

## Horticultural Financing Lending Policies on Performance of Financing Institutions in Kenya

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### Abstract

*Horticultural financing has a large effect on performance of financial institutions in Kenya. The lending policies adopted by a financial institution affect the volume of loan applications that a lending institution attracts. Financial institutions' horticultural financing lending policies hamper access to horticulture products loans that increase output by improving farming practices. This research was therefore designed to investigate the horticultural lending policies and performance of financial institutions in Kenya. It is on this premise that the researcher sought to establish whether horticultural lending policies affect financial institutions performance in Kenya. The target population of this study was 54 financial institutions comprising 41 commercial banks and 13 registered Microfinance Institutions in Kenya. The study adopted a descriptive cross-sectional survey was adopted. Data was collected through a survey using self-administered questionnaires administered to the heads of credit and credit line managers of the various financial institutions. The data was analyzed using descriptive and inferential statistics. The findings revealed that horticultural financing lending policies positively and significantly (P-Value, 0.00) affect the performance of financial institutions in Kenya. From the findings, lending policies was positively related to the performance of financial institutions in Kenya.*

**Keywords:** Horticultural Financing, Lending Policies, Financial Institutions, Performance, Credit Risk

### Background of the Study

In this paper, horticultural financing is described as the provision of funding /capital for intensive cultivation of vegetables, fruits and flowers for sale. Horticultural farming is part of crop agriculture that deals with cultivation of crops such as fruits, nuts, vegetables, culinary herbs and spices, beverage crops, and medicinals, as well as ornamental plants.

One constraint facing horticultural farmers is lack of access to formal sector credit to enable them to take advantage of economic opportunities to increase their level of output, hence move out of poverty. Small scale farmers and the rural poor have been concerned about the design of various financial sector policies. Horticultural finance is dedicated to financing horticultural related activities such as; input, supply, production, processing and distribution (Meyer *et al.*, 2004). Lending activities of various financial institutions depend on the willingness to extend much credit to some sector of the economy. Credit is the largest single income-earning asset in the portfolio of most financial institutions. Financial Institutions are, therefore, forced to spend enormous resources to estimate, monitor and manage credit. This greatly affects the lending

behavior of financial institutions due to the large resources involved. Small loans to rural farmers, rarely justify the costs of legal action to call in a claim on land and then liquidate it. Similarly, movable assets such as livestock and equipment are also fairly high risk without proof of ownership and insurance cover. Consequently, access to credit by farmers is subject to lending terms of the Financial Institutions and information asymmetry (Kasekende & Opondo, 2003; Kayizi, 2003).

Proper information sharing between Financial Institutions and the borrowers can reduce risks and increase access to credit by allowing Financial Institutions screen borrowers at a lower cost. However, due to lack of accurate information about individuals or firms and their financial background, the Financial Institutions industry finds it hard to select a good client. A lender in finance is defined as any person or organization engaged in the business of making consumer loans or commercial loans. These loans may be unsecured, secured by personal property real property or a combination of real and personal property.

Lending activities of various Financial Institutions depend on the willingness to extend much credit to some sector of the economy. According to Nwankwo (2000) credit is the largest single income-earning asset in the portfolio of most Financial Institutions. Financial Institutions are, therefore, forced to spend enormous resources to estimate, monitor and manage credit. This greatly affects the lending behavior of Financial Institutions due to the large resources involved. Chodechai (2004) acknowledges that Financial Institutions have to be careful with their lending prices as they cannot charge loan rates that are too low or too high. Too low rates might lead to a level of interest income that may not be enough to cover the cost of deposits, general expenses and the losses from some borrowers that do not pay. Charging too high loan rates in the other hand may create adverse selection issues and moral hazard problems for borrowers.

Gine et al. (2009) argue that access to financial services can improve commercialization of smallholder agriculture and contribute to poverty alleviation among rural communities. The paper asserts that more than seventy percent of Africa's population is rural and experiences high incidence of poverty. A major portion, if not all, of these rural folks depend on agriculture for their livelihood. There is, therefore, need to tailor financial products for these people to stimulate higher productivity in their farming activities as a channel of achieving pro-poor growth and poverty reduction. However, formal financial markets fail in the provision of funding to the majority of smallholder farmers in developing countries (World Financial Institution 2009).

According to the Central Bank of Kenya, there are 43 licensed commercial banks in Kenya and 13 registered Micro finance Institutions. Three of the banks are public financial institutions with majority shareholding being the Government and state corporations. The rest are private financial institutions. Of the private banks, 27 are local commercial banks while 13 are foreign commercial banks. Financial Institutions play a major role in Kenya. They contribute to economic growth of the country by making funds available for investors to borrow as well as financial deepening in the country. Financial Institutions therefore, have a key role in the financial sector and to the whole economy.

Various studies have shown a number of determinants of bank financial performance. For instance, Heffernan & Fu (2010), found that some macroeconomic variables and financial ratios significantly influenced financial performance. The study also found that the type of

bank was an influential determinant of bank financial performance. Clair (2004) found that the most important macroeconomic indicators were changes in interest rates, exchange rates, unemployment, and aggregate demand.

In a study on performance of Islamic and conventional banks in UAE, Al-Tamini, (2010) found that liquidity and concentration were the most significant determinants of conventional national banks' performance while cost and number of branches were the most significant determinants of Islamic banks' performance. According to Demirgüç-Kunt & Huizinga, (1999), a larger bank asset to GDP ratio and a lower market concentration ratio lead to lower margins and profits. The authors also note that foreign banks have higher margins and profits compared to domestic banks in developing countries, while the opposite holds in developed countries.

A study in China by Wong, Fong, Wong, & Choi (2007) found that cost efficiency of banks was a major determinant of banks' profitability. No evidence was found for the effect of market structure (market concentration and market shares). Most of these banks were large and therefore efficient hence the conclusion that efficiency was indeed a major determinant of bank performance. A study by Aburime (2008), revealed that capital size, size of credit portfolio and extent of ownership concentration was significant company-level determinants of bank profitability in Nigeria. In the same study, size of deposit liabilities, labor productivity, state of IT, ownership, control-ownership disparity and structural affiliation were insignificant; and the relationship between bank risk and profitability was inconclusive.

According to Kenya Vision 2030 strategic plan, agriculture represents 34% of Kenya's Gross Domestic Product (GDP). The Government of Kenya (GOK) supports agriculture industry by making credit available to farmers through institutions that fall under formal or informal sector. The main formal GOK credit institution in agriculture is the Agricultural Finance Corporation (AFC). The AFC was established under the provisions of Act No. 1 of 1969 to assist in the development of agriculture and agricultural industries by making loans to farmers, co-operative societies, incorporated group representatives, public bodies, local authorities, and other persons engaging in agriculture or agricultural industries. The AFC is not subject to the Companies Act or to the Banking Act.

The credit offered by financial institutions lending to the agricultural sector is expensive due to high risk associated with the sector. These institutions grant credit only to business enterprises and only in certain sub sectors. Although there is a legal requirement that banks should lend between 17% and 20% of their loan portfolio to agriculture, the local banking system has been reluctant because of associated risks. Total credit provided to agriculture is estimated at less than 10% of the total credit provided through the domestic credit system (FAQ, 2002).

Kenya's agriculture is predominantly small-scale farming which accounts for 75% of total agricultural output and 70% of marketed agricultural produce. Production is carried out in farms averaging 2.4 acres or 0.97 hectares as per the 2005/2006 Kenya Household Integrated Budget Survey /KHIBS) data, mainly for subsistence and commercial purposes. Large scale is practiced on farms averaging 50 hectares and accounts for only 30% of marketed produce (CBS, 2005). The focus of AFC is to increase accessibility to affordable credit. The aim is to improve food security, increase rural incomes, create employment and ultimately contribute towards poverty alleviation while emphasizing strong linkages with stakeholders especially farmers and other players in the agricultural sector (AFC Strategic Plan, 2005-2010).

Increased competition by Financial Institutions has brought about a more aggressive marketing approach as they compete for the existing customers in an environment that is increasingly being filled by bad debts and more risk (Osayameh, 1991). This situation is made more difficult by small-scale farmers who depend on informal financial systems which are poorly developed and the high transaction costs (Poulton et al, 2006). Further, higher covariate risks, market risks and the lack of suitable collaterals hamper the extension of credit to the small-scale farmers (Onumah, 2002). Poor communication and transportation facilities, lack of production and market information, as well as the thin and segmented markets provide a challenge to Financial Institutions (Shiferaw, 2009).

Financial Institutions are interested in lending to numerous customers bearing in mind profitability, liquidity and solvency. However, the decision to lend to the horticulture sub-sector is influenced by lending policies of financing institutions. Lending policies such as strict loan recovery measures, due diligence of its clients to correctly establish capacity of the customer to repay loans and the set levels on provisions for bad and doubtful debts, are some of the crucial lending policies that require close monitoring to enhance the performance of the lending institution. In spite of the increasing number of financial institutions and competition for customers, horticultural financing lending policies remain a key hindrance to financial institutions performance in Kenya. In this regard, the purpose of this paper was to establish whether horticultural financing lending policies effect performance of financial institutions in Kenya

### **Theories Underpinning this Study**

From the pool of existing knowledge there exists several theories with regard to banks' lending behavior. However, for the purpose of this study, *Credit Market Theory* is considered to support lending practices significantly. Historically, borrowing and lending have been considered essential for economic activity. The major issues in borrowing and lending theory were already present in the works of the classical economists such as Adam Smith (1827) and David Ricardo. The neoclassical credit market model suggests that the terms of credits clear the market. In this model, the interest rate is the only price mechanism that can clear the credit market given that the loan collateral remains constant. With a growing demand for credit and a given loan and advances supply by the banks, the interest rate can only rise if the credit market is clear, and the reverse is true. The higher the default risks of the borrower, the higher the interest premium (Ewert et al., 2000) so as to compensate against any possible losses. The increase in demand for credit brought about by low interest rates eventually may lead to depreciation of currency. Central bank therefore must adjust the interest rate to increase the cost of borrowing. Commercial banks in their turn must increase their rates and therefore thus contracting their lending activities in the long run. Although, central bank requires banks to deposit a certain amount of money with them, increased cash requirement ratio also acts as a mechanism of restricting credit available taking consideration of macro-economic environment (Vazakidis & Adamopoulos, 2009). According to Bolton and Freixas (2001), this leaves commercial banks with close to no alternative other than lowering lending volumes. This theory supports this study by demonstrating the importance of implementing efficient lending policies in the credit market and its effect on lending institutions performance

### **Empirical Literature Review**

There is vast empirical literature on the factors associated with lending behavior among commercial banks. Malede (2014) explored determinants of commercial banks' lending in the

Ethiopian banking industry using panel data from eight banks for the 2005 -2011 period. The results of the study indicate a significant relationship between banks' lending and performance.

Jonas, Emmanuel and Kofi (2013) conducted a study to investigate lending behavior among the Ghanaian banks. They used the Generalized Methods of Moments (GMM) as an estimation technique. Their findings revealed that bank size and capital structure positively and statistically significantly influenced banks' lending behavior. Also they found out an inverse relationship exhibited by exchange rate fluctuations. It will be reported that a significant and negative relationship will be exhibited between exchange rate and total loans advanced by commercial banks. Their findings concur to the study result of (Ngomsi & Djiogap, 2012) affirms that small banks have comparative advantages in producing soft information whereas large banks also have comparative advantages in lending based on hard information. The study unveiled a positive significant effect of competition in the banking industry on bank lending behavior. In addition, Macroeconomic environment within which a bank operates determines the lending decision of the bank. For instance, during economic boom, businesses demand for loans to take advantage of expansion and banks investment opportunities equally soar.

Ngomsi and Djiogap (2012) investigated the determinants of bank long-term lending behavior in the Central African Economic and Monetary Community. The study applied Ordinary Least Square (OLS) as an estimation technique. From the study results, it was revealed that ownership of a bank is core in determining the total loan and advances extended by a bank. The study revealed that foreign banks tend to exhibit higher long-term loan ratios compared to the state owned. Irungu (2013) explored the effect of interest rate spread on financial performance of commercial banks in Kenya. The study collected data from all 41 commercial banks in Kenya. A multiple linear regression model was adopted. It revealed a strong positive and significant relationship between financial performance of commercial banks and interest rate spread. It will be shown that interest rate spread affect performance asset in banks since it raised cost of borrowers.

Olusanya (2012) explored the link between banks deposits and total loans advanced by commercial banks using OLS. The study results indicated a positive impact of deposits on the commercial banks' lending volumes. This will be supported by the findings of (McCathy et al., 2010) who found out the presence of a positive effect of customer deposits on the banks' lending. Olokoyo (2011) studied the determinants of the commercial banks' lending behavior in Nigeria for the period 1980 – 2005. The study used fixed effects regression model. From the study result, it will be found out that a long-run relationship existed between banks' lending, deposits, interest rate, minimum cash reserve requirement, investment portfolio, and ratio of liquidity, foreign exchange and gross domestic product. Specifically, lending rates were found to influence banks' lending performance despite being unpronounced. These affirms the finding by (Karim et al. 2011) who investigates the impacts of interest rates on the banks' lending in Malaysian context and contend that interest rates negatively affect lending among the banks while controlling for macroeconomic variables such as GDP and inflation.

Karim, Saini, and Karim (2011), examined the effects of monetary policy channel on the banks' lending for Malaysian market using the data covering the period 1993 to 2008. From the OLS results, bank liquidity will be shown to be core and significant in determining the supply of loans by banks. This is in tandem with the earlier study by Aisen and Franken (2010) who conclude that during the 2008 financial crises, banks were ultimately faced by liquidity stress hence capping their lending ability. There exists a pro-cyclical relationship between economic

growth and bank lending because in periods of economic recession, demand for credit plummets.

It is debated that a big balance sheet allows managers to invest more in different geographical and business segments to address the issues of asymmetric shocks. A study conducted by Chernykh and Theodossiou (2011), revealed that the banks size measured by total assets and bank capitalization influenced commercial lending behaviors and the likelihood of long-term lending. The authors suggest that large banks have an advantage in providing a large variety of financial services to their clients since they are capable of mobilizing more funds.

Vazakidis and Adamopoulos (2009), investigated the relationship between economic growth and credit market development in Italian market. The log-linear regression model indicated a positive effect of economic growth on credit market development. Further, the authors established that through the transmission mechanism, a rise in prime rate negatively affects banks' lending behavior. This affirms a previous study by Dell'Araccia et al. (2012) whereby bank credit expansions lean to be pro-cyclical; that is, high rates of growth in GDP induces a high rate of growth in bank credit. This is due to the fact that in the period of economic boom, banks loosen up their criteria and lend to both good and bad projects, while in times of economic depression most loans become non-performing and thus constraining credit available to private sector.

Regarding effects of monetary policies involving liquidity requirement and cash requirement ratio, Ehrmann et al. (2003) using the OLS estimation found that financial contraction has a strict negative impact on rather undercapitalized banks' lending. The findings demonstrate a sharp contrast to study results of Olokoyo, (2011) who established a positive relationship between these variables and banks' lending behavior since banks should always ensure compliance with these policies. Other empirical studies with the same conclusion include (Montoro & Moreno, 2011), (Christian & Pascal, 2012). In addition, Olusanya (2012) suggests that an increase in the reserve requirement has positive impact on the banks total loans and advances. However, Wilcox (2012) maintains that reserve requirement has small and statistically insignificant influence on the banks loans and advances.

Onyango (2015) examined the determinants of lending volume in the Kenyan banking industry for a period between 2002 and 2011. The study adopted an econometric approach to test the degree of correlation between the variables by employing the Ordinary Least Square (OLS) method. The findings indicated a negative and significant effect of lending interest rates on the total loans advanced. With regard to the liquidity, this study revealed that banks with more liquid assets extend more credit to borrowers. Similarly, volume of deposit in commercial banks has a significant and positive effect on the total loan advanced and that the liquidity ratio also positively and significantly affects the total loans advanced. The research findings are therefore, in agreement with (Olokoyo, 2011) who showed that the volume of deposit has the highest impact and influence on the lending of commercial banks and a change in it will yield the highest change in banks loans and advances.

The study also revealed that liquidity ratio influences banks' ability to extend credit when demanded. The study concluded that bigger banks are in position to attract more investments in the form of deposit and this enhances their ability to extend credit.

### **Lending Policy and Financial Performance**

Lending policies and rates of interest are key indicators of financial performance and efficiency. Accordingly, a large spread between lending and deposit rates of interest is an impediment to financial efficiency and performance as low returns on deposits discourages savers thus limiting financial availability for potential borrowers. Banks are exposed to risk in the credit market as they do not know the proportion of loans that will perform. To cover this credit risk, banks charge a premium whose magnitude depends on the credit policy, the interest rate on alternative assets, amounts borrowed and types of client. This increases the effective rate to borrowers and may reduce the demand for loans (Ngugi, 2011).

The examiner's evaluation of the loan portfolio involves much more than merely appraising individual loans. Prudent management and administration of the overall loan account, including establishment of sound lending and collection policies, are of vital importance if the bank is to be continuously operated in an acceptable manner. Lending policies should be clearly defined and set forth in such a manner as to provide effective supervision by the directors and senior officers. The board of directors of every bank has the legal responsibility to formulate lending policies and to supervise their implementation.

A lending policy should not be a static document, but must be reviewed periodically and revised in light of changing circumstances surrounding the borrowing needs of the bank's customers as well as changes that may occur within the bank itself. To a large extent, the economy of the community served by the bank dictates the composition of the loan portfolio. The widely divergent circumstances of regional economies and the considerable variance in characteristics of individual loans preclude establishment of standard or universal lending policies. Loan officers should be responsible for ongoing credit analysis and the prompt identification of emerging problems. Because of their frequent contact with borrowers, loan officers can usually identify potential problems before they become apparent to others (Ngugi, 2011).

However, institutions should be careful to avoid over reliance upon loan officers. Management should ensure that, when feasible, all significant loans are reviewed by individuals that are not part of, or influenced by anyone associated with, the loan approval process. Larger institutions typically establish separate loan review departments staffed by independent credit analysts. Cost and volume considerations may not justify such a system in smaller institutions.

The Companies Act, the Banking Act, the Central Bank of Kenya Act and the various prudential guidelines issued by the Central Bank of Kenya (CBK), governs the Banking industry in Kenya. The banking sector in Kenya will be liberalized in 1995 and exchange controls lifted. The CBK, which falls under the Minister for Finance's docket, is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The Central Bank of Kenya (CBK) publishes information on Kenya's commercial banks and non-banking financial institutions, interest rates and other publications and guidelines. The Central Bank of Kenya acts as the main regulator of commercial banks in Kenya (CBK Annual Report, 2018).

Ngugi (2011), found that interest rate is highly dependent on the cost of doing business and credit risks. An increase in interest rates negatively affects the borrowers by reducing their incentive to take actions conducive to loan repayment. This will lead to the possibility of credit rationing. The absence of supply creates a lack of demand expressed in low revealed demand.

This also explains the existence of informal credit markets alongside formal credit institutions. The problems of high spreads and limited access cannot be solved by government directed solutions which tend to work against market forces. Rather, the Government should focus on implementing policy reforms to alleviate market, institutional and political barriers to competition.

Policy reforms can have a major impact in reducing such barriers and thus increasing the effectiveness and competitiveness of financial intermediation, thereby reducing spreads and widening access. Lack of information sharing on debtors increases banks' credit risk and reduces the competitiveness of the banking system. The inability of borrowers to build up a positive credit history prevents them from accessing bank finance. Kenya has so far established credit information sharing system and this can reduce credit risk for banks and increase access to Credit. Sharing of positive information will benefit small borrowers, as it will allow them to establish reputation with small loans and improve their chances to increase their borrowings as their business grows. In addition to information sharing among institutions governed under the Banking Act, including building societies, microfinance institutions (MFIs) and SACCOs is equally important.

### Research Methodology

To achieve this study objective, descriptive cross-sectional survey research design was adopted. According to Cooper and Schindler (2005), cross-sectional study is conducted once to pick out the parameters of a phenomenon at a specific point in time and the aim is to get an accurate means of capturing a population's characteristics at a single point in time relating to what, where, how, who and when of a research topic. Descriptive cross-sectional research design helped describing and establishing the relationships among the study variables namely horticultural financing lending policies and Financial Institutions performance. According to Kotler and Kelly (2006), descriptive cross-sectional research design also facilitates checking for significant associations between variables and make generalizations concerning the target population.

The target population in this study included 41 licensed commercial banks and 13 registered MFIs in Kenya;

Table 1: Target Population of the Study

<b>Financial Institution</b>	<b>Category of Population</b>	<b>Number</b>	<b>Percentage</b>
Commercial Banks	Head of Credit	41	48%
	Line Credit Manager	21	24%
Microfinance Institutions (MFIs)	Head of Credit	13	15%
	Line Credit Manager	11	13%
<b>Total</b>		<b>86</b>	<b>100</b>

A census of entire population was taken including all 41 commercial banks and 13 registered Microfinance Institutions (MFIs). Data was collected through a questionnaire of Likert scale of 5 measurement on 1 – Never; 2 – To Some Extent; 3 – Not sure; 4 – To a High Extent; and 5 – Always.



The respondents targeted included heads of credit and credit line managers of the selected financial Institutions. Financial Institution lending policies were measured by borrower character, borrower capacity to repay, conditions, capital requirements, and collateral requirements by Financial Institutions. Performance of Financial Institutions was measured by Liquidity, return on equity (ROE/ROA), profitability of extending credit to the Horticultural farmers, solvency and financial efficiency. Data analysis techniques included spearman rank correlation analysis to determine the correlation between lending policy and performance of financial institutions while the regression model was used to determine the relationship between lending policies and financial institutions performance. The empirical model specification used in this study to test the hypotheses was as follows;

$$FIP_i = \beta_0 + \beta_1 LP_i + \epsilon_{it}$$

Where *i* and *t* denotes financial institution and year respectively.

FIP- Financial Institution Performance as a result of horticultural farming financing

LP – Lending policy

$\beta_0$  is the value of the dependent variable (FIP) assuming the independent variable is zero,

$\beta_1$  is the correlation coefficients of the independent variable

$\epsilon$  is the error term

Table 2: Hypothesis Testing Framework

Hypothesis	Hypothesis Test
<b>H<sub>1</sub></b> Horticultural financing lending policy has a significant relationship with performance of financial institutions in Kenya.	<b>Regression Analysis</b> H <sub>01</sub> : $\beta = 0$ Reject H <sub>01</sub> if p- value $\leq 0.05$ , otherwise fail to reject H <sub>01</sub> )

### Research Findings

In this study, an internal consistency was done using Cronbach's Alpha to measure how well the items were correlated to each other for all the questionnaires issued to different groups of pilot respondents. Zinbarg, (2015) recommends an alpha value of 0.70 and above as an indicator that the data collected has achieved a relatively high internal consistency and can hence be generalized to be representative of the target population. For this study the Cronbach's Alpha value was 0.754. The rule of the thumb for Cronbach Alpha is that the closer the alpha is to 1 the higher the reliability and a value of at least 0.7 is recommended as shown on Table 3.

Table 3: Validity and Reliability of the Questionnaires

variable	Cronbach alpha	No of items
Lending policies	0.754	7

Pearson correlation analysis was carried out to determine the strength and direction of the linear relationship between the study variables and results were found to be significant at 0.05 level of significance as shown in Table 4.

Table 4: Correlation Results for Dependent and the Independent Variable

		Correlations	
		FIP	LP
FIP	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	77	
LP	Pearson Correlation	.756**	1
	Sig. (2-tailed)	.000	
	N	77	77

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

LP – Lending Policy

FIP – Financial Institutions' Performance

### Bivariate Regression Analysis of Lending Policies on Performance of Financial Institutions in Kenya

The study sought to determine whether horticultural financing lending policies affect performance of Financial Institutions in Kenya. The results were presented in Table 5.

Table 5: Bivariate Regression Results

		Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
		B	Std. Error	Beta			
	(Constant)	1.359	.231		5.880	.000	
1	Lending Policy	.644	.064	.756	9.996	.000	

a. Dependent Variable: Financial Institutions Performance

The coefficient for lending policies ( $\beta$ ) was also significant ( $\beta = 0.644$ ,  $t = 9.996$ ,  $p = 0.000 < 0.05$ ) indicating that one percent increase in performance of Financial Institutions in Kenya was because of 64.4 percent increase in horticultural lending policies. Since  $p\text{-value} = 0.000 < 0.05$ , it can be deduced that horticultural lending policies significantly affect Financial Institutions' performance.

### Discussion of Results

This study found evidence that horticultural lending policies practices was positively and significantly ( $P\text{-value}$ , 0.00) related to financial institutions performance. These findings concur with the study result of Ngomsi and Djiogap (2012) who investigated the determinants of bank long-term lending behavior in the Central African Economic and Monetary Community. Their study revealed that there exists a positive significant effect of competition in the banking industry on bank lending behavior. Further, Olusanya (2012) explored the link between banks deposits and total loans advanced by commercial banks using OLS. His findings

concur with this study findings as he found that a positive and significant impact of deposits on the commercial banks' lending volumes. This current study findings support the findings of (McCathy et al. 2010) who found out the presence of a positive effect of customer deposits on the banks' lending. Olokoyo (2011) studied the determinants of the commercial banks' lending behavior in Nigeria for the period 1980 – 2005. His findings correspond with this study results as he found that lending rates were found to influence banks' lending performance despite being unpronounced. This current study results and Olokoyo (2011) affirms the finding by (Karim et al. 2011) who investigates the impacts of interest rates on the banks' lending in Malaysian context and contend that interest rates negatively affect lending among the banks while controlling for macroeconomic variables such as GDP and inflation.

### **Conclusions and Recommendations**

From the findings of this research conclusions can be drawn that horticultural lending policies were found to have a positive significant influence on performance of Financial Institutions financing horticulture. Based on the findings the researcher recommends that Financial Institutions hoping to enhance their performance effectively need to focus on improving the horticultural lending policies at all levels. Improvement of the horticultural lending policies in Financial Institutions would require improving the credit criteria used as part of their horticultural sector loan approval process.

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