ABSTRACT

Credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. Sound credit management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. The study sought to determine the effect of credit management on the loan performance of Microfinance Institutions in Narok. The study adopted a descriptive survey design. The population of study consisted of 56 clients of Faulu Kenya and KWFT that are members of AMFI. A census study was used to carry out the research. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Descriptive statistics were used to analyze data. Furthermore, descriptions were made based on the results of the tables. The study found that client appraisal, credit risk control and collection policy had effect on loan performance of MFIs in Kenya. The study established that there was strong relationship between loan performance of MFIs and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence loan performance of MFIs in Kenya. Client appraisal was found to have a higher effect on loan performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study concluded that assessing the character of a customer and imposing loan size are viable strategy in managing credit risks in MFI's