A SURVEY OF STRATEGIES USED BY MICRO FINANCE INSTITUTIONS IN COMBATING EMERGING OPERATIONAL, STRATEGIC AND CREDIT RISKS

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ABSTRACT

The main objective of this study was to investigate on the strategic response to a survey on the strategies used by micro finance institutions in combating emerging operational, strategic and credit risks. The first research objective was to investigate the strategies including generic strategies used by micro finance institutions in combating operational, strategic and credit risks and the second research objective established the effectiveness of the strategies used by the microfinance institutions in Kenya in combating operational, strategic and credit risks. The design for this study was a survey design. The study targeted the top level, middle level and low level managers of KWFT, Faulu Kenya, KREP, SMEP and Kenya ECLOF as these are the major players in the subsector. The study adopted a stratified random sampling technique. The population was stratified into, top managers, middle managers, and low level managers. The data was gathered mainly through questionnaires. The findings established that the organizations had a policy strategy formulation and implementation of risk management. The detection of risks lies with the review of risk management. The results suggested that majority of the respondents agreed that their organization had a policy to review the management of risk. In most organizations, the risk management technique takes place in an unexpected manner as one of the main concerns of risk management. Having credit information of the niche market reduces the potential of bad debts. The findings revealed that most of the institutions used loan securitization as a strategy to mitigate risks. Risk mitigation should be planned well in advance to counter the risk occurrence. Credit information ought to be shared to among other things, improve the pool of borrowers, improve institution’s knowledge of applicants’ characteristics, easing adverse selection problems, reduce the borrowers’ incentive to become “over-indebted”. Credit assessment should be carried out regularly. MFIs policies should be designed to reduce credit risk and maximize returns. The study suggests that future researchers manage other emerging risks that can affect MFIs survival and sustainability and make a comparison of credit card risk management between lenders to add new knowledge in this field of research.