

**STRATEGIES USED BY HIGHER EDUCATION LOANS BOARD IN LOAN  
RECOVERY FROM BENEFICIARIES IN KENYA**

**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE  
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF  
BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF  
NAIROBI**

**NOVEMBER, 2015**

**DECLARATION**

This research project is my original work and has not been presented for award in any other University.

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## **DEDICATION**

This research project is dedicated to my parents; my father the late Mathias Asamba and Hon. Musavini Sakaya, my mother Jenipher Namaza, musimbi, Violet Ivacha and Mr.Galavu Timothy who had this dream of higher education since my early years. My Mum from Canada Beverly J Ford for the constant love, encouragement and financial support throughout my higher education.

The love of my life, Rodgers together with the entire Molenjes family who formed a perfect unit in supporting me in prayers and sacrificing both financially and time to ensure I succeed.

My loving sisters, Harriet and Ziphrose who encouraged me althrough when all seemed really tough.

And above all, I thank the Almighty God for his constant grace and mercies for the far I have come.

## **ACKNOWLEDGEMENTS**

One scholar once said that if he was able to see far, it was because he stood on the shoulders of others. My sincere gratitude goes to my academic supervisor Mr. Eliud O. Mududa for always providing persistent and constructive advice throughout the writing of this project

I wish to acknowledge my MBA friends, Joseph and Sandra for being resourceful academicians as we freely shared both academic and social facts. My appreciation goes to all HELB staff for providing useful information used in the study.

## ABSTRACT

The main challenge facing the Higher Education Loans Board today is how to effectively and efficiently recover loaned out funds in order to be able to fully execute its key mandate of supporting needy students pursuing higher education. Although the Board has made significant achievements in the area of loan recovery from the time it was established in 1995, a lot more needs to be done. As a result, the study seeks to establish strategies used by HELB in loan recovery from loan beneficiaries in Kenya. Specifically, the study sought to: identify various strategies that have been adopted by HELB and their roles in loan recovery seeks to establish strategies used by HELB in loan recovery from loan beneficiaries in Kenya. The study used a case study design. The target population for the study consisted of employees from the seven departments in HELB. With emphasis on the departmental heads from Higher Education Loans Board. Purposive sampling was used to select the study area as well as the interviewees of the study. On the other hand. The study used Interview guide was the main tool for data collection. The study found that continued contact and follow up approach system, loan tracking control system and early warning system were the main strategies adopted by HELB organization in debt recovery. Secondly, the study established that loan recovery strategies adopted have enabled the organization to recover most debts, enabled other key players like the employers to Cooperate with HELB in loan recovery, enabled the board to increase funding to more students, and enabled the organization to reduce debt rates and increase the revolving funds. The study also established that unemployment of the loan beneficiaries; uncooperativeness of some of the employers; brain drain due to some loan beneficiaries leaving the country and low paying jobs are the major challenges hindering loan recovery by Higher Education Loans Board. The study recommends that there is need to employ additional strategies that will ensure maximum debt recovery. For instance, HELB needs to put measures in place to recover funds from graduates who work in the diaspora. This can be done by working closely with the ministry of immigration in order to either ensure laws are enacted which enforces the payback of loans or other ways are devised to ensure a higher rate of loan recovery. Currently HELB has concentrated in putting up strategies to ensure that the employed graduates get to pay up their loans and have neglected to pursue graduates who have deviated into the Juakali sector. This study therefore recommends that equal efforts should be made to pursue the graduates who have ventured into the jua kali sector or started up their own businesses.

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENTS .....</b>	<b>iv</b>
<b>ABSTRACT.....</b>	<b>v</b>
<b>ABBREVIATIONS AND ACRONYMS .....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study.....	1
1.1.1 Strategy Typology .....	2
1.1.2 Concept of Strategy .....	4
1.1.3 Strategies Used by HELB Loan Recovery .....	6
1.1.4 Education Financing In Kenya .....	8
1.1.5 Higher Education Loan Board in Kenya .....	9
1.2 Research Problem.....	11
1.3 Research Objective.....	13
1.4 Value of the Study.....	13
1.5 Summary .....	14
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>15</b>
2.1 Introduction .....	15
2.2 Theoretical Foundation .....	15
2.2.1 Resource Based View.....	15
2.2.2 Agency Theory .....	17
2.3 Types of Strategies .....	18
2.3.1 Grand Strategies.....	18
2.3.2 Cost Leadership Strategy.....	19
2.3.3 Differentiation Strategy .....	20
2.4 Strategies Used In Loan Recovery .....	22
2.4.1 Confronting Built-in Over-Subsidization .....	24
2.4.2 Reducing Loans Repayment Default .....	25
2.5 Summary .....	26

<b>CHAPTER THREE:RESEARCH METHODOLOGY .....</b>	<b>27</b>
3.1 Introduction .....	27
3.2 Research Design.....	27
3.3 Data Collection.....	28
3.4 Data Analysis .....	28
3.5 Summary .....	29
<b>CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSIONS .....</b>	<b>30</b>
4.1 Introduction .....	30
4.2 General Information .....	30
4.2.1 Job Designation .....	30
4.2.2 Organization Existence.....	31
4.2.3 Duration of employment at the Organization.....	31
4.2.4 Number of Employees at the Organization .....	31
4.3 Strategies Used by HELB in Loan Recovery.....	32
4.3.1 Organization adopted strategies of acquiring bank loan .....	34
4.3.2 Effectiveness of Strategies Adopted For Loan Recovery In An Organization.	35
4.3.3 Institution reclaim back loan from beneficiaries .....	36
4.3.4 Institution in relation to loan recovery .....	36
4.3.5 Department Involved to Loan Recovery .....	37
4.3.6 Adoption of Management Programmes in implementation of strategic plans .	38
4.3.7 Trend of loan recovery from the inception of the board.....	39
4.3.8 Challenges encountered by HELB in loan recovery .....	40
4.3.9 Penalty imposed to loan beneficiary.....	41
4.3.10 Circumstances Leading to the Lifting of the Penalty .....	42
4.3.11 Communication Channels to the Loan Beneficiaries .....	43
4.3.12 Credit references influence on loan recovery .....	44
4.3.13 HELB Recommendations on loan recovery strategies.....	44
4.4 Discussion of the Study.....	45
4.5 Summary .....	47

<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>	<b>48</b>
5.1 Introduction .....	48
5.2 Summary of findings .....	48
5.3 Conclusion.....	49
5.4 Recommendations .....	51
5.5 Limitations of the Study .....	52
5.6 Suggestions for Further Studies .....	52
<b>REFERENCES.....</b>	<b>54</b>
<b>APPENDIX: INTERVIEW GUIDE.....</b>	<b>58</b>

## **ABBREVIATIONS AND ACRONYMS**

<b>CP:</b>	Commercial Planning
<b>CRB:</b>	Credit Reference Bureau
<b>HELB:</b>	Higher education loans board
<b>HELF:</b>	Higher Education Loans Fund
<b>HESLB:</b>	Higher Education Students' Loans Board
<b>JAB:</b>	Joint admission board
<b>KES:</b>	Kenya shilling
<b>RBV:</b>	Resource Based View
<b>ROK:</b>	Republic of Kenya
<b>USLS:</b>	University Students Loans Scheme

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Strategy is a difficult task for any management team, making that strategy work by implementing it throughout the organization is even more difficult (Hrebiniak, 2006). A myriad of factors can potentially affect the process by which strategic plans are turned into organizational action. Unlike strategy formulation, strategy implementation is often seen as something of a craft, rather than a science, and its research history has previously been described as fragmented and eclectic (Noble, 1999). Higher education students' loan schemes have been established in more than 60 countries around the world since 1940s in the situation where by a growing number of countries throughout the world, public resources are proving increasingly insufficient to finance tertiary education (Salmi, 2004). New approaches to management practices of loan recovery are imperative as the environment is becoming more complex and dynamic.

The study is guided by Resource Based View of the central premise of Resource Based View addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources. Clearly, these ideas are not new. During the last 50 years, many management academics have contributed to the development of this topic. For example, Schulze, (1994) idea of an organization's 'distinctive competence' is directed related to the RBV. Also, Chandler's (1962) notion of 'structure follows strategy', as well as Andrews' (1971) proposal of an internal appraisal of strengths and weaknesses, led to the identification of distinctive

competencies. Penrose argued that it is the heterogeneity, not the homogeneity, of the productive services available from its resources that give each firm its unique character. The notion of firm's resources heterogeneity is the basis of the Resource Based View.

From its inception, High Education Loan Board has faced difficulties in loan recovery because the public purse covered both the tuition and living expenses of the loanees thus loan beneficiaries regarded loans as grants with no obligation to pay. While current lending policy models have certainly started to reflect a shift away from traditional thinking about loans recovery at HELB, a systematic process for creating and sustaining improved performance that reflects changes in the environment is clearly absent and adapting new strategies in recovering loans. The guiding principles in any strategic management practices, whether in the public or private sector, are about understanding what strategies companies require for their contextual activities.

### **1.1.1 Strategy Typology**

Strategies revolve around two items; deciding where you want your business to go, and deciding how to get there. Porter argues that competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. These strategies aim at building, sustaining and outcompeting rival firms by anticipating and exploiting business opportunities. They include differentiation, cost leadership (low-cost focus), and focus strategy. Porter developed what he called the "Generic Business Strategies" which he saw valid to achieve competitiveness.

Cost leadership is one vital type of competitive strategy mentioned by Porter. It is sometimes referred to as low-cost focus. The sources of cost leadership are varied and depend on the structure of a given industry (Spulber, 2009). They may include the pursuit of economies of scale, proprietary technology, and preferential access to raw materials among others. Furthermore, a low cost producer must find and exploit all sources of cost advantage, and then it will be an above-average performer in the industry provided it can command prices at or near the industry average. Baur and Colgan (2001) argue that firms that implement cost-leadership strategies are in a good position to secure a relatively larger market share by being the lowest cost producers or service providers in their industries as compared to those that do not.

Generic strategy is the fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. Generic mainly do with the fundamental objectives to create superior customer value by focusing on everyone in the organization on customer's needs than on the competitors' products and services and also to create economic value for the owners of the business. Superior economic performance is the result of a strategy that creates superior customer value.

Focus strategy is also a vital generic business strategy suggested by Porter. This strategy rests on the choice of a narrow competitive scope within an industry. In this case a firm selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others (Shapiro and Varian, 2009). Conversely, a firm can choose to focus on a selected customer product range, geographical area or service line. This strategy aims at growing the market share through operating in a niche market. A successful focus strategy depends upon an industry segment large enough to have good growth potential but not of key importance to other major competitors (David, 2002). Porter denotes that companies in the same segment. The basic choice is between a broad target and a narrow target within the same segment. The narrow target is a well-defined market and the broad target is a large market defined in a wider perspective. However, Porter categorically states that it's quite difficult though not impossible for a firm that is determined to attain both (Porter, 2000). Lahtinen (2006) posits that the focus strategy.

### **1.1.2 Concept of Strategy**

Johnson and Scholes (2001) define strategy as the direction and scope of an organization over the long term which achieves advantage for the organization through its configuration of resources within a challenging environment, to meet the needs of market and to fulfill stakeholders' expectations. Mintzberg et al (1999) defines strategy as the pattern or plan that integrates an organization's major goals, policies and action sequences into a cohesive whole. They view strategy as a ploy, pattern, position, plan and perspective. Strategy as a ploy is the action taken by an organization with the intention of outwitting its rivals. As a pattern, strategy emerges without preconception from a series

of actions visualized only after the events it governs. Strategy as a position is a means of competitively positioning an organization in its external environment. As a plan, strategy specifies a deliberate course of action designed before the action it governs, while as a pattern strategy reveals an organization's perception of the outside world.

According to David (2007), strategy can be described as the unique and distinctive actions that a company takes on the organizations value chain to achieve a competitive advantage that will contribute to greater net profitability. Strategy can be divided into different levels and in most organization there are several levels of strategy. Strategic management is the highest level since it is the broadest, applying to all parts of the firm. It gives direction to corporate values, corporate culture, eight corporate goals and corporate missions. Under this broad corporate strategy there are often functional and business unit's strategies. Functional strategies include marketing strategies, financial strategies, legal strategies and information technology management strategies.

Many companies consider a functional organizational structure as an efficient way to organize activities so they have reengineered according to processes or strategic business units (SBUs). SBU is a semi-autonomous unit within an organization; it is usually responsible for its own budgeting, new product decisions, hiring decisions and price setting. Each SBU is responsible for developing its own business strategies, strategies that must be in tune with the broader corporate strategies (Drucker 1954).

According to Hough et al. (2008), a company's strategy consists of the competitive moves and business approaches that managers are employing to grow the business, attract and please customers, compete successfully, conduct operations and achieve the targeted levels of organizational performance. Hill and Jones (2001) give an all-encompassing definition of strategy: "A strategy is an action that a company takes to attain one or more of its goals, the overriding goal being to achieve superior performance". There seems to be agreement that one cannot be strategic about the past. Strategies tend to be both proactive and reactive, depending on the market conditions and will evolve over time, as companies endeavor to stay ahead of their competitors in terms of market share, profitability and customer service. Even though the focus of this research is more on strategy implementation than formulation, it is important to review how implementation fits into the broader strategic planning process.

### **1.1.3 Strategies Used by HELB Loan Recovery**

Loan recovery is the reclaiming back of loan from former beneficiaries (Kipkech, 2011). A default occurs when the borrower does not make the required payments or in some way the borrower does not comply with the terms of a loan (Altman and Andrea 2001). HELB gave a penalty amnesty to its past students loans defaulters to pay their loans less penalty in a lump sum payment. Khan and Ahmed (2001) argued that some lending institutions factors that related risk management structures put in place by lending institutions were to blame for loan defaults. When loans are not performing the quality of assets declines and can affect the asset base of a bank and affect the banks' ability to lend further (Ndung'u, 2007).

According to Ontana (2012), HELB debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their debt collection/recovery. Following some of the recommended bank debt recovery tips, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues. By proactively reaching customers early, you can prevent larger problems later.

According to African economic outlook (2005), the following can be used to reduce debt recovery problems of HELB loan recovery; use of reminders has proved to be a good measure to encourage debtors to pay up their debts by email and SMS. The advent of Credit Reference Bureau (CRB) has brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks.

#### **1.1.4 Education Financing In Kenya**

The history of the Higher Education Loans Board dates back to 1952 when the then colonial government awarded loans under the then Higher Education Loans Fund (HELF) to Kenyans pursuing university education in universities outside East Africa notably Britain, the USA, the former USSR, India and South Africa. Students who were pursuing university education in universities outside East Africa and were not on scholarships were advanced loans by the then government against securities such as Land Title Deeds, Insurance policies and Written Guarantees. However by 1974, provision of education in general had expanded dramatically as a result of the heavily subsidized primary and secondary education and the general yearning for education by most Kenyan families. Consequently, the number of students seeking university education had grown to an extent that it was becoming increasingly difficult to adequately finance university education by providing full scholarships and grants by the Government.

The Government therefore introduced the University Students Loans Scheme (USLS), which was managed by the Ministry of Education. Under the scheme, Kenyan students pursuing higher education at Makerere, Nairobi and Dar es Salaam universities received loans to cover their tuition and personal needs, which they would repay on completion of their education. However, the University Students Loans Scheme (USLS) was plagued with a number of problems right on the onset. It lacked the legal basis to recover matured loans from loanees. In addition, the general public and university students wrongly perceived the loan as a grant from the government, which was therefore not to be repaid.

In order to address this problem, in July 1995 the Government through an act of Parliament established the Higher Education Loans Board to administer the Student Loans Scheme. In addition, the Board was also empowered to recover all outstanding loans from former university students by the Government of Kenya since 1952 through HELF and (USLS), and to establish a Revolving Fund from which funds can be drawn to lend out to needy Kenyan students pursuing higher education. The establishment of a revolving fund was also expected to ease pressure on the exchequer in financing education, which currently stands at 40% of the annual national budget. (Thorburn, K., 2000)

#### **1.1.5 Higher Education Loan Board in Kenya**

The higher education loans board is a state owned corporation which was established in 1995 by act of parliament through Kenya Gazette Supplement (Cap 213A) in its mandate, HELB administers the student loans scheme. This involves the disbursement of loans, bursaries, scholarships and the recovery of all the mature loans. Its history dates back to 1952 when the then colonial government awarded loans under the then Higher Education Loans Fund (HELFB) to Kenyans pursuing Educations in universities outside East Africa notably Britain, the USA, The former USSR, India and South Africa (Kimani, 2011).

Omae, (2003) noted that the default rate in Kenya is 80% and the interest rate paid (2%) by borrowers is so heavily subsidized that according to World Bank calculations, the net contribution 5m of the students loan scheme to government revenue is ", actually negative. HELB has since. Increased interest to 4 %. (HELB, 2004), Thus there are

remarkable improvements in loans recovery by HELB. At inception; the recovery rate of 3.3% as compared to the current 57%. This is shown by the recovery outcome achieved during the 2012/2013 financial year where HELB recovered Kshs 3.3 billion. The boards lending capacity has also increased to current standing at Kshs 4.5 billion for the financial year 2012/2013 with private sponsored students also benefiting. Since its inception, HELB has issued Kshs 40.2 billion to a total of 375,783 students.

According to Richard (2002), the success of students' loans in financing higher education is a results of the strong appeal embedded on students' loans itself, these appeals are based on the increased enrollment of higher education students, satisfactory guidelines and criteria for granting loans as well as the recovery of already issued students loans funds. Higher education in Kenya is characterized by students' preference for public universities due to government financial support associated with such an admission. This demand for university education has significantly increased and continues to swell against a backdrop of decreasing ratio of financial allocation to universities from the Government. Since 2000/1 academic year, only about 6% of registered Kenya Certificate of Secondary Education candidates, which is an equivalent of 25% of candidates who meet minimum university entry requirements, gets admitted on Government sponsorship to public universities. It is this surplus supply of qualified students that created market for privatization of university education in public and private universities in Kenya.

## **1.2 Research Problem.**

The overall function and direction of an organization strategy is determined by the nature of its strategy. Strategy provides the goals, objectives and guidelines for the structure and operations of the organization. It is by means of structure that the purpose and work of the organisation are carried out. Some structure is necessary to make possible the effective performance of key activities and to support the efforts of staff. According to Woodhall (2004), internal collection attempts are often put off for too long and there is no diligent follow up. Early contact greatly increases the chance of success in debt recovery. By starting early, the collection agent or agency can keep a good, solid relationship with the client rather than having to be harsh and demanding.

Despite the fact that students benefit from the loans from HELB and their clear understanding that these loans should be repaid so that other needy students can benefit. Repayment rate is only 60%. There is a need to know why there is such a low repayment rate so that the situation can be amended and this is what this study intends to do. Due to the increasing numbers of students enrolling in higher education every year, the repayment collection has become very important in providing adequate financial resources to lend to future students. The government cannot be burdened maintaining this resource as its budgets have to focus more on social obligations such as healthcare, housing, education and public facilities for its citizens.

There are numerous research studies done strategies on loan recovery from loan beneficiaries. The international studies include; Burgess (1981) did a study on ‘Bias is of essence’, and found that higher education is exclusive. This exclusiveness is in its form, content, organisation, tradition and selection. Richardson (1981) did a study on ‘Geographical bias’ and found that it makes a damning remark about the Western systems of higher education in relation to social class. Yang,(2006) did a research in Asians countries, where by the results show that financial pressure on public budgets experienced by Asian countries has led many governments to seek ways to increase private contributions to the cost of higher education.

Ngali (2013) conducted a study on the effect of penalty amnesty on loans recovery at the Higher Education Loans Board of South Africa. Rugambuka, (2008) did a research on the Performance of Higher Education Students’ Loan Scheme in Tanzania: The Stakeholders’ Views. Chatama, (2014) did a study on Financing of Higher Education: an evolution of Cost Sharing approach in Tanzania. Local studies are; Mlewa, (2012) carried a study on Effectiveness of Strategic Management Practices on Loan Recovery, Kenya. Kimani, (2011), did a research on the determinants of loan recovery in a student financing organization: case of Higher education loans board, Boit and Kipkoech, (2012) did research journal on social selection and the role of HELB in equalizing educational opportunities in higher education in Kenya. They did not cover strategies used by HELB in loan recovery from loan beneficiaries in Kenya, thus the purpose of the study is to fill this gap in literature by answering a question on what are the strategies used by HELB in loan recovery from loan beneficiaries in Kenya?

### **1.3 Research Objective**

This study seeks to establish strategies used by HELB in loan recovery from loan beneficiaries in Kenya.

### **1.4 Value of the Study**

The findings from the study will particularly be useful in application of theory and practice in institutions that are faced with challenges in recovery of the loans given to their HELB. It is helpful the managers of these lending organizations who have various strategies to employ in the efficient and effective recovery of the loans. This expanded the knowledge on application of Resource Based View (RBV) thus unearth the effects of giving an amnesty to defaulters to enable the managers of all lending institutions make decisions with information on the possible effects of giving an amnesty as a strategy in loans recovery.

Secondly, the study will be useful to the administrators of the student loans, the higher education loans board who gave an amnesty enabled them to understand the effects of their decision to give the amnesty to loan defaulters on the loan recovery. The study provided the managers with a basis of comparison in case of future amnesties.

This study contributed to the broader realm of business and academic research through offering a pool of knowledge for future researches especially on such important decisions in loan recovery and loan collections. It formed a basis for future research work on effects on loans recovery and other matter on loan recovery. The study will be of

additional value to the broader area of credit management. It will be used as a reference for future studies in the related topics. The study suggested future research activities that can be explored. This study also was significant to the management and staff of HELB organization operating within Kenyan by providing information regarding loan recovery.

### **1.5 Summary**

This chapter covers background of the study with concepts of strategies, strategy typology, strategies used by HELB loan recovery, Education financing in Kenya, higher education loan board in Kenya. The study also covered; the research problems of the study, the research objectives of the study and the value of the research study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter covers the literature that has been done by other scholars on strategies used by HELB in loan recovery from loan beneficiaries in Kenya. Specifically, the chapter focuses on: **strategies used by HELB in loan recovery from loan beneficiaries in Kenya.**

#### **2.2 Theoretical Foundation**

The research study was guided by two theories, Resource Based View of the central premise of Resource Based View addresses the fundamental question of why firms are different and how firms achieve and sustain competitive advantage by deploying their resources and agency theory Incentives to take advantage of other parties are so strong that firms often vertically integrate even at the cost of efficiency to avoid the unfavorable outcomes of relying on contractual relationships (Klein, 1978).

##### **2.2.1 Resource Based View**

Resource Based View (RBV) of the firm. There is strong evidence that supports the RBV (Crook et al., 2008) which indicates that firms compete in an ever changing and dynamic business environment. Organizations can attain and achieve a sustained competitive advantage through their employees according to Barney (1991). This can be realized when a firm has a human resource pool that cannot be imitated or substituted by its rivals or competitors.

The RBV as a basis of competitive advantage lies primarily in the application of the bundle of valuable resources at the disposal of the firm. The firm has to identify the key potential resources which should fulfill the criteria of being valuable, rare, in-imitable and non-substitutable by the firms' competitors (Galbreath, 2005) in the area in which the firm operates.

The resource-based view (RBV) emphasizes the firm's resources as the fundamental determinants of competitive advantage and performance. It adopts two assumptions in analyzing sources of competitive advantage (see for instance Barney, 1991 and Peteraf and Barney, 2003). First, this model assumes that firms within an industry (or within a strategic group) may be heterogeneous with respect to the bundle of resources that they control. Second, it assumes that resource heterogeneity may persist over time because the resources used to implement firms' strategies are not perfectly mobile across firms (i.e., some of the resources cannot be traded in factor markets and are difficult to accumulate and imitate). Resource heterogeneity (or uniqueness) is considered a necessary condition for a resource bundle to contribute to a competitive advantage.

The assumed heterogeneity and immobility are not, however, sufficient conditions for sustained competitive advantage. According to Barney (1991), a firm resource must, in addition, be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage. In her 1993's paper, Peteraf presents four conditions underlying sustained competitive advantage: superior resources (heterogeneity within an industry), ex post limit to competition, imperfect resource mobility and ex ante

limits to competition. Furthermore, resource-based theory and dynamic capabilities and real options research may develop into a paradigmatic approach to strategic management, an important contribution to the evolving science of organization. Clearly, there is a need for rigorous empirical research to establish both the nature and the impact of dynamic capabilities on sustainable competitive advantage. Capabilities that can prove especially useful in dynamic business environments are operational and strategic flexibility.

### **2.2.2 Agency Theory**

Incentives to take advantage of other parties are so strong that firms often vertically integrate even at the cost of efficiency to avoid the unfavorable outcomes of relying on contractual relationships (Klein, 1978). Generally, agency theory suggests that policy makers and tax administrators should be wary about any assumption that uncompelled agents or vendors will represent the state and collect the tax. This does not mean that firms will never comply with the request to contribute to the society. In fact, there is substantial evidence of corporate social responsibility (Tucker, 1992).

Finding behavior of people who contribute to the good of an organization or association on purely voluntary basis is common. Religious organizations, even though they are only partially compensated for their activities (Kilonzo, 2012). In agency models government pre-commits to an audit strategy in order to encourage maximum compliance by tax payers. For instance, Reinnganum and Wild (1985) model the tax payer as a risk-neutral agent of the government who has private knowledge of his own income. The government, whose role is to maximize tax revenues net of audit costs, cannot observe actual income without costly investigation (Kilonzo, 2012).

Reinnganum and wild use this setting to compare a random audit strategy of the type implied in early models with a cut-off audit strategy in which an agent trigger an audit by reporting below a certain level of income. They show that the use of a cut off strategy weekly dominates a random audit strategy because it will induce truthful reporting at the least cost. In addition to the desirable effect of compliance, they argue that such a strategy would enhance horizontal equity ex-post over random auditing since those with equal incomes will be audited with equal certainty (Reinnganum, 1985).

### **2.3 Types of Strategies**

The research study used three types of strategies, grand strategy, Cost Leadership Strategy and differentiation strategy this strategies were used on contribution to the literature on credit monitoring.

#### **2.3.1 Grand Strategies**

All companies operate in a macro environment shaped by influences emanating from the economy at large, population demographics, societal values and lifestyles, government legislation and regulation, technological factors and industry competitive arena in which the company operates. Strategically relevant influences coming from the outer ring of the macro environment can sometimes have a high impact on a company's business situation and have a high impact on a company's direction and strategy. As company managers scan the external environment, they must be alert for potentially important outer ring developments, assess their impact and influence and adapt the company's direction and strategy as needed (Pearce and Robinson, 2007).

SWOT analysis is a technique employed by managers to create a quick overview of a company's strategic situation through the various dimensions of strengths, weaknesses, opportunities and threats. Strengths are resources skills or other advantage relative to competitors and the needs of the markets a firm serves or expects to serve. It gives the firm competitive distinction. Weaknesses are limitations or deficiency in resource, skills or capabilities that seriously impedes a firm's effective performance. Opportunities are major favorable situations in a firm's environment. Threats are key impediments to the firm's current or desired position – SWOT analysis should summarize the key issues from the business environment and the strategic capability of an organization that are most likely to impact on strategy development (Johnson et al, 2008).

### **2.3.2 Cost Leadership Strategy**

The goal of Cost Leadership Strategy is to offer products or services at the lowest cost in the industry. The challenge of this strategy is to earn a suitable profit for the company, rather than operating at a loss and draining profitability from all market players. Companies such as Walmart succeed with this strategy as a sustainable competitive advantage by featuring low prices on key items on which customers are price-aware, while selling other merchandise at less aggressive discounts. Products are to be created at the lowest cost in the industry. An example is to use space in stores for sales and not for storing excess product. For an effective cost leadership strategy, a firm must have a large market share (Hyatt, 2001). There are many areas to achieve cost leadership such as mass production, mass distribution, economies of scale, technology, product design, input cost, capacity utilization of resources, and access to raw materials (Malburg, 2000).

Cost leadership strategy as a sustainable competitive advantage is when a company is able to utilize its skilled workforce, inexpensive raw materials, controlled costs, and efficient operations to create maximum value to consumers. Walmart uses the cost advantage strategy by providing a very large selection and low prices via its retailer strength and size. Costs can be kept at a minimum in many different ways. Some companies, like Nissan, have years of experience producing cars in a very cost-effective manner. Other companies, use offshore manufacturing to keep the costs of their products down. The current trend is for companies to cut down on the extras they offer to customers. For example, the airline company Ryanair is removing two of its three toilets in each airplane to increase the number of seats and drive down ticket costs. This might be an extreme way of cost cutting, but companies need to survive in a recession. Companies may also receive government subsidies, which help to pass on lower costs on to their customers. One prime example is your local farm.

### **2.3.3 Differentiation Strategy**

Davidow and Uttal, (2005) defined differentiation strategy as positioning a brand in such a way as to differentiate it from the competition and establish an image that is unique. According to Ogbonna and Harris, (2003) Differentiation reduces competitiveness and the fight for scarce resources, thereby improving performance; but on the other hand, conformity makes all organizations similar and, therefore, the competitive pressures are stronger. Differentiation will create benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of

new opportunities that result in a new competitive advantage and new entry barriers. Differentiation strategies for a sustainable competitive advantage are marketing techniques used by a firm to establish strong identity in a specific market; also called segmentation strategy.

Using differentiation strategy, a firm will introduce different varieties of the same basic product under the same name into a particular product category and thus cover the range of products available in that category. Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers which will reward them with a premium price. As Baum and Oliver, (2011) notes, the value added by the uniqueness of the product may allow the firm to charge a premium price for it. The firm hopes that the higher price will more than cover the extra costs incurred in offering the unique product. Because of the products unique attributes, if suppliers increase their prices the firm may be able to pass along the costs to its customers who cannot find substitute products easily (Porter, 2008).

## **2.4 Strategies Used In Loan Recovery**

Given less-than-full loans recovery in almost all loans schemes and, in many cases, very heavy losses, government subsidy will remain a continuing feature of student loans schemes as they are presently operated. The widely held view that student loans schemes can act as revolving funds - which, once capitalized, can finance themselves subsequently through repayments from earlier loans, is seen to be a myth. Governments will need to inject funds annually to cover the costs of the built-in loans repayment subsidies and to make up losses from non-repayment leakages. This is the case where the size of the higher education system is stable, but even more so when the system is expanding as is the case in very many countries.

However, the financial viability of loans schemes can be improved. Improvement may be achieved either by reducing the levels of built-in subsidies (hidden grants) or by improving the efficiency of loans schemes through containing administration costs and, particularly, in reducing repayment leakages due to default. We have noted that the main factor in accounting for the failure to recoup loans disbursements in most schemes is the level of built-in subsidies (hidden grants), rather than default or high administration costs. We discuss first the rationale for high level of built-in loans subsidization in most schemes and, in particular, raise questions about its justification (Usher, 2005).

A number of studies have examined loans repayment and loans recovery in various country loans schemes. These studies take two forms: individual country studies and comparative studies. However because these individual studies use somewhat different methodologies, it is difficult to draw any comparative conclusions from an examination

of the differing results, across countries. A few comparative studies are available, each relating to a number of country schemes. Each of the comparative studies employed a common methodology to examine the county loans schemes under scrutiny.

The classic study by Johnson (1988), which introduced the hidden grant concept, measured the size of the hidden grant in loans schemes in the Federal Republic of Germany, the United States and Sweden. Christensen (2002) compared loans schemes within Latin America and the Caribbean, while Ziderman (2004) reported the results from a comparative study of five loans schemes in S.E. Asia. However, all of these comparative studies have a limited coverage:

Recovery of funds loaned out to university students by the Higher Education Loans Board [HELB] is one of the two main responsibilities of the Board. The other is disbursement of loans. Loans disbursement leans heavily on loan recovery because it is necessary to recover funds so as to be able to lend it to others. Therefore, the key question that comes to mind when one considers the institution's loan recovery portfolio is whether HELB has efficient mechanisms including strategies, in place to assist it in loan recovery. This is a major challenge to the Board.

An estimated 60,000 Kenyan students pursuing university education in foreign universities are also not eligible for HELB loans for the same reasons and yet the HELB Act empowers it to support all Kenyans pursuing higher education within and outside Kenya. In addition, HELB is expected to create a Revolving Fund from which it is expected to draw funds for lending to students and eventually cease to rely on support

from the Exchequer for additional funding. At the moment, the Board gets Kshs.800 million per annum from the Exchequer and another Kshs.800 million from recoveries. All loanees are required to start repayment after a period of one year on completion of studies, or within such a period as the Board may decide to recall the loan whichever is earlier (Section 15 HELB Act).

Woodhall (2000) observes that student loans have been widely advocated for, as a way of providing financial support to students, and as a way of sharing the costs of higher education in a manner that is both equitable and efficient. Several economists and other proponents of loans, for example, Mbanefoh (1981) argue that education is both a personal and a social investment. A loan programme financed from public funds will enable those who cannot afford to pay tuition fees, or to meet the costs of books and living expenses, to borrow and finance their higher education. The beneficiaries would later repay the loans when they enjoy better job prospects.

#### **2.4.1 Confronting Built-in Over-Subsidization**

Repayment ratios are quite low in a number of loans schemes. While there is room for some element of subsidy in most schemes, heavy government built-in subsidies provided through large hidden grants - the major source of recovery losses - cannot always be justified. Whether or not a loans scheme should be subsidized and, given that a subsidy is in place, whether or not the size of the government built-in subsidy is excessive, will depend on the main objectives that the loans scheme is intended to serve and loans the schemes around the world (Ziderman 2004).

### **2.4.2 Reducing Loans Repayment Default**

The problem of high repayment default may be less tractable. A wide range of measures to reduce repayment default are available for use in various loans schemes. These include the use of loans guarantors, moral suasion (publication of defaulter lists), barring access to further credit if in default and legal action against recalcitrant defaulters. However, it is frequently the case that these measures are not employed. In a number of cases, notably in developing countries; a general atmosphere of non-compliance has been created in which non repayment has become to be regarded as socially acceptable (Odundo, 2005).

A subject of recent controversy is whether the type of repayments collection mechanism in place can affect the level of repayment default. Specifically, it has been argued strongly that income contingent repayments schemes are likely to ease the problem of repayment default, since an excessive repayment burden is avoided during periods of unemployment and low earnings. However, whatever the other relative merits of income contingent repayment and traditional mortgage loans schemes. Loans schemes are expensive for governments and, we have noted, very often highly subsidized. Given the tightness of public budgets in many countries, governments have a strong interest in containing overall loans scheme costs and, particularly, subsidy levels within appropriate and realistic limits. This will require a careful justification for the current levels of loans subsidies, the development of efficient loans repayment collection procedures and the continuous monitoring of the outcomes of the loan scheme to ensure that it is successfully meeting defined objectives (Ziderman 2004).

## **2.5 Summary**

This chapter covered the literature that has been done by other scholars on strategies used by HELB in loan recovery from beneficiaries in Kenya. Specifically, the chapter covered on: theoretical foundation that was used in the study, where two theories were used resource based theory and agency theory, the study also covered three different strategies, grand strategies, cost leadership strategy and differentiation strategy. The study also covered strategies used in loan recovery, Confronting Built-in Over-Subsidization and Reducing Loans Repayment Default. Thus the study seek to fill the research gap of Strategies used by HELB in loan recovery from loan beneficiaries in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the approach that was used to conduct the research. It encompasses the research design that is the method and the procedure followed in conducting the study, data collection which involve the methods of collecting data for this study interview guide was used and Data analysis that involves how data collected was be analysed.

#### **3.2 Research Design**

The research design used a case study. A case study approach is particularly appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in some depth within a limited time scale. This design is appropriate since it enables a near comprehensive collection of data from the HELB. The research analyzes all data selected within a specified time period. This refers to the methods and procedures followed in conducting the study. A case study allows an investigation to retain the holistic and meaningful characteristics of real life events. It involves a careful and complete observation of the social units.

The main focus of the study is qualitative which is similar to study done by Kimani, (2011), on the determinants of loan recovery in a student financing organization: case of Higher education loans board Boit and Kipkoech, (2012) carried out research journal on social selection and the role of HELB in equalizing educational opportunities in higher education in Kenya.

### **3.3 Data Collection**

The study used primary data. An interview guide was used in collecting the primary data. This was used in order to gain a better understanding and enable a better and more insightful interpretation of the results from the study. The data was obtained from the various management team members belonging to different departments and compared against each other in order to get more revelation on the issues under study. The interview guide is devoted to the identification of the responses to strategies used by HELB in loan recovery from loan beneficiaries in Kenya.

The interview was conducted to all 11 Board of Directors and 3 head of division who include; Head of Operations, Head of Research, Strategy and Planning and Head of Finance. The interview guide was administered through personal interviews in order to get their opinions used by HELB in loan recovery from loan beneficiaries in Kenya.

### **3.4 Data Analysis**

The data for the research is qualitative in nature. The qualitative data was done using content analysis. Qualitative data analysis seeks to make general statements on how categories or themes of data are related. Mugenda and Mugenda (2003) define content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same to relate trends. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study.

This research was yield qualitative data from the interview schedules and analyzed using content analysis because the study sought to solicit data that is qualitative in nature. Investigation of data collected was compared with the theoretical approaches and documentations cited in the literature review.

This chapter presents the approach that was used to conduct the research. It encompasses the research design that is the method and the procedure followed in conducting the study, data collection which involve the methods of collecting data for this study interview guide was used and Data analysis that involves how data collected was be analysed.

### **3.5 Summary**

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## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSIONS**

#### **4.1 Introduction**

In this chapter, data is presented, analyzed and interpreted according to research questions. Findings are presented in percentages. Responses from the respondents were analyzed and the results are presented in this chapter

#### **4.2 General Information**

The Interviewees were required to provide information on their job title. All the 14 ranked indicated their designation. This term was given to all staff who handled HELB students who were borrowing irrespective of their ranks which included Head of Operations, Head of Research, Strategy and Planning and Head of Finance.

##### **4.2.1 Job Designation**

In relation to the interviews' position in the HELB, the interviewees were 11 Board of Directors 3 head of division who includes; Board Secretary & Chief Executive Officer, Lending Manager, Recovery Manager, Assistant Manager Procurement, Manager, Human Resource & Administration Manager, Information Communication & Technology Department Manager, Legal Services Department Manager, Audit Department Manager and the three head of divisions who include Head of Operations, Head of Research Strategy and Planning and Head of Finance.

#### **4.2.2 Organization Existence**

The study found out that Higher Education Loans Board began dates back to 1952 when the then colonial government awarded loans under the then Higher Education Loans Fund to Kenyans pursuing university education in universities outside East Africa notably Britain, USA, former USSR, India and South Africa. In July 1995 the Government through an act of Parliament established the Higher Education Loans Board to administer the Student Loans Scheme. In addition, the Board is empowered to recover all outstanding loans given to former university students by the Government of Kenya since 1952 through HELF and to establish a Revolving Fund.

#### **4.2.3 Duration of employment at the Organization**

The study findings show that majority of the respondent worked in the organization for the last 6 and above years. 65% indicated that they had worked between 6 to 8 years, 30% had worked for more than 10 years and only 5% had worked for less than 3 years. This confirms that the respondents had sufficient knowledge strategies used by HELB in loan recovery from loan beneficiaries in Kenya based on experience gained.

#### **4.2.4 Number of Employees at the Organization**

In relation to the research finding there are 126 employees at HELB, the study established that the number of support staff is represented by 55%. It was further established that 25% were supervisory staff while 20% were management staff. It should be noted that HELB organization has a number of departments that keep on adding or reducing the number of employees depending on the work available or the innovation of the new technology in the organization.

### **4.3 Strategies Used by HELB in Loan Recovery**

The first objective of the study was to identify various strategies that had been adopted by HELB and their role in loan recovery. This objective was measured by looking at the following strategies: whether the organization has developed loan recovery strategies, the various strategies adopted and frequency of adoption. When respondents were asked to state whether their organization had adopted loan recovery strategies, it was established that all respondents agreed that HELB had adopted loan recovery strategies to deal with students who had overstayed with loans.

The interviewees indicated that HELB uses grand strategy to Strengthen Strategically relevant influences coming loan recovery that can sometimes have a high impact on organization situation and have a high impact on organization direction and strategy are resources skills or other advantage relative to competitors and the needs of the markets a firm serves or expects to serve, this gave HELB the firm competitive distinction.

The interviewees indicated that Cost leadership strategy plays as a sustainable competitive advantage in HELB it is able to utilize its skilled workforce, inexpensive raw materials, controlled costs, and efficient operations to create maximum value to beneficiaries. Walmart uses the cost advantage strategy by providing a very large selection and low prices via its retailer strength and size. In the recent past the cost of higher education has gone up and default by previous beneficiaries of the loans scheme continues to be a challenge to HELB leading to redundancy of the established revolving

fund, thus affecting the running of the scheme and access to university education by qualified Kenyans who cannot afford to meet the ever increasing cost.

The interviewees indicated that differentiation strategy plays a good role in HELB thus it reduces competitiveness and the fight for scarce resources, thereby improving performance; but on the other hand, conformity makes all organizations similar and, therefore, the competitive pressures are stronger. Differentiation creates benefits and dominant positions that will last until competitors imitate a firm's key resources, and will be restored through the creation of new opportunities that result in a new competitive advantage and new entry barriers.

The interviewees indicated that the government need to inject funds annually to cover the costs of the built-in loans repayment subsidies and to make up losses from non-repayment leakages thus government built-in subsidies provided through large hidden grants - the major source of recovery losses - cannot always be justified. Whether or not a loans scheme should be subsidized and, given that a subsidy is in place, whether or not the size of the government built-in subsidy is excessive, will depend on the main objectives that the loans scheme is intended to serve.

The interviewees indicated that the financial viability of loans schemes can be improved thus Improvement may be achieved either by reducing the levels of built-in subsidies (hidden grants) or by improving the efficiency of loans schemes through containing administration costs and, particularly, in reducing repayment leakages due to default.

Subject of recent controversy is whether the type of repayments collection mechanism in place can affect the level of repayment default. Specifically, it has been argued strongly that income contingent repayments schemes are likely to ease the problem of repayment default, since an excessive repayment burden is avoided during periods of unemployment and low earnings.

#### **4.3.1 Organization adopted strategies of acquiring bank loan**

The Interviewees indicated that Risk management is an elusive element in most decisions, largely because it is so hard to pin down HELB. Also, there will always be risks associated with mitigation strategy of the students who ends up unemployment after they are done with school. The pervasiveness and complexity of credit risk presents strong challenges to managers, one of the most important being lack of efficient determination of credit worthiness of a potential customer. This, therefore, means establishing mechanisms of insulating the company's value against huge defaults.

This implies that the HELB are subject to a heightened credit risk levels as opposed to other economies with higher-income earning potentials. Given that the industry is still growing with new entrants still finding space, great effort must be spent to ensure that comprehensive and effective strategies are developed that minimize risk and maximize loan performance at any particular point while in operation. If appropriate set of tools are not determined and sustained in time, the likelihood of loss will gradually increase and subject the HELB, especially in peer groups I and II, into penalties of illiquidity and downsized profitability.

#### **4.3.2 Effectiveness of Strategies Adopted For Loan Recovery In An Organization**

The Interviewees mentioned that several factors contribute to loan defaults among HELB clients. These were categorized as external factors and those internal factors to the organization. External factors included prevailing political conditions in the country. Unfavorable economic environment in the country also triggered loan defaults since it meant great changes in income. Economic factors affected the cash flows of a business thereby negatively affecting loan repayment. Socio-cultural factors and religious factors were also mentioned to affect loan repayment among clients.

There are also other internal factors to the HELB and banks that lead to defaults. Interviewees indicated that risk management structures put in place by banks encourage loan defaults. This study also found similar results. For example, the interviewees also mentioned internal factors of HELB that lead to loan defaults included lax procedures used for credit risk management, negligence on the part of credit officer in monitoring loan repayments by students, insider loan dealings where credit officer colludes to manipulate the credit scoring system by providing false information to grant credit to unqualified customers without ability to repay the loan due to lack of employment. Another leading cause HELB for loan default is the use of untrained bank staff to perform credit appraisal and disburse loans to students. Use of unaggressive credit collection methods by the bank or individual credit officers also contributed to loan defaults.

### **4.3.3 Institution reclaim back loan from beneficiaries**

The Interviewees mentioned that there have been difficulties in recovering loans from beneficiaries. HELB and Banks have been experiencing considerable difficulties in recovering loans and enforcement of securities charge with them. The procedure for recovery of debts due to the HELB institution and financial institutions, which is being followed, has resulted in a significant portion of the funds being blocked. Thus the Interviewees indicated that Financial System has considered the setting up of the Special Tribunals with special powers for adjudication of such matters and speedy recovery as critical to the successful implementation of the financial sector reforms.

The existing procedure for recovery of debts due to the banks and financial institutions has blocked a significant portion of their funds in unproductive assets, the value of which deteriorates with the passage of time. The Committee on the Financial System headed by the leader of HELB department has considered the setting up of the Special Tribunals with special powers for adjudication of such matters and speedy recovery as critical to the successful implementation of the financial sector reforms. An urgent need was, therefore, felt to work out a suitable mechanism through which the dues to the banks and financial institutions could be realized without delay.

### **4.3.4 Institution in relation to loan recovery**

According to interviewees the Institution is playing a vital role thus Kenyan jobseekers requires the Higher Education Loans Board clearance to qualify for employment with private companies, proposed regulations aimed at reducing student loan defaults say.

Thus Higher Education Loans Board introduced the Federation of Kenya Employers (FKE) to develop guidelines that would require employers to screen new employees for student loan status when hiring them.

The interviewees in HELB Institution indicated that the model which is expected to yield the predicted probability of default among the beneficiaries of the loan is suggested that HELB will continue to find loan recovery an uphill task in the face of increasing unemployment and underemployment situation in which most the loan beneficiaries find themselves in. HELB has however done a relatively good job with regard making beneficiaries aware of their contractual obligations on the repayment of the loan. The likelihood that a loanee will default on the university loan was indicated to be related to a complex web of factors and developing a default management program may therefore be the first step to reducing default.

#### **4.3.5 Department Involved to Loan Recovery**

The Interviewees indicated that department is involved to loan recovery by following up some steps. The first step in dealing with a defaulting client is to restructure the loan. Restructuring involved review of the term of the loan (extending the period of repayment within the stipulated credit policy of the bank), and adopting flexible loan repayment strategy where a client is allowed to repay what they can sufficiently afford given the circumstances at hand. This beneficiaries must also be monitored closely by the relationship officer to ensure a customer friendly but aggressive collection method is used.

The other way to deal with a defaulting client is to hire debt collectors to act on behalf of the bank. The debt collectors could be external experts hired by the bank or internal staff specially trained on debt collection procedures. In some cases where the client refuses to comply with the restructuring of the loan, a demand letter is issued to the customer notifying them of their obligation to repay. Should this fail, the bank moves in after one month notice to repossess assets used as collateral. Where the repossessed assets are inadequate to recover the loan amount and interest, the loan is written-off and insurance involved to repay the bank.

#### **4.3.6 Adoption of Management Programmes in implementation of strategic plans**

According to interviewees, HELB have adopted more than a few strategic planning efforts as well as management programmes of the institutions. They have run aground because they were based on a fundamental misunderstanding of what a strategic plan is on loan recovery from beneficiaries. Sometimes strategic planning is confused with other planning modalities, each valid in its own right but geared toward a different end result. To put it simply, not every plan is a strategic plan. Thus HELB use strategic plan as a tool that provides guidance in fulfilling a mission with maximum efficiency and impact. If it is to be effective and useful, it should articulate specific goals and describe the action steps and resources needed to accomplish them.

The interviewee's indicates that strategy implementation in HELB institution is the process of allocating resources to support the chosen strategies. Adoption of Management programmes includes the various management activities that are necessary to put strategy in motion, institute strategic controls that monitor progress, and ultimately achieve organizational goals of loan recovery from the beneficiaries. Therefore the interviews also indicated that, the implementation activities are in fact related closely to one another and decisions about each are usually made simultaneously.

#### **4.3.7 Trend of loan recovery from the inception of the board**

Interviewees indicated that the trend since 1995, the Board inherited a recovery trend of some Kshs.36 million per annum. In 2009 recovery stands at an average of Kshs.800 million per annum. Thanks to improved recovery processes. Total mature loans amount to Kshs.14 billion and out of this figure, the Board has to date recovered a total of Kshs 4.4 billion. This figure -though significant - is still extremely small considering the protracted period of time [ten years] it has taken the Board to recover the same and in view of the fact that the outstanding amount of money is a staggering Kshs.1 0 Billion. And out of this amount of money, Kshs: 5.3 billion consist of non-performing loans (HELB Review No.7 2009).

The board needs this money to lend out to the rapidly growing number of needy students. Despite disbursing Kshs.1.6 Billion per year to some 40,000 undergraduate students, a large number of the same students come back to HELB appealing for more funds, which suggests that they do not get sufficient funds from the board to take them through their

studies. Some students do not apply for loans at all owing to apathy and some 60,000 students pursuing higher education as privately sponsored students are not eligible for HELB loans simply because the Board does not have sufficient resources to assist them which explains why the Board recently entered into a memorandum of understanding with the National Bank of Kenya to provide loans to this category of students at a subsidized interest rate (HELB Review NO.7 2009).

Interviewees indicated that an estimated 60,000 Kenyan students pursuing university education in foreign universities are also not eligible for HELB loans for the same reasons and yet the HELB Act empowers it to support all Kenyans pursuing higher education within and outside Kenya. In addition, HELB is expected to create a Revolving Fund from which it is expected to draw funds for lending to students and eventually cease to rely on support from the Exchequer for additional funding. At the moment, the Board gets Kshs.800 million per annum from the Exchequer and another Kshs.800 million from recoveries. All loanees are required to start repayment after a period of one year on completion of studies, or within such a period as the Board may decide to recall the loan whichever is earlier (Section 15 HELB Act).

#### **4.3.8 Challenges encountered by HELB in loan recovery**

The study established that one of challenges facing HELB in debt recovery is lack of employment for loan beneficiaries. This therefore makes it difficult for them to repay the loan. Paying of the loan requires that an individual has a steady income flow which can facilitate and sustain the payment until the loan is cleared. However, Kenya being a third world country, most graduates struggle to get employment and therefore struggle to repay the loan as well. The government also needs to ensure that graduates are employed after a

short period in order to avoid brain drain. HELB loan repayment is very vital as it enables the board to have revolving funds which can help other needy students to obtain higher education. This can only be made possible if employers of respective HELB loan beneficiaries cooperate with the board in ensuring that the loan is repaid.

In addition, the high rate of unemployment in the country as well as poor paying jobs, has forced many people travel to other countries to seek employment as well as jobs that are well paying. This therefore creates brain drain which is not only a disadvantage to the country but also to the Higher Education Loans Board for having lost the loan given out to these beneficiaries who have left the country. This is because while outside the country, it is difficult to trace them as they are under different laws, rules and regulations. In addition, low paying jobs cannot motivate an individual to pay the loan due to high living standards. If an individual decides to pay the loan, then he/she might not be able to afford his/her basic needs therefore, one sets his/her priority whereby loan repayment is not among the top priorities set due to meager earnings.

#### **4.3.9 Penalty imposed to loan beneficiary**

Interviewees indicated that the Higher Education Loans Board Act of 1995 establishes a fund that provides loans to students in institutions of higher learning in Kenya. Section 15 (1) and (2) of the Act provides that beneficiaries of the loan should begin repaying the loan, one year after completing their studies. Failure to comply is an offence that attracts a fine of 5000 Kenya shillings. HELB has however been exacting a penalty of 5,000 Kenya Shillings per month on all loaners who fail to service the loan every month after

the said one year. This is done whether one has begun repaying or not. This is in excess of what the law provides since one should not be penalized provided they have began the payment within the stipulated time.

Interviewees indicated that since the Constitution provides for equal stakeholder participation in management of public affairs, Kangata argued that the current board sidelines students and that their inclusion will ensure that learners' issues are properly addressed to avert witnessed strikes against HELB delayed release of funds. Thus the Bill further proposes that students below 18 years seeking to apply for HELB funds be allowed to access it through their parents or guardians thereafter the loan be transferred to the student's name upon attaining legal age which is said to be the most effective way of loss of loan recovery.

#### **4.3.10 Circumstances Leading to the Lifting of the Penalty**

Interviewees indicated that lack of employment to the beneficiaries after the agreed time of loan repayment is one of the most challenging part that leads to lifting of penalty to most of the loan beneficiaries. In addition, the high rate of unemployment in the country as well as poor paying jobs, has forced many people travel to other countries to seek employment as well as jobs that are well paying. This therefore creates brain drain which is not only a disadvantage to the country but also to the Higher Education Loans Board for having lost the loan given out to these beneficiaries who have left the country. This is because while outside the country, it is difficult to trace them as they are under different laws, rules and regulations.

In addition, low paying jobs cannot motivate an individual to pay the loan due to high living standards. If an individual decides to pay the loan, then he/she might not be able to afford his/her basic needs therefore, one sets his/her priority whereby loan repayment is not among the top priorities set due to meager earnings. From the study findings, it was established that respondents were not sure whether lack of information by the loaner on how, when and where to pay the loan was a challenge. However, without clear information on where to pay, when to pay and how to pay the loan, payments can be deterred. As a result, there is need for the organization to provide clear and precise information in relation to the repayment of loans.

#### **4.3.11 Communication Channels to the Loan Beneficiaries**

Interviewees indicated that communication channel to loan beneficiaries in HELB is important to Credit monitoring, which refers to measures and ensure that the bank understands the current financial condition of the beneficiaries or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use beneficiaries make of approved credit lines; ensure that projected cash flows on major credits meet debt servicing requirements; ensure that where applicable, collateral provides adequate coverage relative

Many of the agonies and frustrations of slow and distresses credits can be avoided by good loan supervision. Supervision helps keeping a good loan good. It may be visiting the borrowers' premises to investigate the general state of affairs. The credit monitoring process involves on- 5 site visit, regular contact as well as checking for compliance with covenants in the loan agreements.

#### **4.3.12 Credit references influence on loan recovery**

The Interviewees indicated HELB have collaborated with other institution like Credit Reference Bureaus (CRBs) to help in loan recovery thus the inadequacies of the traditional approaches to loan processing with its attendant problems arising from repayment and recovery have been the concerns of banking professionals over time. This then calls for an approach that can take care of the inadequacies in the credit processing and administration procedures. The CBK (2011) maintained that the credit framework of banks should be designed to serve as a tool for monitoring and controlling risk inherent in individual credits. The concept has been referred to as „credit scoring“ in some quarters.

Credit Reference Bureaus (CRBs) complement the central role played by banks and other financial institutions in extending financial services within an economy. CRBs help lenders make faster and more accurate credit decisions. In Kenya, CRBs collect, manage and disseminate customer information to lenders within a provided regulatory framework – the Banking (Credit Reference Bureau) Regulations, 2008”, (CBK, 2012).

#### **4.3.13 HELB Recommendations on loan recovery strategies**

The interviewees indicates that the recommendations of policy makers of the HELB institutions as well as recommendations for further studies. The policy makers in the HELB institutions should use credit score card as a tool of monitoring of loan and recovering of such loans. The credit score card is a number that is based on a statistical analysis of a borrower’s credit report, and is used to represent the creditworthiness of that person.

The policy makers in the banking institutions should make good use of private collection agencies in which the creditor agency retains the final authority to resolve disputes, compromise HELB debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus in order to avoid long court cases. The policy makers in the banking institutions should build good customer relations to ensure that their customers do not change names and notify them in times of changing business names to avoid the rise of bad debts that lead to the losses made by the banking institutions as a result of high bad debts.

#### **4.4 Discussion of the Study**

The Interviewees indicated that Risk management is an elusive element in most decisions, largely because it is so hard to pin down HELB. This corresponds with (Bowman, 2000). Who suggest that, there is need for establishing mechanisms of insulating the company's value against huge defaults .The interviewee's indicates that strategy implementation in HELB institution is the process of allocating resources to support the chosen strategies and sustain competitiveness which Barney (1991), suggest that a resource firm must, in addition, be valuable, rare, and imperfectly imitable and substitutable in order to be source of a sustained competitive advantage.

The interviewees in HELB Institution indicated that the model which is expected to yield the predicted probability of default among the beneficiaries of the loan is suggested that HELB will continue to find loan recovery an uphill task in the face of increasing unemployment and underemployment situation.

This correspond with (Kilonzo, 2012) who argue that In agency models government pre-commits to an audit strategy in order to encourage maximum compliance by tax payers and loan default among the beneficiaries.

Interviewees indicated that HELB has however done a relatively good job with regard making beneficiaries aware of their contractual obligations on the repayment of the loan this correspond with Montana (2012) who state that bank debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. This same view is shared by Coyle (2000) who is of the view regulations may lower credit standards applied by banks.

Interviewees indicated that communication channel to loan beneficiaries and the bank is important to Credit monitoring, which refers to measures and ensure that the bank understands the current financial condition of the beneficiaries or counterparty; ensure that all credit are in compliance with the existing covenant; follow the use beneficiaries make of approved credit lines; This correspond with (Ziderman 2004) who argue that Given the tightness of public budgets in many countries, governments have a strong interest in containing overall loans scheme costs and, particularly, subsidy levels within appropriate and realistic limits. This will require a careful justification for the current levels of loans subsidies, the development of efficient loans repayment collection procedures and the continuous monitoring of the outcomes of the loan scheme to ensure that it is successfully meeting defined objectives.

Interviewees indicated that Credit Reference Bureaus (CRBs) complement the central role played by banks and other financial institutions in extending financial services within an economy. CRBs help lenders make faster and more accurate credit decisions this correspond with (Odundo, 2005) who state that a number of cases, notably in developing countries; a general atmosphere of non-compliance has been created in which non repayment has become to be regarded as socially acceptable are forwarded to Credit Reference Bureaus (CRBs) for penalties.

According to Montana (2012), the following are some of the recommended bank debt recovery measurers, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues. By proactively reaching customers early, you can prevent larger problems later

#### **4.5 Summary**

This chapter covered data that was presented, analyzed and interpreted according to research questions. Findings are presented in percentages. Responses from the respondents were analyzed and the results were presented in the chapter.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of the study was to evaluate Strategies Used by HELB in Loan Recovery.

This chapter presents the summary, conclusion and recommendation of the findings.

#### **5.2 Summary of findings**

This study examined the Strategies used by higher education loan board in loan recovery from loan beneficiaries in Kenya. The study indicated that the loan collections have consistently improved over the study period. This increase is consistent with the number of the loanees paying and the total loanees. Abnormal collections are recorded during the amnesty period with over Kshs 1.2 Billion collected during the period of amnesty. The collection during the amnesty period made a third of the total collections for the year. This is evidence that the response towards the amnesty was a positive one since the collections surpassed the target (expected) loan recovery collections.

It was found out that assets have a different risk characteristic which implies that different risk mitigation measures are needed to deal with different types of risk. The banks were seen to be highly hedging their risks in various ways. These are: risk transfer, risk retention, risk reduction and risk avoidance. The risk mitigation measures differed in cost and most were considered to be costly since they had to be differentiated across asset types, the costs of these measures also differed. The same applied to handling costs for different assets types hence some types of collateral tended to be costly consequently.

The majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and financial transactions. It was found out that banks face losses as a result of a fall in financial value of their assets due to actual or perceived deterioration in asset credit quality during recession or crisis.

The research found out that the HELB had policies and strategies that governed the loan lending. Though this existed most of the institutions didn't seem to efficiently implement the same. The banks also assumed some of the economic factors which could affect their loan performance. The institutions also concentrated highly on collateral as the main security for loans which at times made the banks assume other strategies of preventing risk.

### **5.3 Conclusion**

The study therefore concludes that there various factors influencing non-repayment of loans which could arise from businesses characteristics. These factors included type of business, age of the business, number of employees and business profit.

This study also made an original contribution to the literature the credit monitoring strategies ensure that there is proper loan payment by the customers so as to avoid confrontation and delays in servicing of loans by the customers. The study has established that reports are generated to monitor customer's repayment of loans and the banks monitor the account operation of the customers to offer any corrective measures in

case of decline in the account operation by the customers. The study therefore concludes that the policies and strategies ensure that the customers pay the loans without defaulting. Rigorous risk assessment ensures that the banks only give loans to the customers who can pay the loans without defaulting and therefore the banks can offer both the secured and unsecured loans to the customers after assessment.

The study has established that there are various ways through which risky debts are measure that include the period or interval of payment by the customers. This indicates that the banks continuously monitor loans borrowed by their customers to ensure that they pay. The banks evaluate the credit application by the customers to ensure that only those who can service the credits qualify for the loans. The study concludes that the banks in Kenya make follow-ups to the customers' premises as a way of debt recovery. This ensures that the banks are in a continuous touch with the customers and make the servicing required by the bank. The banks debt recovery section, the relationship management and risk department work as a team in dealing with loan recovery. The relationship managers evaluate the customers' eligibility, the credit department ensures that credit policies are adhered to and the credit recovery ensures that defaulting customers are followed to recover bad debts. Timely follow-ups on bad debts and coordination among the various departments of the banks influence the success of debt recovery in the banks. This indicates that banks are keen in debt recovery in order to avoid losses.

There was little information on the individual loan collections and collection from regions. It is anticipated that in the advent of county governments which are expected to set higher education financing kitties they may result to strategies to boost the student loan recoveries. It is a potential area of research to provide more empirical evidence on the effectiveness of loan recovery.

#### **5.4 Recommendations**

There are a number of issues which are crucial in HELB but which have not yet been tackled by the researcher. Research directions include: Development of a model to analyze the characteristics of students who default, or who are likely to promptly pay back their student loans. Internal institutional budget analysis; that is, evaluation of differential costs by university and by program, and how allocation of resources among programs affects their performance. There is also need for studies to be done on the communication strategies adopted and their influence on loan recovery in the organization.

The study recommends that the stakeholders in the microfinance finance sector ensure that the borrowers have access to adequate relevant training in the microfinance businesses. The current link between technical training services for entrepreneurs in the deprived communities and loan granting institutions is under-utilized.

### **5.5 Limitations of the Study**

The study experienced an initial slow response from the interviewees who complained about the length of the interviews. This was mitigated by having constant follow up on phone and physical visits to the interviewees' offices by using research assistants.

The study showed a positive impact on the total loan collections following the Strategies used by HELB in loan recovery. It is not clear whether the effect is due to other confounding factors such as the loanees education and awareness of the borrowers. Although it is reasonable to attribute the increase in collections to Strategies used by HELB in loan recovery, it is somehow limited in interpretation. However, the researcher required them to be honest. In addition, they were assured that their identity would be confidential and be for the study only. The study focused in getting data from departmental heads.

The study on the Strategies used by HELB in loan recovery must be taken with caution since there may be other factors not captured in the study. The loan recovery may not be solely generated by amnesty but there may be other murky factors.

### **5.6 Suggestions for Further Studies**

This study focused on HELB organization despite there being several organizations which lend out money like banks and other financial institutions. There is therefore need for the interested researchers to carry out a similar study but in different financial institutions in order to identify their loan recovery strategies.

The study recommends that a further study should be done on communication strategies adopted and their influence on loan recovery in the organization. A research on the internal challenges facing Higher Education Loans Board in loan recovery may highly contribute in shedding some light on HELB employees concerns with regard to loan recovery.

The study recommends a further research on the same study focusing on student's compliance to loan repayments and the enforcement measures that can be taken to ensure loan recoveries growth in the long-term.

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## **APPENDIX: INTERVIEW GUIDE**

The following sections provide sample questions to be used in by HELB in loan recovery from loan beneficiaries in Kenya.

### **Section A: General Information**

1. What is the title or position of the respondent in the organization?
2. For how long has the organization been in existence?
3. How long have you been with this organization?
4. How many employees are in the organization?

### **Section B: Strategies Used by HELB in Loan Recovery**

5. Has your organization adopted strategies of acquiring bank loan? if yes list them
6. How does your institution reclaim back loan from beneficiaries?
7. What role do you play in your institution in relation to loan recovery?
8. How is your department involved in the recovery of all mature loans?
9. Are the above adopted strategies for loan recovery effective to your organization?
10. What management programmes has the board adopted to implement the strategies recommended on those strategic plans?
11. What has been the trend in loan recovery from the inception of the board?
12. What challenges do you encounter when undertaking strategies used by HELB in loan recovery from loan beneficiaries in Kenya?
13. When is penalty imposed on a loan beneficiary?
14. What circumstances lead to the lifting of the penalty?

15. Are there any direct communication channels to the loan beneficiaries? If so list them?
16. What are your comments on strategies used by HELB in loan recovery from loan beneficiaries in Kenya?
17. Has the credit references bureau been of any influence on loan recovery?