



IMPACT OF CREDIT RISK MANAGEMENT ON PERFORMANCE

(WITH SPECIAL REFERENCE TO MICRO FINANCE
INSTITUTIONS IN MANNAR DISTRICT, SRILANKA)

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ABSTRACT

Credit risk in microfinance institutions is on an increasing rate. It has become an area of concern to many people and institutions in the lending business globally. This kind of exposure leads to instability and poor performance of financial institutions. Therefore, this research sought to evaluate the effect of credit risk management on the financial and social performance of micro finance institutions.

In this era, micro finance institutions are continuously searching new ways to develop and achieve better social and financial performance. Credit risk management is the key aspect which affects the performance of micro finance institutions. This study deals with identifying the impact and level of impact of credit risk management on social and financial performances of micro finance institutions. Control environment, credit risk assessment, monitoring and control activities are the key elements in managing credit risk in financial institutions.

For this study researcher has used purposive sampling to select the sample of employees from micro finance institutions in Mannar district. According to that fifty respondents from ten microfinance institutions were selected for the study, of them ten managers, twenty accountants and the other twenty credit collectors were incorporated. Primary data were collected through five point likert scale questionnaires which consists of thirty questions to analyze the impact of credit risk management against the dependent variables of social and financial performances. Data analysis was carried through IBM Statistical Package for Social Sciences (SPSS) software package. Descriptive statistics, correlation analysis and multiple regression analysis were used to analyze the data to achieve objectives of the study.

Based on the findings of research the researcher had identified that there is positive relationship between credit risk management and financial Performance of the micro finance institutions in Mannar district. Moreover, it ensures that there is a significant impact in monitoring on financial performance and significant impact in credit control on social performance,

Key words: Micro finance institutions, credit risk management, control environment, credit risk appraisal, monitoring, control activities, financial performance and social performance.