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ABSTRACT

The purpose of the study was to investigate the debt recovery techniques on loan performance of deposit taking MFIs in Mombasa County. The theories guiding the study are moral hazard theory, Value Based Portfolio Theory, credit market theory and loanable funds theory. The study used cross-sectional descriptive research design. The target population of the study was management of the 6 MFIs which are licensed by CBK and have fully-pledged branches in Mombasa. The study employed stratified sampling technique to divide the target population into different groups and those with similar characteristics were grouped in together then sample for the study was selected at random from each stratum. The study employed Yamane formula to derive a sample of 52 respondents. The study used primary and secondary data. A structured questionnaire was used to collect the primary data. Collected data was quantitatively analyzed by use of Statistical Package for Social Science (SPSS) version 26. The data analysis techniques used are descriptive statistics, correlation analysis and multiple regression analysis. Regression results revealed that loan limit reduction had significant positive effect on financial performance of (β= .394, p < 0.05). Collection policy was found to have a positive and significant effect on financial performance of (β= .476, p < 0.05). Adverse credit listing was found to have a positive and significant effect on financial performance of (β= .483, p < 0.05). Fines and penalties had a positive and significant effect on financial performance of (β= 0.429, p<0.05). Findings led to rejection of the null hypothesis that there is no significant effect of fines & penalties, adverse credit listing, collection policy and loan limit reduction on financial performance of MFIs. The study concludes that the microfinance utilizes the private collection agents to recover outstanding amounts from the defaulting borrowers. Micro finance institutions have a maximum loan limits policy for new clients and that the micro finance institution has a baseline lending policy to new clients. The deposit taking micro finance performs credit scoring on the borrower before issuing approval for loans. By imposing penalties on loans, it serves to reduce the non-performing loans by making borrowers repay their dues for fear of penalization which could be costly on the loaners. The study recommended that the management of MFIs should make use of private collection agents to help the institutions recover outstanding loan amounts from the non-paying borrowers. The use of these private collectors has a potential to recover the bad debts as they have unique deterrence measures which are not allowed in the MFIs sector. The MFIs should base their decisions on whether to give loan or to decline based on the borrower past credit history.

Key Words: *Debt Fines and Penalties, Adverse Credit Listing, Loan Limit Reduction, Collection Policy*

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INTRODUCTION

In recent years, lending risk and recovery strategies has gained focal importance because of huge financial losses faced by big international financial organizations (Nikolaidou & Vogiazas, 2017). The quality of credit loan portfolios globally had been steady up until the crisis that hit the global economy in the years 2007 and 2008. The financial institutions' sector and microfinance institutions in particular have adopted additional steps since the financial crisis to avoid any future financial losses caused by mismanagement in loan allocations and credit recoveries.

MFIs provide loans (i.e. micro credit) to start and expand businesses, and clients who have obtained the loans need to pay back the loans to MFIs (Khavul, 2017). Repayment of loans by the clients is very important to achieve financial sustainability of the MFIs. If the MFI is financially sustainable it could provide many services to the clients and satisfy all the stakeholders that includes shareholders, bankers, employees etc. Given the importance of loan repayment in operationalizing MFIs, implementation of debt recovery strategies is pivotal (i.e. before and after the loan) (Chege and Bichanga, 2017; Khavul, 2017).

Debt recovery is the means by which a creditor attempts to collect unpaid debt usually through a third party called debt collection service (Sharma, 2016). Normally, recovering loans is a difficult task because clients will go out of their way to make themselves unavailable to the financial institution. Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loanies to make attempts to repay their outstanding loans (Khavul, 2017). Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender (bank). The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans.

Debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced. It is evident that the presence of debt recovery puts pressure to the loanees to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit (Visaria, 2017). The debt recovery unit is tasked with locating difficult-to-reach debtors and obtaining the most up-to-date contact information. Consumer and commercial data bases are frequently updated, allowing the debt recovery unit to track down elusive debtors, contact them, and collect unpaid debt. They do compile a list of past-due loans (Ogolla, 2016).

Globally, a study conducted in the United States of America (Bhatt & Tang, 2016) on four microfinance institutions found that the educational level of a borrower and the proximity of a borrower's business to the lending agency, were the factors that were statistically significant in determining the likelihood of a borrower repaying a credit facility. Still in the US, Altman (2017) in their study of default recovery rates in credit risk modeling noted that as the default rate increase so does the debt recovery rate increase. It therefore calls for measures to be put in place to ensure that credit risk is quickly reviewed to reduce or lower default rate.

In Germany, Elsas (2016) questioned in their study the rationale for commercial banks to arrive at credit decision. Their study emphasized the need to look at the following aspects of lending as they all influence the ability of a loan to go on default hence warrant recovery measures. In Malaysia, Roslan and Karim (2017), found out that the most important factors that determined the likelihood of borrowers to repay the loans made out to them from microcredit institutions included Amount lent i.e. the higher the amount lent, the lower the risk of default.

In Africa, many banks have suffered financial distress and failure due to non-performing loans.

According to African economic outlook (2005), the following can be used to reduce debt recovery problems in African banks; use of reminders has proved to be a good measure to encourage debtors to pay up their debts. Some customers are genuinely not able to remember when their debts are due. In this case, reminders such as short text (SMS), email or a simple telephone call does the magic and enable the client remember their obligation to the bank thereby making them be in a position to repay their debts (Brownbridge, 2016).

In Uganda, available statistics from the Bank of Uganda annual supervision report, 2017 indicated high incidence of default reflected by increasing non-performing loans (NPLs) by Microfinance Deposit Taking Institution (MDIs). The situation has adversely impacted on their profitability and overall asset quality has deteriorated. The NPL ratio (NPLs to total gross loans) increased from 3.2% in December 2011 to 5.3% December 2012 it decreased marginally in December 2013 to 3.4% and again rose to 4.2% in December 2014 and then rose to 6.6% in December 2015. This trend not only threatens the viability and sustainability of MDI's but also hinders the goals for which they were intended to achieve that is provision of microfinance services mainly to small and medium enterprises (SME's) (MFPED, 2017).

In Kenya, over 76% of the banking institutions in the year 2018 noted that they had focused their debt recovery strategies on personal or household loans while 56% had focused their debt recovery strategies on the trade sectors (CBK, 2019). According to CBK annual reports released shocking evidence that non-performing loans for 2021 was high. According to the annual reports on bank supervision 2020, out of loan book of KES 2.02 trillion in 2020, 5.3 billion was non-performing loans. In addition, Kenya Bankers Association and parliamentary select committee on finance disagreed on the likelihood rise in default rates due to rising interest rates. This does not only call for the financial sector to be prepared in tackling debt recovery but calls for different techniques of debt recovery to be put in place so that as the financial institutions are not caught unawares.

Despite the fact that microfinance has proven to be an effective and powerful tool for poverty reduction due to its ability to penetrate the poorer strata of society, there have been challenges characterizing the strategies used by microfinance institutions in recovering debt from clients. The difficulty in recovering debts has resulted in a relatively slow rate of growth and has also kept the cost of credit high. The difficulty microfinance institutions have in recovering debt from clients makes it difficult for them to always have funds available to lend. This leads to a slower rate of growth than would have been desired by the institutions.

Statement of the Problem

In Kenya, the debt market has experienced explosiveness in the degree of NPLs that has risen to Ksh.292 billion. According to CBK annual reports, there is disturbing proof that non-performing loans have been steadily increasing from 2017 to 2021. As indicated in the bank annual supervision report (2021), the efficiency in the financing sector was low since there was a drop of 9.6 % in 2021 of pre-tax profits. There was also a slump in asset quality registration. The non-performing loans rate rose from 8.59 % in 2020 to 9.95% in 2021.

For microfinance institutions, despite MFIs taking measures to mitigate non-performing loans problem, the institutions still have high default rates (20%) that have a negative effect on the performance of MFIs (AMFI, 2021). These institutions are recording high rate of default by their clients which presupposes that most microfinance institutions are not achieving the internationally accepted standard portfolio at risk of 3%, which is a cause for concern (AMFI, 2021). Loan default rate among the individual's borrowers was 13.7% in the year (2015) which is quite high compared to group's borrowers at 5.9% (AMFI, 2021). Micro-finance sector loss hit Ksh 752,930,000 million for the period ended 2017, from a loss of Ksh 388,310,000 million over a similar period in 2016 (CBK, 2020).

Extant literature has been conducted on debt recovery strategies in microfinance institutions. For example, Kalpani, and Abeysekera (2017) researched on default risk and debt recovery strategies of microfinance providers in Sri Lanka. Mawele (2020) did an assessment on the debt recovery in banks in Zambia. Kipsang (2020) did a study on the effect of debt recovery strategies on loan performance of Fintech companies in Kenya. The study present both contextual and conceptual gaps. Njenga (2017) investigated the impact of credit management techniques on loan performance in Kenyan deposit taking microfinance firms. Nyawira (2019) investigated debtor management and financial performance of Microfinance Institutions in Kenya. Kamar and Ayuma (2017) who studied on the effect of debt recovery tactics on the performance of selected financial institutions in Eldoret town and discovered a substantial link between debt recovery and performance. Owich (2021) did a study on debt management and loan performance of commercial banks in Kenya. However, despite extant literature having been done on debt recovery, very few studies have focused on debt recovery strategies in the context of Microfinance institutions in Mombasa. Therefore, the current study holistically investigates debt recovery strategies and financial performance of Microfinance institutions in Mombasa.

Objectives of the Study

The general purpose of this research is to investigate debt recovery strategies on financial performance of Microfinance institutions in Mombasa County. The specific objectives were;

- To establish the effect of fines and penalties on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- To determine the effect of adverse credit listing on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- To investigate the effect of loan limit reduction on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- To find out the effect of collection policy on financial performance of Microfinance Institutions in Mombasa County, Kenya.

Research Hypotheses

- $H0_1$: There is no significant effect of fines and penalties on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- $H0_2$: There is no significant effect of adverse credit listing on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- $H0_3$: There is no significant effect of loan limit reduction on financial performance of Microfinance Institutions in Mombasa County, Kenya.
- $H0_4$: There is no significant effect of collection policy on financial performance of Microfinance Institutions in Mombasa County, Kenya.

LITERATURE REVIEW

Theoretical Framework

Value Based Portfolio Theory

The study will also be guided by Value Based Portfolio Theory developed by Markowitz in 1959. The value based portfolio theory explains that different components of portfolios play different roles in expanding the overall value of the total portfolio. The specific value gained from each component of the portfolio includes the ratio of contribution to the portfolio outputs like the resale value, safety, reliability and comfort. It also includes the value that customers get from a product in relation to inputs like the price and running costs that customers have to convey in exchange. The derived value of efficiency can be understood as the customers‟ return investment. Therefore, the debts that have created products offering a maximum customer value are similar to other alternatives

which are efficient and experience little possibilities of default and vice-versa (Brealey, & Myers, 2016).

The theory suggests that debt recovery techniques from the perspective of the debtor, is determined by the value that the debt has added to the existing portfolio of investments. Since the 1980s, companies have productively employed a portfolio theory that is modern to market risk. Many companies are now using value at risk models to control their market and interest rate exposures. Unfortunately, however, although credit risk remains the biggest risk challenging most organizations, the duty of applying modern portfolio theory to credit risk has lagged (Lough, 2016). Financial institutions recognize how debt recovery techniques can adversely impact the performance of financial institutions. Due to this, most of the financial institutions are aggressively employing different approaches to debt recovery. The theory supports adverse credit listing variable.

Moral Hazard Theory

The theory was propounded by Kenneth Arrow in 1963. The assertions of this theory can be traced to the insurance literature. Moral hazard denotes rise in the expected loss (probability of loss due to an event happening) due to individuals and firms behaving in a careless manner because of purchasing insurance. An insured firm may alter its behavior in a manner that increase the expected loss compared to what it would have been without coverage. Its current applications in economics are that “it’s a behavior that increases loss as a result of insurance” (Rowell & Connelly, 2016)

Moral hazard concept has been broadly used and is intensely rooted in economics practice thus small attention has been given to the underlying moralistic and ethical notions as suggested by this particular expression or its use (Dembe & Boden, 2016). What should be clear about the term “moral hazard” is that a normative notion arises out of the language Suggesting the presence of a moral danger because of too much insurance provision (Hale, 2016). In the similar way, the study acknowledges the fact that the financial institutions strive to reduce the risk of having non-performing loans. Moral hazard theory supports this study by bringing in the idea that financial institutions through proper debt management techniques have a responsibility to ensure that all the debtors have the capability of repaying their debts as well as the institution meeting their obligations to their lenders. The notion and expectation that another party would likely bear the risk of default creates a moral hazard and eventually will contribute to crisis. The theory supports loan limit reduction variable in the study.

Credit Market Theory

Karl Brunner established Credit Market Theory in 1966. If collateral and other relevant constraints are maintained, the loan rate is the only factor that controls the amount of credit issued by the banking sector, according to the theory. As a result of the rising demand for credit and the fixed supply of it, interest rates have climbed. Any additional risk to a bank-funded project should be represented in a risk premium added to the lending rate to reflect the rising probability of default. The theory assumes that the likelihood of a borrower defaulting and the interest rate paid on the advance have a positive connection. As a result, it is thought that the larger the borrower's failure risk, the higher the interest premium will be (Ewer et al, 2016).

Although this theory does not specifically address how collateral affects the risk premium, it gives the impression that collateral has no bearing on lending rates, and that if a risky borrower wants to have the same lending rate as a borrower with a lower risk profile, all he has to do is pledge more collateral to lower his risk profile and thus enjoy a lower risk premium. Because of the knowledge imbalance between the lender and the borrowers, the “moral hazard” and “adverse selection” phenomena emerge. Because it pertains to both the borrower and the lender, this theory is appropriate for the research. It claims that the borrower has a more accurate evaluation of the risk profile of this investment than the lender does, and that he can

take hidden activities to raise the risk of his investment without the lender's knowledge (Armendariz & Morduch, 2016). The problem of adverse selection arises when lenders raise interest rates to protect themselves from default, attracting mainly high-risk borrowers while excluding low-risk borrowers.

Conceptual Framework

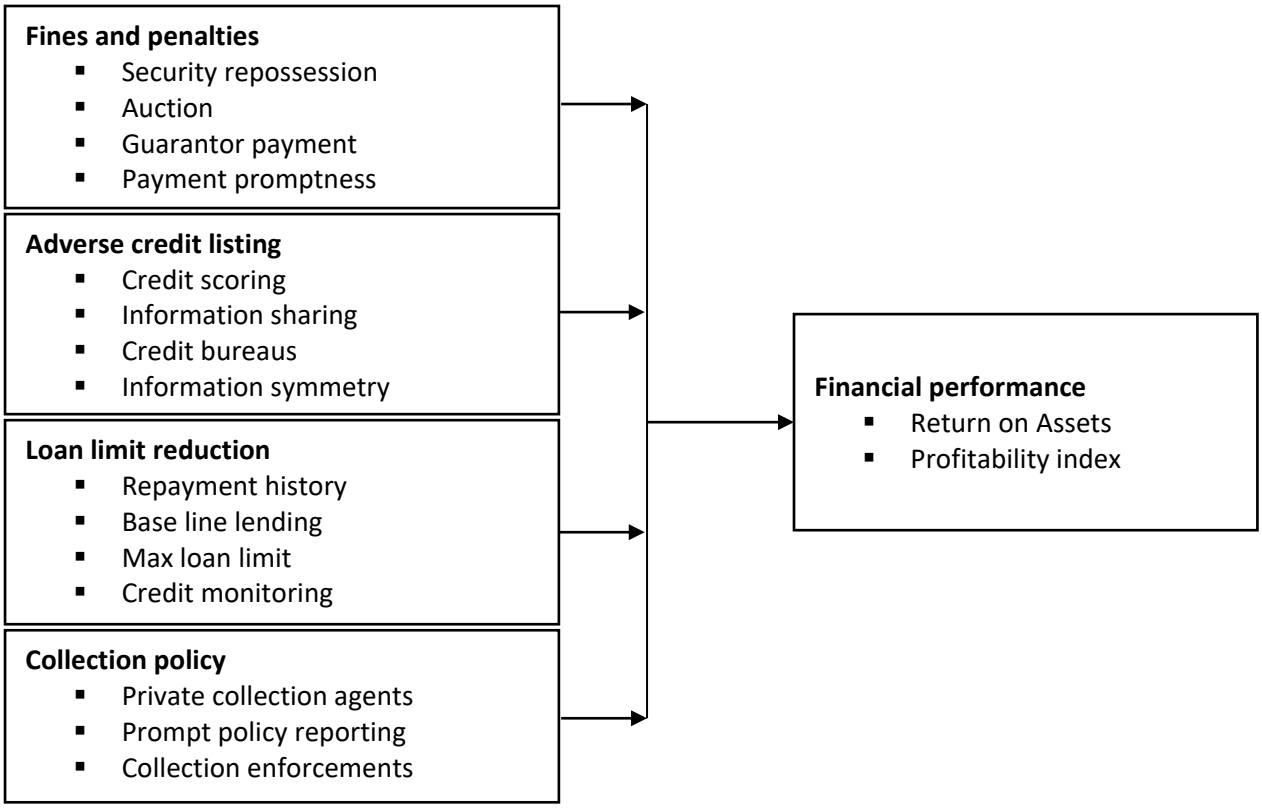

Figure 1: Conceptual Framework

METHODOLOGY

The study utilized cross-sectional survey research design. The current study unit of observation was 6 Microfinance Institutions licensed by CBK and have fully-pledged branches in Mombasa. The target population was 60 respondents. The study adopted stratified random sampling technique which incorporates both stratified and simple random sampling methods. The sample size of the study was 52 respondents. Research data for this study comprised both primary data and secondary data. The primary data was collected by use of close ended questionnaires which was structured based on the research objectives. Secondary data was collected by use of secondary data collection sheet. The data collection procedures involved getting the authority letter from Jomo Kenyatta University of Agriculture and Technology.

Cronbach alpha is the basic formula for determining the reliability based on internal consistency. Collected data was analyzed using Statistical Package for Social Sciences (SPSS) software version 26.

FINDINGS AND DISCUSSIONS

Descriptive Statistics Results

The study adopted a 5-point Likert scale of the form "SD = Strongly Disagree; D = Disagree; NS = Not Sure; A = Agree; SA = Strongly Agree" so as to assess the views of the respondents on debt recovery strategies and financial performance. The findings

were summarized using mean and standard deviations.

Fines and Penalties

The first objective of the study was to establish the extent to which fines and penalties affect financial performance. Respondents were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are displayed in Table 1:

Table 1: Fines and Penalties

	Mean	Std Deviation
Borrowers are motivated by penalties to adhere to the payment plans of their loans	4.96	.582
The microfinance repossesses security provided to acquire loan from the borrowers	4.90	.275
The microfinance undertakes auction of the borrower's assets to minimize loan loss	4.56	.688
The microfinance requires the guarantor to settle the loan amount due in case of default by borrower	4.01	.919

The results in Table 1: have shown that respondents agreed that penalties on loans motivates borrowers to adhere to the payment plans of their loans and that the microfinance repossesses security provided to acquire loan from the borrowers as indicated by a mean of 4.96 and mean of 4.90 respectively. Respondents also agreed that the microfinance undertakes auction of the borrower's assets to minimize loan loss (mean=4.56) and that the microfinance requires the guarantor to settle the loan amount due in case of default by borrower (mean=4.01).

Adverse Credit Listing

The second objective of the study sought to establish the effect of adverse credit listing on financial performance. Data was collected through the Likert-scale measuring the level of agreement of the respondents with respect to the given aspects of adverse credit listing. The results are as presented in Table 2:

Table 2: Adverse Credit Listing

	Mean	Std. Deviation
Credit scoring is carried out by micro finance on the borrower when approving loans to the clients	4.19	.628
Adverse credit listing improves the precision of the signal about the quality of credit seeker	4.93	.350
Information shared by the credit bureaus offers MFI imprecise knowledge of a borrower's likelihood of repaying	4.67	.555
The MFIs collaborates with credit bureaus closely through information sharing	4.18	.639

The results in Table 2: have shown that respondents agreed that the micro finance conducts credit scoring on the borrower when granting loans to the clients and that adverse credit listing improves the precision of the signal about the quality of credit seeker as indicated by a mean of 4.19 and mean of 4.93 respectively. Respondents agreed that information shared by the credit bureaus offers MFI imprecise knowledge of a borrower's likelihood of repaying (mean=4.67). Respondents were in agreement to the statement that the MFIs collaborates with credit bureaus closely through information sharing (mean=4.18).

Loan Limit Reduction

The third objective of the study sought to establish the effect of loan limit reduction on financial performance. Data was collected through the Likert-scale measuring the level of agreement of the

respondents with respect to the given aspects of loan limit reduction. The results are as presented in Table 3:

Table 3: Loan Limit Reduction

	Mean	Std. Deviation
There is maximum loan limits policy for new clients	4.82	.977
The micro finance institution has a baseline lending policy to new clients	4.31	.526
Limiting the amount of credit reduces cases of bad debt in case the borrower fail to pay	3.69	.793
The microfinance institution determines loan limit using past credit history	4.11	.600

The results in Table 3: have shown that respondents agreed that Micro finance institutions have a maximum loan limits policy for new clients and that the micro finance institution has a baseline lending policy to new clients as indicated by a mean of 4.82 and mean of 4.31 respectively. Respondents also agreed that limiting the amount of credit reduces cases of bad debt in case the borrower fail to pay (mean=3.69) and that the microfinance institution determines loan limit using past credit history (mean=4.11). The findings agree with Thuku (2017) whose study established that loan limit has significant effect on loan performance of financial institutions.

Collection Policy

The fourth objective of the study sought to establish the effect of collection policy on financial performance. Data was collected through the Likert-scale measuring the level of agreement of the respondents with respect to the given aspects of collection policy. The results are as presented in Table 4:

Table 4: Collection Policy

	Mean	Std. Deviation
The services of private collection agents on borrowers is used by the microfinance	2.50	.907
Microfinance policy reporting is prompt and effective	4.06	1.104
Microfinance has a department which carries out collection enforcement	4.76	.619
The Microfinance collection policy is effective and dynamic	4.03	.456

The results in Table 4: have revealed that respondents disagreed to the statement that microfinance uses the services of private collection agents on borrowers as indicated by a mean of 2.50. However, they agreed that that microfinance policy reporting is prompt and effective (Mean=4.06). Respondents agreed that microfinance has a department which carries out collection enforcement (mean=4.76) and that the microfinance collection policy is effective and dynamic (mean=4.03).

Multiple Regression Analysis

Multiple regression was adopted to determine how input variables predict the target variable, which is, financial performance. Findings for multiple regression analysis are presented in Table 5: 6: and 7:

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.780[a]	.608	.537	2.34701

a. Predictors: (Constant), Collection policy, Loan limit reduction, Adverse credit listing, Fines and penalties

From the model summary results in Table 5: the value of coefficient of correlation (R) was 0.780, while the value of coefficient of determination (R^2) was 0.608, the value of the adjusted R^2 was 0.537. The R^2 value of 0.808 suggests that the overall model as a whole could significantly explain approximately 60.8% of the variance in financial performance of MFIs.

Table 6: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	163.071	4	40.767	17.107	.000[b]
	Residual	104.859	44	2.383		
	Total	267.930	48			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Collection policy, Loan limit reduction, Adverse credit listing, Fines and penalties

An F-test was used to test the statistical significance of the regression equation. The regression was statistically significant (F=17.107, p <.005).

Table 7: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.371	.569		2.409	.001
Collection policy	.476	.205	.143	2.321	.000
Loan limit reduction	.394	.187	.065	2.106	.004
Adverse credit listing	.483	.256	.223	1.886	.009
Fines & penalties	.429	.235	.219	1.825	.015

a. Dependent Variable: Financial performance

From the coefficients table 7, when the unstandardized regression coefficients (B) were substituted to the multiple regression model specified for the study, the final predictive equation was;

$$Y = 1.371 + 0.476X_1 + 0.394X_2 + 0.483X_3 + 0.429X_4$$

The regression model indicates that financial performance would increase by 1.371, given that all the other factors are held constant at zero. Further, in the regression model it shows that a unit increase in collection policy would lead to an increase in MFIs financial performance by 0.476. A unit increase in loan limit reduction would lead to a positive increase in financial performance of MFIs by 0.394, and a unit increase in adverse credit listing would lead to an increase in MFIs financial performance by 0.483. Further, regression results showed that a unit increase in fines & penalties would lead to an increase in MFIs financial performance by 0.429. The predictors had significance levels of 0.05 and below implying that they had significant and positive effect on financial performance. The adverse credit listing had the highest effect on financial performance of Microfinance institutions in Mombasa County.

Discussion of Key Findings

The study used p-values to test hypotheses and achieve the objectives of the study. The first objective of the study was to establish the effect of collection policy on financial performance. Collection policy was found to have a positive and significant effect on financial performance of (β= .476, p < 0.05). This implies that a unit increase in collection policy would lead to an increase in MFIs financial performance by 0.476 holding other variables constant. Findings led to rejection of the

null hypothesis that there is no significant effect of collection policy on financial performance.

Second objective sought to investigate the effect of loan limit reduction on financial performance. Regression results revealed that loan limit reduction had significant positive effect on financial performance of (β= .394, p < 0.05). This implies that an increase in loan limit reduction by one unit increases financial performance by .394 units when collection policy, adverse credit listing and fines & penalties are kept constant. The findings agree with Thuku (2017) whose study established that loan limit has significant effect on performance of financial institutions. Findings led to rejection of the null hypothesis that there is no significant effect of loan limit reduction on financial performance.

The third objective sought to investigate the effect of adverse credit listing on financial performance of MFIs in Mombasa. Adverse credit listing was found to have a positive and significant effect on financial performance of (β= .483, p < 0.05). This implies that a unit increase in adverse credit listing would lead to an increase in MFIs financial performance by 0.483 given that fines and penalties, collection policy and loan limit reduction are held constant. Findings led to rejection of the null hypothesis that adverse credit listing has no significant effect on financial performance.

Fourth objective was to determine the effect of fines and penalties on financial performance of MFIs in Mombasa. Fines and penalties had a positive and significant effect on financial performance of (β= 0.429, p<0.05). This implies that an increase in fines and penalties by one unit leads to an increase in financial performance by 0.429 units when adverse credit listing, loan limit reduction and collection policy are held constant. Findings led to rejection of the null hypothesis that there is no significant effect of fines & penalties on financial performance of MFIs.

SUMMARY

The broad research objective was to investigate the debt recovery strategies and financial performance of Microfinance institutions in Mombasa County. The response rate was 94.2%.

Descriptive results on the objective that collection policy has an effect on financial performance of MFIs revealed that the Microfinance does not use the services of private collection agents on borrowers. The microfinance policy reporting is prompt and effective and it was also established that microfinance has a department which carries out collection enforcement and that the Microfinance collection policy is effective and dynamic. Regression results revealed that collection policy has a positive and significant effect on financial performance.

Descriptive results on the effect of loan limit reduction on financial performance showed that the deposit taking micro finance institutions have a maximum loan limits policy for new clients and that the micro finance institution has a baseline lending policy to new clients. Limiting the amount of credit reduces cases of bad debt in case the borrower fails to pay and that the microfinance institution determines loan limit using past credit history. Regression results revealed that loan limit reduction has a positive and significant effect on financial performance.

Descriptive results on the effect of adverse credit listing on financial performance of MFIs indicated that the micro finance conducts credit scoring on the borrower when granting loans to the clients and that adverse credit listing improves the precision of the signal about the quality of credit seeker. Information shared by the credit bureaus offers MFI imprecise knowledge of a borrower's likelihood of repaying. The MFIs collaborates with credit bureaus closely through information sharing. Regression results revealed that adverse credit listing has a positive and significant effect on financial performance.

Descriptive results on the effect of fines & penalties on financial performance of MFIs revealed that penalties on loans motivates borrowers to adhere to the payment plans of their loans and that the microfinance repossesses security provided to acquire loan from the borrowers. Also, the

microfinance undertakes auction of the borrower's assets to minimize loan loss and that the microfinance requires the guarantor to settle the loan amount due in case of default by borrower. Regression results revealed that fines & penalties has a positive and significant effect on financial performance.

CONCLUSIONS

The study concludes that collection policy has significant effect on financial performance of MFIs. It is concluded that the microfinance utilizes the private collection agents to recover outstanding amounts from the defaulting borrowers. Also the microfinance institutions have prompt and effective collection policy reporting. In addition to the collection policy, the MFIs have dedicated department which carries out collection enforcement.

The study concluded that loan limit reduction has significant effect on financial performance of MFIs. Also, the act of minimizing the amount of credit due to borrower reduces cases of bad debt in case the borrower failing to pay. The microfinance institution determines loan limit using past credit history. Micro finance institutions have a maximum loan limits policy for new clients and that the micro finance institution has a baseline lending policy to new clients.

The study concluded that adverse credit listing has significant effect on financial performance of MFIs. The deposit taking micro finance performs credit scoring on the borrower before issuing approval for loans. In many cases, the microfinance institutions collaborate with credit bureaus closely through information sharing. The MFIs, uses adverse credit listing to improve the precision of the signal about the quality of potential borrower and the information shared by the credit bureaus offers MFI imprecise knowledge of a borrower's likelihood of repaying.

The study concluded that fines & penalties has significant effect on financial performance of MFIs. By imposing penalties on loans, it serves to reduce the non-performing loans by making borrowers repay their dues for fear of penalization which could be costly on the loaners. In extreme cases, it was revealed that microfinance institutions retain collateral security and dispose-off when the borrower is at the purge of defaulting. When the collateral is not enough to cover for the outstanding amount, the MFIs move to auction the borrowers' assets to recover for the loan and also activates mechanism to recover outstanding loans from the loan guarantor.

RECOMMENDATIONS

The study recommends that the management of MFIs should make use of private collection agents to help the institutions recover outstanding loan amounts from the non-paying borrowers. The use of these private collectors has a potential to recover the bad debts as they have unique deterrence measures which are not allowed in the MFIs sector. In addition, the MFIs should invest in collection policy reporting which is prompt and effective. Also the MFIs should dedicate a whole department to handle loan recovery functions.

The study recommends that the management of MFIs should make prudent decisions geared towards reducing the amount of credit due to borrower. This would greatly reduce the damage by the MFIs in case the borrower defaults. More precisely, the MFIs should base their decisions on whether to give loan or to decline based on the borrower past credit history. The Micro finance institutions should set maximum loan limits policy for new clients.

The study recommends that the microfinance institutions should carry out robust credit scoring on the potential borrowers prior to loan issuance to minimize chances of default. Also the study recommends that the MFIs should seek mutual collaboration with credit reference bureaus by sharing information crucial to weed out borrowers with bad credit scoring. This would enhance MFIs' precision on borrower standings.

The study recommends that the management of microfinance institutions should strictly impose penalties and fines on defaulting loans as it was found to have a significant effect on financial performance. The penalties and fines should be geared towards reducing the amount of non-performing loans as it triggers borrowers to rush to clear the amounts due. The MFIs should dispose loan collateral security and in other cases should seek to dispose-off borrowers' assets to recover outstanding loans. The MFIs should recover default amount for the loan guarantors.

Suggestions for Further Studies

The current study was limited on investigating the effect of debt recovery strategies on financial performance of MFIs. The debt recovery techniques adopted in the current study accounted for 53.9% change in financial performance. This shows that there are other debt recovery strategies which were left out in the study and have a potential to affect financial performance of MFIs. This call for further research to unearth the other debt recovery techniques and establish their effect on financial performance of not only MFIs but also other financial institutions.

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