

**ASSESSING LOAN MANAGEMENT PRACTICES ON FINANCIAL
PERFORMANCE OF MICROFINANCE INSTITUTION IN
NAIROBI, KENYA**

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DECLARATION AND APPROVAL

“Declaration by the student

This report is my original work and has not been presented for a degree in any other University or for any other award.

Signature



Date : 24TH JUNE 2025

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Approval by the Supervisor

I confirm that the work reported in this report was carried out by the candidate under my supervision

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Date: 24TH JUNE 2025

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DEDICATION

I dedicate this work to God Almighty and to my lovely family, my husband Suleiman, my sons Tyvan and Ethan and my daughter Talyah for the support I received.



ACKNOWLEDGEMENT

I thank God who has seen me through my entire studies at Mount Kenya University and compilation of this report. Glory and Praise be to Him!

I would to show my appreciation to all the staff and management team of Mount Kenya University for their effort, time, trainings and services rendered to me. I made friends and most importantly, learned how to listen and communicate with an audience. A special recognition goes to Dr. Martin Onsiro my Academic Supervisor who kept on guiding, supervising and correcting me whenever I would get a challenge.

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ABSTRACT

Microfinance banks offer important role on financial services in Kenya. This report acts as a set to assess the loan management practices on the financial performance of microfinance institution in Nairobi, Kenya. The study specific objectives were :to assess the influence of loan appraisal on financial performance of microfinance institution Nairobi city, Kenya, To examine the influence of loan documentation process on the financial performance of microfinance institution Nairobi, Kenya, to establish the influence of loan disbursement process on the financial performance of Microfinance institution in Nairobi, Kenya, to assess the influence of loan monitoring and recovery process on the financial performance of microfinance institution in Nairobi, Kenya. The study was steered by information asymmetry theory, alternative hypothesis (skimping) theory and financial intermediation theory. The study used descriptive research design, and its target population of 77 employees, an error margin of 0.05 and a sample size of 65 respondents was on branch managers and credit officers on 13 licensed microfinance institution within Nairobi, Kenya. Descriptive statistics that was used include the standard deviation, mean and frequency. Inferential statistics that was used includes that of the multiple regressions. The study considered primary data such as structured questionnaires and secondary data such as data obtain from financial reports and that from CBK portal. The researcher acquired vital letters and permit prior to data collection. For data analysis, Microsoft excel version 10 was used. The data gathered was displayed inform of tables. The study established that the loan appraisal had a coefficient regression of 0.39 and every unit increase of loan appraisal by 0.39 units resulted to 0.39 units increase on financial performance of microfinance banks in Nairobi, Kenya. The study determined that there was statistical significant association between loan appraisal with financial performance with a ($\beta = 0.39$, $P < 0.05$). The study established that the loan documentation had a coefficient regression of 0.26 and every unit increase of loan documentation by 0.26 units resulted to 0.26 units increase on financial performance of microfinance banks in Nairobi, Kenya ($\beta = 0.26$, $P < 0.05$). The study determined that there was statistical significant association between loan documentation process with financial performance. The study established that the loan disbursement process had a coefficient regression of 0.17 and every unit increase of loan disbursement by 0.17 units resulted to 0.17 units increase on financial performance of microfinance banks in Nairobi, Kenya with ($\beta = 0.17$, $P < 0.05$). The study determined that there was statistical significant association between loan disbursements with financial performance. The study established that the loan monitoring and recovery process had a coefficient regression of 0.30 and every unit increase of loan monitoring and recovery by 0.30 units resulted to 0.30 units increase on financial performance of microfinance banks in Nairobi, Kenya. For the loan appraisal, (beta= 0.06, p value < 0.05) that indicates that loan appraisal has significantly effect on financial performance, loan documentation, (beta 0.17, p value < 0.05) that indicates that loan documentation has statistical significantly effect on financial performance, loan disbursement, (beta 0.36, p value < 0.05) that indicates that loan documentation has significantly effect on financial performance, loan monitoring and recovery beta 0.09, p value < 0.05) that indicates that loan monitoring and recovery has statistical significantly effect on financial performance. The study determined that there was statistical significant association between loan monitoring and recovery with financial performance. The study indicates that all officers of microfinance banks should put aggressive measures on loan management practices as it turned out to have an impact on the financial performance of microfinance institutions in Nairobi, Kenya.

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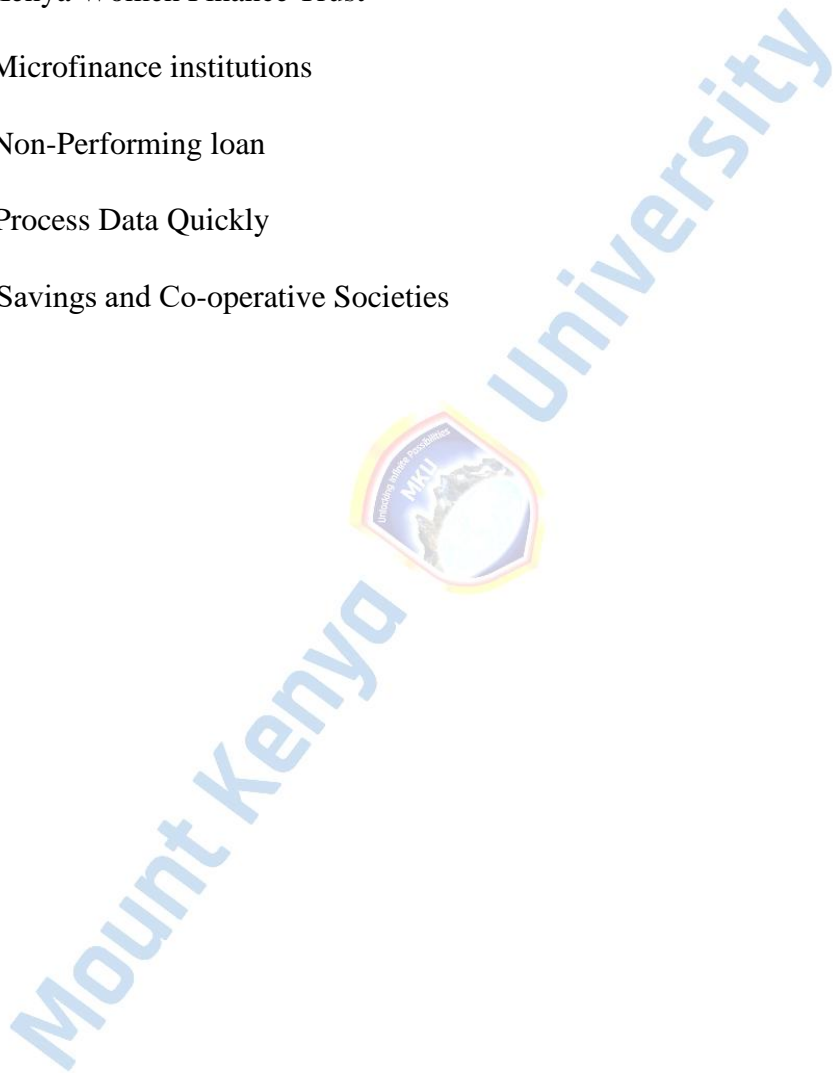
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LIST OF ABBREVIATIONS AND ACRONYMS

ATM	:	Automated Teller Machines
CBK	:	Central bank of Kenya
CRB	:	Credit Revenue Bureau
KWFT	:	Kenya Women Finance Trust
MFIs	:	Microfinance institutions
NPL	:	Non-Performing loan
PDQ	:	Process Data Quickly
SACCO's	:	Savings and Co-operative Societies



CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Microfinance institution participates in a crucial role in the Kenya economy in terms of mobilization of deposits, funding customers through issuing of loans and eradicating poverty. According to Chikwira and Vengesai (2022), on how poverty alleviation has impacted microfinance institutions defines microfinance as tools used to address poverty through marginalized economic functions and provision of credit to the poor who may lack the required security to access larger amounts.

Loan appraisal is key in the lending process of microfinance institutions. Loan appraisal is a determining factor in the entire loan process and once its roots are established, we can then proceed to the documentation process that determines whether the borrower's identity can open up more trust with the lender. The credit risk associated with the amount of loan disbursed is crucial to avoid overfunding or underfunding in a borrower that will later affect the performance of microfinance institutions.

Siabei (2019), a client may wish to access a loan, but due to lack of pay slip, they end up empty handed and frustrated never to try again. Most customers visit microfinance institutions to get loans and are attracted by their low lending rates and collateral requirements that does not require too much documentation.

According to world bank as study done by Zimstat (2020) describes poverty as anyone living below \$ 1.90 a day and its approximated to be around 767 million people. Microfinance institutions reduce the poverty level by offering services related to business management and handling of money. According to Buera and Kaboski (2021), microfinance banks offer loans to large and small scale business and that the loans play a significant part in the organization growth through its profitability as well as the business. According Rehman et. al 2020, there's need to empower women by ensuring they join microfinance in aspect of age, family type, education and marital status. Most microfinance banks shy away from start-up businesses and prefer ones that are more than a year old to qualify for the loans, In the overall operating assets

of any financial institution the larger proportion constitute of loans, hence healthy loan portfolios are therefore very important for any financial institution. All loans are associated with a certain credit risk (decrease in economic benefit associated with monetary loss). Due to their lending capacity, impact on liquidity, profitability and earnings of the financial institution.

Financial performance of microfinance institutions, it's a major problem locally and globally and some causes such as poor laws governing the microfinance institutions, financial literacy, bad management.

Unfortunately, some bad debts result from loans given by financial institutions with negative effect thus affecting the overall financial performance of the institutions. When loans are not closely monitored or due to bad management, then microfinance institutions are in a higher risk of falling.

According to Financial Access Survey report 2023, shows that since 2020, for middle income and low income economies, the outstanding value of microfinance deposits has risen. The outstanding GDP increased, between 2020 and the year 2022 with more than 50 percent of economies. Some microfinance institutions in Africa, have enlarged their credit portfolio to support MSMEs supported by resilience of the institution notwithstanding the hardening financial conditions (Africa Financial Industry Summit 2023).

1.1.1 Global perception

World perception, loan management practices has also experienced a financial crisis especially in small business that originated from United States (US) thus deteriorating economy and some countries becoming both poor economically and socioeconomically. There's no better definition on loan management practices since by definition this are loans that are past 90 days for both the repayment and the interest. Variation exists in terms of content, scope and justification.

According to Batae and Dragomir (2022), on how European banks are affected by three factors including the environmental, social and governance. The three classifications based on geographical regions of the banks in Europe, functional currency, population based on cluster greatly has an overall effect on the profitability and financial performance of European banks.

According to Churchill and Appau (2020) in South America, the study shows that one Latin America is most ethnically regions with high levels of poverty. That Microfinance financial

performance lies the gap of ethnicity and linguistic fractionalization. Study by Aguayo (2023), shows that Latin America has made a substantial progress in terms of inclusion and appreciation goes to strategies targeting households that were earlier not considered by traditional banks.

According to the study by Singh in Greece, (2023), shows that social performance (female representation and borrower retention) negatively related to financial performance and encourages society shareholders and stakeholders by bringing out the satisfying interest of social achievement/performance. Women empowerment and trainings are key for the financial growth and the need of women to be empowered to take up leading roles in the lending process.

According to the study by Bardhan and Nag (2021) in India financial performance is very crucial for the overall performance of microfinance and the top notch factors indicate size of the firm, funding source, depth of outreach, indicates that financial performance of public institution banks is poorer in contrast to the selected private institution banks. The research further shows that liquidity ratio and solvency have positive impact on banks in India.

According to Bharti and Malik (2022), that microfinance in India target women to carry on there day to day business but to ignore their education and health which is very key for the microfinance to achieve their financial inclusion. In addition, he banking sector in India ha advised on the need of financial training to women on lending practices.

According to the study by Ntaganda and Muiruri (2022), in Rwanda, the study was on governance in Rwanda microfinance that include the board size, CEO duality and the gender and its effect on the financial performance. Cooperate governance clearly shows that's its key in contribution of loyalty to customers and trust and extension of its products. Study by Komezusenge (2024) in Rwanda that customer visits, trust has a great impact on the financial performance.

According to the study done by Berko and Dankwah and Boahene (2021) in Ghana, on credit risk practices of some loan and savings companies, it reveals that credit risk management such as collateral, Capacity, Character of the borrower and Condition are essential for financial performance of the companies though borrower's character is given less attention. The study by Quartey and Okyere and Yensu (2019) in Ghana on the need for rural banks to be educated and allowed access to facilities and avoid discrimination upon borrowers in rural areas.

Uganda continues to face decline in financial performance according to the research done by Musaki (2018) in regards to commercial banks and the contributing factors include effect of risk management, collateral security and loan scheduling. Study by Orichom and Omeke (2021), in Uganda, risk associated with credit management contributes widely to the financial performance of MFI. Further state that credit monitoring and appraisal contributes to the performance of microfinance. The study by Mwakujonga and Komba (2024) in Tanzania microfinance institutions continue to face challenges in return on Equity. Research by Murimi and Siebert and Salira and Mkoba (2022) shows that financial institutions have poor systems thus finding some challenges in tracking borrowers records.

1.1.2 Locally in Kenya

Microfinance institution in Nairobi Kenya play a crucial role providing various services such as issuing of loans, savings, insurance services, processing of ATMs , issuing of PDQ machines among others, Association of Microfinance institutions 2021, members are classified as Savings and Credit Co-operative), wholesale lenders to microfinance institutions, ordinary members (Microfinance Banks), Credit-Only Microfinance Institutions and Associate members (Commercial Banks. Kenya has a total of 13 licensed microfinance, 3 wholesale microfinance institution and 39 Credit Only Microfinance institutions that offer financial services. The current data from CBK, shows that the banking institution gross NPL increased by 25.67% in November 2023 from ksh.635.8 Billion from ksh.505 billion. In Kenya, most microfinance banks are struggling to reduce their non-performing loans. According to World Bank Group 2021, there has been the “wait and see” effect after the year 2022 general election thus increase in loan defaults as a result of several macroeconomic shocks that saw household ability and many businesses affected and as a result affecting the performance of institutions. The NPL ratio was approximated at 6.2% for wholesale MFIs, 11.6% for credit-only MFIs and 32.9% for microfinance banks as at 30 June 2023. Microfinance performance has declined and have been contributed by poor risk assessment and management, weak credit conditions, payment mechanisms and poor credit monitoring. According to Njue (2020), the increased in NPLs from microfinance banks in Kenya has resulted to liquidity problems and this has greatly affected the microfinance performance. Many borrowers and investors tend to shy away from microfinance due to their performance.

Murunga (2017), most microfinance banks in Kenya are taking legal measures upon employees who are found having engaged on fraudulent activities while issuing loans and contributing towards the increase in non-performing loans. Once the employee has been found guilty towards the fraudulent activity, they are dismissed from their workplace, blacklisted and barred from being employed by any other financial institution within Kenya. In addition, mobile based lending in Kenya has increased over the years due to advanced technology and more educated generation that has resulted to its increase.

In Kenya, after the covid-19 pandemic, many microfinance institutions embraced digital technology through use of digital platforms to advertise their products and reach out to their customers. Trainings are being done to customer's on use of apps to access loans and grow their business to help improve the financial performance. Prior to that, most financial institutions are offering staff trainings to create awareness, confidence and need for spiritual capacitation to improve on integrity issues.

Some researchers in Kenya have conducted their study on financial performance of institutions and include: to Ngumo and Kioko (2020), Siabie (2019), Gichuhi and Omagwa (2020), Kaugi (2020), Kamanda and Ondabu and Matanda (2024), Kahihu and Wachira and Muathe (2021).

Microfinance institution declined financial performance has resulted to economic stagnation. This bad debts are refer to Non-performing loans. Kamanda and Ondabu and Matanda (2024), loans disbursed ought to be secured either by use of collateral, household chattel, members shares, group co-guarantee and guarantor's approval but sometimes the already serviced loans are not recovered as anticipated due to fraud cases during the appraisal process such collaterals being overvalued and the amount of loan disbursed being higher the customer's ability

1.2 Statement of the Problem

Funding of customers in a microfinance institution is the main business for their survival in the economy since it creates revenue. Borrowers who are unable to access funds due to their level of education, lack of collateral, high loan application fees from other financial institutions run to microfinance banks in order to be supported Siabei (2019). Loan management assists automates loans from the application stage to the recovery of the entire loan. The financial performance of microfinance institution are affected by NPLs that consume capital, management time, attention and decrease profitability. The profitability of microfinance has greatly been affected and thus

reduction of its assets and poor performance. Some even look for financial investors for them to remain afloat. Some borrowers have taken advantage of microfinance by taking multiple loans by basically opening various accounts and using the same transaction to credit and debit different accounts in different microfinance.

According to audited financial statements Faulu had a total asset of ksh.22,704,021 in 2022 and by close of 2023, the bank had ksh.20,499,617. According to CBK 2023, microfinance total assets in June 2022 was at ksh.72.8 billion but it experienced a decline by June 2023 to ksh.69.9 billion. The decline of the total assets was contributed by decline in loans advanced from ksh 42.6 billion (by June 2023) to ksh.45.2 billion (June 2022). This study intends to address the research gap by taking into account on assessing loan management practices on financial performance of microfinance institution in Nairobi. The study focuses on how independent variables on loan management practices that include the loan appraisal process, that of loan documentation, loan disbursement process and that process loan monitoring and recovery contributes to the financial performance. According to KPMG (2018), investigated the nonperforming loans European banks and action towards preparedness on ranked data on NPL exposures, enhance plans to minimize them and managers with sufficient NPL expertise. The results from European's microfinance banks however do not apply to Kenya microfinance banks..

Previous researchers have focused on mobile based lending and on commercial banks thus a contextual gap has been identified from previous research that focused on commercial banks and not on microfinance. According to Onyango and Olando (2020) on Analysis on influence of specific bank factors on Npl in Kenya, the report study was on the operating efficiency, ROA, liquidity ratio and spread on interest.

1.3 Objectives of the study

The main objective of the research was assessing loan management practices on financial performance of microfinance institution in Nairobi, Kenya.

1.3.1 Specific objectives

The specific objectives of the study were:

- i. To assess the influence of loan appraisal on financial performance of microfinance institution Nairobi, Kenya

- ii. To examine the influence of loan documentation process on the financial performance of microfinance institution Nairobi ,Kenya.
- iii. To analyze the influence of loan disbursement process on the financial performance of Microfinance institution in Nairobi, Kenya.
- iv. To assess the influence of loan monitoring and recovery process on the financial performance of microfinance institution in Nairobi, Kenya.

1.4 Research Hypothesis

This study was guided by the following null hypothesis:

H₀₁: The loan appraisal process has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya.

H₀₂: The loan documentation process has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya

H₀₃: The loan disbursement has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya

H₀₄: The loan monitoring and recovery has no significant statistical influence on financial performance of microfinance institution in Nairobi , Kenya

1.5 Significance of the study

The is expected to benefit microfinance officials in assessing the loan management practices and have an in-depth understanding of policy mitigations.

The research is beneficial to government officials in implementation of laws governing the banking institution and ways in which the financial performance will be improved in the microfinance institution.

The research is also beneficial to other researchers and scholars thus will be used to contribute to their knowledge and act as a reference on literature review. I will be able to attain my Postgraduate degree through the research..

1.6 Scope of the study

Nairobi is the capital city of Kenya and the research study was conducted from microfinance Banks within Nairobi. The research is on assessing loan management practices on financial performance of microfinance banks in Nairobi, Kenya and it covered how the loan appraisal

process, its documentation, disbursement and loan monitoring and recovery process affects the financial performance. The data records used was for different Microfinance Banks and that from the CBK through its website for the period from 2020 to 2023.

The research target population basically was on branch managers and credit officers working in the microfinance institution in Nairobi, Kenya.

1.7 Study Limitations

The research was limited to microfinance institution within Nairobi and on dependent variable financial performance and it also factored in two microfinance in the neighboring county. Secondary data coverage was for the period within 2020 to 2023 that is more current and easily available. The study faced various confidential issues in the banking institution where microfinance employees and officials were not willing to disclose financial information as required in this study..

1.8 Assumption of the study

The research respondents gave honest feedback to the research questionnaire and the respondents were assured confidentiality of their feedback in response to the survey questions.

1.9 Operational definition of key terms

Loan Management: means the process of overseeing and handling loans provided by financial institutions or lenders to borrowers (Komezusenge 2024).

Financial performance: means the assessment parameters of a company's performance in monetary form. Some of the measurement parameters for financial performance comprises of profit margin, ROA and return on equity (Batae and Dragomir 2022).

Loan appraisal: means the process of assessing the various aspects of the borrower's financial profile (Siabei 2019).

Loan documentation: by definition it means that those documents required to legally enforce the loan agreement and properly investigate the borrower's financial capacity and can easily be retrieved during recovery process (Nyaga and Omar (2020).

Loan disbursement: Refers to the process in which cash has been debited from the lenders account and credited to borrower's account and its ready for use (Siabei 2019).

Loan monitoring: Refers to those activities lenders conduct to assess the exposure of a particular loan (Twinomugisha 2020).

Loan recovery: means the action taken by banks or financial institutions to retrieve the amount owed on defaulted loans (Twinomugisha 2020).



Mount Kenya

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter scrutinizes theoretical framework, conceptual framework and empirical studies on assessing loan management practices on financial performance. A conceptual framework discussed in the chapter shows the correlation between the study variable.

2.1 Empirical Literature

Empirical literature review focuses on previous studies that are based on experiments, surveys and observations. Its about the historical studies and their findings. The reason why empirical review is for background knowledge and understanding on what is being investigated and creating its foundation. The section discusses various variables that assess loan management practices on the financial performance of microfinance institution in Nairobi. A depth discussion on loan appraisal process, that of loan documentation process, that of loan disbursement and the process of monitoring and recovery

2.1.1 Loan appraisal process and financial performance

According to Nyaga and Omar (2020), the study which targeted 76 staff in management and adopted descriptive research design, the techniques used for loan appraisal depend on the loan size, business operating information and previous loans of the borrower. The study findings shows that credit appraisal was significant thus recommends legal ownership of borrowers security to be done adequately before issuing a loan. The findings of the study clearly reveal that borrowers past (historical) transaction was key in determining the amount of loan one should get. Credit reference report was mandatory before a borrower could be issued a loan.

According to Mwakujonga and Komba (2024) in Tanzania, on credit risk ,the study was done on five different microfinance institutions comprising of a total of one hundred and forty respondents, the study findings showed that as long as credit monitoring and processing time are constant, credit appraisal had no significant influence on loan performance.

According to Ngonyani and Serbes (2020), in which a sample size of two hundred and nineteen microfinance institutions were accesses in Tanzania, the findings of the research showed that borrower's membership duration at the microfinance, borrower's collateral showed that they had

a negative impact on performance of microfinance institutions. The study further recommended on use of group lending model and ensure that the borrower's main business is included during the loan appraisal process.

According to the study done by Komezusenge (2024) in Rwanda, the research which was carried out on seventy four respondents, shows a positive significant relationship of loan appraisal with the financial performance. The research recommended on better customer opinion, clarity and thoroughness during the loan appraisal process to enhance the bank's financial performance.

The study done by Ndichu (2021), the research was done on one hundred and twenty accountants and the findings showed that a positive significant effect of loan appraisal on financial performance of Self-help groups. The study recommended that a borrower should be evaluated at the initial stage by the credit managers before going further in loan processing.

The study by Obae and Jagongo (2022) in Kenya, which used descriptive survey to thirty eight commercial banks in Kenya, recommends that all credit managers should have independent control systems for client appraisals, credit monitoring and debt collection.

The study by Murunga (2017), that adopted descriptive survey, focused on appraisal process on commercial banks and that they should have a comprehensive process during loan appraisal process.

According to the study by Muhangi (2017), on how the process of loan appraisal management on in Uganda, capacity to repay the loan is the most crucial of the 5C's that comprises of condition, collateral, capital, capacity and character. Customer overfunding and forgery of customer's business and residential photos during the loan appraisal significantly influences the customer's character in loan repayment thus hindering the loan performance.

A study by Penshior and Friday (2024) in Nigeria on credit appraisal, credit term and financial performance, and used descriptive research design. The study recommends that for overall financial performance, extending loan maturities and strengthening credit appraisal process will result to profitability.

The research according Agaba and Turyasingura and Kabagambe (2023) in Uganda on SACCOs lending appraisal and performance, conducted on one hundred and nine respondents and on 5

SACCOs indicates that for a customer to qualify for a loan, they have to be evaluated and if the officer will not be convinced thus automatically will affect the grading model thus determine the key factor in accessing loans. The findings conclude that there is a statistical significance of loan appraisal and SACCO performance.

According to Gichuhi and Omagwa (2020) in Nyandarua Kenya, on Credit management and loan management and loan portfolio performance of savings and credit cooperative societies, that was carried out on twenty five SACCOs, recommended on the need for SACCOs to advance to more modernized technology while carrying out their appraisal process.

The study by Akuntansi and Ekonomi (2017), on factors that contribute to non-performing loan on co-operation emphasizes on the 5C's in lending which is of a great significant on the loan appraisal process. Officers need to master the five C's that include conditions, character, capital capacity and collateral during the appraisal process.

The study by Mburu and Mwangi and Muathe (2020) on management of credit practices and Loan performance, the research recommends that client appraisal to be properly evaluated to mitigate credit in which the study used an explanatory research approach on the position taken by the of loan officers and customers in the circulation of commercial bank's, express awareness to issues of compromises, anxiety, achievements and relationship in the real task of loan officers and its consequence on non performing loans. The research further puts the emphasis on why some issues that arise between clients and credit officers are still not studied and that loan officers are driven towards the institutions survival and not client's empowerment. The study findings was that client's appraisal had no impact on the performance of commercial banks.

According to Nakitende (2019), on how the effect of credit appraisal on loan recovery in Uganda, the research which was done on a sample size of seventy respondents, used sample survey research design, the study confirms that during the credit appraisal process, there are no measures put in place by microfinance institutions to find out on whether a borrower has unpaid loan/s in another institution .It further states that harsh economic conditions that seem to be critical affects the borrower's power/capacity to payback their loans.

The study done by Bushra and Fatima and Iqra and Noorulain and Zoha (2017) on reasons and effects on nonperforming loans in the banking industry, credit appraisal is key and banks should keep away from high credit risk security.

Research findings conducted by Dhanonjoy and Zakir (2020), on the effect of non-performing loan was due to settling on bad client during loan appraisal. The study further states that vigorous and goal-oriented banking where the bank officers avoid to investigate and adjust/improve the loan file due to compression of meeting their objective and this justifies that employee integrity has an impact on financial performance.

2.1.2 Loan documentation process and financial performance

The loan documentation process, depending on the type of loan may include security documents, guarantor's identifications such as National identity card, agreements governing the relationship between the lender and the borrower, business records such as receipts and invoice

A study by Murimi and Siebert and Salira and Mkoba (2022) on a loan application management system for efficient loan processing: shows that only 52% of Tanzanian adults own bank accounts and most of the SACCOS still use the manual processing of loans by requesting for customers documents due to lack of affordable digital systems. The study further indicates that loan documents can be retrieved for further processing.

A study by Kaugi (2020), on relationship between CRB services and financial performance of commercial banks, the study that focused on descriptive research design and on 18 commercial banks in Meru, shows that credit scoring and credit information had a significant positive effect on financial performance.

The study done by Murage (2021) on financial inclusion and poverty, that was carried out on one hundred respondents (Small microenterprise) shows that customers prefer mobile based loans due to lack of documentation and ability to borrow from different platforms which a very low interest rate thus customers in the rural area don't have to fill documents to access mobile loans.

Study by Nyaga and Omar (2020), recommends that its important for a borrower's historical transaction to be documented by lenders and further reveals that borrowers historical information (documents) are mandatory before a loan can be issued. The study adopted descriptive design upon 64 sampled staff in the management of commercial banks.

According to the study done by Ghalley (2024) of Bhutan National Bank, Customizing loan documents is essential for meeting the unique needs of borrowers and ensuring compliance with regulations. The study further recommends following best practices and using the right tools and software, lenders can enhance the borrower experience and streamline the loan origination process.” The study recommends simplifying paperwork which will minimize loan delays and create customer satisfaction.

According to Rahman and Haron (2019), Banks are required to have to discover recoverable amount by upgrading the standards of available security with formal valuation. Indemnity documents ought be reviewed to ensure the they are completed and also enforceability of security and contracts.

According to Murunga (2017), on effect of mobile based lending process, the study that used descriptive statistics, recommends on documentation of mobile loans including that of guarantors. It further states that its important for borrowers details to be authenticated.

The study done by Inthawong and Porouhan and Saguansakdiyotin (2021), on Assessment of customers who are highly risky while requesting for a bank loan with process mining, shows that from a sample size of 303 case of which represents customers with suspicious process, and to mitigate suspicious cases, the research proposes will filled customer’s loan documents, requesting for any additional documents to reduce the risk of fraudulent borrowers thus will reduce the processing process of loans and improve financial performance of SACCOS.

The loan documentation process is a vital and challenging part in getting a loan. According to the study by Nyaga and Omar (2020), effect of credit documentation in Kenya, documentation of an agreement is an essential record of an agreement and essential segment of negotiation or discussion of the substance of a loan and not an isolated exercise. The borrower, before the loan is being disbursed, is has to issue the loan officer with documentary confirmation and justify that the business is his.

The study by Orichom and Omeke (2021), in Uganda shows that of a sample size Of 64 microfinance institutions and adopted cross-sectional research design, that credit risk documents are necessary to enhance the financial performance of microfinance and that credit officers do have a responsibility to monitor and supervise customers document and the loan disbursed.

The study by Banik (2023), on loan and advance section of Agrani Bank limited. Proper loan documentation procedures, if they are well followed, rules and regulations to their satisfactory is necessary for audit purposes and improvement of banks policy. From analysis of 2022 report Fixed deposit loan performed well at 34% followed by Staff loan performed at 26% and this clearly indicates that some bank loan products contribute to their financial performance.

According to Twinomugisha (2020), in Uganda, on a study of credit management practices and loan portfolio, it recommends that customized documents associated with book keeping principles should be adhered with as part of the credit risk management. It further suggests that exclusive documentation should be done to a customer before a loan is advanced.

2.1.3 Loan disbursement process and financial performance of microfinance institution

A survey study by Karmakar and Sujun (2024), on loan disbursement in Bangladesh, the study concludes that application of credit in different parts affect the bank performance., that's why the disbursement of loan to institutions such as construction loans and pharmaceutical loans will improve the bank profitability as well as the overall countries economy .In comparison, the hostile effect reported in connection to textile loans and transportation loans.

The study by Birhanu and Deressa and Azadi (2021) in Ethiopian Commercial banks on determinants and advanced disbursement:. The study used a sample size of 7 commercial banks. The discoveries of the study revealed that average lending rate of a borrower had significant effects on the profitability of commercial banks.

According to Gichuhi and Omagwa (2020), on Credit management and loan management and loan portfolio performance of savings and credit cooperative societies in Nyandarua Kenya, that was carried out on twenty five SACCOs in Nyandarua, showed that loan disbursement has a positive relationship with the performance of SACCOs and recommended on the need for SACCOs to use co-guarantee lending model in order to mitigate risks associated with group lending.

The study by Orichom and Omeke (2021) in Uganda, shows that of a sample size Of 64 microfinance institutions and adopted cross-sectional research design, that credit risk documents are necessary to enhance the financial performance of microfinance and credit officers do have a responsibility to monitor and supervise customers document and the loan disbursed.

The study by Mburu and Mwangi and Muathe (2020), the study recommends on regular evaluation and update on borrower's credit worthiness before disbursement is done. The study determined that there exists a statistical significant relationship between lending policy and financial performance of commercial banks.

The research done by Bushra and Fatima and Iqra and Noorulain and Zoha (2017) on reasons and effects on nonperforming loans in the banking industry, Improper lending on agriculture institution and on high risky security /collateral should be controlled by banking institution.

The study by Priharta and Gani and Munawaroh (2023), the study was done on four Indonesia banks, emphasizes that large disbursements have a negative impact on financial performance

The study by Moraa (2021) on lending terms on performance of microfinance, the study that adopted random sampling on one hundred and sixty seven respondents, shows that loan disbursement on collateral had a positive relationship with financial performance of Kenya Women Microfinance in Kisii. And emphasized that before a loan is disbursed, officers should take caution on the collateral used to secure the loan.

The study done by Shema (2021), on effects of increasing credit limit to digital micro-lending in East Africa, revealed that there exists increased lending of airtime due to existence of mobile phones thus the mobile money app. The study recommends that digital lenders to minimize increasing loan disbursements on mobile money to reduce the risk on financial performance.

A study by Siabei (2019), concludes that there's a statistical significant relationship of loan disbursed notification, with financial performance on mobile lending in Nairobi. It further states the immediate disbursement of loans has a significant relationship on financial performance.

According to the study by Ymenu (2018), to find out how financial performance has been affected by loan disbursement concludes a certain relationship exists between the credit of amount of loan disbursed with of the financial achievement of an institution.

According to Johan and Sari (2023 on Loan disbursement by financial services in Asia, the findings concludes that when the inflation rate is low or moderate it may beneficially influence credit and if financial institutions can correctly anticipate inflation, then the risk will be softer and more credit will be available. The findings further states that there are developing countries

such as Thailand and Indonesia with high inflation rate where disbursement can be done because the growth in economic is higher than inflation

According to the research carried out by Bushra and Fatima and Iqra and Noorulain (2017), the main cause of decline on financial performance is due to improper lending disbursement. The study further advises upon banks disbursing loans based on high risk collateral. That loans basically should be approved on credit competency, and on basic of ambitious skills, of the lenders a substitute that will adjust debt to equity ratio. In Pakistan, there's lack of effective monitoring of loans thus a recommendation that Pakistan State Bank should take the initiative to share fraudulent information to all bank so that borrower's will not move to other lenders to access loans thus affecting the country's economy.

The study by Angahar and Omosuyi (2024) in Nigeria, on Assessing the institutional growth effect of commercial bank lending. The study adopted autoregressive distributed lag and the results showed that there exists a positive relationship between agriculture and manufacturing institutions with the growth of commercial banks in Nigeria thus will develop the Nigeria economy.

2.1.4 Loan monitoring and recovery and financial performance of microfinance institution

Twesige and Ndikubwimana (2021), a case study in Rwanda, the findings concluded that delays associated with interest rate, poor management, shortage of loan, business environment, loan deviation , have a statistical substantial effect on performance of microfinance institutions.

Sekati (2021) in South Africa, on Occupations and their relationships to education training, emphasizes the need of loan officers training to support on loan monitoring and recovery. Professional training whose output is degrees is not sufficient for loan officers who need competency based training in addition to their professional skills.

The study by Quartey and Okyere and Yensu (2019) in Ghana, on determinants of financial sustainability of rural banks and used cross-sectional survey on rural banks in Ghana, reported a significance positive relationship on loan recoveries and banks profitability and recommended the management team on the need to employ external team whose contract will be renewed upon collection and recoveries in order to improve performance.

According to Mwakujonga and Komba (2024) in Tanzania, on influence of credit risk management practices on loan performance, the study was done on five different microfinance institutions comprising of a total of one hundred and forty respondents, the study findings showed that credit monitoring has a positive influence on loan performance on microfinance institutions.

According to Gichuhi and Omagwa (2020), on Credit management and loan management and loan portfolio performance of savings and credit cooperative societies in Nyandarua Kenya, that was carried out on twenty five SACCOs in Nyandarua, the study emphasizes on credit management to review the loan terms such as the arrangement on the loan repayments for borrowers who are unable to repay as earlier agreed and support them on having a more convenient loan repayment terms to improve the savings and cooperative society performance..

According to the study done by Komezusenge (2024) in Rwanda banking institutions, on effect of loan portfolio management on financial performance, the research which was carried out on seventy four respondents, clear indicate a positive significant relationship on loan recovery and loan appraisal with the financial performance. The research recommended on better customer relationship, transparency, positive outlook of loan process to enhance the bank's financial performance.

According to Nakitende (2019), in Uganda on how credit appraisal effect on loan recovery in which the research used sample survey research design on a sample size of 70 reveals that failure to track and reconcile borrowers accounts affects performance of Pride microfinance. Frequent customer visitation was recommended.

The study done by Kamanda and Ondabu and Matanda (2024), in Kenya MFI, and it adopted descriptive approach on 14 licensed microfinance institutions in Kenya, the study had a positive correlation on third party agencies and judged that essential and productive loan collection had a statistical significant impact on microfinance institutions.

The study by Orok and Okon and Idongest (2023), that was deployed on Nigeria's banking institution shows a positive relation on bank's performance with customer retention during the recovery process. The study concludes on the need of frequent visits on borrower's business premises to ensure customer retention and loan recovery.

According to Abebe (2020), on assessment of loan recovery performance, the research was done on eighty four employees from Wegagen bank, the findings concluded that there was need for a loan monitoring budget to be given to employees, through followup and strict rules to be given to staff on the essence of adhering to the credit manual and need for strict measures to be done for the loan collateral manual in order to improve on the performance of Wegagen bank.

According to Helex and George and Wu (2021), the study which used purposive sampling techniques on 120 respondents, the performance of any microfinance institution for it to be effective and sustainable builds upon developing of reports that are standardized and monitoring performance systems which has proven to be very fundamental for the sustainability and success. It further suggests that risks associated with operational like cases of fraud and tracing the loan quality performance of the loan and need for standardized reporting, stakeholder based approach and effective systems for the loan portfolio management.

According to the study by Msomi (2022), on factor affecting nonperforming loan in commercial bank, the study was done on 47 listed commercial banks, indemnity security singly cannot be sufficient for screening applicants who require loans, therefore managers in banks should take other initiative ensure that credit officers do a thorough job and not just grading loans to secure employment but should take convenient initiatives to ensure that loans are repaid on time and should be affordable and realistic. It further states that a loan officer has to do frequent follow ups on the loan by visiting the customer but this area is usually neglected and little or no attention is paid until the loan is in default or close to NPL.

The research study done by Mubangizi (2022) in Uganda on credit monitoring and recovery and its relationship on financial performance on commercial banks, used a sample size of 149 (one hundred and forty nine) respondents and cross sectional designed, showed a positive relationship between credit monitoring, loan recovery and financial performance. The study recommends that in order to enhance financial performance, there is a need for credit managers to address the credit policy and ensure it fits with the current situation in the banking industry.

According to the study by Twinomugisha (2020), in Uganda, on credit management practices and loan portfolio, the study used stratified random sampling with a sample of 92 employees, it concluded that reviews to be done to the collection team and loans to be closely monitored to improve the credit management.

2.2 Theoretical literature

The theoretical literature review presents historical theories set aside on financial performance of any microfinance bank has a co-relationship with the loan practices that contribute to its performance.. The theoretical that will present include the financial intermediation theory, alternative hypothesis and information asymmetry.

2.2.1 Information asymmetry theory

Getting knowledge can be very expensive in that it requires resources, time and money and in this theory, one member is more informed than the other. In every market, the sellers are more knowledgeable than the buyers and thus the seller may take advantage of the buyer. During the loan documentation process, a lending institution enters into an agreement with the a borrower . According to Akerlof (1970), when one party is more informed than the other; it can lead to integrity issues. According to the research done by Sriram (2005), banking and financial institutions intermediate by providing a bridge for the information asymmetry in the market. The lesser the information available to the lender, the greater the fee should be charged to keep the risk-return equation intact.

Study done by Muli (2017), suggests that a number of customers in this institutions not well knowledgeable thus further elaborates the risky premium that is high and linked to lending thus high rates in the interest. The study recommends that for mitigation measure on information asymmetry, then the borrower's credit history should be leveraged.

In regards to the context, the lending variables of appraisal process, documentation process, disbursement process and monitoring and recovery, the lender is more informed in the entire loan process compared to the borrower thus taking advantage to proceed with the entire loan process. In microfinance lending, the bank officers are more informed than the borrowers and for the officers to achieve their targets, they may fall victim of fraud cases where the officer takes a loan and informs the customer that he will pay the loan only to resign from the bank later and concludes that asymmetric theory was significant in this context on all the four variables.

2.2.2 Alternative hypothesis (skimping)

The hypotheses refer to the trade-off that is connecting short-term operating costs for everlasting performance. That the amounts of cost affect productivity in collecting of loans. Incase a bank focuses in making profits; it needs to reduce on its operating expenses. It suggests that the

amount of resources that banks invest in monitoring loans affects both Non-performing loans and productivity. According to Wood and Skinner (2018) explained that the link between cost efficiency and nonperforming loans is opposed to bad management hypothesis. The hypothesis was recommended by Berger and De Young (1997) and recommends a positive casualty between high cost efficiency and financial performance. It further explains that when the cost efficiency is high, it may mirror into insufficient resources that have been allocated to monitor lending risks that will contribute to poor performance.

A study conducted by Mikhail (2013), suggests that officers and managers in the banking institution , need to take aggressive action during borrowers screening while taking a loan facility and this will assist on cost efficiency enhancement and its future effect the quality time will be reduced and future problems resulting to inefficiency and performance will be controlled at an earlier stage before it's too late.

In context to this study, the performance of microfinance institution is determined by operational cost deduction during the entire lending process and all the bank officials need to take measures during the loan appraisal and documentation process to minimize costs. Therefore the alternative hypothesis theory is relevant in the study.

2.2.3 Financial intermediation theory

According to Spence (1973) suggests that a company uses financial information to signal to the market with superior performance. The depositors save in the microfinance that is considered financial intermediaries and as a result the funds are used for investment and issued to borrowers as loans and thus efficient allocation of resources. The financial intermediation theory in microfinance as recommended by Berger and De Young(1970) states that poor monitoring and evaluation in financial institution results to NPL thus indicates that when a manager allocates more than required resources on a given activity in regard to reduction nonperforming loans, and fails to collect his results to increase in operating expenses. Thus the relationship between the analysis on nonperforming loans based on funds allocation as a result on poor management is expected in the study.

The research study done by Ekpete (2017) on financial intermediation functions of microfinance in Nigeria evaluate on the existing relationship among what the total funds that have been mobilized in Microfinance Banks and ration of finance to insufficiency category of a given economy. The research further discusses on thorough investigation to support explore the capacity building strides to both staff of the institution and directors to help foster the skills gap.

According to research by Keynes (1936), distinguishes the motives on why funds should be held and these include: the transactional motive that fills the gap between planned income and expenditure. the second motive is the precautionary motive that provides the purchasing power tank to fund unexpected expenses and lastly the speculative motive that desires to retain wealth in liquid form.

Financial intermediation theory is relevant on loan disbursement process to ensure that the amount of loan disburse is not overfunding or underfunding a borrower.

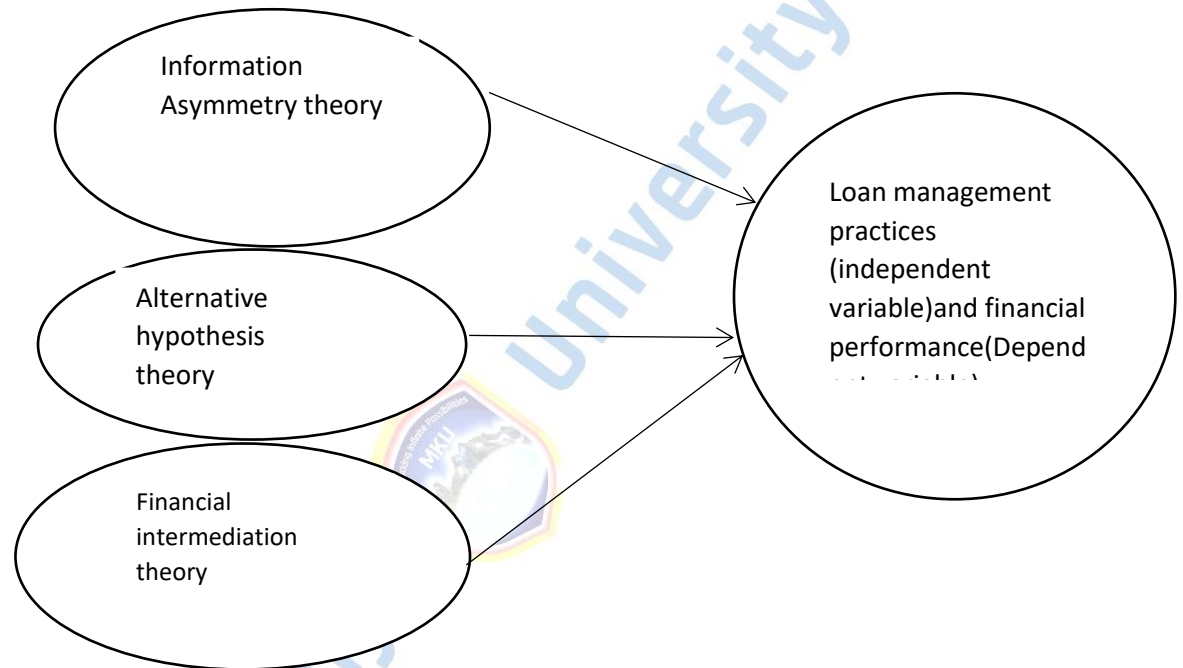


Figure 1 Theoretic framework

Source: Researcher 2024

2.3 Conceptual Framework

Conceptual framework illustration that guides theories or assumptions of the researcher, the goals and expectations of the study that matches to interpretation and contextualizing the focal topics of the study. As per the below figure, independent variables (loan appraisal process, process of loan documentation, that of loan disbursement, process of monitoring and recovery) and dependent variable(financial performance)have been used to indicate that any process that is either ignored or integrity skipped by loan officers in the microfinance result into poor performance thus hinders the profitability of the institution. On the basis of the hypothesis, the reason why the researcher has found it to be an interesting topic for study.

The independent variables mentioned in the study describe the loan management process. The four independent variables in the study have an effect on the financial performance, and signifies why the hypothesis was done to identify the gap.

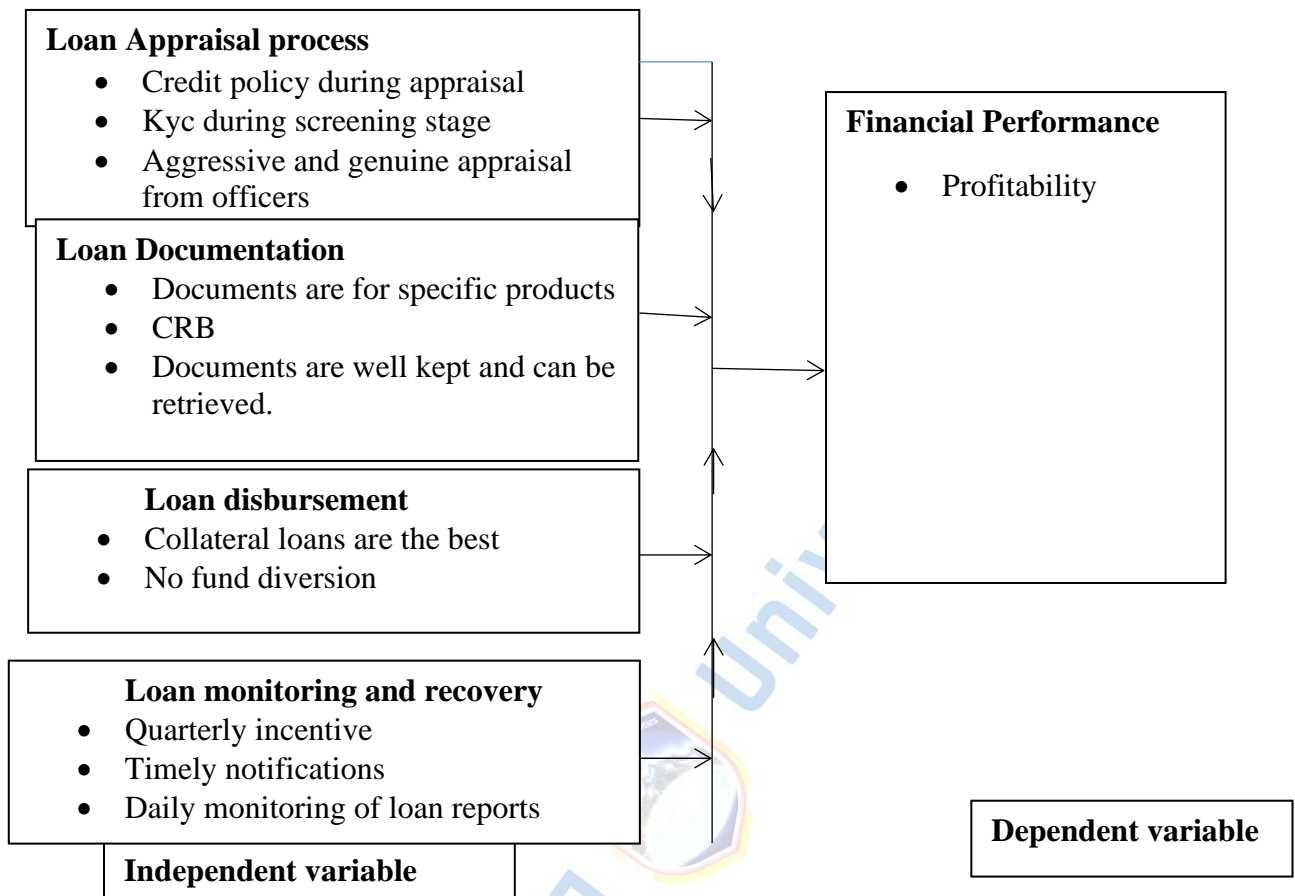


Figure 2 Conceptual framework
Source: Researcher 2024

2.4 Recap of literature review

As evident from the research work, there exist empirical studies, theoretical concepts and conceptual framework that presents the assessment of loan management practices on financial performance of microfinance banks in Nairobi, Kenya. Nearly most of the research studies done were on the effects of credit risk management practices on loan performance, mobile lending process. It's evident that researchers in Kenya have done little research on assessing loan management practices on financial performance of Microfinance institution in Nairobi, Kenya.

Employee's integrity during the loan appraisal process should be of a backbone to the entire loan process. Visits done during the loan appraisal process ought to be standard. Managers can be involved to support on the loan appraisal process. Loan appraisal was basically aimed to make decision on the borrower's loan and his or her ability.

Loan documentation was a crucial part in the loan process and the analyst team plays a vital role to crosscheck and raise concerns on the loan documents before disbursements are done. When loan officers compile the borrower's loan file, the authenticity of the loan documents such as National Identity cards, bank statements, M-pesa statements cash flow, borrower's business and residential maps, borrower's collateral, guarantor's documents are all legit and mandatory depending on the loan type. In an event of borrower's loan restructure, all the previous loan documents should be well kept and to aid to track the borrower's payment history. In addition, credit reference bureau statistics should be well analyzed before processing with the loan process.

Loan disbursement has been contributed by overfunding or underfunding the borrower will strongly affect the loan repayment and its duration. The loan purpose was very crucial to determine the intended purpose of the loan. Officers need to raise any suspicious activities promptly in an event the loan was never used as per the borrower's request. The loan disbursement forms should be well signed by the borrower, the guarantors, loan officer, manager and the Credit committee before the disbursing. It's evident that the contributing factor of the loan is due to delayed disbursement, overfunding and underfunding, and the loan purpose.

Loan monitoring and recovery process was certain that there exists poor monitoring and follow-up procedures due to lack of training and negligence in the microfinance institution. For an institution to reduce on its financial performance there's need for qualified personnel to train the entire team on collection and it should be done on regular basis at least once in a quarter to build on confidence among the team.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter consists of research design, location of study, the target population, sampling procedure, research instrument, pilot testing, data collection procedure, data processing and analysis, ethical consideration to ensure that the study/ objectives were fulfilled.

3.1 Research Design

It is the framework or plan used to conduct a research study. The study adopted descriptive research and the reason for the selection is because it aimed to systematically and accurately describe a population, situation and phenomenon and according to the research done by Nassaji (2015) refers to a research design in which data is gathered/collected in a qualitative way and scrutinized using quantitative channel. According to Siedlecki (2020), defines descriptive research as a way it tends to look out to comprehensively, accurately and thoroughly describe conditions, events and people.

3.2 Location of the study

Among Kenya's 47 counties, Nairobi County is a capital city. It occupies a geographical area of 696 square kilometers. The research was about microfinance institution in Nairobi Kenya. The location was purposive selected for the study since it hosts several headquarters for various microfinance institutions and is within reach in terms of travelling since there's no external funding. According to Kumar (2011), the study location depends on the available resources and demographic characteristics.

3.3 Target Population

The examination under the unit of analysis carried to target 13 licensed microfinance institutions in Nairobi, City Kenya. Below table used to elaborate on the unit of enquiry considering that some of the licensed microfinance institutions in Nairobi do have branches. According to Sena (2023), describes target population as a "group of individuals who possess a certain characteristics that may be effectively defined to differentiate them from a common population". The target population in this research consists of all adult officers between the ages of 18-55

years working with microfinance in Nairobi, Kenya and included the Branch managers and Credit officers. The sampling formula used was Yamane formula

Table 1: Target Population

MFB ltd	No. of Branches in Nairobi	Manager	Credit officers	Total no. of staff in Nairobi	Percentage
Caritas	6	6	2	18	23.38
Century	1	1	1	2	2.60
Choice	1	1	1	2	2.60
Daraja	1	1	1	2	2.60
Faulu	4	4	2	12	15.57
Kenya Women	5	5	2	15	19.48
Rafiki	1	1	1	2	2.60
Salaam	1	1	1	2	2.60
SMEP	2	2	2	6	7.79
Sumac	2	2	2	6	7.79
U & I	2	2	2	6	7.79
Uwezo	1	1	1	2	2.60
Maisha	1	1	1	2	2.60
Total				77	100%

Directory of Licensed Microfinance Banks

3.4 Sample procedures and technique

A sample size by definition refers to number of observations/respondents included in any study. According to Mesa(2014), sample size of a population , its calculation is an important element that ought to appear in a given project to order to decrease the error that results from probability, appreciate defined logistics and ethical standards. Most common research technique used in the study included interviews, focus groups and observations. Stratified random sampling was used in the research. Using Yamane formula:

$$n = \frac{N}{1 + N(e^2)} = \frac{77}{1 + 77(0.05^2)} = 65$$

Where n symbolizes the sample size

e - Error margin 0.05

N symbolizes the target population size

Table 2 : Sample Size

Microfinance institutions	proportion	Sample size	Percentage
Caritas	$(18/77)*65$	15	23.38
Century	$(2/77)*65$	2	2.60
Choice	$(2/77)*65$	2	2.60
Daraja	$(2/77)*65$	2	2.60
Faulu	$(12/77)*65$	9	15.57
Kenya Women	$(15/77)*65$	12	19.48
Rafiki	$(2/77)*65$	2	2.60
Salaam	$(2/77)*65$	2	2.60
SMEP	$(6/77)*65$	5	7.79
Sumac	$(6/77)*65$	5	7.79
U & I	$(6/77)*65$	5	7.79
Uwezo	$(2/77)*65$	2	2.60
Maisha	$(2/77)*65$	2	2.60
Total		65	100%

Source: Researcher 2024

Directory of Licensed Microfinance Banks

3.5 Construction of research instruments

The study adopted structured questionnaires for data collection and the respondents consumed close ended questionnaires. The questionnaire was divided in three sections that included the background information such as gender, age, professional qualification, the second section that included process of loan appraisal, the process of loan documentation, the process of loan disbursement and process of loan monitoring and recovery section C that included questions on financial performance.

3.6 Pilot Testing

Is a prior study in any research and in order to find out/discover the availability and reliability of intended aim of study. In the research, pilot testing was done on the questionnaire to test whether its user-friendly. The objective behind use of pilot testing is due to determine resources required during the research, to determine the effectiveness of the sampling frame. Pilot testing that was considered for neighboring Nairobi County included that of Kajiado County. SMEP

microfinance and Rafiki microfinance have branches in Kajiado and 10% of the sample size that consists of 6 members participated.

3.6.1 Reliability Testing

According to Imasuen (2022), “reliability is degree in which a test, demonstration, measuring action or observation produces the unchanged outcome on a trial done repeatedly. ”The research used reliability testing to determine/examine the validity and consistency of the study. That of cronbach alpha coefficient was adopted on the research questionnaire due to its internal consistency.

A strong internal consistency is achieved by cronbach’s alpha greater than 0.7 which means that the items within the scale effectively measure the same underlying construct.

From Table 3 on reliability analysis indicates that since the values are all greater than 0.7, this means that there exists a consistency.

Table 3: Reliability Analysis

Variables	Cronbach’s Alpha	Number of items	Comment
Loan Appraisal	0.730	3	Reliable
Loan documentation	0.711	5	Reliable
Loan disbursement	0.719	3	Reliable
Monitoring and recovery	0.703	5	Reliable
Financial Performance	0.715	2	Reliable
Average reliability		18	

Source: Field Data (2024)

From the results , its clear that there is an excellent consistency and thus the items are closely related and reliable.

3.6.2 Validity Testing

According to Nachmias (2004) a valid instrument purports to measure and involves face validity, construct validity and sampling validity. Use of questionnaire in the study was measured by

experts in the field to determine its validity. Experts in the study include my supervisor, Branch manager and two credit officers who ascertain the validity of the questionnaire.

3.7 Data collection methods and procedure

This researcher obtained authorization from Mount Kenya University through an introductory letter, then applied at National Commission for Technology and Innovation (NACOSTI) before proceeding for data gathering in the licensed microfinance in Nairobi. The researcher used both the primary and secondary data. Basically, primary data was for designing of questionnaires during the study for microfinance institutions within Nairobi, Kenya. The researcher visited microfinance branch managers and officers, explained to them on the reason for data collection, confidentiality of the data and that its for academic purposes. Questionnaires were later collected after two week's time frame. Secondary data can be defined as descriptions or summaries of other people other than researcher's original work. From the study, secondary data used was gathered from audited financial statement reports in AMFI, relevant journals and CBK.

3.8 Proposed Data processing and Analysis

Data processing involves taking raw data and converting it into more readable format such as graphs, tables. The study to considered descriptive statistics measures of distribution such as frequencies and percentage, mean and standard deviation. The researcher used multiple regression analysis to explore on the data as the inferential statistics.

Below is the regression model that will be used:

$$y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

where y= is the dependent variable financial performance

β_0 refers to constant

β_1 β_4 refers to the coefficients of estimates

ε ... estimated error

X_1 is loan appraisal

X_2 is loan documentation

X_3 is the loan disbursement

X₄ is loan monitoring and recovery

3.9 Ethical consideration

Ethics by definition refers to a moral approach to one's behavior towards distinguishing, understanding and analyzing in term of good and bad or right and wrong as it translates to wellbeing. Ethics is a two-way principle for the researcher and the participants. The study was done in order that the institutions and the participants' image was reserved and respected. Ethical issues in the study include: informal consent, confidentiality and anonymity and transparency.

Informal consent can be described as lawful necessity until one gets involved in a study. Since the researcher was dealing with bank officials who were the participants, they could read and write and consent after full information was given on why the research.

Confidentiality refers to a primary ethical principle and anonymity is defined as one way in which privacy is preserved. For anonymity to be observed in a research, respondent's names were left out in the study and in the questionnaire and this were achieved through the research done. Also for the microfinance institution, a lot of confidentiality was highly recommended while undertaking the research.

The participants were taken through the research objective and ensured that they understood the motive of the research and once done with the data, they were allowed to countercheck to confirm whether its genuine and legit.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter of the study tends to examine assessing the loan management practices on microfinance institution in Nairobi, Kenya. Interpretation of the findings and discussions the loan management practices were examined that included the loan disbursement process, loan documentation process, loan appraisal, monitoring and recovery process. Structured questionnaires used during data collection were analyzed using standard deviation, mean and frequency distribution.

4.1 Response rate

Response rate according to Murunga (2017) defines as questionnaire return rate, those questionnaires that were filled to the researchers satisfactory. A total of sixty five questionnaires were delivered to employees working in 13 licensed microfinance in Nairobi comprising of branch managers and credit officers. Upon collection of questionnaire, sixty one were well filled and that constituted of the sample size and using Yamane formula calculation was done. Table 3 represents the response rate of the questionnaires that were distributed.

Table 4: Response Rate

Distributed Questionnaire	Returned Questionnaire	Response rate
65	61	93.8%

The results indicated that 93.8% was the response rate from the sixty one returned questionnaire upon a target population of 65. The reason behind the high response rate was that the researcher went in person to deliver the questionnaires, had time to engage the respondents and for some, the questionnaire was picked later depending on the respondents convenient time. Since the response rate was above 90% the recommended rate thus it was adequate to carry out the analysis.

4.2 Background characteristics

The study evaluated the background characteristics to examined the length worked and gender distribution the microfinance banks in Nairobi , Kenya.

4.2.1 Gender Distribution

The study examined the gender distribution of the respondents and results presented in Table 4 below

Table 5: Gender Distribution

Gender	Frequency distribution	Percentages
Male	34	55.74
Female	27	44.26
Total	61	

The study results examined showed that male members of the respondents were the highest and presented at 55.74 % of the response rate in comparison to 44.26% of female participants. The reason why male respondents were higher can be attributed by the dominance of males taking up leadership roles in MFIs.

4.2.2 Highest level of education

Upon the measure on the highest level of education for the interest of being familiar on whether the microfinance officers are qualified to carry their duties and support on financial performance of this microfinance. The results were shown on table

Table 6: Distribution on highest level of education

	Frequency	Percentage
Diploma	22	36%
First degree	34	56%
Master degree	5	8%
PHD	0	
Total	61	

From the results, most of the officers had first degree and diploma totaling to 56 respondents. Masters degree only 5 respondents had done their masters and none had done a PHD thus a need for microfinance management to emphasize and encourage their branch manager to upgrade themselves since this will highly contribute to the profitability of the microfinance institutions.

Table 7: Professional qualification

	Frequency	Percentage
Any professional qualification	31	51%
No professional qualification	30	49%
Total	61	100%

From table 6 shows that respondents with professional qualification stood at 51% while those with none was at 49% and indicates a strong need for respondents to take up short courses such as debt recovery skills in order to improve on loan monitoring and recovery.

4.2.3 How long one has been attached to the credit department

In addition, the sixty one sampled officer and branch managers were examine to find out for how long one has been attached to the credit department was examined and presented in Table 7 below

Table 8: Length worked at the microfinance bank

	Frequencies	Percentage
0 – 5 Years	30	49.18
6 – 10 Years	26	42.62
Over 10 Years	5	8.2
	61	

From the table, 49.18% of the respondents had worked for less than five years while over 10 years was at 8.2%. The results could be reasoned that over 10 years are officers who have been promoted and have the passion for microfinance business while those below 10 years, could simply mean fresh from college officers and trying to explore the job market.

4.3 Descriptive Analysis and interpretation

A discussion of descriptive analysis and interpretation is observed in this section. The results of the study are inline with the study objectives and are interpreted with the likert scale from a scale of 1-5, where 1 is strongly disagree whereas 5 is strongly agree. The presentation of the results were done with frequencies, mean and standard deviation.

4.4 Loan appraisal process through loan management practices

The second objective through which the loan appraisal assess the loan management practices was examined. According to Siabei 2019, loan appraisal relates to the process of assessing the various aspects of the borrower's financial profile).

Likert scale was used during the study. A set of three indicators were measure and included: The bank mainly uses Know Your customer KYC as a policy during appraisal stage, Officers perform genuine and aggressive appraisal and Loan appraisal has no significant effect on loan performance

Table 9: Loan Appraisal process Through loan management practices

	SA Freq %	A Freq %	N Freq %	DA Freq %	SDA Freq %	MEAN	STD
The bank mainly uses Know Your customer KYC as a policy during appraisal stage	15 24.6	32 52.5	8 13.1	5 8.2	1 1.6	3.9016	0.9180
Officers perform genuine and aggressive appraisal	18 29.5	28 45.9	7 11.5	7 11.5	1 1.6	3.9016	1.007
Loan appraisal has no significant effect on loan performance	19 31.2	18 29.5	16 26.2	4 6.6	4 6.6	3.7213	1.161

The study established that majority of the respondents when asked on whether the bank mainly uses know your customer as a policy during the appraisal stage, (mean =3.9016, standard deviation = 0.918) indicating that the respondents agreed .The results are in agreement with Muhangi (2017) from Uganda on the delay by the officer to appraise a customer due to poor records and sometimes complete absence of records. The findings are similar to Obae and Jagongo (2022) in Kenya on credit management practices.

Most of the respondents agreed that during the process of loan appraisal, officers perform genuine and aggressive with (mean =3.9016, stdev = 1.007). The study by Muhangi (2017), is in agreement and recommends need of adequate training to ensure that staff are well equipped with relevant information.

Finally, when the research was conducted on the respondents on whether the loan appraisal had any significant on the financial performance of the microfinance , respondents agreed with a mean= 3.7213, stdev =1.161 and the study is in contrary with Murunga (2017) on effect of mobile based lending process in Kenya. The difference in the study was that the study focused

on commercial banks. The findings were in support by Dhanonjoy and Zakir (2020) in Bangladesh on npls in Banking institution that emphasized on the needs for banks to take proper evaluation of borrowers during the appraisal process. The results mirrored Peshior and Friday (2024) on credit appraisal, credit term and financial performance and the need to strengthen the credit appraisal in order to improve financial performance of commercial banks in Nigeria.

4.5 Loan documentation process through loan management practices

The loan documentation process was studied.

Bank loans are mainly concentrated on specific loan products was also examined on the respondents.. The mean was at 3.738 and standard deviation at 1.039. The study were in contrast with that of Murunga (2017) Documents are requested depending on the loan product. It further states that mobile-based loans do not request for guarantors documents before issuing loan to the borrower. The study by Banik (2023) on loan and advance section of Agrani Bank Limited portrays the performance of the bank's specific products with Fixed deposit loan at 34% followed by staff loan and this relates with the above study.

Proper loan documentation positively affects the loan performance was also examined on the respondents.. The mean was at 3.574 and standard deviation at 1.063. The findings are in agreement with the research done by Nyaga and Omar (2020) on commercial banks in Mombasa County. That when borrowers historical documents are traced, then this positively improves the loan portfolio thus the profitability.

Credit reference Bureau report has no significant effect on loan performance was also examined on the respondents. The mean was at 3.770 and standard deviation at 1.233. The results of the study are in contrast with Nyaga and Omar (2020) and that for the customer's ability to repay the loan, credit reference reports are mandatory. The study by Kaugi (2020), on credit reference bureau services had similar results.

Bank officers carry proper investigation to confirm whether the documents received from the borrower are legit the mean was at 3.688 and standard deviation at 1.124. The results were supported by Orichom and Omeke (2021) that credit officers do regular checks on loan documents and supervise disbursed loans. The results tally with the study done by Ghalley (2024) of Bhutan National Bank, that well trained employees will improve better customer service and assist handle loan processing issues thus improving financial performance for Bhutan National Bank.

When respondents were asked on Borrower's records\documents are well kept and can easily be retrieved whenever a need arises, the mean 3.934 and stdev =0.956. The study by Murunga (017)

is in agreement with the documentation process and that keeping borrowers relevant document during the mobile based process helps ease the legal followup. The study by Murimi and Siebert and Salira and Mkoba (2022) on a loan application management system for efficient loan processing agrees with the results that most SACCOS in Tanzania, use manual loan processing thus for any retrieval, stored documents are usually retrieved for further processing.

Table 10: Loan documentation process through loan management practices

	SA Freq %	A Freq %	N Freq %	DA Freq %	SDA Freq %	MEAN	STD
Bank loans are mainly concentrated on specific loan products.	15 24.6	26 42.6	10 16.4	9 14.8	1 1.6	3.738	1.039
Proper loan documentation positively affects the loan performance	12 19.7	25 40.9	11 18.0	12 19.7	1 1.6	3.574	1.063
Credit reference Bureau report has no significant effect on loan performance.	21 34.4	21 34.4	7 11.5	8 13.1	4 6.6	3.770	1.233
Bank officers carry proper investigation to confirm whether the documents received from the borrower are legit	17 27.9	21 34.4	12 19.7	9 14.8	2 3.3	3.688	1.124
Borrower's records\documents are well kept and can easily be retrieved whenever a need arises.	20 32.8	23 37.7	12 19.7	6 9.8	0 0.0	3.934	0.956

4.6 Loan disbursement process through loan management practices

The loan disbursement through loan management practices is another variable examined. Loan disbursement is a process in which a lender decides to approve a loan and credit it to the borrowers account with an intention to have the borrower utilize the funds. The study used the likert scale. Below are the indicators used to measure the variable.

Loans secured by collateral perform well was examined. The mean was at 3.934 and standard deviation at 0.973 respectively. Majority of the respondents agree on security loans. The study by Bushra and Fatima and Iqra and Noorulain and Zoha. (2017) examine that banks should try to avoid high risky loans and those borrowers who have high risky security. The results are in

agreement with Angahar and Omosuyi (2024) in Nigeria that was done on commercial banks that since agricultural and manufacturing institutions are collateral based, majority of the respondents agree that they do perform well. The results is in agreement with Moraa (2021), that there is need for collateral to be deposited before a loan is disbursed to a borrower.

Amount of loan disbursed does not affect performance was examined The mean was at 3.590 and standard deviation at 1.061 respectively. Majority of the respondents agree and this is in agreement to the study done by Mburu and Mwangi and Muathe (2020) that lending amount has an effect on loan performance of the borrower. The results of the study mirrors Shema (2021), on effects of increasing credit limit to digital micro-lending in East Africa that the more the loan is disbursed to a borrower, the chances of default thus affecting financial performance of digital lenders.

Once the loan is disbursed, banks ensure there's no fund diversion was examined The mean was at 3.590 and standard deviation at 1.092 respectively. The findings were in support to the study done by Karmakar and Sujan (2024) in Bangladesh, the study that emphasized on a significance lending on high risk industries and that funds should not be diverted to other industries such as transportation and textile industries.

Table 11: Loan disbursement through loan management practices

	SA Freq %	A Freq %	N Freq %	DA Freq %	SDA Freq %	MEAN	STD
Loans secured by collateral perform well	19 31.2	25 40.9	13 21.3	2 3.3	2 3.3	3.934	0.973
Amount of loan disbursed does not affect performance	11 18.0	28 45.9	10 16.4	10 16.4	2 3.3	3.590	1.061
Once the loan is disbursed, banks ensure there's no fund diversion	14 22.9	21 34.4	15 24.6	9 14.8	2 3.3	3.590	1.092

4.7 Loan monitoring and recovery process through loan management practices

Loan monitoring and recovery process was the fourth independent variable that was examined on the financial performance of microfinance institution. Five indicators were used and likert scale

of was used for measurement. The question on Aggressive collection of write-off loans with a mean of 2.918 and standard deviation of 1.1644. The results are similar to the one done by Nakiende (2019) and emphasizes on close monitoring of loans, frequent customer visits, Staff receive Quarterly incentives upon collection of write-offs was examined. The mean at 3.656 and standard deviation at 1.144. Majority of the respondents were in agreement. The results tallied with the study by Msomi (2022) in West countries, where it emphasized that bank managers should be very effective on their officers not just to reward loans to secure their jobs while in future affecting the financial performance of this banks negatively. Daily Extraction of loan report to support in loan monitoring and recovery upon absence of an Officer was also examined with the mean was at 3.754 and standard deviation was at 1.019 respectively indicating that majority of the respondents agreed. The findings are similar to the study done by Twinomugisha (2020), in Uganda, where it recommended that outstanding loans in the loan portfolio should be frequently reviewed and monitored.

The fourth indicator that was examined was Support from other Team Members not necessarily in credit for recovery purposes with The mean was at 3.443 and standard deviation 1.048. The results mirrored the ones done by Quartey and Okyere and Yensu (2019) that emphasized on the need for management to employ fresh team on contract basis purposively for loan recoveries and teams should be given renewal terms of contracts upon recoveries. The results reflected the research done by Abebe (2020) on Assessment of loan recovery performance in Wegagen Bank that where a staff is absent, there's need for follow up on loan monitoring and recovery

Finally, the question on Timely notifications to both the borrower and the guarantors upon default was examined with a response rate of the mean and standard deviation was at 4.016 and 0.914 respectively indicating that majority of the respondents agreed. This study is in agreement with Twesige and Ndikubwimana (2021) business environment, loan shortage, supervision, loan delay, interest rate, loan deviation, management, business cash flow family expense had a positive relationship on financial performance. The study is in agreement with Kamanda and Ondabu and Matanda (2024) on the need of third party agencies to be involved upon collection.

Table 12: Loan monitoring and recovery process through loan management practices

	SA Freq %	A Freq %	N Freq %	DA Freq %	SDA Freq %	MEAN	STD
Aggressive collection of write-off loans	1 18.0	24 39.3	17 27.9	7 11.5	12 3.3	2.918	1.164
Staff receive Quarterly incentives upon collection of write-offs	15 24.6	25 40.9	9 14.8	9 14.9	3 4.9	3.656	1.144
Daily Extraction of loan report to support in loan monitoring and recovery upon absence of an Officer	15 24.6	25 40.9	14 22.9	5 8.2	2 3.3	3.754	1.019
Support from other Team Members not necessarily in credit for recovery purposes.	9 14.8	22 36.1	21 34.4	5 8.2	4 6.6	3.443	1.048
Timely notifications to both the borrower and the guarantors upon default	22 36.1	22 36.1	13 21.3	4 6.6	0 0.00	4.016	0.914

4.8 Financial performance

The study further examined the financial performance of loan management practices as outlined in the table. Two indicators were measured, our microfinance has competent staff for proper measurement of loan management practices and proper loan management practices have increased bank's profitability. Likert scale was used during the study and the outcome is in the below table. The study revealed that 60.6% concur that microfinance has competent staff who take proper measurements on loan management practices. The mean was at 3.689 and standard deviation at 1.001. The results are in disagreement with those done by Siabei (2019).

The second indicator regarding the question on whether proper loan management has increased bank's profitability, most of the branch managers and credit officers the mean was at 3.738 and standard deviation was at 1.039 respectively. The results tallied with the empirical evidence of the study done Murunga (2017) only that the study focused on commercial banks and not Microfinance.

Table 13: Financial Performance through loan management practices

	SA Freq %	A Freq %	N Freq %	DA Freq %	SDA Freq %	MEAN	STD
Our microfinance has competent staff for proper measurement on loan management practices.	14 22.9	23 37.7	16 26.2%	7 11.5	1 1.6	3.689	1.001
Proper Loan management practices have increased bank's profitability	15 24.6	24 39.4	16 26.2	3 4.9	3 4.2	3.738	1.039

4.9 Inferential Analysis and interpretation

The study examined loan management practices on financial performance of microfinance institution in Nairobi. Thus the section discusses the outcomes of correlation and multiple regression analysis.

4.9.1 Pearson Correlation Matrix

Correlation is a statistical method used to understand the strength of direction between two variables. The section discusses the relation of the independent variables (loan appraisal process, loan documentation process, loan disbursement process and loan monitoring and recovery process) to that of the dependent variable (financial performance) on loan management practices to that of the financial performance. As shown in the table 11, 95% was the confidence level which can be interpreted as a significance level of 0.05.

From the results, loan appraisal with a Pearson correlation of 0.371 had a positive relationship with financial performance of microfinance banks in Nairobi .With a p value of 0.000, the relation of loan appraisal is statistical significant at 5% level. The results of the study are same as the study done by Siabei (2019) on lending done on mobile phones on performance of microfinance. The result of the study concurs with Obae and Jagongo (2022) in Kenya on commercial banks on credit management practices and loan performance. Agaba and Turyasingura and Kabagambe (2023) in Uganda, on lending appraisal of SACCOS also had similar results on a relationship between loan appraisal having a statistical significance on

SACCOS performance. The results also tally with the research done by Komezusenge (2024) in Rwanda banking institutions, that shows a significant positive relationship between the loan appraisal and financial performance. The results of the study tallies with Gichuhi and Omagwa (2020) in Nyandarua Kenya, on Credit management and loan management and loan portfolio performance on SACCOS that shows there is a positive relationship of client appraisal with loan performance of savings and credit cooperative societies . The results differ from Mwakujonga and Komba (2024) in Tanzania, on influence of credit risk management practices on loan performance that client appraisal insignificant to the performance of microfinance institutions. The results are in agreement with Ndichu (2021) effect of Credit Management Practices On Loan Performance in Self Help Groups in Kenya that there exists a positive relationship of client appraisal with loan performance of self- help groups.

Loan documentation process with a Pearson correlation of 0.344 had a positive relationship with financial performance of microfinance banks in Nairobi .With a p value of 0.000, the relationship of loan documentation is statistical significant at 5% level. The results mirrored those done by Nyaga and Omar (2020) on effect of credit documentation on loan portfolio performance in commercial banks in Mombasa County and the results indicated a statistical significance relationship on credit reference documentation. The results relate to Orichom and Omeke (2021), in Uganda, that their exists a significant positive relationship between credit risk management and financial performance

Loan disbursement process with a Pearson correlation of 0.349 had a positive relationship with financial performance of microfinance banks in Nairobi .With a p value of 0.000, the relationship of loan disbursement is statistical significant at 5% level. The results study positively reflect the study done by Karmakar and Sujana (2024), on Analyzing the impact of industry in which construction loans had a positive influence on profit after tax in the banking institution in Bangladesh. The results of the study tallies with Gichuhi and Omagwa (2020), on Credit management and loan management and loan portfolio performance of savings and credit cooperative societies in Nyandarua Kenya that shows there is a positive relationship of borrower's lending with loan performance of savings and credit cooperative societies .The study is similar to the one done by Ymenu (2018) on loan disbursement in Ethiopia and the results concluded that there was a statistical significant relationship between the loan disbursement and financial performance in Ethiopia. The results of the study is in agreement by Shema (2021), on

effects of increasing credit limit to digital micro-lending in East Africa that there exists a statistical significant relationship of the amount of loan disbursed with performance. The results relate to the research done by Moraa (2021) on lending terms of microfinance, that there is a positive relationship on the loan disbursed by collateral on the performance of Kenya Women Microfinance.

Loan monitoring and recovery process with a Pearson correlation of 0.396 had a positive relationship with financial performance of microfinance banks in Nairobi .With a p value of 0.000, the relationship of loan monitoring and recovery is statistical significant at 5% level. The results of the study are same as the study done by Twinomugisha (2020) in Uganda a study on centenary bank. The results are similar to Helex and George and Wu (2021) in Malawi microfinance institutions, on factors affecting the sustainability indicating a positive significant relationship reporting and loan management system. The results concurred with Kamanda and Ondabu and Matanda (2024) on debt recovery practices and loan performance of deposit taking microfinance banks in Kenya where the correlation matrix revealed a positive correlation on collection agencies and third-party agencies. The results of the study tallies with Gichuhi and Omagwa (2020) in Nyandarua Kenya, on loan management, Credit management and loan portfolio performance of SACCOs that shows there is a positive relationship between loan collection with loan performance of savings and credit cooperative societies .The results also tally with the research done by Komezusenge (2024) in Rwanda on banking institutions portfolio management that shows a significant positive relationship between the loan monitoring and recovery process with the financial performance. The results mirrored that of Abebe (2020) that there exists a positive relationship of loan recovery to the performance of Wegagen bank. The results tally with Mwakujonga and Komba (2024) in Tanzania, on influence of credit management risk practices on loan performance that shows there is a positive relationship between credit monitoring and loan performance.

Table 14: Results of Pearson Correlation Matrix

		Loan Appraisal Process	Loan Documentation Process	Loan Disbursement Process	Monitoring Recovery Process	Financial Performance
Loan Appraisal process	Correlation coefficient Sig.(2tailed)	1.000				

Loan documentation process	Correlation coefficient	0.183	1.000			
Loan disbursement process	Sig.(2tailed correlation coefficient)	0.328	0.391	1.000		
Loan monitoring and recovery process	Correlation coefficient	0.285	0.348	0.371	1.000	
Financial performance	Pearson Correlation coefficient	.371	.344	.349	.396	1.000
	Sig.(2-tailed)	.000	.000	.000	.000	
	N	61	61	61	61	61

4.10 Assessing the loan management on financial performance

The research examines loan management practices on the financial performance. The study was achieved using inferential statistics, R correlation, R Square, Adjusted R square as shown on Table 11. The general correlation($R = 0.53$) indicates a positive move on loan management practices influencing the financial performance. This basically means that microfinance institution with proper measures on loan management practices the more the possibility to increase financial performance. The R Square at 28% noted that the independent variables loan appraisal process, loan documentation process, loan disbursement process, loan monitoring and recovery process has an impact on the financial performance.

Table 15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.53 ^a	.28	.23	.73

Table 15 on ANOVA test, $F = 5.42$; $p < 0.05$ has a statistical significant on loan management practices on the financial performance of microfinance. The general correlation $R = 0.53$ shows this relationship.

Table 16: Analysis of variance

Model		Sum of Squares	Df	Mean square	F	Sig
1	Regression	11.50	4	2.88	5.42	0.00
	Residual	29.73	56	.53		

Total	41.23	60
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The data progressed towards examination of the regression coefficients after the regression model was achieved

Table 17: Regression Coefficients, T-statistics and Collinearity statistics

Model	Unstandardized coefficients		Standardized coefficients		t	Sig.
	B	Std.Error	Beta			
1 (constant)	-0.06	0.52	0.91		-0.11	0.00
Loan appraisal process	0.39	0.20	0.06		1.93	0.00
Loan documentation process	0.26	0.18	0.17		1.39	0.00
Loan disbursement process	0.17	0.19	0.36		0.92	0.00
Loan monitoring and recover process	0.30	0.17	0.09		1.74	0.00

a. Dependent variable : Financial performance

The following regression model that was found to be compatible was used to determine the presence or absence of multicollinearity problems.

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

$$y = -0.06 + 0.39X_1 + 0.26X_2 + 0.17X_3 + 0.30X_4 + \varepsilon$$

The variables X_1 for loan appraisal process, X_2 for loan documentation process, X_3 loan disbursement process and X_4 loan monitoring and recovery process. Basically means that for financial performance to increase by a unit, then the loan appraisal process, loan documentation process, loan disbursement process, and monitoring and recovery process had the following evaluation, 0.39 units, 0.26 units, 0.17 units and 0.30 units while other factors remained constant at -0.06. Based on the research findings, loan appraisal had the highest at 0.39 units and this

shows that in the loan management practices it's the most crucial in the financial performance followed by the loan monitoring and recovery process.

The results of the T-statistics were employed to test the null hypothesis as follows.

- i. H_{01} : The loan appraisal process has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya. To assess the influence of loan appraisal process the regression coefficient was examined. The study used the t-statistic to test the null hypothesis with a significant level of 5%. The t-test statistics for the study was ($t = 1.93$). In conclusion, there is a significant statistical influence of loan appraisal process on financial performance of microfinance institution in Nairobi, Kenya p value was less than 0.05. There is significant statistical influence of loan appraisal process on financial performance

The first null hypothesis (H_{01}) was rejected. The study was in line with previous researchers. Murunga (2017) revealed that during the loan appraisal process, credit history and borrower's frequency were highly considered before beginning the loan process. Muhangi (2017) is in agreement who found that client appraisal had statistical significant on financial performance reveals that client appraisal considers the character of the customer seeking the facility. He further recommends for training of officer for better loan appraisal. The study contradicts with the study done by Mburu and Mwangi and Muathe (2020) that borrower's appraisal has an no significant effect on the loan performance in the banking institution and recommends on proper systems to be put in place for client appraisal in order to mitigate risks. The results are in agreement with the study by Bushra and Fatima and Iqra and Noorulain and Zoha. (2017) credit appraisal is rejected and reveals on need for business counseling services from banks to borrowers.

- ii. H_{02} : The loan documentation process has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya. To examine the influence of loan documentation process The study used the t-statistic to test the null hypothesis with a significant level of 5%. The t-test statistics for the study was ($t = 1.39$). In conclusion, there is a significant statistical influence of loan appraisal process on financial performance of microfinance institution in Nairobi, p value was less than 0.05. To

examine on whether there is a significant statistical influence of loan documentation process on financial performance of microfinance institution in Nairobi, Kenya, the study which used the t-test statistics results for the null hypothesis(H_{02}) at a significance level of 5%, the results were at $t = 1.39$ and a probability value of 0.00 thus the research concluded that since the p value was less than 0.05, then reject the null hypothesis. The study results were similar to those done by Siabei (2019) on influence of mobile based lending on the financial performance of microfinance banks in Nairobi, County. The study revealed that there was a positive relationship on loan documentation process on financial performance. A conceptual gap exists since Siabei (2019) the research was done on commercial banks while the current one was done on microfinance banks.

- iii. H_{03} : The loan disbursement has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya. To analyze the influence of loan disbursement on the financial performance of microfinance institution in Nairobi Kenya the regression coefficient examined was at 0.17 and it basically means that any unit increase on loan disbursement by 0.17 resulted to an increase on the financial performance by 0.17 on microfinance banks in Nairobi, County. On whether there is a significant statistical influence of loan disbursement process on financial performance of microfinance institution in Nairobi, Kenya, the null hypothesis tested (H_{03}), the study sought to use the t test as the test statistics at 5% significance level. The results for the t value was at 0.92 and that of the p value was at 0.00 and since the p value was less than 0.05, the null hypothesis (H_{03}) was rejected. The study results differed from Murunga (2017) on the effect of mobile based loans on nonperforming. The study revealed that the process of disbursing loans was inconsequential to NPLs in commercial banks. The study is in agreement with Mburu and Mwangi and Muathe (2020) that lending had a significant effect and emphasized on the improvement of lending policies in order to loan performance in the banking institution.
- iv. H_{04} : The loan monitoring and recovery has no significant statistical influence on financial performance of microfinance institution in Nairobi, Kenya. To assess the influence of loan monitoring and recovery process on the financial performance of microfinance institution in Nairobi Kenya the regression coefficient examined was at 0.30 and it

basically means that any unit increase on loan monitoring and recover by 0.30 resulted to an increase on the financial performance by 0.30 on microfinance banks in Nairobi, County. On whether there is a significant statistical influence of loan monitoring and recovery process on financial performance of microfinance institution in Nairobi, Kenya, the null hypothesis tested (H_{04}), the study sought to use the t test as the test statistics at 5% significance level. The results for the t value was at 1.74 and that of the p value was at 0.00 and since the p value was less than 0.05, the null hypothesis (H_{03}) was rejected . The study concurs with previous researchers. Twesige and Ndikubwimana (2021) from Rwanda reveals that loan monitoring to be closely considered. Loan deviation and family expenses are key points to note during the recovery process. The study is in agreement with Twinomugisha (2020), in Uganda, who emphasized on loan portfolio to be closely monitored and reviewed by the collection team for better performance. The study mirrors the Quartey and Okyere and Yensu on determinants of financial sustainability of rural banks in Ghana and shows a statistical significant relationship between loan default, loan maturity with the bank's profitability. The results are similar to Mubangizi (2022) in Uganda on credit monitoring and recovery and its relationship on financial performance on commercial banks that shows a positive significant relationship between credit monitoring, credit recovery with financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This study desired to assess loan management practices on financial performance of microfinance institution in Nairobi, Kenya. The four variables examined were loan appraisal, loan documentation, loan disbursement, monitoring and recovery. A response rate of 93.8% was achieved during the with male respondents being a majority at 55.74%. This section discusses the summary of the findings, conclusions, recommend areas and arrears that require further studies.

5.2 Summary of the result findings

Grounded on specific objectives, the summary of the findings was discussed. 93.8% was the response rate which was higher than the suggested rate of 75%.

5.2.1 Loan appraisal through loan management practice

The study analyzed a collection of three indicators to measure the loan appraisal process through loan management practices that include Know your customer to authenticate the loan management process, officers perform genuine and aggressive appraisal, loan appraisal has no significant effect on loan performance. The study established that there was a statistical significant relationship on know your customer with the financial performance with a mean of 3.9016 and standard deviation of 0.9180. The study also established that majority of the respondents with a mean of 3.9016 and standard deviation of 1.007 were in agreement on officers who perform genuine and aggressive appraisal thus a statistical significant with the financial performance. Finally, the study established that there was a statistical significant association of the loan appraisal process with the financial performance with a mean of 3.7213 and standard deviation of 1.161. Thus the study established that on the measure of the three indicators of the loan appraisal, there was a statistical significant association with the financial performance.

5.2.2 Loan documentation through loan management practices

The study scrutinized a collection of five indicators to measure the loan documentation process through loan management practices that include Bank loans are mainly concentrated on specific

loan products, Proper loan documentation positively affects the loan performance, Credit reference Bureau report has no significant effect on loan performance., Bank officers carry proper investigation to confirm whether the documents received from the borrower are legit and Borrower's records\documents are well kept and can easily be retrieved whenever a need arises. The study established that there was a statistical significant association on bank loans that concentrated on a specific loan product with the financial performance. The study established that there was a statistical significant association of the proper loan documentation on the financial performance with a mean was at 3.574 and standard deviation at 1.063. The study also established that there was a statistical significant relationship between the credit reference bureau on the financial performance .The study established that there was a statistical significant association between bank officers who carry roper investigation to confirm whether loan documents were legit with the financial performance. Lastly the study established that there was a statistical significant association between records kept that can easily be retrieved with the financial performance. On the loan documentation variable as the loan management practice, the study established that there was a statistical significant association with all the indicators with the financial performance.

5.2.3 Loan disbursement through loan management practices

The study used a collection of three indictors to measure the loan disbursement process through loan management practices that include Loans secured by collateral perform well, Amount of loan disbursed does not affect performance, once the loan is disbursed, banks ensure there's no fund diversion. The study established that there was a statistical significant association of the loans secured by collateral performing well with the financial performance with a mean of 3.934 and standard deviation of 0.973. The study established that there was a statistical significant association of the amount of loan disbursed and its performance with the financial performance. On the diversion of loan disbursed, the mean was at 3.590 and standard deviation at 1.092, the study established there was a statistical significant association with the financial performance. On all the three indicators of the loan disbursement as the loan management practices, the study established that there was a statistical significant association with the financial performance of microfinance banks in Nairobi , Kenya.

5.2.4 Monitoring and recovery through loan management practices

Five set of indicators were reviewed to measure the loan monitoring and recovery process through loan management practices that include Aggressive collection of write-off loans, Staff receive Quarterly incentives upon collection of write-offs, Daily Extraction of loan report to support in loan monitoring and recovery upon absence of an Officer, Support from other Team Members not necessarily in credit for recovery purposes and Timely notifications to both the borrower and the guarantors upon default.

The study established that there was a significant association between aggressive collections of write –off loans to the financial performance with a mean of 2.918 and standard deviation of 1.1644. The study established that with a mean of 3.656 and standard deviation of 1.144.there was a statistical significant association on staff receiving quarterly incentive on write off loans with the financial performance. The study established that with a mean of 3.754 and standard deviation 1.019 there was a statistical significant association on daily extraction on absence of loan officers with the financial performance. The study established that there was a statistical significant association between support from other Team members for recovery process wit the financial performance. Finally, the study established that there was a statistical significant association between timely notifications on both the borrower and the guarantor with the financial performance. The study established that there was a statistical significant association of all the five measures of the loan monitoring and recovery process of loan management practices with the financial performance.

5.3 Conclusion of the Study

The study determined that based on the objectives and findings, conclusions were drawn. The conclusion were drawn from the loan appraisal, loan documentation, loan disbursement and monitoring and recovery process on financial performance.

5.3.1 Loan Appraisal process and financial performance

The results also concluded that there exist limitations in microfinance institutions on the loan management process. The study concluded that banks verify borrowers through know your customer. The study concluded that officers in microfinance institutions in Nairobi perform genuine and aggressive loan appraisal. The study concluded that indeed there exists a significant loan appraisal process on financial performance.

5.3.2 Loan documentation process and financial performance

The study further concluded that microfinance institutions concentrate on specific loan products that are easy to sell. It was also concluded that proper loan documents are necessary for loan performance. The study further concluded that credit reference bureau on loan performance. The study concluded that bank officers go an extra mile to confirm that the documents received are genuine. Lastly, the study concluded that borrowers loan documents are well kept and can easily be retrieved. The study concluded that loan documentation is key on the effect of financial performance.

5.3.3 Loan disbursement process and financial performance

The study concluded that loans that were secured by collateral performed well in microfinance institutions in Nairobi. The study also concluded that the amount of loan disbursed does not affect performance of microfinance banks. The study also concluded that officers go an extra mile to prevent diversion of disbursed loans. The study concluded that loan disbursement has a marginal consequence on financial performance of microfinance institutions in Nairobi.

5.3.4 Monitoring and recovery process and financial performance

The study concluded that microfinance institutions monitor and recover loans. It was agreed that officers do collection of write off loans. It was also agreed that staff receive quarterly incentives whenever they collect write off loans. It was concluded that officers do extract loan reports and support officers who were absent. It was also established that other team members support on loan monitoring and recovery. Lastly, it was concluded that timely notifications were done to both the borrower and the guarantor in the microfinance institutions in Nairobi. The study concluded that the loan monitoring and recovery process had a consequence on financial performance of microfinance banks.

The study concluded that while assessing the loan management practices of microfinance banks in Nairobi, the independent variables, loan appraisal process, loan documentation process, loan disbursement process and loan monitoring and recovery process have a positive association on the financial performance on microfinance institutions.

5.4 Recommendations of the Study

The study endorsed some recommendations in respect to the loan management practices on financial performance. The study recommends that during the loan appraisal process, revised KYC documents should be put in place to have officers capture every detail of borrower during the loan appraisal process. The study recommends aggressive loan appraisal officers where a loan officer is accompanied by another officer during customer visit in order to capture every detail of a borrower and allow microfinance institutions to perform well.

Loan documentation process is very key. Officers are recommended to take each and every document from a borrower and guarantor that include identification details, Kenya revenue Authority pin, bank and m-pesa statements, spouse identification and business registration. The study recommends that crb portal should be easily accessible to loan officers to confirm the status of a borrower.

On loan disbursement, the study recommends that borrower should request for the amount she/he is comfortable in paying and officers to avoid overfunding and underfunding customer. The study recommends that it's important for loan officers to visit borrower once the loan is disbursed to ensure that funds are not diverted to other projects than what was indicated in the loan forms.

Loan monitoring and recovery, the study recommends quarterly training of loan officers in order to monitor and recover loans in a professional way not to damage the image of microfinance banks.

5.5 Suggestions for Further studies

The study advocates that loan management practices on financial performance of microfinance banks should be explored. Empirical study should be conducted on loan management practices in order to improve financial performance of microfinance banks in Nairobi.

The study scope was for microfinance banks within Nairobi, so there's need for further studies of microfinance institutions in Kenya, and not just Nairobi.

The study was restricted to four independent variables, loan appraisal, loan documentation, loan disbursement and loan monitoring and appraisal process which was within the scope, however, other credit management practices such as customer screening, credit risk on security should be carried out for further research. Furthermore, the study recommends on use of digital platforms and devices in speeding up the lending process, its accessibility on financial performance of microfinance banks.



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APPENDIX I: Consent form

Assessing loan management practices on financial performance of microfinance institution in Nairobi, Kenya

Dear Participant,

I invite you to participate in a research study entitled Assessing loan management practices on financial performance of microfinance institution in Nairobi, Kenya : I am currently enrolled in the Master's in Business Administration(Finance Option) at Mount Kenya University and am in the process of writing my Master's project. The purpose of the research is to Assess loan management practices on financial performance of microfinance institution.

The enclosed questionnaire has been designed to collect information on: Loan management practices specifically, Loan appraisal process, Loan documentation process, loan disbursement process, monitoring and recovery and financial performance.

Your participation in this research project is completely voluntary. You may decline altogether, or leave blank any questions you don't wish to answer. There are no known risks to participation beyond those encountered in everyday life. Your responses will remain confidential and anonymous. Data from this research will be kept under lock and key and reported only as a collective combined total. No one other than the researchers will know your individual answers to this questionnaire. There are no direct benefits to you for participating in this research. However, you may find it interesting to talk about the issues addressed in the research and it may be beneficial to the field and to future clients or individuals who have experienced similar concerns

If you agree to participate in this project, please answer the questions on the questionnaire as best you can. It should take approximately *Ten minutes* to complete. Please return the questionnaire as soon as possible to enable me complete the project report.

If you have any questions about this project, feel free to contact *the INVESTIGATOR*, Joan Adongo Wabwire on mobile +2547-28523383 or email joanwabwire33@gmail.com and Dr.Martin Onsiro +2547-16939832 or MOnsiro@mku.ac.ke.If you have questions about your rights as a research participant, please be in touch with the Chairman, Mount Kenya University, Ethical Review Committee, P.O Box 342-01000, Thika.

Thank you for your assistance in this important endeavor.

CONSENT

I have read and I understand the provided information and have had the opportunity to ask questions. I understand that my participation is voluntary and that I am free to withdraw at any time, without giving a reason and without cost. I understand that I will be given a copy of this consent form. I voluntarily agree to take part in this study.

Participant's signature _____ Date _____

Investigator's signature _____ Date _____



APPENDIX II: ERC Certificate


Mount Kenya University

REF: MKU/ISERC/4592 Date: 19 November 2024
TO: JOAN WABWIRE
REG: MBA/2023/41041

Dear Sir/Madam,

RE: ASSESSING LOAN MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF MICROFINANCE SECTOR IN NAIROBI, KENYA

This is to inform you that **Mount Kenya University** has reviewed and approved your above research proposal. Your application approval number is **3314**. The approval period is **19/11/2024 - 18/11/2025**.

This approval is subject to compliance with the following requirements:

- i. Only approved documents including informed consents, study instruments, MTA will be used
- ii. All changes including amendments, deviations and violations are submitted for review and approval by **Mount Kenya University**
- iii. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to **Mount Kenya University** within 72 hours of notification
- iv. Any changes, anticipated or otherwise that may increase the risks or affect the safety or welfare of study participants and others or affect the integrity of the research must be reported to **Mount Kenya University** within 72 hours
- v. Clearance for export of biological specimens must be obtained from relevant institutions
- vi. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal
- vii. Submission of an executive summary report within 90 days upon completion of the study to **Mount Kenya University**

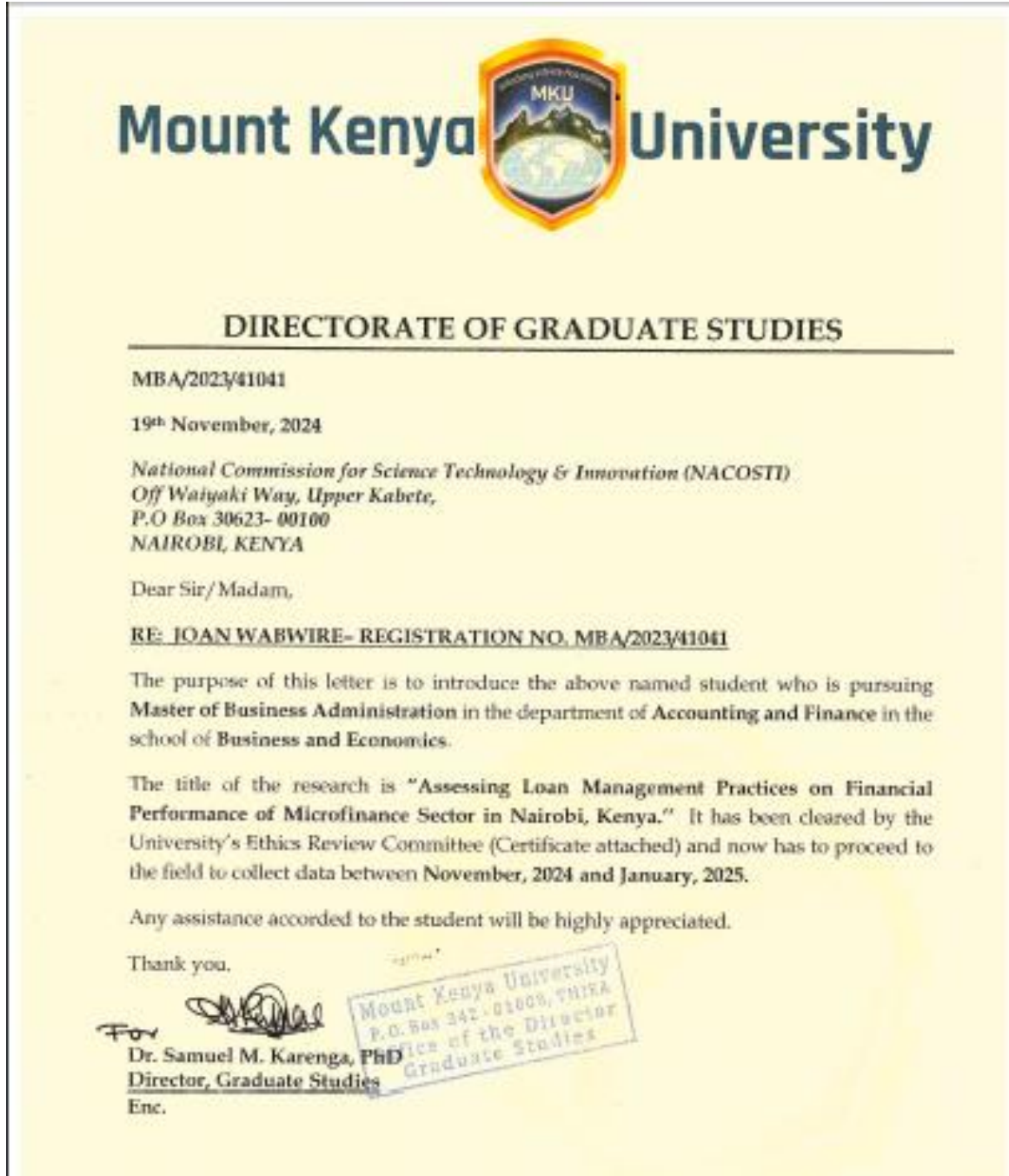
Prior to commencing your study, you will be expected to obtain a research license from National Commission for Science, Technology and Innovation (NACOSTI): <https://research-portal.nacosti.go.ke> and also obtain other clearances needed.

Yours sincerely,

Dr. Alfred Owino, PhD
Chairman, Mount Kenya University ISERC

MOUNT KENYA UNIVERSITY
ETHICS REVIEW COMMITTEE
P. O. Box 342 - 01000,
THIKA

APPENDIX III: Introductory letter from MKU



APPENDIX V : RESEARCH AUTHORIZATION

questionnaire

Assessing loan management practices on financial performance of microfinance sector in Nairobi, Kenya

This questionnaire is meant to gather/collect data from Licensed microfinance banks within Nairobi Kenya. You are kindly requested to fill the questionnaire according to the instructions provided. Kindly put a tick against the correction choice. Please do not indicate your name on the questionnaire.

Section A : Background information

1. What is your Gender? Male Female

2. Kindly indicate the category of your MFI
 Bank Deposit taking Credit Only

3. What is your Highest academic qualification?
 Diploma First degree Master's degree PHD

4. Do you have any professional qualification, Yes or No?
 If yes, please specify... DIPLOMA IN INSURANCE

5. How long have you been attached to the Credit department
 0-5 years 6-10 years above 10 years

6. Kindly state/indicate your job description
 Credit Officer Branch Manager Other role (Explain) INSURANCE OFFICER

Section B: Loan Management practices

Where 1: Strongly Agree (SA), 2: Agree (A), 3: Neutral(N), 4 (Disagree(DA))

Loan Appraisal

1. Does your institution have a Credit policy manual? Yes No

If yes, At what level do bank Officials implement the Credit policy?
 Scale of below 50% above 50%

1. Kindly put (✓) mark inside the box to show your level of agreement

	SA	A	N	DA	SDA
The bank mainly uses Know Your customer KYC as a policy during appraisal stage	✓				
Officers perform genuine and aggressive appraisal		✓			
Loan appraisal has no significant effect on loan performance			✓		

CERTIFIED TRUE COPY OF ORIGINAL
SUMAC MICROFINANCE BANK LIMITED
 KISUMU ST. BRANCH

[Signature]
 16/12/2024

Questionnaire

Assessing loan management practices on financial performance of microfinance sector in Nairobi, Kenya

This questionnaire is meant to gather/collect data from Licensed microfinance banks within Nairobi Kenya. You are kindly requested to fill the questionnaire according to the instructions provided. Kindly put a tick against the correction choice. Please do not indicate your name on the questionnaire.

Section A : Background Information

1. What is your Gender? Male Female
2. Kindly indicate the category of your MFI
Bank Deposit taking Credit Only
3. What is your Highest academic qualification?
Diploma First degree Master's degree PHD
4. Do you have any professional qualification, Yes or No ?
If yes, please specify..... CPA, PAFI II.....
5. How long have you been attached to the Credit department
0-5 years 6-10 years above 10 years
6. Kindly state/indicate your job description
Credit Officer Branch Manager Other role (Explain).....

Section B: Loan Management practices

Where 1: Strongly Agree (SA), 2: Agree (A), 3: Neutral(N), 4 (Disagree(DA)

Loan Appraisal

1. Does your institution have a Credit policy manual? Yes (✓) No ()

If yes, At what level do bank Officials implement the Credit policy?

When need arises
Scale of below 50% () above 50% ()

1. Kindly put (✓) mark inside the box to show your level of agreement

	SA	A	N	DA	SDA
The bank mainly uses Know Your customer KYC as a policy during appraisal stage	✓				
Officers perform genuine and aggressive appraisal	✓				
Loan appraisal has no significant effect on loan performance					✓

U & I MICROFINANCE BANK LTD
CERTIFIED TRUE COPY OF THE ORIGINAL
SIGN: [Signature]
DATE: 7/12/2024

APPENDIX VI: Turnitin report

JOAN ADONGO WABWIRE - no ref.docx

by joan Wabwire

Submission date: 23-Jun-2025 09:06PM (UTC+0300)
Submission ID: 2645740520
File name: JOAN_ADONGO_WABWIRE_-_no_ref.docx (1.55M)
Word count: 19145
Character count: 106759

Mount Ke

**ASSESSING LOAN MANAGEMENT PRACTICES ON FINANCIAL
PERFORMANCE OF MICROFINANCE INSTITUTION IN
NAIROBI, KENYA**

JOAN ADONGO WABWIRE

**A RESEARCH REPORT SUBMITTED IN PARTIAL FULFILMENT OF
THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS
ADMINISTRATION DEGREE IN FINANCE OF
MOUNT KENYA UNIVERSITY**

APRIL 2025



APPENDIX VII: MICROFINANCE Banks Profit and Loss Account- Dec 2023

Mfbs	KW FT	FAU LU	RA FI KI	SM EP M	CARI TAS M	SU MA C	LO LC M	U\$ I	SAL AA M	UM BA M	ON IT M	BRA NCH M	MUUN GANO M	CHO ICE M	TOT AL M
income	Ksh. . M	Ksh. M	Ks h. M	Ks h. M	Ksh. M	Ksh. M	Ks h. M		Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M	Ksh. M
1 Total income	5,303	3,376	764	747	567	524	90	303	18	4	78	886	85	42	12,779
2 Total expenses	5,583	3,923	1,121	659	525	352	145	190	167	70	303	788	73	34	13,966
3 Operating profit	-280	-547	-357	88	42	172	-55	113	-148	-66	-225	98	12	8	-1,187
4 Interest and fee expense on borrowings (finance cost)	658	173	77	77	3	167	7	75	-	-	2	-	8	-	1,092
5 Profit/(loss) before tax	-938	-719	-434	12	39	6	-62	38	-148	-66	-227	98	4	8	-2,279
Current tax	5	1	-	-12	-	4	-	19	-	-	-	32	-	-	49
Deferred tax	-	719	-	-	-	-	-	-	13	-	-	-	-	-	706
7 Net profit (after taxes and before donations)	943	1,440	434	24	39	2	-62	18	-135	-66	-227	65	4	8	-3,035
8 Donation for operation expense	22														
9 Net profit after taxes	-920	-	-	24	39	2	-62	18	-135	-66	-227	65	4	8	-3,035
Total comprehensive income	920	1,440	434	24	39	2	-62	18	-135	-66	-227	65	4	8	-3,035

Source : MFBs Published Financial statements

APPENDIX VIII: List of Licensed Microfinance by CBK as at 2022

NO	Directory of Licensed Microfinance Banks: Microfinance bank limited	POSTAL
1	Caritas	0205151500/0729986331, Cardinal Maurice Otunga plaza; ground floor
2	Century	0722-168721, 0756-305132, K.K Plaza, floor, New Pumwani road, Gikomba,
3	Choice www.choicemfb.com	0724-308000, Siron Place, magadi road Ongata Rongai, Nairobi,
4	Daraja	0718-444888, 0707-444888 Karandini Road: off Naivasha Road Nairobi,
5	Faulu www.faulukenya.com	0711-074074, 0708-111000, Faulu Kenya House, Ngong Lane: Off Ngong Road, Nairobi,
6	Kenya Women www.kwftbank.com	0729920920, Akira House, Kiambere Road, Upper Hill, Nairobi,
7	Rafiki	0711073000, Rafiki House, along Biashara street Nairobi,
8	Salaam www.salaammfbank.co.ke	0703591302, Park plaza, ground floor, Moktar Daddah street Nairobi
9	SMEP	Nairobi, Kilimani Kirichwa road:
10	U & I	0703591302, Asili Complex, 1 st floor River road Nairobi, 0713-112791, 020-2367288
11	Uwezo	Rehani House in Nairobi ,11 th floor, Koinange street Nairobi,
12	Maisha www.maishabank.com	Lavington, James Gichuru road, Ramisi road, Jahazi near ONITbank Nairobi, 020 222 0648/ 0736 028 982/ 0792 002 300
13	Sumac	0111 029000, Consolidated Bank House, 2 nd floor ,Koinange street,