



# TECHNICAL UNIVERSITY OF MOMBASA

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## SCHOOL OF BUSINESS

### DEPARTMENT OF ACCOUNTING & FINANCE

#### UNIVERSITY EXAMINATION FOR:

#### BCOM/BBA

### **BFI 4308: MANAGEMENT OF MICRO FINANCE INSTITUTIONS**

#### END OF SEMESTER EXAMINATION

#### **SERIES: AUGUST 2019**

#### **TIME: 2HOURS**

#### **DATE: 16Aug2019**

#### **Instructions to Candidates**

You should have the following for this examination

-Answer Booklet, examination pass and student ID

This paper consists of **FIVE** questions. Attempt **question ONE (Compulsory)** and any other **TWO** questions.

**Do not write on the question paper.**

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#### **QUESTION One (CASE STUDY)**

**M**icro finance refers to provision of financial services to the low income households and micro and small enterprises or MSEs. Micro finance institutions are an important ingredient for investment, employment and economic growth. About 60 % of Kenya's population are poor and mostly left out of the scope of formal banking services. Most formal banks have considered the informal sector as risky and not commercially viable. This means that it is difficult for the poor to climb out of poverty due to lack finance for their productive activities. Micro finance institutions established using either an NGO or savings and credit cooperative society framework have been important sources for credit for a large number of low income households and MSEs in the rural and urban areas in Kenya.

MSEs are behind most of the country's socioeconomic transformation and play an important role in Kenya's development process. During the early stages of economic development, MSEs have unique opportunities for creating employment and wealth. In Kenya, a survey in 1999 revealed that 1.3 million MSEs existed, employing 2.4 million people (CBS/ICEG/K-REP, 1999). Other studies have shown that the sector is very dynamic as evidenced by the rate of investment and enterprise growth (Kimuyu, 1999). The sector is critical in poverty reduction in Kenya. MSEs are generally undercapitalized with major operational difficulties in accessing credit and pursuing corporate goals. A recent survey showed that only 6 % sought credit and only a modest number were successful.

#### **You're required to answer the following questions:**

- a) "Most formal banks have considered the informal sector as risky and not commercially viable." Apply the concept of vicious cycle-virtuous cycle approach to explain the given statement. **(10Marks)**

- b) “MSEs are behind most of the country’s socioeconomic transformation and play an important role in Kenya’s development process.” Discuss with the aid of examples in Kenya. **(10Marks)**
- c) “MSEs are generally undercapitalized with major operational difficulties in accessing credit and pursuing corporate goals. A recent survey showed that only 6 % sought credit and only a modest number were successful.” Explain how this position could be addressed so as to enable financial inclusion and ease of credit accessibility. **(10Marks)**

### **QUESTION Two**

- a) Know your Customer /due diligence is a concept popularly used in the financial sector, of what relevance it to the management of micro finance institutions? **(10Marks)**
- b) Micro Financing is not a new concept in alleviating poverty; and it started with Professor Mohammed Yunis in Bangladesh. Write a brief history regarding the development of Micro Financing, high lighting the causes that triggered this development. **(10Marks)**

### **QUESTION Three**

- a) Credit analysis is important before the borrower is given a loan. Explain how this is carried out by a customer who has recently applied for a small loan at Faulu Kenya. **(10Marks)**
- b) The SACCO movement in Kenya has a rich history, but it also has its share of challenges. Discuss. **(10Marks)**

### **QUESTION Four**

- a) Explain the term “**Transformation and Commercialization**” as applied to microfinance institutions In Kenya. **(10Marks)**
- b) The greatest challenge faced by MFIs from their customers is that of non-payment or high rate of defaulters. Why is this so and suggest solutions to the problem. **(10Marks)**

### **QUESTION Five**

- a) SACCOS have taken up the strategy of rebranding in enhancing their operations. Discuss the highs and lows of rebranding. **(10Marks)**
- b) Discuss the strength and weakness of informal sector as credit facility providers. **(10Marks)**



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