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*Credit Management Practices, Firm size and Financial
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Credit Management Practices, Firm size and Financial Performance of Microfinance Institutions in Kenya

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Abstract

Microfinance institutions (MFIs) play a major role in promoting financial inclusion by providing financial services to underserved households and enterprises. However, the sector continues to face financial sustainability challenges, recording a negative profitability of 46.75 percent in 2024 and rising levels of non-performing loans to 32.1 percent, exposing them to liquidity constraints and heightened financial shocks. The increasing deterioration in loan portfolio quality exposes MFIs to credit and liquidity risks, which may undermine their ability to meet regulatory requirements and sustain long-term growth. Therefore, the study aimed to assess on the moderating effect of firm size on the relationship between credit practices and the financial performance of microfinance institutions in Kenya. The study was anchored on information asymmetry theory and cross-sectional survey research design. The study targeted 30 respondents comprising of chief operating officers, branch managers and credit officers from the 10 microfinance institutions. Hierarchical regression model incorporating firm size was employed to assess the relationship between credit management practices and financial performance. the analysis established that credit appraisal and credit risk control had statistically significant effect on the financial performance of microfinance institutions with p-values of 0.041 and 0.000. However, credit terms were found to have insignificant effect on microfinance performance. The study further established that after introduction of firm size, the model's explanatory power, coupled with the absence of statistically significant interaction effects reduced, revealing that firm size did not significantly moderate the relationship between credit management practices and the financial performance of microfinance institutions in Kenya. The study recommends managers to strengthen credit appraisal systems by adopting comprehensive borrower assessment procedures related to rigorous evaluation of applicants' creditworthiness, repayment capacity and collateral adequacy before loan approval. Since credit risk control was found to have a significant positive effect on financial performance the study recommends microfinance to invest in continuous loan monitoring, early warning systems, regular portfolio reviews and effective loan recovery strategies to minimize default risk.

Keywords: Microfinance institutions, credit management practices, financial performance and Firm Size.

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1. INTRODUCTION

Financial performance is a critical indicator of the ability of financial institutions to achieve their strategic objectives, generate sustainable profits, maintain adequate liquidity and create value for stakeholders over time while fulfilling its financial intermediation role (Mwangi, Otieno & Ngumo, 2020). For microfinance institutions (MFIs), financial performance reflects the institution's capacity to efficiently utilize its financial resources while maintaining operational sustainability and expanding access to financial services among low-income households and small enterprises (Nthiga, Kinyua & Mungai, 2023). Strong financial performance enables MFIs to meet regulatory requirements, attract investors, absorb financial shocks and continue providing affordable credit to underserved populations (International Monetary Fund, 2025). Conversely, poor financial performance is associated with declining profitability, rising operational costs, increased loan losses and reduced outreach to clients. Despite the significant contribution of MFIs to financial inclusion and economic development, sustainability of 50 percent of microfinance institutions continue to experience inconsistent financial performance which has been attributed to lending portfolio (International Labor Organizations [ILO], 2025).

Globally, credit management has become a strategic function within financial institutions due to the rapid expansion of credit markets and the growing complexity of borrower risk. The World Bank (2024) reports that approximately 76 percent of adults worldwide now have access to formal financial services, significantly increasing the demand for credit among individuals and small businesses. Similarly, the Organization for Economic Co-operation and Development (OECD, 2024) notes that expanding access to finance has increased financial institutions' exposure to credit risk, requiring stronger lending standards and more effective risk management systems. As financial institutions continue expanding their loan portfolios, inadequate borrower assessment and weak loan monitoring expose them to portfolio deterioration and declining profitability (Gachenga, Kinyaririo, Wambu & Maina, 2023). Consequently, institutions are increasingly strengthening credit appraisal, credit monitoring, loan recovery and portfolio management practices to preserve asset quality and improve financial performance.

Within Africa, microfinance institutions play a pivotal role in promoting inclusive economic growth by extending financial services to populations that remain underserved by conventional

banking systems. The African Development Bank (2025) notes that expanding financial inclusion remains a priority across the continent as access to finance continues to support entrepreneurship, employment creation and poverty reduction. However, the expansion of credit has also heightened exposure to loan defaults, portfolio deterioration and repayment challenges, thereby increasing the importance of prudent credit management. Similarly, the United Nations Economic Commission for Africa (UNECA, 2024) highlights ongoing financial sector reforms aimed at strengthening credit information systems, digital lending infrastructure and regulatory oversight to improve institutional resilience. These developments reinforce the importance of effective credit management practices in enhancing the financial performance of African microfinance institutions.

In Kenya, microfinance institutions (MFIs) play a significant role in advancing financial inclusion by extending credit to low-income households, micro, small and medium enterprises (MSMEs) and the underserved segments of the economy (Finaccess, 2024). Their financial performance is largely dependent on the quality of their loan portfolios, making effective credit management practices fundamental to institutional sustainability. However, recent sector trends indicate growing challenges in maintaining sound credit quality (Gachenga, 2022). According to the Central Bank of Kenya (2024), the total assets of the microfinance banking sector declined from KSh 69.7 billion in June 2023 to KSh 62.8 billion in June 2024 exposing the institutions to increased financial and operational risk. On the other hand, despite the institution advancing micro-credit loans equivalent to KSh 41.1 billion in 2024, the asset quality deteriorated as gross non-performing loans (NPLs) increased from KSh 12.1 billion in June 2023 to KSh 12.3 billion in June 2024, while the ratio of gross NPLs to gross loans worsened from 29.4 percent to 32.1 percent (CBK, 2024). The rising level of loan defaults suggests weaknesses in key credit management practices such as borrower assessment, loan monitoring, credit risk evaluation and debt recovery mechanisms, all of which directly affect profitability, liquidity and overall financial performance. These trends underscore the need for microfinance institutions to strengthen their credit management systems to improve loan portfolio quality and enhance financial performance. It is against this background that this study seeks to examine the effect of credit management practices on the financial performance of microfinance institutions in Kenya.

1.1 Research Problem

Microfinance institutions play a pivotal role in promoting financial inclusion by expending credit and other financial services to low-income households in the underserved groups in the society (Kenya National Bureau of Statistics [KNBS], 2024). Their contribution has significantly enhanced financial inclusion in Kenya to 84.8 percent (Finaccess, 2024). Despite their significant role, the sector reported a negative profitability of 46.75 percent in 2024 which was attributed to continued deterioration in asset quality, as evidenced by an increase in the ratio of gross non-performing loans from 29.4 percent in 2023 to 32.1 percent in 2024 exposing them to liquidity constraints and heightened financial shocks (Central Bank of Kenya [CBK], 2024). This poses a threat to the sustainability of microfinance institutions with approximately 54 percent experiencing difficulties in financing their day-to-day operations, complying with regulatory capital requirements and sustaining their long-term growth (Kenya National Bureau of Statistics [KNBS], 2024). The continued decline in their financial performance further threatens their ability to fulfil their core mandate of providing affordable and accessible credit to vulnerable households and microfinance enterprises (Odhiambo & Mutswenje, 2025). This raises need for a study because if these institutions remain financially unstable, gains made in financial inclusion may not be sustainable, as reduced lending capacity limits access to finance for populations that depend heavily on microfinance services. This situation further undermines the achievement of sustainable development goal one on ending poverty and SDG goal eight on promoting decent work and sustained economic growth, both of which recognize inclusive access to financial services as a fundamental driver to poverty reduction and sustainable development (Gachenga, et al, 2025b).

The existing body of literature on credit management practices and financial performance presents inconsistencies in conceptualization, context and findings across different financial institutions and regulatory environments. For instance, Mahato (2025), in a study of Nepalese commercial banks, established credit management practices, measured through capital adequacy, non-performing loan ratio, client appraisal, credit terms, bank size and liquidity ratio, significantly influenced bank performance. Similarly, AL-Nabhani, AL-Alwi, AL-Zadjali and Sadriwala (2024) reported that effective credit management enhanced the financial performance of listed banks in Oman through improved asset quality and reduced credit risk. In Rwanda, Mariyamungu and Kengere (2023) found that credit rating, credit monitoring and credit recovery positively

contributed to the financial performance of commercial banks. Conversely, Omune and Abuga (2023), while studying logistics firms in Mombasa County, observed that although client appraisal, credit risk control, collection policies and credit terms improved financial outcomes, the magnitude of their influence varied across organizations. Likewise, Lacuata (2024) established that effective implementation of credit management practices enhanced the financial performance of microfinance institutions in Calamba City, although the study treated credit management as a single construct without examining its individual dimensions. In Kenya, Gichuki (2023) reported that innovative credit management practices, including credit appraisal, credit risk control, collection policy and delinquency management, significantly improved the financial performance of SACCOs in Nyeri Central Sub-County. However, Ali and Ndede (2024) demonstrated that management competency, internal control systems and capital adequacy had differing effects on the financial performance of deposit-taking SACCOs in Marsabit County. Further, Gachenga, Muthoni and Metto (2025b) found that credit risk management, credit diversification and lending decisions significantly enhanced the financial sustainability of DT-SACCOs in Kenya, highlighting the importance of prudent credit management in financial institutions.

These findings reveal inconsistencies in conceptualization, context and empirical outcomes. While some studies conceptualized credit management using credit appraisal, monitoring, recovery and collection policies, others focused on capital adequacy, liquidity, management competency or treated credit management as a composite construct. Moreover, most studies were undertaken in commercial banks, SACCOs, logistics firms and in financial institutions outside Kenya, with limited empirical evidence focusing specifically on microfinance institutions. The few studies conducted in Kenya have largely emphasized financial sustainability or organizational performance in SACCOs rather than the financial performance of microfinance institutions. Consequently, the influence of specific credit management practices on the financial performance of microfinance institutions in Kenya remains inadequately understood. This study therefore seeks to bridge this gap by examining the influence of credit management practices on the financial performance of microfinance institutions in Kenya. The findings are expected to contribute to the existing body of knowledge while providing practical insights for managers, regulators and policymakers on strengthening credit management practices to enhance the financial performance and sustainability of microfinance institutions.

2. METHODOLOGY

The study employed cross-sectional survey research design, where a census study was carried out in the 10 microfinance institutions in Kirinyaga County, Kenya. The study considered purposive method where chief operating officers, branch managers and credit officers from the 10 microfinance institutions. Structured questionnaires were distributed to 30 respondents yielding a 100% response rate. A pilot study was carried out in 4 microfinance institutions outside Kirinyaga county. This approach was adopted because Kirinyaga County has 10 of the 14 registered microfinance institutions in Kenya, with all the 10 institutions constituted the target population of the main study. Conducting the pilot study outside the study area helped to avoid contaminating the main study under similar conditions. The analysis established a Cronbach's alpha coefficient of 0.974, indicating excellent internal consistency. Factor analysis further validated the suitability of the data for subsequent analysis, paving way for regression modelling. A hierarchical regression model was employed with Equation (1) examining the direct relationship between the independent and dependent variables, while Equations (2) and (3) examined the moderating and interaction effects respectively.

$$FP = \beta_0 + \beta_1 CA + \beta_2 CT + \beta_3 CR + \varepsilon \dots \dots \dots \text{Equation 1}$$

$$FP = \beta_0 + \beta_1 CA + \beta_2 CT + \beta_3 CR + \beta_4 FS + \varepsilon \dots \dots \dots \text{Equation 2}$$

$$FP = \beta_0 + \beta_1 CA + \beta_2 CT + \beta_3 CR + \beta_4 FS + \beta_6 CA * FS + \beta_7 CT * FS + \beta_8 CR * FS + \varepsilon \dots \dots \dots \text{Equation 3}$$

where; FP represents Financial Performance, β_0 is the intercept, $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7$ are coefficients, CA is the credit appraisal, CT is the credit terms, CR is the credit risk control and FS is the firm size (moderating variable). R^2 assessed the nexus between study predictors and the response variable.

2.1 Conceptual Framework

The conceptual framework illustrated in Figure 1 presents the hypothesized nexus between credit management practices and financial performance of microfinance in Kenya. Credit management practices were measured through credit appraisal, credit terms and credit risk control, constitutes the independent variable. These credit management practices are expected to significantly influence financial performance, which is captured through the return on assets as the dependent

variable. Effective management of credit management practices enables microfinance to minimize loan defaults, improve operational efficiency and enhance service delivery, thereby contributing to improved organizational performance. In addition, the framework introduces firm size, measured through total assets, as a moderating variable that may strengthen or weaken the relationship between credit management practices and financial performance. The study assumes that microfinance with large asset base has better systems and stronger risk management which can strengthen the effect of credit management practices on financial performance. The study framework is anchored on the information asymmetry theory, which views that in a transaction between two parties; one party has more information than the other. Thus, in microfinance the theory depicts that the reason for having credit management practices in place is to mitigate information asymmetry brought by the borrowers misleading information about their credit history and behavior. Therefore, the framework posits that credit management practices moderated by firm size determine the ability of microfinance to achieve higher financial performance.

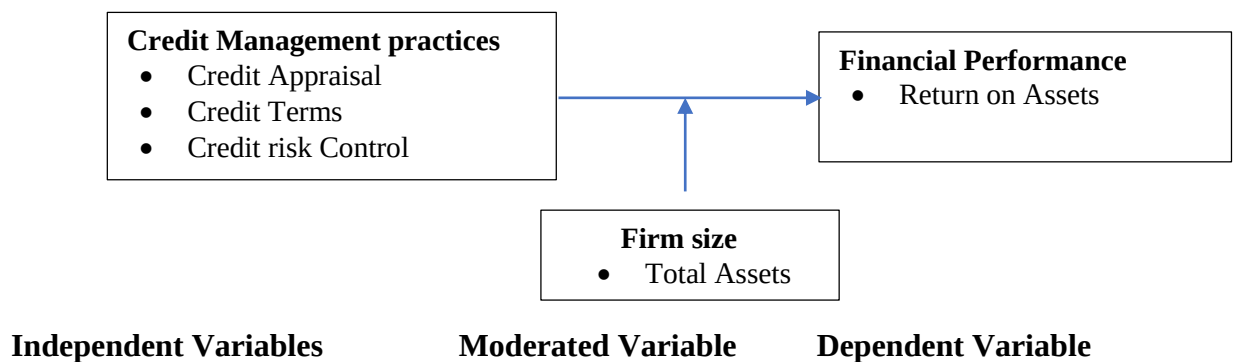


Figure 1: Conceptual Framework

3. RESULTS

3.1 Credit Management Practices and Financial Performance

Credit management practices were assessed through credit appraisal, credit terms and credit risk control. The findings from the descriptive statistics provide important insights into credit management practices adopted by microfinance to improve their financial performance. A notable observation is that credit scoring models are used during loan appraisal recorded the highest mean

of 4.33 and a standard deviation of 0.66. Similarly, the construct that thorough creditworthiness assessments are conducted before loan approval established a mean of 4.30 with a S.D of 0.65, Provisions for non-performing loans are made in accordance with institutional policies had a mean of 4.27 with a S.D of 0.78, Borrowers' repayment capacity is assessed before loan approval had a mean of 4.13 with a S.D of 0.82, The institution has clearly defined procedures for loan recovery recorded a mean of 4.10 with a S.D of 0.76. In addition, the construct that collateral requirements are strictly evaluated before loans are approved had an average mean of 3.97 and a S.D of 0.89, Loan rescheduling decisions are guided by established credit risk control policies with a mean of 3.87 and a S.D of 0.94 and a construct on borrowers' repayment history is verified before granting loans with a mean of 3.53 and a S.D of 0.97.

Table 1: Average mean and S.D of Credit Management Practices

Statements	Mean	S. D
Thorough creditworthiness assessments are conducted before loan approval.	4.30	0.65
Borrowers' repayment history is verified before granting loans.	3.53	0.97
Borrowers' repayment capacity is assessed before loan approval.	4.13	0.82
Collateral requirements are strictly evaluated before loans are approved.	3.97	0.89
Credit scoring models are used during loan appraisal.	4.33	0.66
The institution has clearly defined procedures for loan recovery.	4.10	0.76
The institution maintains an effective follow-up system for overdue loans.	3.80	0.96
Loan rescheduling decisions are guided by established credit risk control policies.	3.87	0.94
Provisions for non-performing loans are made in accordance with institutional policies.	4.27	0.78

In reference to table 1, majority of the respondents agreed that thorough creditworthiness assessments are conducted before loan approval and that credit scoring models are consistently used during loan appraisal. Respondents also affirmed that provisions for non-performing loans are made in accordance with institutional policies and that borrowers repayment capacity is assessed before loan approval. These responses further support the construct that the institution has clearly defined procedures for loan recovery as reflected by a mean of 4.10 revealing that microfinance institutions have established credit management practices that promote prudent lending, minimize credit risk and enhance financial performance. The findings are consistent with the study Gachenga et al, (2025b) who established effective credit appraisal significantly reducing

loan defaults and improving the quality of loan portfolios. Similarly, the results support the findings by Maina, (2020) who depicted that credit risk control strengthens financial performance by minimizing credit management policies thus reporting health cash flows, improving asset quality and sustaining long-term profitability.

To determine the suitability of the observed data for factor analysis, sample adequacy tests were first conducted. A multicollinearity test was considered to assess the correlation within the constructs. The analysis established a determinant correlation matrix of 0.05, which exceeded the recommended threshold of 0.00001, indicating the absence of multicollinearity within the constructs. Subsequently, the adequacy of the sample and the factorability of the correlation matrix were assessed using Kaiser Meyer Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity. The analysis established a calculated KMO value of 0.711, which exceeded the minimum acceptable threshold of 0.5 confirming that the observed data was adequate for factor analysis. In addition, Bartlett's test of sphericity yielded statistically significant results of $\chi^2 = 103.013$, 36 degrees of freedom and a p-value of 0.001. This led to the rejection of null hypothesis that the correlation matrix is an identical matrix, confirming the suitability of the observed data for factor analysis. Consequently, varimax rotation with Kaiser normalization was employed to produce an orthogonal factor solution that maximized the variance of factor loadings, thereby yielding a simpler and interpretable factor structure. As presented in table 2, the initial nine constructs were reduced to three underlying factors. The factors with eigenvalue greater than 1.0 were retained, satisfying the Kaiser criteria and justifying their retention for subsequent hierarchical regression analysis. The three factors with eigenvalues greater than one explained 77.429 percent with the six factors explaining 32.571 percent. Thus, the three factors were retained and renamed based on theoretical and conceptual framework with first factor renamed as credit appraisal, second factor credit terms and the third factor credit risk control and later used in hierarchical regression models.

Table 2. PCA for Credit Management Practices

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	Variance	Cumulative %	Total	Variance	Cumulative %	Total	Variance	Cumulative %
1	4.073	45.252	45.252	4.073	45.252	45.252	3.908	43.427	43.427
2	1.837	20.416	65.668	1.837	20.416	65.668	1.791	19.899	63.326
3	1.058	11.760	77.429	1.058	11.760	77.429	1.269	14.103	77.429
4	.717	7.971	85.399						
5	.414	4.605	90.005						
6	.351	3.903	93.908						
7	.241	2.681	96.588						
8	.172	1.916	98.504						
9	.135	1.496	100.000						

Extraction Method: Principal Component Analysis.

3.2 Hierarchical Regression Analysis

A hierarchical regression model was further employed to assess the moderating effect of firm size on the relationship between credit management practices and financial performance of microfinance institutions. To assess the moderating effect, R^2 change was considered where model 1 assessed the direct relationship credit management practices and financial performance, model 2 determined the moderating effect and model 3 assessed the interaction effect. The results of the hierarchical regression analysis are presented in table 3.

Table 3: Hierarchical Regression Results

Predictors	Model 1			Model 2			Model 3		
	Beta ^a	t	P	Beta ^a	t	P	Beta ^a	t	P
(Constant)	-.118	-.372	.713	.199	.460	.650	.187	.071	.944
CA	-.392	-2.148	.041	-.394	-2.167	.040	2.450	1.337	.195
CT	-.128	-1.295	.207	-.094	-.905	.374	.610	.784	.442
CR	1.489	5.980	.000	1.525	6.088	.000	-2.042	-.826	.418
FS				-.144	-1.074	.293	-.195	-.278	.784
CA*FS							-.734	-1.560	.133
CT*FS							-.172	-.852	.403
CR*FS							.926	1.440	.164
R^2	.832			.839			.817		

The results of the hierarchical regression model 1 revealed that credit appraisal and credit risk control had statistically significant effect on the financial performance of microfinance institutions, with p-values of 0.041 and 0.000 respectively. These findings were further confirmed by the calculated t-values of -2.148 and 5.980, both of which exceeded the critical threshold of 1.96 at 95 percent confidence level, demonstrating that credit appraisal and credit risk control significantly

contributed to variations in financial performance. The findings are in support of Natufe and Evbayiro-Osagie (2023), Kabugu and Wamiori, (2022) and Agaba, Turyasingura and Kabagambe, (2023) who established that effective credit appraisal practices significantly enhance the financial performance of microfinance institutions by improving lending decisions, reducing credit default risk and strengthening loan portfolio quality. Natufe and Evbayiro-Osagie (2023) further emphasized that rigorous assessment of borrowers' creditworthiness, repayment capacity and financial reliability enables financial institutions to minimize non-performing loans, improve loan quality and enhance profitability. The study further established that coefficient for credit appraisal was statistically significant, its negative direction suggests that the effectiveness of appraisal practices depends on how they are designed and implemented implying that overly stringent appraisal procedures, higher administrative costs and delays in loan processing can constrain lending activities and in turn, adversely affect financial performance despite reducing credit risk. The findings are in line with Nsengiyumva and Harelimana (2020), Ariyo (2023) and Gachini (2021) who found a negative co-efficient depicting that while credit appraisal remains indispensable, excessive or inefficient appraisal procedures at times offset some of its expected financial benefits.

On the other hand, credit terms were found to have insignificant relationship on financial performance, as evidenced by a p-value of 0.207, which exceeded the conventional significance threshold of 0.05, depicting that variations in credit terms did not significantly influence financial performance of microfinance. The results are consistent with the findings of Nyabwari and Kimutai, (2024) who similarly reported that credit terms have a negative effect on financial performance, insinuating that although credit terms constitute an important component on credit management practices, they may not independently enhance financial performance in the absence of complimentary factors such as credit monitoring, prudent risk assessment and debt collection mechanisms. However, the findings contradict those of Andeyo, Kadima and Miroga, (2022) who established a statistically significant relationship between credit terms and financial performance, suggesting that implementation of credit terms play a critical role in influencing financial performance. The model produced the following equation: $FP = - 0.118 - 0.392CA - 0.128CT - 1.489CR$. The study further revealed that credit terms were negatively associated with financial performance with a ($\beta = -0.566$) indicating that poorly structured credit terms with excessive long-

term periods and lenient lending conditions may adversely affect profitability by increasing default risk, delaying cash flow and weakening liquidity.

In model 2, the study assessed the moderating effect of firm size on the relationship between credit appraisal, credit terms, credit risk control and financial performance. The study established that credit appraisal and credit risk control have a statistically significant relationship with financial performance after introducing the moderator firm size, with p-values of 0.040 and 0.000 respectively. The findings were further supported by calculated t-values of -2.167 and 6.088 both exceeding the critical t-value of 1.96 underscoring the predictors' significance. The persistence of these significant relationships after controlling for firm size indicates that the influence of credit appraisal and credit risk control on financial performance is robust and not substantially altered by differences in organizational size. While the coefficient for credit appraisal remained negative, its statistical significance suggests that the quality and efficiency of appraisal processes are critical determinants of financial performance. This implies that although rigorous credit appraisal is essential for minimizing default risk, excessively restrictive and inefficient appraisal procedures may limit lending opportunities and increase operational costs, thereby constraining financial performance. Conversely, credit terms and firm size were found to have statistically insignificant effects on financial performance with p-values of 0.374 and 0.293 respectively. the analysis established the following estimated regression model, $FP = 0.199 - 0.394CA - 0.094CT + 1.525CR - 0.144FS + \epsilon$. The regression coefficients reveal that credit appraisal had a negative effect on financial performance ($\beta = -0.394$) implying that more stringent appraisal procedures may reduce financial performance, possibly due to increased operational costs or slower loan processing. Similarly, credit terms exhibited a negative but statistically insignificant effect ($\beta = -0.094$) suggesting that variations in credit terms did not substantially influence financial performance.

In model 3 the study assessed the interaction effects of firm size on the relationship between credit management practices predictors and financial performance. The regression model established that credit appraisal, credit terms, credit risk control, firm size and financial performance had an inverse relationship with p-values of 0.944, 0.195, 0.442, 0.418, 0.784, 0.133, 0.403 and 0.164. This reveals that firm size did not significantly alter the relationship between credit management practices and the financial performance of microfinance institutions suggesting that the

effectiveness of credit appraisal, credit terms and credit risk control in influencing financial performance is relatively consistent across microfinance institutions irrespective of their size. The model established the following equation: $FP = 0.187 + 2.450CA - 0.610CT - 2.042CR - .195FS - .734CA*FS + .172CT*FS + .926CR*FS$.

To assess whether firm size moderates the relationship between credit management practices and financial performance, the adjusted R^2 change and interaction effects were examined. Firm size was measured through total assets, where hierarchical regression analysis was conducted across three models. Model 1 established that credit appraisal, credit terms and credit risk control explained 83.2% of the variation in the financial performance of microfinance institutions ($R^2 = 0.832$). In model 2, firm size was introduced as the moderating variable, resulting in a slight increase in the coefficient of determination to 83.9% ($R^2 = 0.839$), indicating that the inclusion of firm size enhanced the models explanatory power depicting that firm size contributes to the relationship between credit management practices and financial performance. In model 3, interaction terms between firm size and credit management practices predictors were incorporated to test the moderating effect. The analysis established coefficient of determination (R^2) declined to 81.7%, indicating that the interaction model explained a smaller proportion of the variation in financial performance than Model 2 depicting that interaction effect weakened the relationship. Furthermore, the interaction effects between credit appraisal and firm size revealed a ($\beta = -0.734$, $p = 0.133$), credit terms and firm size ($\beta = -0.172$, $p = 0.403$) and credit risk control and firm size ($\beta = 0.926$, $p = 0.164$) were all statistically insignificant at the 5% significance level. The reduction in the model's explanatory power, coupled with the absence of statistically significant interaction effects, reveals that firm size did not significantly moderate the relationship between credit management practices and the financial performance of microfinance institutions in Kenya. Consequently, the influence of credit appraisal, credit terms and credit risk control on financial performance remained largely consistent irrespective of the size of the microfinance institution, suggesting that these credit management practices contribute to financial performance in a similar manner across both small and large microfinance institutions. The analysis produced the following model $FP = 0.187 + 2.450CA - 0.610CT - 2.042CR - .195FS - .734CA*FS + .172CT*FS + .926CR*FS$.

4. DISCUSSION

Based on the findings, the study concludes that credit management practices are important determinants of the financial performance of microfinance institutions in Kenya. Credit appraisal and credit risk control were found to have statistically significant effects on financial performance, demonstrating that the quality of borrower assessment and the effectiveness of mechanisms for identifying, monitoring and mitigating credit risk are critical to institutional performance. In contrast, credit terms did not have a statistically significant effect on financial performance, suggesting that the mere structuring of loan conditions may be less influential than the effectiveness with which institutions assess and manage credit risk. The findings further demonstrate that strengthening credit appraisal procedures and enhancing credit risk control mechanisms are essential strategies for improving the financial performance and sustainability of microfinance institutions. Robust credit appraisal enables institutions to make informed lending decisions, reduce the likelihood of borrower default and improve the quality of their loan portfolios, while effective credit risk control helps institutions identify emerging risks and take timely corrective measures. The study also concludes that firm size does not significantly moderate the relationship between credit management practices and financial performance. Although the inclusion of firm size in the regression model resulted in a marginal improvement in the model's explanatory power, the interaction effects between firm size and the individual dimensions of credit management practices were statistically insignificant coupled with a reduction in explanatory power revealing that firm size weakened the relationship. This depicts indicates that the influence of credit appraisal, credit risk control and credit terms on financial performance does not vary significantly according to the size of the microfinance institution.

Based on the findings the study recommends managers to strengthen credit appraisal systems by adopting comprehensive borrower assessment procedures related to rigorous evaluation of applicants' creditworthiness, repayment capacity and collateral adequacy before loan approval. Since credit risk control was found to have a significant positive effect on financial performance, the study recommends microfinance to invest in continuous loan monitoring, early warning systems, regular portfolio reviews and effective loan recovery strategies to minimize default risk. Furthermore, because firm size was found not to significantly moderate the relationship between credit management practices and financial performance, both small and large microfinance

institutions should prioritize the adoption of sound credit management practices, as their effectiveness does not depend on organizational size.

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