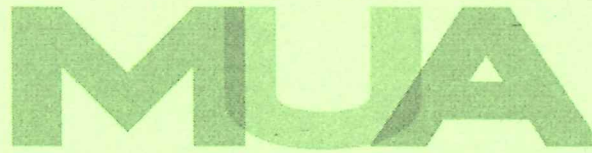


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF ARTS IN DEVELOPMENT STUDIES**

**BDS 305 : MICRO FINANCE FOR ENTERPRISE DEVELOPMENT**

**DATE: 8<sup>TH</sup> AUGUST 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:**

**MICRO FINANCE INSTITUTIONS**

Like a bank, a microfinance institution is a provider of credit. However, the size of the loans is smaller than those granted by traditional banks. These small loans are known as microcredit. The clients of an MFI are often micro entrepreneurs in need of economic support to launch their business. This type of client is considered too risky by traditional banks because they cannot provide real collateral and because they tend to work in the informal sector of the economy.

Before granting the loan, MFIs analyse the clients' willingness and ability to pay. MFIs usually carry out a field survey to gather as much information as possible, not only from the future entrepreneur, but also from people who know them.

Depending on the amount of credit requested, the criteria are relatively simple. For larger amounts, it is common to wait until the client has a proven track record and has already made repayments on small loans. Financial education and payment culture are important.

The success of a microfinance project, and of an entrepreneur, often depends on the direct or indirect involvement of family and close friends in the business activity.

As with any sector of activity, there are several possible jobs and entry points for working in an MFI. The most common jobs are loan officer, financial analyst, branch manager, risk manager, controller, financial educator and branch account manager. In addition to interpersonal skills which are required for the proper functioning of the MFI and for managing client relationships, a microfinance professional must have a certain expertise and skills, such as: an awareness of legal aspects, laws and regulations of the country, including those related to banking and the (micro) financial sector, and a solid understanding of the MFI's financial and non-financial products and services for clients. In addition, a microfinance professional must be able to: explain the operating principles of the MFI's financial and non-financial products and services clearly and in layman's terms to clients who are sometimes new to banking, apply procedures for granting credit, assess risks, collect savings

and manage cash, contain operating costs, use an MIS (computerized management information system) and detect fraud.

**Required:**

- a) Assess the importance of micro finance institutions in Kenya (10 marks)
- b) Discuss the requirements for operating an MFI in Kenya by an entrepreneur (10 marks)
- c) Evaluate any five challenges encountered by MFIs operating in Kenya (5 marks)

**QUESTION TWO**

- a) Discuss the three levels of micro entrepreneurs in Kenya who qualify for micro credits and the parameters you would use to classify them as so. (10 marks)
- b) When an entrepreneur approaches an MFI for credit, there are a number of factors he has to consider before finally accepting the credit. Evaluate five factors which may attract or discourage an entrepreneur from taking up the credit/loan (5 marks)

**QUESTION THREE**

- a) Describe any five sources of funds available to an MFI for onward lending to MSMES (10 marks)
- b) Assess any Five external factors which are likely to affect operations of an MFI in a country (5 marks)

**QUESTION FOUR**

- a) Discuss any five social advantages associated with growth of an MFI (10 marks)
- b) Evaluate any five objectives for starting an MFI (5 marks)

**QUESTION FIVE**

a) Before starting an MFI; entrepreneurs have to assess external factors that are likely to affect the business in what is called the five forces model. With an aid of a diagram; explain the five forces model **(10 marks)**

b) Discuss any five tools available for measuring performance of an MFI **(5 Mark)**

**QUESTION SIX**

a) Assess the various sources of risks for Micro Finance institutions **(10 marks)**

b) Micro finance institutions are fully engaged in group capacity building of entrepreneurs. Propose any five elements of capacity building to entrepreneurs by an MFI **(5 marks)**