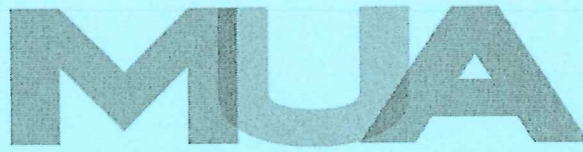


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP

BMT 200: MICROFINANCE MANAGEMENT

DATE: 28TH JULY 2022

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:

GIVING MICROFINANCE SECTOR MUSCLE WILL SPUR KENYA TOWARDS VISION 2030

The government through Vision 2030 has identified the financial sector as one of the six priority sectors in realizing this vision. The financial sector will be expected to mobilize and channel substantial resources required for investment to expand the production potential and open up the economy. Accordingly, it is envisaged that the microfinance sub-sector is positioning itself to enhance financial reach, deepening and inclusion.

The Microfinance Act in this regard was operationalised in May 2008. The Act empowered the Central Bank of Kenya to license and supervise Deposit Taking Microfinance institutions. These are classified into two genres, nationwide and community based. The nationwide institutions are expected to maintain a minimum capital of Sh60 million (\$0.8 million) and can roll out their operations across the country. The community based institutions' minimum capital requirement is Sh20 million (\$0.3 million) and are expected to operate in defined administrative/geographical areas.

So far, the Central Bank of Kenya has licensed Faulu Kenya deposit taking microfinance to conduct nationwide Deposit Taking. The Kenya Women Finance Trust Deposit Taking Microfinance Limited (KWFT Deposit Taking Microfinance) has been granted an approval in principle. Kenya Women Finance Trust Deposit Taking microfinance will be granted a license once a few pre-licensing requirements are fulfilled.

Eight other license applications are at various stages of review and appraisal by the Central Bank. Since 2008, the Bank has also approved thirty-three business names which is the first step in the licensing process. The progress so far in licensing one deposit taking microfinance, the Bank is concerned about the slow uptake of this new avenue for Microfinance Institutions to be mainstreamed into the financial sector.

Are there bottlenecks in the licensing procedures of Central Bank of Kenya? Some of the bottlenecks that have been identified so far and which would like to discuss and arrive

at solutions include:- High costs associated with roll out of branch networks and ICT infrastructure. Restructuring of shareholding of Microfinance Institutions to comply with shareholding restrictions specified in the Microfinance Act. The Act restricts shareholding by an individual/entity to 25 per cent of the institutions' share capital.

Microfinance Institutions are also constituted in various forms including Non Governmental Organisations and Trusts. Under the Act, transforming Microfinance Institutions are required to be incorporated as limited liability companies registered under the Companies Act. The incorporation process takes considerable time and expense and may deter some Microfinance Institutions from applying for a deposit taking microfinance licence. Anecdotal evidence also seems to suggest a "wait and see" approach by a number of Microfinance Institutions as they assess the experience and performance of the pioneer regulated deposit taking microfinances. In addition, information of how the agency-banking model will work may provide an incentive to speed up. I have seen letters objecting to this introduction but it is an advantage to Microfinance Institutions.

But is there a preference to remain non-deposit taking since the Treasury has not developed prudential regulations and licensing requirements for non-deposit taking Microfinance Institutions? Regulation brings with it the overarching benefit of instilling public confidence in Microfinance Institutions. This is a prerequisite for moving the microfinance sector to new frontiers of financial reach through mobilization of public deposits.

As you are aware, the traditional sources of donor funds for microfinance institutions are drying up and cannot be relied on to move the sector to the next level. The movement towards regulation of other financial institutions is also gaining momentum. Towards this end, the Government is operationalising the Saccos Regulatory Authority to regulate Saccos with front office operations.

These levels and layers of financial market operations and services show that there is a market niche for all actors and Microfinance Institutions should be entrenched in their niche market.

On its part the Central Bank will Endeavour to address the bottlenecks that Microfinance Institutions are experiencing in moving into the regulatory fold.

The Central Bank of Kenya will take several initiatives including using the Microfinance Act, which was amended with effect from 1st January 2010 to facilitate credit information sharing by deposit taking microfinances. We are in the process of developing information capital. Credit information sharing is critical in building the information capital of players in the informal, small, and medium enterprise segments.

These market niches are the bedrock of the microfinance sector. Also reviewing of the Microfinance Act and Regulations to make them more responsive to the needs of the microfinance industry particularly with regard to the cost of delivery channels.

Another way is proposing amendments to the Microfinance Act to facilitate the use of the agent model by deposit taking microfinances. Building Central Bank's capacity to regulate and supervise Microfinance Institutions is also another initiative. It is noteworthy that as part of harmonization initiatives under the East African Community (EAC), we are engaging with the sister central banks of Uganda, Tanzania, Rwanda and Burundi on ways of enhancing and harmonizing the microfinance legal and regulatory framework in the EAC.

Partnership with the microfinance industry will enable Central Bank of Kenya and the microfinance industry to develop policies, procedures, as well as innovative solutions to the benefit of the financially underserved and un-served segments of the market. The Bank is keen to draw on proposals that can facilitate the growth of the microfinance sector

REQUIRED:

- a) With reference to the case study, formulate the key characteristics and features of microfinance (10 Marks).
- b) From the case study, evaluate the principles of the microfinance act of 2007. (10 Marks).

- c) Assess the challenges facing the microfinance industry in Kenya from the foregoing discussion in the case study (5 Marks).

QUESTION TWO

- a) Illustrate the major types of products and services offered by microfinance to the poor and unbanked (10 Marks).
- b) Evaluate five loan default management strategies that are used to reduce loan delinquency by microfinance institutions (5 Marks).

QUESTION THREE

- a) Assess the sources of funds for microfinance institutions (10 Marks).
- b) Analyze the role of liquidity management in the operations of a microfinance business (5 Marks).

QUESTION FOUR

- a) Examine the importance of the microfinance industry in achievement of Kenya's vision 2030 (5 Marks).
- b) Assess the Advantages of Informal Financial Services. (10 marks).

QUESTION FIVE

- a) Analyze the Factors that Determine Effective Interest Rates for microfinance products and services (10 marks).
- b) Assess the distinguishing features of the lending technology used by microfinance Industry (5 marks).

QUESTION SIX

- a) Assess the Major Risks to Microfinance Institutions (5 Marks).
- b) Analyze the role of donors in supporting governments in the provision of microfinance services (10 Marks).

