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Influence of Credit Risk Management Practices on Loan Performance of Microfinance Institutions in Baringo County

Kurui Samuel Kiplimo[1]*, Dr. Aquilars M. Kalio[2]

P.O Box 46-20105 Mogotio Kenya
kuruikiplimo@gmail.com

Abstract: ***The purpose of this study was to investigate the effect of credit risk management practices on loan performance in MFIs in Baringo County. The study employed a descriptive research design and was based on a survey of MFIs in Baringo County. The target population in this study was managers and credit officers in MFIs in Baringo County. Census sampling technique was used because all branch managers and credit officers were directly targeted in this study. Questionnaire was used to collect data. Descriptive and inferential statistics were used in data analysis. Descriptive statistics including percentages and frequencies while inferential statistics used included Pearson correlation and regression analysis. The study concluded that there was a strong relationship between client appraisals and loan performance in MFIs. The study revealed that an increase in client appraisal led to an increase in loan performance in MFIs in Baringo County. Thus the study concludes that credit risk management practices significantly influenced loan performance of MFIs in Baringo County. The study recommends adoption of a more stringent policy on credit risk management practices in MFIs in Baringo County so as to improve their financial performance.***

Keywords: Client Appraisal, Credit Management practices, Credit Risk Control, Loan Performance, Microfinance Institutions, Microfinance

1. Introduction

The concept of credit has a long history and can be traced back to ancient times. However, it was not until after the Second World War when it largely begun to be appreciated in Europe (Kiiru, 2004). In the United States of America (USA) banks extended credit to customers with high interest rates which sometimes discouraged borrowers. Thus the concept of credit was not popular in USA until the economic boom of 1885 when banks had excess liquidity and wanted to lend the excess cash (Ditcher, 2003). In Africa the concept of credit was largely appreciated in the 1950's when most banks started opening the credit sections to extend loans to white settlers. In Kenya credit was initially given to the rich and big companies and was not popular to the poor. In 1990s loans extended to customers failed to perform well thus necessitating the need for intervention. Mechanisms to evaluate for the evaluation of customer's ability to repay the loan were considered, but this didn't work well as loan defaults continued unabated (Modoc, 1999). This has been the case not only in MFIs but also in formal banking institutions. In microfinance institutions (MFIs) the concept of credit management became widely appreciated in the late 90s, but again this did not stop loan defaults to this date (Modoc, 1999).

Consequently research studies have suggested that in order to minimize exposure to bad debt, financial institutions must have greater insight into customer financial strength, credit score history and changing payment patterns. The ability to attract customers hinges on the ability to quickly and easily make well-informed credit decisions and set appropriate lines of credit. However, a firm's credit policy is greatly influenced by economic conditions (Pandey, 2008). As economic conditions change, the credit policy of the firm may also change. Therefore MFIs must develop a credit policy to govern their credit management operations (Pandey, 2008) and since MFIs generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted (Kariuki, 2010) the loan repayments may be uncertain. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower. Numerous approaches have been developed in client appraisal process by financial institutions. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones, such as the use of computerized simulation models and Credit Reference Bureau (Horne, 2007). Many lending decisions by MFIs are frequently based on their subjective feelings about the risk in relation to expected repayment by the borrower. MFIs commonly use this approach because it is both simple and inexpensive. However the concepts of 5C for credit appraisal pioneered by Edward (1997) has gained currency in MFIs. These elements are character, capacity, collateral, capital and condition (Edward, 1997; Orua, 2009). Microfinance deals with the lending of small amount of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available to the wealthy at a small scale. According to Anyanwu (2004), MFIs provide not only capital to the poor, but also combat poverty at an individual level. Thus such institutions should continuously provide financial services to the poor. In Africa and other developing regions, MFIs are the main source of funding for micro enterprises (Anyanwu, 2004). In Kenya the gap filled by MFIs has become part of the formal financial system and MFIs need to access capital market to fund their lending portfolios, in order to allow them to dramatically increase the number of poor people they can reach. In Kenya micro financing is offered by many big and small micro financial institutions such as Kenya Women Finance Trust (KWFT), Faulu Kenya, Rafiki, Rahisi business solutions among others. These micro financial institutions have national, regional and local presence in Baringo County.

Credit Risk Management and Loan Performance in Microfinance Institutions

Loan portfolio refers to the total amount of money given out in different loan products to different types of borrowers. This may be comprised of salary loans, group guaranteed loans, individual loans and corporate loans. Loan portfolio looks at the number of clients with loans and the total amount in loans (Wester, 1993). Survival of most MFIs depends entirely on successful lending program that revolves on funds and loan repayments made to them by the clients (Sindani, 2012). This requires a restrictive credit control system to be put in place so as to restrain from unnecessary lending thus, improving on profitability of micro finance institutions (Kakuru, 2000). Credit management is the executive responsibility of determining customer's credit ratings as part of the credit control function.

Tucker and Miles (2004) studied three data series for the period between March 1999 and March 2001 and found that self-sufficient MFIs are profitable and perform better on return on equity (ROE) and return on assets (ROA). In order to optimize their performance, MFIs are seeking to become more commercially oriented and stress more on improving their profitability. Loan portfolio in MFIs is the most important since portfolio quality reflects the risk of loan delinquency and determines future revenues and ability to increase outreach and serve existing customers. Portfolio quality is measured as portfolio at risk over 30 days. How best a loan portfolio is performing is looked at in terms of profitability and rate of return on different loan products. This is a function of the number of the loans and the cost of administering these loans (Indjeikein, 1997). In Baringo County the extent of poverty is alarming. However, the need for microcredit has been noted and several MFIs have opened branches in the area. Consequently studies were required to establish the extent to which credit risk management practices may influence loan performance and minimize the risk of credit default in MFIs in the area.

Statement of the Problem

The financial success of MFIs depends on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned on loans extended to small and medium entrepreneurs. The Central Bank Annual Supervision Report, 2010 indicates that high incidence of credit default has been reflected in the rising levels of non- performing loans by MFIs in the last 10 years. This situation has adversely impacted on loan performance and profitability of MFIs. This situation is not different from MFIs in Baringo County. This trend not only threatens the viability and sustainability of the MFIs but also hinders the provision of credit to the rural unbanked population and bridge the financing gap in the mainstream financial sector. A study on microfinance credit risk management practices and loan recovery systems is of considerable interest by many researchers particularly under the new constitutional dispensation. This is because some MFIs have collapsed while others are facing serious default or low loan uptake (Migiri, 2012). However, most studies undertaken in the past few years have focused mainly on credit models used by deposit taking microfinance institutions (DTM) and their impact on profitability (Migiri, 2012). Absence of empirical studies on the role of credit risk management practices on the performance of MFIs was the principal motivation behind this study which sought to find out the influence of credit risk management practices on loan performance in microfinance institutions in Baringo County.

Objective of the Study

To determine the effect of client appraisal on loan performance of microfinance institutions in Baringo County.

Research Hypotheses

$H0_1$: There is no statistically significant relationship between client appraisal and loan performance of microfinance institutions in Baringo County.

Significance of the Study

The outcome of this study is expected to benefit many parties. The microfinance sector may benefit from the study because it may highlight the problems microfinance face due to non performing loans. The results of the study may also help other researchers who may be interested in doing further research in the same area of study. The findings of the study may also benefit students pursuing financial management courses. The study also adds to the body of knowledge in the finance discipline by bridging gaps in credit risk management practices. This study may make several contributions to both knowledge building and practice improvement in credit risk management practices and financial performance.

Scope of the Study

The study was carried out at Baringo County and covered a period between August and October, 2014. The study was conducted among 7 microfinance institutions found in Baringo County. The area of the study was on credit risk management practices in MFIs in Baringo County. The area was chosen because of its proximity to the researcher and accessibility of the MFIs within the study area. The study was conducted within the proposed budgetary plan and time frame.

2. Literature Review

Theoretical Review
The 5 C's Model of Client Appraisal

Microfinance institutions may use the 5Cs model of credit management to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs are character, capacity, collateral, capital and condition. Character basically is a tool that provides weighting values for various characteristics of a loan applicant and the total weighted score of the applicant is used to estimate his credit worthiness (Myers, 2005). The factors that influence a client can be categorized into personal, cultural, social and economic factors (Ouma, 2008). The psychological factor is based on a man's inner worth rather than on his tangible evidences of accomplishment. MFIs may consider this factor by observing and learning about the individual. In most cases it is not considered on first application of credit by an applicant but from the second time.

Under social factors, lifestyle is the way a person lives. This includes patterns of social relations such as membership groups, consumption and entertainment. A lifestyle typically also reflects an individual's attitudes, values or worldview. Reference groups in most cases have indirect influence on a person's credibility. Through group guarantors MFIs try to identify the reference groups of their target as they influence a client's credibility. Personal factors include age, life cycle stage, occupation, income or economic situation, personality and self concept. Under life cycle stage for example older families with mature children are not likely to default since it's easier to attach collateral on their assets since they are settled unlike the unsettled young couples. The MFIs will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. Cash flow helps the MFIs to determine if the borrower has the ability to repay the debt. The analysis of cash flow can be very technical. It may include more than simply comparing income and expenses. MFIs determine cash flow by examining existing cash flow statements and reasonable projections for the future.

Collateral is any asset that customers have to pledge against debt (Modoc, 1999). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral is in form of hard assets such as real estate and office or manufacturing equipment. Alternatively accounts receivable and inventory can be pledged as collateral. MFIs prefer collateral that has duration closely matched to the short term loan. According to Wester (1993) capital is measured by the general financial position of the borrower as indicated by a financial ratio analysis, with special emphasis on tangible net worth of the borrower's business. Thus, capital is the money a borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail. Condition refers to the borrower's sensitivity to external forces such as interest rates, inflation rates, business cycles as well as competitive pressures. The conditions focus on the borrower's vulnerability.

Client Appraisal and Loan Performance

Client appraisal can be used to enhance loan performance. The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. MFIs use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help MFIs to increase loan performance, as they get to know their customers better. The 5Cs need to be included in the credit scoring model. The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line are used to assign credit applicants to good or bad credit risk classes (Constantinescu, 2010). Inkumbi (2009) notes that capital and collateral are the major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan. Any effort to improve access to finance has to address the challenges related to access to capital and collateral. One way to guarantee the recovery of loaned money is to take some sort of collateral on a loan. This is a straightforward way of dealing with the aspect of securing depositors funds. However, customer evaluation has been considered appropriate in the context of MFIs. Campsey and Brigham (1995) propounded that the evaluation of an individual should involve; gathering of relevant information on the applicant, analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune.

Empirical Review

Several studies have been done in regard to credit risk management on loan portfolio. Pyle (1997) in his study on credit risk management held that financial institutions needed to meet forthcoming regulatory requirements for risk measurement and capital. However, it is a serious error to think that meeting regulatory requirements is the sole or even the most important reason for establishing a sound, scientific risk management system. Managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need the estimate of the size of potential losses to stay within limits imposed by readily available liquidity, by creditors, customers and regulators. Mechanisms are needed to monitor positions and create incentives for prudent risk taking by divisions and individuals.

Nagarajan (2011) in his study of credit risk management practices for microfinance institutions in Mozambique found that risk management is a dynamic process that could ideally be developed during normal times and tested at the wake of risk. The study concluded that financial institutions needed to minimize risks related losses through diligent management of portfolio and cash-flow by building robust institutional infrastructure with skilled human resources and inculcating client discipline, through effective coordination of stakeholders. Matu (2008) carried out a study on sustainability and profitability of microfinance institutions and noted that efficiency and effectiveness were the main challenges facing Kenya on service delivery. Soke and Yusoff (2009), in their study on credit risk management strategies of selected financial institutions in Malaysia found that majority of financial institutions losses stem from outright default due to inability of customers to meet obligations in relation to borrowing. This study will establish whether MFIs borrowers in Baringo do meet their loan obligation or not. Orua (2009) conducted a study on the relationship between loan applicant appraisal and loan performance of microfinance institutions in Kenya. The study revealed that short-term debt significantly impacted MFI outreach positively. Long term debt however showed positive relationship with outreach but was not significant with regard to default rates. This study is different since the focus is exclusively on short term debts. Sindani (2012) in her study on effectiveness of credit management system on loan performance based on empirical review established that credit terms formulated by microfinance institutions affected loan performance. The study recommended that both credit officers and customers should be involved in formulating credit terms. This study is expected to find out if this recommendation was applicable in the case of MFIs in Baringo County.

3. Methodology

The study employed a descriptive design because such a design allowed simultaneous description of views, perceptions and beliefs of the respondents at any single point in time (White, 2000). This technique was considered appropriate because it enabled the researcher to obtain factual information from the respondents. The target population in this study was 7 managers and 88 credit officers in MFIs in Baringo County. Census technique was used because all branch managers and credit officers were directly targeted in this study. The researcher used the questionnaire in data collection. The questionnaire was preferred because it was efficient, cheap and easy to be administered. Data was analyzed Descriptive statistics was used to summarize the data through percentages and frequencies. Tables were used to present the data for ease of understanding and analysis. Inferential statistics such as regression and correlation analysis were used to show the direction and strength of association between the variables.

4. Results and Discussion

Adoption of Credit Management Practices in MFIs in Baringo County

The study sought to ascertain whether credit management practices were adopted in MFIs in Baringo County. This was done by asking the respondents to indicate whether credit risk management practices had been adopted in their MFIs or not and the results obtained are presented in Table 1.

Table 1: Adoption of Credit Management Practices in MFIs

Response	*Frequency*	*Percentage*
Yes	88	97.8
No	2	2.2
Total	90	100

As presented in Table 1, 97.8% of the respondents indicated that their MFIs had adopted credit management practices, whereas 2.2 % indicated that their MFIs had not. From these results it is evident that a significant number of MFIs in Baringo County had adopted credit risk management practices.

Credit Risk Management Practices and Rate of Loan Performance

The study sought to determine the extent to which credit risk management practices have lead to rate of loan performance in microfinance institutions in Baringo County. The results obtained are presented in Table 2.

Table 2: Credit Risk Management Practices and the Rate of Loan Performance

Extent of Effect	*Frequency*	*Percentage*
Very Great Extent	26	28.9
Great Extent	48	53.3
Medium Extent	15	16.7
Least Extent	1	1.1
No Extent	0	0.0
Total	90	100

The findings presented in Table 2 show that majority (53.3%) of the respondents indicated that credit risk management practices affected loan performance to a great extent compared to 28.9% of the respondents who pointed out that credit risk management practices used in microfinance institutions in Baringo County affected loan performance to a very great extent. The results also show that 16.7% of the respondents indicated medium extent whereas 1.1 % of the respondents indicated least extent. This implies that credit risk management practices as used in most MFIs in Baringo County affected loan performance to a great extent.

Effects of Indicators of Loan Performance in MFIs in Baringo County

The study sought to ascertain the effects of different indicators of loan performance in MFIs in Baringo County. The respondents were asked to assess the effects of selected indicators of loan performance in microfinance institutions in Baringo County. The findings obtained are presented in Table 3.

Table 3: Effects of Indicators of Loan Performance in MFIs in Baringo County

Statement	*N*	*SA*	*A*	*N*	*D*	*SD*	*Mean*	*SDev.*
It is easy for customers to get loans in your MFI	90	37	41	6	6	0	4.22	0.32
Your MFI incurs a lot of costs in recovering loans given to customers	90	8	29	25	22	6	3.12	0.89
In cases of failure to pay the loan the MFI takes measures to recover it	90	35	49	3	2	1	4.50	0.46

Loan products have increased the MFI's profitability levels.	90	40	38	7	4	1	4.26	0.35
The degree of risks associated with loans in your MFI is high.	90	8	27	18	27	10	3.00	1.03

From the findings, 78 of the respondents agreed that it was easy for customers to get loans in MFIs in Baringo County compared to 6 who disagreed. The mean response rate of 4.22 with a standard deviation of 0.32 indicates that easy accessibility of loan influenced loan performance in MFIs in Baringo County. Concerning whether MFIs incurred a lot of costs in recovering loans given to customers 37 of the respondents agreed compared to 28 who disagreed. A mean response of 3.12 shows that the respondents slightly agreed that MFIs incurred costs when recovering loans advanced to them. However a standard deviation of 0.89 suggests that the respondents were varied in their responses. Similarly higher percentages were reported in regard to whether in cases of failure to pay the loan the MFI takes measures to recover it. For instance 84 of the respondents agreed that in cases of failure to pay the loan the MFI takes measures to recover it as compared to 3 who disagreed. This is also supported by the mean response of 4.50 with a standard deviation of 0.46. The findings also show that 78 of the respondents noted that loan products had increased the MFIs' profitability levels as compared to 5 who disagreed and 7 who were undecided. A mean of 4.26 suggests that the respondents were in high agreement with low variation in their responses as shown by a standard deviation of 0.46. In regard to whether the degree of risks associated with loans in the MFI was high, 35 of the respondents agreed that the degree of risks associated with loans in MFI was high compared to 37 who disagreed and 18 who were undecided. The mean response of 3.00 showed that the respondents were indifferent in their response. However, a standard deviation of 1.003 indicated a high variation in their response. These findings seem to concur with Kibet (2008) who concluded that credit risk management practices played a role in enhancing loan performance in financial institutions and recommended enhanced effectiveness credit risk management practices in promoting loan performance in the financial institutions.

Extent of Use of Client Appraisal as a Credit Risk Management Practice

The respondents were required to indicate the extent to which client appraisal had been used as a credit risk management practice in MFIs in Baringo County. The findings are presented in Table 4.

Table 4: Extent of Use of Client Appraisal

Extent of Use of Client Appraisal	*Frequency*	*Percentage*
Very Great extent	36	40.0
Great Extent	44	48.9
Medium Extent	9	10.0
Least Extent	1	1.1
No Extent	0	0.0
Total	90	100

The findings show that 48.9% of the respondents indicated that MFIs in Baringo County used client appraisal as a credit risk management practice to a great extent while 40.0% indicated that client appraisal was used to a very great extent. The results also show that 10% of the respondents pointed out that MFIs in Baringo County used client appraisal as a credit risk management practice to a medium extent while only 1.1% cited least extent use of credit risk management practices in MFIs in Baringo County. This implies that most MFIs used client appraisal as a credit management to a great extent.

Effects of Indicators of use of Client Appraisal in MFIs

The study examined the effects of various indicators of use of client appraisal in MFIs in Baringo County. This was done by asking the respondents whether they agreed or disagreed with the statements relating to the indicators of client appraisal in MFIs. The levels of measurements of the indicators were Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree. The findings obtained are presented in Table 5.

Table 5: Level of Agreement on Client Appraisal in MFIs

Statements	*N*	*SA*	*A*	*N*	*D*	*SD*	*Mean*	*SDev*
Client appraisal is a good strategy for credit risk management	90	60	28	1	1	0	4.52	0.21
There are competent personnel for carrying out client appraisal	90	34	47	3	3	2	4.17	0.33
Client appraisal considers the character of the customers seeking credit facilities	90	34	39	7	7	2	4.02	0.37
Aspects of collateral are considered while appraising clients	90	48	39	4	0	0	4.53	0.28
Failure to assess customers capacity to repay results in loan defaults	90	47	28	6	6	2	4.21	0.42

From the findings, it is evident that 88 of the respondents agreed that client appraisal was a good strategy for credit management as compared to 2 respondents who disagreed. A mean response of 4.52 indicated that the respondents strongly agreed that appraisal was a good strategy for credit management. Similarly a standard deviation of 0.21 suggested a low variation in response. In regard to whether there are competent personnel for carrying out client appraisal, 81 of the respondents agreed compared to 5 who disagreed. The results also show a mean response of 4.17 with a standard deviation of 0.33 suggesting low variation in response. Moreover 73 respondents agreed that client appraisal considered the character of the customers seeking credit facilities. This was in comparison to 10 of the respondents who disagreed. A mean of 4.02 indicated that majority of the respondents agreed the character of the customers seeking credit facilities was considered. This is

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also supported by a low variation in response as indicated by standard deviation of 0.37.

Concerning whether collateral was considered while appraising clients 87 of the respondents agreed compared to 4 who were undecided. The mean response of 4.53 and a standard deviation of 0.28 shows that majority of the respondents strongly agreed that collateral was considered while appraising clients. Similarly high response rate was reported in regard to whether failure to assess customers' capacity to repay loans resulted in loan defaults as indicated by 75 of the respondents who agreed compared to 9 who disagreed with a standard deviation of 4.21 and standard deviation of 0.21. It appears that most of the respondents agreed more than they disagreed with the indicators of use of client appraisal in MFIs in Baringo County. Previous studies have also found out that client appraisal can be used to enhance loan performance since it ensures that clients have the willingness and ability to repay a loan. For instance Abedi (2009) found that MFIs can use the 5Cs model of credit to evaluate a customer as a potential borrower in order to increase as loan performance. The results reported in this study also agree with the findings in a study by Kamau (2011) which reported that credit scoring model has successfully been used to assign credit applicants to good or bad credit risk classes. In addition, Inkumbi (2009) notes that client appraisal can help identify whether clients have collateral trying to access equity capital. Similar conclusions have been made by Kibet (2013) who pointed out that evaluation of an individual should involve gathering of relevant information on the applicant and analyzing the information to determine credit worthiness and making the decision to extend credit and to what tune.

Correlation Analysis

Pearson' correlation analysis was applied to test the relationship between credit risk management practices and loan performance (LP) in microfinance institutions in Baringo County. The dimension of credit risk management practices examined was client appraisal (CA). The relationship was established through Pearson correlation analysis as presented in Table 6.

Table 6: Pearson's Correlation Analysis

	CA. Total Score	*LP. Total Score*
CA. Total Score Pearson Correlation Sig. (2 tailed) Total Score **N**	1 **90**	
LP. Total Score Pearson Correlation Sig. (2 tailed) **N**	0.591* .000 **90**	1 **90**

* σ=0.05 (Correlation is significant at 0.05 level (2-tailed)

The correlation table presents the relationship client appraisal and loan performance. The hypothesis tested in stated below.

$H0_1$: There is no statistically significant relationship between client appraisal and loan performance of microfinance institutions in Baringo County.

Results presented in Table 4.15 show that there is a positive relationship between client appraisal and loan performance ($r = 0.591$, $p < 0.05$). Hypothesis states that client appraisal has no significant influence on loan performance of microfinance institutions in Baringo County. The researcher therefore rejected the null hypothesis and concluded that there is sufficient evidence at 5% level of significance that client appraisal influences loan performance in microfinance institutions in Baringo County. This means that client appraisal enhanced loan performance. The findings are similar to that of Maiteka (2010) who found that there existed a strong and positive relationship between client appraisal and loan performance in commercial banks. However, the findings are in contrast to the study findings by Liebesman (2004) who established negative relationship between client appraisal and loan performance in SACCOs in Vietnam.

Regression Analysis

This section presents results on the regression analysis of the relationship between client appraisal, credit controls and collection policies and loan performance in MFIs in Baringo County.

Table 6: Model Summary

Model	*R*	*R Square*	*Adjusted R Square*	*Std. Error of the Estimate*
1	.837(a)	.756	.781	.2867

Adjusted R^2 is the coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. From the findings as shown in Table 4.16 the value of adjusted R squared was 0.781, an indication that there was variation of 78.1% on loan performance of MFIs in Baringo County due to changes in client appraisal, credit risk control and collection. R is the correlation coefficient which shows the relationship between the study variables. From the findings shown in Table 6, there was a strong positive relationship between the study variables as shown by R= 0.837.

Table 7: Coefficients

Model 1		*Unstandardized Coefficients*		*Standardized Coefficients*	*F*	*Sig.*
		B	Std. Error	Beta		
1	Constant	.318	.241	.274	1.137	.049
	Client Appraisal	.339	.265	.305	1.151	.039

From the data in table the established regression equation was: $Y = 0.318 + 0.339X_1$

As shown in the regression equation above, holding client appraisal, loan performance of MFIs would be 0.318. A unit increase in client appraisal led to an increase in loan performance of MFIs in Baringo County by a factor of 0.339. In the computation of the coefficients the p-values were less that 0.05 an indication that client appraisal was statistically significant in influencing loan performance of MFIs in Baringo County.

5. Conclusion

From the findings, the study found that client appraisal had effect on loan performance of MFIs in Baringo County. The study revealed that a unit increase in client appraisal led to an increase in loan performance in MFIs in Baringo County indicating that there was a positive association between client appraisal and loan performance in MFIs in Baringo County. Thus there was strong positive relationship between client appraisal and loan performance of MFIs. Hence, client appraisal significantly influenced loan performance in MFIs in Baringo County.

6. Recommendations

The study also recommends that there is need for MFIs to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the MFIs will be able to know credit worthiness of clients and thus reduce non-performing loans. There is also need for MFIs to enhance their credit risk control. This may help in decreasing loan default levels. This may help in improving their financial performance.

7. Areas for Further Research

The study sought to determine the effect of credit risk management practices on the loan performance of Microfinance Institutions in Baringo County. Further research is recommended on the effect of client appraisal on loan performance in banks in Baringo County. Further research should also be done on the relationship between credit risk management practices and nonperforming loans of SACCOs in Baringo County and on the reasons for loan default in SACCOs in Kenya from the financial institution's perspective.

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