

**AN EVALUATION OF THE EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES ON MICRO FINANCE INSTITUTIONS' FINANCIAL SUSTAINABILITY: A CASE OF SELECTED MICRO FINANCE INSTITUTIONS NAIROBI COUNTY, KENYA**

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**BCOM/2014/57520**

**A PROJECT REPORT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF BACHELORS DEGREE IN COMMERCE (FINANCE OPTION) OF MOUNT KENYA UNIVERSITY**

**JUNE 2015**

## **ABSTRACT**

The main purpose of this study was to evaluate risk management strategies employed by Micro finance institutions and their effect on their financial sustainability. The study sought to; establish the Microfinance institutions (MFIs) preference for the various sources of finances; establish the frequency of Microfinance institutions' exposure to risk; establish the effectiveness of strategies used by microfinance institutions in the management of risk exposures and the extent to which they have contributed to their financial sustainability. The main assumption of the Study was that financial Sustainability is a function of efficient Risk Management. The study covered only MFIs within Nairobi County selected using purposive sampling. The sample included 89 employees of the Microfinance institutions selected using purposive sampling and stratified into branch managers and credit officers. The study entailed a survey research design and the instrument of collecting data was mainly questionnaire. Analysis of data was done using descriptive statistics that is; the likert scale and percentages. From the findings of the study, donor funding, revolving fund and government subsidies were the preferred sources of funding by the sampled MFIs. The findings further showed that strategic risk, credit risk and liquidity risk were the most frequent risks, whereas reputation and subsidy dependence occurred at a very low incidence. To tone down these risks, the MFIs employed various management strategies, which included risk avoidance, transferring of risk and mitigating risks. Specifically, reconciliation of loan accounts and loan data was considered the most effective risk management in determining financial sustainability of the MFIs. Generally, from the findings, mitigation of risks as a strategy was effective in determining the MFIs financial sustainability. From the study, it is recommended that further research be conducted on the factors influencing use of the various sources of funding for MFIs, the challenges faced by MFIs in the use of various sources of funding and other factors contributing to their financial sustainability.