not have a significant impact on repayment behavior. Additionally, the study highlighted that strict repayment schedules did not always guarantee timely loan performance, indicating a low correlation between these schedules and loan repayment timeliness. Furthermore, the study delved into the role of loan officers in loan performance. It proposed that younger and less experienced loan officers, motivated by career advancement opportunities, might prioritize avoiding loan losses to improve their career prospects. The study's focus on Shah Alam, Selangor, may not capture the diverse economic, social, and cultural factors that influence loan repayment behaviors in different regions. In contrast, the use of multiple guarantors in the current study has led to improved self-

assessment of loan borrowers suggesting that collective responsibility in loan groups helps borrowers better assess their financial obligations and improve their loan performance.

This perspective differed from Anderson's (2018) findings, which suggested that senior loan officers tend to make more consistent financial decisions due to their refined screening and monitoring skills developed over time. However, it was noted that the correlation amid the probability of loan default and staff experience varied, with instances where experience did not significantly influence default rates. Tegambwage and Kasoga (2022) conducted a study to investigate loan repayment among group borrowers in Tanzania. The study found that the quality of relationships within the group significantly influences loan repayment, with stronger relationships leading to better repayment rates. In the study, it was suggested that follow-ups are essential to address non-repayment of loans. Similarly, in the current study results indicated that the use of multiple guarantors has contributed to a favorable relationship between members which in turn improves loan repayment behavior through stronger group dynamics and collective responsibility.

#### **2.3.4 Retention of Collateral and Loan Performance**

Alemayehu and Lemma (2018) carried out an empirical study of Omo Microfinance Institutions in Nigeria and found out that about 52% of loan applications in Africa are rejected mostly due to unacceptable or unsuitable collateral. Although the study established that some 49.7% of the respondents have voluntary saving accounts, compared to 51.3% who did not have the voluntary savings accounts, and the approach had the twin advantages of encouraging saving habits among borrowers and solving the problem of loan capital shortage; still 19% of small business owners preferred not to obtain credit from MFIs due to the perceptions that collateral requirements are too high, while others shifted from microfinance to microfinance to get cheaper loans. It was observed that borrowers (including women)

faced high loan rates for what the lenders attributed to high cost of funds, operating expenses, loan losses, and profits needed to expand capital base. The study focused on loan processing and loan qualification in cases where borrowers have pledged collateral security. In the current study the focus was on collateral by women banking at Kenya Women Microfinance Banks. In the current study, however, findings indicated that use of multiple guarantors has contributed to improved loan performance, with the multiple guarantors being jointly held liable for loans approved to group members showing how group-based collateral systems can support better loan repayment outcomes.

Macharia (2018) established that 52.5% of respondents felt that account transaction appraisals were sufficient, 37.5% stated that collateral appraisal on loan repayment at the bank was high, 42.5% indicated that the loan repayment history of clients and repayment of loan were very high, and 50% reported that the influence of guarantors' appraisals on loan repayment was also high. The current study focused on the retention of collateral simple guarantees, repayment capacity, social collateral, and economic capital as strategies to reduce loan default rates. Findings in the current study showed that borrowers are generally satisfied with the loan services provided by Kenya Women Microfinance Bank which contribute to a better repayment history by ensuring that clients are more engaged and satisfied with the terms and support offered by the institution.

Kamar (2018) utilized a descriptive survey methodology to examine the impact of debt recovery methods on the performance of five commercial banks in Eldoret town. The research specifically focused on how account transactions, guarantors, auctions, and collateral retention influence the performance of financial institutions. Multiple linear regression models were employed to establish the relationship between variables, revealing that debt repayment is most effective when there is a mutual relationship between the creditor and the debtor. The sample size was 103 respondents. The current study was conducted in

commercial banks that are subject to various appraisal methods, loan qualification criteria, and clientele. It concentrated on investigating debt recovery strategy. In the current study findings revealed that there has been a decrease in the effort required to recover loans advanced indicating that when borrowers are actively involved in the loan process, including screening and collateral strategies, the effort to recover loans is minimized.

#### **2.4 Summary of gaps in Literature Review**

The study used the transactional cost theory. The theory was crucial in anchoring the study of account transactions and auctioning of assets because it provides a framework for analyzing the costs involved in these processes. For account transactions, the theory helps understand the costs associated with monitoring, enforcement, and information management. It evaluates how transaction methods influence financial efficiency and overall operational expenses. In the context of auctioning assets, it examines the costs related to auction design, implementation, and risk management. By applying this theory, researchers can gain insights into optimizing transaction processes, reducing costs, and improving overall efficiency in both account management and asset auctions. While this theory is effective in highlighting transaction-related costs, it falls short in addressing the impact of modern technological advancements such as digital platforms.

Customer-Supplier Relationship Theory was adopted which was essential for understanding how the quality of relationships between lenders and borrowers, including the management of collateral and guarantors, impacts lending outcomes. It emphasizes the importance of trust, commitment, and effective communication in maintaining successful lending relationships. This theory provides valuable insights into how strong relationships can lead to better management of collateral and more reliable performance of guarantors. However, the theory's primary focus on relationship quality and trust may not fully address the operational and technical aspects of collateral management and guarantor coordination. It does not delve

deeply into how specific operational practices, regulatory requirements, or technological innovations affect the management of collateral and guarantors. Furthermore, it may overlook the complexities involved in the financial and legal aspects of collateral and guarantees that impact transaction efficiency and cost.

Financial Accelerator Theory was also important for analyzing how the retention of collateral and involvement of multiple guarantors can influence loan performance by amplifying the effects of borrower financial conditions on loan outcomes. It provides a lens through which to understand how changes in collateral and guarantees can affect borrowing conditions and amplify or dampen financial risks and performance. However, the theory was not short of inadequacies and may not adequately address the granular aspects of collateral and guarantor management. It focuses on macroeconomic and financial stability impacts but does not deeply explore the operational details of managing collateral or the practicalities of coordinating multiple guarantors. It also tends to concentrate on broader economic cycles rather than the specific transactional and administrative costs involved in these mechanisms.

The reviewed studies, whether they touched on women clients or not, have examined perspectives inclined on the growth of microfinance especially on such themes like the debt collection that MFIs apply to keep afloat (Kitonga, 2018), how MFIs retain the existing customers (Ibok, Etuk & Acha, 2018), the institutional strategies to reduce default rates (Macharia, 2018), factors affecting loan repayment performance (Nawai and Shariff, 2018), and the behavior of banking among the rural population (Prima, 2018). This study quantified loan performance in terms of non-performing loans.

Alemayehu and Lemma (2018) carried out a study focusing on establishing the loan processing and loan qualification in cases where borrowers have pledged collateral security. The current study sought to examine the effect of collateral on loan repayment by women

banking at Kenya Women Microfinance Bank. Ibok, Etuk and Acha (2018)'s study acknowledges the presence of service failures on the part of the providers, however, does not focus on how transaction costs contribute to the frequent change of bank providers among small savers especially women. Although Macharia (2018) the study gave the banks very high marks on the four variables that it investigated it was silent on how improvement on the same would benefit the clients, especially women clients. However, the effects did not fill the gap in knowledge on the effect of retaining collateral of the borrower affect the loan repayment. Kitonga (2018)'s study established that the banks had instituted good mechanisms to reduce non-performing loans. The study did not mention whether disciplined transactions, use of collaterals, or even auctioning of defaulters have effects on debt collection.

Non-performing loans was used by past researchers such as Rachman, Kadarusman, Anggriono and Setiadi (2018) as a measure of loan performance. From the background of this study, it is evident that past researchers unanimously contend that non-performance loan ratio measures the extent of loan performance. The non-performing loan is considered a suitable measure of loan performance since it objectively indicates the level of loan performance. The current study used non-performing loans to measure loan performance. The choice of non-performing loan ratio is informed by the fact that the indicator is quantitative in nature and tends to be accurate, making it suitable for this study. In addition, data relating to non-performing loan ratio is available. In the current study, debt recovery strategy was measured using account transactions, auctioning of women assets, the use of multiple guarantors and retention of collaterals as adopted by Branchfield (2020) and Phillips and Moggridge (2019).

Table 2.1 Summary of Literature Review and Research Gaps

<b>Researcher and year</b>	<b>Topic of the study</b>	<b>Research Findings</b>	<b>Research Gaps Current study focus</b>
Prina (2020)	The behavior of banking among the rural population of Nepal.	Households with bank accounts use them sparingly. Customers complained that bank charges were high. A 1% increase in transportation costs reduced the likelihood of banking by 9%.	The study focused on transaction costs only whereas the current study focused on account transaction as one of the debt recovery strategies.
Tegambwage and Kasoga (2022)	Repayment of loans among borrowers in group settings in Tanzania	The study established that the relationship quality has influenced group loan repayment.	The study examined the group borrowers' attitude to loan repayment in Tanzania. The current study was focused on debt recovery.
Sonenshein, Herzenstein and Dholakia (2020)	The influence of accounts on lending decisions by enhancing perceived trustworthiness.	It was established that peer-to-peer lending increases the likelihood of favorable lending decisions. Although accounts positively impact the loan decision process, they negatively forecast loan performance	The study was experimental in nature whereas the current study adopted descriptive research design.

Murthy and Mariadas (2018)	Factors that contribute to default in loan repayment among borrowers in MFIs of Shah Alam, Selangor.	A strong correlation was found between the nature of the business and loan repayment default, while there was a weak correlation between the diversion of funds and loan repayment default, as well as a weak correlation between repayment schedules and loan repayment.	The study investigated the factors contributing to loan defaults. The current study related debt recovery and loan performance.
Mersland and Strom (2019)	Social performance in Social Enterprises using microfinance institutions in Malaysia.	The research confirmed that from 2004 to 2008, the total amount of foreign capital investment in microfinance grew by over sixfold, reaching US\$ 6.5 billion.	The study was conducted in developed countries whereas the current study was conducted in developing country.
Macharia (2012)	Strategies implemented by loan lending institutions to reduce default rates	Established that account transactions, collateral on loan repayment, client's loan history and influences of guarantors' appraisals were high and had effects on loan performance.	The study focused on client accounts, collateral, client loan history, and guarantor's client appraisals. The current study focused on retention in terms of simple guarantee and repayment capacity.

Kitonga (2014)	Determinants of effective debt collection practices in Kenyan commercial banks	Banks emphasized high staff competence, inducted new employees, provided short term training, and staff exchange programs to reduce non-performing loans.	This study was also limited to commercial banks. The current study focused on Kenya Women Microfinance Bank
Kamar (2018)	Examined the effect of debt recovery techniques on performance of 5 commercial banks in Eldoret town	It established that debt repayment works best when there is a mutual relationship between the creditor and the debtor	The study was conducted in commercial banks which are subject to different appraisals, loan qualification criteria and clientele. The current study concentrated on debt recovery strategy.
Ibok, Etuk, & Acha (2012)	How MFI managers in Nigeria retain women banking customers.	42% of the institutions offer apologies, 28% handle customers' complaints in sincere way, 18% add value to services, 12% provide compensation in case of service failure.	The study focused on customer retention practices and the growth of MFIs but did not address how transaction costs make customers migrate from one MFI to another.

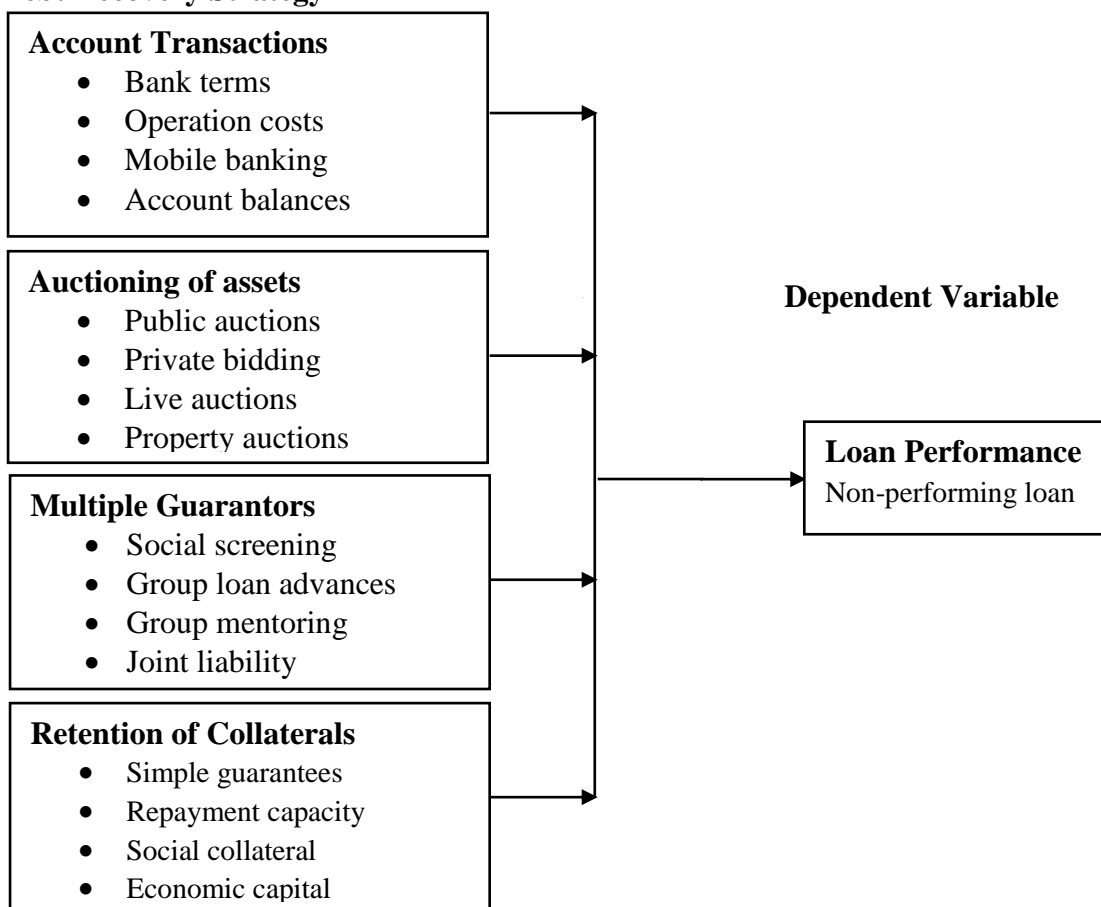
**Source: Researcher (2024)**

## 2.5 Conceptual Framework

A conceptual framework is a visual representation of the phenomenon being studied, often accompanied by graphics or other visual aids to assist the reader in understanding the major variables (Miles & Huberman, 1998). Put simply, it encompasses the interplay of concepts, assumptions, beliefs, expectations, and theories that underpin and guide a study (Mudau, 2018). It aids in organizing ideas cohesively, illustrating how the study's variables interact, thus providing a structured perspective on the focal problem of the study. Additionally, Robson (2018) emphasizes that a researcher can systematically outline the components of a research problem using a conceptual framework.

### Independent Variables

#### Debt Recovery Strategy



Source: Researcher (2024)

### **Fig. 2.1 Conceptual framework of the study**

The variables that have been captured in the literature review, and the relationship among them, have been integrated to constitute a conceptual framework. After a review of the relevant theoretical literature, it was conceptualised the study dependent variable as loan performance by women banking at Kenya Women Microfinance Banks. The loan performance is determined account transactions, auctioning, multiple guarantors, and retention of collaterals. The account transaction was measured in terms bank terms, operation costs, mobile banking, and account balances. Auctioning of assets was measured in terms of public auctions, private bidding, live auctions, and property auctions. The use of multiple guarantors was measured social screening, group loan advances, group mentoring whereas retention of collaterals in terms of simple guarantees, repayment capacity, social collateral, and economic capital.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter outlines the research methodology, covering the research design, the target population of the study, and how the sample size was determined. It also describes the tools used for data collection, the procedures for gathering data, methods for analyzing the data, and the techniques used to present the findings.

#### **3.2 Research Design**

A descriptive research design adopted in this study forms the fundamental framework integrating diverse elements within a research endeavor. Trochim and Kane (2018) stress the role of research design as the cohesive structure linking various components of a study, such as samples or groups, measurement techniques, interventions or programs, and allocation methods, all operating synergistically to address the core research questions (Mugenda & Mugenda, 2018). Similarly, Kothari (2018) supports this notion by underlining that a clearly defined research design facilitates the seamless execution of research tasks, optimizing information collection while minimizing time, effort, and costs.

Cooper and Schindler (2018) argued that descriptive study seeks to thoroughly investigate variables with the goal of establishing relationships between them. In a descriptive research design, researchers pose broad research questions to analyze a specific population or sample using qualitative, quantitative, or a mix of both approaches. This study has chosen this research design because it aims to uncover information that established the impact of debt recovery strategy on loan repayment among women banking at Kenya Women Microfinance Bank.

### 3.3 Target Population

The target population constituted staff working at Kenya Women Microfinance Bank. The respondents of interest were regional managers, branch managers, credit risk managers, credit analysts, business development officers and one customer from five randomly selected groups from each of the branches. According to the Kenya Women Microfinance Bank Business Development Records of 2024 there were a total of 139 individuals in the target respondents' categories distributed as follows; 1 regional manager, 12 branch managers, credit risk manager, 5 credit analysts 60 business development officers and 60 customers.

**Table 3.1. Target population**

<b>Sections</b>	<b>Number of Branches/ Regions</b>	<b>Number of Respondents</b>	<b>Percentage</b>
Branch managers	12	12	8.6%
Business development officer	12	60	43.2%
Credit analysts	12	5	3.6
Credit risk managers	12	1	0.7
Regional manager	1	1	0.7
Customers	12	60	43.2%
<b>Total</b>		<b>139</b>	<b>100%</b>

**Source: Kenya Women Microfinance Bank Business Development Records (2024)**

### 3.4 Sampling Procedures

Lakens (2022) defines sample size as a portion of the population chosen for a study based on factors such as time, cost, overall population size, and the population's homogeneity. This selected group enables researchers to infer characteristics of the entire population. Sampling, as described by Etikan & Bala (2017), is the act of selecting a smaller group from the total population in such a way that this group accurately reflects the characteristics of the larger population. Sampling techniques, according to Asiamah, Mensah, & Oteng (2017), are the strategies employed to select a representative segment of the population for study. Although

the population was relatively small (fewer than 200), the study employed a simple random sampling approach. This decision was made to ensure the inclusion of participants who were not only active borrowers but also knowledgeable about the institution’s debt collection practices.

The study employed Krejcie and Morgan (1970) as shown below.

$$s = \frac{x^2NP(1-P)}{d^2(N-1) + x^2P(1-P)}$$

Sample size =  $((3.841^2 * 139 * 0.5(1-0.5)) \div (0.05^2(139-1) + 3.841^2 * 0.5(1-0.5))) = 103$

The distribution of the target respondents to various categories of respondents is as shown in Table 3.2.

**Table 3.2. Sample Size**

<b>Sections</b>	<b>Number of Branches/Regions</b>	<b>Number Respondents</b>	<b>of Sample size</b>
Branch managers	12	12	9
Business development officer	12	60	44
Credit analysts	12	5	4
Credit risk managers	12	1	1
Regional managers	1	1	1
Customers	12	60	44
<b>Total</b>		<b>139</b>	<b>103</b>

**Source: Researcher (2024)**

### 3.5 Data collection procedure

The first step involved securing research authorization from the Kenyatta University Graduate School, followed by obtaining a research permit from the National Council of Science Technology and Innovation (NACOSTI). These permissions, along with the questionnaire, was provided to the selected participants. The questionnaire distribution utilized a drop-and-pick approach. The researcher ensured that participants receive

comprehensive information about the research's objectives and that their responses were treated with the highest level of confidentiality.

### **3.6 Data Collection Instrument**

According to Giusti, Capone, and Perkins (2013), data collection involves gathering and measuring information on specific variables to answer research questions and assess outcomes. This study employed primary data collection, which, as Apanasevic (2018) explains, involves obtaining firsthand information directly from sources through methods such as surveys. Data were collected using both open and closed-ended questionnaires, chosen for their efficiency in gathering large amounts of information within a short period. Open-ended questions allow respondents the freedom to express their views in detail, offering rich qualitative insights into their perspectives (Zhou *et al.*, 2017). In contrast, closed-ended questions provide structured responses, making the data easier to code and analyze statistically (Hennink, Hutter, & Bailey, 2020). The combination of both question types enabled the study to balance depth and breadth in data collection

The questionnaire was carefully developed in Likert rating scales and space provided to enable respondents to respond to the various aspects of the questionnaire addressing the research object. The questionnaire used in this study was carefully structured to align with the research objectives, focusing on the relationship between debt collection strategies and loan performance among women borrowers at Kenya Women Microfinance Bank. It was divided into five main sections, each designed to capture data relevant to the specific variables of the study.

### **3.7 Pilot Study**

It's a good approach to conduct a pilot study to refine the research instrument and ensure the integrity of the data collected. According to Bell, Whitehead, and Julious (2018), a pilot study

helps assess the feasibility of the research instrument and the administration method for the main research. Using between one and ten percent of the principal sample size as the pilot sample is sufficient for this purpose. Conducting the pilot study at Kenya Women Microfinance Bank provide valuable insights and help improve the overall quality of the research, (Hertzog, 2008). The pilot study was carried out in Kenya Women Microfinance Bank North Rift region. The selection of this region for pilot study was informed by the fact that, the women clientele in this region has similar characteristics in terms of economic activities.

### **3.8 Validity and Reliability of Research Instrument**

This section presents how the validity and reliability of the research instrument was tested.

#### **3.8.1 Validity of Research instrument**

Validity refers to the extent to which the findings of a study accurately represent the subject of research (Orodho, 2018). In this study, both content and construct validity was assessed. In the context of the research instrument, validity refers to its ability to measure what it is intended to measure, which is only possible if the collected data sufficiently explains the research subject as argued by Hertzog (2008). Content validity is utilized to assess whether the instrument effectively measured the intended variables It examines the instrument's ability to adequately cover the topic under study and encompass all aspects of the construct being measured, (Kirk & Miller, 2018). In determining content validity, professionals in the relevant subject areas, panel of experts from CMA and experts in investment were involved. According to Gibbert, Ruigrok and Wiciki (2018) construct validity refers to the extent to which research investigates what it promises. To achieve construct validity, the researcher ensured that study variables were carefully conceptualized based on relevant existing literature and anchored on relevant theories.

### 3.8.2 Reliability of Research Instrument

In the current study, internal consistency of the instrument was assessed using Cronbach's Coefficient Alpha. Cronbach's Alpha was computed to gauge the reliability of the instrument, focusing on the correlation of scores obtained at different times within the research instrument as argued by Mugenda and Mugenda (2018).

The table presents the Cronbach's alpha values for different variables, indicating the internal consistency reliability of each scale or construct measured by a set of items or questions. Results of the study are as shown in table 3.3.

**Table 3.3. Reliability**

<b>Variable</b>	<b>Number of items</b>	<b>Cronbach's alpha</b>
Auctioning of assets	6	.758
Account transaction	6	.722
Multiple guarantors	7	.876
Retention of collateral	6	.875
Performance	5	.868
<b>Overall</b>	<b>30</b>	<b>.889</b>

**Source: Research Data, (2024)**

A Cronbach's Alpha value falls between -1 and +1, with a high coefficient (absolute value greater or equal to 0.8) indicating strong correlation among the items. Items with a high coefficient are typically retained in the tool, while those with a low coefficient may require revision or removal from the tool, (Tavakol & Dennick, 2011). Reliability coefficient for this study was calculated using the Statistical Package for Social Sciences (SPSS). Cronbach's alpha for auctioning of assets, account transaction, multiple guarantors, retention of collateral and loan performance was 0.758, 0.722, 0.876, 0.875 and 0.868 respectively which were all above the least acceptable measure of reliability threshold of 0.70. Considering all 30 items

across the variables, the Cronbach's alpha value of 0.889 suggests excellent overall internal consistency. This indicates that the research instrument was reliable.

### **3.9 Data Analysis and Presentation**

The research checked the collected data for completeness, consistency, accuracy, and uniformity. The researcher used Statistical Package for Social Sciences (SPSS) to compute descriptive statistics such as percentages, means, cumulative frequencies and standard deviations in preparation for the analysis of the relationships between the independent variables and the dependent variable. The research used both descriptive and analytical approaches to present the results and the discussions. Conclusions and recommendations were drawn from the obtained results.

Multiple regression analysis was conducted to demonstrate the relationships between the research variables, providing insights into how they influence each other. Statistical tools such as t-tests was utilized to assess the significance of individual coefficients, while the F-test was evaluated the joint significance of all coefficients in the model. Furthermore, the R-squared value was calculated to determine the explanatory power of the model, offering a comprehensive understanding of the relationships and variables under investigation.

The multiple regression model was in the form:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \epsilon$$

Where:

Y = Loan repayment by women banking at Kenya Women Microfinance Bank

X<sub>1</sub> = Account Transactions

X<sub>2</sub> = Auctioning of assets

X<sub>3</sub> = Multiple Guarantors

X<sub>4</sub> = Retention of Collaterals

$b_0$  = regression constant, and

$\hat{\epsilon}$  = error term

### **3.10 Ethical Considerations**

The researcher obtained clearance from the university to conduct research in the field. The document was used in the field to show the relevant authorities that the researcher is a bona fide student at Kenyatta University pursuing research on debt recovery strategy and Loan repayment by women banking at Kenya Women Microfinance Bank. The research observed all ethical standards and made sure to the respondents that the data to be collected from the field was solely for research purposes and no other ulterior motives. The research also made it clear that the responses from each research participant remain confidential and would not be leaked to any authorities. The respondents were therefore neither requested to fill in their names in the questionnaire nor give their telephone numbers as a way of guaranteeing their anonymity.

## CHAPTER FOUR

### FINDINGS, INTERPRETATIONS AND DISCUSSIONS

#### 4.1 Introduction

This chapter presents the outcomes derived from examining debt recovery strategy and loan performance. The findings are presented using tables and charts. The chapter is organized into response rates, respondent demographics, descriptive analysis, as well as correlation and regression analyses conducted.

#### 4.2 Responses Rate

The study had a sample size of 103 to whom questionnaires were administered. Eighty employees responded to the study questionnaires, giving a response rate of 84%.

#### 4.3 Demographic Characteristics of Respondents

This section presents the background information of the respondents

##### 4.3.1 Level of Education of Respondents

The research sought to find out the level of experience of respondents. The findings of the study are as presented in Table 4.1

**Table 4.1. Level of Education**

<b>Level of Education</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate/Diploma	27	32%
Degree	53	62%
KCSE	3	3%
Postgraduate	3	3%
<b>Grand Total</b>	<b>86</b>	<b>100%</b>

**Source: Research Data, (2024)**

The educational background of respondents plays a critical role in understanding the depth of financial literacy, decision-making capacity, and engagement with microfinance products such as loans. In this study, a significant proportion of the respondents (62%) held degree qualifications, while 32% possessed either certificate or diploma qualifications. This indicates

that the majority of respondents had a post-secondary education level, which may enhance their ability to comprehend loan terms, engage with mobile banking platforms, and make informed financial decisions. This level of education is particularly relevant in interpreting how participants interact with digital services such as mobile banking, as well as their responsiveness to debt collection strategies.

### 4.3.2 Level of Experience of Respondents

The research sought to establish the level of experience of respondents. The findings of the study are as presented in Table 4.2.

**Table 4.2. Level of Experience**

<b>Years of Experience</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 1 year	3	3%
From 2 to 5 years	33	38%
From 5 to 10 years	27	32%
Over 10 years	23	27%
<b>Grand Total</b>	<b>86</b>	<b>100%</b>

**Source: Research Data, (2024)**

The years of experience among respondents provides valuable context for interpreting their responses on loan performance and debt collection strategies. A majority (97%) of respondents had more than one year of experience, with 38% having served between 2–5 years and 32% between 5–10 years. This suggests that most participants had sufficient exposure to banking procedures, customer service, and loan recovery practices. Their accumulated experience strengthens the validity of their opinions on how factors such as account transactions, guarantorship, collateral retention, and auctioning influence loan performance. Furthermore, those with over 10 years of experience (27%) bring a long-term perspective, having possibly witnessed the evolution of banking services, such as the introduction of mobile banking and shifts in lending strategies. Their insights are critical in evaluating the historical effectiveness and sustainability of various debt collection approaches.

## 4.4 Descriptive Statistics

### 4.4.1 Effect of Account Transaction on Loan Performance

The researcher sought respondent opinion on the effect of account transactions has a positive effect on loan performance. The research findings are as shown in Table 4.3

**Table 4.3. Account Transaction and Loan Performance**

	<b>Mean</b>	<b>Std. Dev.</b>
The banking terms have been favorable.	4.11	.784
There is a minimum account balance.	4.36	.691
Account operation costs are low.	3.97	.890
The institution offers a mobile banking service that is user friendly.	4.36	.919
Mobile banking has led to an improved level of banking.	4.68	.680
Account transactions have a positive effect on loan performance.	4.58	.743
<b>Aggregate</b>	<b>4.34</b>	<b>0.785</b>

**Source: Research Data, (2024)**

Banking terms have been favorable (mean of 4.11) variation was low, as indicated by a standard deviation of 0.784. Respondents strongly concurred with the existence of minimum account balance requirements imposed by the bank, (mean of 4.36). Once again, the findings indicated a high level of consensus among respondents, with the variation remaining low, as reflected by a standard deviation of 0.691. There was low cost (mean of 3.97), and variation remained low, as shown by standard deviation of 0.890. In terms of user experience, respondents strongly agreed on the user-friendliness of the institution's mobile banking services, indicated by a mean of 4.36. However, the variation in outcome remained low, as shown by a standard deviation of 0.919. Mobile banking has improved banking (mean of 4.68). Though variation was low, (standard deviation of 0.680). Accounts transaction had effect loan performance as shown by a mean of 4.58. Subsequently loan performance didn't vary much (standard deviation of 0.743)

Aggregate mean of 4.34 shows that banking terms, minimum account balances low operation cost and mobile banking affect account transactions but low variation in loan performance as indicated by aggregate standard deviation of 0.785. The research results are similar to the findings by Millan, Kamau, and Idua (2023), who established a significant effect of mobile banking technology on loan performance. Prina's (2020) study findings indicated that customers are dissatisfied with the high fees associated with banking services such as account opening, withdrawals, maintenance, and minimum balance requirements. The current study findings are aligned to Sonenshein, Herzenstein, and Dholakia's (2020) research results, which indicated that lenders rely on borrower-provided accounts in their lending decisions, with peer-to-peer lending enhancing the likelihood of favorable outcomes. However, the study diverged from prevailing views by revealing that while account transactions positively influenced lending decisions, they negatively affected loan performance.

#### 4.4.2 Effect of Auctioning of Assets on Loan Performance

The researcher sought respondent opinion on the effect of auctioning of assets on loan performance. The research findings are as shown in Table 4.4.

**Table 4.4: Auctioning of Assets and Loan Performance**

	<b>Mean</b>	<b>Std. Dev.</b>
The bank publicly auctions women asset.	3.62	.921
There is a schedule for periodic auctioning of assets for the defaulted loans.	3.68	.975
The bank has conducted several auctioning women assets that has led to improved loan performance.	3.80	.961
Clients are involved in the auctioning of assets.	3.80	1.022
The cost of auctioning is high hence reducing proceeds from disposal of auctioned assets and reduced loan performance.	3.65	.899
Property auction has a positive effect on loan performance.	3.89	.927
<b>Aggregate</b>	<b>3.74</b>	<b>0.951</b>

**Source: Research Data, (2024)**

Mean of 3.62 showed that women's assets were moderately auctioned. The analysis reveals a low level of variability in loan performance outcomes associated with this practice, as evidenced by a standard deviation of 0.921. Moreover, structured schedule for the periodic auctioning of assets linked to defaulted loans was moderate (mean of 3.68). Variance in loan performance remained relatively low, as shown by standard deviation of 0.975. Remarkably, the bank's implementation of multiple instances of asset auctions pertaining to women's assets has somewhat improved loan performance, mean of 3.80. However, level of variability in loan performance was low, (standard deviation of 0.961).

Clients are moderately involvement in asset auctioning procedures (mean of 3.80) albeit with a noticeable level of variation (standard deviation of 1.022). Furthermore, respondents expressed moderate agreement regarding the perceived high cost associated with asset auctioning activities, resulting in reduced proceeds available for loan repayment purposes (mean of 3.65). Variance in loan performance outcomes remained relatively low, as per standard deviation of 0.899. Respondents indicated that there was a moderate effect asset auctioning (mean of 3.89), with the variability in outcomes remaining low (standard deviation of 0.927).

The aggregate mean of 4.52 showed that auctioning, involvement of clients in auctioning and cost of auctioning affected auctioning of assets hence loan performance whose variation was low as indicated by aggregate standard deviation of 0.951. Studies by Nawai and Shariff (2021) and Czura, Englmaier, and Spantig (2022) underscore factors influencing loan repayment, suggesting that lack of pressure from microfinance institutions (MFIs) and instances of loan diversion contribute to defaults, despite efforts to incentivize timely repayment. Moreover, Moti, Masinde, Mugenda and Sindani (2018) and Muturi (2018) highlight the importance of robust credit referencing systems and borrower credit history in improving loan performance, emphasizing factors such as diversion of loans and domestic

influences on default rates. Kitonga (2018) emphasizes the significance of staff competency and resource management in debt collection practices within commercial banks, focusing on strategies to reduce non-performing loans, albeit not directly related to loan characteristics.

#### 4.4.3 Effect of Multiple Guarantors on Loan Performance

The researcher sought respondent opinion on the effect of multiple guarantors on loan performance. The research findings are as shown in Table 4.5.

**Table 4.5. Multiple Guarantors and Loan Performance**

	Mean	Std. Dev
Group loan advance increases the amount of credit available to members.	4.27	.811
Group mentoring determines frequency of meetings.	4.27	.811
The use of multiple guarantors has contributed to a favorable relationship between members.	4.55	.610
The multiple guarantors are jointly held liable for the loans approved to group members.	4.50	.612
Holding guarantors jointly liable has led to improved self-assessment of loan borrowers.	4.53	.635
The lender has allowed the women to screen themselves to reduce defaulted loans.	4.56	.657
The use of multiple guarantors has led to improved loan performance.	4.52	.611
<b>Aggregate</b>	<b>4.46</b>	<b>0.678</b>

**Source: Research Data, (2024)**

The findings, indicated that group loan advances increased the amount of credit available to members, (mean of 4.27). Variability regarding this aspect was minimal as indicated by a standard deviation of 0.811. There was a consensus among respondents regarding the influence of group mentoring in determining the frequency of meetings, as per mean of 4.27 though variation was low as indicated by standard deviation of 0.811. Moreover, participants overwhelmingly supported the fact that the utilization of multiple guarantors significantly contributed to fostering favorable relationships among members, consequently resulting in positive loan repayment behavior, as evidenced by a mean of 4.55. However, loan repayment behavior did not vary much (standard deviation of 0.610). There is shared liability of multiple guarantors for loans approved to group members, (mean of 4.50), although variation

was low (standard deviation of 0.612). Holding guarantors jointly liable has led to enhanced self-assessment among loan borrowers, as reflected by a mean of 4.53. However, there was low variation, denoted by a standard deviation of 0.635. The lender provided borrowers with the opportunity to screen themselves to reduce defaulting of loans, (mean of 4.56) which in turn did not vary much (standard deviation of 0.657).

Multiple guarantors improved loan performance. The use of multiple guarantors has led to improved loan performance (mean of 4.52) whose variation was low (standard deviation of 0.611). The aggregate mean of 4.46 showed that auctioning, involvement of clients in auctioning and cost of auctioning affected auctioning of assets hence loan performance whose variation was low as indicated by aggregate standard deviation of 0.678. The current study strongly supports shared liability contrast with Field, Pande, and Papp’s (2018) study on the drawbacks of the classic microfinance model, including questions about the effectiveness of joint liability group lending.

#### 4.4.4 Effect of Retention of Collateral on Loan Performance

The researcher sought respondent opinion on the effect of retention of collateral on loan performance. The research findings are as shown in Table 4.5.

**Table 4.5. Retention of Collateral and Loan Performance.**

	<b>Mean</b>	<b>Std. Dev</b>
Lender accepts simple deposits of collateral for short term or business emergency loans.	4.08	.844
The use of collateral has aided in repayment capacity.	4.45	.634
Social collaterals necessitate need for advice on credit.	4.14	.739
Economic capital increases capacity for more credit.	4.18	.739
Women deposit collaterals to act as safeguard of the loan(s).	4.36	.713
Retention of collateral has led to loan performance by women borrowers.	4.41	.800
<b>Aggregate</b>	<b>4.27</b>	<b>0.745</b>

**Source: Research Data, (2024)**

Lenders accept simple deposits of collateral for short-term or business emergency loans (Mean 4.08). The standard deviation of 0.844 indicates low variation. Mean of 4.45 shows

that use of collateral has aided in repayment capacity. Standard deviation of 0.634 suggests low variation. Mean of 4.14 indicates that social collaterals necessitate the need for advice on credit. The standard deviation of 0.739 suggests low variability in responses. Economic capital increases capacity for more credit as shown by mean of 4.18 though variation in credit capacity was low (standard deviation of 0.739). Respondents agree that women deposit collaterals to act as a safeguard for the loan(s) (mean of 4.36) though variation was low (standard deviation of 0.713). Mean of 4.41 shows that the retention of collateral has led to loan performance by women borrowers. The standard deviation of 0.800 suggests that loan performance did not vary much.

The aggregate mean of 4.27 showed that auctioning, involvement of clients in auctioning and cost of auctioning affected auctioning of assets hence loan performance whose variation was low as indicated by aggregate standard deviation of 0.745. The current contrasts with the study by Alemayehu and Lemma (2018) on challenges in loan approval due to high collateral requirements, with perceptions of high loan rates and the need for cheaper loans leading some borrowers to shift between microfinance institutions. The current study is similar to a study by Macharia (2018) on the significance of various appraisal methods, including account transactions, collateral, loan repayment history, and guarantors' influence, on loan performance in commercial banks.

#### 4.4.5 Loan Performance

The researcher sought respondent opinion on loan performance. The research findings are as shown in Table 4.6.

**Table 4.6. Loan Performance**

	<b>Mean</b>	<b>Std. Dev.</b>
Loans repayments are always made on time	3.47	.976
Borrowers are satisfied with the loan services provided by Kenya Women Microfinance Bank	3.62	.921
Non-performing loans has been dropping	3.70	1.048
The drop in NPL is attributed to the strategies employed in debt recovery.	3.98	.933

There has been drop in the effort required to recover loans advanced	3.79	.981
<b>Aggregate</b>	<b>3.71</b>	<b>0.972</b>

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**Source: Research Data, (2024)**

Respondents somewhat agreed that loan repayments are made on time (mean of 3.47). The standard deviation of 0.976 indicates that there was low variation in “on-time”. Mean of 3.62 shows that borrowers were satisfied with the loan services provided by Kenya Women Microfinance Bank. The standard deviation of 0.921 suggests that variation was slightly low. Mean of 3.70 indicates that non-performing loans have been dropping. There was little variation as shown by standard deviation of 1.048. Drop in non-performing loans is attributed to the strategies employed in debt recovery as indicated by mean of 3.98. The standard deviation of 0.933 suggests relatively little variability.

There has been some drop in the effort required to recover loans advanced as per the mean of 3.79, although variation was low as shown by standard deviation of 0.981. The aggregate mean of 3.71 shows that debt collection strategy influence loan performance but variation was low ( standard deviation of 0.972). Past studies such as those by Arnone *et al.* (2024) and Karanja and Simiyu (2022) provide a broader view of loan performance, focusing on diverse factors including loan size, maturity, and borrower-specific issues, which may indicate a more complex interplay of variables affecting loan performance. These findings align with those of Ndichu (2021) and Didier *et al.* (2021), who emphasize the significance of non-performing loans and effective debt recovery strategies in improving loan performance. Both the current study and past research recognize the role of timely repayments and stringent collection practices in reducing non-performing loans.

#### **4.5 Inferential Statistics**

Inferential statistics were performed to determine the effect of strategic leadership on organizational performance.

#### 4.5.1 Correlation

The study explored the Pearson’s correlation coefficient which was used to illustrate the effect of strategic leadership on organizational performance between pairs of variables, that is visionary, managerial, inspirational and transformational leadership. The research findings are shown in Table 4.7.

**Table 4.7. Analysis of Correlation Using SPSS version 25**

		Correlation Coefficients				
		Account transaction	Auctioning of assets	Multiple guarantors	Retention of collateral	Loan performance
Account transaction	Pearson	1				
	Correlation					
	Sig. (2-tailed)					
Auctioning of Assets	Pearson	.659**	1			
	Correlation					
	Sig. (2-tailed)	.000				
Multiple guarantors	N	86	86			
	Pearson	.651**	.633**	1		
	Correlation					
Retention of collateral	Sig. (2-tailed)	.000	.000	.000		
	N	86	86	86		
	Pearson	.612**	.567**	.754**	1	
Loan Performance	correlation					
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	86	86	86	86	
Loan Performance	Pearson	.644**	.715**	-.607**	.643**	1
	Correlation					
	Sig. (2-tailed)	.000	.000	.000	.000	
Loan Performance	N	86	86	86	86	86

\*\* Correlation is significant at the 0.01 level (2-tailed).

**Source: Research Data, (2024)**

The correlation analysis was conducted to explore the relationships between key debt collection strategies namely account transactions, auctioning of assets, multiple guarantors, and retention of collateral and loan performance among women borrowers at Kenya Women Microfinance Bank. The results revealed several statistically significant associations that provide important insights into the effectiveness of these strategies. Account transactions demonstrated a positive correlation with loan performance ( $r = .644$ ,  $p < .01$ ), indicating that

higher account activity, including deposits and withdrawals, is associated with improved repayment behavior. This finding suggests that borrowers who maintain active accounts may be more financially disciplined or better integrated into formal banking systems, thereby enhancing their ability to service loans consistently.

Auctioning of assets showed the positive relationship with loan performance ( $r = .715$ ,  $p < .01$ ). This result underscores the role of asset recovery as a potent deterrent against loan default. The threat or execution of asset auctioning may incentivize timely repayment among borrowers, thereby improving overall portfolio quality for the microfinance institution. Similarly, the retention of collateral also demonstrated a positive correlation ( $r = .643$ ,  $p < .01$ ), reinforcing the notion that secured lending encourages borrower commitment and accountability. When borrowers have personal or economic assets at stake, they may be more motivated to meet their repayment obligations to avoid asset forfeiture. In contrast, the use of multiple guarantors was negatively correlated with loan performance ( $r = -.607$ ,  $p < .01$ ). This finding is particularly noteworthy, as it challenges the traditional microfinance model of joint liability. The negative relationship implies that having multiple guarantors may dilute individual accountability, leading to weaker loan repayment performance. This result aligns with criticisms of group lending models, which argue that shared responsibility can sometimes create moral hazard or reduce pressure on individual borrowers to repay. Overall, the correlation analysis indicates that while some traditional debt recovery strategies like collateral retention and asset auctioning are effective, others such as the use of multiple guarantors may require reevaluation or complementary mechanisms to enhance their impact on loan performance.

#### **4.5.2 Coefficient of Determination**

The analysis was done in an effort of determining how debt collection strategy affect loan performance.

**Table 4.8. Analysis of Coefficient of Determination Using SPSS version 25**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>	<b>Durbin-Watson</b>
1	.782 <sup>a</sup>	.611	.599	.49843	1.898

a. Predictors: (Constant), Multiple guarantors, Auctioning of Assets, Account transaction, Retention of collateral

b. Dependent Variable: Loan Performance

**Source: Research Data, (2024)**

The analysis was aimed to understand how certain factors relate to the performance of a certain variable. The correlation coefficient (R) of 0.782 indicates a moderately strong positive relationship between the predictors (Account transaction, Auctioning of Assets, Multiple guarantors and Retention of collateral) and the loan performance variable. Coefficient of determination (R Square) indicates that, approximately 61.1% of the variance in loan performance can be explained by the predictors included in the study. This means that these predictors collectively have a substantial influence on determining loan performance.

The adjusted R Square takes into account the number of predictors in the model and provides a slightly lower estimate of explained variance, around 59.9%, adjusting for potential overfitting by penalizing unnecessary predictors. The Durbin-Watson statistic tests for autocorrelation in the residuals of the regression analysis. In interpreting the Durbin-Watson test statistics, a value close to 2 suggests no significant autocorrelation, indicating that the residuals are independent and there's no systematic pattern left unexplained by the model. In this study, Durbin Watson value of 1.898 implies that there is no significant autocorrelation between variables.

### **4.5.3 Analysis of Variance**

This section presents an overview of Analysis of Variance (ANOVA), a statistical technique essential for comparing the means of three or more groups to determine if there are any

statistically significant differences among them. As argued by Kim (2017), ANOVA helps in partitioning the total variability in a dataset into components associated with different sources, allowing researchers to evaluate the impact of one or more independent variables on a dependent variable.

**Table 4.9 Analysis of Variance Using SPSS version 25**

<b>Model</b>		<b>Sum of Squares</b>	<b>Df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	49.589	4	12.397	49.902	.000 <sup>b</sup>
	Residual	31.551	127	.248		
	Total	81.141	131			

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Account transaction, Auctioning of Assets, Multiple guarantors and Retention of collateral

**Source: Research Data, (2024)**

Analysis of Variance (ANOVA) revealed that debt collection strategies had a significant effect on organizational performance ( $F= 49.902$ ,  $P (0.000)$  which was less than 0.05. Therefore, debt collection strategies were significant in predicting loan performance.

#### **4.5.4 Regression Coefficient**

The test of regression was conducted to highlight how each study variable under debt collection strategy and loan performance. The results are in Table 4.10.

**Table 4.10. Analysis of Coefficient Using SPSS version 25**

<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>		<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>	<b>t</b>	
1	(Constant)	-.972	.419		-2.319	.022
	Account transaction	.286	.126	.186	2.270	.025
	Auctioning of Assets	.584	.107	.434	5.485	.000
	Multiple guarantors	-.008	.165	-.005	-.051	.960
	Retention of collateral	.321	.097	.287	3.292	.001

a. Dependent Variable: Performance

**Source: Research Data, (2024)**

The Resultant Equation is:  $Y = -.972 + .286X_1 + .584X_2 - .008X_3 + .321X_4$

Where:

Y=Loan Performance

X<sub>1</sub>= Account transaction

X<sub>2</sub>= Auctioning of assets

X<sub>3</sub>= Multiple guarantors

X<sub>4</sub>= Retention of collateral

According to the regression analysis, the combined influence of account transactions, auctioning of assets, multiple guarantors, and retention of collateral on loan performance among women borrowers at Kenya Women Microfinance Bank results in a base prediction value of -0.972. The results show that a one-unit increase in account transactions leads to a 0.286-unit improvement in loan performance ( $p=0.025$ ), indicating statistical significance. These findings align with Millan, Kamau, and Idua (2023), who found that digital financial services, particularly mobile banking, significantly enhance loan monitoring and repayment among microfinance clients. Similarly, Sonenshein, Herzenstein, and Dholakia (2020) emphasized that lenders increasingly rely on transaction data for credit risk assessments, which correlates with improved repayment behavior.

Auctioning of assets showed the strongest positive effect, with a 0.584-unit increase in loan performance for every one-unit increase in auctioning efforts ( $p=0.000$ ). This is supported by Moti *et al.* (2018) and Muturi (2018), who found that the enforcement of asset recovery mechanisms such as auctions acts as a deterrent against default and improves loan repayment rates. Retention of collateral also had a significant positive effect, contributing 0.321 units to loan performance ( $p=0.001$ ), consistent with Macharia (2018), who highlighted that secured lending particularly where borrowers offer physical or social collateral results in improved borrower commitment and reduced default rates.

Conversely, the use of multiple guarantors had a negligible and statistically insignificant impact on loan performance, with a coefficient of -0.008 ( $p=0.960$ ). This finding diverges from traditional microfinance models that emphasize joint liability as a core lending strategy. It supports critiques such as those by Field, Pande, and Papp (2018), who argue that while group lending fosters inclusion, it may also reduce individual accountability and dilute enforcement mechanisms, ultimately weakening loan performance. The current study thus contributes to the growing body of evidence suggesting a need to re-evaluate the effectiveness of group lending and explore alternative borrower screening methods

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary of Findings

The objectives of this study were: To determine the effect of account transactions on loan repayment by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya. To assess the effect of auctioning of assets on loan repayment by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya. To establish the effect of multiple guarantors on loan repayment by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya and to assess the effect of collateral retention loan repayment by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.

The research findings indicate a high level of satisfaction among respondents with various aspects of banking services offered by the institution. They strongly endorsed favorable banking terms and minimum balance requirements, with consistent responses across participants. Despite a moderate perception of low account operation costs, respondents showed notable consistency in their views. Furthermore, users found the institution's mobile banking services to be user-friendly, with a positive impact on the overall banking experience. Additionally, respondents strongly agreed on the positive correlation between account transactions and loan performance, highlighting the perceived benefits of utilizing mobile banking for financial activities. Overall, respondents' opinions remained consistent across these aspects, with minimal variability in outcome perceptions.

The study findings indicated a structured schedule for asset auctioning linked to defaulted loans, with relatively low variance in loan performance outcomes. Moreover, respondents generally agreed that they were involved in asset auctioning procedures and expressed

moderate agreement on the perceived high cost associated with these activities. However, despite concerns about costs, the variance in loan performance outcomes remained relatively low. A positive effect of asset auctioning on loan performance. A unit increase in the auctioning of assets leads to an increase in loan performance. Auctioning of assets had a positive effect and is statistically significant to loan performance.

There was a positive effect of group loan advances and mentoring on increasing credit availability and shaping meeting frequently. Additionally, there was robust consensus on the role of multiple guarantors in fostering positive relationships among members and promoting timely loan repayment behavior. Respondents also agreed that there was shared liability of multiple guarantors and acknowledge its potential for enhancing borrower self-assessment. Multiple guarantors were effective in improving loan performance was bank facilitated borrower screening for potential group members, indicating consistent group lending practices. It was established use of multiple guarantors is not significant and holding all other factors constant, a unit increase in the utilization of multiple guarantors results in decrease in loan performance.

Lenders accept simple collateral deposits for short-term or emergency loans and use of collateral aids in repayment capacity. Social collaterals necessitate credit advice and economic capital increases credit capacity. Retention of collateral had positive effect on loan performance and that women deposit collaterals as a safeguard for their loans. The study findings showed that loan performance is made and borrowers are satisfied with the bank's loan services. Additionally, non-performing loans have been decreasing. However, the drop in non-performing loans was attributed to debt recovery strategy. There has been a reduction in the effort required to recover loans advanced.

## 5.2 Conclusion

This study examined the influence of debt collection strategies—namely account transactions, auctioning of assets, use of multiple guarantors, and retention of collateral—on loan performance among women borrowers at Kenya Women Microfinance Bank. The findings revealed that most of these strategies positively impacted loan performance, with auctioning of assets and retention of collateral showing the most significant effects. Mobile banking and efficient account transactions also contributed to improved loan outcomes, highlighting the growing importance of digital financial tools in enhancing repayment behaviors.

Despite the general positive trends, the use of multiple guarantors presented a surprising outcome. While descriptive statistics suggested that guarantor systems foster trust and accountability among group members, the regression analysis revealed a negative and statistically insignificant impact on loan performance. This divergence suggests that while group-based lending promotes inclusion and social cohesion, it may also introduce moral hazard or reduce individual responsibility, ultimately undermining repayment rates. Therefore, institutions must carefully evaluate the effectiveness of group lending models and explore mechanisms to improve individual borrower accountability.

Overall, the results underscore the importance of strategic debt collection approaches in enhancing loan performance. Financial institutions should invest in borrower-centric innovations such as user-friendly mobile banking, enforce structured collateral systems, and refine asset auctioning protocols to boost recoveries and reduce non-performing loans. Future research could explore borrower behavioral traits, the role of financial literacy, and the long-term effects of digital banking technologies to provide a more holistic understanding of sustainable lending practices in microfinance institutions.

### **5.3 Recommendations for Policy and Practice**

The following recommendations were made; Since respondents strongly agreed on the positive correlation between account transactions and loan performance, the study recommends for the microfinance institutions to encourage and incentivize account transactions. This could involve offering rewards or bonuses for certain transaction activities, providing educational materials on the benefits of active account management, and implementing strategies to increase engagement with banking services such as streamlining minimum balance requirements. Further, there was a perceived high cost of account operation, to address any potential ambiguity or concerns regarding account operation costs, the microfinance institutions should consider providing transparent and detailed information about fees and charges associated with different account activities. This transparency can help build trust and ensure customers fully understand the cost structure, potentially leading to increased satisfaction and loyalty.

The study highlights a degree of agreement among respondents regarding client involvement in asset auctioning procedures. To further strengthen trust and accountability, the bank should enhance transparency surrounding auctioning activities and provide opportunities for meaningful client engagement throughout the process. This could involve clearly communicating auction schedules, explaining the rationale behind auction decisions, and soliciting feedback from borrowers to improve the auctioning experience. Additionally, Respondents expressed moderate agreement regarding the perceived high cost associated with asset auctioning activities. To address this concern and maximize proceeds available for loan repayment purposes, the bank should explore ways to optimize the efficiency and cost-effectiveness of asset auctioning processes. This could include negotiating lower auction fees, streamlining administrative procedures, and leveraging technology to reduce overhead costs.

Given the strong agreement among participants regarding the positive impact of group loan advances on increasing the amount of credit available to members, it's advisable for the bank to further invest in and expand group lending programs. This could involve offering more comprehensive training and support to group members, facilitating access to larger loan amounts, and implementing measures to ensure equitable distribution of credit within groups. Further, it is important for the bank to establish a robust system for continuous monitoring and evaluation of group lending activities. This could involve regularly assessing the quality of mentoring provided, tracking loan repayment rates among groups with varying guarantor structures, and soliciting feedback from participants to identify areas for improvement. By continuously monitoring and evaluating group lending initiatives, the bank can identify best practices, address challenges proactively, and optimize program outcomes over time.

Since respondents agree on the importance and impact of collateral in loan processes, it's essential for the bank to offer comprehensive financial education programs. These programs should focus on educating borrowers about different types of collateral, their significance in loan applications, and the rights and responsibilities associated with collateral usage. Given the agreement among respondents regarding the importance of collateral in accessing credit, the bank should explore ways to facilitate access to diverse collateral options, especially for women borrowers. This could involve expanding the range of acceptable collateral types beyond traditional assets like property or vehicles to include alternative forms such as savings accounts, jewelry, or community guarantees.

Since respondents somewhat agree that loan performance is made on time, it's important for microfinance institutions to improve communication and transparency regarding repayment expectations. Implementing clearer communication channels, providing regular updates on repayment schedules, and offering financial education on the importance of timely

repayments can help borrowers better understand and meet their obligations. The bank should continuously monitor and assess the factors contributing to changes in non-performing loan rates. This includes evaluating the effectiveness of debt recovery strategy, identifying emerging risks, and adjusting approaches as needed. By maintaining vigilance over non-performing loans, the bank can proactively address challenges and maintain a healthy loan portfolio.

#### **5.4 Recommendation for Further Research**

Given the variability in respondents' perceptions regarding the timeliness of loan performance and borrower satisfaction with loan services, further research could investigate the underlying factors influencing loan repayment behavior. Future studies could delve into borrower characteristics, such as demographics, financial literacy levels, and income stability, as well as the impact of loan terms, repayment structures, and customer service quality on repayment outcomes. Understanding these factors in more detail can help financial institutions tailor their lending practices and support mechanisms to improve repayment rates and customer satisfaction.

Further, the independent variables examined in this study explained 61.1% in the variation in the loan performance, this study recommends future study to examine the factors responsible for 38.9% in the variation in loan performance. A similar study may also be conducted in the commercial banks to compare with the situation in the microfinance institutions.

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## **APPENDIX 1**

### **Introduction Letter**

**Dear Sir/ Madam,**

**RE: Permission to Collect Research Data**

I am an MBA student from Kenyatta University in the School of Business, Economics and Tourism, conducting research on “**Debt recovery strategy on loan performance by women banking at Kenya Women Microfinance Bank in South Rift Region, Kenya**”. This letter invites you to participate in the study by responding to an attached questionnaire.

Kindly note that your responses will be treated with utmost confidentiality and will only be used for the purpose of this research.

Yours faithfully,

Anthony Karangu Ndiritu

Reg. No. D53/OL/KER/33551/2015

## APPENDIX II

### Questionnaire

#### A. DEMOGRAPHIC CHARACTERISTICS

1. Kindly indicate your name (optional).....

2. What is your highest level of education?

Primary  Secondary  Diploma  Degree

4. When did you join Kenya Women Microfinance bank?

< 1year  1 to 5 years  5 to 10 years  over 10 Years

#### B. ACCOUNT TRANSACTIONS

Kindly provide your level of agreement to the following regarding account transaction

(Where 1-Strongly agree, 2- Agree, 3-Not sure, 4- Disagree and 5-Strongly disagree)

Statements	1	2	3	4	5
The banking terms have been favorable					
There is minimum account balance					
Account operation cost is low.					
The institution offers mobile banking service that is user friendly					
Mobile banking has led to improved level of banking.					
Account transactions have a positive effect on loan performance					

In your own opinion, state how account transactions have contributed to loan repayment

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#### C. AUCTIONING OF ASSETS

Kindly provide your level of agreement to the following regarding auctioning of assets

(Where 1-Strongly agree, 2- Agree, 3-Not sure, 4- Disagree and 5-Strongly disagree)

Statements	1	2	3	4	5
The bank publicly auctions women asset					
There is a schedule for periodic auctioning of assets for the defaulted loans.					
The bank has conducted several auctioning women assets that has led to improved loan performance.					
Clients are involved in the auctioning of assets.					
The cost of auctioning is high hence reducing proceeds from					

disposal of auctioned assets and reduced loan performance.					
Property auctions has a positive effect on loan performance.					

In your own opinion, state how auctioning of women has contributed to loan repayment

---

#### D. MULTIPLE GUARANTORS

Kindly provide your level of agreement to the following regarding the adoption of multiple guarantors in lending (Where 1-Strongly agree, 2- Agree, 3-Not sure, 4- Disagree and 5- Strongly disagree).

Statements	1	2	3	4	5
The lender has allowed the women to screen themselves to redeem defaulted loans					
Group loan advances increase amount of credit available to members					
Group mentoring determines frequency of meetings					
The use of multiple guarantors has contributed to Favorable relationship between members.					
The multiple guarantors are jointly held liable for the loans approved to group members.					
Holding guarantors jointly liable has led to improved self-assessment of loan borrowers.					
The use of multiple guarantors has led to improved loan performance					

In your own opinion, state how multiple guarantors has contributed to loan repayment

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#### E. RETENTION OF COLLATERALS

Kindly provide your level of agreement to the following regarding the retention of collateral security (Where 1-Strongly agree, 2- Agree, 3-Not sure, 4- Disagree and 5-Strongly disagree)

Statements	1	2	3	4	5
Women deposit collaterals to act as safeguard of the loan(s)					
Lender accepts simple deposits/fortnight deposit of collateral for short term or business emergency loans.					
The use of collateral has aided in repayment capacity					
Social collaterals necessitate need for advice on credit					
Economic capital increases capacity for more credit					
Retention of collateral has led to loan performance by women borrowers.					

In your own opinion, state how the use of collateral security has contributed to loan repayment \_\_\_\_\_

## APPENDIX II

### Research Authorization



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: Executive Dean, Graduate School

DATE: 23<sup>rd</sup> May, 2024

TO: Anthony Karangu Ndiritu  
C/o Business Administration Dept.

REF: D53/OL/KER/33551/2015

#### SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 15<sup>th</sup> May, 2024 approved your Research Project Proposal for the M.B.A Degree Entitled, **"Debt Recovery Strategy and Loan Performance by Women Banking at Kenya Women Microfinance Banks in South Rift, 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 and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

**ANNBELL MWANIKI**  
**FOR: EXECUTIVE DEAN, GRADUATE SCHOOL**

c.c. Chairman, Business Administration.

Supervisors:

1. Dr. Chris Sitienei  
C/o Department of Business Administration  
Kenyatta University

AM/mo



**THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)**  
Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

**CONDITIONS OF THE RESEARCH LICENSE**

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
  - i. Endanger national security
  - ii. Adversely affect the lives of Kenyans
  - iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
  - iv. Result in exploitation of intellectual property rights of communities in Kenya
  - v. Adversely affect the environment
  - vi. Adversely affect the rights of communities
  - vii. Endanger public safety and national cohesion
  - viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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Innovation(NACOSTI),  
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