

Effect of Credit Portfolio Management on Financial Stability of Microfinance

Institution in Embu, Kenya

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Abstract

The importance of this research is to examine the effect of credit management on institutions stability of microfinance in Embu Kenya. It sought to find out the relationship between credit portfolio management of MFIs and financial stability, to assess the effect of credit portfolio management on MFI profitability, to recommend strategies for enhancing MFI stability. To achieve this the research used an econometric approach using 4 MFIs that are registered with the central bank of Kenya with data from the institution annual financial accounting report for a period ranging from 2012 -2019. With performance indicators, return on equity the research found the average credit collection period, performance cycle, diversification and the liquidity variables to have significant impact on return on asset variable of the MFIs understudy and performance cycle have a negative relationship with the return on asset. Average credit collection period, diversification, business size has an impact on the return on equity variable of the MFIs. Therefore, this study concludes that proper and efficient credit management is critical for the profitability and stability of the MFIs understudy hence, financial managers can create value for the shareholders' investments.