

## ABSTRACT

Loan Repayment Performance is the ability of a borrower to service his loan effectively as and when loan installments fall due. Whereas the existing microfinance institutions have contributed in bridging the credit access gap, a number of them face default challenges despite the fact that credits are granted on the basis of specific credit management practices carried out by the Commercial Banks and Microfinance Institutions (MFIs). Non-performing loans have become common phenomena in microfinance industry in Kenya; in a way that available information provides a fluctuating loan recovery trend for the MFIs. Loan repayment performance being a function of credit management practices requires attention if the MFIs are to sustainably provide their core function; especially in regions with minimal capacity to operate in mainstream commercial banking system. MFIs practice group lending and weekly loan repayment practices as effective means of credit management cycle. Despite credit management practices being in place, the fluctuating recovery trend and non-performing loans in Microfinance institutions in Kenya require further examination. The major objective of the study was to determine the effect of credit management practices on loan repayment performance in Micro finance institutions. Specifically the study sought to establish the effect of group lending practice and weekly repayment schedules on credit default, delinquency and timeliness of repayments in MFIs in Kisumu town. The study was guided by Grameen Solidarity and Moral Hazard Theory. The target population consisted of 75 respondents comprising of credit officers drawn from 15 Microfinance institutions operating in Kisumu town. The study design was correlation research design that attempted to determine whether, and to what extent an association exists between credit management practices and loan performance. A census survey method was used. The data for the study was collected using semi structured questionnaires. The data comprised both primary and secondary data. Pilot testing of the questionnaire consisting of 15 credit officers was conducted prior to undertaking the main study to enhance reliability and validity of the research instruments. The data was analyzed using multiple regression method and results were presented in tables. The study found that group lending and weekly repayment significantly influence credit default in MFIs, although the relationship is negative such that as group lending practices and weekly repayment schedules increase, credit default decreases ( $P=0.0214 < 0.05$ ). It was also found that group lending and weekly repayment practices significantly influence credit delinquency in MFIs, although as group lending practices and weekly repayment schedules increase, credit delinquency decreases ( $p=0.0035 < 0.05$ ). The study also found that group lending and weekly repayment significantly influence timely repayments of loans such that as group lending practices and weekly repayment schedules increase, timely repayments of loans within the group also increase ( $P=0.0018 < 0.05$ ). The study concluded that group lending practice and weekly repayment schedules are credit management practices that positively influence loan repayment performance in MFIs in Kisumu town. The study recommended that MFIs should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, loan defaults are projected accordingly and relevant measures taken to minimize the same. MFIs should also enhance periodic credit risk monitoring of their loan portfolio to increase the loan performance. This can be achieved by hiring qualified debt collectors and competent personnel. It is recommended that management should organize regular trainings in areas like credit management, risk management and financial analysis. There is need for a study to be conducted to determine the relationship between interests spread and loan performance of MFIs.