

**Impact of Credit Risk Management on Performance of Microfinance Institutions
(Special Reference to Mannar District, Sri Lanka)**

S.S. Subakeerthana*, Y.M.C. Gunaratne and P.O. De silva

Department of Management Sciences, Uva Wellassa University, Badulla, Sri Lanka

Credit risk management in microfinance institutions has become more important not only due to the financial crisis that the industry is experiencing currently but also a due to the crucial concept which determines the financial and social performance. The objective of this study was to identify the impact of credit risk management on the performance of microfinance institutions and to identify the significant factor of credit risk management which affects the performance of microfinance institutions. The researcher has used a controlled environment, credit risk assessment, monitoring, and control activities as the key elements in managing credit risk. The study used a purposive sampling technique to select a sample of fifty employees from ten microfinance institutions in the Mannar district. Primary data were collected by distributing five-point Likert scale questionnaires, which consisted of thirty questions from two dependent variables and four independent variables. Descriptive statistics, correlation analysis, and multiple regression analysis were used to analyze the data. The study identified that credit risk management has a positive relationship with the performance of microfinance institutions concerning the Mannar district. Moreover, it ensures that monitoring had a significant impact on financial performance with the highest value of 0.59, and control activities had a significant impact on social performance with the highest value of 0.34. Finally, the study suggests to establish overall credit control and to have a system for monitoring the condition of individual credits.

Keywords: Micro finance institutions, Credit risk management, Financial performance and Social performance