

**CREDIT RISK AND MICROFINANCE INSTITUTIONS IN RWANDA
A CASE STUDY OF INKINGI LTD (2009-2012)**

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ABSTRACT

One of the two basic aspects of microfinance activities is to grant credits to its customers. On the one hand, the microfinance receives deposits from customers and on the other; it reinvests them as credits to customers. So, the credit risk and microfinance institution has been conducted in order to reduce, not to say to stop the loan non-repayment. The purpose of this research was to attract the microfinance's attention about the need of carrying out a credit analysis. Therefore, they can then form a correct opinion about the borrower's ability to pay back the credit granted. The research objectives were that to found out the real causes of nonperforming loans (NPLs) of the Rwanda microfinance system, to analyze how credit risks are managed in microfinance institutions (MFIs) and to assess the impact of NPLs on the loan portfolio growth, quality and its profitability. This research has created a knowledge value for managers of all MFIs especially Inkingi microfinance. It had been valuable for these managers to know and implement the different theories dealing with credit risk management. They have been informed about probable consequences and causes of delinquency and what good risk management requires. However, loan officers have been enough predictive power to significantly improve the evaluation of the risk of the loans applicants. In conducting this research, a literature review, the historical, comparative, systemic, quantitative and analytical methods have been used. As for techniques, documentary technique, survey technique for questionnaire and the interview with microfinance Inkingi Ltd personnel were resorted to. The data have been treated and presented in SPSS tables. Seven causes of NPLs in Inkingi microfinance Ltd have been identified by this research. These are delay of judicial system for collection of collaterals, economic difficulties that affect businesses and impact on the capacity of debtors to repay their loans, weak recovery mechanisms, weak credit analysis based on limited skills of some credit analysts, weak loan follow up mechanisms, unwillingness of debtors to repay loans and loan diversion. Besides, this MFI apply tools of credit risk management to contain their loan defaults. Concerning NPLs impact on loan portfolio growth, quality and profitability, through their loan losses provision, decrease of new loans disbursement and loan portfolio deterioration, NPLs affect Inkingi microfinance's profit, quality and growth. This research is limited to the credit risk and microfinance; other studies would be extended to other causes such as economic, political and sociological causes of NPLs.