

ABSTRACT

Providers of micro credit who are mainly micro finance institutions, are faced with the challenge of high default rate on loans advanced, sound credit management techniques are rarely in place, and even if they are, they are largely ignored. For this reason, the study sought to establish the determinants of portfolio quality in investment groups under Sidian bank in Nairobi region. The objectives of the study were to determine the effects of macroeconomic, group leverage, group capitalization and group characteristics on the portfolio quality of investment groups. The study adopted a descriptive survey research design since it establishes the relationship between the dependent and the independent variable. With the target population being all the 56 investment groups in the 9 branches under Sidian bank within Nairobi region. The study employed secondary data, which was obtained from Sidian bank offices in each of the branches within Nairobi region. Data analysis was conducted using descriptive statistics including percentages, frequencies, means and standard deviation. In addition, inferential analysis was carried out using correlation analysis and multiple regression analysis. The study found that macroeconomic variables, group leverage level, group capitalization and group characteristics influences portfolio quality of investment groups financed by Sidian bank in Kenya positively and significantly. The study concluded that group leverage level had the greatest influence on portfolio quality of investment groups financed by Sidian bank in Kenya followed by macroeconomic variables while group capitalization level then group characteristics had the least effect on the portfolio quality of investment groups financed by Sidian bank in Kenya. The study recommends that the study recommends that Sidian bank need to manage their portfolios, by understanding that not only the risk posed by each credit but also how the risks of individual loans and portfolios are interrelated. The study also recommended that, banks should be allowed to invest more in loans and advances as long as such banks have enough reserves to finance such investments and that banks should be allowed to scale up their operations so long as there is adequate capitalization to support their growth. The study further recommends that regulatory authority (CBK) and other stake holders should create an enabling environment that removes all these inefficiencies to the policy concern of high cost of credit