CREDIT RISK MANAGEMENT STRATEGIES AND LOAN PERFORMANCE OF GOVERNMENT ENTERPRISE DEVELOPMENT FUNDS IN NAKURU COUNTY, KENYA

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DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

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DEDICATION

I dedicate this thesis to my friend and a dear wife Serah Muthoni Kiarie and my daughter Grace Mwihaki Kiarie. This study would have been impossible without their constant support, encouragement and more importantly prayers, in pursuit of this knowledge you have contributed immeasurably, God bless you.

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OPERATIONAL DEFINITION OF TERMS

Credit	Advances or loans made to a borrower. Borrowing ability advanced by a financial institution to an individual, firm, or organization, in the form of cash loans.
Credit Appraisal Techniques	The process of assessing risks that can impact on the repayment of a loan.
Credit Collection Policies	Guidelines for loan recovery and steps in a case of borrower delinquency in order to protect the cash flows.
Credit Risk Control measures	The policy and procedures that financial institutions create to moderate risks and ensure they meet operational, reporting and compliance purposes.
Credit Risk	This is potential for loss when the borrower fails to meet the contractual obligation. It comprises lost principal amount and interest earned, interruption of cash flows, and enlarged collection fees.
Credit Risk Management	Practice of mitigating against risks. It involves establishing, measuring, evaluating and controlling of risks at desired level.
Credit Risk Management Strategies	Systems, controls and procedures which a lending institution put in functional place to measure the probability that a lender may default and thus lead to a loss and increase costs of collecting the debt.
Credit Terms	The interest rate charged, the repayment period, collateral and other contractual agreement set out by the lender.

Government Enterprise Development Funds	Entities created by government to provide loans at low interest rates to special groups, individuals, and help fight poverty and unemployment. They are Women Enterprise Fund and Youth Enterprise Development Fund for this study.
Information Asymmetry	Information imbalance at the time when two or more counter parties agree to enter into a mutual agreement. The state of one of the parties having superior information than the other and is ready to use the information for his advantage.
Loan Performance	The fulfillment of obligation by the borrower. The method evaluating loan output of a firm's policies, procedures and operations in monetarist terms as measured using non-performing loans ratio.
Internal Controls	Processes created by management to give reasonable assurances on operating, reporting and compliance objectives.
Moral Hazard	Risk that a party has not entered into a contract in good faith or has provided misleading information for his advantage.
Non- Performing loans	A sum of borrowed money upon which the borrower has not made his or her scheduled payments for a specified period of time.

ACRONYMS AND ABBREVIATIONS

5Cs	Character, Capital, Capacity, Collateral and Condition.
ANOVA	Analysis Of Variance
CAMPARI	Character, Ability, Margin, Purpose, Amount, Repayment and Insurance
CBK	Central Bank of Kenya
CBP	Capacity Building Programme
COVID 19	Corona Virus Disease 2019
CRB	Credit Reference Bureau
C-WEF	Constituency Women Enterprise Fund
C-WES	Constituency Women Enterprise Scheme
DTM	Deposit Taking Microfinance
DTS	Deposit Taking Sacco
ESIF	European Structural and Investment Funds
FI	Financial Institution
GEDFs	Government Enterprise Development Funds
KEBS	Kenya Bureau of Statistics
MDG	Millennium Development Goals
MFIs	Micro Finance Institutions
MSMEs	Micro, Small, Medium, Enterprises
NACOSTI	National Commission for Science, Technology and Innovation
NGAAF	National Government Affirmative Action Fund
NPL	Non Performing Loan
OAG	Office of Auditor General
OLS	Ordinary Least Squares
PAPERS	Personality, Amount, Purpose, Earnings, Repayment and Security
PLWDs	People Living With Disabilities

PWSD-CT	People with Severe Disability Cash Transfer
SACCOs	Savings and Credit Cooperative Organizations
SPSS	Statistical Package of Social Science
VIF	Variance Inflation Factor
WEF	Women Enterprises Fund
YEDF	Youth Enterprises Development Fund
YESA	Youth Empowerment Scheme Abroad

ABSTRACT

The concept of Government Enterprise Development Funds were to fight poverty, create employment and empower youth, women and people with disabilities. However, the funds are facing a challenge of default from borrowers and it is threatening the existence of the funds. This study therefore sought to evaluate the effectiveness of credit risk management strategies on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The specific objectives were to evaluate the effect of credit appraisal techniques, credit terms, credit collection policies, credit control measures on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The study also sought to evaluate keenly the moderating effect of information asymmetry on the relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The time scope covered a period from which the fund has existed. The theories that supported the study were agency theory, contract theory, information asymmetry theory, credit risk theory, account receivable policy theory and liquidity theory. To undertake this study, the descriptive design was adopted. The target population of the study was government enterprise development (revolving) funds. The sample size was drawn using purposive sampling, two funds with structured management systems for the purposes of this study was obtained and the respondents were fund managers and credit officers. The primary data was collected using semi-structured questionnaire and was distributed using drop and pick model. Piloting was done to test the reliability of the instrument. Diagnostic tests to check for Multicollinearity, Heteroscedasticity and Normality were done to check whether Ordinary Least Squares assumptions are violated. Descriptive statistics namely the Mean, frequency and standard deviation was conducted to summarize the data and determine the trends and the extent of deviation of data distribution. The study further conducted inferential analysis namely correlation and regression analysis to define the nature of relationships and the cause-effect relations among the hypothesized variables respectively. Data was analyzed using Statistical Package for the Social Sciences and results presented in tables. The findings revealed that credit appraisal techniques have a positive significant effect on loan performance. The findings further indicated that credit terms have a positive significant effect on loan performance. The findings also revealed that credit collection policies have a positive significant effect on loan performance. The findings further revealed that credit risk control measures have a positive significant effect on loan performance. The findings also revealed that there is a significant moderating effect of information asymmetry on the relationship between credit management strategies and loan performance. The study concludes from the findings that credit risk management strategies has significance effect on loan performance of Government Enterprise Development Funds in Nakuru County. The study recommends proper and sound appraisal techniques utilization to guarantee loaning to the correct beneficiaries and reduces chances of default, the updating of contract terms and condition on a regular basis, proper collection policies and enforcement procedures to enable the funds collect loans on time and within the contract period. The study further recommends establishment of independent internal control system for assessment and focuses on risk environment, the regulatory frame work on Information asymmetry to arrest and neutralize credit risks and help improve collections and lower the default risk. Areas for further studies should be to assess the effect of credit reference bureaus recording and the effects it has on loans performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The most disheartening economic challenges globally is unemployment. Government enterprise funding is a key aspect that have been rolled out to help economies of the world and create jobs for their growing population and wealth distribution. European region enterprise funding is well designed to reduce wealth inequalities among its population in rural and urban settings through European Structural and Investment Funds (ESI funds) that is geared to provided revolving resources. Majorly, the German's government sponsored or funded enterprises are geared to create wealth and economic stabilities (Hansen, 2013).

In Africa, with its enormous population, the rate of unemployment is a worrying trend with sixty-eight percent of the average population being unemployed (Mohd-Harif, 2010) . In Nigeria, the federal government have instituted funds to support ambitious entrepreneurs to address the unemployment levels in the country and with a view to address the poverty intensities. Developing countries in Africa are hard hit as their lean economies do not sufficiently support development and creation of investments that will in return address the unemployment as per Trust Africa (2015) report.

The challenge is not unique to a specific country in Africa but also regional issue that need to be addressed especially in Sub-Saharan region where the challenge can be adequately faced by the governments. In Rwanda, the creation of Rwandese Development Board to oversee the funding of SMEs in the county and eradicate poverty and create employment has impacted the growing economy according to Rwanda Development Report (2017)

The Elephant challenge also facing Kenya is unemployment and lack of seed capital for the youths, women and people living with disabilities of the country (KEBS, 2018). About 60% of the Kenyan population is youths and out of it, 17% are unemployed according to a report done by World Bank (2017) to ascertain the development and sustainability of Kenyan economy. The unemployment rate is as a result of most of the youth has no occupation training other than formal education. Unemployment is not absence of jobs, it is also a lack of work skills owing to deficiency of training arrangement plus the means to obtain skills, which is poverty caused (Kantor, 2010). It is due to this that the government derived the idea of revolving funds called Government Enterprise Development Funds as a way of decreasing or addressing unemployment and support enterprises through organized groups. The addressing model was grounded on the idea that medium, micro, small and enterprise empowerment/development creativities likely to effect on job making, empower women and disabled (PLWDs). The empowerment initiative is anchored on the fact that the future of any economy relies on youthful generation who can drive employment growth and economic activities as well as women who has a crucial position in society as drivers of households (Obonyo, 2018).

Financial institutions in Kenya have been slapping their loans with high interest rates before the recent capping rates in Kenya. Most of the youths, women and people living with disabilities have been locked out from enterprises because they cannot afford to access lending due to high cost of loans (Maonga, 2016). This has seen the majority seek formal employment which cannot be held by the economy of the country, and thus it has resulted to a high rate of qualified and unqualified population of unemployed. Other than the high cost of capital that has derived away the productive population is the requirement for one to attach collateral for them to

qualify for funds. Most of unemployed population has no assets in the first place and for this, they are locked out in the initial stages while seeking funds from commercial banks (Farah, 2018).

This therefore resulted in the government of Kenya creating revolving funds to bridge the gap of unemployment and high cost of capital acquisition. Generally, the funds were aimed at providing subsidy to enterprise and development initiatives or services to women, PLWDs and youth-owned enterprises. Moreover, revolving funds also were aimed at providing incentives to the commercial Banks in the country, through suitable risk moderating instruments and to support them increase loaning and financial facilities to enterprises; Other than commercial banks, the revolving funds was to provide credits to existing microfinance institutions that is registered as nongovernmental organizations dealing in micro lending or financing, savings and Credit Co-operative societies lending to the youths and women initiatives. The funds were also geared to appeal and enable economic investments in medium, small and micro enterprise, large profitable infrastructure, such as industrial parks and incubations that will be supportive to these special groups' enterprises. The funds were to enable sponsoring of products and promoting of services of youth-owned initiatives domestically and foreign market and also enable employment opportunities of youth in the global labor market (Mungai, 2015).

There are about six revolving funds in Kenya namely; Women Enterprise Fund (WEF), Uwezo Fund, Youth Enterprises Development Fund (YEDF), Older person Cash Transfer Programme, National Government Affirmative Action Fund (NGAAF) and Person with Severe Disability Cash Transfer (PwSD-CT) programme. Though the funds above are aimed at achieving the empowerment functions to create employment

and fight poverty, the operations, procedures of managing the funds differ in respect of consumption. Some of the funds are repaid back to the funds while others are just for upkeep especially for the elderly in the society. Some funds are more political than others because they are managed by politicians and their proxies and could not be used in this study as it will be difficult to get the valid information with respect to management. This therefore means, the two chosen funds have definite approaches in management that is correctly documented and they are YEDF and WEF.

Credit Risk Management is one of management functional area which is core to the success of Government Revolving Funds. Inefficient financial management may lead to losses or Non-Performing loans and jeopardize the existence of these revolving funds provided by the government. Through proper financial management, the management is expected to assess the credit risks that may face the funds, put up control measures in place and develop loops that may protect for such occurrence in the future, which therefore means, credit risk must be managed for the funds to meet its objectives and have better loan performance (Njuguna, 2014).

1.1.1 Credit Risk Management Strategies

The credit risk management approaches are procedures, systems and controls which a lending institution put in functional place to measure the probability that a lender may default and thus lead to a loss and increase costs of collecting the debt owed (Thisika, 2017). According to Fuser (2016) financing institutions use numerous credit risk management approaches such as taking collateral, diversification, credit insurance, loan selling and credit spin-offs to cushion themselves against default cases. This can be summarized into Credit appraisal techniques, credit collection policies (recovery procedures), credit terms and credit risk control measures.

Credit appraisal techniques are the methods used in the process of assessing risks that can influence on the repayment of a loan. It involves a thorough scrutiny of a borrower and determining whether the borrower meets the set requirements. There are a number of appraisal techniques that can be employed to appraise a borrower that includes 5Cs of lending, relationship lending etc. It's the number of techniques used for appraisal that adequately measures the significant of this subject (Thorn, 2014).

Credit terms on the other hand state interest rate charged, the repayment period, collateral and other contractual agreement set out by the lender. Financial institutions will develop contractual terms that dictates the point of reference for all the parties entering the agreement. This will set out the loan amount, the loan limits, repayment period, interest rates and general indemnity (Richard, 2008).

Credit risk control measures are the policies and processes that any lending institution establishes to moderate risks and confirm they meet reporting, operating and compliance objectives. Credit risk control measures help in risk identification, measurement, monitoring, evaluation and reporting (Allen, 2011).

Moreover, collection policies entail the guidelines for loan recovery and steps in a case of borrower delinquency in order to protect the cash flows. Debt management is a key component in financial management as it indicates if the firm will remain liquid or it will suffer financial duress in near future. (Chung, 2009).

Credit risk management practices employed by any lending outlet have an important place in influencing the performance of loans. It is important or vital for lending institutions to appreciate the facet of risk in their processes. Enhanced consideration of risk controlling is also indispensable particularly in the monetary intermediation where handling risk exposures is one vital activity. Credit risk is the possibility for

loss when the borrower fails by design or otherwise to meet its contractual obligation as and when it falls due, or to repay a debt in accordance with agreed terms of reference, and should be understood and mitigated (Clifford, 2014).

Corporates have defined risk management systems and strategies in order to cushion themselves against risks and position themselves ahead of such occurrences. Credit risk management strategies are there crucially in the survival of lending institutions and if not well managed or profiled it may have a ripple effect on sustainability and stability of the lending institution (Kanake, 2014).

1.1.2 Information Asymmetry

The information asymmetry can be defined as information imbalance or mismatch when counter parties are making agreement (Derban, 2005). One of the parties may hold superior information against the other party and use it for the advantage. During the process of loaning, there are two major type of information asymmetry that can arise namely; adverse selection and moral hazard. The Adverse selection comes as the result or when the lender advance loans to undeserving borrowers since the lender appraised wrongly with the information presented or disclosed by the borrower mostly mischievously. On the other hand, moral hazard is when the borrower utilizes the funds allocated for activities other than those purposely disclosed and hence increasing the chance of loan default (Waithanji, 2014). Both adverse selection and moral hazard affects loan performance as it covers both pre-loaning and post-loaning procedures. If information asymmetry is not controlled by the management in terms of thorough screening process and signaling procedures, it may greatly affect the loan recovery and loan performance while increasing the operational costs (Ghorbani, 2013). According to a study by Maguembe (2018) on Information Sharing and

performance of Listed Banks of Uganda, the study indicates that information is very important on loan performance and as such the lender should possess superior information than the borrower. Failure to consider the existence of information imbalance can increase the credit risk which in turn increases the collection costs.

In this study, information asymmetry was used as the interaction on the relationship concerning credit risk management approaches and performance of loan in Government Enterprise Development Funds in Nakuru County, Kenya and observed how it affected the strengths and the direction of hypothesized variables.

1.1.3 Loan Performance of Government Enterprise Development Funds

Loan performance is the fulfillment of obligation by the borrower where the borrower pays based on the agreed conditions. Any lending institution track loan advances in order to ensure they are in the level prescribed by the set practices by the management. Loan advances are integral part of any financial institution; it's one of the major sources of revenue to the institution due to interest paid to finance the administration costs. The management ensures loan recovery is done so that the institution does not suffer liquidity risk.

Liquidity ratio, Non-Performing loan ratio, profitability ratio, return on investments are among many ways of measuring the performance of loans by financial institutions, it therefore depends on the decision of management on which method to use at any given time. Financial loan results and performance are processes determining the loan outcomes of a firm's procedures, policies, processes and actions in monetarist terms (Erasmus, 2017). According to Murianyi (2018) financial performance is the use of financial measurement in determining and comparing the outcome of the entities function as planned and the actual outcome.

The Government Enterprise Development Funds operates as nonprofit making entities and their performance may not be measured in terms of profitability ratio or return on investment but rather based on performing and non-performing loans. In this current study, the loan performance was measured using the Non-performing loan ratio (default rate). The performance measure for GEDFs is justified because of operations nature as these funds are revolving funds designed to be refunded at prescribed time (Lagat, 2012). A previous study conducted by Wahome (2015) indicates that revolving fund by nature of refundability can either be measured on the rate of repayment or default validating the choice of this study on non-performing loans which is equal to default rate.

In 2019, YEDF published the Board Performance report covering a period from June 2016 to May 2019, from the report trends, the fund has since inception advanced finances totaling to Sh12.8 billion to 1,159,393 youths across all the counties, the fund has built youth capacity for 508,368 youths on entrepreneurship and business opportunities. The fund has facilitated 10,767 youths in marketing their products both locally and internationally. The fund has 1,653 youths' entrepreneurs facilitated to access affordable trading spaces in the country and 26,015 youths assisted to access jobs opportunities in foreign countries through migration credits and pre-departure training. The report however indicated that loan repayment rate have improved from previous 58 percent by 18% to 40% country wide below the industry and sector standards of 95 percent repayment. This is based on high default, particularly from Financial Intermediaries (FIs), little confidence levels in the Fund's products and weak loan repayment systems (YEDF, 2019). In a report published by Women Enterprise Fund Constituency(C-Wes) dubbed "Women Enterprise Scheme Loans Status since inception to 31st July 2019" the fund has loaned out Kshs.16,

145,320,580 to 100,174 groups touching 1,493,780 individuals. The report also indicates that the unpaid loan balance is Kshs. 2,873,369,411 which is about 20 percent of amount loaned to that period country wide (WEF, 2019).

According to a report published by Igunza (2017) on the sustainability of Government revolving funds in Kenya indicates that the overall Non-performing loans were to a tune of Kshs 7 billion for the three GEDFs as of 2017. In a case study conducted by (Karuri, 2016) in Nakuru Town East Sub County on factors influencing performance of youth income generating activities, out of the groups allocated the funds only 56% were able to start. In additions to business failure, the study indicated that there have been significantly high default rates. The repayment rate in Nakuru Town East Sub County only stood at 53% which means that 47% are loan defaulters. Statistics indicate that the performance of these Funds is not as it was intended due to high level of nonperforming loans.

The funds use a simple methodology in the process of approving the loans. First is they receive application from applicants, review all attached documents including all governments licenses and registration from ministries concerned and others like Memorandum Of Association, Articles Of Association, and properties documents for corporates (Tuitoek, 2016). The officers then conduct ground checks or pre-sanction visit. After satisfaction during the visit, they check individual's ratings with CRB and cautions for Title deeds and get clearance reports from relevant agencies. They then conduct and receive valuation reports of the properties from empaneled valuer /engineers. They then make assessment to the proposals and either sanction/approval of proposal by appropriate sanctioning authority/fund managers. They will then make

and provide documentations and agreements signing before now making disbursement (Njoroge, 2015).

1.1.4 Government Enterprise Development Funds in Kenya

There are six revolving funds in Kenya (Njuguna, 2015).However, there are four funds which operate without proper, structured policies and procedures that are verifiable and reliable (Kalama, 2012). On the other hand, some funds categorized as revolving funds are non-refundable and as such could not fit for the purpose of this research. The two structured funds are WEF and YEDF (Kimando, 2012). In the current study, the two funds were chosen with the fact that their loans are meant to finance enterprises and that they are repaid back by borrowers and these funds operates in a structured manner.

Youth Enterprise Development Fund (YEDF) was introduced on December 2006 by the Kenyan government to address the runner way joblessness rate on youths. The two deliberate/tactical pillars on this coveted creativity are enterprise advancement and foreign employment, linkage creation through Youth Employment Scheme Abroad (YESA) that seeks jobs overseas. YEDF is one of the flagship projects in support of 2030 vision in Kenya under the social pillar (Youth Enterprise Development Fund, 2016). The fund provides credit to youths and equips them with suitable skills to innovatively engage in economically feasible activities. The fund targets young people within the 18-34 age brackets whose total population currently estimated to be around 15 million(YEDF,2016).

The Women Fund (WEF) was established under a Legal Notice No. 147 of 2007. The Fund objectives are geared towards helping women businesspersons who are economically active, over 18 years without an upper age limit and having proper or

informal business undertakings in all economic sectors (Women Enterprises Fund, 2015). The motivation is however explicit to Micro, Small & Medium Enterprises (MSMEs) owned by women. The Fund works with simple loaning methodologies to ensure very easy access and cost effective loan funds to Women. The registered clusters of groups only get the funding over the Constituency-Women Enterprise Fund (C-WEF) scheme found at districts in the country and managed by Social and Economic Development Officers. At the Constituencies, applicants provide collaterals for the sums required such as group households, guarantees, and other securities. Women who want funding as individuals should then approach commercial intermediaries selected "over a competitive and transparent process". The advantage of the WEF is that the amount-interest is subsidized and is very low. The financial intermediaries charge eight percent interest per year; those who acquire the money via the C-WEF are charged zero rate of interest. However, a one-time 5% administrative payment is charged (Women Enterprise Fund, 2010).

1.1.5 Government Enterprise Development Funds in Nakuru County, Kenya

Nakuru County has 11 constituencies with a population of 2,142,667 and of 616,046 households and has a land mass of 7,462.4Km^2. Agriculture is the lifeline of the economy of Nakuru County as 70% of the 7,462 Km^2 of the county's land which translates to 5, 039.40 km2 is arable and highly productive land. Other than agriculture, the county's ecological system is robust and Nakuru residents depend on it for other economic activities such as tourism, energy, fishing, sand harvest and many other beneficial economic activities forms part of economic activities in the county (KNBS, 2019).

Nakuru County host the 4th City in Kenya and one of the fastest growing city in East Africa. The County has employment rate 48.61% which translates to unemployment rate of 51.39%. Enterprises and Service industry forms 65% of employment platforms in the county making it huge platform to fighting poverty and wealth creation. With increased population and a favorable economic prosperity in the region, the demand for credit and funding is very high (SID, 2020).

Government enterprises Development funds has lifted the economies of youths and women in Nakuru County in a big way. Since inception WEF as at 30th April 2019 had disbursed Ksh781,500,000; the fund had serviced 5,046 groups with 73,013 beneficiaries in Nakuru County. The fund had built capacity on the team leaders to enable them acquire adequate skills to run enterprises (C-WES, 2019). In 2018/2019, the counties that received the highest percentage share of YEDF allocations were Nairobi (9.9%), Kiambu (4.1%), Kakamega (4.1%), Nakuru (3.8%), Kisii (3.1%), Bungoma (3.1%) and Meru (3.1%) which translates to Ksh 613,522,000. The fund has the highest number of youth groups with 7,225 and a household of 127,208 that has been touched by the funds. The fund products has provide platform for invoice discounting, credit ratings, marketing abroad platforms and equipped entrepreneurships skills (Nduvi, 2019).

A study on the influence of youth enterprise development fund on youth empowerment in Gilgil constituency indicated that about 420 youths have benefited greatly on the funding with creation of 83 active groups, the funding has in the process created employment and empowered youthful generation (Kabugi, 2018).

A survey by Ouruh (2019) on influence of entrepreneurship development programs on youth empowerment: a case of Kaptembwo Ward of Nakuru county indicated that

there are 221 youth enterprises funded by YEDF, WEF and Uwezo Funds, the survey indicated that through entrepreneurships crime rates has gone down in this low income set-up of Nakuru Town West sub-county. However, the study indicates that lack of mentorships on these groups has breed a lot of challenges among them the rate of default which stand at forty-five percent.

A study by Jepkosgei (2018) on effect of credit risk management practices on loan performance of women enterprise fund in Kenya: A survey of women groups in Nakuru Town Sub-county indicated that there are 467 women groups funded by the WEF since inception and within the constituency. The fund has ignited development projects especially in SME that has changed the lives of many families. The study points out that though the interest rate charged was minimal, the economic conditions in the region has weakened their abilities to repay the loan within the periods provided.

1.2 Statement of the Problem

The Government Enterprise Development Funds (GEDFs) was majorly conceived as one of the policies, strategies and plans in sorting out youth unemployment, women and PLWDs' economic empowerment. In addition, most of the productive population of the country had been locked out by the commercial banks and other financial institutions for lack of collaterals (assets) and high interest rates charged by these institutions. It is through these facts that the government came in to bridge the gap and offer a solution on unemployment challenge among the youths, women and people living with disabilities by establishing the funds with flexible terms (Njuki, 2016).

The funds have notable success stories but they have major problems facing them and that is the default by borrowers. The repayment rate of the loans have been a threat to

the revolving funds which stands at 46% indicated in a study on Loan default and performance of YEDF in Dagoretti South Constituency, Nairobi County, Kenya (Aberi, 2018). According to the CBK in its annual regulation report for the year 2016, the average default rate on financial institutions is 8.4%, this therefore indicates, that the exposures which is credit risk in GEDFs is 5 times more than other industry players.

The YEDF Board Performance report covering a period from June 2016 to May 2019 indicates that the default rate has improved from 58% in the previous three-year report to 40% which was an 18% significant improvement, the stakeholder also raised a fundamental concern on the default rate among others as weak corporate governance which will be addressed in pending restructuring.

The periodical report made by WEF as at 31st May 2019, the overall default rate for the fund is 20% in Kenya. Since inception WEF as at 30th April 2019 had disbursed Ksh781,500,000; the fund had serviced 5,046 groups with 73,013 beneficiaries in Nakuru County; out of disbursed sum, Ksh 521,516,667 has been active funds available for loaning. This implies that Ksh 259,983,333 is categorized as non-performing loans thus Nakuru County with 11 constituencies has an average default rate of 33% since inception (WEF,2019). Nakuru County having a higher default rate than the fund's average rate of 20% justified the need to conduct the study in the area.

The successes and the performance of these GEDFs are largely depending on the efficiency of credit risk management structures engaged by the management to mitigate against credit risks that can halt their operations and finally their existence. Weak credit risk management profiling, will lead to a financial failure or distress (Ngugi, 2010). Previous research studies have tried to address the performance of

these GEDFs in different approaches, for instance, Otieno (2017), Mogaka (2018), Nyende (2017) measured the performance in terms of loan uptake by increased number of groups funded by these funds. Odira (2017) and Sang (2017) measured the performance of the funds in terms of successes of enterprises funded by these funds in the grassroots; they argued that good performance of these businesses is as good as the performance of the GEDFs and vice versa neglecting the loan performance based on management procedures. The studies have not gone into analyzing the effectiveness of credit risk management on loan performance of GEDFs loans but instead they have focused on analyzing the impact of programs funded by GEDFs on the economy. This implies that no specific study has been able to address the effectiveness of credit risk management practices on loan performance of GEDFs hence creating a gap that needs to be filled by this study. This study therefore studied the loan performance based on the effectiveness of management strategies on credit risk.

The motivation of this study was to fill a huge gap left by researchers on credit risk controlling practices on performance of these GEDFs since more studies are on Commercial Banks and this study pursued to fill this gap and empirically making addition on the prevailing materials on performance by explicitly considering at the credit terms, credit appraisal techniques, credit collection policies and credit control measures on loan performance.

1.3 Objectives of the Study

1.3.1 General Objective

The overall objective of the study was to establish the effectiveness of credit risk management strategies on the loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

1.3.2 Specific Objectives

The study narrowed down to specific objectives to guide through the research process and identified the following objectives.

i. To determine the effect of credit appraisal techniques on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

ii. To establish the effect of credit terms on the loan performance Government Enterprise Development Funds in Nakuru County, Kenya.

iii. To determine the effect of credit collection policies on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

iv. To examine the effect of credit risk control measures on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

v. To examine the moderating effect of information asymmetry on relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

1.4 Hypothesis of Study

There are five null hypotheses tested for this research;

H_{01}: Credit appraisal techniques do not have significant effect on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

H_{02}: Credit terms do not have significant effect on the loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

H_{03}: Credit collection policies do not have significant effect on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

H_{04}: Credit risk control measures do not have significant effect on loan performance of Government Enterprise Development Fund in Nakuru County, Kenya.

H_{05}: Information asymmetry do not have significant moderating influence on relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

1.5 Significance of the Study

This research was seeking to examine how the Government Enterprise Development Funds management has employed Credit Risk management techniques for them to enhance their loan performance. This research was to be useful to Government Enterprise Development Committees at headquarters who oversees the implementation of policies and procedures, fund managers at county level who measures, evaluate and report any form of risks, Constituency officers who acts as conveyor belt in loan processing and reviewing of programs, government policy makers, county youth officers and youth group leaders as was to provide necessary information on credit risk management procedures and how it affects non-performing loans. Besides success, it would bring sustainability of the Government Enterprise Development Funds and thus the stability of the funds and reduce the risk of

dissolution. The Government was to be able to shrink the problem of unemployment all over the state as it sealed the loophole on management practices and restructure the governance to address what this research highlights that is threatening the revolving funds. The fund managers will be equipped with knowledge on Credit terms, credit appraisal techniques, Credit collection policies, credit control measures and information asymmetry a broad spectrum that needs to checked in real time. Other players besides the Government that will benefit from the study are the researchers themselves as it provided significant information to expand their knowledge.

1.6 Scope of the Study

The research emphasized on evaluating various management tactics employed by the Government Enterprise Development Funds in Nakuru County and how they influence the performance of the loan. The loan performance is critical to the existence of these GEDF and how they manage credit risk is a major ingredient as it is expected to guide the performance. The research hypothesized variable for the study was credit terms, the credit appraisal techniques, the credit collection policies, the credit risk controls as main strategies and information asymmetry as a moderating variable. The study covered six government revolving funds as a unit of analysis. The study was also guided by purposive sampling where two funds were chosen. The research covered a period from which the fund has existed from December 2006. The research was conducted in Nakuru a major agricultural County in Kenya and the 4th largest city in Kenya, the choice for Nakuru county is limitation of time to carry in the whole country and cost constraints.

1.7 Limitations of the Study

The outbreak of Corona Virus (COVID-19) in the country had paralyzed operations and this provided a major threat as the government directed that employees work from home, most of the respondents were working from home and on shifts, and this delayed the filling of questionnaires provided. To overcome the challenge, the study data collection period was delayed for 4 weeks. On the other hand, respondents were reluctant in filling the questionnaires provided due to sensitivity of the matter, to overcome this the researcher convinced them that the information as provided would be treated and concealed with confidentiality and respect. The researcher also informed them on the importance of giving information for research purposes which is purely aimed for education process.

1.8 Organization of the Study

This research is prearranged as below: First chapter offers thesis background, thesis objectives, thesis significance, thesis scope, and the faced limitations or restrictions met in the course of the study. Second chapter highpoints the literature evaluation or assessment on the credit risks management strategies and a conceptual framework. The third chapter concentrates with the methodology of the study. It will include research philosophy, research design, empirical model, operationalization and measurement of study variables, target population, the sample and sampling design, data collection tool, data collection procedures, analysis and data presentation. Chapter Four is composed of Descriptive statistics and diagnostic tests, correlation analysis regression analysis, and Hypothesis testing. Chapter Five is composed of summary of findings, conclusions, recommendations and parts of additional or further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The chapter explore in depth on literature review focused on variables in the study. The review is subdivided into two major parts - theoretical and empirical literature review on numerous features of credit risk management strategies and Government enterprise development funds loan performance. This will be followed by a presentation of conceptual framework for the study.

2.2 Theoretical Review

This section discusses relevant theories that support the credit risk management policies, systems and strategies. The theories were picked from a pool of theories on merit basis and the relevance.

2.2.1 Agency Theory

Agency Theory is an administration, supervisory, management and economic theory that explains the various relationship among the stakeholders. The theory was developed by distinguished scholars (Ross & Alchian, 1972). On a nutshell, it is a relationship between the principal (Government of Kenya) and then agent (The management of GEDFs). In economic agency and the theory of the firm, the focus is on the nature of the operating and the contracting system that guides in conditioning of risks and information to better results (Alchian, 1965).

The theory translates that financial institution managers and as agent of the government should put measures that protects the principal and themselves without bringing in the conflict of interest, the top management should therefore make sound strategies to maximize the wealth and value of the firm (Bergstein, 2013). According

to Jensen & Meckling (1976) on Theory of the Firm, it helped to install agency theory to be the principal theoretical/hypothetical framework of corporate and group governance and that agency problems have been demonstrated to inspire and stimulate the decision-maker's assertiveness on risk exposures and prevarication or prevention in the world of corporate management of risk.

The theory is important because it put the management under explicit control of all critical decisions that are geared in improving policies and procedures and reduce agency costs arising due to poor corporate governance. The theory is applicable in this research because it helps pin the management as a function to put credit appraisal techniques that helps in assessing a borrower and either accept applications or decline.

2.2.2 Information Asymmetry Theory

The theory of asymmetric information initially was presented by (Akerlof, 1970) in the paper "The Market for Lemons". In the paper, Akerlof established asymmetric information with an example of automobile market. The information asymmetry can be defined as information imbalance at the time when two or more counter parties agree to inter into mutual agreements (Auronen, 2003) it states that one of the parties has superior information than the other and is ready to use the information for his advantage. This theory applies very well to lending situation where financial institutions enter a loaning deal with a client they do not understand other than what appears on paper. The foundation works of the Nobelists George A. Akerlof, Joseph Stiglitz and Michael Spence have greatly improved the concept of information asymmetry for years.

The basic argument of this work is that in so many markets the consumer or the buyer may use market prevailing statistic in measuring the value worth of goods in certain

classes. In this case, the consumer understands the typical of the whole or entire market while the seller has extra intimate familiarity and understanding of a specific item. The developer goes ahead and introduces the concept of adverse selection and moral hazards. Adverse selection is a situation where a borrower is granted a funds yet he was not qualified to have been given the funds. The concept of moral hazards as described by Akerlof indicates a situation whereby the borrower uses the funds borrowed for other use other than those specified under the agreements. The two case scenarios of adverse selection and moral hazard have greatly translated to default risks (Mirrless, 2017).

Michael Spence went ahead and persisted to improve the idea of George Akerlof in a paper dubbed “Job Market Signaling” (Spence, 1973) Spence simulations or model the hiring of employees as venture decisions made under uncertainty. The employer is always not sure of the productivity and capabilities of an individual before employment. Even after hiring, the productive abilities are not instantly clear as some jobs require training. Spence advancement is just like advancing loans to borrowers who will send signals after they have taken the loan and this may come due to inability to repay the loan when and as it falls due. Both George Akerlof and Michael Spence try to explain the information asymmetry in two folds. They explain that information before the agreement and after the agreement are very important in managing the default risk thereafter.

Stiglitz (1975) in his paper came up with a concept of screening and whether it could be used by the seller, lenders, employer and other candidates into categories that mirror their productivity or certain other competencies. Stiglitz states that there are important and variety of qualities of goods, brands individuals and other items. He

defines screening as ascertaining these qualities. This theory was therefore significant in the study because it helps appreciate and understand the concept of information asymmetry which was a moderating effect, the theory was applicable in this research because it instigates the fifth hypothesis that information asymmetry do not have significant interaction effect on relationship between credit risk administration strategies and loan performance.

2.2.3 Contract Theory

The theory was first developed by Thomas and Hobbes (1980) but later advanced by (Hart, 1984) Hart came up with concept of incomplete contracts and underlined the fact that a contract cannot exhaust all eventualities. It states that a contract cannot oversee the future occurrences and there was need to highlight some contingencies that may arise in future. Contract is defined as structured agreement with set terms and conditions of reference between two or more parties (Nduati, 2009). Contract theory studies the way people and establishments form and develop and improve legal agreements. It evaluates how parties with identical interests figure out both formal and casual contracts. The theory highlights the foundation of contracts and the principles that govern the contractual agreements. According to the theory of contract, contracts occur to distinguish what the principal presumes to happen and what will happen otherwise. It provides clear terms, specific, considerate understanding and duties of the parties. The theory also insurances the implied trust between the parties and that all the constructed representations are valid and will be followed.

The theory is very important in this study because it bring a concept of underlying terms and condition of engagement. The terms and conditions of the contract will cushion the parties and goes a long way to act as a reference point whenever the need

arises. Therefore, the theory is crucial as it dictates one of the problem remedy to a default costs. The existence of contract in any contractual agreement is a consent that binds the parties in the agreement to put efforts and commitment to it for the period covered by it, during the period, matters arising during the execution period, all the clauses drawn under the contract is supposed to address them immediately (Muthoni, 2012). This means that a contract is a well thought-out document. The theory supports credit terms variable and how it affects the loan performance.

2.2.4 Credit Risk Theory

The theory was established by Robert Merton in 1974 and later advanced made and adopted by Black and Scholes using identical model. In banking language, credit refers to the advances and loans made to borrowers by the financial intermediaries. Credit risk means the vulnerability to an accidental loss or damage. Risk is the element of uncertainty or likelihood of loss that exist in any business transaction (Kisivuli, 2013). The credit risk is an overlook that a pledger will be unsuccessful to hit its obligation in as per fixed terms and conditions. Credit risk theory is a concept that guides the lenders in modeling the risk and mitigate on it, it highlight the identification, measurement, monitoring and evaluation of risk (BASEL Banking Supervision Committee, 2000).

Credit risk theory profiles the risks that are generated as the ultimate result of default risk. Credit risk has a ripple influence or effect to other risks; an institution suffering from credit risk is at a risk of suffering from liquidity risk where they will fail to loan to other borrowers; on the other hand, credit risk will attract legal risk because they will be in courts to enforce the contracts signed by the parties, it will involve huge costs of litigation and this might put the institution at an operational risk since the

litigation may take time and resources that are scarce. Business, market and strategic risks will fall in place because the lending institution will be functioning as a shell and only aid may salvage their situation. In Kenya and especially government institution has a history of being bailed out on most cases due to risks faced by the institutions on operations grounds. Finally, the institution will suffer reputation risks since it will suffer lack of confidence from the public who are borrowers and this will cripple the operations of the entity (Maaka, 2013).

Since credit risk has been around for decades, it is a problem that has been researched intensively especially in the field of finance but very little has been evolved especially on government owned financial institutions, the public believe that amount borrowed from government are their fund from paid taxes. This has greatly affected the recovery of loans in great percentage. The introduction of portfolio theory of risk reduction has been prioritized by many who gauge between the returns and risk. There are consented efforts by lending institutions to diversify with different portfolios on investment plans in order to cushion themselves in a runner way default risk (Klimczak, 2005).

The credit risk theory is significant in this study as it helps uncover what credit risk control measures employed by Government Enterprise Development entities in profiling the risk factors in their operations. This theory is pined on credit risk control measures variable in this study because it recognizes the need for the management to have a roadmap of identifying, measuring, evaluating, monitoring and reporting risks.

2.2.5 Accounts Receivable Policy Theory

The theory was developed Morse Graham (1981), the theory outlines the responsibilities of various aspects of debt administration. It addresses the potential of

risk from any debtor, setting the credit collection terms, debt financing procedures and default risk borne by a lending unit. Smith (1992) improved the theory to include the worse scenario which leads to bad debt and collection procedures and why it must be managed to avoid finacial crisis.

The theory is applicable in this study because stipulate the need of the management to give much emphasis on collection policy in order to keep check on the progress on the level of loans with groups and individuals.There is no lending organization that don't have debtors but how to manage them in terms of liquidation matters a lot.

The theory is important in this study because it ties down the credit collection policies variable and how it affects the loan performance of Government Enterprise Development Funds.

2.2.6 Liquidity Theory

Holmstom and Tirole (1998) provided a theory of liquidity in a model in which intermediaries have borrowing frictions. The theory is anchored on the premise that illiquidity on financial institution breed institution failures. Bourke (1989) finds a positive significant link between bank liquidity and profitability. However, in times of instability banks may choose to increase their cash holding to mitigate risk.

The liquidity crisis significantly affected banks' operational environment. In response to the catastrophe, financial bodies such as the Basel Committee for bank supervision advocated for the active management of liquidity risk. Banks are required to hold a considerable position in liquid assets while on the other hand, they are required to be profitable for them to be sustainable, the higher the liquidity. Despite the increased efficiency in many banks resulting from holding higher positions of liquid assets,

profitability has severely suffered. Liquidity and loan performance are inversely related (Marozva, 2015)

The theory is applicable in this study because it highlights the need for a lending institution to remain liquid. If the loans are paid, the lending institution will be able to advance the surplus to other borrowers. An illiquid institution is exposed to insolvency crisis.

The theory is significant in this study because it pins down the loan performance of Government Enterprises Development Funds on Non-Performing loans. The non-performing loans will diminish the lending surplus and expose the funds to liquidity risks.

2.3 Empirical Review

This segment covers previous studies done in relation to credit risk management strategies which include credit appraisal techniques, credit terms, credit collection policies, credit risk control measures and information asymmetry on loan performance. Studies done overseas and regional will be looked at as well as studies done in Kenya. Studies relating to each independent variable to loan performance will be considered.

2.3.1 Credit Appraisal Techniques and Loan Performance of GEDFs

Chinduru (2016) conducted a research on impact pegged on credit appraisal techniques and credit performance of MFI in Zimbabwe, the research covered a period from 2009 to 2015.The researcher defined credit appraisal as a process of ascertaing the risk associated with extension of credit facility. The researcher extablished that most of microfinace banks in the country believed that appraising of customers before loaning is a critical part that help in reducing the default risk. The

study covered the strenghth of and weaknesses of some of modern and traditional techniques used. Techniques highlighted were CAMPARI, PAPERS and 5Cs. The research did not cover the influence they have in the performance of the loans advanced using them. The study observed that, a lending entity should use more than one technique of appraisal to compliment ones' weaknesses. The study discovered that the most effective techniques were internal rating, credit scoring and Campari. This means that credit scoring and internal rating is more of statistical approaches and they cannot work effectively alone without some of subjective approaches such as 5cs, PAPERS and CAMPARI. The research also concludes that the loan officer should apply judgmental approach in appraising the borrower. People may seriously have cognitive bias in processing information that affects their judgment and beliefs, this may bring behavioral bias and then the loans officers become the cause of high credit risk. Finally, the research concentrated on the appraisal process and not the techniques. This research gap will be incorporated in the study to understand how these methods influence the performance. Kean (2012) Highlight that CAMPARI an abbreviation for Character-Ability-Margin-Purpose-Amount-Repayment and Insurance. On the other hand, Smithson (1998) discussed the canon of PAPERS as Personality, Amount, Purpose, Earnings, Repayment and Security. According to Davies et al (1992), the traditional cannons of loaning are the 5Cs of credit. They describe those cannons as Character, Capital, Capacity, Collateral and Condition.

Ochongo (2018) conducted a research on effectiveness of Credit Evaluation Practices and Credit Modeling on Profitability of DTS in Nairobi County. The research made the conclusion that credit appraisal techniques have a positive correlation with loan performance and profitability of a deposit taking SACCOS. They highlighted that credit appraisal should be and is taken seriously by the management who put their

staffs on consistent training to arm them with requisite skills of evaluating clients. The research confirms that the SACCOS use different techniques but prefers 5Cs among the rest.

Njeru (2017) did a study on effectiveness of credit administration on loan performance of commercial banks in Kenya; it concluded that Credit evaluation and appraisal had a very significance in prompting the performance of commercial banks. The reason is, since it is under screening phase while those high risk borrowers are filtered and those projected as less risky are offered a credit history and credit scores. The research also indicated that commercial banks rely heavily on credit rating and referencing from other players and bureaus which cannot be fully dependent as borrowers may have small amount defaulted without their knowledge and get worse ratings.

2.3.2 Credit Terms and Loan Performance of GEDFs

The credit terms basically mean the interest rate charged, the repayment period, collateral and other contractual agreement set out by the contract (Atieno, 2001). Ssekiziyivu (2017) conducted a research on credit terms, characteristics of borrowers and finance reimbursement performance among customers of MFIs. The study indicated that credit terms have a bearing on loan performance and especially if terms are not flexible. The researchers argued that stringent terms will scare away borrowers who in return takes time before taking up the loans, the needs will therefore change with time and this will have a advace effect on repayment especially if the loan advancement was delayed.

Omiti (2012) conducted a survey on efficiency of Credit Administration System and Loan Performance which was an empirical signal and evidence from MFI industry in

the country.The study concluded that Credit terms framed by the MFI had a huge effect on loan performances. In addition, involvement of customers and credit officers in formulation of credit terms should be encouraged since it affect loan performance.The research also higlighted that interest slapped had a undesirable effect on the loan performance, the higher the interest rates the higher the default risk. The involvement of borrowers in settting terms and condition however can be termed impractical because the lender in the one to draw terms.

Muturi (2016) conducted a study on the influence of credit administration practice and performance of loan in DTM banks in kenya, the study identified credit terms to include interest rates prevailing, coupled with settlement periods, collateral, the loan cost (processing fee) and credit history. The research concluded that credit terms and conditions affect loan performance at great extend. The research also found that DTMs do not take through borrowers on each of every clause stipulated in the contract and customers only signs against their names as stipulated in the offer. Failure to understand the terms affects the performance.

Matunda (2016) conducted a study on the outcome of credit policy on financial performance of deposit MFIs in Nairobi County. The study highlighted that the board should be cautious when setting up credit terms that has negative effect on the procedures of MFIs and thus ensure maximization of profits. In addition, inappropriate credit risk management reduces the MFIs profits, affects the value of assets and upsurge non-performing loans and ultimately lead to financial distress.

Ochung (2013) conducted a case study on elements affecting loan repayment by Barclays Bank customers in Nairobi County. The study found out that there is a compeling significant relationship between firm’s factors and the loan repayment

among clienteles. The firms factors were, time take for approval,documents required for approval, interest rates etc. The study revealed that the loaning lead time was too much and affected loan repayment especially on new businesses. The study also revealed that the interest rates , inflation intensities and levels in the economy and investment prospects and opportunities affected the likelihood of loan refunds among commercial banks. It also agrees that the loan repayment period, the amount of data to be provided by the applicant affected the loan repayment. The study agrees with other reserchers that credit terms and conditions affeact the loan performance at great extent.

2.3.3 Credit Collection Policies and Loan Performance of GEDFs

Sufi (2015) in a reasearch on Credit Risk Management and Loan Performance in Pakistan found; loan collection policies is a crucial component in management and recovery of debt. The research point out that loan recovery and collection modules should be defined by the management in dealing with non performing loan. From the study, the collection policy is not a major factor that contribute to default risk. The finding is against the face value of the collection importance. If there is no collection policy, the rate of default increases.

Mwangi (2016) in a study on loan repayment performance as effected by credit risk management by profit-making(Commercial) Banks in Kenya; established out the debt recovery and collection has a positive and very significant effect on credit performance of these lenders. This dictates and suggests a strict debt collection guidelines followed by scheduled guarantees then credit to customers are timely reimbursed thus safeguarding the loan repayment that is not unfavorably affected as a product of debt accumulation due to non-repayments. The findings was very

consistent with the observation made by (Jansson, 2011) who pointed out an operational debt collection policy commences with a plainly understood credit policy and credit administration tools to implement this policy.

Ukpong (2018) conducted a research in Nigeria on effect of credit admistration systems and credit repossession efforts of microfinance banks in Akwa Ibom State. The researcher found that credit collection policy technques contributed positively to loan recovery. The findings are supported by (Nkusi, 2012) that examined the effectiveness of credit policies and procedures on bank performance in selected Rwandese commercial banks and publicized that the loan performance are as a result of credit evaluation ,credit responsibility, policy on collection stretching from personal facility, car advances, mortgages and overdraft led to increased customers and hence the availability of bad and doubtful debts.

Mwangi (2016) in his study on effectiveness of Collection Processes and Loan Nonpayment in MFIs in Kirinyaga County highlighted that loan collection techniques employed by various micro finance adds to loan default to a larger extent. Mismanaged processes in loan recovery for example will create a massive portfolio of balances and debt uncollected leading to loan defaulting and converse is true. The research noted that collection procedure is a comprehensive statement of stages to be taken regarding when and how the pastdue amounts of a debt are to be collected. Each Company however has a distinct policy or its own collection procedures.

2.3.4 Credit Risk Control Measures and Loan Performance of GEDFs

According to Kaimuri (2016) who made a study on effects of inherent credit risk practices and performance of profit-making banks in Kenya, the research describe and state that credit risk control strategies always have if not controlled properly a

negative effect on loan performances of these commercial banks; accordingly, there is an reverse association among credit risk controls and performance of these commercial banks. However, this is a contradiction to a research done by Khan (2015) on the influence made by Credit Risk Managing Practices on Loan Performance in MFI Banking Sector in Pakistan. The findings revealed that credit risk control measures play an important role in enhancing loan performance and thus its very significance. Murigi (2018) study concludes that loan performance is expressively affected by credit risk, measurement ,credit supervision and monitoring and internal control over credit risk.

Amunabi (2018) conducted a research with an objective of examining credit risk mitigation measures on loan portfolio performance among SACCOs in Nairobi City, Kenya. There is no way a lending entity cannot put control measures and believe all is well.The measures of control create an environment which define the roadmap of company vision and mission on track. The conclusion was that credit risk modification which is culminated by proper controls influence loan performance with only few disagreeing the fact.

Njeru *et al.* (2017) outlined that regulating of credit risk was very important and innevitable, they believe risk control should be enhanced and enforced constantly. Thus credit insuarance or cover, security and signing of facility with customers; particularly in the company of a litigants are strategies that can boost loan performance.

2.3.5 Information Asymmetry and Loan Performance of GEDFs

A case study conducted by (Kemei, 2014) on the effects of imperfect information and banking industry performance in Mombasa County concluded that the lending

institutions should screen and get as many information as possible on borrowers, they put across that a borrower will hide and try to fool the lender on their risks profile, the research reccommends that a legal system should be in place for such occurences. The study concludes that information asymmetry has a bearing on loan performance.

According to Aden (2017) who conducted a research paper on effects of Credit Information Sharing on Non-performing Loans of Commercial Banks in Kenya, the research highlighted that there is big need to share information across the lending institutions because it touches on borrowers credit ratings. The study indicates that information is very important on loan performance and as such the lender should possess superior information than the borrower.

In a study conducted by Arko (2017) on the causes and effects of NPLs on MFIs' operations in Ghana, the study modelled information as a moderator. It was asserted that the lender should ensure that good decisions are made relative to information before granting of loans with the object of minimizing credit risk . In other words, the lender ought to always aim to assess the extent of information asymmetry for the risk associated with the lending and try to minimize factors that could otherwise compromise repayment. The scholar further asserts that, needless to say, the lender should gather information regarding the prospective borrower that will assist in reaching a sound credit decision.

Ndung'u (2016) made an assessment of the effects of information asymmetry on credit accessibility for farmers in Kenya, the case study shows that the lender possess very little information of the borrower and especially during the first timer. The study suggest that the lender should get more information from CRBs to be cautious on the information provided by the borrowers before they sign the undertaking. The study

agree that information asymmetry has an effect in loan performance. The research was conducted in rural area where other major factors were contributing to loan non performance and information asymmetry was not the major contributor.

Okuyan (2014) in his study on the effectiveness of Asymmetrical Information on a wide Turkish Banking Industry and Credit Markets indicated that gathering of more information from the borrower reduces the default risk in financial markets. It also found out that there is no methodology to stop or remove the availability of information asymmetry and hence the lender takes only precautionery measures. The study concludes that the handiness of information asymmetry has a great consequence on the loan performance.

2.4 Summary of Literature and Research Gaps

There is a host of studies done on performance of loans in respect to management strategies and credit risk. However, most of these research are done on commercial banks which are profit making entities and cannot be generalized to government revolving funds with no profit intentions, this has left a huge literature gaps. Literature reviewewed focuses on groups and individual loanees and not management practices of Government Funds leaving a huge gap that this study intended to fill. Some research conducted have different measures of loan performance like profitability ratio,performing loans, return on assets for instance Otieno (2017) measured the performance as loan uptake due to increased number of groups and individuals subscription. Some of research conducted abroad are done on developed countries and hence more is needed to be conducted in developing countries like Kenya for it to resonate regionally. This study was aimed at bridging the gaps and provide empirical evidence available.

Table 2.1: Summary of Literature Review

Author & Year	Objectives	Findings	Research Gaps	Focus of the currect study to fill the gaps
Aden (2017)	Effects of Credit Information Sharing on Non-performing Loans of Commercial Banks in Kenya	Information is very important on loan performance and as such the lender should possess superior information than the borrower	The variable was an independent variable	The variable is a moderating variable in the current study.
Amunabi (2018)	Examining credit risk mitigation measures on loan portfolio performance among deposit taking SACCOs in Nairobi City	The conclusion was that credit risk mitigation/control influenced loan portfolio performance	The focus was on a SACCO which is a profit making	The focus was in a non profit making entity.
Arko (2017)	Determining the Causes and Impact of Non-Performing Loans on the Operations of Microfinance Institutions:	It was asserted that the lender should ensure that good decisions are made relative to information before granting of loans with the object of minimizing credit risk	The focus was moderating general information as a moderator.	The focus was to assert that information asymmetry can moderate performance.
Chinduru (2016)	Impact of credit appraisal techniques and Microfinace loan performance in Zimbambwe	Lending entity should use more than one technique of appraisal to compliment ones weaknesses	Focused on the strengths and weakness of the techniques without considering the loan performance	The current study focused on how the appraisal techniques affects performance.
Kaimuri (2016)	Effects of inherent credit risk practices and performance of commercial banks in Kenya	The usage of credit risk control strategies has a negative effect on loan performances	Focus on Commercial Banks	Focus on governement revolving funds.

Kemei (2014)	Effects of imperfect information and banking industry performance in Mombasa County (Case Study)	The institutions should screen and get as many information as possible on borrowers, they put across that a borrower will hide and try to fool the lender on their risks profile	Focus on commercial banks	Focus on the government revolving funds.
Khan (2015)	Impact of Credit Risk Management Practices on Loan Performance in Micro Finance Banking Sector of Pakistan	Credit risk control measures play an important role in enhancing loan performance and thus its very significance	Contradict Kaimuri (2016) study on the same.	Focus on the current status of the phenomenon.
Matunda (2016)	The outcome of credit policy on financial performance of deposit MFIs in Nairobi County.	Credit terms has a advance effect on profitability and the operations of microfinance institutions	The research was conducted in one SACCO and cannot be generalized to other financial institutions due to its narrow scope.	The focus was two entities that operates as non profit making entities.
Murigi (2018)	Credit risk management and loan performance in microfinance Banks in Kenya.	Loan performance is significantly affected by credit risk environment, credit and administration.	Focus on MFIs	Focus on the government funds.
Muturi (2016)	The influence of credit administration practice and performance of loan in DTM banks in kenya	Credit terms and conditions affect loan performance	The study was on DTM	Focus on revolving funds.
Mwangi (2016)	Loan repayment performance as effected by credit risk management by profit-making(Commercial) Banks in Kenya	Debt collection has a positive significance effect on loan performance of commercial banks	Focus on Commercial banks	Focus on government revolving funds

Mwangi (2016)	Effectiveness of Collection Processes and Loan Nonpayment in MFIs in Kirinyaga County	Loan collection procedures employed by various micro finance contributes to loan default to a greater extent.	Focus on one of independent variable in the current study.	Focus on more variables that affects default.
Ndung'u (2016)	An assessment of the effects of information asymmetry on credit accessibility for farmers in Kenya	The study suggest that the lender should get more information from. The study agree that information asymmetry has an effect in loan performance	The research was conducted in rural area where other major factors were contributing to loan non performance and information asymmetry was not the major contributor	The information asymmetry was a moderating variable.
Njeru, *et al.* (2017)	Effectiveness of credit administration on loan performance of commercial banks in Kenya	Concluded that Credit evaluation and appraisal had a very significance in prompting the performance of commercial banks.	The focus was on screening stage and avoided post loaning effect	The focus was on pre and post lending.
Ochongo (2018)	Effectiveness of Credit Evaluation Practices and Credit Modeling on Profitability of DTS in Nairobi County	A credit appraisal technique has a positive correlation with loan performance and profitability.	The research was conducted with only one appraisal technique of 5Cs	The current study incorporated six techniquues.
Ochung (2013)	Factors affecting loan repayment by Barclays Bank customers in Nairobi County(Case study)	There is a significant relationship between firm's factors and the loan repayment among customers.	Focus on Commercial banks and on the city	Focus on government funds and in urban and rural set up.
Okuyan (2014)	Effectiveness of Asymmetric Information on a wide Turkish Banking Industry and Credit Markets	Indicated gathering of more information from the borrower will reduce the default risk.	Focus was on Banking sector.	Focus was on revolving funds.

Omiti (2012)	Efficiency of Credit Administration System and Loan Performance which was an empirical signal and evidence from MFI industry in the country	The researcher concluded that Credit terms framed by the microfinance institutions have a huge effect on loan	The focus was on microfinance and cannot be generalized.	Focus on genaralized grounds.
Otieno (2017)	The effect of Enterprise financing and performance of YEDF	There is increased uptake of enterprises funded by the fund.	The performance measurement was on loan uptake due to increased number of groups nad individuals subscribed.	The performance measurement was on non-performing loan.
Sang (2017)	The development impact assessment and performance of enterprises funded by government entities.	There are mixed scenario on output as there are failures and success	The performance measure was based on the successes of enterprises at grassroots	The performance measurement was on non-performing loan.
Ssekiziyivu (2017)	Credit terms, characteristics of borrowers and finance reimbursement performance among customers of MFIs	Credit terms has an effect in loan uptake.	Focused on pre loaning or before uptake and how they scare away borrowers.	The focus was on performance before and after the uptake of loans (Pre and Post Lending)
Sufi (2015)	Credit Risk Management and Loan Performance in Pakistan	The research found that loan collection policies is not a crucial component in management and recovery of debt.	The research was in contrast to other researches done on the topic.	Focus on getting more insight on the same policy.
Ukpong (2018)	Effect of credit admistration systems and credit repossession efforts of microfinance banks in Akwa Ibom State, Nigeria	Credit collection policy technques contributed positively to loan recovery	The study was done in Nigeria with different economic dynamics and cannot be generalized.	Focus in Kenya.

Source: Empirical Literature (2012-2019)

2.5 Conceptual Framework

The conceptual framework indicates the relationship of variables in a diagrammatic fashion. It illustrates how independent variables (hypothesized) affect the dependent variable and any intervening variables.

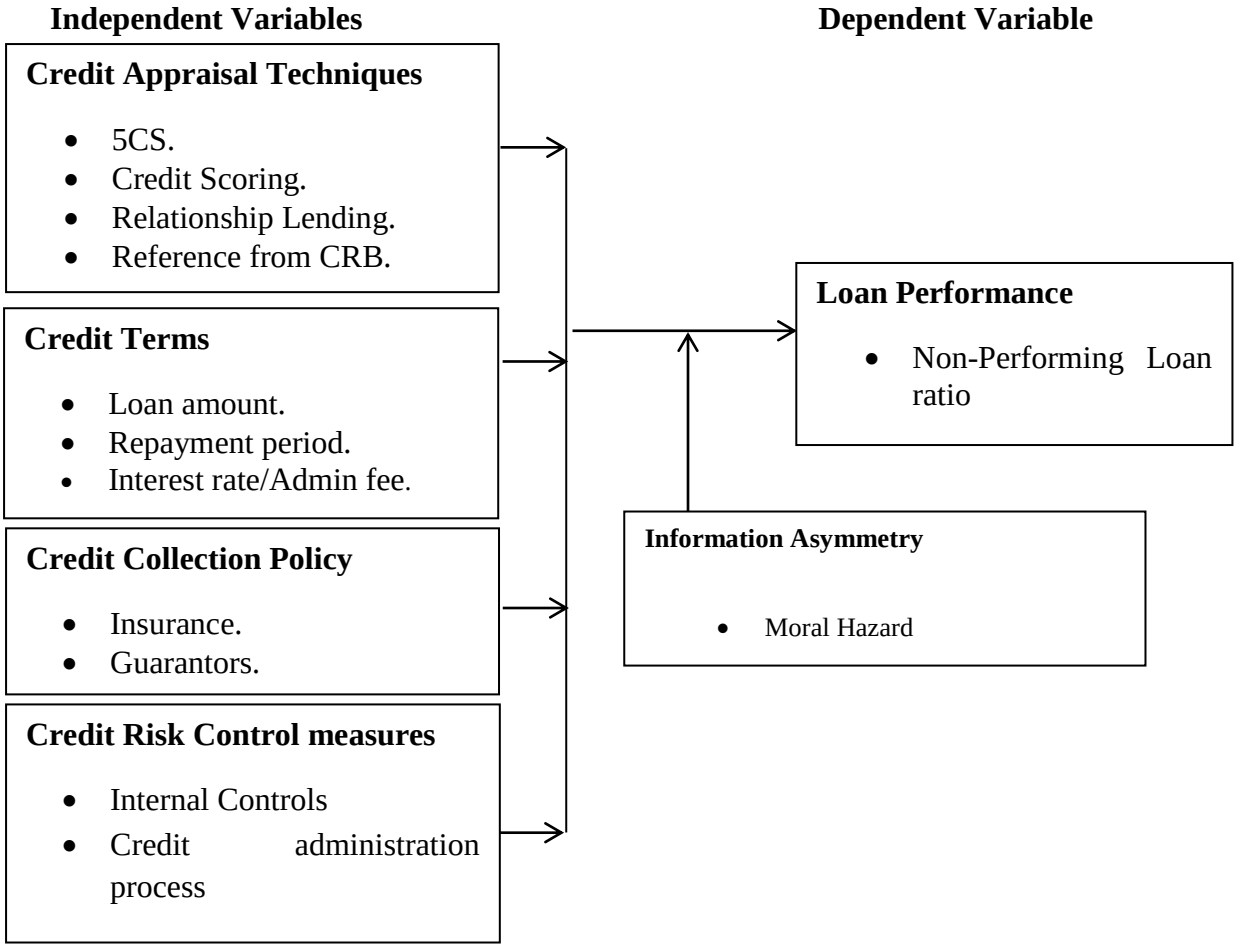

Figure 2. 1: Conceptual Framework

Source: Researcher (2021)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter highlights and discusses the approaches or methods that guides in conducting out the research procedurally and systematically. It described the following sub-units; research philosophy, research design, empirical model, operationalization and measurement of study variables, population target, sampling design, data collection tool, data collection procedures, data analysis and presentation.

3.2 Research Philosophy

The term research philosophy means a system of beliefs and suppositions about advancement of knowledge (Saunders, 2012). The research adopted the positivism philosophy where a positivist is required to be neutral and detached from the research manipulation. To justify this philosophy, the data collected was not altered and the researcher remained external to the process as per (Crotty, 1998). The researcher was independent in all material aspect and operated as an outsider.

3.3 Research Design

A descriptive research design was adopted for this work to make an assessment on the credit risk management strategies on the loan performance of Government Enterprise Development Funds. The design was justified in this research because it helped in assembling quantitative data for testing hypotheses and answer questions relating to the current position or status of the theme in the study (Kothari, 2014). Descriptive research design was employed as it serves many research objectives which may include; description of the phenomena and or the characteristics associated with subject population, population proportion estimation that have similarities in characteristic as well as discovery of association among many different variables.

This design helped determine and echo the results on the way things are as it involved observing, noting and describing or telling the behavior of the subject without influencing it (Shuttleworth, 2019). The design used quantitative data since it is among the best design and helped to get an in-depth indulgence of how variables affected each other. The design was also used because the information needed to be collected through the use of standard questionnaires and structured questionnaires.

3.4 Empirical Models

The study was grounded at hypothesized independent variables and a moderating variable; Credit Appraisal Techniques, Credit Terms, Credit Collection Policies and Credit Risk Control measures and Information Asymmetry as moderating variable. The four variables are indicators of loan performance with information asymmetry being an extraneous variable that moderated the loan performance and credit risk management strategies to observe the strength and direction it has on the performance in these government enterprise funds.

3.4.1 Model without Moderation

The loan performance (Dependent Variable) was predicted using a multiple regression analysis model shown below and on corresponding credit risk management strategies (Independent Variables).

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

3.4.2 Model with Moderation

$$Y= \beta0+\beta_1X_1+ \beta_2X_2+ \beta_3X_3+ \beta4X_4+\beta_5M+ \beta_6X_6M+\beta_7X_7M + \beta_8X_8M + \beta_9X_9M + \varepsilon$$

This was the overall moderation meant to test the moderating effect of information asymmetry on the relationship between credit risk management strategies and loan

performance, while holding constant the independent variables and the moderator (M).

Where;

Y = Loan Performance

X_6.M = Credit Appraisal Techniques*information asymmetry

X_7.M = Credit Terms*information asymmetry

X_8.M = Credit Collection Policy*information asymmetry

X_9.M = Credit Risk Controls*information asymmetry

M= Information asymmetry

The models above were first adopted for moderation by Aiken (1991). The model has been used by various researchers to observe the strength or the direction effects on the predictor variables and outcome variable (Judy, 2018). To check an interaction on the relationship between the variables, the researcher determined the nature (manner) of this interaction and relationship changes with respect to changes of values of M–the moderating variable. This was made through by including the effect of interaction or moderation in the model and examining to determine if certainly such an interaction was insignificant or significant and if it explains the differences or variation in the response variable well or better than previously. The steps followed by the researcher are; first, standardization of all the variables to easy the interpretations & analysis and with avoidance of multicolliearity. Secondly by using regular regression the researcher created a dummy categorical' code variables and generated manually the product terms for the forecaster or moderator variables, thirdly, fitted on a regression

model (Block 1 using SPSS) predicting variable Y and by interacting credit risk management strategies and M. The rule is that, both effects and the model (R^2) should be significant and through all the interactions. Checking the interaction effects and the significance of R^2 change, the decision rule was that, if the two are significant, then moderation or interaction was in occurrence. Suppose the predictor and moderator were not significant with the interaction term included or added, then complete moderation had occurred. Suppose the predictor and moderator are significant with the interaction term added, then moderation has occurred, however the main effects are also significant (Kenny, 1986). The above two models were however adopted for the purpose of this research in order to check the strength or the direction of loan performance and credit risk management strategies when the information asymmetry was at play or not.

Table 3.1: Decision criteria.

To check whether information asymmetry was significant and moderated, the study observed the four criterion as below.

Criteria 1	Observe the change in Variance using *F*-Statistics. Note if its significant.
Criteria 2	Compare the R^2 before moderation and after moderation
Criteria 3	Observe the change in coefficients
Criteria 4	Observe the *p* values if <.05

Source: Researcher (2021)

3.5 Operationalization and Measurement of Study Variables

The research determined the performance of loan based on credit risk management strategies employed by the government entities.

Table 3. 1: Variables Operationalization and Measurement

Type of Variable	Variable	Operationalization	Measurement	Hypothesized Direction
Dependent	Loan performance	Loans/Advances unpaid over the total amount disbursed.	Ratio	Positive
Independent	Credit Appraisal Techniques	Techniques for applicant's approval. The number of techniques per applicant.	Ordinal	Positive/Negative
Independent	Credit Terms	Loan amount, loan limits, repayment period and interest rates charged.	Ordinal	Positive/Negative
Independent	Credit Collection Policies	Loan recovery process through collateral, guarantors and insurance.	Ordinal	Positive/Negative
Independent	Credit Risk Controls	Administration processes and internal controls.	Ordinal	Positive/Negative
Moderating	Information Asymmetry	The imbalance environment of information surrounding credit procedures.	Ordinal	Positive/Negative

Source: Researcher (2021)

3.6 Target Population

A population is the overall consideration of all elements in which a study desires to make some inferences (Mugenda, 2003). It therefore means the entire group of individuals, events or objects with a mutual observable or common characteristic (Cooper, 2009). The population of the study to form the unit of analysis was government enterprises development funds namely Women Enterprise Fund (WEF) and Youth Enterprises Development Fund (YEDF), Older person Cash Transfer Programme, National Government Affirmative Action Fund (NGAAF) and Person

With Severe Disability Cash Transfer (PWSD-CT) programme in Nakuru County, Kenya.

3.7 Sampling Design

A sample frame is a grade of features where sample is essentially drawn but closely correlated to the population (Sekaran, 2010). Purposive sampling was adopted in the selection of YEDF and WEF that were well structured in relation to proper management system; the omission of the other four funds is their inability to have clear policies and guidelines in issuance of loans, they are run by politicians at constituency level and advances funds without due process and documentations. Other funds are categorized as Government Enterprise Development Fund but they are a one off payment to vulnerable groups and are not refundable. Therefore, the funds could not provide a general overview of all the funds. The research targeted fund managers and credit officers of YEDF and WEF as a unit of observations. The respondents were selected due to their involvement in handling matters loan appraisal and advancement and repayment/ collection and therefore worthy of position to offer the necessary guidance and information required in the study. The sampling therefore resulted into a small number of respondents, the funds operate in a regional block where more than one county operate in a central regional office, in this regard, the sample size was not amplified or increased due to cost and time constraint. However, since sample was drawn from homogenous population, the saturation where addition of more participants or respondents to the study does not result in additional viewpoints, perspectives or information. In qualitative research, when a sample is generated from a homogenous population, the sample size of $n<5$ is justifiable according to Morse (1994)

3.8 Data Collection Instrument

The study used questionnaires as the mode of collecting data. The adoption of questionnaire was justified as it gives the effective model of data collection from a large sample in a span of time and at a reduced and manageable cost (Hopkins, 2011). The questionnaire also facilitates easier analysis of information collected. The questionnaire adopted the use of both closed and open ended questions. The closed ended questions warrant that the respondents are restricted to certain classifications in their responses. The open ended questions had an objective of exploring possibilities of replies that would vary from respondent to respondent; this is in line with (Mugenda & Mugenda, 2003).

3.8.1 Validity

Validity denotes to the grade of accuracy of research data, according to Robson (2012) it is the degree to which obtained results actually represents the phenomenon in the study. To ensure for validity in this study, the researcher looked at Face Validity so as to ascertain whether at face value, the questions appeared to be measuring the construct. This was achieved through ‘‘common-sense’’ assessment, as well as being reliant on knowledge of the way people responded to research questions and common pitfalls in questionnaire design. The researcher sought support from supervisors, who, as specialists in research, and helped advance the instrument validity.

3.8.2 Reliability

The degree of consistency or the capability of research instruments to measure consistently the characteristics of interest over and over again and get equal outcomes, the ability of research tools to yield consistent results after continual trials is called reliability (Mugenda & Mugenda, 2003). To enhance reliability, pre-test or piloting

using test-retest model was done in addition to internal consistency test to check for consistency. The use of SPSS in conducting Cronbach's alpha test was done and the coefficient was .811 as shown in Table 3.2 where a coefficient of over +.70 implied that the instrument was reliable (Eunseong, 2014).

Table 3. 2: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.811	.819	13

Source: Researcher (2021)

3.9 Data Collection Procedure

Data was collected after getting the required permit from the university and consent from the National Commission for Science, Technology and innovation and the government Enterprise Development Fund offices. The data in this case was collected by semi-structured questionnaires. They were provided or administered personally and based on a drop and pick module to give an ample time for respondents to read, understand and fill in accurate information. The researcher introduced himself and presented the research authorization letters to the respondents, request for assistance in filling the questionnaires if need be, discussed the timelines and expected pick dates, also enumerated that the research will be purely for academic. This method of administration result in a higher response rate since the respondents take ample time to fill in the questions at their convenient time (Muturi, 2015)

3.10 Data Analysis and Presentation

The questionnaires contents were first coded to ensure completeness and accuracy. Data which was obtained from research instrument was analyzed through Statistical Package for Social Science (SPSS) and findings presented using descriptive statistical tools like graphs, tables and other measures of central tendency. Data was classified in

tables, graphs and charts for common characteristics and responses being coded for easy statistical analysis. The descriptive statistics of mean, frequencies and standard deviation was conducted. The mean checked the extent to which credit risk management strategies influenced on loan performance. Standard deviations indicated deviations about the mean values of credit strategies and influence on loan performance. Inferential statistics that includes ANOVA, regression analysis and correlation analysis were also conducted to learn the nature of relationship between credit risk management strategies and loan performance. Cronbach's alpha test to check on reliability was also analyzed.

3.11 Diagnostics Tests

Before data analysis is done the following diagnostic tests were undertaken. Assumptions testing are very key tasks while using multiple regressions. Serious violations bring about relationships estimates that are biased, high or low confident estimates of the precision of the coefficients, standard error and unreliable confidence intervals as well as significance tests. The following diagnosis tests were conducted and analyzed to enable check the validity of the model to be used for prediction and that estimated coefficients are statistically significant, they are; Multicollinearity test, Heteroscedasticity test and Normality tests.

3.11.1 Multicollinearity

Multicollinearity implies availability of a linear correlation among independent variables (Horne, 2013). The goal of the test was to check if there exists a correlation between independent/explanatory variables. This was detected by conducting bivariate correlation also known as Variance Inflation Factor (VIF) between two predictors. If the VIF equals 1, there is absence of multicollinearity, but if the VIF >1, there may be moderately correlation on regressors. The VIF of between 5 and 10

specifies high correlation that can be very problematical and if the VIF verves beyond 10, it can be presumed that the regression coefficients are poorly predicted or estimated due to multicollinearity which should be handled consequently by removing highly correlated predictors from the model (Akinwande, 2015).

3.11.2 Heteroscedasticity Test

Heteroscedasticity occurs when the variance of the error terms (ε) is not constant. In the presence of heteroscedasticity the correct estimators from the OLS does not give the estimation with the minimum variance that offers biasness in test statistics and confidence intervals, principally if the heteroscedasticity is high. The white's test was conducted to detect this and confirm if the OLS assumption was violated. Subject on the nature of the heteroskedasticity, significance tests can be too high or too low (Williams, 2015).

3.11.3 Normality Test

This was conducted to determine the kurtosis and skewness of data distribution and also if sampled data was drawn from a population distributed normally. This was done using the Jarque-Bera test to check for Kurtosis and Skewness where for normal distribution the results must be zero and if *p* is less than 0.05 is generated, then the null hypothesis at 5% level is rejected.

3.12 Ethical Considerations

Authority to carry out this research was sought from all relevant authorities including Kenyatta University Graduate School, National Council of Science, Technology and Innovation (NACOSTI) and county administration. The research was conducted with utmost confidentiality, respondent privacy was guarded and the research was conducted with high degree of independence. The researcher observed to this ethical

attention so as to obtain impartial results. The usage of authors' materials in this study and deprived of citing their identity was avoided.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

The findings that emanated from the data analysed are presented in this chapter. The chapter unfolds by first presenting respondents' background data. The descriptive and inferential findings are then outlined. Descriptive statistics involved the use of mean, proportions, standard deviation and frequencies. The chapter also gives findings on the diagnostic tests. Finally, inferential findings were presented which involved the use of regression analysis and correlation. The related discussions in respect to the findings are also presented.

4.2 Response Rate

The response rates depict the people with whom the data collection tools were correctly completed or filled divided by members in the entire sample (Fowler, 2004). The study issued 9 questionnaires out of which 8 successfully responded. Therefore, the total response level was 89%. Babbie (2015) recommended that the rate of 50% is suitable, 60% is termed good and 70% to 100% is dubbed very good for statistical analysis. In this case, a response rate of 89% was categorized as very good. Since the rate was very good the finding of the study was considered valid and with reliability. The result is shown in Table 4.1 below.

Table 4. 1: Response Rate

Sampled No. of respondents	No. of Questionnaires Filled	Response Rate (%)
9	8	89

Source: Researcher (2021)

4.3 Background Information

The background information in this study outlines the gender of the respondent's, year of service and number of department.

4.3.1 Gender of the Respondents

The research sought the gender distribution of the respondents. The outcomes of the analysis are indicated in Table 4.2.

Table 4. 2: The Respondent's Gender Distribution

Gender	Frequency	Percentage
Male	5	63
Female	3	37
Total	**8**	**100**

Source: Research Data (2021)

From the results, sixty-three percent of the respondents were gents while thirty-seven percent were female. Majority of the respondents therefore were gents. This also implies more is needed to comply with two third gender rule.

4.3.2 Duration of Service

The researcher was engrossed in establishing the length of service the respondents have been employed in their fund. Table 4.3 shows the findings of the study.

Table 4. 3: Duration of Service

Duration of Service	Frequency	Percentage (%)
0-1 Years	1	13
2-5 Years	2	25
6-10 Years	3	37
Over 10 Years	2	25
Total	**8**	**100**

Source: Research Data (2021)

From the study 13% of the respondents specified they have operated in their present

work station for less 1 years, 25% respondents alluded they have worked in the current work station for 2 to 5 years, 37% of respondents listed they had been deployed in their current work station for 6-10 years and 25% respondents alluded they have worked for more than10 years. It infers that majority had been in their present work station for 6-10 years and hence they represented a point of information. With majority having the experience in credit functions, it was a confidence booster that the information provided was reliable to make conclusions.

4.3.3 Department

The respondents were requested in indicating the department in which they operated. The response was as designated in Table 4.4

Table 4. 4: Department of the Respondents

Response	Number of Respondents	Percentage (%)
Credit Risk Management team	1	13
Credit Analyst Management team	2	24
Credit Recovery Management team	4	50
Any other	1	13
Total	**8**	**100**

Source: Research Data (2021)

Findings: The 13% of respondents were deployed in credit risk management division, 24% were working in credit analyst management department, and 50% were working in credit recovery department while 13% were working in other departments. This denotes that bulk of the respondents were stationed in credit recovery management department and hence they were involved in credit risk management processes. This also implies that the funds have put more emphasis on credit recovery to remain in liquid position.

4.3.4 Adoption of Credit Risk Management Practices

The research pursued whether the institutions have implemented or adopted Credit risk Management practices. The conclusions are illustrated on Table 4.5.

Table 4. 5: Adoption of Credit Risk Management Practices

Response	Frequency	Percentage
Yes	6	75
No	2	25
Total	**8**	**100**

Source: Research Data (2021)

Based on Table 4.5, 75% of respondent's stated that their funds have implemented or adopted credit risk management practices while 25% of respondent's stated that their funds do not implement or adopt credit risk management practices. The value, benefits and advantage of unified, credit risk management is to ease revenue shortfalls. Checking credit risk permits policymakers to understand which probable clients may be too high a risk and above risk tolerance levels. In this case, the funds seems to put more emphasis on risks associated with inability to have a sound credit risk system that jeopardize on loan performances.

4.4 Credit Appraisal on Loan Performance

4.4.1 Extent to which Credit Appraisal is Used in Credit Management

The study tried to find the extent in which organization use credit appraisal in credit administration. Illustration in Table 4.6 indicates the findings.

Table 4. 6: Extent to which Credit Appraisal is Used in Credit Management

Extent	Frequency	Percentage
Very Great Extent	5	63
Great Extent	2	25
Moderate Extent	1	12
Low Extent	0	0
Not At All	0	0
Total	**8**	**100**

Source: Research Data (2021)

From the results of majority, the 63% stated that they use credit appraisal in credit managing to a very great extent, 25% of respondents stated they use appraisal in administration to a great extent, 12% of respondents stated that they use credit appraisal in management of credit to a moderate extent. This implies that majority of the institution use credit appraisal in credit management to a very great extent. It is absolutely important for a government enterprise development fund to conduct a credit assessment process in order to guarantee that the borrower has the capability to repay the entire loan amount on time. Failure to apply sound appraisal models will emanate with high cost of running the funds majorly on collection and hence poor performance.

4.4.2 Impact of the Appraisal Technique(s) on Loan Performance

The study pursued to find out the impact of the appraisal technique(s) on loan performance in terms of preventing or reducing default rate. The findings are showed in Table 4.7.

Table 4. 7: Impact of the Appraisal Technique(s) on Loan Performance

Appraisal Techniques	VS (%)	S (%)	M (%)	W (%)	VW (%)	n	Mean	Std
5Cs	53	37	0	10	0	8	3.74	1.084
Credit Scoring	47	43	2	8	0	8	3.65	1.100
Relationship Lending	37	43	3	17	0	8	3.61	1.390
Reference from CRB	29	21	6	34	10	8	2.96	.815
CAMPARI	38	22	12	28	0	8	3.18	.724
PAPERS	48	32	12	8	0	8	4.13	.806

Source: Research Data (2021)

The findings showed that the bulk of the respondents allude that 5Cs model is a very strong tool on loan performance in terms of appraisal and hence the prevention and reducing default rate (mean = 3.74; std dev > 1.000). The government moneylenders quantify the 5 Cs of credit on different way, some qualitative and quantitative, for example as they do not loan themselves on numerical. With implementation of 5Cs protocols, it provides a good appraisal model to improve on fund performance.

Furthermore, majority of the respondents stated credit scoring is a very strong technique on loan performance in terms of appraisal and hence the preventing and reducing default rate (mean = 3.65; std dev > 1.000). In addition, the majority of the respondents stated relationship lending is a very strong technique on loan performance in terms of appraisal and hence the preventing and reducing default rate (mean = 3.61; std dev > 1.000). Additionally, the majority stated that reference from CRB is a very strong technique on loan performance in terms of appraisal and hence the preventing and reducing default rate. Majority of the respondents stated that CAMPARI is a very strong technique on loan performance in terms of appraisal and hence the preventing and reducing default rate (mean = 3.18; std dev > 1.000). In addition, majority of the respondents stated that PAPERS is a very strong technique on loan performance in terms of appraisal and hence the preventing and reducing

default rate (mean = 4.13; std dev < 1.000). One of the benefits to a good credit score is that the government is willing to let you borrow higher loans as demonstrated by paying on time. The results above indicate that the funds use varied models of appraising customers and do not rely solely on one technique. The findings agreed with Chinduru (2016) that a lending institution should use more than one appraisal technique which has been confirmed in this case. Moreover, credit appraisal process is utmost significant element in lending; hence this process is guided by a company credit or loan policy which is often reviewed or amended annually.

4.4.3 Credit Appraisal Techniques and Loan Performance of Government Enterprise Development Funds

The study sought to determine how credit appraisal techniques affect loan performance of government enterprise development funds are outlined at Table 4.8.

Table 4. 8: Credit Appraisal Techniques and Loan Performance of Government Enterprise Development Funds

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	n	Mean	Std
Credit appraisal is a feasible model for credit risk management.	41	45	10	4	0	8	3.83	.377
The Fund has skilled personnel for conducting credit appraisal on clients.	36	54	2	8	0	8	3.75	.455
Inability to evaluate customer repayment capacity breed in loan defaults	47	47	3	3	0	8	3.81	.393
Failure to have post advance follow ups to customers result in loan default.	49	41	6	4	0	8	3.91	.295

Source: Research Data (2021)

The findings illustrated that respondents approved (mean = 3.83; std dev < 1.000) that credit appraisal is the viable strategy for credit management. The respondents also agree (mean = 3.75; std dev < 1.000) that fund has skilled personnel for conducting out credit appraisal. The respondents also settled that (mean = 3.81; std dev < 1.000) inability to evaluate customers' ability to repay results in loan defaults. In addition,

the respondents agreed that failure to have post advance follow ups to customers' result in loan default (mean = 3.91; std dev < 1.000).

The findings agreed with Ochongo (2018) who found out that credit appraisal techniques and loan default are indeed related. Appraisal techniques help the government enterprise development fund lend prudently and lowers the default levels. Strict adherence to appraisal techniques therefore reduces levels of loan default. The appraisal techniques were established to be very helpful to the credit department of the bank as they guide the loaning procedure and ring standardization within the government enterprise funds' network. In the research, the focal factors that generate to loan default is lending to debtors with questionable morals and characters, stringent credit terms that curtails for some to make payments and deviation of facility by borrowers from what they had envisioned to work on not being provided to the lender. Appraisal techniques help in determining the credit worthiness or merit of the borrowers.

4.5 Credit Terms and Loan Performance

4.5.1 Extent the Fund Emphasizes on Credit Terms in Credit Management

The study sought to determine the extent the Fund emphasizes on credit terms in credit management. Illustration of findings is tabulated in Table 4.9.

Table 4. 9: Extent the Fund Emphasizes on Credit Terms

Extent	Frequency	Percentage
Very Great Extent	5	63
Great Extent	3	37
Moderate Extent	0	0
Low Extent	0	0
Not At All	0	0
Total	**8**	**100**

Source: Research Data (2021)

The results show the 63% of respondents stated that fund emphasizes on credit terms in credit management to a very great extent while 37% of the respondents stated that fund emphasizes on credit terms in credit managing to a great extent. This implies that in majority of the institutions fund emphasizes on credit terms in credit management to a very great extent. Proper covenant terms at the pre and post lending has a bearing in performance. Sound credit terms protects the lender against default and hence good loan performance.

4.5.2 Credit Terms and Loan Performance of Government Enterprise Development Funds

The study further sought to determine how credit terms affect loan performance of government enterprise development funds. The Table 4.10 shows the findings.

Table 4. 10: Credit Terms and Loan Performance of Government Enterprise Development Funds

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	N	Mean	Std
The imposition of loan limits is a good methodology in credit risk management as it helps reduce default rate.	41	45	5	9	0	8	4.09	.784
Repayment with flexibility in periods improve loan reimbursement.	36	24	0	8	32	8	3.30	.756
Fines imposed for late payment boosts commitment from customers and hence reduce defaults.	35	18	8	19	20	8	3.48	.586
The use of credit checks consistently enhances credit management	32	33	11	16	8	8	3.30	.628
Interest rate charges has a bearing on loan repayment and default rate	18	12	18	32	20	8	2.39	.930

Source: Survey Data (2021)

The findings illustrated that respondents approved (mean = 4.09; std dev < 1.000) that striking loan limits is a viable scheme in credit management as it helps reduce default rate. The respondents also approved (mean = 3.30; std dev < 1.000) that flexible

repayment periods improve loan repayment. The respondents approved that (mean = 3.48; std dev < 1.000) fine for late disbursement increases customer's commitment to loan repayment. In addition, the respondents approved that the using credit checks consistently enhances credit management (mean = 3.30; std dev < 1.000). The respondents approved (mean = 2.39; std dev < 1.000) that interest rate charges have a bearing on loan repayment and default rate. The results indicate that limits are guided by one's ability to pay. Too much amount attracts increase the rate of default and vice versa. The result also amplifies the need to fix some flexible instalments that are manageable by the borrowers to avoid default. Fines and interest imposed to defaulters makes it a burden to the borrower, this put pressure on him to avoid defaulting the loans and hence good performance on the side of the lender. The study agreed with Njeru (2017) who found out that credit facility terms and credit appraisal have positive and significant influence on the loan performance.

4.5.3 Whether Credit Terms in the Loan Agreement help in Reducing Default Rate

The study sought to find out whether credit terms in the loan agreement help in reducing default rate. Table 4.11 illustrates the findings.

Table 4. 11: Whether Credit Terms in the Loan Agreement help in Reducing Default Rate

Response	Frequency	Percentage
Yes	7	88
No	1	12
Total	**8**	**100**

Source: Research Data (2021)

From the results the 88% respondents stated that credit terms in the loan agreement help in reducing default rate while 12% of the respondents stated that credit terms in the loan agreement doesn't help in reducing default rate. This implies that credit terms

in the loan agreement help in reducing default rate. A loan agreement detail what is being loaned and when the borrower has to pay it back as well as how. The findings agree with Ssekiziyivu (2017) who found that credit terms are a significant predictor in the loan covenant and loan repayment performance. This study also agrees with Omiti (2012) that credit terms framed by microfinance institutions have a huge effect on loans.

4.6 Credit Collection Policy and Loan Performance

4.6.1 Extent the Fund Use Credit Collection Policy in Credit Management

The study sought to check the extent to which fund use credit collection policy in credit management and Table 4.12 exemplifies the findings.

Table 4. 12: Extent the Fund Use Credit Collection Policy in Credit Management

Extent	Frequency	Percentage
Very Great Extent	4	50
Great Extent	3	38
Moderate Extent	1	12
Low Extent	0	0
Not At All	0	0
Total	**8**	**100**

Source: Research Data (2021)

The results shown in Table 4.12, 50% respondents stated that fund use credit collection policy to a very great extent, 38% respondents stated that fund use credit collection policy to a great extent while, 12% respondents stated that fund use credit collection policy moderately. This suggests that fund use credit collection policy and understand the need to put collection measures in place for them to remain liquid and lend more to deserving customers. Inadequate collection procedures breed delays in payment and it can be an avenue to default. The study findings contradict with Sufi (2015) who found out that credit management strategies and credit collection plan

have very negative and very statistically significant effect on the ability to pay back the funds of bad debt. The findings also agree with Ukpong (2018) who found that credit collection policy and techniques contributed positively to loan recovery.

4.6.2 Credit Collection Policy(s) Used to Recover Debts

The study sought to determine collection policy(s) used by your institution to recover debts. Table 4.13 illustrates the findings.

Table 4. 13: Credit Collection Policy(s) Used to Recover Debts

Credit Collection Policy	Frequency	Percentage
Guarantors	4	50
Insurance	1	13
Collateral(s)	2	37
Others, Specify	0	0
Total	**8**	**100**

Source: Research Data (2021)

The findings presented in Table 4.13; 50% respondents stated they use guarantors to recover debts, 13% of the respondents stated that they use insurance to recover debts while 37% of the respondents stated that they use collateral to recover debts. This implies that majority of the fund use guarantors to recover debts. The use of a guarantor permits those with low credit ratings to attach security to their repayments and so it is a great choice for those with bad credit history. Insurance as a debt collection agency can be costly thus it is not opted by many. The findings agreed with the most effective way and strategy will be the one that do not annoy debtors but instead a structure of contracting the liability collection to third parties is the better strategy. On the other hand, developing a more intensive collection approach guarantee reduced costs, save time and maximizes limited resources.

4.6.3 Whether Credit Collection Policy(s) Help in Loan Recovery

The study sought to find out whether collection policy(s) help in loan recovery. Results are illustrated in Table 4.14.

Table 4. 14: Whether Credit Collection Policy(s) Help in Loan Recovery

Response	Frequency	Percentage
Yes	7	88
No	1	12
Total	**8**	**100.0**

Source: Research Data (2021)

From the results in Table 4.14; 88% respondents stated that a credit collection policy(s) help in reducing default rate while 12% of the respondents stated that credit collection policy(s) doesn't help in reducing default rate. This implies that collection policy(s) help in reducing default rate. Collection policies help sustain clients and free up resources for relending. These are tactical systems that are critical to creating better habits and a disbursement culture on clients. It is evident as a business model with primary objective to create profits for the organization, converting risks and business losses into returns. The findings agree with (Mwangi, 2016) who found out that credit policy has a significant influence on loan recovery, therefore, proper choosing of credit policy yields the desired results and fits in its resources.

4.6.4 Credit Collection Policies on Loan Performance

The study further sought to determine how credit collection policies affect loan performance of government enterprise development funds. The findings are demonstrated in Table 4.15.

Table 4. 15: Credit Collection Policies on Loan Performance

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	N	Mean	Std
Collection policies implemented by the fund have assisted to reduce inefficiencies in credit risk management.	68	23	2	4	3	8	4.258	0.886
Collection policies formulation and adoption in credit management has remained a big task to the fund.	69	21	0	5	5	8	4.403	0.557
Implementation of guarantee policies adopted offers probabilities for loan repossession.	40	55	0	2	3	8	4.145	0.807
There has been Credit Collection reviews by the fund to improve state of credit administration.	49	33	12	3	3	8	4.452	0.592
An inflexible policy is very much effective in debt repossession than a lenient policy	46	44	4	6	0	8	4.640	0.876
Collateral attachment has an effect on loan recovery by defaulters.	43	52	2	3	0	8	4.820	0.765
Insurance is an effective way that helps in loan recovery from defaulters.	41	52	2	5	0	8	4.460	0.567

Source: Research Data (2021)

The first account enquired respondents to respond to whether the existing collection policies do aide towards effective credit management. The results revealed that majority of the respondents were in agreement (mean=4.248, SD=0.876). On whether formulation of collection guidelines and adoption have been a big task in credit management, a host of the respondents were in validation (mean=4.303, SD=0.557). The respondents further agreed that implementation of guarantee policies provides probabilities for loan repossession in case of defaults (mean=4.245, SD=0.807). On same breath, the respondents also approved that consistent examinations have been done on collection policies to advance position of credit administration (mean=4.432, SD=0.592). From the results, a good number of the respondents approved with a (mean = 4.54; std dev = 0.876) that a inflexible policy is more effective on debt repossession than a lenient policy. Additionally, majority validated (mean =4.72; std dev = 0.765) that collateral attachment has an effect on loan recovery by defaulters.

Further, the respondents settled with a (mean = 4.46; std dev = 0.567) that insurance is an effective way that helps in loan recovery from defaulters. The findings agreed with Mwangi (2016) agrees that there exists a relationship between credit policy and loan performance under the review but the effect is very minimal. Credit collection policies, helps the government enterprise development funds loan prudently and depresses the risk level to them. Stringent adherence to credit collection therefore leads to lowered levels of nonperforming loans.

4.7 Credit Risk Control Measures and Loan Performance

4.7.1 Extent the Organization Use Credit Risk Control Measures

The research sought to examine the extent to which organization use credit risk control measures in managing credit. Illustrations of the findings are showed in Table 4.16.

Table 4. 16: Extent the Organization Use Credit Risk Control Measures

Extent	Frequency	Percentage
Very Great Extent	5	63
Great Extent	3	37
Moderate Extent	0	0
Low Extent	0	0
Not At All	0	0
Total	**8**	**100**

Source: Research Data (2021)

In the findings shown at Table 4.16; 63% of the respondents stated that the funds adopt credit risk control measures in managing credit to a very great extent while 37% respondents stated that the funds use credit risk control measures in managing credit to a great extent. It implies that the organization adopts credit risk control measures in managing credit to a very great degree. Credit risk control measures allows the administration to comprehend which probable clients may be a risk and above the

pre-well-known risk tolerance. The findings agree with (Kaimuri, 2015) who found it exist a significant negative or advance relationship on risk control and the magnitude of non-performing loans. Therefore, use of credit risk control measures to a very great extent point a reduced in level of loan default in government enterprise development funds.

4.7.2 Credit Risk Control Measure(s)

The study sought to identify credit risk control measure(s) that has been put in place by the institution Table 4.17 illustrates the findings.

Table 4. 17: Credit Risk Control Measure(s)

Control Measure	Frequency	Percentage
Credit risk Identification	2	25
Credit risk Measurement	3	39
Credit risk Evaluation	1	12
Credit risk Monitoring	1	12
Credit risk Reporting	1	12
Total	**8**	**100**

Source: Research Data (2021)

As the findings presented in Table 4.17; 25% respondents stated that the funds have put in place credit risk identification measures , 39% of the respondents stated that the funds have put in place credit risk measures, 12% of the respondents stated that the funds have put in place credit risk evaluation measures, 12% of the respondents stated that the institution have put in place credit risk monitoring measures while 12% of the respondents stated that the funds have put in place credit risk reporting measures. This implies that majority of institutions have put in place credit risk measurement criterion. Credit risk measurement is beneficial in completely analyzing and establishing out what type of risks needed to be relooked based on likelihood and

severity. Then they are enumerated and quantified based on cost or the right time to address them. The study agreed with (Murigi, 2018) who found out that credit monitoring, credit risk measurement, credit risk environment and strategies ensures that there is proper loan payment by the customers so as to avoid confrontation and delays in servicing of loans by the customers.

4.7.3 Whether Credit Risk Control Measures Help reduce Default Rate

The study sought to find out whether credit risk control measures help reduce default rate. Table 4.18 illustrates the results.

Table 4. 18:Whether Credit Risk Control Measures Help Reduce Default Rate

Response	Frequency	Percentage
Yes	6	75
No	2	25
Total	**8**	**100**

Source: Research Data (2021)

The findings as indicated in Table 4.18; 75% respondents stated that credit risk control measures help reduce default rate while 25% of the respondents stated that credit risk control measures don't help to reduce default rate. This implies that credit risk control measures help reduce default rate. The study agrees with Khan (2015) who found out that credit risk control measures plays an important role in enhancing loan performance and thus its very significance.

4.7.4 Credit Risk Control Measures and Loan Performance

The study further sought to determine how credit risk control measures affect loan performance of government enterprise development funds. The outcomes are shown in Table 4.19.

Table 4. 19: Credit Risk Control Measures and Loan Performance

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	N	Mean	Std
Involving Credit risk committees in making decisions concerning loans are critical in reducing default.	56	34	3	7	0	8	4.46	0.321
Internal control systems will likely help reduce default rates and increase repayment by borrowers.	47	34	13	6	0	8	4.20	0.432
Credit administration process will have a direct implication on loan repayment.	59	31	3	7	0	8	4.02	0.521
Credit monitoring on borrower's activities will help reduce the default rate.	48	48	2	2	0	8	4.26	0.231

Source: Research Data (2021)

Additionally, the respondents validated (mean = 4.46; std dev = 0.321) that Credit risk committee's participation in doing decisions concerning credit is essential in reducing default/credit risk. The respondents also denoted (mean = 4.20; std dev = 0.432) that internal control systems will likely help reduce default rates and increase repayment by borrowers. The study respondents' (mean = 4.02; std dev = 0.521) agreed that credit administration process will have a direct implication on loan repayment. Lastly, the highest number of respondents (mean = 4.26; std dev = 0.231) agreed that credit monitoring on borrower's activities will help reduce the default rate. The conclusions of the study are in line with (Murigi, 2018) who found out that the measures to control risks include educating before and after disbursement, monitoring of clients, reasonable interest rate, and proper loan appraisal. It also agrees with Amunabi (2018) who concluded that credit risk mitigation/control influenced loan portfolio performance.

4.8 Information Asymmetry

4.8.1 Existence of Information Asymmetry

The study tried to find out whether the management put into thoughtfulness the existence of information asymmetry where borrowers have hidden information they don't want to disclose. The outcomes are illustrated on Table 4.20.

Table 4. 20: Existence of Information Asymmetry

Response	Frequency	Percentage
Yes	6	75
No	2	25
Total	**8**	**100**

Source: Research Data (2021)

The findings presented in Table 4.20; 75% of the respondents agreed that the organization put into consideration the existence of information asymmetry where borrowers have secreted information undisclosed while 25% of the respondents stated that the management do not put into consideration the existence of information asymmetry where borrowers have concealed information they do not want to disclose. This implies that the management of government enterprise development funds put into consideration the existence of information asymmetry where borrowers have unobserved information they do not want to disclose to curb cases of moral hazards.

4.8.2 Information Asymmetry and Loan Performance

The study additional sought to determine how information asymmetry affects loan performance of government enterprise development funds. The outcomes are tabulated in Table 4.21.

Table 4. 21: Information Asymmetry and Loan Performance

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	N	Mean	Std
Moral hazards by borrowers contribute on loan repayment/ default.	52	38	8	2	0	8	4.28	0.534
The management has a policy to ensure loans are used for intended purpose.	49	31	14	6	0	8	4.62	0.323
Management is involved on meetings held by groups/borrowers.	51	44	1	4	0	8	4.40	0.764
Management conducts impromptu visits to borrower's projects or business to curb the event of moral hazards.	60	18	13	9	0	8	4.32	0.472

Source: Research Data (2021)

In the findings shown in Table 4.21; the respondents (mean = 4.29; std dev = 0.534) are in agreement that moral hazards by borrowers contribute on loan repayment/ default. Additionally, they adopted (mean =4.63; std dev = 0.323) that the executive of government enterprise development funds has a policy to ensure loans are used for intended purpose. The respondents also denote (mean = 4.41; std dev = 0.764) that the executive of government enterprise development funds is involved in meetings held by groups/borrowers. The respondents also (mean = 4.35; std dev = 0.472) agreed that the administration of government enterprise development funds conducts impromptu visits to borrower's projects or business to curb the event of moral hazards. The study findings are in line with (Ndung'u, 2016) who concluded that the lenders have credit monitoring policy and monitors cash flows of borrowers continuously by having constant contact with borrowers to review the client's loan repayment patterns. The study also agrees with Kemei (2014) who found that institutions should screen and get as many information as possible on borrowers they put across that a borrower will hide or try to fool the lender on their risk profiles.

4.9 Loan Performance

4.9.1 Frequency with which Credit Systems Help in Decreasing Non-Performing Loans

The research sought to determine how proper credit systems help in reducing non-performing loans. The findings in Table 4.22 illustrate this.

Table 4. 22: Frequency with which Credit Systems Help in Reducing Non-performing Loans

Response	Frequency	Percentage
More often	5	63
Often	3	37
Rarely	0	0
Not at all	0	0
Total	**8**	**100**

Source: Research Data (2021)

In the outcomes tabulated in Table 4.22; 63% of the respondents stated that proper credit systems help in reducing non-performing loans more often while 37% of the respondents stated that proper credit structures help in reducing non-performing loans often. This implies that proper credit systems help in reducing non-performing loans more often. A successful non-performing loans determination may be particularly challenging especially when the debt intensities are high, the use of state funds for recapitalization is restricted. The findings of the study agree with (Osanebi, 2016) that credit systems can be effective in relations to reducing the non-performing loans and lowering it burden is associated with economic benefits in the medium run.

4.9.2 Effect of Managing Credit Risk System

The study sought to identify the effects of managing credit risk system. Table 4.23 below illustrates the findings.

Table 4. 23: Effect of Managing Credit Risk System

Response	Frequency	Percentage
Performance in terms of loan recovery	3	38
Increased loan uptake by customers	2	25
Increased allocations from government	2	25
No Effect	1	12
Total	**8**	**100**

Source: Research Data (2021)

In the findings shown in Table 4.23; 38% of the respondents stated that managing credit risk system affected the loan performance in terms of loan recovery, 25% of the respondents stated that managing credit risk system increased loan uptake by customers as there was plenty to lend, 25% of the respondents stated that managing credit risk system increase allocations from government since there was goodwill while 12% of the respondents stated that managing credit risk system has no effect on fund appraisal. Credit risk system benefits in forecasting the risk levels and its factors in any transaction, organizing ahead with formidable strategies to confront a negative result and setting up credit modules which can act as a prized tool to define the level of risk while loaning. The findings agree with Khan (2012) who established that failure to successfully manage credit risk contributes to a greater extent to financial crisis. The research also acknowledged insufficient risk management systems, bad corporate governance, and diversion from primary business activities to speculative non-banking activities as other factors that can cause the crisis.

4.9.3 Application of Credit Management Strategies to Borrowers

The study sought to find out whether credit management strategies adopted by the institution applied to all borrowers. Table 4.24 illustrates the findings.

Table 4. 24: Application of Credit Management Strategies to Borrowers

Response	Frequency	Percentage
Yes	5	63
No	3	37
Total	**8**	**100**

Source: Research Data (2021)

Findings shown in Table 4.24; 63% respondents stated that credit management strategy and techniques adopted by the funds apply to all borrowers while 25% of the respondents stated that credit management strategies adopted by the funds do not apply to all borrowers. This implies that credit management strategies adopted by the funds apply to all borrowers. Operational Credit Administration assist to prevent late payment or non-payment. The findings agree with Amunabi (2017) who found out that credit management strategies are important in reducing the fraud risk and cyber-security dangers to guard the financial data and information of their clients, but also need to safeguard their own treasury from untrustworthy borrowers.

4.9.4 Default Rate

The research sought to define the current default rate among various funds. Table 4.25 illustrates the findings.

Table 4. 25: Default Rate

Default Rate	Frequency	Percentage
(0-20)%	2	25
(21-40)%	5	63
(41-60)%	1	12
(61-80)%	0	0
(81-100)%	0	0
Total	**8**	**100**

Source: Research Data (2021)

In the findings shown in Table 4.25; 25% respondents stated that the default rate in their institution is 1-20%, 63% of the respondents stated that the default rate in their

institution is 21-40% while 12% of the them indicated that the default rate in their institution is 41-60%. This implies that in majority of organization the default rate are between than 21-40%. The findings agreed with (Altman, 2016) who found out that high defaulted and low repossession environment demonstrate the potential recurring impact as well as the supply and demand fundamentals of defaults and recoveries.

4.10 Diagnostic Tests

The OLS assumptions have to be checked for violation, the OLS coefficients cease being the best or desirable estimators if violations are not bothered. Generally, when the assumptions have been violated, coefficient estimates and their standard errors may be incorrect, the distribution assumed by the' parameter estimates will be incorrect and the tests of significance in above will consequently not be reliable. To validate usage of the regression model, researcher conducted pre-estimation tests to aid the study. These tests made in this instance were multicollinearity test, heteroscedasticity test and Normality test.

4.10.1 Test for Multicollinearity

Multicollinearity implies availability of a linear correlation among independent variables. The goal of the test was to check if there exists a correlation between independent/explanatory variables. The relevance of this test is to diagnose the presence inter-association which can result in biasness. This was detected by conducting bivariate correlation also known as Variance Inflation Factor (VIF) between two predictors. The rule of thumb indicates that: If the VIF equals 1, there is absence of multicollinearity, but if the VIF >1, there may be moderately correlation on regressors. The VIF of between 5 and 10 specifies high correlation that can be very problematical and if the VIF verves beyond 10, it can be presumed that the regression

coefficients are poorly predicted or estimated due to multicollinearity which should be handled consequently by removing highly correlated predictors from the model. VIF equals (1/Torelance).

Table 4. 26: Tolerance and VIF Test

Collinearity Statistics			
Model		**Tolerance**	**VIF**
1	(Constant)		
	Credit appraisal techniques	.649	1.540
	Credit terms	.731	1.368
	Credit collection policies	.889	1.124
	Credit risk control measures	.775	1.291
	Information asymmetry	.717	1.181

Source: Research Data(2021)

In the findings, the variable credit appraisal techniques was having a tolerance of .649 and a VIF of 1.540, credit terms was having a tolerance of .731 and a VIF of 1.368, credit collection policies was having a tolerance of .889 and a VIF of 1.124, credit risk control measures was having a tolerance of .775 and a VIF of 1.291 while information asymmetry was having a tolerance of .717 and a VIF of 1.181. Based on the results above, the tolerance for all the independent variables were more than 0.1 and the VIF was not more than 10, it was concluded that there was no presence of multicollinearity and therefore there was no need of further investigations.

4.10.2 Test for Heteroscedasticity

The relevance of this test is to eliminate the unbiasness and inefficiency of predictions. Heteroscedasticity occurs if the variance of the error terms is not constant. In the existence of heteroscedasticity the correct estimators from the OLS does not give the estimation with the lowest variance which gives bias in test statistics

and confidence intervals, especially if the heteroscedasticity is high. The test results for heteroscedasticity are as indicated in Table 4.27.

Table 4. 27:White's Test Heteroskedasticity

Model		Sum of Squares	Df	Mean Square	chi^2	Prob>chi^2.
	Regression	123.922	3	41.307	7.68	.1157
	Residual	143.491	4	35.872		
	Total	267.413	7			

Source: Research Data (2021)

The White's test for Ho: homoskedasticity

H_1: unrestricted heteroskedasticity

To test the homoscedasticity where the variance of residuals or error term should be constant, the study conducted the white's test to check the problem of heteroscedasticity and the results in Table 4.27 indicated that the error term was constant because the chi2=.1157 is higher than 0.05 thus the null hypothesis was not rejected.

4.10.3 Test for Normality

The test determines the kurtosis and skewness of data dispersal and also if sample data was drawn from a population distributed normally. The Jarque-Bera test is widely used to check for Kurtosis and Skewness where for normal distribution the results and the null hypothesis at significant level are used to make a determination.

Table 4. 28: Test for Normality using Jarque-Bera test

Variable	**Obs**	**Pr(Skewness)**	**Pr(Kurtosis) adj**	**chi^2(2)**	**Prob>chi^2**
Credit Appraisal Techniques	104	0.0000	0.00200	30.99	0.000
Credit Terms	104	0.0000	0.00000	9.86	0.000
Credit Collection Policies	104	0.0000	0.00000	11.26	0.000
Credit Risk Control Measures	104	0.0000	0.00000	53.31	0.000

Source: Research Data (2021)

To check for normality, descriptive statistics was used, that is Skewness and Kurtosis of the distribution of the data. Also a Jarque-Bera test was used. It is a test based on

the residuals of the least squares regression model. For normal distribution Jarque-Bera statistics is expected to be zero. The study tests the null hypothesis that the disturbances are not normally distributed. If the p-value is less than 0.05, the null of normality at the 5% level is rejected. The results in Table 4.28 show that the data was normally distributed.

4.11 Correlation Analysis

The researcher established the strength and the nature of associations between the independent variables (strategies) and the dependent variable (loan performance) by conducting correlation analysis.

4.11.1 Relationship between Credit Appraisal Techniques and Loan Performance

The study did an analysis between credit appraisal techniques and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya and the findings of the analysis in this regard are as indicated in Table 4.29.

Table 4. 29: Relationship between Credit Appraisal Techniques and Loan Performance

		Credit Appraisal Techniques
Loan Performance	Pearson Correlation	.518**
	Sig. (2-tailed)	.000
	N	8

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data (2021)

The conclusions in Table 4.29 showed an r=0.518 and p=0.000. This pointed out the occurrence of a moderate positive and significant relationship between credit appraisal techniques and loan performance of Government Enterprise Development Funds. Therefore, the finding implies that effective credit appraisal techniques enhance loan performance of Government Enterprise Development Funds. The

findings agree with a study Njeru and Wachira (2017) who recognized that credit appraisal has the effect on performance. The Credit appraisal was similarly established to be precise important in impelling performance of lenders. Equally, an inflexible policy has a far superior influence to performance than a libel policy.

4.11.2 Relationship between Credit Terms and Loan Performance

The study conducted a correlation analysis between credit terms and loan performance Government Enterprise Development Funds in Nakuru County, Kenya. Results of the analysis in this regard are herein Table 4.30

Table 4. 30: Relationship between Credit Terms and Loan Performance

		Credit Terms
Loan Performance	Pearson Correlation	.563**
	Sig. (2-tailed)	.000
	N	8

Source: Research Data (2021) **.Correlation is significant at the 0.01 level (2-tailed).

The findings in Table 4.30 indicated that r = .563 and p= .000. It indicates a moderate positive and significant relationship between credit terms and loan performance Government Enterprise Development Funds in Nakuru County, Kenya. The findings implied that setting credit terms enhances loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings agree with a study Muturi (2016) which revealed that the client evaluation and credit terms have positive and significant impact on loan performance.

4.11.3 Relationship between Credit Collection Policies and Loan Performance

The study established the nature of the relationship among credit collection policies and performance of loan for Government Enterprise Development Funds in Nakuru

County, Kenya. The findings of the analysis in this regard are as tabulated in Table 4.31.

Table 4. 31: Relationship between Credit Collection Policies and Loan Performance

		Credit Collection Policies
Loan Performance	Pearson Correlation	.210**
	Sig. (2-tailed)	.001
	N	8

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Data (2021)

The illustrations on Table 4.31 showed an r=0.210 and p=0.001. The p statistic value was less than the significant level of 0.01 indicating a weak positive and statistically significant relationship between collection policies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. This implies that good credit collection policies have a significant statistical influence on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings agree with a study conducted by Mwangi (2016) which indicated that it exist a correlation between credit collection policies and financial performance but the outcome is very minimal. There exist a negative relationship between credit terms and conditions and collection efforts, that is, a decrease in credit terms and condition which is calculated by total cost/ total amounts of loan will increase the loan performance.

4.11.4 Relationship between Credit Risk Control Measures and Loan Performance

The research also sought to evaluate the nature of the relationship between credit risk control measures and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The outcome of the analysis in this regard is tabulated on Table 4.32.

Table 4. 32: Relationship between Credit Risk Control Measures and Loan Performance

		Credit Risk Control Measures
Loan Performance	Pearson Correlation	.213**
	Sig. (2-tailed)	.004
	N	8

Source: Research Data (2021) **. Correlation is significant at the 0.01 level (2-tailed).

The findings presented in Table 4.32 showed that r=0.213 and p=0.004. The p value that is less than significant level of 0.01 meaning there was statistically significant weak positive relationship between risk control measures and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. This implies that good risk control measures enhance loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings approve a study conducted by Atieno (2001) which discovered that there is tough association between loan performances of microfinance institutions with credit risk management, and that there is greater variation on loan performance as results of change in GDP growth rate.

4.12 Regression Analysis

The study estimated effects of independent variables (credit risk management strategies) on the dependent variable (loan performance). Findings of the analysis are as depicted in Table 4.33 & 4.34.

4.12.1 Regression Models Summary

The regression models indicate the extent or the strength of the relationship between variables. The moderating effect will imply the change in the strength positively or negatively.

Table 4. 33: Regression Model Summary without the Moderator

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.681a	.463	.458	.62786

(a)Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection Policy, Credit Risk Control Measures

(b)Dependent Variable: Loan performance

Source: Research Data (2021)

The research made the regression analysis to find out the strength and the direction of the relationship among the variables as tabulated in Table 4.33. The results indicate that credit risk management strategies are 46.3% as illuminated by the independent variables and 53.7% is the variation due to other elements which have not been covered in this study.

Table 4. 34: Regression Model Summary with the Moderating Variable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.712[a]	.325	.321	.60303

Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection Policies, Credit Risk Control Measures, Information Asymmetry

Dependent Variable: Loan performance

Source: Research Data (2021)

The researcher did a regression examination to find out the strength of the association between the variables with the moderating variable as shown in Table 4.34. The findings show that credit risk management strategies are 32.5% as explained by the independent variables and the moderating variable while 67.5 % is the disparity on other elements which have not been enclosed and covered in this study. The decrease from 46.3% to 32.5% indicates the effect of interaction caused by the moderation of information asymmetry. From the results it can be concluded that the moderating

influence of information asymmetry on loan performance of Government Enterprise Development Funds is negative.

4.12.2 ANOVA of the Regression Model

The analysis of Variance indicates the association between the dependent and independent variables. The analysis of variance was conducted and results shown in Table 4.35.

Table 4. 35: ANOVA of the Regression Model without Moderating Variable

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	123.922	3	41.307	1.1515	.000[b]
	Residual	143.491	4	35.872		
	Total	267.413	7			

a. Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection Policies, Credit Risk Control Measures

b. Dependent Variable: Loan performance

Source: Research Data (2021)

In the ANOVA table illustrated above, the F statistic = 1.1515. Subsequently the *P*-value for the *F* test statistic is less than 0.05, it concludes that the model as depicted is statistically significant. Hence, there is robust evidence which confirms that the regression outcomes are statistically significant and the variation in the outcomes is insignificant that cannot result to much difference in case of a change in population.

Table 4. 36: ANOVA of the Regression Model with the Information Asymmetry as Moderating Variable

Model		Sum of Squares	Df	Mean Square	F	Sig.
2	Regression	135.411	3	45.137	1.368	.000[b]
	Residual	132.002	4	33.001		
	Total	267.413	7			

a. Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection Policies, Credit Risk Control Measures

b. Dependent Variable: Loan Performance

Source: Research Data (2021)

In the ANOVA table above, the F statistic = 1.368 as illustrated in Table 4.36. Subsequently the *P*-value for the *F* test statistic is less than 0.05, it concludes that the model as depicted is statistically significant. Hence, there is robust evidence which confirms that the regression outcomes are statistically significant and the variation in the outcomes is insignificant that cannot result to much difference in case of a change in population.

4.12.3 Multiple Regression Coefficients

Table 4. 37: The Regression Coefficients without the Moderating Effect of Information Asymmetry Model

		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.195	.130		9.165	.000
	Credit Appraisal Techniques	.311	.034	.430	9.028	.000
	Credit Terms	.313	.033	.432	9.616	.000
	Credit Collection Policies	.247	.041	.082	6.024	.004
	Credit Risk Control Measures	.210	.034	.269	6.177	.000

Dependent Variable: Loan Performance

Source: Research Data (2021)

From the study, the regression coefficients connecting the variables is illustrated by the equation below:

$$Y = 1.195 + 0.311X_1 + 0.313X_2 + 0.247X_3 + .210X_4$$

Whereby Y represents Loan Performance Government Enterprise Development Funds X_1 represents credit appraisal techniques, X_2 represents credit terms, and X_3 represents credit collection policies and X_4 represents credit risk control measures. β_0=1.195 is the Constant which describes the value of loan performance government enterprise development funds without the insertion of predictor variables. The results in Table above; the given equation was answered by the values of Unstandardized Coefficients (B). The results indicate credit appraisal techniques, credit terms, credit collection policies and credit risk control measures have a positive significant on loan performance of Government Enterprise Development Funds. This implies that when all other independent variables (credit terms, credit collection policies and credit risk control measures) are held constant, an increase in credit appraisal techniques will increase the loan performance by 31.1%. It also implies that enhanced credit terms will increase the loan performance by 31.3% when other independent variables (credit appraisal techniques, credit collection policies and credit risk control measures) are held constant. The regression results further shows that credit collection policies will increase the loan performance by 24.7% when other independent variables (credit appraisal techniques, credit terms, and credit risk control measures) are held constant. Finally, the regression results suggest an improvement on credit risk controls will result to an increased loan performance by 21% when other independent variables (credit appraisal techniques, credit terms, and credit collection policies) are held constant. The regression results agree with other research findings for instance Murigi

(2018) indicated that loan performance is significantly affected by credit risk environment and credit administration.

Table 4. 37: Regression Coefficients without (Model 1) and with (Model 2) Moderating Effect of Information Asymmetry

Results before Moderation			**Results After Moderation**		
Model 1	**Unstandardized Coefficients**	**Sig.**	R^2=.325 Adj. R^2 =.321	**Unstandardized Coefficients**	**Sig.**
	B			**B**	
(Constant)	1.195	.000		1.082	.000
Credit Appraisal Techniques	.311	.000		.214	.000
Credit Terms	.313	.000		-.159	.000
Credit Collection Policies	.247	.004		.219	.005
Credit Risk Control Measures	.210	.000		.151	.000

Source: Research Data (2021)

The research made a regression investigation to establish the regression coefficients linking the dependent and independent variables as illustrated by the equation below when there is an interaction with information asymmetry: There are criterion of identifying the moderation is by looking at the level of significance, the t-values and the Unstandardized Coefficient and another by observing the R^2 and noting their changes as being positive or having a negative effect and the strength thereof. The results in the study indicates that the constant changed from initial 1.195 without moderation to 1.082 when the moderation of information asymmetry occurs which is a negative change. Comparing the Coefficients' of Credit Appraisal Techniques and Credit Risk Control Measures shows and positive change which suggest that the interaction was positive. On the other hand, Credit Terms and Credit Collection Policies were affected negatively. Therefore, the changes indicate diverse directions and strengths but confirm the moderator affected the variables. By comparing the R^2

as shown by the models with and without moderation, the R^2 without moderation was 46.3% while after moderation the R^2 was 32.5%. Results in Table 4.38 indicate that all the four predictor variables when interacted with information asymmetry (moderator) explain 32.5% (R2= .325) of total variations in the dependent variable (loan performance). A comparison between the R square without moderation and R square with moderation revealed that the R square declined from 46.3% to 32.5%, implying that information asymmetry had a significantly negative moderating effect on the relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

4.13 Hypothesis Testing

The hypothesis was performed using multiple linear regressions. The rejection and acceptance criteria were, when p value is 0.05 or greater, the H_{01} is accepted but if it's less than 0.05, the H_{01} is rejected.

4.13.1 Hypothesis testing for Credit appraisal techniques

The research pursued to test the hypothesis that: H_{01}: Credit appraisal techniques do not have significant effect on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The results that p-value was 0.000 which was less the 0.05 significant levels. In this case, based on the rule of thumb for significance, the research rejects the null hypothesis (H_{01}) and determined that credit appraisal techniques have a significant effect on loan performance of Government Enterprise Development Funds. The findings in Table 4.29 indicated that r=0.518 and p=0.000 meaning that there exists a moderate positive and significant relationship between credit appraisal techniques and loan performance of Government Enterprise Development Funds. The findings agree with Ochongo (2018) which assessed the

effects of Credit Appraisal Practices on Profitability of DTM and found out that Credit Appraisal Practices have a positive correlation with loan performance.

4.13.2 Hypothesis testing for Credit terms

The study tested the hypothesis that: H_{02}: Credit terms do not have significant effect on the loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings on this research shows that p-value was 0.000 which was less the 0.05 significant level. Hence, based on the rule of significance, the research rejects the null hypothesis (H_{02}) and established that credit terms have a significant effect on the loan performance of Government Enterprise Development Funds. The findings in Table 4.28 indicated that r=0.563 and p=0.000. This express that there is a moderate positive and significant relationship between credit terms and loan performance Government Enterprise Development Funds in Nakuru County, Kenya. The findings contradict with Matunda (2016) study on the effectiveness of credit policy on financial performance of microfinance institutions in Nairobi County. The study highlighted that the management should be careful when setting up credit terms. The study concluded that credit terms has a negative effect.

4.13.3 Hypothesis testing for Credit collection policies

The study tested the hypothesis that: H_{03}: Credit collection policies do not have significant effect on loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings the p-value was 0.004 which was less than the 0.05 significant levels. Therefore, based on the rule of significance, the study rejects the null hypothesis (H_{03}) and concluded that credit collection policies have a significant effect on loan performance of Government Enterprise Development Funds. The findings in Table 4.29 indicated that r=0.210 and p=0.001. The p value was less than the significant level of 0.01 meaning there is weak positive and statistically

significant relationship between credit collection policies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings agree with Mwangi (2016) in a study on the effects of credit risk management on loan repayment performance of commercial Banks in Kenya which established out that balance or debt collection has positive and very significant effect on loan performance of banks.

4.13.4 Hypothesis testing for Credit risk control measures

The study sought to test the hypothesis that: H_{04}: Credit risk control measures do not have significant effect on loan performance of Government Enterprise Development Fund in Nakuru County, Kenya. The results that the p-value was 0.000 which was below than 0.05 significant level. Hence, based on the rule of significance, the research rejects the null hypothesis (H_{04}) and established that credit risk control measures have a significant effect on loan performance of Government Enterprise Development Fund. The findings presented in Table 4.30 indicated that r=0.213 and p=0.004. The p value was less than the significant level of 0.05 meaning that there was statistically significant weak positive relationship between credit risk control measures and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The results do not agree with Kaimuri (2016) who steered a study on effects of credit risk management practice and performance of commercial banks in Kenya, which describes and states that credit risk control strategies always has negative effect on loan performances of these commercial banks and thus a reverse association between credit risk controls and performance. However, the research agrees with Khan (2015) a study on the effect of Credit Risk Management Practices on Loan Performance in Micro Finance Banking Sector of Pakistan. The

findings revealed that credit risk control measures has a positive loan performance and thus its very significance.

4.13.5 Hypothesis testing on moderating effect of Information asymmetry

The study tested the hypothesis that: H_{05}: Information asymmetry does not have significant moderating effect on relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. From the outcomes the p-value was 0.000 which was less than 0.05 significant levels. Based on the rule of significance, the research rejects the null hypothesis (H_{05}) and established that information asymmetry has a significant moderating effect on the relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The results agree with a case study conducted by (Kemei, 2014) on the effects of information asymmetry and the performance of the banking industry in Mombasa County that concluded that information asymmetry has a bearing on loan performance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter centers on the summary of major findings of the research; the summary is both descriptive and inferential. It is then followed by a presentation of the conclusions incidental from the findings. Relevant recommendations based on the study are then suggested and also an outline for areas proposed for further research.

5.2 Summary of Findings

The research sought to find the effectiveness of credit risk management strategies on the loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The major findings of the study are outlined below as per the objectives.

5.2.1 Credit Appraisal Techniques and Loan Performance

The study sought to establish whether credit appraisal techniques affect loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The research discovered majority of the fund use credit appraisal in credit management to a very great extent. It is absolutely important for a government enterprise development funds to carry out a credit appraisal procedure in order to ensure that the borrower has the capability to repay the entire loan amount on time. Some of the credit appraisal technique used by government lenders include; 5Cs, credit scoring, relationship lending, reference from CRB, CAMPARI and PAPERS. The regression coefficient indicates that when all other independent variables are held constant, an increase in credit appraisal techniques will increase the loan performance by 31.1%. Findings indicate majority of the respondents validated that credit appraisal is a feasible strategy for credit management. The findings established that it exists a

moderate positive and statistical significant relationship between credit appraisal techniques and loan performance of Government Enterprise Development Funds. The research rejects the null hypothesis (H01) and determined that credit appraisal techniques have a significant effect on loan performance of Government Enterprise Development Funds.

5.2.2 Credit Terms and Loan Performance

The researcher sought to establish whether credit terms affect the loan performance Government Enterprise Development Funds in Nakuru County, Kenya. From the study majority of the respondents admitted that in credit terms affect credit management to a very great extent. This was also clear that credit terms in the loan agreement help in reducing default rate. A loan agreement detail what is being loaned and when the borrower has to pay it back as well as how. The regression coefficient indicate that an enhanced in credit terms will increase the loan performance by 31.3% when other independent variables are held constant. It occurs a moderate positive and significant relationship between credit terms and loan performance Government Enterprise Development Funds in Nakuru County, Kenya. The research rejects the null hypothesis (H02) and established that credit terms have a significant effect on the loan performance of Government Enterprise Development Funds.

5.2.3 Credit Collection Policies on Loan Performance

The study sought to establish whether credit collection policies affect loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. Outcomes revealed that credit collection policies affect credit management to a great extent. Some of the collection policies that government enterprise development funds use to collect debt include guarantors and collateral. The use of a guarantor permits those with bad credit ratings to add security to their repayments and

so it is a great option for those with bad credit. Modeling a more focused debt collection strategy help reduce costs implications, saves time and maximize resources. From regression analysis, enriched credit collection policies will increase the loan performance by 24.7% when other independent variables are held constant. The results revealed a positive statistically significant relationship between credit collection policies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The study rejects the null hypothesis (H03) and concluded that credit collection policies have a significant effect on loan performance of Government Enterprise Development Funds.

5.2.4 Credit Risk Control Measures and Loan Performance

The study sought to establish whether credit risk control measures affect loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings revealed that organization use credit risk control measures in managing credit to a very great extent. A credit risk control measure allows the management team to cognize which potential clients may have high a risk above the risk tolerance. Some of credit risk control measure(s) that have been put in place by government enterprise development funds are; credit risk proof, evaluation, monitoring and credit risk reporting. The regression analysis indicates that an improvement in credit risk controls will lead to an increased loan performance by 21% when other independent variables are held constant. The finding also shows that there is a moderate positive and significant relationship between credit terms and loan performance Government Enterprise Development Funds in Nakuru County, Kenya. The findings further revealed that there is a statistically significant relationship between credit risk control measures and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The research rejects the null

hypothesis (H04) and established that credit risk control measures have a significant effect on loan performance of Government Enterprise Development Fund.

5.2.5 Moderating Effect of Information Asymmetry on Relationship between Credit Risk management Strategies and Loan Performance

The research sought to evaluate the moderating influence of information asymmetry on relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya. The findings revealed that the management of government enterprise development funds put into consideration the existence of information asymmetry where borrowers have hidden information they do not want to disclose. The research rejects the null hypothesis (H05) and established that information asymmetry has a significant negative moderating effect on the relationship between credit risk management strategies and loan performance of Government Enterprise Development Funds in Nakuru County, Kenya.

5.3 Conclusions

The findings of the study have several conclusions drawn based on the research objectives.

5.3.1 Credit Appraisal Techniques and Loan Performance

The researcher concluded that government enterprise development funds have experienced personnel for conducting out credit appraisal. It was also noted that inability to evaluate customer's capability for reimbursement results in loan defaults. The study further concluded that failure to have post advance follow ups to customers result in loan default. Appraisal techniques help the government enterprise development fund lend prudently and lowers the default levels. Strict adherence to appraisal techniques therefore reduces levels of loan default. The appraisal techniques

were established to be very beneficial to the credit division as they guide the loaning process and ring homogeneousness within the government enterprise funds' network. From the research, factors that lead to loan default are doubtful characters of borrowers, high interest rates that makes the loan too expensive and result for loanee divert the facility to unintended purpose and never disclosed to the lender.

5.3.2 Credit Terms and Loan Performance

The researcher summarized that the imposition of loan limits is a workable strategy in credit administration as it helps reduce default rate. It was also noted that flexible reimbursement periods improve loan repayment. The study further concluded that fine for late payment improves customer's commitment to loan repayment. The study further concluded that the usage of credit checks consistently enhances credit management. Interest rate charges have a bearing on loan refund and default rate. The results also indicated that credit terms in the loan agreement help in reducing default rate. A loan agreement detail what is being loaned and when the borrower has to pay it back as well as how.

5.3.3 Credit Collection Policies and Loan Performance

The researcher concluded that the collection policy(s) help in reducing default rate. Collection policies help retain clients and free up funds for loaning. The study further concluded that consistent evaluations are made on collection policies to advance state of credit administration. The study further concluded that guarantors and collateral is an effective way that helps in loan recovery from defaulters. Credit collection policies, helps the government enterprise development funds lend prudently and depresses the risk level to them.

5.3.4 Credit Risk Control Measures and Loan Performance

The study concluded that credit risk control measures help reduce default rate. It was also noted that credit managing committees' participation in making decisions on loans are crucial in reducing loan default. The study further concluded that internal control systems help in reducing default rates and increase repayment by borrowers. In addition the study further concluded that credit administration processes have a direct implication on loan repayment. Credit monitoring on borrower's activities help reduce the default rate.

5.3.5 Moderating effect of Information Asymmetry and relationship between Credit Risk Management Strategies and Loan Performance

The researcher concluded that moral hazards by borrowers contribute on loan repayment/ default. It was also established that the administration of government enterprise development funds has a policy to ensure loans are used for intended purpose. The study further concluded that the management of government enterprise development funds is involved in meetings held by groups/borrowers. The study further concluded that that the management of government enterprise development funds conducts impromptu visits to borrower's projects or business to curb the event of moral hazards. The study also conclude that moderating effect of information asymmetry has a negative effect of loan performance.

5.4 Recommendations

The following recommendations were made in the light of the findings and conclusions to assist the management of Government Enterprises Development Funds, Nakuru County, Kenya to improve on their loan performance relative to the credit risk management.

5.4.1 Credit Appraisal Techniques

The management of government enterprise development funds should enforce the application of appraisal techniques and less of relationship lending. Proper and Sound appraisal techniques will guarantee loaning to the correct beneficiaries and reduces chances of default. The study recommends the utilization of different appraisal techniques on borrowers and not a single technique.

5.4.2 Credit Terms

The study recommends the updating of contract terms and condition on a regular basis. This will accommodate the emerging issues on lending. With updated credit terms that features the current trends will help reduce the non-performing loans and free up resources for lending.

5.4.3 Credit Collection Policies

The study recommends proper collection policies and enforcement procedures to enable the funds collect loans on time and within the contract period. Correct enforcement procedures will reduce the rate of default as the conversion rate will be high.

5.4.4 Credit Risk Control Measures

The study recommends that the senior management of Government Enterprises Development Funds should develop policies and procedures for identifying, measuring, monitoring, evaluating and controlling credit risk. They should establish independent internal control system for assessment that focuses on risk environment. Proper management of risks will reduce default rate.

5.4.5 Information Asymmetry

The study recommends the capacity building to all appraising staffs on critical environment of moral hazards and adverse selection. The regulatory frame work on

Information asymmetry will arrest and neutralize credit risks and help improve collections and lower the default risk.

5.5 Areas for Further Research

The research recommends an in-depth study should be made on the challenges faced by government enterprise development funds in Kenya. The study also recommends the study on the other funds that could not fit in this study due to its administration model that is unclear and inadequately ignored management policies and procedures and see how best the funds can be structured. Further studies should be undertaken in the future to assess the effect of credit reference bureaus recording and the effects it has on loans performance.

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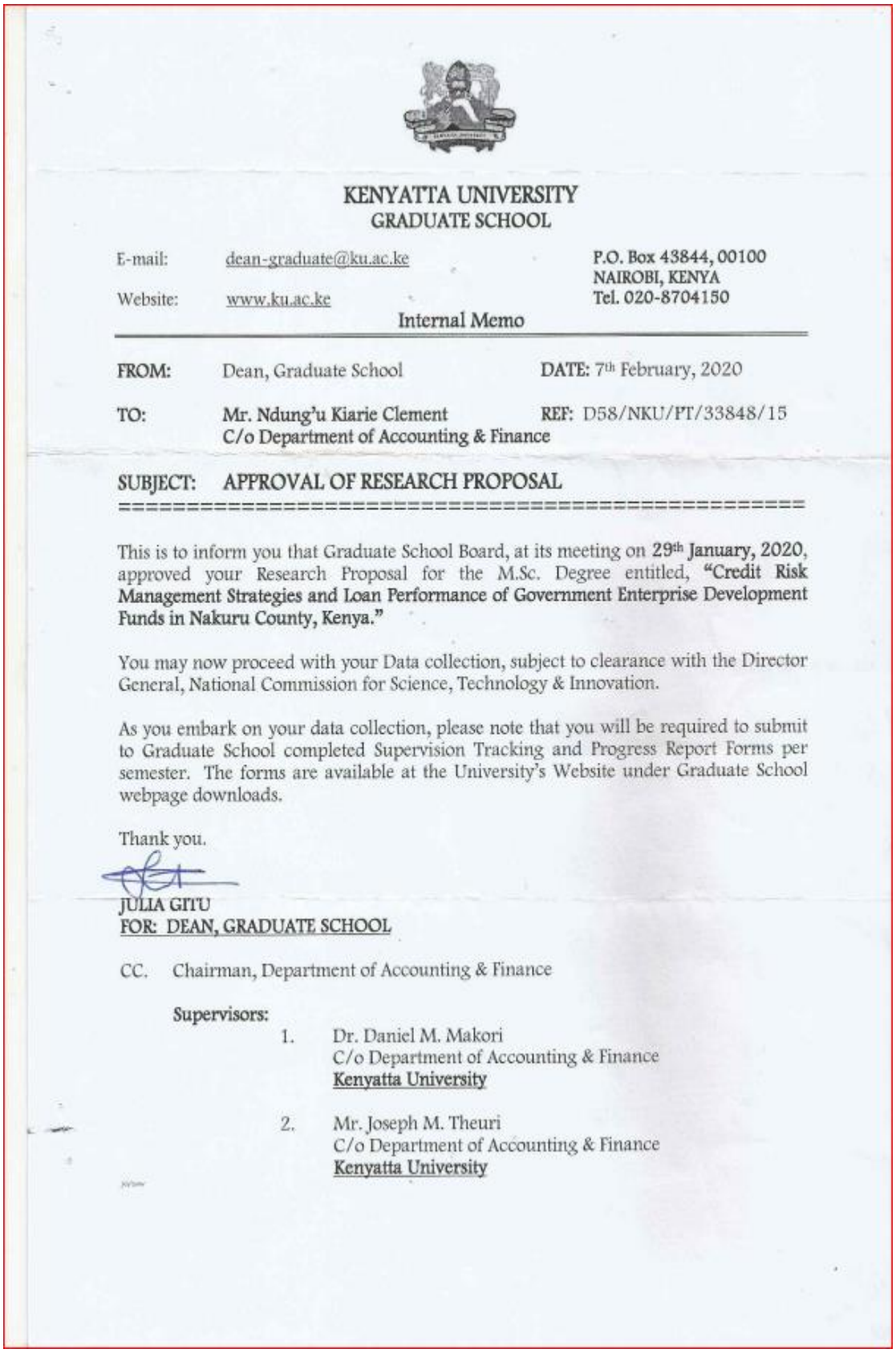
APPENDICES

APPENDIX I: APPROVAL LETTER FROM THE GRADUATE SCHOOL



KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 020-8704150

Internal Memo

FROM: Dean, Graduate School **DATE:** 7th February, 2020

TO: Mr. Ndung'u Kiarie Clement **REF:** D58/NKU/PT/33848/15
C/o Department of Accounting & Finance

SUBJECT: APPROVAL OF RESEARCH PROPOSAL

This is to inform you that Graduate School Board, at its meeting on 29th January, 2020, approved your Research Proposal for the M.Sc. Degree entitled, **"Credit Risk Management Strategies and Loan Performance of Government Enterprise Development Funds in Nakuru County, Kenya."**

You may now proceed with your Data collection, subject to clearance with the Director General, National Commission for Science, Technology & Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and Progress Report Forms per semester. The forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

JULIA GITU
FOR: DEAN, GRADUATE SCHOOL

CC. Chairman, Department of Accounting & Finance

Supervisors:

1. Dr. Daniel M. Makori
   C/o Department of Accounting & Finance
   Kenyatta University

2. Mr. Joseph M. Theuri
   C/o Department of Accounting & Finance
   Kenyatta University

APPENDIX II: NACOSTI LICENSE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **965797**

Date of Issue: **16/March/2020**

RESEARCH LICENSE

This is to Certify that Mr.. Clement Kiarie Ndung'u of Kenyatta University, has been licensed to conduct research in Nakuru on the topic: CREDIT RISK MANAGEMENT STRATEGIES AND LOAN PERFORMANCE OF GOVERNMENT ENTERPRISE DEVELOPMENT FUNDS IN NAKURU COUNTY, KENYA. for the period ending : 16/March/2021.

License No: **NACOSTI/P/20/4116**

965797

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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APPENDIX III: QUESTIONNAIRE

Questionnaire for data collection from Credit Managers, Credit Analysts and Credit recovery teams at YEDF and WEF. This is in relation to a research topic on "CREDIT RISK MANAGEMENT STRATEGIES AND LOAN PERFORMANCE OF GOVERNMENT ENTERPRISE DEVELOPMENT FUNDS". I will be thankful if you could find some moments to respond to these questions for me. You are assured that any information received would be used for academic determinations only and will be held strictly confidential.

SECTION A: DEMOGRAPHIC DATA

Name of the fund _____

Please, tick [√] or fill in as appropriate.

1. Kindly specify your gender.
   Male [ ] Female [ ]

2. Year of service in the institution.
   (a) 0-1 years [ ]
   (b) 2-5 years [ ]
   (c) 6-10 years [ ]
   (d) Over 10 years [ ]

3. Name of the department.
   (a) Credit Risk Management team [ ]
   (b) Credit Analyst Management team [ ]
   (c) Credit Recovery Management team [ ]
   (d) Any other [ ]

4. Do your institution implemented Credit Risk Management practices to measure, evaluate and report risk?
   Yes [ ] No [ ]

SECTION B: CREDIT APPRAISAL TECHNIQUES

5. To what degree does your organization utilize credit appraisal techniques for Credit Administration?

   Very great extent [ ] Great extent [ ] Moderate extent [ ] Low extent [ ] Not at all [ ]

6. Please choose the techniques used in your institution in credit appraising and indicate the impact of the appraisal technique(s) on loan performance in terms of preventing or reducing default rate. Rate by a scale of 1 to 5 where 5 Very strong, 4 is Strong, 3 is Moderate, 2 is Weak and 1 is Very Weak.

Technique/Rating scale	**1**	**2**	**3**	**4**	**5**
5Cs					
Credit Scoring					
Relationship Lending					
Reference from CRB					
CAMPARI					
PAPERS					
Others.....					

7. (i) How many appraisal techniques does your institution use per borrower for approval?.....Why the technique(s) chosen?……
   .....

(ii) What is your level of agreement on the following statements relating to credit Appraisal? Rate using a scale of 1 to 5 where 5 is strongly agree, 4 is Agree, 3 is Neutral, 2 is Disagree and 1 is Strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Credit appraisal are a feasible model for credit risk management.					
The Fund has skilled personnel for conducting credit appraisal on clients.					
Inability to evaluate customer repayment capacity breed in loan defaults					
Failure to have post advance follow ups to customers result in loan default.					

SECTION C: CREDIT TERMS

8. (i) To what extent does your fund emphasizes on credit terms in Credit Management?

   Very great extent [ ] Great extent [ ] Moderate extent [ ] Low extent [ ] Not at all [ ]

   (ii) What is your level of agreement on the following statements relating to credit terms in your Fund? Rate by a scale of 1 to 5 where 5 is strongly agree, 4 is Agree, 3 is Neutral, 2 is Disagree and 1 is Strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
The imposition of loan limits is a good methodology in credit risk management as it helps reduce default rate.					
Repayment with flexibility in periods improve loan reimbursement.					
Fines imposed for late payment boosts commitment from customers and hence reduce defaults.					
The use of credit checks consistently enhances credit management					
Interest rate charges has a bearing on loan repayment and default rate					

   (iii) Can the credit terms in the loan agreement help in reducing default rate?

   (a) Yes [ ]

   (b) No [ ]

   (iv) Please explain to what extent.

   ……

SECTION D: CREDIT COLLECTION POLICY

9. To what extent does your Fund adopt credit collection policy in Credit Administration?

   Very great extent [ ] Great extent [ ] Moderate extent [ ] Low extent [ ] Not at all [ ]

10. (i) Identify the collection policy(s) used by your institution to recover debts.

    (a) Guarantors [ ]

    (b) Insurance [ ]

(c) Collateral(s) [ ]

(d) Others, Specify…….

(ii) Does the above collection policy(s) help in loan recovery?

(a)Yes [ ] (b) No [ ]

(iii) Please explain to what extent.

……

(iv) How many guarantors are required per loan? .....

(v) How long (days or months) will it take before involving a guarantor?.....

(vi) What is your level of agreement on the following statements relating to credit collection policies in your Fund? Rate using a scale of 1 to 5 where 5 is strongly agree, 4 is Agree, 3 is Neutral, 2 is Disagree and 1 is Strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Collection policies implemented by the fund have assisted to reduce inefficiencies in credit risk management.					
Collection policies formulation and adoption in credit management has remained a big task to the fund.					
Implementation of guarantee policies adopted offers probabilities for loan repossession.					
There has been Credit Collection reviews by the fund to improve state of credit administration.					
An inflexible policy is very much effective in debt repossession than a lenient policy					
Collateral attachment has an effect on loan recovery by defaulters.					
Insurance is an effective way that helps in loan recovery from defaulters.					

SECTION D: CREDIT RISK CONTROL MEASURES

11. What degree do your organization adopt credit risk control measures in Managing credit?

    Very great extent [ ] Great extent [ ] Moderate extent [ ] Low extent [ ] Not at all [ ]

12. (i) Kindly identify the credit risk control measure(s) put in place by your institution.

    (a) Credit risk Identification [ ]
    (b) Credit risk Measurement [ ]
    (c) Credit risk Evaluation [ ]
    (d) Credit risk Monitoring [ ]
    (e) Credit risk Reporting [ ]

    (ii) Does the above credit risk control measures selected help reduce default rate?

    (a)Yes [ ] (b) No [ ]

    (iii) Please explain to what extent.

    ……

    (iv) Does the institution have another criterion of credit risk control measure(s) distinct from one stated above?

    Kindly specify…….

    (v) What level of agreement on the following statements relating to credit collection policies in your Fund? Rate using a scale of 1- 5 where 5 is strongly agree, 4 is Agree, 3 is Neutral, 2 is Disagree and 1 is Strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Involving Credit risk committees in making decisions concerning loans are critical in reducing default.					
Internal control systems will likely help reduce default rates and increase repayment by borrowers.					
Credit administration process will have a direct implication on loan repayment.					
Credit monitoring on borrower's activities will help reduce the default rate.					

SECTION D: INFORMATION ASYMMETRY

13. (i) Does the management put into consideration the existence of information asymmetry where borrowers have hidden information they don't want to disclose?

    (a) Yes [ ] (b) No [ ]

    (ii) How does the management address the issue of moral hazard? (Where the borrower uses the loan advanced against what was disclosed and stated in the contract signed by the parties)……..

    ……

14. (iii) To what degree do you agree with this below statements? Rate using a scale of 1 to 5 where 5 is strongly agree, 4 is Agree, 3 is Neutral, 2 is Disagree and 1 is Strongly disagree.

Statement	**1**	**2**	**3**	**4**	**5**
Moral hazards by borrowers contribute on loan repayment/ default.					
The management has a policy to ensure loans are used for intended purpose.					
Management is involved on meetings held by groups/borrowers.					
Management conducts impromptu visits to borrower's projects or business to curb the event of moral hazards.					

SECTION D: LOAN PERFORMANCE

15. Please indicate how proper credit systems help in reducing non-performing loans?

    (a) More often [ ]

    (b) Often [ ]

    (c) Rarely [ ]

    (d) Not at all [ ]

16. What have been the effects of managing credit risk system in your institution?

    (a) Performance in terms of loan recovery [ ]

    (b) Increased loan uptake by customers [ ]

    (c) Increased allocations from government [ ]

    (d) No effect [ ]

(e) Others [ ]

17. Does the credit management strategy techniques adopted by the institution apply to all borrowers? (a)Yes [ ] (b) No [ ]
18. How long does a loan advanced take to be categorized as non-performing loan?.....
19. How else does your institution report its performance?..... .....
20. Give some of the challenges your fund faces in application of the credit risk management strategies?.....
21. What can you suggest to address the high default rate by borrowers of government enterprise funds in Kenya?

.....

END: THANK YOU AND GOD BLESS YOU FOR YOUR RESPONSE.

APPENDIX IV: SPSS OUTPUT

Correlations						
		Credit Appraisal Techniques	Credit Terms	Credit Collection	Credit Risk Control Measures	Loan Performance
Credit Appraisal Techniques	Pearson Correlation	1	.877**	.897**	-.179	.518**
	Sig. (2-tailed)		.002	.001	.645	.000
	N	8	8	8	8	8
Credit Terms	Pearson Correlation	.877**	1	.896**	-.193	.563**
	Sig. (2-tailed)	.002		.001	.619	.000
	N	8	8	8	8	8
Credit Collection	Pearson Correlation	.897**	.896**	1	-.176	.210**
	Sig. (2-tailed)	.001	.001		.650	.001
	N	8	8	8	8	8
Credit Risk Control Measures	Pearson Correlation	-.179	-.193	-.176	1	.213**
	Sig. (2-tailed)	.645	.619	.650		.004
	N	8	8	8	8	8
Loan Performance	Pearson Correlation	.518**	.563**	.210**	.213**	1
	Sig. (2-tailed)	.000	.000	.001	.004	
	N	8	8	8	8	8
**. Correlation is significant at the 0.01 level (2-tailed).						

Model Summary				
	R	R Square	djusted R Square	Error of the Estimate
	.681[a]	.463	.458	.62786
s: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection, Credit Risk easures				

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712[a]	.506	.500	.60303
a. Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection, Credit Risk Control Measures				

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	123.922	3	41.307	1.1515	.000[b]
	Residual	143.491	4	35.872		
	Total	267.413	7			
a. Dependent Variable: Loan performance of Government Enterprise Development Funds						
b. Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection, Credit Risk Control Measures						

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	135.411	3	45.137	1.368	.000[b]
	Residual	132.002	4	33.001		
	Total	267.413	7			
a. Dependent Variable: Loan performance of Government Enterprise Development Funds						
b. Predictors: (Constant), Credit Appraisal Techniques, Credit Terms, Credit Collection, Credit Risk Control Measures						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.195	.130		9.165	.000
	Credit Appraisal Techniques	.311	.034	.430	9.028	.000
	Credit Terms	.313	.033	.432	9.616	.000
	Credit Collection	.247	.041	.082	6.024	.004
	Credit Risk Control Measures	1.195	.130		9.165	.000
a. Dependent Variable: Loan performance of Government Enterprise Development Funds						

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.082	.127		8.529	.000
	Credit Appraisal Techniques	.314	.033	.433	9.470	.000
	Credit Terms	.159	.042	.220	3.831	.000
	Credit Collection	.217	.023	.030	9.435	.005
	Credit Risk Control Measures	.251	.033	.323	7.606	.000
	Information Asymmetry	.225	.040	.304	5.621	.000
a. Dependent Variable: Loan performance of Government Enterprise Development Funds						

Tolerance and VIF Test

		Collinearity Statistics	
Model		**Tolerance**	**VIF**
1	(Constant)		
	Credit appraisal techniques	.649	1.540
	Credit terms	.731	1.368
	Credit collection policies	.889	1.124
	Credit risk control measures	.775	1.291
	Information asymmetry	.717	1.181

White's Test Heteroskedasticity

Model		Sum of Squares	df	Mean Square	chi^2	Prob>chi^2.
	Regression	123.922	3	41.307	7.68	.1157
	Residual	143.491	4	35.872		
	Total	267.413	7			

Jarque-Bera test

Variable	**Obs**	**Pr(Skewness)**	**Pr(Kurtosis) adj**	**chi^2(2)**	**Prob>chi^2**
Credit appraisal techniques	104	0.0000	0.00200	30.99	0.000
Credit terms	104	0.0000	0.00000	9.86	0.000
Credit	104	0.0000	0.00000	11.26	0.000

collection policies					
Credit risk control measures	104	0.0000	0.00000	53.31	0.000