

**THE EFFECT OF CREDIT POLICY ON THE FINANCIAL
PERFORMANCE OF MICROFINANCE INSTITUTIONS IN NAIROBI
COUNTY**

BY

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REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
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DECLARATION

This research project is my original work and has not been presented for award of any degree in any University for examination purposes.

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This research project has been submitted for presentation with my approval as University supervisor

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DEDICATION

I dedicate this project to my loving husband Tom Ayora and my entire family members for their support.

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Foremost, I want to thank the Almighty God for the wisdom He bestowed upon me ,the strength, the peace of mind and good health in order to finish this research.

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ABSTRACT

The research was carried out on the effect of credit policy on financial performance of microfinance institutions in Nairobi County. Microfinance institutions take cash from customers in form of deposits and in turn give out to customers as loans but sometimes clients are unable to pay their loans raising the issue of nonperforming loans. Establishing the effect of the policy of credit on financial performance of microfinance institutions was the main objective of the research. Establishment of a common set of standards, provisioning and classifying of loans, application of a common language and methods for measuring and reporting non-performing loans and prudently overseeing quality of assets can be achieved through a good credit policy. Success largely depends on the performance of the borrower because funding risk is found in every activity. This risk occurs the moment an extension, exposure, investment or commitment of bank resources are used directly or indirectly to contracts, whether shown on or off the income with Central bank of Kenya and Association of Microfinance Institutions of Kenya. Full data was obtained from 13 Micro Finance Institutions for the year 2012 to 2014. The research concentrated to 13 Micro Finance Institutions. The data collected included: Earnings before Interest and Taxes, Total Net Assets, Cost per Loan Assets, Non-performing Loans, and Total Loans. The data collected was analyzed using analyses of correlation and regressing multiples to find out the degree up to how much credit policy influence financial performance of Micro finance Institutions in Nairobi. The findings revealed that there was a significant relationship between financial performance of Micro Finance Institutions and credit standards, credit terms and conditions, and collection effort with R ranging from 0,498 to 0.235. From the findings it was established that credit standards, credit terms and conditions, and collection efforts affect the financial performance by a relatively moderate per cent. The management must be keen not to set up a policy of credit that can negatively affect the profits of the institution was the main study recommendation.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Microfinance Act 2003 describes microfinance institutions as financial institutions registered as non-government organization performing financial functions of lending and taking deposits. They belong to a wider group of financial institutions regarded as semi-formal financial institution. Stiglitz (2001), stated that credit policy assists to control offering credit to clients who are not able pay back their debts. According to Blair (2002),small companies' informal credit policy lacking items in the formal credit policy of large firms with specifications of guidelines, checks and applications on credits, this results on many small firm owners to rely on perceptions and instincts so as to offer credits.

Without any negative effect on the cash flow, the best must help management of the firm attract and retain customers. According to Wagster (1999, cash flow of the firm are directly impacted by credit policy. He argued that potential customers can be easily turned away by tight credit policy, hence reduction in the amount of cash flows to the business due to low sales. On the other hand, slow paying customers may arise due to a too liberal credit policy that may lead to cash inflow problems due to increased collection period for debtors.

Seppala (2001) found out that in classifying loans and provision of loans, setting of minimum standards and application of common language and methods for measuring and reporting of non-performing loans should be brought about by good credit policy which should help to prudently oversee the improvement of asset quality and the above. The methods involve; documentation, authorization, ethics, securities, pricing and assessment of risk. Hermes and Lensink (2007), argued that financially sustainable microfinance institutions that guarantee large-scale outreach to the less fortunate on a long-term basis are significantly elaborated by financial systems approach. Achou and Tenguh (2008), carried out a study that showed an important relationship between financial institution performance and credit risk management on bank performance and credit risk management.

1.1.1 Credit policy

Girm` (1996) referred to rejection or acceptance of applications of analyzed credit credit requests is an institutional method known as credit policy. Pandey (1995) stated that credit policy helps in the management of account receivable. . He showed that within the operations of a firm's activities it can shape its credit policy due to time flexibility. According to Khandkar and Khan (1998), policies save time ensuring that people in similar circumstances get similar treatment and that decisions are consistent and fair. McNaughton (1996), argued that entire practices of management frame work is provided by credit policy. Majority of financial institutions have written credit policies for sound credit management. This ensures adherence to uniformity of sound practices and consistency of operations. A general rule must be designed to guide each decision, listening to and simplifying each decision making process. Policies should be similar for all.

Ahimbishwe (2002)stated that credit policies are procedures, rules and guidelines set to maximize benefits associated with credit and minimize costs to it. These are objectives, standards and parameters to guide bank officers granting loans and managing the loan portfolio. These are rules guidelines and procedure laid down to maximize benefits while minimizing costs associated with credit. Hul,es (1992) found out that the main objective of credit policy is to ensure sustainability and profitability of MFIs as commercial institutions by keeping an optimal investments in accounts receivables that minimizes costs while maximizing benefits. The credit policy of a firm depends on the manager's regulation of variables for it to be tightened or softened. Credit policy has three variables: borrowing terms, borrowing standards, and borrowing procedures. According to Pandey, (2001), financial managers use these variables to evaluate customer's borrowing capability, payment time and loan interest, methods of collection and steps to take in case of loan default. Highly selective cases of credit to customers occur on a tight credit policy. Tight credit policy target is to collection cost, unnecessary legal costs and bad debts, only clients who have proved to strong financial base are given loans.

1.1.2 Financial Performance of Microfinance.

Ball & Shivakumar (2004), describes financial performance as a comparison of companies across the same industry or sectors in aggregation over a given period of time. It measures the financial soundness over a given time period. It is a measure of financial institution's policies and operations in monetary terms. Bank's financial performance is measured in different ways, reflected in the firm's value, asset return and investment return. Mishkin (2007) stated that sale of products by financial industry is in the business of earning profits. Development of new products is for the satisfaction of client needs and those of the financial institution so as to maximize profits. According to McNamee and Selim (1999), this innovation process leads to a search for profitable innovations by financial institutions due from a change in the financial environment.

According to Apps (1996), financial performance is measured using: repayment rate, portfolio quality ratios, arrears ratio rate portfolio rate and delinquent borrowers. Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate, portfolio risk and delinquent borrowers. The amount of loans that have become payable and have not been paid are the rate of arrears. Unpaid amount for all loans are the rate of portfolio. Number of delinquent borrowers relative to volume of delinquent loans is determined by delinquent borrowers.

Ball & Shivakumar (2004) in their study described that majority of financial intermediaries were unable to obtain funding which could soon make them out of business because they only had instruments of finance which were traditional. Research and development of new products and services to profit the company and meet customer needs for financial institutions ensures sustainability in a changing economic environment. These are the basic types of financial innovation: regulations avoidance, supply conditions changes responses and demand conditions supply changes responses.

Firm's investment return, assets return, added value, among others is subjective measures on how a firm can use assets from its primary operations in business and it generates revenue. These are some of the different ways to measure a MFI's financial performance. Financial performance of MFIs can be evaluated using many financial indicators such as liquidity ratios, profitability

ratios and others for example (Saleh & d Zeitun, 2007). However, in this paper will use three major profitability indicators to evaluate the financial performance of MFIs, namely ROA as a stable measure of financial performance.

1.1.3 Microfinance Institutions in Kenya

Kwan and Eisenbeis(2005),women and less fortunate people and small enterprises in society have been capable of operating their own businesses through microfinance hence boosting economic activities in developing economies. Jorion(1997)a variety of organizations have come up to cater for the less fortunate, the women and small businesses in different ways even in our society here in Kenya, some collect money from customers in form of deposits and in turn give loans, other give only loans and others only take deposits. variety of MFIs have emerged to take care of the problems.

The financial services such as insurance to the less fortunate and households with low income and their small businesses ,transfers of money, payment services, loans and deposits aprovisions are termed as microfinance by Asian Development Bank(2000). Hartarska (2005)low income or unbanked people are provided with small scale financial services also termed microfinance.

According to Microfinance Act (2006), Registration of Micro finance Institutions in Kenya is grouped into three different categories which include: institutions which take deposits such as banks, institutions which only give credits, and non formal organizations manned by an external agency other than the government. Regulation of the establishment, operations and business of MFIs licensed by central bank of Kenya to boost efficiency and access thus promoting competition by mobilizing savings from the general public.

1.1.4 Credit Policy and Financial Performance of Micro Finance Institutions

According to Pandey (2010), a firm's credit policy aims at maximizing shareholders' wealth through increase in sales leading to net improvement in profitability. Increasing sales will not only increase operating profits, but will also require additional investment and costs. Hence, a trade-off between return increase return and cost of investment increase is involved. Puxty & Dodds (1991) argued that is achieved through optimization of the credit policy. Increase in cost

of investment finance when equal to increase in investment return, then the value of a firm is maximized. Increasing return rate is measured by the division of increasing receivables and increasing operating profits. The incremental cost of funds is the rates of return required by the lenders of funds require increasing cost of funds as a rate of return to cater for the investment risk on receivables.

Gasbarrp et al., (2002) found out that the firm's performance financially is affected by the financial institutions' policy of credit. The study showed that depending on how well the policies are made and implemented they can be able to impact the company in a positive or a negative way on its liquidity and earnings, quality of assets and adequacy of capital. Seppala et.al (2001) showed that a good policy of credit should provide and classify loans well, apply common language and methods of measure and reporting loans, establishment of a minimum standard set and assist improve oversight of assets quality prudently. Achou and Tenguh (2008) carried out a study on performance of bank and management of credit risk and concluded that there exists an important bond between management of credit risk and financial institutions performance.

1.2 Research Problem

The research was carried out on the effect of credit policy on financial performance of microfinance institutions in Nairobi. Microfinance institutions take cash from customers in form of deposits and in turn give loans to clients but sometimes clients are unable to pay their loans leading to rising of issues like non-performing loans. Establishment of the policy of credit on financial performance was the main objective of the research. Establishment of a common set of standards, provisioning and classifying of loans, application of a common language and methods for measuring and reporting non-performing loans and prudently overseeing quality of assets can be achieved through a good credit policy. Success largely depends on the performance of the borrower because funding risk is found in every activity. This risk occurs the moment an extension, exposure, investment or commitment of bank resources are used directly or indirectly to contracts, whether shown on or off the income statement.

To meet the unsatisfied demand for financial services to small enterprises, low income people and women who are considered low income earners, a variety of MFIs have emerged overtime.

A number of these institutions provide credit, some are involved in taking customer deposits and giving credit and others take customer deposits only (Jorion, 1997). Good and effective systems of managing credits determine success of MFIs. Proper credit management ensure only credit worthy clients are qualified for loans. This has highly contributed to the reduction of nonperforming loans among the Microfinance Institutions leading to improving of financial performance of the companies. According to CBK (2011), Credit risk is cited as a major concern by 95 per cent of the lending institutions. The study recommended that Microfinance Institutions should adjust their policy of credit with respect to the changing market environment.

A vast majority of studies on credit policy have been done internationally. Ahlberg& Anderson (2012) carried out a study on. The study found out that developing a strong understanding with the customer is credit risk, credit assessment, Basel III, and small business finance in 95 small and large banks in Sweden important which leads to most banks to have a well-developed credit process. Ntiamoah, Egyiri, Diana Fiaklou, & Kwamega, (2014) carried out assessing the relations shared on management practices on credits and performance of loans on microfinance institution: Case study of Greater Accra region of Ghana. They found out that there was high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

Locally, Maiti (2015) did a study on effect of credit policy on financial performance of deposit taking Savings and Credit Co-operative Societies in Nairobi. The objective of the study was to establish the effect of credit policy on the financial performance of SASURA regulated SACCOs in Nairobi. The research found out that regulated SACCOs had adopted credit standards, credit term policy loan ration in determination of how much a client would borrow. Mwithi (2012) found a positive correlation between credit risk assessment and performance of microfinance institutions in Nyeri County. In his study, Simiyu (2008), established that in measuring risk of default and migration of credit many of the institutions used the Credit Metrix. Stringent operational regulations facing microfinance institutions is the challenge from Central Bank of Kenya as the results showed. Most of these studies focused on deposit taking MFIs.

To the researcher knowledge there is no known study done on the financial performance and credit policy of Microfinance Institutions. Much research work done relating to credit policy on

financial performance of microfinance institutions has been conducted in the developed world. This research intends to fill the gap of knowledge by investigating the correlation between credit policy practices and financial performance of microfinance situations in Nairobi County. This research intends to answer the research question: what is the effect of credit policy on financial performance of Microfinance institutions in Nairobi County?

1.3 Research Objective

The objective of the study is to establish the effect of credit policy on financial performance of microfinance institutions in Nairobi County.

1.4 Value of the Study

The research findings shall be beneficial to various parties.

Management of the MFI's shall be able to know the importance of their credit policy, the effect it has on their financial performance and how they can be able to use their credit policy to their benefit. Development of credit policy for better governance on management of credits for Financial Institutions and Microfinance Institutions.

Policy makers will gain insight on effect of credit policy on financial performance of micro finance institutions. This will enable policy makers and the government to formulate measure to enhance credit policy formulation that will improve financial performance of MFIs in Nairobi County.

Academic researchers and scholars will gain insight knowledge on effect of credit policy of MFIs. The research shall form a foundation for the researcher who wishes to carry out further research on financing of Microfinance Institutions' performance, for there is very little literature if any in the field of Microfinance Institution especially in the developing countries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter presents literature review. It presents theoretical and empirical review relating to the objective of the study. The section include: 2.2 theoretical review, 2.3 determinant of financial performance of Microfinance Institutions, 2.4 empirical literature and 2.5 summary.

2.2 Theoretical Review

The study is grounded on the following theories:

2.2.1 Asymmetric Information Theory

The asymmetric information theory was first introduced by Akerlofs (1970). According to Ekumah and Essel (2003), the theory details the situation in which related information is not available both parties concerned in any transaction. Epp (2005) argued that all the parties in a given transaction do not know the relevant information. Edwards and Turnbull (1994) showed that in a situation where the lender doesn't have sufficient information relating to the borrower as compared to the borrower with full information on returns and risks associated with projects invested is referred information asymmetry in the capital market. The lender on the other hand doesn't have sufficient information relating to the borrower. The theory points out those financial institutions face two problems through information asymmetry: Monitoring entrepreneurial behavior and adverse selection that is making errors in lending decisions, moral hazard.

The theory is relevant to the study. According to Denis (2010), Low default rates and higher aggregate lending can be achieved through reducing information asymmetry between borrowers and lenders, credit registries which will allow extension of loans to customers priced out of the market previously. Furthermore, exchange in client's credit worth, helps to assess the quality of the credit applicants.

2.2.2 Transaction Costs Theory

The theory was first developed by Schwartz (1974). The theory shows that suppliers may have an advantage over traditional lenders in checking the real financial situation of the customers. Suppliers have a good chance to reinforce and monitor credit repayment. All these superiorities may give suppliers a cost advantage when compared with financial institutions.

Petersen and Rajan (1997) grouped cost advantage sources into three categories: existing assets salvage value, buyer control and acquisition of information. Acquisition of information is because information is obtained at normal course of business, sellers are able to get the information about buyers faster and at lower cost.

The theory informs the study in that financial institutions develop credit-worthiness and ability to repay credit facilities.

2.2.3 The 5C's Client Appraisal Model

According to Olomola (2002) cashflows for MFIs are determined by examining future projections and existing statements of cashflows if available. The financial statement and the business plan of the borrower is reviewed by the lender whereby a checklist is available to provide a guideline on the number of items to look at such as financial ratios. These will provide information to the lender whether the borrower will be able to repay the loan and his expenses as shown by the financial statements provided.

The personality of a client to the lender, that is the way he presents himself as a person, social behavior, economic standard, and his culture influences his clientele (Orua, 2009) The basis of a man's psychology factor is his inner worth and not touchable accomplishments. MFIs are able to determine also if the borrower is able to repay the debt from the cashflow, the technicality of cashflow analysis can make it difficult to sometimes compare income and expenses hence result to ratios (Anthony 2006).

Alternative pledges for repayment of loans are collaterals which are mostly assets such as pledged against debt like land, plant & equipment or even stocks and debtors can be

pledged(Lawrence &Charles 2007).Borrowers of short term loans are advised to match their loans with securities that are short term.

The theory informs the study in that the MFIs largely earn income from interest on loans borrowed by customers and from investment on customer savings. Therefore systems on managing credit must be effective and efficient to be able to consider customer ability to repay credit facility benefiting both the institution and the customer. Time and cashflows are important factors to be considered whenever a credit facility is to be offered.

2.3 Determinants of Financial Performance of MFIs

The two fundamental functions of micro finance institutions are investment and intermediation in finance. The most crucial one is intermediation in finance that aims in bringing together borrowers and savers (Pelrine, 2001). Kifle, Tesfa and Mariam (2012) emphasized on gender, household income, and amount of loan borrowed and year of cooperative membership. Sambasivam (2013) investigated on strategy of servicing loan, growth sign, and efficiency on mobilizing saving and financial soundness. This study focuses on credit policies as determinants of financial performance in micro financial institutions.

2.3.1 Credit Standards

Pandey (2010) defines credit standard as the method which is followed by a firm in selection of clients for credit extension purpose. The firm can decide to give credit to only the most reliable customers and those who are stable financially, it can also have stringent credit standards by mainly selling on cash basis. This will result to less administration costs and no bad debt losses but no much expansion on sales of the firm, hence less costs saved by the firm as compared to the profit sacrificed on lost sales. Loose credit standards of the firm to large sales but increases debtors and in turn credit administration costs and bad debt losses increase.

According to Van Home, (1994), customer worth is affected in two ways by credit standards: the default rate and the period taken by clients to repay the loans taken. He found out that optimum credit policy would lead to reduction of the tight and loose weaknesses of credit standards raising the firm's profitability. Kakuru (1998) showed that the increase in return and increase in costs trade off influences choice of credit standards.

2.3.2 Credit Terms

Wamasembe (2012) describes credit terms as the stipulation under which credit sales are made to clients by the firm. The stipulations involve: cash discount and credit period. An industry culture and practices can direct the credit period of a firm. The firm may widen the credit period or shorten the credit time. A firm tightens credit period by increasing sales and extension of credits hence increase in operating profits. With increased sales and extend credit period. According to kakuru (1998), found out that cash discount boosts collections due from customers and is used as a tool to increase sales. This will lead to the reduction in the level of debtors and associated costs.

Terms of credit in practice includes: the time of cash discount, the net credit period and the cash discount period. Saleh and Zeitun (2007) showed that credit period is the length of time taken to approve from the applicants to the loan disbursement. Failure by customers to pay loan within a specified credit period would result to bad debts. The credit terms are measured by determining cost of bad debt arising when microfinance institutions agree to loan a sum of assets to a debtor with expected repayment in a fixed period of time.

2.3.3 Collection Policy

According to Kariuki (2010) to ensure regular and prompt collection a collection policy is needed which should also aim at fastening the collection from slow payers and reducing bad debt losses. Some customers are non payers completely and others don't even put the time factor in consideration, hence the policy of collection caters for all these. He further found out that for fast turnover of working capital, keeping costs of collection and bad debts within limits and efficient maintenance of collection, prompt collection is needed.

Pandey (1995) argued that policy of collection should lay down clear methods of collection. Ineffective collection of loans depicts inefficiency in management level. Inefficiency in distributing loans to customers is therefore a policy that is determined through cost per loan asset as an average cost per loan advanced to clients in monetary terms determined by total cost and total amount of loans ratio.

2.3.4 Credit Analysis and Appraisal

According to Payle (1997) microfinance institutions have credit policies which guide the method of giving credit. Repayment arrangements, necessary security and the reasons when and why to take the loan facility are found on this policy as its main rules. Simson and Hampel (1999) found out that when and why to take credit policy helps to improve classification and provision of loans, establishment of minimum standard, application of a common language and method of assessing risk, documentation, pricing, authorization and ethic measuring and reporting of non-performing assets and prudently overseeing quality of assets. Increase in loan default for a period of 90 days results into nonperforming loans which results from poor credit risk management (Luke, 2007).

2.3.5 Credit Risk Control

According to Giesecke (2004), the success of business of a firm depends on efficient management to a greater extent and accurate measurement of credit risk for it is the most significant risk faced by commercial banks. Basel Committee (1999) found out that increased credit risk leads to increased incremental cost of debt and equity leading to increased funding cost to the banks.

A number of ratios are available for measuring credit risk. Demirgiic-Kunt (1999) showed that the ratio of the Loan Loss reserve to Gross Loan is a measure of bank's quality of asset that indicates how much of the total portfolio has been provided for but not charged off. The loan portfolio risk rises when the quality is poor and the ratio is high. There is a positive relationship between measures of risk and loan to asset in banks because there loans are subjected to high risk of default than other assets and are more illiquid hence in assessing the impact of loan activities on bank risk ,the ratio of bank loans to asset ratio is used (Brewer,1989).

2.4 Empirical Literature Review

Vincent, Byusa and Nkusi (2012) investigated the effect of credit policy on performance of banks using selected banks' data. They used existing literature review, questionnaires, quantitative collection of data, all termed as triangulation of methods like quantitative data

collection, questionnaire, and review of existing literature were used. The study evaluated performance of banking industry, profitability, and efficiency during post-liberation policies and how deep it becomes over time. The policy of collection, credit evaluation from personal loans, car loans, overdraft and interest rate mortgages of 17.5% to 20% per annum, credit responsibilities, bank's mission and goals, all reflected credit policies in them. The findings were that commercial banks of Rwanda increased their accounts, and customer base which increased their profitability. High spreads were witnessed in non- competitive banking system. Highly poor completion and inefficiency because banks had unusually high and increasing average interest rate spreads and interest rate margins. Banks should continue to improve their lending policies due to continued existence of bad debts.

Owonjori (2011) found out that the greatest contributor to the distress of collapsing banks was the incapability to collect advances and loans granted to customers as shown by the statistics from the liquidated banks. The ratio of distressed bank's leases and non-performing loans to leases and total loans was 67% at the peak of the distress in 1995, when in 115 banks 60 out of them were distressed. In 2002 the licenses of 35 banks initially distressed were returned due to continued decrease in the ratio whereby in 1996 it was 79% in 1997 82%. Only one bank was closed in 2003. In 2004 no bank was closed. Some of the banks had performing credits that were 10% and below of the loan portfolio hence more licenses revoked for 14 banks in 2006 due to failure to meet the minimum recapitalization directive of the CBN.

Ntiamoah, Egyiri, Diana Fiaklou, Kwamega (2014) carried out assessing credit management and loan performance using some selected microfinance in the Greater Accra region of Ghana as a case study. The research used qualitative and quantitative methods. Data was collected from 400 Microfinance companies using administered questionnaires. The study population comprised of management and non-management staff of the selected Microfinance companies. The study found out that there was a high positive correlation between the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance.

Wanja (2013) investigated effects of credit policy used by commercial banks on their performance. The objective of the study was to examine the relationship between loan terms and

conditions and performance, and relationship between loan processing procedures, amount of loan disposable, credit information and length of credit relationship with the bank and performance. The study was carried out using descriptive research design. The study population was all forty three commercial banks headquarters thus a census was taken. To obtain information from the respondents both open and closed ended questionnaires was used. Primary and secondary data was collected. The findings of the study were that, the nature of loan terms and conditions had a strong effect on the competitiveness of the banks. Furthermore, the nature of loan policies, credit history of the borrower in awarding loan amount and borrower's personal behavior had an influence on volumes of the loans procured by the banks.

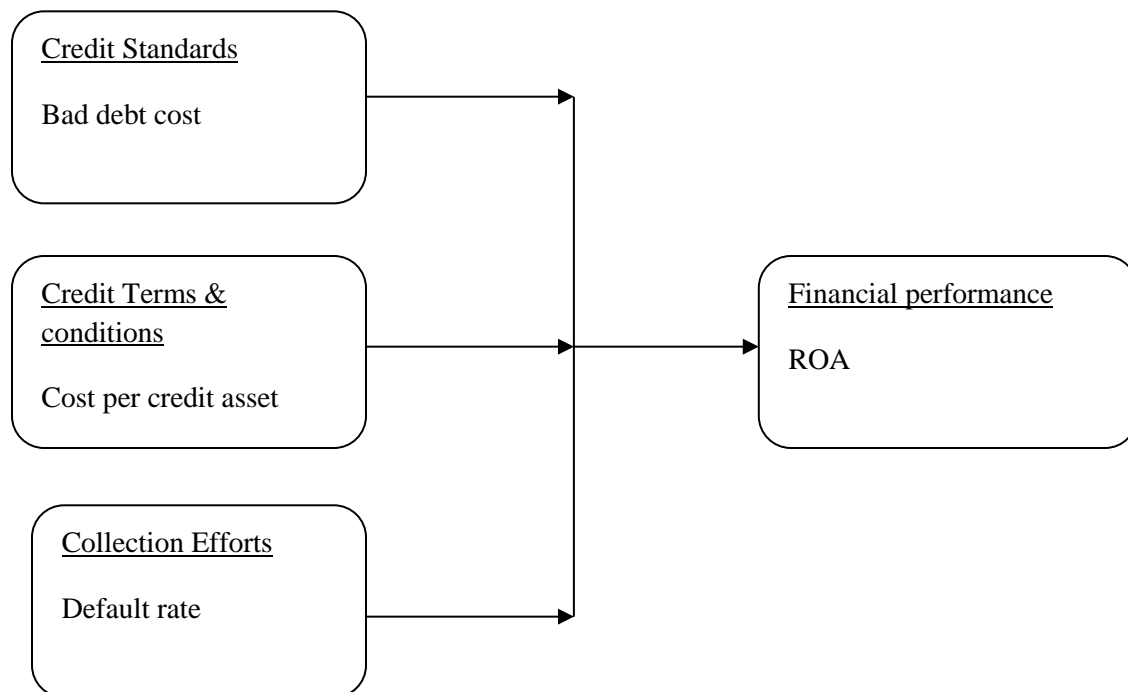
Owizy (2013) conducted a study on the impact of credit management on the financial performance of banks with particular reference to UBA Plc. In the study, secondary data for the years 2004 to 2008 was obtained from the bank's annual reports .As a measure of bank performance, analyses of regressive, descriptive and correlations were used to generate financial ratios. The study found out that there was tangible effect on profits in Nigerian banks due from management of credits.

2.5 Conceptual Framework

From the foregoing literature, the research conceptualizes that credit policy classified as credit standards, credit terms and conditions, and collection policy has direct effect on financial performance of MFI in Nairobi County. The conceptualized relationship is expressed in the figure below.

Independent Variable

Dependent Variable



Source: Research (2016)

2.6 Summary and Conclusion

According to Basel (1999), credit granting procedure and control systems are essential for the assessment of credit which in turn guarantees a financial institution credit portfolio as per institutions overall integrity. Financial institution should lay down good credit granting procedures, appropriate credit administration, a proper credit granting processes, appropriate administration of credit, measurement, control over and monitoring of credit risk by use of an optimum policy of credit.

CHAPTER THREE

RESEARCH DESIGN AND METHOTHOLOGY

3.1 Introduction

The systematic theoretical analysis of methods to field of study applications is referred to as methodology (Creswell, 2008). This chapter presents research design and methodology. The sections include: 3.2 research design, 3.3 target population, 3.4 data collection, and 3.5 data analysis.

3.2 Research Design

This is the designation of the Research study (Mugenda and Mengenda, 2003). The study adopted correlation research design in which data was collected quantitatively and analysis on its current trends, events and linkages to specifically describe a phenomenon. Correlated research design is preferred for it allows the study to test hypothesis or answer research questions of the study.

Causal and effect relationship was established to enable the researcher to determine the relationship between variables. Thus obtaining the information concerning the effect of credit policy on the financial performance of microfinance institutions in Nairobi.

3.3 Target Population

Saunders (2003) stated that a group of items, persons, events, objects or individuals from which which samples are taken for measurement is referred to as population. The research population consisted of 51 Microfinance institutions in Nairobi County that are members of AMFI (Appendix II). The study adopted a census study to collect data for three years from 2012 to 2014.

3.4 Data Collection

The data was collected from microfinance institutions financial reports. The financial data collected include: Earnings Before Interest and Taxes, and Total Net Assets; Cost Per Loan Asset, which is the average cost per loan advanced to the customer; and Non-performing Loan and Total Loans was also collected to determine the default rates.

Data on bad debt cost was collected by quantifying the sum of assets lent to debtors and expected repayment period .The study also collected total costs of lending by MFIs so as to determine Inflation Exchange bad Debt Cost ratio. Further data on Adjusted Impairment Loss Allowance/ Portfolio at Risk, PAR>30 Days was also collected from MFI books to determine credit risk control and level of total borrowing over time.

This enabled the researcher to get quantified data that was helpful to draw conclusions and give recommendations. Data was collected from the period 2012-2015 because this is the time most Microfinance institutions registered with the Association of Microfinance (AMFRIs, 2015).

3.5 Data Analysis

Cooper and Schindler (2008) states that data analysis involves organizing, accounting for and explaining the data that make sense of the respondent's definition of the situations noting regularities, patterns, categories and themes. Collected data was analyzed multivariate regression analysis to determine the extent to which credit policies influence financial performance in MFIs. The correlation was used to determine whether the relationships between credit policies and financial performance are weak or strong.

3.5.1 Analytical Model

A linear regression model was applied to establish the relationship between credit policy practices and financial performance. The linear equation is represented below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Y= Financial performance

ε = Constant Term

X_1 = Credit Standards

X_2 = Credit terms and conditions

X_3 = Collection efforts

Where:

Y is the dependent variable, α is the regression constant or Y intercept. Intercept, $\beta_1 \dots \beta_3$ are the coefficients of the regression model. The basis of the model is to help in measuring financial performance by exploring the contribution of various components.

Operationalization of use of variables

Y=Financial performance: Measured by a ratio of earnings before interest and taxes over total net assets known as return on assets . $ROA = EBIT / \text{Total Assets}$. ROA indicates the intensity of capital of the financial institution, which depends on the industry. Lower return on assets occurs on MFI that require large initial investment (Apps, 1996).

X_1 =Credit Standards: Measured by bad debt cost. Creation of bad debts cost occurs when a bank agrees to lend a sum of assets to a debtor and granted with expected repayment; in many cases, however the debtor is unable to repay the debt at the fixed period of time by a certain date (Apps, 1996).

X_2 =Credit terms and conditions: Measured by cost per credit. Average cost per loan in monetary terms advanced to customers is cost per loan asset (CLA.) It indicates efficient distribution. $CLA \text{ Ratio} = \frac{\text{Total Cost}}{\text{Total amount of loans}}$ (App, 1996)

X_3 =Collection Policy: Measured by default rate. Changing the term of loan for a particular lender in the financial service industry from the normal terms to default terms is a term of practice known as default rate (DR). Those who have missed payments on loans are given these terms and rates. $Dr \text{ Ratio} = \frac{\text{Non Performing Loans}}{\text{Total loan}}$ (Apps, 1996).

3.6 Validity and Reliability

Mugenda and Mungenda (1999) described validity as the accuracy or meaningfulness and technical soundness of the research. Borg and Gall, (1989) argued that to improve the validity of a questionnaire, a pilot population similar to the target population was conducted. The

Cronbach's alpha reliability coefficient of three independent variables was obtained. Reliability estimated consistency of measurement of the instrument each time it is used under the same conditions with the same subjects.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents section 4.2 descriptive analysis, regression analysis, correlation analysis and interpretation of findings and conclusions. The research object was to establish the effect of credit policy on financial performance of Microfinance Institutions. The source of secondary data was Central Bank of Kenya website and individual MFIs websites.

4.2 Descriptive Analysis

The data presented below is data from the Central Bank of Kenya and form the specific MFIs.

Table 4.1 Analysis of Bad Debt Cost and Total Cost for the year 2012-2014

	Bad Debt Costs(m)			Total Costs (m)		
	2012	2013	2014	2012	2013	2014
KWFT DTM Ltd	38	106	231	3730	4501	5292
Faulu Kenya Ltd	38	70	132	1326	1907	3134
SMEP Ltd	32	36	102	436	526	729
REMU Ltd	2	1	2	38	54	65
Rafiki Ltd	12	24	38	218	458	858
Uwezo DTM Ltd	5	0	2	26	27	35
Platinum Ltd	0	19	16	246	294	330
SUMAC	0	12	6	0	81	96
U& I	0	1	2	0	14	23
Century	0	3	8	0	52	71

Source: Central Bank of Kenya and AMI websites

The table above represents data for 3years (2012-2014) of the bad debt cost and total cost for the respective microfinance institutions in Kenya.

Table 4.2 Analysis of Total Cost and Total Amount of Loans for the year 2012-2014

	Total Costs (m)			Total Amount of Loan(m)		
	2012	2013	2014	2012	2013	2014
KWFT Ltd	3730	5401	5292	12873	14530	18854
Faulu Kenya Ltd	1326	1907	3134	4949	8725	14488
SMEP Ltd	436	526	729	1454	1799	1635
REMU Ltd	38	54	65	86	161	184
Rafiki Ltd	218	458	858	508	1866	3418
UWEZO Ltd	26	27	35	38	73	125
Platinum Ltd	246	294	330	1279	1338	1572
SUMAC	3	81	96	5	204	289
U & I	0	14	23	0	36	84
Century	3	52	71	5	82	107

Source: Central Bank of Kenya and AMI websites 2016

The table above represents data for 3years (2012-2014) of the total cost and total loans for the respective microfinance institutions in Kenya.

Table 4.3 Analysis of NPL and Total Loans for the Year 2012-2014

	Non-Performing Loans(M)			Total Loans(M)		
	2012	2013	2014	2012	2013	2014
KWFT DTM Ltd	757	993	581	12873	14530	18854
Faulu Kenya Ltd	190	332	498	4949	8725	14488
SMEP Ltd	265	203	230	1454	1799	1635
REMU Ltd	10	29	35	86	161	184
Rafiki Ltd	77	183	306	508	1866	3418
UWEZO Ltd	7	19	27	38	73	125
Platinum Ltd	89	116	142	1279	1338	1572
SUMAC	0	18	46	0	204	289
U & I	0	3	6	0	36	84
Century	0	6	15	0	82	107

Source: Central Bank of Kenya and AMI websites 2016

The table above represents data for 3 years (2012-2014) of the non-performing loans and total loans for the respective microfinance institutions in Kenya.

Table 4.4 Analysis of EBIT and Total Assets for the year 2012-2014

	EBIT			Total Assets		
	2012	2013	2014	2012	2013	2014
KWFT Ltd	1263	1312	1140	20384	21752	26985
Faulu Kenya	362	455	748	7638	12434	20320
SMEP Ltd	170	92	(76)	2290	2490	2378
REMU Ltd	(12)	(8)	3	181	337	395
Rafiki Ltd	8	97	112	1838	3679	5975
UWEZO Ltd	(2)	(3)	2	78	107	160
Platinum Ltd	266	384	414	1520	1876	1934
SUMAC	0	(1)	12	0	307	390
U & I	0	2	3	0	80	137
Century	0	(38)	(39)	0	164	231

Source: Central Bank of Kenya and AMI websites 2016

The table above represents data for 3 years (2012-2014) of the EBIT and Total Assets for the respective microfinance institutions in Kenya.

4.2.1 Regression Analysis

4.2.1.1 Year 2012

Table 4.5 Model Summary for the Year

Model	R	R Squared	Adjusted R Squared	STD Error of the Estimate
A	.498 ^a	.248	.128	70747.30572

Predictors (Constant), Collection policy, credit Standards, credit terms.

Source Research Findings

The coefficients of determination which tells us the variation in the dependent variable due to changes in the independent variable is referred to as Adjusted R Square. The findings from Table 4.5 above, shows that the value of Adjusted R square was 0.128. A revelation that there was a variation of 12.8% financial performance of the selected MFIs at 95% confidence interval. This therefore shows that 12.8% changes in the financial performance of the MFIs could negatively be accounted by collection which in this case was 0.498. The results indicate that there was a relatively positive relationship between the study variables which are credit standards, credit terms and conditions, and collection efforts.

Table 4.6 Coefficients for Year 2012

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	25197.026	38877.324		.648	.541
Credit Standard	-.810	.798	-.726	-1.015	.349
Credit Terms	-.060	.253	-.202	-.237	.820
Collection Efforts	.636	.654	.706	.971	.369

a. Dependent Variable: ROA

Source: Research Findings

Regression equation for the year 2012 was established as:

$$Y = -1.222 - 0.726X_1 - 0.202X_2 + 0.706X_3$$

From the above regression equation for the year 2012 it was revealed that an increase in credit standards and credit terms and conditions would cause a decrease in firm's finance by a of 0.726 and 0.202 respectively. And an increase in collection policy would lead to an increase in performance firm's finance by a factor of 0.7 06. This is a positive relationship between financial performance and collection effort.

Table 4.7 Model Summary 2013

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.710 ^a	.504	.256	57858.08663

a. Predictors: (Constant), Collection policy, Credit standard, Credit terms

Source: Research Findings

From the findings above displayed on the table 4.7, Adjusted R square value was 0.256 indicating a variation of 25.6% changes in the performance of MFI's finance at 95% confidence interval. The findings indicate that 25.6% changes in the MFI's finance is accounted by credit standards, credit terms and conditions, and collection efforts. The correlation coefficient (R) in this case is 0.710. The findings give a strong positive relationship between the study variables which are credit standards, credit terms and conditions, and collection efforts.

Table 4.8 Coefficients for Year 2013

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	11735.416	42884.798		.274	.794
	Credit Standard	1.574	.702	.648	2.244	.886
	Credit Terms	-.003	.114	-.009	-.030	.977
	Collection Effort	-.210	.285	-.229	-.736	.489

a. Dependent Variable: ROA

Source: Research Findings

Regression equation for the year 2013 was established as :

$$Y = -0.59 + 0.648X_1 - 0.009X_2 - 0.229X_3$$

From the above regression equation for the year 2013 it was revealed that financial performance is increased by increase in credit standards by a factor of 0.648.

Furthermore, financial performance is increased by increase in credit terms and conditions, and decreased by collection efforts by a factor of 0.009 and 0.229 respectively.

Table 4.9 Model Summary for the Year 2014

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.235 ^a	.055	-.417	80886.87071

a. Predictors: (Constant), Collection policy, Credit standard, Credit terms

Source: Research Findings

From the findings above displayed on the table 4.9, Adjusted R square value was -0.417 which shows a variation of -41.7% of financial performance of the selected MFI at 95% confidence interval. The findings revealed that 41.7% change in the financial performance of the MFIs would negatively be accounted by credit standards and the credit terms and conditions, and collection effort.

The correlation coefficient (R) in this case is 0.235. Showing a relatively weak positive relationship between the study variables which are, credit standards and credit terms and conditions collection effort and the financial performance.

Table 4.10 Coefficients for the Year 2014

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	57057.655	55568.697		1.027	.344
Credit Standard	.032	.689	.019	.046	.965
Credit Terms	-.036	.153	-.104	-.235	.822
Collection Effort	-.171	.402	-.181	-.424	.686

a. Dependent Variable: ROA
Source: Research Findings

Regression equation for the year 2014 was established as:

$$Y = -1.266 + 0.019X_1 - 0.104X_2 - 0.181X_3$$

From the above regression equation for the year 2013 it was revealed that an increase in credit standards would cause an increase in performance of MFI's finances by a factor of 0.019. An increase in credit terms and conditions and collection efforts would cause a decrease in performance of MFI's finance by a factor of 0.104 and 0.181 respectively.

4.3. Interpretation of Findings

The purpose of this study was to examine the effect of credit policy on financial performance of MFIs in Nairobi, Kenya. Specifically, the study established that there is a relationship between the firm's finance performance and funding policy variables. The results of the findings of 13 MFIs registered by CBK and association of microfinance of Kenya from the year 2012 to 2014, it was revealed that the adjusted R squared range from 0.128 to 0.417. This clearly showed that there was a variation of financial performance due to changes in the regressors.

The result for year 2012 had a negative strong relationship between credit standards and credit terms and conditions, and collection effort and financial performance. The R² was -0.128, an indication that there was a variation of 12.8% financial performance of selected MFIs due to changes in credit standards and credit terms and conditions collection effort. The coefficients

further show an increase of financial performance by 0.498, an indication of a positive relationship.

In the year 2013 the Adjusted R^2 was 0.256 and the coefficient correlation R was 0.710. This therefore showed that a strong positive relationship between credit standards and credit terms and conditions collection effort and the financial performance existed. The coefficients further showed that a unit increase in credit standards and credit terms and conditions and collection efforts would cause an increase in performance of MFI's finances by 0.710. There was a strong relationship between dependent variables and independent variable in 2013 compare with that of 2012. In 2012 R was 0.498 while in 2013 R was 0.710.

In the year 2014 the Adjusted R^2 was 0.417 while the coefficient of correlation R was 0.235. This therefore showed that a positive relationship between lending policy variables and the financial performance variables existed. The coefficients further showed that a unit increase in credit standards and credit terms and conditions and collection efforts would cause an increase in performance of MFI's finance by 0.235.

Generally in all the three years the R fluctuated between 0.25 to 0.710 which indicates a relatively strong relationship between credit standards and credit terms and conditions and collection effort and the financial performance. The R^2 fluctuated also throughout the three years.

From the findings above, all the regressors are statistically significant ($P < 0.05$) at 5% in causing the variation in performance of firm's finance. MFIs, on average, in 2012, reported a performance of 1.222 units if the regressor's variables were not included in the estimation model. Therefore, this shows that there are other control variables that have the effect on the performance of MFI's finance which were not considered in the research. The policy had a positive relationship with performance of MFIs finance. The policy was statistically significant at 0.648, $P=0.541$ in giving an explanation for the variation in performance of MFIs finance and holding other factors constant.

MFIs, on average, in 2013, had a performance of 0.59 units if the regressors variables were not included in the estimation model. Therefore, this shows that there are other control variables that have the effect on the performance of MFI's finance which were not considered in the research. The policy had a positive relationship with MFIs finance. The policy was statistically significant

at 0.274, $P=0.794$ in giving an explanation for the variation in performance of MFIs finance and holding other factors constant.

MFIs, on average, in 2014, had a performance of 1.266 units if the regressors variables were not included in the estimation model. Therefore, this shows that there are other control variables that have the effect on the performance of MFI's finance which were not considered in the research. The policy had a positive relationship with performance of MFIs finance. The policy was statistically significant at 1.027, $P=0.344$ in providing an explanation for the variation in performance of MFIs finance and holding other factors constant.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENTATIONS

5.1 Introduction

The chapter presents the summary, conclusion and recommendation of the whole research. Section 5.1 covers summary of the study, 5.3 conclusions, 5.4 limitation of the study, and 5.5 recommendations.

5.2 Summary of the Findings

The research had a relatively significant relationship between MFI's finance and lending policy. Credit policy was the independent variable in determining the asset quality of micro finance institutions. Better management of policy on credit results in better finances of Microfinance. The findings of the research agree with the Yoron (19994) who found out that credit is so costly to financial institutions as they influence the profits of microfinance institutions. Her study further stresses that losses have been the largest cost borne by financial intermediaries and the principal cause of insolvency, and increased reliance on state bailout thus affecting the organization profitability.

The purpose of this study was to examine the effect of credit policy on financial performance of MFIs in Nairobi, Kenya. Specifically, the study established that there is a relationship between the firm's finance performance and funding policy variables. The results of the findings of 13 MFIs registered by CBK and association of microfinance of Kenya from the year 2012 to 2014, it was revealed that the adjusted R squared range from 0.128 to 0.417. This clearly showed that there was a variation of financial performance due to changes in the regressors.

In the year 2013 the results showed that there exists a strong positive relationship between credit standards and credit terms and conditions collection effort and the financial performance. The coefficients further showed that a unit increase in credit standards and credit terms and conditions and collection efforts would cause an increase in performance of MFI's finances by 0.710. There was a strong relationship between dependent variables and independent variable in 2013.

In the year 2014 the results showed that there exists a positive relationship between lending policy variables and the financial performance variables existed. The coefficients further showed that a unit increase in credit standards and credit terms and conditions and collection efforts would cause an increase in performance of MFI's finance by 0.235.

Generally in all the three years the R fluctuated between 0.25 to 0.710 which indicates a relatively strong relationship between credit standards and credit terms and conditions and collection effort and the financial performance. The R² fluctuated also throughout the three years.

5.3 Conclusion

The research investigated the effect of credit policy on the financial performance of micro finance institutions in Nairobi County. The correlation coefficient R for 2013 was strong compared to 2012 and 2014 probably due to political climate prevailing in the country. From the findings, it is concluded that financial performance of micro finance institutions is influenced by credit standards, credit terms and conditions, and collection efforts. Therefore management should be careful when setting up credit policy that shall not negatively affect the operations of microfinance institutions to ensure maximization of profits. Improper credit risk management that is not properly set up reduces the MFIs profits, affects the quality assets and increase loan losses and non-performing loan which may eventually lead to financial distress.

Owonjori (2011) found out that the greatest contributor to the distress of collapsing banks was the incapability to collect advances and loans granted to customers as shown by the statistics from the liquidated banks.

Wanja (2013) investigated effects of credit policy used by commercial banks on their performance. The findings of the study were that, the nature of loan terms and conditions had a strong effect on the competitiveness of the banks. Furthermore, the nature of loan policies, credit history of the borrower in awarding loan amount and borrower's personal behavior had an influence on volumes of the loans procured by the banks.

5.4 Limitations of the study

The verification of the collected data was almost impossible, because the reliability of the data depended on the source. Some of micro finance institutions had been in operation for only one year and therefore getting data was quite difficult from them since they are still coming up in business.

The research confined to the use of secondary data which raises the reliability problems of the data used. Relying on the secondary data meant that any error in the source was also reflected in the research. The error and assumptions not disclosed in the source documents was also occurred in the research.

The researcher only assumed credit policy in coming up with the findings. Credit standards, credit terms and conditions, and collection efforts are affected by other external factors which need to be looked into in details.

The researcher found it difficult to get information from other institutions due to their refusal to release information, which resulted to the small sample collected.

The researcher also found out that some institutions books are not well kept to reflect all the items as required, only a few could provide all items.

5.5 Recommendations and Suggestions

The research recommendation on policy and future research:

5.5.1 Policy Recommendation

The study recommended that management need to be cautious in setting up a credit policy that might not negatively affect profitability. Policy makers will gain insight on effect of credit policy on financial performance of micro finance institutions. This will enable policy makers and the government to formulate measure to enhance credit policy formulation that will improve financial performance of MFIs in Nairobi County.

5.5.2 Suggestions for Future Research

Reduction in the number of years for comparison purposes so as to accommodate many institutions including the recently registered institutions. This should be done in the future so as to capture also information from the coming up businesses.

The use of primary sources of data like questionnaires can be encouraged in the future studies so as to minimize the error arising from the source which is reflected in the secondary data and as a result raising reliability problems of the data used.

There are other external factors affecting credit standards, credit terms and conditions, and collection efforts and they need to be looked into in details in the future.

Future researches should encourage development of the institution and not benefit of the researcher, relevant authorization should be encouraged and the researcher should aim at a relatively big sample.

The researcher is challenged to communicate to the institution on their books not well kept to reflect all the items as required so that they can improve if given an opportunity.

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Appendix I: List of MFI as at December 2015

1. Kenya Women Finance Trust-DTM Upperhill, Kiambere Road
2. Post Office Savings Bank, Market Lane Off 17 Banda Street
3. Rafiki Deposit Taking Microfinance Ltd, Elroy Plaza, Tom Mboya Street
4. Century DTM ltd, New Pumwani Road, KK Plaza, Gikomba
5. SMEP DTM Kirichwa Road, Kilimani
6. Faulu Kenya DTM, Ngong Road, Ngong Lane.
7. Uwezo DTM Ltd Park Plaza, MoktahDaddahstreet
8. Remu DTM Ltd Park Plaza, Loitastreet
9. BIMAS, Bimas complex
10. KADET capital Hill, Cathedral Road, Community.
11. Blue Limited, Chester House, Koinange Street.
12. Enclof Kenya Chiromo, Royal Offices, Mogotio Road.
13. Sumac Credit DTM Ltd Consolidated Bank Building, Koinange Street.
14. K-rep Developmwent Agency Ltd, K-Rep Center., Kilimani.
15. Canyon Rural Credit Ltd.
16. Yehu Microfinance Trust Buxton, Tom Mboya Street.
17. Fusion Capital Ltd ACK garden House, 1st Ngong Avenue, Community.
18. Letshego Ltd.
19. SISDO, Ngong Road, Ngong Lane.
20. Opportunity Kenya Geomaps Centre, Upper Hill.
21. JuhudiKilimo Co.td Mucai Road, Ngong Road.
22. ADOK TIMO, Sifa House, Mission Road.
23. Microcredit ProgrammeMpaka Plaza, Westlands.
24. AAR Credit Services Methodist Ministries Centre, Oloitokitok Road, Agakhan Foundation.
25. Jitegemea Credit Scheme, Jogoo Road, KCB Buiding.

26. One Africa Capital Ltd, Koinange Street.
27. Musoni Kenya Ltd, Cape Office park
28. Molyn Credit Ltd Bruce House, Standard Street.
29. Renewable Energy Technichnology Assistance Programme (RETAP), Westlands.
30. Biashara Factors Ltd, Finance House, Loita Street.
31. Youth Initiatives-Kenya (YIKE), Kariobangi North.
32. Greenland Fedha ltd KTDA , KTDA formers Building.
33. Select Management Services Ltd. Kenya Re Towers.
34. U & I Microfince Ltd.
35. Taifa Options Microfinance, Finance House.
36. Rupia Ltd, View park Towers.
37. Fountain Credit Services Ltd, Ngong Road.
38. Samchi Credit Ltd. Parklands Plaza.
39. Focus capital Ltd. Donholm Mina Centre.
40. Platinum Credit ltd, Moi Avenue.
41. Ngao Credit Ltd. Community.
42. Indo Africa Fiance , Museum Hill Centre.
43. Springboard capital ltd. Kensia House along Murang'a.
44. KEEF-Kenya Entrepreneurship Empowerment Foundation. Mpaka House.
45. Women Enterprise Solutions. Development House.
46. Swiss Contact Westlands. Vanguard House.
47. Chartis Insurance Company Ltd.
48. Microensure Advisory Services Hughes Building.
49. MESPT. Westlands.
50. Unaitas Sacco Society Ltd.
51. Woment Enterprise Fund. NSSF Building.

APPENDIX II: BAD DEBT COST AND TOTAL COST FOR THE YEAR 2012-2014

	Bad Debt Costs(m)			Total Costs (m)		
	2012	2013	2014	2012	2013	2014
KWFT DTM Ltd	38	106	231	3730	4501	5292
Faulu Kenya Ltd	38	70	132	1326	1907	3134
SMEP Ltd	32	36	102	436	526	729
REMU Ltd	2	1	2	38	54	65
Rafiki Ltd	12	24	38	218	458	858
Uwezo DTM Ltd	5	0	2	26	27	35
Platinum Ltd	0	19	16	246	294	330
SUMAC	0	12	6	0	81	96
U& I	0	1	2	0	14	23
Century	0	3	8	0	52	71

APPENDIX III: TOTAL COST AND TOTAL AMOUNT OF LOANS FOR THE YEAR 2012-2014

	Total Costs (m)			Total Amount of Loan(m)		
	2012	2013	2014	2012	2013	2014
KWFT Ltd	3730	5401	5292	12873	14530	18854
Faulu Kenya Ltd	1326	1907	3134	4949	8725	14488
SMEP Ltd	436	526	729	1454	1799	1635
REMU Ltd	38	54	65	86	161	184
Rafiki Ltd	218	458	858	508	1866	3418
UWEZO Ltd	26	27	35	38	73	125
Platinum Ltd	246	294	330	1279	1338	1572
SUMAC	3	81	96	5	204	289
U & I	0	14	23	0	36	84
Century	3	52	71	5	82	107

APPENDIX IV: NPL AND TOTAL LOANS FOR THE YEAR 2012-2014

	Non-Performing Loans(M)			Total Loans(M)		
	2012	2013	2014	2012	2013	2014
KWFT DTM Ltd	757	993	581	12873	14530	18854
Faulu Kenya Ltd	190	332	498	4949	8725	14488
SMEP Ltd	265	203	230	1454	1799	1635
REMU Ltd	10	29	35	86	161	184
Rafiki Ltd	77	183	306	508	1866	3418
UWEZO Ltd	7	19	27	38	73	125
Platinum Ltd	89	116	142	1279	1338	1572
SUMAC	0	18	46	0	204	289
U & I	0	3	6	0	36	84
Century	0	6	15	0	82	107

APPENDIX V: EBIT AND TOTAL ASSETS FOR THE YEAR 2012-2014

	EBIT			Total Assets		
	2012	2013	2014	2012	2013	2014
KWFT Ltd	1263	1312	1140	20384	21752	26985
Faulu Kenya	362	455	748	7638	12434	20320
SMEP Ltd	170	92	(76)	2290	2490	2378
REMU Ltd	(12)	(8)	3	181	337	395
Rafiki Ltd	8	97	112	1838	3679	5975
UWEZO Ltd	(2)	(3)	2	78	107	160
Platinum Ltd	266	384	414	1520	1876	1934
SUMAC	0	(1)	12	0	307	390
U & I	0	2	3	0	80	137
Century	0	(38)	(39)	0	164	231