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THE EFFECT OF GROSS LOAN PORTFOLIO MANAGEMENT PRACTICES ON PERFORMANCE OF DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN KENYA: A SURVEY OF DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN UASIN GISHU COUNTY, KENYA

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ABSTRACT

This study discussed the effect of gross loan portfolio management practices on performance of deposit taking micro finance institutions in Uasin Gishu County, Kenya. Four deposit taking MFIs with a population of 40 staff were targeted. The quasi experimental post test only research design was employed for this study. Closed ended questionnaires and interview schedules were the instruments used to collect data for this research. Multiple regressions was run and used to test the formulated hypotheses in order to establish the effect of gross loan portfolio management practices on the performance of deposit taking micro financial organizations. Analyzed data was presented in tables. In the final analysis, it was found that gross loan portfolio management practices impacts positively on the performance of deposit taking micro finance institutions in Uasin Gishu County, and accounts for up to 81.1% of the variation in performance of the MFIs.

Keywords: Management Practices, Gross Loan Portfolio, Portfolio Management Practices, Performance

INTRODUCTION

Microfinance plays an important role in adding value to people with little or no income and who may not have collateral to allow them to borrow from commercial banks. The performance of microfinance is manifested in the financial services that they offer to their clients to alleviate poverty, promote opportunities, enhance security and facilitate their empowerment. Among services offered by micro-financing institutions include; loans, savings, micro insurance, technology and rural outreach. (Muiruri Paul, 2014)

Through loans for instance, micro finance institutions are able to increase income levels and create jobs for others. Savings accounts help creation of security for future requirements and, serve as crucial elements for building independence economic wise. Micro insurance services increase performance in terms of protection from disasters, drought, illness or death. Technology on the other hand is used to reach financial services to the most marginalized and those in remote areas. Micro-financing institutions take cognizance of the fact that in developing countries, people residing in rural and remote areas have difficulties in accessing financial services leaving them impoverished. Consequently, most MFIs take financial services to the people no matter the distance. (Hermes & Lensik, 2011)

The performance of microfinance with regards to poverty eradication continues to gain recognition among scholars. The World Bank (2009) acknowledges that the food crises that continue to push millions of people into extreme poverty have occasioned proliferation of poverty eradication programmes in most developing countries. Not all of these programs as reported by Alimukhamedora (2013) are able to reach the poorest among the poor people. Microfinance is therefore perceived as the solution to the endeavor to reach as many deserving individuals as can be fathomed. According to Alimukhamedora (2013), microfinance is easily accessible to a large proportion of the poor despite requiring less investment.

The global crisis of the late 2007 is reported to have posed major challenges to some MFIs (Di Bella, 2011). Among the impacts, the global crisis had on microfinance is reported to have been deteriorating in the quality of portfolios for most of the MFIs (CGAP, 2009). Some MFIs reported increased portfolio at risk (PAR), others experienced loan delinquency, while others reported liquidity constraints (CGAP, 2009).

Loan portfolio is regarded as not only the largest asset, but also as the predominant source of revenue. According to the loan portfolio management handbook (2017), the central role loan portfolio plays in financial institutions makes it the greatest source of risk to the institutions safety and soundness. Defining loan portfolio management as a process of managing and controlling risks inherent in the credit process, the handbook notes that of fundamental importance to financial institutions is the ability to effectively manage their loan

portfolio. Loan portfolio management handbook (2017).Indeed, a number of studies have been conducted globally with a view of establishing how various financial institutions have addressed the issue of loan portfolio management.

Haripriya (2017) examined management of credit risk in microfinance institutions. Basing the study on the understanding that, sometimes loans are provided to unprivileged sections that lack stability in income necessary for provision of collateral and who ended up not being able to repay the loan, Haripriya concluded that the source of recurring problems and failure among many of the micro-financing institutions was as a result of risk portfolios. This study though pointing risk portfolios as contributory to microfinance failure did not provide any suggestions as to how such portfolio could be managed.

Juan, Christophe, and Lyn (2017) through a study conducted in the United Kingdom (UK) contend that portfolio management entails the need to reduce portfolio risk in order to maximize its profitability. They conclude that lack of data can be a major challenge to portfolio assessment. The study by Juan et al., (2017) fails to highlight how the management of credit portfolio impacts on the performance of the financial institutions in terms of accessing services to the needy, but only proposes a framework for assessing and improving credit portfolio within the institution.

Interest on the management of loan portfolio is also captured by, Ralph, Damel and Anita (2010) when examining determinants of bank loan portfolios using evidence drawn from transition countries. The study highlights bank ownership, legal credit protection, and bank size as factors that determine the composition of bank loan portfolios. The findings by Ralph and colleagues no doubt point to aspects of bank portfolios that ought to be keenly monitored for purposes of managing bank portfolios. However, of concern is how management of the loan portfolios influences the performance of banks and in retrospect microfinance institutions.

Discourse on management of loan portfolio particularly in microfinance institutions has also permeated the African continent. Addae–Korankye (2014) focuses on what causes loan default or delinquency in Ghana's microfinance institutions and how this could be controlled. Buoyed by the understanding that microfinance institutions have been associated with effective implementation of programs, Addae-Korankye finds that interest rates, loan sizes, monitoring, appraisal, and client selection were major factors that could lead to loan default. Consequently, Addae-Korankye recommends that MFIs ought to have in place credit policies and procedures that are clear and effective, that should be reviewed regularly. Going forward, it would seem prudent to examine such aspects of loan portfolio management as recommended by Addae-Korankye by examining micro finance institutions in Kenya.

Adugna (2014) examined factors that determine the quality of loan portfolios in microfinance institutions in Ethiopia. Motivated by a lack of quantitative research focusing on loan portfolio quality in MFIs in Ethiopia, Adugna established that institutional size, operating expense, gross loan portfolio, voluntary savings, and return on equity (ROE) had negative and significant relationships with loan loss rate (LLR) and write off ratio (WOR). However, the study found that MFIs age was a positive and significant predictor of 90-day portfolio at risk (PAR-90), percentage of women borrowers was positive and significant predictor of 30-day portfolio at risk (PAR-30); and deposit to loans positively influenced LLR, and WOR. The study by Adugna (2014) comprehensively covers factors that determine quality of loan portfolios and highlights several indicators of loan portfolio management that may need to be examined from other contexts.

In another study conducted in Nigeria, Adamu, Asongo and Nyor (2014) analyzed the management of credit risk portfolio from a microfinance banking perspective. Building on the knowledge that microfinance banks play a critical role in the provision of financial services and products to a cross-section of people some who lack collateral to borrow from commercial banks, Adamu and colleagues found out that credit risk remains the main threat to performance of microfinance banks. The study therefore paves way to examine possible approaches that can be used to control loan defaults.

Interest in loan portfolio management has also been experienced in the East African region. A study conducted in Tanzania examines loan portfolio management effectiveness from a rural Sacco's perspective (Magali, 2014). The study reports a number of findings related to loan portfolios of these Saccos. First of all the study identifies women as constituting a large proportion of the Saccos loan portfolios. Secondly, the size of loan was found to influence loan portfolio quality in a positive way. Gender of borrower did not however have any significant influence on loan portfolio quality. Third, the study established that to mitigate credit risk, the Saccos resorted to guarantors, affidavit, collateral, and portfolio diversification. Missing among the findings however was how loan portfolio management could affect the performance of such Saccos.

Analysis of loan portfolio management in Kenya has focused on aspects such as organizational profitability (Gongera, Miroga, Njoroge et al, 2013); micro-credit default (Gatimu & Kalui, 2014, Muturi, 2016); loan performance (Moti, Masinde, Mugenda & Sindani, 2012); and loan delinquency (Warue, 2012). According to Gongera et al. (2013), advancing loans from deposits made by customers continues to put banks under liquidity risk. This however does not clearly spell out how such risk impacts on the eventual value of the banks. Gongera and colleagues argue that though loans present liquidity risks, they are a necessary evil given that

higher loan volumes are commensurate with higher income accruals from interest and hence increased profit potentials.

Muturi (2016), contends that increased loan portfolio at risk (PAR) is a major concern to the health of microfinance institutions in Sub-Saharan Africa. Muturi does not however connect microfinance health in terms of the value such as MFIs possess. Muturi identifies institutional characteristics such as loan monitoring, prompt loan disbursement, client screening, and adherence to loan procedures as among determinants of loan default. The question then remains whether loan default has potential to affect the performance of the MFI in question. Gatimu and Kalui (2014) report that credit policies, procedures for loan recovery and the process used for loan appraisal are significant predictors of loan default. They however do not highlight the impact gross loan and social service portfolio could then have on the financial performance of the microfinance institution.

Moti, Masinde, Mugenda and Sindani (2012) argue that MFIs in Kenya suffer from high levels of non-performing loans. In their view, the size of the MFI, signing agreements, loan portfolio diversification, credit rating, and MFIs self-evaluation reports determine loan performance among microfinance institutions. Gatimu and Kalui (2014) argue that credit policy, loan appraisal process, and loan recovery procedures significantly impact on loan default. It therefore becomes apparent that gross loan portfolio management remains a major issue among microfinance institutions, which could pose a major threat to the performance of the industry if not individual MFIs.

Statement of the Problem

The potential that microfinance has as a tool for alleviating poverty by providing financial services to under privileged members of the society is well documented (UN, 2013). Through MFIs, the poor have been able to grow their savings, rural and remote areas have been reached and cooperatives have been strengthened. Nonetheless, despite the potential benefits that accrue from micro financing, the performance of some of these micro-financing institutions has been found wanting. The sector report on microfinance in Kenya (2014) indicates that credit only MFIs have performed poorly with a significant deterioration in portfolio.

Although factors such as structural fragility, supply of credit not able to meet demand, and limited ability to meet demand from enterprises have been associated with MFIs poor performance, poor loan portfolio management features prominently in discourse as the major challenge. The sector report (2014) shows that as of December 2013, credit only MFIs had PAR with highest concentration in older ageing–categories. The report further notes that their

PAR>90, PAR>180 and PAR>365 were quite significant and were somehow responsible for the deterioration in portfolio quality and challenges experienced in overall portfolio management.

Although studies have examined the impact of loan portfolio management on performance of microfinance institutions, they have tended to focus more on financial indicators of performance such as profitability, ROA, ROE among others. There is no doubt that MFIs bring a lot of social value in terms of: provision of loans, saving opportunities, micro-insurance, technology and rural outreach. More often than not performance of MFIs in terms of these core functions is hardly put into consideration. The study therefore sought to establish the impact such deterioration in portfolio could have on these functions by examining the effect of gross loan portfolio management practices on the performance of deposit taking microfinance institutions in Kenya.

Objective of the Study

To establish the effect of adoption of financial reports and accounting policies on the performance of deposit taking microfinance institutions in Uasin Gishu County, Kenya

LITERATURE REVIEW

Review of Theories

Modern Portfolio Theory

Modern portfolio theory (MPT) was proposed by Harry Markowitz in the early 1950s ostensibly as an investment decision tool (Omisore, Yusuf & Nwufo, 2012). Megginson (as cited in Myles, 2013, p. 60) contends that through the MPT model, Markowitz was able to articulately describe the impact of a number of securities in a portfolio along with their covariance relationships on portfolio diversification. In essence, therefore the MPT is viewed as a tool for risk-averse investors to gain opportunities for maximizing expected returns while at the same time minimizing market risk (Investopedia.com, 2018).

Modern Portfolio Theory takes cognizance of the fact that a portfolio as a grouping of financial assets that include bonds, stocks and cash equivalents, as well as associated funds, requires that investments risk and return characteristics are not viewed alone but rather as the overall portfolio, risk and return (Investopedia.com, 2018). Markowitz therefore noted that an investor could achieve diversification and a reduction in volatility of gross portfolio by considering how securities co-move with each other (as cited in Pedersen, 2014).

Several models were as a consequence advanced to help construct portfolios that could guarantee maximum returns and minimum risk in view of co-movements among securities. Key

among these models includes; the efficient frontier curve, the capital market-pricing model, and the security market line.

Financial reports and Accounting Policies on MFI Performance

Several studies in extent literature continue to link Accounting Policies with performance. Alayemi (2015) examined the effect of accounting policy on interpretation of financial statements. The study by Alayemi was buoyed by the requirement by the international Accounting Standards (IAS) that organizations should disclose the accounting policy adopted in the preparation of financial statements. Using a systematic review of literature, Alayemi concluded that the need to reduce contracting costs often dictates the accounting policy adopted. Moreover, Alayemi argued that choice of a variety of accounting policies has potential to impact ratios such return on capital both directly and indirectly.

Although the conclusions arrived at by Alayemi (2015) provide impetus for organizations to put in place on array of accounting policies based on the recommendations by IAS, a few incongruence are noted in Alayemi's study. For instance, the study fails to explicitly give the methodology used and the number of studies or books reviewed.

Moreover, the study focuses mainly on use of ratios to analyze financial statements. The proposed study therefore hopes to cover the missing gap of methodology by fusing both the quantitative and qualitative techniques in investigating the influence of accounting policies. Besides, the study hopes to focus mainly on how accounting policies affect performance of MFIs as opposed to being general on organization.

Quays (2013) analyzed the relationship between financial disclose as a facet of accounting policies and financial performance of MFI's. Motivated by a paradigm shift that requires emphasis on financial performance of MFI's; Quayes used the ordinary least squares method to analyze the impact of disclosure on financial performance. Using data collected from a web based platform Quayes find out that financial disclosure had a statistically significant impact on operational performance and financial performance of MFI's.

Quays (2013) findings are no doubt useful for stakeholders in the microfinance industry. However, some gaps are noted, Quayes for instance sets out to analyze the relationship between financial disclosure and financial performance but ends up finding the impact, which raises questions. Besides, Quayes fails to state the sample size, which is a key element of ordinary least squares approach. Moreover, use of web based data may not be authentic as may raise validity issues. Considering that disclosure is a component of accounting, there is need to establish the effect of accounting policies on the performance of MFI's.

Ikpefan, Taiwo and Kazeem (2016) investigated whether human capital accounting impacts on performance of microfinance banks in OgunState in Nigeria. The study was informed by the realization that human capital forms an integral component of microfinance banks. The study relied on content analysis of annual reports and financial statements of the sampled banks. Ikpefan et al., (2016) used a sample of 320 bank employees drawn from various levels. These authors used regression analysis to show that human resource accounting significantly affects performance of MFB's.

Ikpefam et al., (2016) recognize the need to consider human resources as key to the performance of microfinance institutions. Their study however remains unclear on the actual design used for the study. At one stage, the authors say that the study used content analysis of annual reports and financial statements, and at another, they claim to issue 350 questionnaire. Justification of 350 questionnaires for a regression analysis is also not made since no estimate of the squared multiple correlation coefficient is given.

Sarkodie, Addai and Asiedu (2015) examined the effect of accounting ratios on survival of MFI's in Ghana. Noting that accounting ratios provide an efficient means of measuring profitability and efficiency of companies based on financial reports, Sarkodie et al. (2015) used logistic regression to establish whether accounting ratios could predict fortunes of MFI's. A sample 117 observations revealed that current ratio, acid test ratio and debt to equity ratio were significant predictions of MFI survival.

The reported findings by Sarkodie et al., (2015) are vital to the survival of MFI's particularly with regards to how they check on their current, acid test and debt to equity ratios. The study does not however shown how such ratios impact on performance of MFI's. Indeed one cannot just assume that a surviving MFI is also performing well. Another point of concern is that though Sarkocdie et al report to have used annual audited accounts of MFI's in question, the number of years of observation that could make it a time series is lacking.

Oyoo (2014) in looking at accountability analyzed the effect of internal control on financial performance among MFIs in Kisumu central constituency, Kenya. Oyoo's study was motivated by challenges such as corruption, malpractices and poor performance that continue to affect MFI's. The study by Oyoo used descriptive and correlation research design and conveniently sampled 7 MFI's. Using questionnaires to collect data, the study revealed that internal control related positively with performance MFI's. These findings no doubt strengthen the need for internal controls of MFI's have to perform in their financial and outreach missions.

Oyoo's (2014) study however raises many questions. Using convenience sampling in a study of such magnitude raises questions of validity of the findings. Perhaps random sampling of the MFI's would be more objective. Relying on questionnaires alone may also not have been

ideal. Triangulating data collection methods would have enabled Oyoo (2014) to capture some secondary data that could raise external validity.

RESEARCH METHODOLOGY

Target population

The study targeted branch managers and other senior officers of the four deposit taking MFIs in the region, Faulu Kenya, Kenya Women Finance Trust (KWFT), Rafiki and SMEP. Senior officers comprised of operations officers, credit officers, unit heads, and relations officers. The branch managers and senior officers were chosen because of the important role they play in the day to day operations of MFIs. Among the roles they play includes maintenance of healthy portfolios, determination of portfolio levels, conducting loan appraisals, preparing financial and credit reports, linking clients with MFIs, and advising clients on loan packages. On the basis of records drawn from the targeted MFIs, the study therefore targeted 40 management staff as shown in Table 1.

Table 1 Target Population

Category of Respondent	Population
Branch managers	4
Operation officers	4
Credit officers	4
Unit heads	8
Relation officers	20
Total	**40**

Sampling Design

Sampling in research is a procedure of selecting a part of population on which research can be conducted, which ensures that conclusions from the study can be generalized to the entire population. A sample on the other hand refers to any group on which information is obtained (Neuman, 2009). Sampling design was therefore the definite plan that was used to obtain a sample from the chosen population (Lavrakas, 2008). It was made up of two elements, the sample size and sampling method.

The sample size was decided upon in recognition of the Krejcie and Morgan sample size table (see appendix ii). Consequently, from a target population of 40 management staff, a sample of 36 was drawn. To avoid data saturation particularly in the case of qualitative data

(Ritchie, et al., as cited in Mason, 2010), all the four branch managers representing each of four deposit taking MFIs were selected.

Two sets of study units, branch managers and senior officers were required for the purposes of this study. This therefore, necessitated use of a combination of sampling techniques. First, and foremost all the four branch managers of the four deposit taking MFIs were selected. Stratified and simple random sampling methods were used to select senior officers from the respective MFIs. First, the required sample were stratified according to category of officer as shown in Table 2.

Table 2 Stratified Samples

Category of Respondent	Population	Sample size
Operation officers	4	$\frac{4}{36} \times 32 = 4$
Credit officers	4	$\frac{4}{36} \times 32 = 4$
Unit heads	8	$\frac{8}{36} \times 32 = 6$
Relation officers	20	$\frac{20}{36} \times 32 = 18$
Total	**36**	**32**

Simple random sampling was then used to select the required number of officers from each of the categories. All officers in respective categories were each assigned numbers at random. Random numbers were then generated and used to select the number of officers earmarked for the sample.

Data Analysis and Presentation

Data from senior officers was first prepared and cleaned using descriptive statistics that included means, standard deviations, skewness and kurtosis, and standardized scores. Data was cleaned for missing values and outliers. In addition, data was tested for normality, linearity and homogeneity of variances, which are assumptions for regression analysis. Data was coded and entered into the Statistical Package for Social Science (SPSS) Ver.22.

Multiple regressions was run and used to test the formulated hypotheses in order to establish the effect of gross loan portfolio management practices on the performance of deposit taking micro financial organizations. Consequently, the following multiple regressions model was conceptualized based on the standardized regression coefficients.

Standardized regression coefficients represented by Beta (β) were noted to be useful for comparing the relative strength of predictors. Under this model, the constant in the regression assumes the value of zero (Neill, 2017).

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

Where:

Y= MFI performance (Dependent variable)

$X_1 =$ Accounting policies (independent variable)

$X_2 =$Credit policies and procedures (independent variable)

$X_3 =$Portfolio disclosure reporting (independent variable)

$X_4 =$Portfolio monitoring and control (independent variable)

$\beta_{i's} =$ Standardized regression coefficients

$\varepsilon =$ Error term

However, multiple regression was based on many assumptions. The relationship between independent variable and dependent variable was assumed to be linear. Also, there was no multi co-linearity in the data this implied that the predictors were not highly collated with one another. Values of the residuals were assumed to be independent and the variance of the residuals was constant. There was also an assumption that there was a normal distribution of the values of the residuals.

RESULTS AND DISCUSSION

Factor Structure of Accounting Policies Variable

A total of ten items were initially proposed to measure accounting policies as practiced in deposit taking MFIs.

The PCA results (table 3) revealed that sampling was inadequate although it provided for completeness in data for accounting policies (KMO = 0.423, $\chi 2 = 67.618$, $P<0.05$). Only six of the ten items loaded highly on three factors, and explained cumulatively, 54.175% of the variance in accounting policies. The factor structure as initially proposed was not supported and only six items were retained to measure the variable.

Table 3 Unidimensionality of accounting policies

Variables and Scales	Loading	Eigen values	Cumulative % Variance explained
Accounting policies			
Factor 1		**2.022**	**20.221**
The institutions robust accounting systems are reflected in portfolio reports	.614		
Institution's PAR reports are analyzed and interpreted by experts	.864		
Factor 2		**1.889**	**39.113**
The institution books loan repayments before cash is received	.628		
The institution has provisioning policies for loan classification	.742		
Institution's financial statements documents policies and procedures	.749		
Factor 3		**1.506**	**54.175**
The institution's branch management always explains any discrepancy in the balances of reports	.685		
Kaiser –Meyer-Olkin MSA	.423		
Bartlett's Test of sphericity (χ^2=67.618)	.016		

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

Testing Assumptions of Multiple Regressions

Multiple regressions, key inferential statistics used in the present study expect certain key assumptions to be satisfied (Tabachnick & Fidell, 2013). Data were therefore examined for the following assumptions of multiple regressions: normality, linearity, homogeneity of variances, autocorrelation, and multi-collinearity.

Testing for Normality Assumption

Normality of data distribution was tested for all variables measuring gross loan portfolio management practices, as well as for the microfinance performance variable. The Kolmogorov–Smirnov statistics were used to inspect normality of the variables. Choice of the Kolmogorov–Smirnov statistics was informed by small sample size of respondents (Tabachnick & Fidell, 2013). A non significant value of the Kolmogorov-Smirnov with a p-value above 0.05 was

deemed to signify normality. Results presented in Table 4 indicate that data were normally distributed across all the five variables, all the Kolmogorov – Smirnov statistics were significant at the 5% level.

Table 4 Testing for Normality

	Kolmogorov-Smirnov[a]		
	Statistic	Df	Sig.
Microfinance performance	.125	33	.200*
Accounting policies	.133	33	.151

Testing for Linearity

Multiple regressions analysis assumes that a straight line relationship exists between the variables to be regressed (Tabachnick & Fidell, 2013). Pearson's correlation coefficients were used to examine existence of linearity among variables. Results displayed in Table 5 indicate that linearity requirements were met. There were positive correlations between each of the gross portfolio management practices variables and micro-finance performance, and also among the portfolio management variables themselves.

Table 5 Testing for Linearity

	Accounting policies	Microfinance performance
Accounting policies	1	
Microfinance performance	.557**	1

Testing Homogeneity of variances

Multiple regressions assume that there is uniform variability in scores of the dependent variable as the independent variables are manipulated (Tabachnick & Fidell, 2013). Homogeneity of variances was tested using Levene statistics conducted across the gross loan portfolio management practices variables with respect to microfinance performance. The test examined whether variance of MFI performance was the same across the four gross loan portfolio management variables. It was expected that for variances to be homogeneous, none of the Levene statistics would be significant at the 5% level. Results (Table 6) revealed that the Levene statistics for all the four variables were indeed not significant. The homogeneity of variances assumption was sustained.

Table 6 Test of Homogeneity of Variances

	Levene Statistic	df1	df2	Sig.
Accounting policies	1.251	9	23	.314

Testing Autocorrelation

Multiple regressions also assume that regression residuals are independent. Consequently, autocorrelation examines existence of correlation among regression residuals (Tabachnick & Fidell, 2013). The Durbin–Watson statistic was used to test independence of regression residuals. The Durbin–Watson statistic had a value of 2.060 (Table 7), which indicated that regression residuals for the present study were uncorrelated.

Table 7 Model Summary[b]

Model	Std. Error of the Estimate	Durbin-Watson
1	.13649	2.060

b. Dependent Variable: Microfinance performance

Testing for the Presence of Multicollinearity

Multicollinearity occurs when predictor variables have high correlations among themselves (Vatchera, Lee, McCormick & Rahbar, 2016). It is argued that Multicollinearity can lead to unstable and biased standard errors, which could result in unrealistic and untenable interpretations of findings. Presence of multi-collinearity was tested using Variance Inflation Factors (VIF) which as noted by Tabachnick & Fidell, (2013), assesses the increase in variance of estimated regression coefficients in case of correlations among predictors. On the basis of suggestions by Ringle, Sarstedt and Schlettgen (2014) the threshold for existence of multi-collinearity was set at a minimum value of 5. Consequently, any VIF value greater than 5 was deemed to indicate presence of Multicollinearity. Results presented in Table 8 show that there was no threat of Multicollinearity (All VIF values were below 5).

Table 8 Collinearity Test

		Collinearity Statistics	
Model		Tolerance	VIF
1	Accounting policies	.423	2.365

a. Dependent Variable: Microfinance performance

Test of Hypothesis

The Effect of Accounting Policies on Performance of Deposit taking MFIs

Hypothesis $H_0$1 posited that accounting policies have no significant effect on performance of despot taking MFIs in Uasin Gishu County. To test this hypothesis, the MFI performance variable was regressed onto the accounting policies variable. The model summary results (Table 9) confirmed that accounting policies accounted for 31.1% of the variance in microfinance performance (R-square = 0.311).

Table 9 Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.557[a]	.311	.288	.24759	1.912

a. Predictors: (Constant), Accounting policies

b. Dependent Variable: Microfinance Performance

The regression coefficient displayed in Table 10 further revealed that accounting practices had a positive and significant effect on the performance of deposit taking firms in Uasin Gishu County (β = 0.557, p< 0.05).

Table 10 Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.807	.552		3.274	.003
	Accounting practices	.566	.151	.557	3.737	.001

a. Dependent Variable: Microfinance Performance

The implication of these results is that accounting policies adapted as a measure of gross portfolio management impacts on the performance of the respective MFI. The significance of the regression coefficient is that an increase of 1 standard deviation in adoption of accounting policies leads to an increase of 0.557 standard deviations in the performance of deposit taking MFIs.

The result clearly underscores the fact that adoption and maintenance of accounting records is a key element of gross loan portfolio management, and has potential to lead to improved performance in the MFIs. Indeed, this finding supports a plethora of other findings.

Oyoo (2014) for instance, established that internal control achieved by way of accounting policies related positively with performance of MFIs. Sarkodie et al. (2015) on the other hand found out that accounting ratio, which acts as a proxy of accounting policies significantly predicted MFI survival. Ikpefan et al. (2016) focused more on human capital in the accounting policies to show that human resource accounting significantly affects performance of microfinance banks.

The present study therefore strengthens the need for accounting policies as elements that can help the management of gross loan portfolio in order to result in improved performance among MFIs. A key contribution of this study is perhaps the fact that the impact of accounting policies can now be examined from the context of deposit taking MFIs.

CONCLUSION

In view of the above findings, the following conclusions were drawn in line with the research objectives: Gross loan portfolio management remains central to the performance of deposit taking micro finance institutions operating in Uasin Gishu County. Adoption of accounting policies is of paramount importance, and has direct impacts on performance of these institutions. However, accounting policies need to be explicitly clear for ease of adoption. Besides, deposit taking MFIs need to take cognition of the fact that the contribution of 31.1% to the variations in the institutions performance implies that adoption of accounting policies on its own may not sufficiently influence the performance of the institutions.

RECOMMENDATIONS

The study recommends that there is need for the deposit taking MFIs in Uasin Gishu to have clear and explicit accounting policies. Because adoption of accounting policies is of paramount importance, and has direct impacts on performance of these institutions. The existing policies have a contribution of 31.1% to the variations in the institutions performance, this implies that adoption of accounting policies on its own may not sufficiently influence the performance of the institutions as it stands. There is need to have accounting policies which will influence performance on its own.

The study further recommends that since portfolio disclosure reports in the deposit taking MFIs in Uasin Gishu County are employed to streamline loan repayment, and to give the correct gross loan portfolio position. This has a significant effect on the performance of deposit taking MFIs, 65.75. For this to make a huge effect on performance of deposit taking MFIs in Uasin Gishu, there is need to improve the existing policies so that the reports will cover other areas which are not presently covered so that it may have a 100% variation.

SCOPE FOR FURTHER RESEARCH

The present study investigated the effects of gross loan portfolio management practices on deposit taking MFIs in Uasin Gishu County. This study recommends that a further research should be carried out to determine the effects of gross loan portfolio management practices on credit only MFIs and commercial banks in Uasin Gishu County.

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