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 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<br>Sig. (2 tailed)<br>Total Score **N** | 1<br><br>**90** | |
| LP. Total Score Pearson Correlation<br>Sig. (2 tailed)<br>**N** | 0.591*<br>.000<br>**90** | 1<br><br>**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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