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Account transaction And multiple quarantors as Debt Recovery Strategies: Loan Performance By Women In Kenya

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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. Given that microfinance institutions derive revenue from interest on loans to small and medium-sized entrepreneurs, the effectiveness of their credit management systems is crucial for their success. The specific objectives included evaluating the effect of account transactions, and multiple guarantors on loan performance by women banking of Kenya Women Microfinance Banks in South Rift Region, Kenya. The study was grounded in transaction cost theory, customer-supplier relationship theory, and stewardship theory. Descriptive research design was used. Target population was139 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. Sample size was 103 selected using simple random technique with the aid of Krejcie and Morgan (1970) 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. The study adhered to research ethics, including obtaining informed consent from respondents. 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 to review their guarantor model.
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INTRODUCTION

In India, Mirpourian, Caragliu, Maio, Landoni, and Rusina (2016) contend that, loan repayment rates improve as borrowers approach the maximum available loan limit. The authors recommend that borrowers should be motivated to reach this maximum level, as it correlates positively with repayment performance. Lewis (2018) contends that mitigating systemic credit risk and enhancing borrowers' creditworthiness are fundamental prerequisites for increasing and sustaining market-based lending. Additionally, Astawa (2018) suggests that while entrepreneurship training, including business development, entrepreneurship, and marketing skills, is valuable, it does not directly impact loan repayment rates. 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. The author further argues that many deposit-taking banks prioritize liquidity management to maintain profitability. 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).

Worokinasih and Potipiroon (2019) emphasize the significance of social capital in establishing mutual trust between lenders and borrowers, contributing to the reduction of loan delinquency rates in Indonesia. They also found that business performance serves as a mediating variable in the correlation amid independent and dependent variables. Atikah (2020) argues that Indonesia has been focusing to three areas in improving loan performance namely, Understanding the customers' creditworthiness prior to advancement of any credit, automation of collections and real-time monitoring of customers' activities. 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).

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). Baidoo, Yusif and Ayesu (2020) argue that there is a positive correlation between financial literacy and loan repayment, the level of education, years of experience in business, business performance borrowers' age as well as other income not from the main business such as farming, and employment income have positive impact loan performance. The study further established that marital status and gender of borrower did not influence loan repayment. 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 loan performance. Conversely, borrowers with enhanced financial literacy, a strong sense of social cohesion, and shared liability mechanisms tend to exhibit lower delinquency rates (Sangwan, Nayak, and Samanta (2020). Additionally, Sangwan, Nayak, and Samanta (2020) emphasize that the supervision of microfinance institutions is crucial in reducing loan delinquency.

Microfinance institutions relying on savings deposits for loan funds must also ensure sufficient cash reserves for both lending and withdrawals (Kinuthia, 2021). 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. 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 Ndung'u (2021).

Rwanda has employed artificial intelligence in debt recovery that has resulted in efficiency in loan performance, (Dushimimana, Wambui, Lubega & McSharry, 2020). The author's artificial Intelligence model has been able to automatically compute the loan qualification limits for various customer 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). Financial institutions have put in various debt recovery strategies aimed at improving loan performance as argued by Bika, Subalova and Locke (2022). 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) Thomas, George, Godwin, and Siby (2023) emphasize the significant influence of financial literacy, risk perception, and materialism on young adults' intention to default on loans. However, they found that emotions and indebtedness do not have a notable impact in this regard. 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.

Loan Performance

Loan performance, as defined by Rababah (2015), encompasses multiple dimensions of lending, including the rate of return on different types of advances. The author argues that it involves evaluating factors such as the volume of loan applications, loan amounts, punctual repayment of installments, collateral offered as loan security, diversity of loan products available, and the efficiency of recovering overdue payments. The non-performing loan is considered a suitable measure of loan performance since it objectively indicates the level of loan performance, (Rajha, 2016). Abdirashid and Jagongo (2019) also measured loan performance using loan default rates timely payments and irrecoverable loans.

Ndichu (2021) defines a nonperforming loan as one that has fallen into default due to the borrower's inability to keep up with the agreed-upon payments within a certain timeframe. Loan performance reflects the financial stability of any banking institution regarding the management of its issued loans across different sectors. Ensuring revenue or interest income is crucial for financial institutions, prompting them to implement measures that safeguard their profits and loan recoveries (Didier, Huneeus, 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. Ndichu (2021) argues that loan performance is evidenced by the percentage of loans repaid as per loan repayment schedule, the return on loan portfolio, high repayment rate and number of bad debts or the proportion of loan that written off. Karanja and Simiyu (2022) in their study utilized the loan default rate as a measure and the extent of improvement in loan performance over the years in measuring loan performance. The researcher found out that, to improve loan performance, lenders have been contacting customers frequently to remind them of overdue loan obligations, especially the known defaulters. Millan, Kamau and Ibua (2023) measured loan performance in terms of liquidity position, level of non-performing loans and loans to core capital ratio.

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.

Debt Recovery Strategy

Mersland and Strom (2012) argue that financial institutions require their clients to maintain certain minimum balances in their accounts. These balances have been applied when determining the loan qualified and often referred to as loan multiplier. 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). 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).

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). This study used multiple guarantors as a strategy that microfinance institutions use in debt recovery. It is measured using social screening, group loan advances, group mentoring and joint liability. 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 guarantor model works as a social collateral and informed and alternate person in the event of loan default. 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.

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). 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). Choosing the most suitable debt recovery method involves evaluating the costs and advantages of each method, considering factors such as duration that have past 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 and use of multiple guarantors. 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).

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. 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). A debt recovery strategy is a comprehensive plan designed to collect outstanding debts owed to an individual or organization. This strategy involves a series of coordinated actions to recover overdue payments. It begins with assessing outstanding debts by identifying overdue accounts, understanding the nature of the debt, and evaluating the debtor's financial situation. 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).

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). The idea for joint liability group lending was to get rid of the guarantor problem. The group members can guarantee each other in the group. 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). 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. A guarantor pledges to repay a borrower's debt if the borrower fails to fulfill their loan obligations. 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).

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). 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. Continuous monitoring and follow-up are essential to track recovery efforts, adjust strategies as needed, and ensure compliance with agreements or court orders. 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).

In measuring the use of multiple guarantors as a debt recovery strategy, social screening, group loan advances, group mentoring, and joint liability were employed. Social screening involves assessing potential borrowers based on their social and behavioral characteristics to ensure they meet specific criteria before receiving a loan. This method, often used in microfinance and community-based lending, helps ensure that borrowers are reliable

and capable of repaying their loans, thereby improving the likelihood of successful repayment. Group loan advances refer to loans provided to a group of borrowers who share the responsibility for repayment. When applied with multiple guarantors, these guarantors are typically part of the group, collectively bearing the responsibility for the loan. This shared liability creates a support network where group members assist each other in meeting repayment obligations, which can enhance repayment rates and reduce the risk of default. Group mentoring involves providing guidance and support to both borrowers and their guarantors to improve financial management and repayment strategies. This support may include financial education, strategic advice, and practical assistance, which helps both parties manage their finances more effectively and adhere to repayment schedules, thereby increasing the likelihood of timely loan repayment. Joint liability denotes a situation where multiple guarantors are collectively responsible for the loan repayment. If the borrower defaults, all guarantors are legally liable for the entire amount. This arrangement increases the pressure on guarantors to ensure repayment, as they are all accountable for the debt, thus motivating them to support the borrower and enhance the chances of successful loan repayment.

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 baking 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 of 2017-2022). 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.

Objectives

1. To determine the effect of account transactions on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.

2. To establish the effect of multiple guarantors on loan performance by women banking at Kenya Women Microfinance Banks in South Rift Region, Kenya.

LITERATURE REVIEW

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 is adopted in this study to anchor the independent variable, account transaction. 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.

The account transactions performed by women entrepreneurs act as building of trust and relationship between the lender and the customer. The accounts transactions performed by the account holders permit the lender to understand the borrower better before advancing a credit facility to them. According to the theory, a transaction occurs when a transfer of goods or services between separable interfaces. Similarly, in this study, in the event of default, the assets held as collaterals are transferred between the borrowers and the lenders and the obligation is transferred to the guarantors. This theory anchors account transactions and auctioning of assets. The women borrowers are required by the lenders to develop a relationship them through account transactions prior to being advanced with credit. The relationship required to be built prior to loan advancement is one way of building trust to ensure loan repayment.

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.

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 unfvorable 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 usefull 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.

Account Transactions and Loan Performance

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 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 cost, mobile banking and account balances.

Sonenshein, Herzenstein, and Dholakia (2020) conducted a study to evaluate how accounts influence lending decisions by enhancing perceived trustworthiness. A correlational and experimental research design was adopted and targeted banking employees as participants. Through field data and experimental outcomes, the study revealed that lenders base their lending decisions on the accounts provided by borrowers. Additionally, peer-to-peer lending was found to increase the likelihood of favorable lending decisions. However, despite positively influencing the loan decision process, accounts were found to have a negative predictive effect on 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 in a month, and only 37% of the households with savings account had deposited money in their account 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 in current study was account transactions.

Millan, Kamau, and Ibua (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. The study focuses solely on Deposit taking savings and credit cooperatives in Mombasa County, which may limit the application of this findings in microfinance institutions. This study was carried out in microfinance institutions, to provide a broader perspective.

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.

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 are sourced from other means. The study was focused on guarantors in terms of social screening, group loan advances, and group mentoring within the microfinance context.

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.

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. The study suggested that follow-ups are essential to address non-repayment of loans. This study was conducted in Tanzania, a more similar study will be conducted to understand how the use of multiple guarantors affects loan performance in Kenyan context.

METHODOLOGY

A descriptive research design was used with a target population of 139. Census was used and open and closed questionnaire was used to collect data. 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. Validity of research instruments was determined by experts. Internal consistency of the instrument was assessed using Cronbach's Alpha method. The coefficient of reliability was 0.8889 which was more than a threshold of 0.7 hence the instrument was refillable

RESULTS

Table 1. Account Transaction and Loan Performance

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

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 a 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 transactions had effect loan performance as shown by a mean of 4.53. Aggregate mean of 4.34 shows that baking terms, minimum account balances low operation cost and mobile banking affect account transactions but which in turn cause low variation in loan performance as indicated by aggregate standard deviation of 0.785.

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. The research results are similar to the findings by Millan, Kamau, and Ibua (2023), who established a significant effect of mobile banking technology on loan performance.

Table 2. Multiple Guarantors and Loan Performance

	Mean	SD
Group loan advance increases 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 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 use of multiple guarantors has led to improved loan performance.	4.52	.611
The lender has allowed the women to screen themselves to reduce defaulted loans.	4.56	.657
Aggregate	**4.46**	**0.678**

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 means 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 do very 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.

Multiple guarantors improved loan performance, the lender provided borrowers with the opportunity to screen themselves to reduce the defaulting of loans, (mean of 0.456) which in turn did not vary much (standard deviation of 0.657). The aggregate mean of 4.46 showed that auctioning, involvement of clients in auctioning and cost of auctioning effected 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.

Table 3. Loan Performance.

	Mean	Std. Dev.
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
Aggregate	**3.71**	**0.972**

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" as shown by mean of 3.62 shows that borrowers were satisfied with the loan services provided by Kenya Women Microfinance Bank. In contrast, 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. 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 the 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 a standard deviation of 0.981. The aggregate mean of 3.71 shows that debt collection strategy influence loan performance whose variation was 0.972 as reflected by aggregate standard deviation. 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.

Table 4. Analysis of Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.972	.419		-2.319	.022
	Account transaction	.286	.126	.186	2.270	.025
	Multiple guarantors	-.008	.165	-.005	-.051	.960

a. Dependent Variable: Performance

Source: Research Data, (2024)

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

Where:

Y=Loan Performance

X_1= Account transaction

X_2= Multiple guarantors

According to the regression equation above, taking all variables, Account transaction and multiple guarantors loan performance by women banking in Kenya Women Microfinance bank would be -0.972. When multiple guarantors are held constant, one-unit increase in account transactions results in a 0.286-units increase in loan performance and with a p-value of 0.025, it was statistically significant at 0.05 level of significance. Conversely, holding Account transaction constant, a one-unit increase in multiple guarantors results in a 0.008-unit decrease

in loan performance. It's p-value of 0.960 which is less than 0.05 Shows that the variable was statistically insignificant to loan performance.

Contributions to the Study

This research was of importance to Kenya Women Microfinance Bank, policy makers, researchers, and scholars. It provided 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.

Manager

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 included 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.

Microfinance institution

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.

CONCLUSION

The study highlights key recommendations for microfinance institutions (MFIs) to improve loan performance through strategic interventions. Given the strong positive correlation between account transactions and loan performance, MFIs should encourage and incentivize account transactions by offering rewards, providing financial education, and simplifying banking requirements. Additionally, to address concerns regarding high account operation costs, institutions should enhance transparency in fee structures, fostering trust and customer satisfaction.

To improve trust and accountability in asset auctioning, banks should enhance transparency by clearly communicating auction schedules, explaining decision rationales, and engaging borrowers in the process. Since the cost of auctioning is perceived to be high, efforts should be made to optimize efficiency by reducing fees, streamlining procedures, and leveraging technology to lower overhead costs. With strong support for group loan advances, banks should expand group lending programs by providing better training, increasing access to larger loan amounts, and ensuring fair credit distribution. Continuous monitoring and evaluation should be implemented to assess mentoring quality, track repayment rates, and gather participant feedback to enhance program effectiveness.

Recognizing the importance of collateral in loan processes, financial education programs should be introduced to educate borrowers on collateral options and responsibilities. To enhance credit access, especially for women, banks should diversify acceptable collateral beyond traditional assets to include savings, jewelry, or community guarantees. Lastly, to improve timely loan repayment, microfinance institutions should enhance communication on repayment expectations, offer financial education, and provide regular updates. Monitoring non-performing loan rates through risk evaluation and adaptive recovery strategies will help maintain a stable loan portfolio. By implementing these recommendations, microfinance institutions can strengthen loan performance and foster long-term financial sustainability.

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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