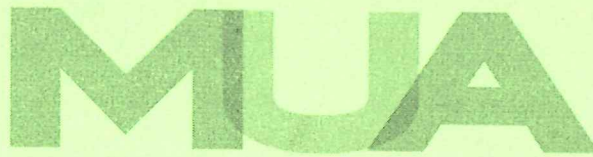


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BMT 200: MICRO FINANCE MANAGEMENT

DATE: 31ST JULY 2024

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 IN EAST AFRICA

East Africa, comprising countries such as Kenya, Tanzania, Uganda, Rwanda, and Burundi, has witnessed a surge in microfinance institutions (MFIs) aiming to bridge the financial gap for the underserved population. These institutions play a pivotal role in offering microloans, savings accounts, and other financial services, empowering individuals to start or expand small businesses and improve their livelihoods. East Africa, comprising countries such as Kenya, Tanzania, Uganda, Rwanda, and Burundi, has witnessed a surge in microfinance institutions (MFIs) aiming to bridge the financial gap for the underserved population. These institutions play a pivotal role in offering microloans, savings accounts, and other financial services, empowering individuals to start or expand small businesses and improve their livelihoods.

East Africa has become a hotbed of innovation in financial services. Kenya is fast catching up with South Africa to become the country with the most comprehensive provision of financial services on the continent. Moreover, the business models of champions such as Equity Bank and M-PESA have been studied worldwide. The Kenyan financial sector is broad and well developed in sub-Saharan Africa. Kenya's financial sector is roughly twice as large as Uganda's and Tanzania's, but all three have tremendous growth potential when compared to developed-country financial sectors. Kenya has 43 commercial banks and boasts the best-developed microfinance segment in sub-Saharan Africa. Roughly three-quarters of the East African microfinance sector are Kenyan. Kenya is also home to Equity Bank, a former building society considered insolvent in 1993 and today one of the world's most admired retail banks. Another notable institution is Kenya Women Finance Trust (KWFT), Africa's largest institution serving women only, with 250,000 active borrowers and after successful application for a deposit-taking license a fast-growing number of savers. At USD 600, KWFT's average loan is only a third of the size of Equity Bank's. As is the case with Equity Bank, three out of four KWFT loans go to borrowers outside the big cities.

Uganda counts 24 commercial banks, of which two (Centenary Bank and Equity Bank Uganda) have a microfinance focus. The country also has five deposit-taking MFIs¹⁶ and a few smaller MFIs. Among the larger financial institutions, only the two mentioned banks and the deposit-taking MFIs are not concentrated in Kampala. The microfinance sector is regulated by the Bank of Uganda. The use of a credit bureau for both positive and negative reporting is mandatory for all major MFIs. Biometric data is used for identification, as Uganda does not have a national ID system.

Tanzania has 50 commercial banks, but less than a dozen major MFIs. Unfortunately, the large number of commercial banks does not reflect a high degree of financial inclusion. Most commercial banks have a narrow, often government and/ or commodity sector-related business focus and do not serve a substantial number of households or businesses. While the MFIs focus on the latter segment, together they still reach a relatively small number of 300,000 active borrowers and 390,000 savers. The leading MFI, with 100,000 active borrowers, is Arusha-based Pride. As the MFIs slowly fill the immense gaps in financial inclusion, new entrants to the market, such as Access Bank, Advans, and Equity Bank bring a new dynamic. In order to access Tanzania's vast and barely tapped rural areas, more effort to keep pace with the fast evolution in Kenya is needed. Consolidation of the bloated commercial banking sector would help, as would support by the central bank to facilitate the granting of deposit-taking licenses to MFIs.

Required:

- a) Describe five challenges that Kenya faced in the establishment of microfinance institutions as discussed in the case study above (10 Marks)

- b) Discuss five strategies that Kenya, Uganda and Tanzania can adopt in order to strengthen microfinance in East Africa (10 Marks)

- c) The case study states that the use of a credit bureau for both positive and negative reporting is mandatory for all major MFIs. Outline five (5) benefits of positive and negative reporting to microfinance institutions (5 Marks)

QUESTION TWO

- a) Explore five fundraising strategies utilized by microfinance institutions
(10 Marks)
- b) Outline five methods employed by microfinance organizations for effective fund management.
(5 Marks)

QUESTION THREE

- a) Examine five principles governing credit operations. (10 Marks)
- b) Assess five methods employed by microfinance organizations to handle non-performing loans. (5 Marks)

QUESTION FOUR

- a) Describe five advantages that entities engaged in microfinance services derive from the regulatory framework governing microfinance (10 Marks)
- b) Outline five key principles that form the foundation of microfinance (5 Marks)

QUESTION FIVE

- a) Explain five principles that govern the oversight and control of an organization's available funds and assets to ensure efficient and effective cash flow (10 Marks)
- b) Analyze five guidelines in the strategic administration and optimization of a portfolio (5 Marks)

QUESTION SIX

- a) Assess five ways that the microfinance sector actively contributes to the economic growth of a developing nation (10 Marks)
- b) State five (5) challenges faced by microfinance institutions in Kenya (5 Marks)