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Debt Collection Strategies and Financial Sustainability of Mobile Lending Firms

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Abstract
The importance of this study was to improve the financial performance of mobile lending firms which are ever increasing while many of them are struggling with high loan default rates which will eventually negatively affect the sustainability of all mobile lending firms. The study methodology applied was cross sectional, descriptive and correlational survey designs using both quantitative and qualitative research approaches. The target population of the study was 900 respondents but the selected sample size used in the study was 269 respondents. Data collected was both primary and secondary which was analyzed using both descriptive and inferential statistics. The major findings of the study indicated that there is a need to improve on credit recovery efforts to ultimately enhance the firm's income and minimize losses, credit collection strategies should encourage borrowers to repay their debt rather than antagonizing them and ineffective financial management policies can eventually cause inefficiency in financial services. The study proposes further research to be conducted on the effect of government regulations on performance on sustainability of mobile lending firms.
Keywords: Debt Collection, Financial, Mobile Lending, Performance, Strategies

Literature Review
Mobile-based credit lending firms are companies that provide financial services to people who cannot access credit facilities from mainstream MFIs and banks. The evolution of mobile-based credit firms has been largely attributed to strict requirements on the side of MFIs and banks in the form of collaterals and guarantors. It is approximated that about 60% of Kenyans are low-income earners and therefore they would often borrow loans from these mobile credits to supplement their budgets (CBK, 2020).

Credit collection mechanism refers to a set of harmonized, suitable, and appropriate

framework and guidelines that are used to ensure that there is full repayment of loans by the borrowers. Credit collections mechanism needs to have close contact and interaction with their clients, and this should be undertaken right from loan appraisal stage until the last repayment by the client. Repayment structures should be tailored to suit particular client. They should provide supportive environment to make timely and convenient repayments. There should be proper recording of all credit activities to facilitate constant monitoring, control, and correction measures to ensure that credit borrowers are corresponding to the loan agreement thereto (Branchfield, 2004).

Inadequate credit risk management framework and policies is the primary cause of much mobile-based credit lending company's performance. In Kenya, mobile credit lending firms play a very significant role in rallying up financial resources by spreading credit facilities to various micro small and medium enterprises and individuals who might not be eligible to access loan facilities from mainstream financial institutions. The extension of credit to the customers is an important activity to mobile credit firms, therefore, highlighting the importance of efficient management of credit risk in these firms (Ranong, 2009).

Debt Collection Strategies are very critical in controlling accounts receivable. Efficient credit collection strategies make firms successful in their ventures. Firms should have efficient collection strategies as this will enable them to assess the guidelines in place at their firms. Collecting debtors' information is very essential in developing a positive relationship with the lender. Credit firms should encourage slow paying debtor to hasten their debt repayment. There is also the need to address debtors' concerns and responses in their inability to repay their loans on time, this should be done through meaningful conversation and being friendly to the clients and this ensure that they keep repayment schedule on time (Lewis, 2005).

Montana (2005) notes that for debt collection strategies to be efficient, collection unit should be commissioned. The unit should have a clearly defined duties, and guidelines to give guidance in the credit collections process. It provides a guiding framework that helps in collection of debts in particular cases. Such strategies should include contact policies that will include precautionary mechanisms, such as a payment reminder alongside plans characterizing dates of future contact and the means to be taken during debt collection.

Martha (2012) analyzed how debt collection strategies could impact on the financial performance by focusing on the local authorities in Kenya. It was established that the best credit collection strategy is one that involves subcontracting the credit collection process to a third party to act on behalf of an underlying firm. The study recommended a more friendly strategy of collecting credit as opposed to the retrogressive one.

A study was done by JE Chiriani-Cabello & MA Alegre (2017) on credit collection policies and their impact on the financial sustainability. Quantitative research approach, non-experimental cross-sectional and descriptive design were applied. Data was compiled from 234 companies classified as MSMEs. The research data was processed by the use of Microsoft Excel (2013) and descriptive statistics used. The research noted that 70% of the respondents either do not know any type of credit policy. It emphasized on the need to have a credit policy that will help a company in recovering credit granted to the borrowers.

Mary (2012) did a research to determine the link between credit collection policy and the loan repayment on MFIs in Meru County, Kenya. The research adopted descriptive research design. The study sampled 70 participants consisting of credit officers of MFIs in Meru County. Findings from this study indicated that stringent collection policy influence loan repayment performance as compared to lenient collection policy. The research concluded that credit collection policy has a positive impact on loan repayment.

Jarvis et al (1996) posited that different institutions have different credit collection mechanism. However, there is a commonality in the factors that contributes to their ineffectiveness. Notably, lack of efficient and punitive measures in the case of default, delayed payment or nonpayment.Inadequate staff that would ensure strict implementation of credit measures could negatively affect the overall financial performance of a firm, (Nyanumba, 2010).

Subcontracting of loan collection strategy has a number shortcomings such as; collection agencies lacking experience in debt collection. Additionally, they might pay little or no interest to create a good client relationship and this could lead client-lender poor relations that even hamper their communication. Such strategies can also lead to loss of confidentiality on information by introducing a third party. The third party credit collections agencies may not observe the set ethical status quo standards proposed by the firm. These may negatively affect the debt collection process (Brachfield, 2000).

There are approximately 49 mobile credit lending firms in Kenya (FSDK 2019). They can be traced to 5 years ago when they came in due to the gap between mainstream financial institutions and credit consumers. Their contribution to Kenya's economy is immense and therefore they cannot be underrated purely because they supply credit to a larger share of the population cumulatively.

Lending represents a very core part of the mobile-based credit lending firms in the banking subsector and credit facilities remain the most coveted assets since they generate the most income as compared to other income-generating activities. Credit facilities are nonetheless considered to harbor the greatest risk among mobile credit lending firms and any other financial institution. Kenyan mobile credit lending firms are faced with lots of financial problems in terms of credit risk with many of their credit customers failing to fulfill their financial obligation (Lucia, 2021).

The collapse of Tala Company limited in Tanzania (CBT Report 2019) and the economic challenges in terms of lending by the Kenya credit lending firms could probably be attributed to credit risk management practices. The report indicated that about 380,000 customers have since defaulted on their loans, due to the CRB listing. According to Njenga (2019), Tala face financial challenges and, in his report, paints a grim picture of a struggling mobile lending sector in Kenya. About 14 million Kenyans have been listed in the CRB because of their inability to pay back the loan advanced to them (CBK Report, 2019).

In Kenya the interest rates charged by Digital Lending firms are relatively higher in comparison to the interest rate charged by other financial institution. The bank’s interest rate charged has been capped to 4 points above the rate by Central Bank and was therefore maintained at 9-

10% (for a total of about 13–14% interest rate per annum) since the cap was instated (Central Bank of Kenya, 2016).

On the other side of digital lending, Equity's Eazzy Loan charges an interest rate of 14.5 % with an addition of 1% as insurance fee; Safaricom's M-Shwari charges 7.5% interest per month; and KCB M-Pesa lends at an interest of 3.91% per month. Despite these type of loans charging high interest rates and helping customers who are experiencing liquidity constraints in their time of need (Karlan & Zinman, 2010; Morse, 2011), they also have negative effects which in the long run causes bankruptcy and over-indebtness (Skiba & Tobacman, 2009), causing challenges in loan repayments (Melzer, 2011).

Financial Intermediation Theory
This theory asserts that Financial intermediaries are introduced to minimize the costs of transactions costs in mobile lending. Financial intermediaries are institutions and individuals which acts as the middleman in the business financial transactions. They act as institutions which offers the channel for the transfer of funds between the savers and the investors. A financial intermediary writes a separate contract with the surplus spending unit and deficit spending unit, providing each some economic value. Financial intermediaries hold direct claims on deficit spending units as financial assets and issue direct claims to surplus spending units as liabilities. The financial intermediation theory is relevant to this study as it points out the significance of intermediation as a value creating economic process (Medoff, 2002).

Methodology
The study was conducted through a cross – sectional, descriptive and correlational survey designs using both quantitative and qualitative research approaches. Combining the two methods pays off in improved instrumentation for all data collection approaches and in sharpening the evaluator understandings of findings, (Patton, 2002).

Cross-sectional research design helped the researcher to collect data of both independent variable and dependent variable at one time in moment across the respondence and then compare how they relate.. Descriptive survey research design helped the researcher to obtain important information concerning the status of phenomena and in drawing a general conclusion where from the facts that were discovered. According to Role (2013), descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individual's respondents. Correlational research design helped the researcher to determine whether there is any significant relationship the independent and dependent variables (Kothari, 2011).

Target Population
This is described as a total number of participants in who the researcher has an interest. Mugenda (2012) defines a population as being a group of people, facilities, events, groups of homes that were under investigation by the researcher. The units of analysis comprised managers, sales managers, and agents. The study targeted 900 employees of Kenyan-based credit lending companies obtained from Financial Sector Deepening Kenya 2019. It was estimated that each mobile lending company in Kenya had an employee base of 90. This study targeted selected 10 mobile lending firms since they tend to exhibit homogenous

characteristics. They include Tala, Branch international, Zenka, Okash, Opesa, Timiza, Ikash, Mkey, Eazzy loans, Jiinue Loans

Table 1.1 Target Population

Respondents	Target population
Board of directors	48
Managers	127
Sales agents	348
Staff	20
Debt collectors	195
Members/shareholders	202
Total	**900**

(FSD Kenya) 2019

Sample Size

The sample size is the real number of members exposed to concentrate by the analyst. The sample size of 269 members was chosen based on Krejcie and Morgan Table (1970).

Table 1.2 Sample Size

MBLF	Board of Directors	Managers	Sales Agents	Debt Collectors	Shareholders	TOTAL
Tala	2	5	10	7	4	28
Branch	2	4	11	5	5	27
Zenka	2	4	7	6	4	23
Okash	2	5	10	6	3	26
Opesa	2	5	11	7	2	27
Timiza	2	5	8	9	4	28
Ikash	2	6	12	7	3	30
Mkey	2	7	10	6	3	28
Eazzy loans	1	5	10	5	5	26
Jiinue loans	1	8	4	7	6	27
Total	18	54	93	65	39	269

Source DLAK (2019)

Data Collection

The study utilized both primary and secondary data. Questionnaires were employed to obtain primary data while secondary data was obtained from annual financial statements. The questionnaires were distributed among the respondents. Upon collection from the respondents, the data was coded and subjected to analysis. The study also used secondary data for purposes of triangulation. Data was collected from secondary sources which included

the mobile lending firms statistical information and financial statements for the period 2017 to 2020.The data obtained included credit accessibility ratio, credit capacity, credit analysis reports, payment periods, default ratio, and profit before and after-tax and expense ratios.

Validity

Validity describes how best the data collected covers the subject of interest in a study (Ghauri and Gronhaug, 2005). Saunders *et al* (2007) posits that construct validity is the degree to which the measurement questions measure the presence of those constructs one intended to measure. The research study used construct validity to develop a questionnaire, which was subdivided into several sections to ensure that every information gained and accessed, works for a specific objective and ensures that the same is closely tied to the conceptual framework. The opinion of the experts were sought in the development of the questionnaire to ensure it collects the relevant data to answer the research questions.

Reliability

Reliability can therefore be defined as the ability of a questionnaire to give consistent results when repeatedly subjected to the same scenario (Schumacher & Macmillan, 2010). Reliability is the ability of a phenomenon to give similar results when subjected to a particular test over and over again by that research instrument (Cronbach 1971). The reliability of an instrument and its ability to provide accurate depiction. Any instrument is considered valid if it can measure what it is intended to measure. Data obtained were then coded and processed in SPSS Version 26. The research instruments showed co-efficiency of 0.908 using Cronbach alpha which is above the threshold.

Table 1.3 Reliability Statistics

Variable	Cronbach's Alpha
Credit Terms	0.939
Credit Analysis	0.904
Credit collection Strategies	0.892
Government Control	0.898
Average	0.908

Discussion of Results

Response Rate

The questionnaire showed a response rate of 70.2% because of the 269 questionnaires given out only 189 were returned and were duly filled. A response rate of 50% is adequate, 60% is good, 70% very good a research presentation. Mugenda (2003) postulated that a response rate of 90% is recommendable for the study.

Table 1.4 Response rate

Respondents	Sample size	Percentage
Response	189	70.27
Unresponsive	80	29.7
Total	**269**	**100**

Demographic Characteristics of Respondents

The study sought information on gender, level of employment, academic qualifications of respondents and the findings are as tabulated in table 1.5.

Table 1.5 Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	83	43.9	43.9	43.9
	Female	106	56.1	56.1	100.0
	Total	189	100.0	100.0	

Findings indicate that 43.9% of the respondents were males and 56.1% were females. The findings indicated that more females worked in mobile lending firms compared to males.

The study sought information on length of employment, of respondents and the findings are as tabulated in table 1.6.

Table 1.6 Level of Employment of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board of Directors	8	4.2	4.2	4.2
	Managers	54	28.6	28.6	32.8
	Sales Agents	89	47.1	47.1	79.9
	Debt collector	38	20.1	20.1	100.0
	Total	189	100.0	100.0	

The question on the category of employment in the organization under which the respondents work, findings showed 4.2% were boards members, 28.6% were managers, 47.1% were salespersons and 20.1% were credit collectors. The results implied that most mobile lending firms employees more sales agents to reach out to many customers.

The study had the objective of determining how credit collection strategy affects the financial sustainability of mobile lending firms in Kenya. The results are shown in table 1.7

Table 1.7. Credit Collection Strategies

Statement.	S.D	D	N	A	S.A
1. The company is more rigorous in credit collection.	13(6.9%)	6(3.2%)	19(10.1%)	140(74.1%)	11(5.8%)
2. There is a policy in place that guides the company in credit collection.	8(4.2%)	13(6.9%)	55(29.1%)	88(46.6%)	25(13.2%)
3. The management is ready to help and encourages us to work hard towards increased credit recovery efforts	5(2.6%)	7(3.7%)	13(6.9%)	125(66.1%)	39(20.6%)
4. It is not always expensive to recover the credit	6(3.2%)	14(7.4%)	33(17.5%)	116(61.1%)	20(10.6%)
5. There is a need to enhance recovery efforts of the credit to increase the company's income.	10(5.3%)	17(9.0%)	41(21.7)	108(57.1%)	13(6.9%)

Table 1.7 captured the results on credit collection strategies employed by mobile lending firms, it was indicated that 6.9% (13), strongly disagreed ,3.2% (6) disagreed, 10.1 % (19), neutral ,74.1% (140), agreed while 5.8% (11) strongly agreed respectively that the company is more rigorous in the collection of its due credit from its members. This, therefore, indicates that most of the respondents believe that their firms have a rigorous framework that aids in the collection of due credit. These findings imply that most of the mobile lending firms employ rigorous debt collection measures. The study findings agree with Kagoyire (2016), in his research on effect of credit risk management on the financial performance on commercial banks in Rwanda explained that stringent credit collection measures need to be adopted as opposed to lenient measures.

The findings on the aspect of an existing policy framework that guides in credit collection the results indicated that 4.2% (8) strongly disagreed, 6.9% (13) disagreed that there exist such guidelines in their firms, 29.1 (55) were neutral. Notably, 46.6% (88) agreed and 13.2 % (25) strongly agreed. This can be attributed to the level of communication and information sharing among all the employees in relevant companies. The implication of the findings was that their existed a credit collection strategy framework laid down by the mobile lending firms.

Further, the results showed that 2.6% (5) strongly disagreed, and 3.7% (7) disagreed that the management is ready to help and encourages an employee to work hard towards increasing their credit recovery efforts while 6.9 % of the respondents were neutral. However, 66.1 %(125) agreed and 20.6% (39) strongly agreed that management has put in efforts to boost their credit recovery morale.

The results also showed that 3.2 % (6) strongly disagreed that it is not always expensive to recover credit, 7.4 % (14) merely disagreed and 17.5% (33) indicated neutrality while 61.1 % agreed that it is not expensive to recover credit when 10.6% strongly agreed. The implication

of the findings was that most credit consumers borrow funds from mobile lending firms and honor their financial obligation when due.

The findings on the need to enhance credit recovery efforts, 5.3% (10) strongly agreed, 9.0% (17) strongly disagreed while 21.7% (41) were neutral on whether to increase recovery efforts on not. It was also found that 57.1% (108) agreed while 6.9 (13) strongly agreed that there is a need to enhance credit recovery efforts to improve on the firm's financial position and sustainability. The implication of the findings was that there is a need to improve on credit recovery efforts as that ultimately enhanced the firm's income and minimized losses arising from bad debts and thus able to sustain itself in the long run. The study findings agreed with Martha (2012) that involving a third party in debt collection can be the best strategy towards an efficient debt collection. Lack of effective financial management policies including credit collection can eventually cause inefficiency in financial services thus distracting the company from achieving its goals (Tehulu, 2013). Further, the findings agreed with Wambugu (2012) who argued that enhanced debt collection strategies can greatly affect the financial sustainability of mobile lending firms. Effective strategies translate to higher revenue. Appropriate credit collection should encourage borrowers to repay their debt rather than antagonizing them

Table 1.8 Regression Analysis on Debt Collection Strategy and Financial Sustainability
Model Summary

					Change Statistics				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.809[a]	.655	.653	.515	.655	354.355	1	187	.000

a. Predictors: (Constant), Financial Sustainability

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94.037	1	94.037	354.355	.000[b]
	Residual	49.625	187	.265		
	Total	143.661	188			

a. Dependent Variable: Debt Collection Strategies

b. Predictors: (Constant), Financial Sustainability

Co-efficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	95.0%Confidence Interval for B Lower Bound	95.0%Confidence Interval for B Upper Bound
1	(Constant)	.325	.182		1.790	.075	-.033	.684
	Financial Sustainability	.893	.047	.809	18.824	.000	.800	.987

a. Dependent Variable: Debt Collection Strategies

Table 1.8 results on the value of R squared 0.655 which is the relationship between the debt collection strategy and the financial sustainability of mobile lending firms. The value of R squared of 0.655 shows the relation of variance in the financial sustainability of mobile lending firms as shown by the credit collection strategy variable. Considering that the value of R squared would change upon additional predictors, the value of adjusted R squared, which was 0.653, was reliable. This shows a 65.3% change in the financial sustainability by credit collection strategy variable when all other factors are kept constant. The value of *R, 0.809* at *p=0.000*, measured the correlation between credit collection strategy and financial sustainability of mobile lending firms
Based on the findings the linear regression model took the form of;
Y=.325+0.893X
Where Y represents financial sustainability and X represents credit collection strategies. This means that holding other factors constant, a unit increase in credit collection strategies will result into 0.893 times increase in the financial sustainability of mobile lending firms Credit collection strategy had a statistically significant contribution to the financial sustainability of mobile lending firms ($B=.325, t=18.82, p=0.000<0.05$).

Major Findings
The studies major findings of the showed that there is a need to improve on credit recovery efforts to ultimately enhance the firm's income and minimize losses. Further, it was found that credit collection strategies should encourage borrowers to repay their debt rather than antagonizing them and finally ineffective financial management policies can eventually cause inefficiency in financial services.

Conclusion
The study concluded that debt collection strategies have a significant influence on the financial sustainability of mobile lending firms. The study found out that most debt collection strategies are not customer friendly and this tends to scare away potential credit consumers causing a possible long term negative impact on income generated by mobile lending firms.

Recommendations
The study recommended that mobile lending firms should develop a rigorous framework that aids in the collection of due credit. It was also recommended that an elaborate debt collection policy should be adopted by mobile lending firms to improve on the firm's financial position and sustainability. The study further recommended that digital lending firms to improve the way they deal with risk accruing from credit by improving their credit risk controls.

Further Study
The study proposed further research to be conducted on the moderating effect of government regulations on sustainability of mobile lending firms.

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