

**EFFECT OF CREDIT RISK MANAGEMENT PRACTICES ON LOAN  
PERFORMANCE OF WOMEN ENTERPRISE FUND IN KENYA: A SURVEY  
OF WOMEN GROUPS IN NAKURU TOWN SUB-COUNTY**

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**A Research Project Submitted to the School of Business and Economics in  
Partial Fulfillment of the Requirement for the Award of the Degree of Master of  
Business Administration (Finance Option) of Kabarak University**

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## DECLARATION

This research project is my original work and to the best of my knowledge, it has not been submitted to any university or learning institution for examination.

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## **RECOMMENDATION**

This research project has been submitted for examination with our approval as university supervisor.

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To all people that I have not mentioned individually, I say thank you for your support and may Almighty God bless you.

## **DEDICATION**

I dedicate this work to my dear husband Mr. Stephen Kimeli and my sons Benson, Brian and Billy.

## ABSTRACT

Women Enterprise Fund as any other credit business is exposed to credit risks. Credit advanced to women by WEF come along with credit risk challenges. How the fund has handled these risks challenges among women is not adequately researched compared to other enterprises or corporations. To the researcher knowledge, there is little documented study done on effect of credit risk management on loan performance of Women Enterprise Fund, much of the work done relating to credit risk management practices on financial performance of commercial banks and microfinance institutions creating a research gap. The objective of the study was to analyze effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya. More specifically, the study was to analyze loan appraisal procedure, loan recovery procedure, savings rate and interest rate on loan performance of Women Enterprise Fund in Kenya. The study adopted the following theories for the analysis of the objectives; financial economic theory, credit risk theory, adverse selection theory of credit, credit default theory and capital asset pricing theory. One limitation was adequacy of the sample size for generalization of results for the entire women groups in other Sub-Counties by funded WEF. The study delimited this challenge by using representative sample. The study adopted a quantitative longitudinal research design taking women groups funded by Women Enterprise Fund as the target population. The study collected primary data 99 women groups. Regression analysis was used to analyze the relationship between independent and dependent variables. The findings from the study will inform the policies of the Women Enterprise Fund as government revolving funds on effect of credit risk management practices on loan performance and also broaden scholarship knowledge in the fields like Micro Finance, Developmental Finance and Economics. The study established that saving and lending rates contributed significantly towards loan performance index, this was because saving rate had  $P=0.047 < 0.05$  and  $P=0.000 < 0.05$  respectively indicating that the frequency of women groups savings and the lending rate by WEF contributed significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

**Key words:** *Loan Appraisal Procedure, Loan Recovery Procedure, Saving Rate, Lending Interest Rate.*

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## **LIST OF ABBREVIATION AND ACRONYMS**

<b>AMFIK</b>	Association of Microfinance Institutions of Kenya
<b>BCBS</b>	Basel Committee on Banking Supervision
<b>CAPM</b>	Capital Asset Pricing Model
<b>CAR</b>	Capital Adequacy Ratio
<b>CBK</b>	Central Bank of Kenya
<b>C-WES</b>	Constituency Women Enterprise Fund
<b>FOSA</b>	Front Office Savings Account
<b>GoK</b>	Government of Kenya
<b>IMF</b>	International Monetary Fund
<b>KIPRA</b>	Kenya Institute of Public Research and Analysis
<b>MFI</b>	Microfinance Institutions
<b>NPLR</b>	Non Performing Loans Ratio
<b>ROE</b>	Return on Equity
<b>SACCO</b>	Savings and Credit Cooperative Organizations
<b>SPSS</b>	Statistical Package for Social Sciences
<b>WEF</b>	Women Enterprise Fund

## OPERATIONAL DEFINITION OF TERMS

<b>Credit Risk</b>	The use or possession of goods or services without immediate payment The risk of loss arising from a credit event, such as default by a creditor or counterparty (Yegon, 2014).
<b>Credit Risk Management Practice</b>	The practice of mitigating credit risk losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given time (Asiedu-Mante, 2011).
<b>Lending Rate</b>	This is a percent of the principle loan that borrowers pay on top the principal amount (AMFI, 2018).
<b>Loan Appraisal Procedure</b>	Loan appraisal (credit appraisal) process is a holistic exercise which starts from the time a prospective borrower walks into the bank and ends in credit delivery and monitoring with the objective of ensuring and maintain the quality of lending and managing credit risk within acceptable limits (Seyfried, 2001).
<b>Loan Performance</b>	Loan performance refers to rate of profitability or rate of return of an investment in various loan products Puxty et al., (1991).
<b>Loan Recovery Procedure</b>	This is the process of collecting loan whose repayment period is passed (Nzomo, 2009).
<b>Saving Rate</b>	This is a compulsory fixed amount that groups saves with the micro finance institution before they mature for credit (AMFI, 2018).
<b>Women Enterprise Development Fund</b>	A fund put aside by the Government of Kenya to uplift the economic status of women).

**Women groups**

it's used to refer to 8 or more persons aged 18-35 who wished to come together for a common objective namely to better their lives both socially and economically. The group comprised of 8-13 members (YEDF Report, 2011).

## **CHAPTER ONE INTRODUCTION**

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

The strategies for credit risk management include transferring to another party, avoiding the risk, reducing the negative effects of the risk, and accepting some or all of the consequences of a particular risk. The very nature of the banking business is so sensitive because more than 85% of their liability is deposits from depositors (Saunders & Cornett, 2008). Most studies on credit risk management posit that there is a positive relationship between effective credit risk management and banks' profitability while some of these studies support the notion that there is a negative relationship between them (Alshatti, 2015).

Some studies that found a positive relationship between credit risk management and bank performance include those of Hosna, Manzura and Juanjuan (2009) who found Non-performing loans indicator affects (ROE), Aruwa and Musa (2012) who found a strong positive relationship between risk components and the banks' loan performance, although the direction of the effect is not specified, and Boahene, Dasah and Agyei (2012) who also found a positive relationship between credit risk and bank profitability. On the other hand Musyoki and Kadubo (2012), assessing various parameters pertinent to credit risk management as it relates to banks' loan performance, found an inverse impact of the parameters under study on banks' loan performance. This result is duplicated by Kaaya and Pastory (2013) who showed that credit risk indicators negatively affected on the bank performance.

Credit risk is the probability of loss because of a borrower's inability or failure to pay back on his debt. Yegon (2014) defined credit risk management as an approach (structured) to managing uncertainties through risk assessment, developing strategies to manage it and mitigation of risk through the utilization of resources available to management. Meanwhile, credit risk management is the process of understanding how adequate a bank's loan loss reserves and capital are at any given time in order to mitigate these losses. Nzube (2013), noted that credit risk management models include the systems, procedures and control which a company has in place to ensure the efficient collection of customer payments and the risk of non-payment.

According to Asiedu-Mante (2011) credit management involves establishing formal legitimate policies and procedures that will ensure that proper authorities grant credit, the credit goes to the right people, the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity. Credit management is the process for controlling and collection of payments from customers. This is the function within financial services to control credit policies that will improve revenues and reduce financial risks (Pandey, 2008). Credit risk should be taken seriously as it has a potential of preventing lending institutions from meeting their optimum levels of loan performance. Credit risk occurs as a result of a borrower's inability to settle his financial obligations, leading to losses for the financial institutions (Santomero, 2007). The financial institutions are therefore advised to design and implement practices of credit risk management that is capable of identifying risks already existing and risks that may arise in each environment and implement strategies to counter them.

Globally, Ogboi and Unuafe (2013) conducted a study on how credit risk management and capital adequacy impacted loan performances of Nigerian commercial banks. The study aimed to establish the extent to which huge scarce resources invested in credit risk management by commercial banks was affecting their loan performance. Investigation into the extent to which credit risk, along with capital adequacy, affected loan performance of banks in Nigeria was conducted using regression analysis. Six out of the twenty-one commercial banks operating as at 2009 were the sample for this study. The evidence provided in this study, revealed that a comprehensive credit management procedure, and adequate capital are recipes for profitability. This study goes to the core of the area of study, as these SACCOs are also financial institutions.

Risk management means, increasing the likelihood of success, reducing the possibility of failure and limiting the uncertainty of all the overall loan performance. Khan (2013) argued that the purpose of risk management is to prevent an institution from suffering unacceptable loss. He went on to explain that "unacceptable loss" is one which either causes an institution to fail or materially damages its corporate position.



Banks must monitor the ever changing micro and macroeconomic environment to identify the risks therein and find ways of managing these risks. Credit risk management is very essential to optimizing the performance of financial institution.

Loan portfolio is naturally the largest asset and the largest source of income for banks. In view of the significant contribution of loans to the financial health of banks through interest income generated, these assets are considered the most important assets of banks. As a result of commercial banks and financial institutions business, they expose themselves to the risks of default from loan borrowers. The major threat to banking business is non-performing assets. NPA represent bad loans, the borrowers of which failed to satisfy their repayment obligations. Michael, Vasanti and Selvaraju (2006) said that nonperforming assets in loan portfolio affects operational efficiency which in turn affects the profits of the bank, liquidity position and solvency position of banks. Batra (2003) noted that NPA also affect the psychology of bankers in respect of their disposition of funds towards credit delivery and credit allocation. There are lots of factors responsible for these non-performing loans. Some of them belong to firm level issues and some are from macroeconomic measures. Loan appraisal criteria, banks legal framework and loan arrears follow up procedures are some of the factors in this blend. The researcher was to seek effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya.

In Kenya, credit risk is a real threat to the microfinance industry due to the fact that loan portfolios form the largest part of the balance sheet items (CBK, 2005).Credit risk encompasses both the loss of income resulting from the MFI's inability to collect anticipated interest earnings as well as the loss of principle resulting from loan defaults (Steinwand, 2000). Janney& Lynn, (2000) said that, Management must continuously review the entire portfolio to assess the nature of the portfolio's delinquency, looking for geographic trends and concentrations by sector, product and branch.

There are various methods of assessing credit worthiness of borrowers, they include; the 5C's, 5P's, LAPP method, CAMPARI, PACT method, Financial Analysis and Previous Experience Methods. The 5C's, according to Peavler (2013), is an approach of assessing credit worthiness which is defined as follows: Capacity refers to

borrower's ability to meet the loan payments of interest and principal. Capital is the money which is invested in the business and is an indicator of how much money is at risk should the business fail. Collateral is a form of security for the lender. Banks usually require collateral as a type of insurance in case the borrower cannot repay the loan. Conditions refer to the economic and political conditions of the country. Character is the obligation that a borrower feels to repay the loan. Since there is not an accurate way to judge character, the lender will decide subjectively whether or not the borrower is sufficiently trustworthy to repay the loan. Abrahams et al, (2008) argue that Comprehensive Credit Assessment Framework (CCAF), offers a comprehensive rating system that enables lenders to classify credit risk using the Five Cs of credit.

### **1.1.2 Women Enterprise Fund**

In an attempt to bridge gender gap and empower women economically, Kenya government in August 2007 established Women Enterprise Fund (WEF). Women Enterprise Fund is a semi-independent agency of the government under the Ministry of Public Service, Youth and Gender Affairs established through a Gazette Notice as a rotating loan fund. The fund aims at among others, providing affordable and reachable credit for development of women enterprises, building the capacity of women who benefits from the scheme and their institutions, promoting local and international marketing, promoting linkages and infrastructure support. The fund was established to enhance poverty reduction, promote gender equality and empowerment of women through enterprise development and to be a flagship project in the Vision 2030 Development Road Map (GoK, 2012). According to WEF Headquarters, so far, WEF has extended loans to women amounting to Ksh. 2.6 billion to over 645,825 women entrepreneurs. Equally, to date, the fund has trained 116,372 women on loan management and business skills.

It is through two channels that women enterprise fund is provided: through Constituency Women Enterprise Fund (C-WES)-(Tuinuke Loan- meaning self-rising), funds which are advanced to Registered Self Help Groups of 10 members each and above comprising 100% women or 70% women and 30% men. In addition, all the leadership positions in the group must be held by women and the group must have a bank account /SACCO FOSA/Post Bank and having been registered for at least 3

months. The application forms for the loans are provided without a fee from the Sub-County Gender and Social Development Offices country wide. The forms can also be accessed from Regional Offices based at all Regional headquarters or fund headquarters or downloaded from the website [www.wef.co.ke](http://www.wef.co.ke). Further, the loan applications are scrutinized by the Constituency Women Enterprise Fund Committee (CWETC). Beneficiaries get Ksh. 100,000 in their first phase and Ksh. 200,000 in the second phase upon full repayment of the first. This product is for the group. An entrepreneur benefits within the group either through joint enterprise, or the amount is internally lent to individuals within the group. The interest rate is nil except a service charge of 5% paid up front. The repayment period is 12 months with 3 months' grace period. The amount an individual can get for own enterprise is dependent on the number of members in the group and the group policy (WEF, 2009).

The second product is serviced through Financial Intermediaries (Jimarische Loan-meaning perfecting self). The loan is given to individual women, Self Help Groups or companies owned by women at 8% rate of interest per annum on reducing balance. A maximum amount per borrower is ksh.200,000 and an amount of ksh. 500,000 and above requires W.E.F. board's approval. Repayment period is a maximum of 36 months and collateral or security is needed, but it is flexible and differs depending on financial intermediary. Since its inception in 2007, the Women Enterprise Fund has established its presence in 290 Constituencies which has enhanced outreach by facilitating easy access to the credit services to the women groups (WEF, 2009).

According to KIPPRA (2010), however, there are some women groups in some counties in Kenya that have successfully benefited from the Women Enterprise Fund: Mutheu Self Help Group in Kitui County are experts in commercialization of indigenous chicken rearing and Marketing at village level with the aim of improved income and food security. The group says that WEF has empowered her members and this is evidenced through improved poultry shelters and construction of a Water Kiosk through cost sharing with the Ministry of Water and Irrigation and made a profit to a tune of Ksh. 15,000 per month and improved their table banking boosted by WEF loan and the ease of access to loans through table banking. Kavogoi Women Group - Kakamega County started the project of mushroom farming when they got their first loan from WEF. From the proceeds and a little boost from the table banking they

invested in a green house where they have planted tomatoes for sale. So far the two projects have given them a good return that has enabled them to comfortably educate their children and meet other financial obligations. The trend of WEF loan uptake has been varied regionally.

### **1.1.3 Credit Risk Management Practices and Loan Performance**

According to Pykhtin, (2005), credit risk management is an important function of financial institutions in creating value for shareholders and customers. The corporate finance literature has linked the importance of risk management with the shareholder value maximization hypothesis. This suggests that Microfinance will engage in risk management policies if it enhances shareholder value (Ali and Luft, 2002). Thus, effective credit risk management either in non-banking firms or in banking entities is expected to enhance the value of the firm and shareholder wealth.

The Central Bank of Kenya report (2013) has indicated that the major issues facing the banking industry include new regulations especially with the passing of the new constitution where the CBK requires financial institutions to build up their minimum core capital requirement to Kenya shillings 1 Billion, the global crisis experienced worldwide affected banking industry in Kenya and more so the mobilization of deposits and trade reduction and the declining interest margins. Credit risk management strategies are designed and applied both internally as an operational tool by bank management and externally by bank regulatory authorities to manage the financial health of the banking sector. The focus of such policies are the needs for asset diversification; maintenance of balance between returns and risk, bank asset quality and ensuring safety of depositors funds. The failure of various regulatory frameworks designed by the supervisory authorities and inability of technological innovations to stem rising toxic assets in many banks constitute matters of grave concern for stakeholders in both developed and developing nations financial systems; Sinkey (1998), Saunders and Cornett (2008) and BCBS (2004) Management of bank credit risk relates to the minimization of the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms (BCBS, 2004).

Most studies on credit risk management posit that there is a positive relationship between effective credit risk management and banks' profitability while some of these

studies support the notion that there is a negative relationship between them (Alshatti, 2015). Some studies that found a positive relationship between credit risk management and bank performance include those of Hosna, Manzura and Juanjuan (2009) who found Non-performing loans indicator affects (ROE) more, Aruwa and Musa (2012) who found a strong positive relationship between risk components and the banks' financial performance, although the direction of the effect is not specified, and Boahene, Dasah and Agyei (2012) who also found a positive relationship between credit risk and bank profitability. On the other hand Musyoki and Kadubo (2012), assessing various parameters pertinent to credit risk management as it relates to bank' financial performance, found an inverse impact of the parameters under study on banks' financial performance. This result is duplicated by Kaaya and Pastory (2013) who showed that credit risk indicators negatively affected on the bank performance.

It has been found out that in order to minimize loan losses thus credit risk, it is essential for financial institutions to have an effective credit risk management system in place Basel, (2010). Given the asymmetric information that exists between lenders and borrowers, financial institutions must have a mechanism that ensures that they not only evaluate default risk that is unknown to them in order to avoid adverse selection, and moral hazards. An effective system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information problems and in reducing the level of loan losses, thus the long-term success of any banking organization. Credit risk management is essential in optimizing the performance of financial institutions (Basel, 2010).

As a general rule, banks and other financial institutions like to avoid non-performing loans, because there is a risk that they will not be able to recover the principal left on the loan, let alone the interest which has accrued. Loan performance refers to rate of profitability or rate of return of an investment in various loan products, thus broadly, it looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of loan products on the chain. Loan portfolio refers to the total amount of money given out as loans in different loan products, to the different types of borrowers. These loan products may comprise of; Salary loans,

Group guaranteed loans, Individual loans and corporate loans. It looks at the number of clients with loans and the total amount in loans (Wester Paul, 1993).

Loan portfolio is the Microfinance institutions most important asset hence, portfolio quality reflects the risk of loan delinquency and determines future revenues and an institutions 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 or rate of return on the different loan products, this is a function of the number of the loans and the cost of administering these loans Indjeikein, (1997).

## **1.2 Statement of the problem**

Loan performance result mostly from ineffective management of credit risks Hippolyte, (2005). Successful financial institutions have managed to maintain high levels of loan recovery rates, generally over 95%. These remarkably high loan recovery ratios triggered the initial wave of funds from funding agencies and the subsequent inflow from a variety of social investors which they could use to expand their operations Hippolyte, (2005). The Government of Kenya established Women Enterprise Fund in 2007 to provide alternative financial services to women who are excluded from the formal and informal financial sectors. The fund provides accessible and affordable credit to support women start or expand business for wealth and employment creation. Women Enterprise Fund was one of the positive steps in ensuring resources reach excluded women and it was also a Kenya government's commitment to achieve women empowerment and gender equity. In a bid to achieve its mandate, the Fund started by availing funds to the target women entrepreneurs (WEF, 2009).

Although women constitute 52% of the total Kenyan population, majority of them have been excluded from the formal financial services including credit to finance their enterprises. While WEF has continued to offer loans either directly or through other financial intermediaries, it faces a challenge of prompt loan recovery increased volatility of its portfolio at- risk (PAR) ratios. Credit risk management practices by WEF should enable it to reduce its exposure to credit risks, and enhance its ability to compete in the market with other well established financial institutions like banks

Iqbal and Mirakhor, (2007). Effects of credit risk management practices on financial performance of either Micro Finance Institutions or commercial banks have been focused mostly by local studies. For instance Kimeu (2008) who studied credit risk management techniques of unsecured banks loans of commercial banks in Kenya. Ndwiga (2012) conducted study on the relationship between credit risk management practices and financial performance of microfinance situations in Kenya. Simiyu (2008) investigated the techniques of credit risk management in microfinance institutions in Kenya.

Credit advanced to women by WEF come along with credit risk challenges. How the fund has handled these risks challenges among women is not adequately researched compared to other enterprises or corporations. To the researcher knowledge, there is little documented study done on effect of credit risk management on loan performance of government revolving fund in Kenya, much of the work done relating to credit risk management practices on financial performance of commercial banks and microfinance institutions creating a research gap. This study therefore intend to fill this literature gap by analyzing effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya, more specifically; To establish the effect of loan appraisal procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya; To determine the effect of loan recovery procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya; To analyze the effect of saving rate on loan performance of Women Enterprise Fund in Kenya; To determine the effect of interest rate on loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

### **1.3 Objectives of the study**

#### **1.3.1 General Objective**

To the researcher, the general objective of the study was to analyze the effect of credit risk management practices on loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

#### **1.3.2 Specific Objectives**

To the researcher the specific objectives of the study were;'

- i. To establish the effect of loan appraisal procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya.
- ii. To determine the effect of loan recovery procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya.
- iii. To analyze the effect of saving rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya.
- iv. To determine the effect of lending interest rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya.

#### **1.4 Hypothesis of the Study**

**HO<sub>1</sub>:** There is no significant statistical relationship between loan appraisal procedure and loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

**HO<sub>2</sub>:** There is no significant statistical relationship between loan recovery procedure performance of Women Enterprise Fund Nakuru Town East, Kenya.

**HO<sub>3</sub>:** There is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

**HO<sub>4</sub>:** There is no significant statistical relationship between lending rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

#### **1.5 Significance of the Study**

First the findings from the study will inform the policies of the Women Enterprise Fund as government revolving funds on effect of credit risk management practices on loan performance of Women Enterprise Fund as government revolving funds in Kenya. Second, the finding of the study will be of important to scholars in financial management, economics, corporate structures, accounting, risk analysts, public policies in broadening their knowledge on the effect of credit risk management practices on loan performance of Women Enterprise Fund as government revolving funds in Kenya. Third, the findings from this study will be of great importance to the stakeholders, shareholders and regulatory bodies directly or indirectly dealing with government revolving funds in understanding the effect of credit risk management practices on loan performance of Women Enterprise Fund as government revolving funds in Kenya.



### **1.6 Scope of the study**

The study covered the following elements of credit management; loan appraisal procedure, loan recovery procedure, saving rates practices and interest rate practices. The study also covered loan performance of Women Enterprise Fund as government revolving funds in Kenya which was measured in terms of amount of loan recovered per year. The study captured annual credit related ratios and loan historical data covering the years 2008 to 2017. This period was important because data from the key indicators of the study; loan appraisal procedure, loan recovery procedure, saving rates practices and interest rate practices formed a predictable trend which can be used to arrive at the conclusions of the study and also the fact that the fund was *gazzetted* in 2007.

### **1.7 Limitation and Delimitation of the Study**

One limitation was adequacy of the sample size for generalization of results for the entire women groups in other Sub-Counties by funded WEF. The study delimited this challenge by using representative sample.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The section presents the literature review of the effect of financial structure on enterprise group of Women Enterprise Fund in terms of; theoretical review, empirical studies, knowledge gaps and summary and the conceptual.

#### **2.2 Theoretical Review**

##### **2.2.1 The Financial Economic Theory**

This hypothesis was first put forth by Schumpeter (1911). The conventional view of this theory postulates that financial expansion causes the economy to grow. In a world with frictionless information, transaction, and costs of monitoring, financial intermediaries are not needed. If information, transaction, and monitoring costs are necessarily high, no exchange takes place between agents of economics. The desire to decrease the related costs and enable exchanges led to the financial markets emergence and institutions markets that make up sector of finance.

The theory posits that a strong developed sector of finance facilitates vital services that reduce transaction, information and monitoring costs and enhance the effectiveness of intermediation. As such it identifies and funds good business projects, mobilizes savings, enables trading and risks diversification, promotes exchange of services and goods, monitors the performance of managers. All these services results in effectiveness allotment of resources; lead to a quick increase of human and physical capital; and enables faster technological innovation. This eventually brings the outcome into faster and long-term economic growth (Schumpeter, 1911).

Besides, intermediation of finance is a practice that entails surplus component deposit finances with institutions of finance that loan to deficit component. Bisignano in (1992) recognized the intermediaries of finance may be differentiated in four categories. Firstly, the major category of deposits or liabilities is precise for a predetermined sum that is not associated to a portfolio performance. Secondly, deposits which are characteristically temporary and of a considerably temporary as compared to the assets. Thirdly, a high quantity of its liabilities is liquid that can be withdrawn as demanded; fourthly, assets and liabilities for the most part are not

convertible. The vital influence of intermediaries is a stability and stable movement of finances from surplus then to deficit components. This theory is relevant for the study in anchoring WEF loan performance.

### **2.2.2 Credit Risk Theory**

The Credit Risk Theory was introduced by Melton in 1974 and it asserts that the default event derives from a firm's asset evolution modeled by a diffusion process with constant parameters. These models are normally models that are structural and based on issuer specific variables. Losses in this category due to default are as a result of factors outside of the firms sphere of control but that are also specific to that industry. This explains that the inability to repay occurs as early as the beginning through the maturity stages of a corporate bond (Longstaff & Schwartz.1995). This theory will be the anchor upon which effect of loan appraisal procedure on loan performance of Women Enterprise Fund will be analyzed.

Melton 1974 introduced the credit risk theory otherwise called the structural theory which is said the default event derives from a firm's asset evolution modeled by a diffusion process with constant parameters. Such models are commonly defined "structural model "and based on variables related a specific issuer. An evolution of this category is represented by asset of models where the loss conditional on default is exogenously specific. In these models, the default can happen throughout all the life of a corporate bond and not only in maturity (Longstaff & Schwartz.1995).This theory is the basis of analyzing effect of savings rate practice on loan performance.

### **2.2.3 Adverse Selection Theory of Credit Markets**

Adverse Selection Theory of Credit Market explains the effect of the financial risk, and the interest on the credit. The adverse selection theory of credit markets originates with the paper by Stiglitz & Weiss (1981). The theory rests on two main assumptions: that lenders cannot distinguish between borrowers of different degrees of risk, and that loan contracts are subject to limited liability (that is, if the project returns are less than debt obligations, the borrower bears no responsibility to pay out of pocket). Analysis was restricted to involuntary default, that is, it assumed that borrowers repay their loans when they have the means. In a world with simple debt contracts between risk-neutral borrowers and lenders, presence of limited liability of borrower imparts a

preference for risk among borrowers, and a corresponding aversion to risk among lenders. This is because limited liability on the part of borrowers shows that lenders bear all the downside risk. On the other hand, all returns above the loan repayment obligation accrue to borrowers.

The raising interest rates then affect the profitability of low risk borrowers disproportionately, forcing them to drop out of applicant's pool. This then will lead to an adverse compositional effect of higher interest rates increasing the average riskiness of the applicant pool. At very high interest rates, the only applicants are borrowers who could potentially generate very high returns (but presumably with small probability). Since lenders' preferences over project risk run counter to those of borrowers, they may hold interest rates at levels below market-clearing and ration borrowers in order to achieve a better composition and lower risk in their portfolio. Excess demand in the credit market may persist even in the face of competition and flexible interest rates. This theory will be used to analyze effect of loan appraisal practice on loan performance of Women Enterprise Fund in Kenya.

#### **2.2.4 Credit Default Theory**

Credit Default Theory main proponent was Keenan (1991). Credit default theory is mainly intended for use to estimate expected losses through an understanding of the causes of credit default. In practice a loss from a given default often involves lengthy delays (of months or even years) either in a sale of the collateralised asset or in a sale of that asset to a debt collector for loan value recovery or in making a claim from an insurer. The practical definition of a default as a delinquency with a time lag is therefore merely to provide an early recognition of potential loss and the time lag may vary from country to country due to cultural and legal differences. There is no compelling research to suggest a particular delinquency period: 30- days, 90-days or 180-days which will optimize the trade-off between timeliness in the warning of a loss and the likelihood of an actual loss from default. Therefore there is a need to make a distinction between the current practical definitions of default and a theoretical definition, which is necessary to create a credit default theory.

A successful credit default theory should be able to estimate the optimal delinquency time lag which is likely to indicate significant expected loss in any given jurisdiction.

For an unsecured loan such as a credit card loan, for such loans have very low payment obligations so that delinquency rates and therefore default rates are substantially less than what one would expect. Indeed lenders of unsecured loans seek to obtain substantial gains from charging high interest rates on outstanding balances after the minimum payment obligations have been made. The loss given default when the borrower is unable to even make the minimum payment obligation will depend on the debt collection process and other cultural and legal factors. In this study this theory explains the effect of credit terms on the performance of microfinance. This theory will be used to analyze the effect of loan recovery on loan performance of Women Enterprise Fund.

### **2.2.5 Capital Asset Pricing Theory**

William Sharpe (1964) published the capital asset pricing theory (CAPM) parallel work was also performed by Treynor (1961) and Lintner (1965). CAPM extended Harry Markowitz's portfolio theory to introduce the notions of systematic and specific risk. For his work on CAPM, Sharpe shared the 1990 Nobel Prize in Economics with Harry Markowitz and Merton Miller. In such a simple world, Tobin's (1958) super-efficient portfolio must be the market portfolio. All investors will hold the market portfolio, leveraging or de-leveraging it with positions in the risk-free asset in order to achieve a desired level of risk. CAPM decomposes a portfolio's risk into systematic and specific risk. Systematic risk is the risk of holding the market portfolio. As the market moves, each individual asset is more or less affected. To the extent that any asset participates in such general market moves, that asset entails systematic risk. Specific risk is the risk which is unique to an individual asset. It represents the component of an asset's return which is uncorrelated with general market moves (Lintner, 1965).

The capital asset pricing model (CAPM) helps to calculate investment risk and what return on investment to expect. It is important to look at the formula behind the model, and the evidence for and against the accuracy of CAPM, and what CAPM means to the average investor (Sharpe, 1964). Therefore, the key element of this model is that it separates the risk affecting an asset's return into two categories. The first type is unsystematic risk, or company-specific, risk. The long-term average returns for this kind of risk should be zero. Systematic risk being the second kind of

risk is due to general uncertainty in economic. Capital asset pricing model states that the return on assets should, on average, equal the yield on a risk-free bond held over that period plus a premium proportional to the amount of systematic risk the stock possesses, Markowitz (1952). This theory is the basis for the analysis of the effect of the interest rate practice on loan performance of Women Enterprise Fund.

## **2.3 Empirical Literature Review**

### **2.3.1 Loan Appraisal Procedure and Loan Performance**

Various studies have been conducted on effect of credit risk management practices on loan performance; Gaitho (2010) conducted a surveyed on credit risk management practices by SACCOs in Nairobi. The objective of the study was to identify credit risk management practices adopted by SACCOs in Nairobi. The target population of the study consisted of the 200 active SACCOs in Nairobi from which 35 SACCOs were identified using a systematic sampling technique. Out of this 35 only 31 responded to the questionnaires issued to them. A finding from the study shows that most SACCOs used credit risk management practices to objectively appraise risks in lending out funds. Majority (28) out of the (31) respondents agreed that credit risk management practices have impacted positively to their organizations by ensuring efficiency in carrying out its obligations and in meeting its objectives. The study also found out that SACCOs relied too much on the judgment and ability of portfolio managers for effective credit risk management practices instead of instituting standardized credit risk management procedures. This establishes the need for researching how standardized credit risk management practices like appropriated credit administration, credit policy, credit scoring and credit monitoring affects the loan performance of these SACCOs, thus encouraging their practices by these SACCOs.

Matere (2013) did a research on credit risk management practices, but this time on how it affected loan performance of private hospitals in Kenya. The design used in the study was causal. The fifty licensed private hospitals in Nairobi were the study's population. A census approach was adopted and the respondents were the managers from these hospitals. The data used in this study were from two sources, primary and secondary. A 5-point likert scale was used to determine the impact of credit management practices on performance of private hospitals in Kenya. Researcher used descriptive statistics such as mean, standard deviation and frequency distribution to

analyze the data. Findings from the study was that credit risk management procedures can be used to influence profitability of private hospitals and it recommends that the management of private hospitals should oversee facilitation of credit risk management through a high level of documentations and standardization of its processes.

Refers to evaluating credit worthiness of the proposed applicant, credit worthiness may also indicate the ability to honor commitments. Or the lending to a client should be in accordance to her repayment capacity or else she may get over indebted and her economic situation may deteriorate. The loan appraisal should take account the repayment capacity of the clients given the loan sizes and the duration of the loan. According to Seyfried (2001), Loan appraisal (credit appraisal) process is a holistic exercise which starts from the time a prospective borrower walks into the bank and ends in credit delivery and monitoring with the objective of ensuring and maintain the quality of lending and managing credit risk within acceptable limits.

Wanjira, (2010) found out that there is a need for commercial banks to adopt non-performing loans management practices. Such practices include ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities and use of procedures in solving on problematic loans among others. The study further concluded that there was a positive relationship between nonperforming loans management practices and the financial performance of commercial banks in Kenya which implies that the adoption of non- performing loans management practices leads to improved financial performance of commercial banks in Kenya.

Ochola (2009)examined the relationship between credit risk management and non-performing loans. The objective of the study was to establish the degree of effect of employing different credit management techniques on the level of non- performing loans. In assessing this, the study sought to find out the relationship between credit risk and management and non- performing loans by carrying out a survey of banking sectors in the Kenyan. The study found that in Kenya, a combination of intensive credit risk management practices by banks coupled with close supervision by Central Bank has enhanced the decrease of non- performing loans ratio in the banking sector.

Analyzing the asset quality of the financial sector from 2003 to 2008, the ratio of gross non-performing loans to gross loans decrease from a high 35% in 2003 to a low of 9.23% in 2008. The decrease of this ratio confirms close relationship between non-performing loans and credit risk management.

The MFI's will consider the cash flow from the business, the timing of the repayment, and the successful repayment of the loan. Anthony (2006) defines cash flow as the cash a borrower has to pay his debt. Cash flow helps the MFI's 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. MFI's determines cash flow by examining existing cash flow statements (if available) and reasonable projections for the future. There are various policies that an organization should put in place to ensure that credit management is done effectively; one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort therefore, should aim at increasing collections from slow payers and reducing bad debt losses (Kariuki, 2010).

Satchidananda, (2006) said that there are several methods that can be employed to analyze loan appraisal. These methods are Broad screening of the credit proposals into good (acceptable) and bad (unacceptable) credit risks through appropriate loan scoring model, Identification of the critical variables in the good projects through multiple discriminate analysis, Quantification of the magnitudes of contribution of the identified project variables to the credit risk of the project through multiple regression analysis and Pricing the credit risk of the credit project using the option theory framework.

Loan appraisal is a very important tool for assessing borrower commonly being used by commercial banks in providing loan to individuals and institutions. Loan appraisal enables the loan officer to make effective loan follow up to reduce defaults and doubtful loans. To justify this, the commercial banks need to feel confident that the loan appraisal will make a difference when used properly. They need to know that the use of a well-designed loan appraisal will improve and speed up the loan repayment in commercial banks. A research done by Chowdhury et al, (2012) failure to conduct



proper loan appraisal is the major reason for default and the existence of the problem loans. Gurung, (2004) in the banking, the credit appraisal system is not appropriate to some extent based on which the banks provide the different type of credit facilities to the borrowers which are far from knowledge, skill, capacity etc in smoothly operating business units and activities. Also credit appraisal/ analysis regarding the borrower and any business entity have not been done according to the financial norms and internationality accepted standard.

### **2.3.2 Loan Recovery Procedure and Loan Performance**

Debt collection strategies refer to the plans of action and activities that lenders use to recover past-due debts from the debtors. Lending institutions use different approaches to debt collection but there are four distinct strategies that are applied by all lending institutions in their debt collection activities: Change of payment terms, sending reminders to debtors, contracting the services of a debt collector (agent) and litigation (use of legal means to compel the debtor to honour their debts).

The first collection strategy that debt collectors use is change in payment terms. This is a tactic that helps the debtors to pay their debts and in turn helps the creditor to collect debt. For instance, if the creditor moves the due date ahead by 15 days, the debt may not be paid on time. Oppositely, if the due date is moved 15 days after the original date, the debt may be paid on time. Therefore, if a debtor is already having a bad time in paying their debts it will be hard to pay a bill earlier than scheduled but it might be easier to pay the debt much later. Therefore, lending institutions usually enter into agreements with the debtors to ensure that the new payment terms are convenient to the debtor. This usually happens during depressions, natural calamities, loss or change of employment or loss of livelihoods through accidents or normal business cycles (Nzomo, 2009).

The debtor will receive written or phone calls from creditors as a reminder to pay their debts on time. This technique is only effective if the debtor has simply forgotten to pay their debts. However, it will not be useful if there are any other reasons why the bill cannot be paid on time since there are legal guidelines that prohibit the creditor from making constant follow ups on the debtor. For example, creditors can only call the debtor within working hours mostly between 8 a.m. and 9 p.m. except if

they have previously agreed to let them call beyond these timings. Other regulations involve prohibition of use of foul language, excessive pressure and threats to publish lists of debtors who do not pay debts (Munyiri, 2010). The original creditor may choose to outsource debt collection attempts to a collection agency if they have exhausted all the means to collect the debt from the debtors. They can also sell the whole debt to a collection agency. The agency will then pursue the payment with the debtor. Again, there are legal guidelines that apply to third party debt collection and other costs that accrue to the original creditor when they elect to contract a third party to collect the debt on their behalf or decide to sell the whole debt to the third party (Kariuki, 2011).

In Malaysia, for the period 1996 to 2002 a study done by (Ahmad et, al 2004) compared social SACCOs and conventional SACCOs. Their results revealed that variables namely, management efficiency and weighted average of total assets had positive relationships with loan defaulting. However, the study didn't pin point how specific loan policies on loan default costs in the SACCO portfolios affect their financial performance. Social factors showed a weak influence on loan default by SACCOs in Baringo County as compared to economic factors, but these church based SACCOs are spread in other counties rather than Baringo County (Mitei at el., 2016).

A study on financial performance of DTAs confined in the Mount Kenya region by Mugambi et al., (2015) used variables namely diverse loan products in a portfolio and credit facility management. These two variables had a positive correlation to DTAs financial performance. Therefore, this study has extended on the same and to other regions. The effect of loan terms and conditions on loan repayment granted by selected DTAs SACCOs in Nyeri county, interest rate charged on loans had also a positive relationship to loan default. Therefore, this study further on the same and on SACCOs in other areas which are not deposit taking (Damaris et al., 2015). A research by Chege (2006) on how loan size granted by SACCOs affect loan default he concluded that changes in interest rates and different repayment schedules has positive correlation. He recommended that lower interest rates, management involvement on loan policy regulating were very vital in curbing the loan default vice. Nevertheless in his study he didn't show how this default affected the SACCO financial performance. The indications by Sindani (2012) on micro finance sector in

Kenya established that credit policies formulated by the microfinance institutions which include all types of SACCOs do affect their financial performance. The study concluded that managing credit relationships that are based upon all available customer information and consistent throughout the credit life cycle greatly increases profitability and reduces surprises.

The study on the effects of credit management practices on profitability by (Makori,2015) based on deposit taking SACCO's in Nairobi county concluded that there is need of informal relationship between management and borrowers. This will help in monitoring and early detection of potential problems that may arise in non-repayment of loans that finally affect the SACCOs financial performance. In addition, cooperation and coordination among various stakeholders provide additional support to borrowers will help them succeed in financial management. However, this study has extended and covered non-deposit taking SACCOs based on different environment rather than Nairobi County. Mwaura (2005) asserted that loan recovery is a recurring worry for overall SACCO sector in Kenya. Moreover, he also opined that recycling of cash is key, without which SACCO's cash flow and assets are in jeopardy. This will result to shareholders lack benefit of their investment unless borrowers are encouraged to adhere to the SACCOs loan policies. The survival of any SACCO or any other micro finance institutions relies heavily on their capacity to manage their loans efficiently and effectively Mwaura (2005). The socially formed SACCOs are faced with several challenges in effort to introduce workable reforms and policies to improve on their financial performance due to familiarity between the management and the members and therefore this has motivated the researcher.

Ngugi (2001) analyzed the interest rate in Kenya when commercial banks increase the lending rates; there is a probability of increased non-performing assets. The researcher prescribed that commercial banks should apply thorough strategies on loan advances with the aim of guaranteeing that loans are disbursed to just those with the ability to reimburse and relieve moral peril, for example, insider lending and information asymmetry. In an examination directed in Turkey by Ozdemir (2004), the researcher declared that at the beginning stage of a sound lending there should be a policy to obtain information on the authentic credit need of the potential borrower. Afterwards, the lending institution ought to guarantee that the loan recovery systems are always

updated and viable. Another study conducted in Italy by Sergio, (2006) the researcher revealed that adopting a forceful/aggressive lending policy may increase the riskiness of loans and thus raise the level of NPAs and vice versa. Ighoroje and Oshioyugie (2015) evaluated banker-customer relationship in Nigeria Deposit Money Banks using First Bank Nigeria Plc. It was discovered that the emergence of electronic banking has significant and positive impact on the banker-customer relationship and in ensuring its survival; management has a crucial role to play.

### **2.3.3 Saving Rate and loan Performance**

Credit is linked to savings, and in most cases loan sizes are related to the amount each borrower has saved. Saving can play a significant role in increasing levels of institutional sustainability and enhancing levels of outreach. Therefore, MFIs that offer savings facilities have a cheap source of funds for further lending to more sustainable operations. On the other side, voluntary saving builds the equity of poor households and protects them against unforeseen economic and personal crisis (AEMFI, 2010). The Microfinance Information Exchange (MIX) reports that African regional deposits made up 54% of the MFIs gross loan portfolio. In contrast, voluntary savings represented merely 22% of the Ethiopian microfinance portfolios (AEMFI, 2010). In case of mobilizing voluntary saving is only 10% of their gross loan portfolio. Therefore, the microfinance sector in Ethiopia still depends on donated funds and has not been in a position to finance its future business by generating income operation (NBE, 2010).

Kosgei, (2012) investigated effects of lending methodology on performance of loan portfolio in microfinance institution in Kenya. The purpose of the study was to assess the effect of lending methodology on the performance of gross loan portfolio/assets in micro-finance institutions. The specific objectives were to establish the effect of group and individual lending on performance of loan portfolio in Micro-finance institutions, and to establish the effect of moderating factors on performance of gross loan portfolio. Secondary data was used in the study of 8 out of 56 microfinance institutions under umbrella Association of Microfinance Institutions of Kenya (AMFI). This was motivated by availability of data. Panel data analysis was applied to test hypothesis that there is no relationship between group lending on performance of loan portfolio. After running a regression in which loan portfolio performance is

the dependent variable, the study found a positive significant coefficient of 0.79 and ( $p=0.42$ ) on group lending without moderating factors. When moderating factors were included the coefficient becomes 0.38 and ( $p=0.19$ ). The null hypothesis is rejected. There is no significant relationship of individual lending on performance of loan portfolio in the regression despite finding a positive coefficient of 0.41 and ( $p=0.27$ ). Therefore there is no effect on individual lending on performance.

Sindani (2012) carried out a study on effectiveness of credit management system on Loan Performance, Empirical evidence from Micro Finance Sector in Meru, Kenya. The overall objective of the study was to assess the effectiveness of credit management systems on loan performance in microfinance institutions. Descriptive survey design was adopted by the study. This design investigates the current status and nature of the phenomena. A census survey of all the 70 credit officers in 14 microfinance institutions in Meru town was conducted. The study opt to establish the effect of credit terms, client appraisal, credit risk control measures and credit collection policies on loan performance. Credit officers of the MFIs in Meru town were the respondents, and collection policy was found to have a greater effect on the loan repayment.

#### **2.3.4 Lending Rate and Loan Performance**

According to Ddumba (2011), ever since Bank of Uganda increased the Central Bank Rate to a staggering 23% from 13% in 2010, banks have taken advantage of the situation and hiked their prime lending rates accordingly. Business Sense has exclusively learnt that Stanbic Bank increased its lending rate to 34%, Centenary Bank from 19% to 23%, Crane Bank from 23% to 28%, dfcu bank from 23% to 27%, Standard Chartered from 18% to 34%, Barclays Bank from 17.5% to 30% and KCB from 18% to 28%. Centenary Rural Development Bank is a commercial bank that offers economically disadvantaged people- the enterprising poor, not the poorest of the poor, in Uganda a full range of financial services, comprising savings, credit and money transfer. The reason for Choosing Centenary Rural Development Bank was due to the fact that it is the largest Micro finance bank with a customer base of over 420,000 customers and borrowers numbering about 50,000 (The New Vision, 2004). The bank has 39 branches and 78 ATM's country wide. The banks mission is to provide appropriate financial services especially microfinance to all people in

Uganda, particularly in rural areas, in a sustainable manner and in accordance with the law. Established with the major objective of providing financial services to all Ugandans with a special focus on the rural poor, the bank has grown rapidly into a fully-fledged commercial bank and not only does it provide a micro loan to rural poor, but has also diversified its operations into the commercial and corporate sector.

A study on the trade-off between sustainability and outreach as experienced by microfinance institutions (Milson, 2013), and a global analysis of leading microbanks in respect of financial performance and outreach (Cull, Demirguc-Kunt & Morduch, 2007) revealed some common observations. The two studies indicated that the real gross portfolio yield is a proxy for interest rates charged by MFIs. In addition, they argued that the depth of outreach-viability controversy determines whether or not to subsidize interest rates. The authors gave a contextual and practical analysis involving the poor, interest rates charged and loan repayment default. It was exemplified in the event the interest rate prevailing in the market cannot be afforded by poor people and these people continue borrowing loans aware they would default in repayment, and if the loss from such interest rate induced default is outweighs the revenue gain from higher interest rates, then real yield is anticipated to negate operational self-sufficiency (OSS). Gashaw (2014) examined MFIs in Ethiopia, Uganda and Kenya. The specific point of interest was loan outreach to the poor and the quest for financial viability. In the study it is acknowledged that it is very unlikely for a well-to-do client to borrow loans from MFIs in these countries due to the dominance of the commercial banking sector. The study observed that, the repayment rates amongst MFIs are part of their success stories which interpretatively implies that these firms have managed to keep the default risk sufficiently low. The authors further opined that, there is a great belief that borrowers of credit from MFIs are able and willing to pay commercial interest rates. On the part of these institutions, low default rates are reported.

Kimando, Kihoro and Njogu (2012) studied the factors influencing sustainability of MFIs in Murang'a Municipality, Kenya. The study findings indicated that the greatest challenge was non-repayment of loans borrowed as shown by 88.9 per cent of the study respondents. It was found out that credit rationing is a tool employed by many MFIs as a way of hedging the effects of default by borrowers. In this respect, it is

advisable that MFIs demand for some form of collateral before giving loans. In addition, Bichanga and Aseyo (2013) examined the causes of loan default within microfinance institutions in Kenya. The authors noted that there are many such firms that depend on the government for subsidy as one way of addressing financial losses incurred through loan default. The study realized that the default in loan repayment was occasioned by non-supervision of borrowers on how to employ the credit advanced to them and also inadequate training of borrowers on how to put into use those funds prior to their receipt of the loan. More so, it was found out that some borrowers divert the funds borrowed to other projects which may not be financially viable and as such increasing the risk of default.

Kenya as a region is facing very high inflation originating primarily from high food and fuel prices but also from demand pressures. The commercial banks in Kenya are susceptible to many forms of risk which have triggered occasional systemic crises (KBA, 2014). These include liquidity risk (where many depositors may request withdrawals in excess of available funds), credit risk (the chance that those who owe money to the bank will not repay it), and interest rate risk (the possibility that the bank will become unprofitable, if rising interest rates force it to pay relatively more on its deposits than it receives on its loans), (Ndung'u, 2014). Given these challenges, the government has agreed to coordinate such actions as tightening monetary policy, stemming volatility in the foreign exchange markets and curbing currency speculation activities (KBA, 2014).

Kenya has paid dearly in the past following the collapse of more than ten banks in mid-1990's that was mainly attributed to non-performance of loans due to high rates of interest fuelled by inflation. The high non-performance loans ushered a regime of high lending rates, which further exacerbated the levels of default. As a result, the Kenyan banking industry experienced unprecedented instability (Ndung'u, 2014). Although the instability was not caused solely by the high inflation rates as it could be attributed to other factors such as information asymmetry, policy lending by state owned banks, politics among other factors, inflation was a key factor in the non-performance of loans (Ndung'u, 2014). Lending is a risky enterprise because repayment of loans can really be fully guaranteed. The problem of interest rates and loan portfolio performance is not unique in Kenya. Others outside Kenya have

researched on it considerably. The interest rate aspects of loan portfolio performance are discussed based on the theoretical and practical recommendations outlined in other research works done elsewhere outside Kenya.

#### **2.4 Knowledge Gap Summary**

The main aim of this study was to analyze effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya. The study used literature review which included theoretical review; financial economic theory, credit risk theory, adverse selection theory of credit, credit default theory and capital asset pricing theory. The study also reviewed related empirical literature on analyze effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya. Various empirical studies were reviewed on loan appraisal procedure, loan recovery procedure and interest rate on loan performance of Women Enterprise Fund in Kenya. The following are the literature gap that this review established; there is little documented study done on effect of credit risk management on loan performance of government revolving fund in Kenya, much of the work done relating to credit risk management practices on financial performance of commercial banks and microfinance institutions creating a research gap. This study therefore intend to fill this literature gap by analyzing effect of credit risk management practices on loan performance of Women Enterprise Fund in Kenya, more specifically; To establish the effect of the loan appraisal practice on loan performance of Women Enterprise Fund in Kenya; To determine the effect of loan recovery practice on loan performance of Women Enterprise Fund in Kenya; To analyze the effect of Savings Rate practice on loan performance of Women Enterprise Fund in Kenya; To determine the effect of interest rate practice on loan performance of Women Enterprise Fund in Kenya.

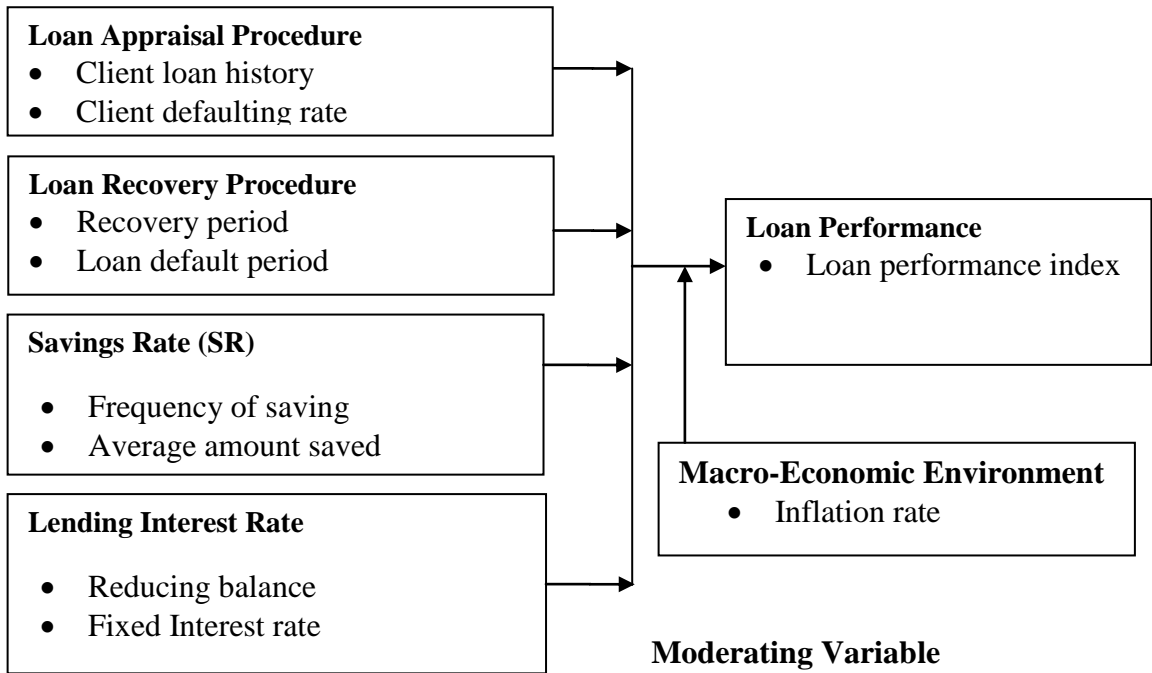
#### **2.5 Conceptual Framework**

The aim of this conceptual model is to assist the researcher to relate the proposed relationships. Independent variables of the study include; loan appraisal practice, loan recovery practice, Savings Rate measured in terms of frequency of savings and amount saved and interest rate practice. The Dependent variable is the loan performance measured in terms of loan performance index. The moderating variable is macroeconomics environment measured in terms of inflation. It is hypothesized that when Women Enterprise Fund manages its credit risk well then the loan will be performing well leading to more money generated for improved loan advance cycle.



**Independent Variables**

**Dependent Variable**



Source: (Own Conceptualization, 2018)

**Figure 2.1: Conceptual framework**

## **CHAPTER THREE RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section presents the methodological procedures which were used by the researcher in carrying out the study. This chapter presents the research design, population of the study, location of the study, sampling procedure and sample size, instrumentation, data collection procedure and data analysis techniques.

### **3.2 Research Design**

The research design adopted by the study was quantitative longitudinal. Longitudinal study follows the same sample over time and makes repeated observations (Forgues, Bernard and Vandangeon-Derumez, 2011). Longitudinal research designs describe patterns of change and help establish the direction and magnitude of causal relationships. Measurements are taken on each variable over two or more distinct times. This will allow the researcher to measure change in variables over time. Hsiao (2003) said that longitudinal, or panel, data set as one that follows a given sample of individuals over a given period of time, and thus provides multiple observations on each individual in the sample. Longitudinal design is appropriate for this study because the study is based on time series describing the pattern of changes of the variables under the study.

### **3.3 Target Population**

Burns and Grove (2003) state that population includes all elements that meet certain criteria for inclusion in a study. Target population consists all members of a real or hypothetical set of people, events or objectives from which the study wishes to make general results (Grove, 2003). The study targets Women Groups who are currently taking loans from Women Enterprise Fund in Nakuru Town East Sub-County. Currently there are 971 Women Groups who have taken loan with Women Enterprise Fund (Women Enterprise Fund Nakuru Town East, 2018).

### **3.4 Sampling Procedure and Sample Size**

Normally, it is preferable to collect data from all the 971 Women Groups in Nakuru East Sub County. However, due to cost, time and logistics constraints, sampling is inevitable. The researcher used systematic random sampling technique in selecting

the respondents. The formula recommended by Nassiuma (2000) was used by the researcher to determine the sample size.

$$n = \frac{NC^2}{C^2 + (N - 1)e^2}$$

Where

n= Sample size

N= Population size.

C= coefficient of variation which is  $21\% \leq CV \leq 30\%$

e= margin of error which is fixed between  $2\% \leq e \leq 5\%$

The study sample was calculated at 25% coefficient of variation and 5% of margin of error

Calculating the sample size,

$$n = \frac{971 * (0.21)^2}{((0.21)^2 + 971(0.02^2))} = 99.1 \approx 99 \text{ Sample size}$$

Therefore 99 respondents as the size of the sample were used for this research drawn from the study population using stratified random sampling. The researcher used random sampling technique to select the 99 sample from the 971 Women Groups taking Loans with Women Enterprise Fund.

### **3.5 Data Collection Instrumentation**

The study collected primary data from the Chairperson of the Women Groups who have taken loans from WEF, Nakuru Sub-County. Collection of data was using structured questionnaires consisting of open ended and closed ended questions. Primary data was collected through structured questionnaires which collected views, opinions and attitudes from the respondents and was administered to all the respondents using a drop and pick technique. The questionnaire was divided into various sections to adequately cover the objectives of the study and was used to solicit information; use of incentives, top management decisions, managing resistance to change and managing transition. Likert Scale was used to rate the extent of agreements by respondents from 5-strongly agree; 4-agree; 3-neutral; 2-disagree and 1-strongly disagree.

### **3.6 Validity and Reliability of Research Instruments**

#### **3.6.1 Validity of Research Instruments**

Validity indicates the degree to which an instrument measures what it is supposed to measure. Validity is the extent to which differences found within a measuring instrument reflect true difference among those being tested (Kothari, 2004, Copper & Schindler, 2006). The instrument said to be valid if it contains a representation sample of respondents view. Validity is divided into various types including content, construct face and criterion related. The study performed content and constructed valid tests. Content validity measures the extent to which the instrument adequately covered the investigative questions in the study. The researcher did a pilot of 10 Women Groups which have benefited from WEF in Rongai Sub-County to pre-test the validity of the data collection instrument. Expert lecturers from Kabarak University who tested and judge whether the measuring instrument to meet the set standards.

#### **3.6.2 Reliability of Research Instruments**

Kothari (2004) points out that reliability is getting the same results over repeated trial. The researcher used Cronbach Alpha to measure reliability of the instrument used as shown below.

$\left(\frac{k}{k-1}\right)\left(1-\sum\frac{s_i^2}{s^2}\right)$ . Here k stands for the number of conditions contributing to a total

score, and s is the standard deviation, which students have learned to calculate and interpret early in the most elementary statistics course. The pilot test yielded a Cronbach Alpha of 0.81 which was greater than the 0.70 threshold making the instrument reliable to collect the required data.

### **3.7 Data Collection Techniques**

The researcher used structured questionnaire to collect data from Women Groups who have taken loan from WEF. After successfully defending the proposal, the researcher obtained an official letter from Director of Post Graduate Studies, Kabarak University to allow her apply for research permit from The National Commission for Science, Technology and Innovation (NaCoSTI). After obtaining the permit, the researcher requested NACOSTI to give the researcher an introductory letter/s to the government

authorities. The letter enabled the researcher access the respondents using list and contact from District Women Enterprise Fund Officer in Nakuru Town Sub-County

### **3.8 Data Analysis Techniques**

Analysis of the collected data started with sorting and checking returned raw data for accuracy and completeness of the two sets of questionnaires. The researcher collected the data then cleaned, organized, coded and analyzed. Frequencies and percentages were used to describe characteristics of the sample while chi-square test of association and goodness of fit was used to establish associations and differences respectively. A relationship between credit management practices and loan performance was tested using, Pearson correlation and Regression Analysis model below.

$$y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots \dots (1)$$

Where;

Y = Loan performance

$\alpha$  = constant

$\beta_1 \dots \dots \beta_5$  = Regression Coefficients

X<sub>1</sub> = loan appraisal procedure

X<sub>2</sub> = Loan recovery procedure

X<sub>3</sub> = Saving rate

X<sub>4</sub> = Lending Interest rate

$\varepsilon$  = error of term.

### **3.9 Ethical Consideration**

Discretion was strictly observed in the course of this research. Women Enterprise Fund was assured that the information provided was used solely for academic purposes. No pressure or inducements of any kind was applied to encourage the Women Enterprise Fund employees to become participants in the research study. The researcher followed the laid down procedures for data collection by the University and other statutory organs.

## CHAPTER FOUR DATA ANALYSIS, PRESENTATION AND DISCUSSION

### 4.1 Introduction

This chapter presents the results and discussion of the effect of credit risk management practices on loan performance of Women Enterprise Fund Nakuru Town East, Kenya in relation to the set objectives and hypotheses, comparing what other scholars have documented on the topic. Data was analyzed through use of data obtained from the questionnaire collected from the field. The core primary data relating to the null hypotheses was tested using both Pearson Correlation and multivariate regression analysis tested statistic at 0.05 significance level. Presentation was done by use of frequency tables, bar charts and figures.

### 4.2 General and Demographic Information

#### 4.2.1 General Information

A total of 99 questionnaires were distributed to respondents according to the set sample size out of which 91 questionnaires were collected back representing 92% return rate which was significant to answer the set objectives of the study

#### 4.2.2 Demographic Data

The results of demographic data included; age bracket and respondents' level of education and experience as entrepreneurs.

**Table 4.1: Respondents Age Bracket**

<b>Year</b>	<b>Frequency</b>	<b>Percent</b>
18-25 years	9	10
26-30 years	16	18
31-35 years	66	73
<b>Total</b>	<b>91</b>	<b>100</b>

Source: Field Data (2018).

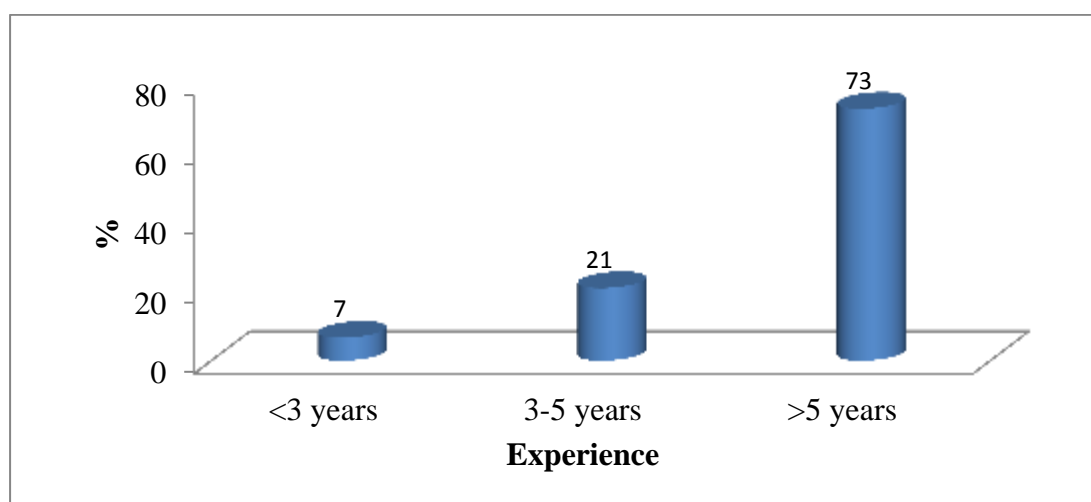
Results on age bracket indicated that majority of respondents 73% were in the bracket of 31-35 years, 18% were in the bracket of 26-30 years and 10% were in the bracket of 18-25 years. This finding indicated that the women entrepreneurs funded by WEF were middle age and likely has been groups with experience of taking credits for their enterprises.

**Table 4.2: Respondents Highest Level of Education**

<b>Level</b>	<b>Frequency</b>	<b>Percent</b>
Primary	3	3
Secondary	82	90
College	6	7
<b>Total</b>	<b>91</b>	<b>100</b>

Source: Field Data (2018).

Table 4.2 above reveals that majority of respondents 90% had secondary school qualification compared to 7% who had college qualification and 3% who had primary Education as their highest level of education. This finding indicated that WEF did not attracted professional women with college and university qualification; perhaps the professional women were pursuing other carrier through employment and those were entrepreneurs obtained credit from other institutions.



**Figure 4.1: Respondents Entrepreneurship Experience**

Results from figure 4.1 revealed that majority of women groups financed by WEF 73% had entrepreneurship experience of more than 5 years compared to 21% who had 3-5 years of experience and 7% who had less than 3 years. This finding indicated that women groups financed by WEF had many years experience as entrepreneurs of which they supported through credit and therefore had experience in credit which make them suitable to be respondents in the survey.

### 4.3 Descriptive Statistics on Awareness of Loan Appraisal Procedure

The first objective of the study was to establish the effect of loan appraisal procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The section therefore, presents the descriptive statistics the views of women groups financed by WEF on loan appraisal. The variables analyzed on loan appraisal procedure include; WEF verifies loan history of the groups before approving their loans, WEF verifies if the group defaulted any loan before loan approval, WEF vet every group member before loan approval, WEF use information from Credit Bureau to vet members before loan approval and that WEF vet enterprises members are engaged in before loan approval.

**Table 4.3: Descriptive Statistics on Loan Appraisal Procedure**

<b>Loan appraisal Practice</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	<b>X<sup>2</sup></b>	<b>p-value</b>
Loan history of the group	9	71	11	7	2	10.9	0.324
Defaulted history	20	64	11	3	2	14.2	0.327
Vetting every group member	12	77	3	2	6	25.7	0.689
Credit Bureau information	19	66	2	2	11	35.6	0.324
Vet enterprises of members	23	64	8	2	3	41.9	0.210

Source: Field Data (2018)

Table 4.3 above was used to analyze loan appraisal procedure by WEF. SA represented Strongly Agree, A- represented Agree, U- represented Undecided, D – Represented Disagree and SD- represented Strongly Disagree on the Likert presented in percentage. The study established majority of respondents 80% agreed that WEF verifies loan history of the groups before approving their loans compared to 11% were undecided and 9% who disagreed ( $X^2=10.9, p=0.324 > 0.05$ ). Findings on default rate established that majority of respondent 84% agreed that WEF verifies if the group defaulted any loan before loan approval compared to 11% who were undecided and 5% who disagreed ( $X^2=14.2, p=0.327 > 0.05$ ). Findings on vetting every group member revealed that majority of respondents 89% agreed that WEF vet every group member before loan approval compared to 8% who disagreed and 3% who were undecided ( $X^2=10.9, p=689 > 0.05$ ). Further findings on Credit Bureau information revealed that majority of respondents 85% agreed that WEF use information from



Credit Bureau to vet members before loan approval compared to 13% who disagreed and 2% who were undecided ( $X^2=25.7, p=0.324 > 0.05$ ). Findings on vetting enterprises revealed that majority of respondents 87% agreed that WEF vet enterprises members are engaged in before loan approval compared to 8% who were undecided and 5% who disagreed ( $X^2=41.9, p=0.210 > 0.05$ ).

The finding on loan approval procedure indicated that women groups financed by WEF agreed on their level of awareness of loan approval procedure. The procedures included; WEF verifies loan history of the groups before approving their loans, WEF verifies if the group defaulted any loan before loan approval, WEF vet every group member before loan approval, WEF use information from Credit Bureau to vet members before loan approval and that WEF vet enterprises members are engaged in before loan approval.

#### 4.4 Descriptive Statistics on Loan Recovery Procedure

The second objective of the study was to determine the effect of loan recovery procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. Key variables includes; WEF checks previous loan recovery period before awarding the loan, WEF verifies previous default rate before awarding the loan, WEF attaches women group assets in any case of defaulted, members in the group raises money to cover members who are not able to pay and that Members not able to pay are ejected from the group.

**Table 4.4: Loan Recovery Procedure**

<b>Loan Recovery</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	$X^2$	<i>p-value</i>
Previous loan recovery period	14	72	8	3	3	36.9	0.409
WEF verifies previous default rate	15	73	8	3	1	30.1	0.326
WEF attaches women group assets	20	64	6	6	4	15.2	0.866
Members in the group repays	11	78	5	3	3	28.2	0.079
Members ejected for non repayment	14	74	6	4	2	21.7	0.080

Source: Field Data (2018)

The study established that majority of 86% agreed that WEF checks previous loan recovery period before awarding the loan compared to 8% who were undecided and

6% who were not sure ( $X^2=36.9$ ,  $p=409>0.05$ ). Findings whether WEF verifies previous default rate revealed that majority of respondents 88% agreed that WEF verifies previous default rate before awarding the loan compared to 8% who were undecided and 4% who disagreed ( $X^2=30.1$ ,  $p=326>0.05$ ). Further findings on whether WEF attaches women group assets due to default revealed that majority of respondents 84% agreed that WEF attaches women group assets in any case of defaulted compared to 10% who disagreed and 6% who were undecided ( $X^2=30.1$ ,  $p=866>0.05$ ). Findings on Members in the group repays loan defaulted by a member revealed that majority of respondents 89% agreed that members in the group raises money to cover members who are not able to pay compared 6% who disagreed and 5% who were not sure ( $X^2=15.2$ ,  $p=409>0.05079$ ). Last, further findings on members from the ejected for non repayment revealed that majority of respondents 88% agreed that members not able to pay are ejected from the group compared to 6% who disagreed and were undecided respectively ( $X^2=21.7$ ,  $p=080>0.05$ ).

Findings on loan recovery showed that women groups financed by WEF were aware of several loan recovery techniques including; WEF checking previous loan recovery period before awarding the loan, WEF verifying previous default rate before awarding the loan, WEF attaching women group assets in any case of defaulted, members in the group raising money to cover members who are not able to pay and that members not able to pay were ejected from the group.

#### **4.5 Descriptive Statistics of Saving Rate**

The third objective of the study was to analyze the effect of saving rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya. The key variables analyzed under this objective were; WEF verifies saving period before awarding loans, WEF verifies amount saved before awarding loans, the group has mandatory monthly savings by the members, Savings are motivated by table banking and Savings are motivated by individual member loans from the groups.

**Table 4.5: Groups Saving Rates**

<b>Saving Rate</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	<b>X<sup>2</sup></b>	<b>p-value</b>
Saving period	19	66	4	8	3	33.9	0.012
Amount saved	19	68	3	6	4	36.2	0.016
Mandatory monthly savings	8	78	6	5	3	26.4	0.010
Motivated by table banking	20	62	4	4	10	10.5	0.015
Motivated member loans	19	69	5	3	4	26.4	0.026

Source: Field Data (2018)

Table 4.5 presents savings rate as a means of base fund mobilization for their enterprises. The study established that majority of respondents' 85% agreed that WEF verifies saving period before awarding loans compared to 11% who disagreed and 4% who were undecided ( $X^2=33.9$ ,  $p=0.012<0.05$ ). Findings on amount saved revealed that majority of respondents 87% agreed that WEF verifies amount saved before awarding loans compared to 10% who disagreed and 3% who were not sure ( $X^2=36.2$ ,  $p=0.016<0.05$ ). Further findings on mandatory monthly savings revealed that majority of respondents 82% agreed that the group has mandatory monthly savings by the members compared to 8% who disagreed and 6% who were not sure ( $X^2=26.4$ ,  $p=0.010<0.05$ ). Findings on whether savings motivated by table banking revealed that majority of respondents 82% agreed Savings are motivated by table banking compared to 14% who disagreed and 4% who were undecided ( $X^2=26.4$ ,  $p=0.015<0.05$ ). Last, further findings on savings motivated by members loans revealed that majority of respondents 88% agreed that Savings are motivated by individual member loans from the groups compared to 7% who were disagreed and 5% who were undecided( $X^2=10.5$ ,  $p=0.026<0.05$ ).

The findings on saving rate showed that the women groups financed by WEF were aware of savings as a means of mobilizing funds and also as a requirement by WEF towards proving their credit worthiness. Some of the savings issues they were aware about included; WEF verifies saving period before awarding loans, WEF verifies amount saved before awarding loans, the group has mandatory monthly savings by the members, Savings are motivated by table banking and Savings are motivated by individual member loans from the groups.

#### 4.6 Descriptive Statistics of Lending Interest Rate

The fourth objective of the study was to determine the effect of lending rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya. The analyzed variables under group awareness of lending rate; WEF explained to the women issues of interest rate charged on their loans, interest rate was based on reducing balance, interests rates were fixed and that interest rate could change in loan life.

**Table 4.6: Group Awareness of Lending Rate**

<b>Interest Rate</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	<b>X<sup>2</sup></b>	<b>p-value</b>
Educate on interest rate	17	57	4	15	7	20.6	0.000
Interest rate on reducing balance	11	66	9	8	6	25.9	0.015
Interests rates are fixed	9	57	10	11	13	24.9	0.000
Interest rate can change in loan life	8	58	10	11	13	20.9	0.000

Source: Field Data (2018)

Table 4.6 presents results of groups' awareness of lending interest rates charged on the loans they took. The study established that majority of respondents 74% agreed that WEF explained to the women issues of interest rate charged on their loans compared to 22% who disagreed and 4% who were not sure ( $X^2=20.6$ ,  $p=0.000<0.05$ ). Findings on interest rate charged on reducing balance revealed that majority of respondents 77% agreed that interest rate was based on reducing balance compared to 14% who disagreed and 9% who were not sure ( $X^2=25.9$ ,  $p=0.015<0.05$ ). Further findings on fixed interest rate and interest rate can change in loan life revealed that majority of respondents 66% agreed that WEF charged fixed interest rate and that interest rate could change in loan life respectively compared to 24% who disagreed and 10% who were not sure ( $X^2=20.9$ ,  $p=0.000<0.05$ ).

The finding on lending interest rate showed that the women groups funded by WEF had varied opinion on interest rate charged on the loans they borrowed. Some of the opinion included; WEF explained to the women issues of interest rate charged on their loans, interest rate was based on reducing balance, interest rates were fixed and that interest rate could change in loan life.

#### 4.7 Descriptive Statistics on Loan Performance Index

This section presents the results of the groups view on loan performance index by WEF as far as women group lending was concern. The indices used to measure loan performance included; repayment on time, loan repayment before the end of 30 days period to avoid other charges, application for larger loan facilities, high rating by WEF as far as loan repayment is concern and Individual members prompt loan repayment.

**Table 4.7: Loan Performance Index**

<b>Performance index</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	<b>X<sup>2</sup></b>	<b>p-value</b>
Repayment the loan taken	12	28	2	24	34	32.5	0.017
Repayment before the end of 30 days	5	20	7	33	35	29.6	0.000
Repayment of loan in full	3	19	8	27	43	22.6	0.016
Application for larger loan facilities	7	21	3	23	46	17.7	0.002
Highly rated by WEF	1	22	7	32	38	17.3	0.014
Members repay loan promptly	6	21	7	25	41	26.4	0.000

Source: Field Data (2018)

Table 4.7 presents the results loan performance indices as was observed by the women groups funded by WEF. The study established that slightly more than half of respondents 58% disagreed that they were all able to repay the loans taken from WEF on time compared 40% who agreed and 2% who were not sure ( $X^2=32.5$ ,  $p=0.017<0.05$ ). Findings on repayment before the end of 30 days revealed that majority of respondents 68% disagreed that they were able to repay back their loan before the end of 30 days compared to 25% who agreed and 7% who were not sure ( $X^2=29.6$ ,  $p=0.000<0.05$ ). Majority of respondents 60% disagreed that they were able to repay their loans in full compared to 22% who agreed and 8% who were not sure ( $X^2=22.6$ ,  $p=0.0116<0.05$ ). Findings on application for larger loan facilities revealed that majority of respondents 69% disagreed that they were able to apply for larger loan facilities because they completed their loan repayment on time compared to 23% who agreed and 7% who were not sure ( $X^2=17.7$ ,  $p=0.002<0.05$ ). Last, further findings on individual members repaying their loan promptly revealed that majority of respondents 66% disagreed that individual members in the group promptly repaid their loan on time ( $X^2=26.4$ ,  $p=0.014<0.05$ ).

The findings on loan performance index showed that the women groups financed by WEF performed poorly as far as credit management was concern evident by; their failure to repay loan on time, loans which were overdue 30 after days period attracting charges, their failure on application for larger loan facilities as indicator of prompt loan repayment, low rating by WEF as far as loan repayment was concern and failure by individual members to promptly repay their loan on time.

#### 4.8 Effect of Credit Risk Management Practices Loan Performance

This section analyzes inferential statistics of analyzeeffect of credit risk management practices on loan performance of Women Enterprise Fund. The analyzed variables under this section included; Loan appraisal procedure,loan recovery procedure, saving rate, lending rate being the independent variables andperformance index being the dependent variable.

**Table 4.8: Correlation between Credit Management Practice and Loan Performance**

		appraisal	recovery	savings	interest	performance
appraisal	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	91				
recovery	Pearson Correlation	.741**	1			
	Sig. (2-tailed)	.000				
	N	91	91			
savings	Pearson Correlation	.599**	.625**	1		
	Sig. (2-tailed)	.000	.000			
	N	91	91	91		
interest	Pearson Correlation	-.083	-.114	-.099	1	
	Sig. (2-tailed)	.433	.284	.353		
	N	91	91	91	91	
performance	Pearson Correlation	-.185	-.172	-.265*	.624**	1
	Sig. (2-tailed)	.080	.104	.011	.000	
	N	91	91	91	91	91

\*. Correlation is significant at the 0.05 level (2-tailed).

The study established insignificance correlation of  $r=-0.180$ ,  $p=0.080>0.05$  between the Loan appraisal procedure by women groups financed by WEF as one of the credit management practice. Further finding established insignificant correlation  $r=-0.172$ ,  $p=0.104>0.05$  between loan recovery procedure as credit management practice. Third, the study established significant correlation  $r=-0.265$ ,  $p=0.011<0.05$  between savings

rate credit management practice by women groups financed by WEF. Fourth, the study established significant correlation  $r=0.624$ ,  $p=0.000<0.05$  between lending rate credit management practice by women groups financed by WEF.

**Table 4.9: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.659 <sup>a</sup>	.434	.408	.98883

The R value was 0.659 and adjusted  $R^2$  of 0.408, which indicated a high degree of correlation. The  $R^2$  value indicates how much of the dependent variable, "loan performance index", was explained by the independent variables, "loan appraisal procedure, loan recovery procedure, saving rate, lending rate". In this case, 41% was the R Squared, which was fairly large indicating that the data collected was closely fitted to the regression line.

**Table 4.10: ANOVA of the Predictors and the Dependent variable**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64.482	4	16.121	16.487	.000 <sup>b</sup>
	Residual	84.089	86	.978		
	Total	148.571	90			

Predictors: Loan appraisal procedure, loan recovery procedure, saving rate and lending rate. The Dependable variable: loan performance index. Table 4.10 indicated that the regression model predicted the outcome variable significantly with  $p = 0.00$ , which was less than 0.05, and indicated that; overall, the model statistically and significantly predicted the outcome variable.

**Table 4.11: Full Regression Model**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.121	.694		3.056	.003
Loan appraisal	-.115	.228	-.063	-.504	.616
Loan recovery	.146	.237	.080	.619	.538
Savings rate	-.334	.166	-.217	-2.017	.047
Lending rate	.523	.070	.607	7.423	.000

The first hypothesis was stated as **HO<sub>1</sub>**: there is no significant statistical relationship between loan appraisal procedure and loan performance of Women Enterprise Fund Nakuru Town East, Kenya.

When loan recovery procedure, saving rate and lending rate were held constant, where Y was the loan performance index,  $\alpha_1$  was the constant,  $\beta_1$  was the rate of change and  $X_1$  was loan appraisal procedure. The null hypothesis that there is no significant statistical relationship between loan appraisal procedure and loan performance of Women Enterprise Fund Nakuru Town East, Kenya was accepted. Loan appraisal procedure had insignificant relationship with loan performance index, this was because loan appraisal procedure had  $P=0.616 > 0.05$  indicating that loan appraisal procedure did not contribute significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

This finding was supported by Wanjira, (2010) who studied the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. The study concluded that there is a need for commercial banks to adopt non-performing loans management practices. Such practices include ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities and use of procedures in solving on problematic loans among others. The study further concluded that there was a positive relationship between nonperforming loans management practices and the financial performance of commercial banks in Kenya



which implies that the adoption of non- performing loans management practices leads to improved financial performance of commercial banks in Kenya.

Matere (2013) further supported the finding of the study by a research on credit risk management practices, but this time on how it affected loan performance of private hospitals in Kenya. The design used in the study was causal. The fifty licensed private hospitals in Nairobi were the study's population. The study noted that credit risk management procedures can be used to influence profitability of private hospitals and it recommends the management of private hospitals to oversee facilitation of credit risk management through a greater level of standardization of its processes and documentations.

The second hypothesis **HO<sub>2</sub>**: was stated as there is no significant statistical relationship between loan recovery procedure performance of Women Enterprise Fund Nakuru Town East, Kenya. When loan appraisal procedure, saving rate and lending rate were held constant, where Y was the loan performance index,  $\alpha_1$  was the constant,  $\beta_1$  was the rate of change and  $X_1$  was loan recovery procedure. The null hypothesis that there is no significant statistical relationship between loan recovery procedure performances of Women Enterprise Fund Nakuru Town East, Kenya was accepted. Loan recovery procedure had insignificant relationship with loan performance index, this was because loan recovery procedure had  $P=0.538>0.05$  indicating that loan recovery procedure did not contribute significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

This finding is supported by Kimando, Kihoro and Njogu (2012) who studied the factors influencing sustainability of MFIs in Murang'a Municipality, Kenya. The study findings indicated that the greatest challenge was non-repayment of loans borrowed as shown by 88.9 per cent of the study respondents. It was found out that credit rationing is a tool employed by many MFIs as a way of hedging the effects of default by borrowers. In this respect, it is advisable that MFIs demand for some form of collateral before giving loans. In addition, Bichanga and Aseyo (2013) examined the causes of loan default within microfinance institutions in Kenya. The authors noted that there are many such firms that depend on the government for subsidy as one way of addressing financial losses incurred through loan default. The study

realized that the default in loan repayment was occasioned by non-supervision of borrowers on how to employ the credit advanced to them and also inadequate training of borrowers on how to put into use those funds prior to their receipt of the loan. More so, it was found out that some borrowers divert the funds borrowed to other projects which may not be financially viable and as such increasing the risk of default

The third hypothesis **HO<sub>3</sub>**: was stated there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya. When loan appraisal procedure, loan recovery procedure and lending rate were held constant, where Y was the loan performance index,  $\alpha_1$  was the constant,  $\beta_1$  was the rate of change and  $X_1$  saving rate. The null hypothesis that there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya was rejected. Saving rate had significant relationship with loan performance index, this was because saving rate had  $P=0.047 < 0.05$  indicating that contributed significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

This finding is supported by Ngugi (2001) who analyzed the interest rate in Kenya when commercial banks increase the lending rates; there is a probability of increased non-performing assets. The researcher prescribed that commercial banks should apply thorough strategies on loan advances with the aim of guaranteeing that loans are disbursed to just those with the ability to reimburse and relieve moral peril, for example, insider lending and information asymmetry.

The fourth hypothesis **HO<sub>4</sub>** was stated as there is no significant statistical relationship between lending rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya. When loan appraisal procedure, loan recovery procedure and saving rate were held constant, where Y was the loan performance index,  $\alpha_1$  was the constant;  $\beta_1$  was the rate of change and  $X_1$  lending rate. The null hypothesis that there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya was rejected. Lending rate had significant relationship with loan performance index, this was because lending rate had  $P=0.000 < 0.05$  indicating that contributed significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

The finding is supported by Globally, Ogboi and Unuafe (2013) conducted a study on how credit risk management and capital adequacy impacted loan performances of Nigerian commercial banks. The study aimed to establish the extent to which huge scarce resources invested in credit risk management by commercial banks was affecting their loan performance. Investigation into the extent to which credit risk, along with capital adequacy, affected loan performance of banks in Nigeria was conducted using regression analysis. Six out of the twenty-one commercial banks operating as at 2009 were the sample for this study. The evidence provided in this study, revealed that a comprehensive credit management procedure, and adequate capital are recipes for profitability. This study goes to the core of the area of study, as these SACCOs are also financial institutions.

## **CHAPTER FIVE SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary**

The objective of this study was to analyze the effect of credit risk management practices on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The summary of the findings are discussed below;

The study distributed 99 questionnaires to respondents according to the set sample size out of which 91 questionnaires were collected back representing 92% return rate which was significant to answer the set objectives of the study. First, the study established that the women entrepreneurs funded by WEF were middle age and likely to have been groups with experience of taking credits for their enterprises. Second, WEF did not attract professional women with college and university qualification; perhaps the professional women were pursuing other careers through employment and those who were entrepreneurs obtained credit from other institutions. Third, women groups financed by WEF had many years experience as entrepreneurs of which they were supported through credit and therefore had experience in credit which made them suitable to be respondents in the survey.

The first objective of the study was to establish the effect of loan appraisal procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The study established that women groups financed by WEF agreed on their level of awareness of loan approval procedure put in place by WEF in terms of; WEF verifies loan history of the groups before approving their loans, WEF verifies if the group defaulted any loan before loan approval, WEF vet every group member before loan approval, WEF use information from Credit Bureau to vet members before loan approval and that WEF vet enterprises members are engaged in before loan approval.

The second objective of the study was to determine the effect of loan recovery procedure on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The study established that the women groups financed by WEF were aware of several loan recovery techniques including; WEF checking previous loan recovery period before awarding the loan, WEF verifying previous default rate before awarding

the loan, WEF attaching women group assets in any case of defaulted, members in the group raising money to cover members who are not able to pay and that members not able to pay were ejected from the group.

The third objective of the study was to analyze the effect of saving rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya. The study established that the women groups financed by WEF were aware of savings as a means of mobilizing funds and also as a requirement by WEF towards proving their credit worthiness. Some of the savings issues they were aware about included; WEF verifies saving period before awarding loans, WEF verifies amount saved before awarding loans, the group has mandatory monthly savings by the members, Savings are motivated by table banking and Savings are motivated by individual member loans from the groups.

The fourth objective of the study was to determine the effect of lending rate on loan performance of Women Enterprise Fund in Nakuru Town East, Kenya. The study established that the women groups funded by WEF had varied opinion on interest rate charged on the loans they borrowed. Some of the opinion included; WEF explained to the women issues of interest rate charged on their loans, interest rate was based on reducing balance, interest rates were fixed and that interest rate could change in loan life. On loan performance index, the study found out that the women groups financed by WEF performed poorly as far as credit management was concern evident by; their failure to repay loan on time, loans which were overdue 30 after days period attracting charges, their failure on application for larger loan facilities as indicator of prompt loan repayment, low rating by WEF as far as loan repayment was concern and failure by individual members to promptly repay their loan on time.

## **5.2 Conclusions**

The study main objective was to to analyze effect of credit risk management practices on loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The first hypothesis was stated as there is no significant statistical relationship between loan appraisal procedure and loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The null hypothesis that there is no significant statistical relationship between loan appraisal procedure and loan performance of Women Enterprise Fund

Nakuru Town East, Kenya was accepted. Loan appraisal procedure contributed insignificantly towards loan performance index, this was because loan appraisal procedure had  $P=0.616>0.05$  indicating that loan appraisal procedure did not contribute significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

Further, the second hypothesis was stated as there is no significant statistical relationship between loan recovery procedure performances of Women Enterprise Fund Nakuru Town East, Kenya. The null hypothesis that there is no significant statistical relationship between loan recovery procedure performances of Women Enterprise Fund Nakuru Town East, Kenya was accepted. Loan recovery procedure contributed insignificantly towards loan performance index, this was because loan recovery procedure had  $P=0.538>0.05$  indicating that loan recovery procedure did not contribute significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

The third hypothesis was stated as there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The null hypothesis that there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya was rejected. Saving rate contributed significantly towards loan performance index, this was because saving rate had  $P=0.047<0.05$  indicating that contributed significantly towards loan performance index of Women Enterprise Fund Nakuru Town East.

The fourth hypothesis was stated as there is no significant statistical relationship between lending rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya. The null hypothesis that there is no significant statistical relationship between saving rate and loan performance of Women Enterprise Fund Nakuru Town East, Kenya was rejected. Lending rate contributed significantly towards loan performance index, this was because lending rate had  $P=0.000<0.05$  indicating that contributed significantly towards loan performance index of Women Enterprise Fund Nakuru Town East, Kenya.

### **5.3 Recommendations**

#### **5.3.1 Recommendation for Practice and Policy**

Based on the findings of this study, the following recommendations are important as far as the effect of credit risk management practices on loan performance of Women Enterprise Fund. First, the study recommends that WEF should review its policy on loan appraisal and recovery procedures which did not have significant relationship with loan performance index and are important elements as far as credit management are concern. Such procedures should tighten the profiling of the women before the loans are given to establish whether they are credit worthy. Effective loan recovery systems should be developed so as to protect public funds advance to the women in terms of loans. A combination of intensive credit risk management practices by the banks linked with close supervision by Central Bank has largely enhanced the decrease of non- performing loans ratio in the banking sector.

#### **5.3.2 Recommendation for Further Studies**

A comparative study should be done on the effect of credit risk management practices on loan performance of the Youth Enterprise Development Fund, and Uwezo Fund. The findings shed more light on how other economic stimuli funds are managing their credit of which this study did not cover.

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## APPENDICES

### Appendix 1: Letter of Introduction

Dear Respondent,

My name is Dorcas Jepkosgei Sungunya, a Master of Business Administration student at Kabarak University. I am carrying out a study on the “**Analysis of the effect of credit risk management practices on loan performance of Women Enterprise Fund Nakuru Town East, Kenya**”.I have sampled you to take part in this research. All information collected will be treated confidentially and will not be used for any other use other than the purpose for which it is intended. Kindly answer the questions truthfully.

Thank you.

Dorcas J, Sungunya.

## Appendix 2: Questionnaire to Women Groups

### Section A: Demographic Information

Put a tick as appropriate (√)

1. Average age bracket of group members in years: 18-25 ( ) 26-30 ( ) 31-35 ( )
2. Average level of education of group members: No formal Education ( )  
Primary Education ( ) Secondary Education ( ) College Education ( )  
University Education ( )
3. Experience as an entrepreneur in years: Less than 3 Years ( ) 3-5 Years ( )  
More than 5 Years ( )

### Section B: Credit Management Practices

This section presents key elements of financial structure used by your group in sourcing for funds for your enterprises. Give your opinion on each of the aspects of financial structures by appropriately ticking (√): 1 – Strongly Disagree (SD), 2 – Disagree (D), 3 Undecided ( ) 4 Agree (A) and 5 - Strongly Agree (SA)

<b>Credit Risk</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Loan appraisal Procedure</b>					
WEF verifies loan history of the group					
WEF verifies if the group has defaulted any loan					
WEF vet every group member					
WEF use Credit Bureau to vet members					
WEF vet enterprises members are engaged in					
<b>Loan Recovery Procedure</b>					
WEF checks previous loan recovery period before awarding the loan					
WEF verifies previous default rate					
WEF attaches women group assets					

Members in the group raises money to cover members who are not able to pay					
Members not able to pay are ejected from the group					
<b>Savings Interest Rate</b>					
WEF verifies saving period before awarding loans					
WEF verifies amount saved before awarding loans					
The group has mandatory monthly savings by the members					
Savings are motivated by table banking					
Savings are motivated by individual member loans from the groups					
<b>Lending Interest Rate</b>					
WEF explains to the women issues of interest rate					
Interest rate is based on reducing balance					
Interests rates are fixed					
Interest rate can change in loan life					

Any other (please write down) .....



### Section C: Loan Performance Index

This section presents key elements of loan performance index of you group. Give your opinion on each of the aspects of enterprise growth by appropriately ticking (√): 1 – Strongly Disagree (SD), 2 – Disagree (D), 3 Undecided ( ) 4 Agree (A) and 5 - Strongly Agree (SA)

<b>Loan Performance Index</b>	<b>SD</b>	<b>D</b>	<b>U</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Our group always pay the loan taken					
We pay the loan before the end of 30 days period to avoid other charges					
We pay our loan in full					
Our payment rate has enable us apply for larger loan facilities					
We were rated well by WEF as far as loan repayment is concern					
Individual members pay loan promptly					

**Appendix 3: List of Women Groups Funded by WEF in Nakuru East Sub-County**

<b>SNO</b>	<b>NAME OF GROUP</b>	<b>SNO</b>	<b>NAME OF GROUP</b>
1.	VIRTUOUS W.G	2.	MUGUGA MWANGAZA W.G
3.	GENESIS UNITED SISTERS	4.	MUGUGA SISTERS S. H.G
5.	KABATHAYU W.G	6.	MAONO W.G
7.	HOPEWELL W.G	8.	LAMUGA W. G
9.	NAKURU CENTRAL SDA SINGLE PARENTS WG	10.	JUHUDI WOMEN GROUP
11.	SALFLO W.G	12.	BARNABAS WOMEN GROUP
13.	SOKONI FURAHA W.G	14.	CHAMGAA WOMEN GROUP
15.	VIRTEOUS W.G	16.	EMMANUEL WOMEN GROUP
17.	LWANGA WOMEN GROUP	18.	EXODUS WOMEN GROUP
19.	GREAT RIFT W.G	20.	MAMA TERESA WOMEN GROUP
21.	VISION YOUNG MOTHERS W.G	22.	ONGEMUITEN WOMEN GROUP
23.	JIKAZE FLAMINGO W. G	24.	BUSY WOMEN GROUP
25.	MWITEITHIA W. G	26.	CHANUKA KAPKURES W.G
27.	HOPE POWERS W.G	28.	NABUTEBUKI W.G
29.	SWEET MOTHERS W.G	30.	VALLEY BREEZE W.G
31.	BLESSED WOMEN INVESTMENT S.H.G	32.	ARSENAL S.H.G
33.	PHASE II VISION SISTERS W. G	34.	BIDII YOUTH GROUP
35.	FRIENDS OF LAKE NAKURU	36.	BULLISH
37.	KIJAWA W.G	38.	JUHUDI WOMEN GROUP
39.	NEW JOY W.G	40.	NAKURU GOSETA
41.	JURIAT W.G	42.	NAKURU HIGHWAY S.H.G
43.	BARAKA WAMAGATA W.G	44.	NEW HOPE WOMEN GROUP
45.	STEM FAITH W.G	46.	NYABOMO SISTERS
47.	TIGER W.G	48.	NYAKWENGATA W.G
49.	GRACE RHINO W. G	50.	NYAKWEREMIA FAMILY WOMEN GROUP
51.	MAJANI MINGI PROGRESSIVE W.G	52.	OCEANIC INVESTMENT WOMEN GROUP
53.	NAKURU ARISE AND SHINE CBO	54.	London Roho Safi Women Group

55.	20 PRECIOUS SISTERS W.G	56.	Nakuru Viwandani Mayouth Wajisave
57.	PIPELINE VISION MOTHERS	58.	Unity Self Help Group
59.	Unity Self Help Group	60.	Kamagika SHG
61.	Vision London Stage	62.	Abarsador
63.	Eagle Vision	64.	Propeller
65.	Eretoo S.H.G	66.	Kioneki
67.	Grace S.H.G	68.	Likia farmers SHG
69.	Great Achievers Self Help Group	70.	Ufanisi
71.	Mwariki Good Neighborhood	72.	Segutiet stars
73.	Mwariki Fashion &Design	74.	Muongano
75.	Upendo Sisters	76.	Gatimu mwangaza SHG
77.	Luowas Women Group	78.	Niss group
79.	Miki Self Help Group	80.	Kiahiti B Mwireri
81.	Rafich Growers S.H.G	82.	Kenya peace and development project
83.	Rehema Samaritan S.H.G	84.	Jubilee enterprises
85.	Shabab Action S.H.G	86.	Excel dynamic
87.	Wajibika Investment Group	88.	Kamagika SHG
89.	Friends of Bondeni	90.	Mawanjo
91.	New pamoja	92.	Wezsha
93.	Tumaini OG	94.	Kianjoya umoja
95.	Delta mothers		
96.	Talent		
97.	Njounifa		
98.	Love joy		
99.	Mwiteithia farmers group		

Source: Nakuru County Youth Affairs Office (2018)

## Appendix 4: NACOSTI Research Authorization Letter



### NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone: +254-20-2213471,  
2241349, 3310571, 2219420  
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Email: [dg@nacosti.go.ke](mailto:dg@nacosti.go.ke)  
Website: [www.nacosti.go.ke](http://www.nacosti.go.ke)  
When replying please quote

NACOSTI, Upper Kabete  
Off Wazaki Way  
P.O. Box 30623-00100  
NAIROBI-KENYA

Ref No. NACOSTI/P/18/64222/26547

Date: 1<sup>st</sup> November, 2018

Dorcas Jepkosgei Sungunya  
Kabarak University  
Private Bag - 20157  
KABARAK.

#### RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*Effect of credit risk management practices on loan performance of Women enterprise fund in Kenya: survey of Women groups in Nakuru Town Sub-County*," I am pleased to inform you that you have been authorized to undertake research in **Nakuru County** for the period ending 1<sup>st</sup> November, 2019.

You are advised to report to **the County Commissioner and the County Director of Education, Nakuru County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

  
BONIFACE WANYAMA  
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner  
Nakuru County.

The County Director of Education  
Nakuru County.

National Commission for Science, Technology and Innovation is ISO9001:2008 Certified

## Appendix 5: NACOSTI Research Permit


**THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013**

The Grant of Research Licenses is guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014.

**CONDITIONS**


1. The License is valid for the proposed research, location and specified period.
2. The License and any rights thereunder are non-transferable.
3. The Licensee shall inform the County Governor before commencement of the research.
4. Excavation, filming and collection of specimens are subject to further necessary clearances from relevant Government Agencies.
5. The License does not give authority to transfer research materials.
6. NACOSTI may monitor and evaluate the licensed research project.
7. The Licensee shall submit one hard copy and upload a soft copy of their final report within one year of completion of the research.
8. NACOSTI reserves the right to modify the conditions of the License including cancellation without prior notice.

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**REPUBLIC OF KENYA**

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**National Commission for Science,  
Technology and Innovation**

**RESEARCH LICENSE**

Serial No.A 21593

CONDITIONS: see back page


**THIS IS TO CERTIFY THAT:**  
**MS. DORCAS JEPKOSGEI SUNGUNYA**  
**of KABARAK UNIVERSITY, 0-20100**  
**NAKURU, has been permitted to conduct**  
**research in Nakuru County**

**on the topic: EFFECT OF CREDIT RISK**  
**MANAGEMENT PRACTICES ON LOAN**  
**PERFORMANCE OF WOMEN ENTERPRISE**  
**FUND IN KENYA: SURVEY OF WOMEN**  
**GROUPS IN NAKURU TOWN SUB-COUNTY**

**for the period ending:**  
**1st November, 2019**

.....  
**Applicant's**  
**Signature**

Permit No : NACOSTI/P/18/64222/26547  
Date Of Issue : 1st November, 2018  
Fee Received : Ksh 1000



*[Signature]*  
**Director General**  
**National Commission for Science,**  
**Technology & Innovation**

## Appendix 5: Approval Letter From Kabarak University



### INSTITUTE OF POST GRADUATE STUDIES

Private Bag - 20157  
KABARAK, KENYA  
E-mail: [directorpostgraduate@kabarak.ac.ke](mailto:directorpostgraduate@kabarak.ac.ke)

Tel: 0773265999  
Fax: 254-51-343012  
[www.kabarak.ac.ke](http://www.kabarak.ac.ke)

9<sup>th</sup> October 2018

Ministry of Higher Education Science and Technology,  
National Council for Science, Technology & Innovation,  
P.O. Box 30623 – 00100,

Dear Sir/Madam,

**RE: RESEARCH BY DORCAS J. SUNGUNYA-GMB/NE/0172/1/17**

The above named is a student of Kabarak University taking Masters Degree in Business Administration. Her research entitled "Effect of Credit Risk Management Practices on Loan Performance of Women Enterprise Fund in Kenya: Survey of Women Groups in Nakuru Town Sub-County" has been **examined and accepted** by the Board of Postgraduate Studies.

She is therefore authorised to proceed on with her research. Any assistance accorded to her is highly appreciated

Thank you.



**DIRECTOR (POST GRADUATE STUDIES)**

**Kabarak University Moral Code**

*As members of Kabarak University family, we purpose at all times and in all places, to set apart in one's heart, Jesus as Lord. (1 Peter 3:15)*



Kabarak University is ISO 9001:2015 Certified