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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BMT 200: MICROFINANCE MANAGEMENT

DATE: 30TH MARCH 2026

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

MICROFINANCE AND FINANCIAL INCLUSION IN KENYA

Microfinance has been instrumental in advancing financial inclusion, especially in emerging economies where traditional banking services are either inaccessible or inadequate. In Kenya, microfinance institutions (MFIs) have played a crucial role in empowering small businesses, entrepreneurs, and low-income individuals by providing financial services tailored to their needs. While these institutions have fostered economic growth, they face numerous challenges that threaten their sustainability and effectiveness.

Jamii Microfinance, a leading MFI in Kenya, was founded in 2005 with the primary objective of providing financial solutions to underserved communities. Over the years, it has developed various savings and loan products designed to cater to individuals with limited access to conventional banking systems. The institution operates on a dual model, offering solidarity lending, where groups of borrowers guarantee each other's loans, and individual lending, which requires some form of collateral. These models have helped mitigate risks associated with loan defaults, yet challenges persist in maintaining financial stability and ensuring repayment discipline among clients.

One of the major issues facing Jamii Microfinance is loan default management. Many borrowers, particularly small business owners in the informal sector, struggle with loan repayment due to fluctuating incomes and unpredictable economic conditions. During the COVID-19 pandemic, for instance, the institution experienced a surge in non-performing loans, leading to liquidity constraints that affected its ability to extend further credit. As a response, Jamii Microfinance revised its lending policies, incorporating flexible repayment terms and financial literacy programs to educate borrowers on sound financial practices. Despite these efforts, loan default remains a pressing issue, requiring continuous monitoring and the development of more effective risk mitigation strategies.

Fund management is another critical challenge for Jamii Microfinance. The institution relies on a mix of funding sources, including donor contributions,

commercial loans, and internally generated funds through client savings. While these sources provide the necessary liquidity for loan disbursement, sustaining a diverse capital base remains a challenge. Many MFIs in Kenya struggle to raise sufficient funds for growth, especially in times of economic downturns. To address this, Jamii Microfinance has sought partnerships with development banks and impact investors interested in promoting financial inclusion. These partnerships provide access to concessional loans and grants, helping the institution expand its operations while maintaining financial stability.

Regulatory compliance under Kenya's Microfinance Act further influences the operations of MFIs. The act imposes strict financial reporting requirements, capital adequacy standards, and operational guidelines to ensure transparency and sustainability in the microfinance sector. While such regulations help prevent financial mismanagement, smaller MFIs often struggle with the administrative costs associated with compliance. Jamii Microfinance has had to invest in technology to streamline reporting and improve efficiency in tracking loan portfolios. Compliance with government regulations remains a key factor in determining the growth trajectory of microfinance institutions across Kenya.

The contribution of the microfinance sector to Kenya's GDP and economic development cannot be overstated. MFIs have empowered thousands of entrepreneurs, enabling them to create employment opportunities and improve household incomes. The success of institutions like Jamii Microfinance highlights the significance of accessible financial services in reducing poverty and promoting social mobility. However, the future of microfinance in Kenya depends on its ability to adapt to emerging challenges, including technological advancements, financial risks, and shifts in consumer behavior.

Digital financial services, mobile banking innovations, and enhanced risk management strategies will play a crucial role in shaping the sector's sustainability and growth. To remain competitive and relevant in the evolving financial landscape, Jamii Microfinance must continue refining its lending methodologies, fund management strategies, and customer education programs. Policymakers and financial regulators must also ensure that microfinance institutions operate within a

conducive legal framework that supports their growth while protecting borrowers from exploitative lending practices. With continued innovation and strategic management, microfinance institutions can further advance Kenya's economic development and expand financial inclusion for marginalized populations.

Source: Central Bank of Kenya Reports on Microfinance Institutions (2023–2025)

Required:

- a) The case study highlights that Kenya's Microfinance Act shape operations of microfinance Institutions. Analyze the role of microfinance governance in promoting financial stability and institutional growth **(10 Marks)**
- b) Evaluate the key challenges in fund management and loan portfolio risk faced by microfinance institutions as presented in the case study **(10 Marks)**
- c) Assess the contribution of Kenya's microfinance sector to GDP growth and financial inclusion as highlighted in the case study **(5 Marks)**

QUESTION TWO

- a) Loan products serve as the foundation of microfinance lending. Evaluate five types of loan products, discussing their suitability for different borrower segments and economic conditions **(10 Marks)**
- b) Microfinance institutions offer various savings products tailored to different customer needs. Critically analyze five savings products, explaining their role in financial inclusion and stability **(5 Marks)**

QUESTION THREE

- a) Effective fund management is crucial for microfinance institutions to sustain operations. Discuss five primary sources of funds, assessing their importance in maintaining liquidity and institutional stability **(10 Marks)**
- b) Microfinance institutions use various methods to raise funds for expansion. Analyze five approaches to fundraising, highlighting their effectiveness in financing growth initiatives **(5 Marks)**

QUESTION FOUR

- a) Credit operations involve systematic processes that govern loan issuance and repayment. Describe five aspects of credit operations, illustrating their impact on loan performance and risk mitigation **(10 Marks)**
- b) Financial reporting in microfinance institutions requires adherence to structured reporting standards. Assess five essential reporting ratios, explaining how they influence decision-making and financial health **(5 Marks)**

QUESTION FIVE

- a) Liquidity management ensures that microfinance institutions can meet financial obligations. Critically evaluate five liquidity management strategies, discussing their effectiveness in maintaining operational stability **(10 Marks)**
- b) Capital management plays a vital role in sustaining microfinance institutions. Analyze five approaches to capital management, examining their relevance in long-term financial planning **(5 Marks)**

QUESTION SIX

- a) Kenya's microfinance sector presents numerous opportunities for expansion. Discuss five emerging opportunities, explaining how they can enhance economic participation and access to financial services **(10 Marks)**
- b) The microfinance sector has significantly contributed to Kenya's economic development. Assess five key contributions of microfinance to GDP growth, illustrating its role in financial inclusion **(5 Marks)**