

The  
Management  
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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**  
**SCHOOL OF MANAGEMENT AND LEADERSHIP**  
**DEGREE OF BACHELOR OF ARTS IN DEVELOPMENT**  
**STUDIES**

**BDS 309/BDS 414: MICRO SMALL & MEDIUM ENTERPRISE  
DEVELOPMENT (MSME)**

**DATE: 31<sup>ST</sup> 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:**

### **FANIKISHA PROJECT**

Micro, Small and Medium Enterprises (MSMEs) form the backbone of Kenya's economy, accounting for about 98% of businesses and employing over 14.9 million people across the country. Despite this importance, MSMEs in Kenya have traditionally struggled with limited access to finance, weak managerial capacity, and difficulties penetrating formal markets. These challenges have kept many businesses small, informal, and vulnerable to shocks. In response, both the private sector and government, often with donor support, have launched initiatives designed to improve the resilience, growth, and formalization of MSMEs.

Equity Bank, one of Kenya's largest commercial banks, recognized early on that traditional lending models excluded micro and small businesses due to lack of collateral and credit history. To address this gap, it launched the Fanikisha loan product, targeting women and youth entrepreneurs. Unlike conventional bank loans, Fanikisha was designed to accommodate informal traders and small-scale business owners by using group guarantees instead of physical collateral. Borrowers organized themselves into groups of 10-30 people, who collectively guaranteed each member's loan. The approach built on Kenya's long-standing tradition of table-banking and savings groups. Importantly, the loans were coupled with financial literacy and entrepreneurship training, ensuring that recipients understood record-keeping, loan management, and business growth strategies.

The impact of Fanikisha has been significant. Thousands of women traders in Gikomba market, for example, accessed credit to expand inventory and diversify into higher-value goods. Informal tailors and food vendors in peri-urban areas used the loans to buy equipment or raw materials in bulk, reducing costs and improving profit margins. The training component was

equally transformative: participants who previously lacked basic financial knowledge learned to separate household and business finances, track cash flows, and reinvest earnings. Studies commissioned by the bank showed that loan repayment rates in group-lending models were higher than in traditional SME lending, proving that low-income entrepreneurs are bankable when given flexible and tailored products. Moreover, many women who were previously excluded from the formal financial system gained credit histories that later allowed them to graduate to individual loans and eventually grow into small and medium enterprises.

The lessons from Fanikisha illustrate the broader dynamics of MSME development in Kenya. First, access to finance is necessary but not sufficient: The initiative paired credit or grants with training in financial literacy and business skills, which improved sustainability. Second, innovative delivery models that build on local practices — such as group lending in Fanikisha— help overcome structural barriers like lack of collateral or limited work experience. Third, digital platforms are becoming essential enablers for MSME growth, reducing transaction costs and opening market access. Finally, partnerships matter: Fanikisha leveraged private-sector banking infrastructure to deliver scale and credibility.

**Required:**

a) Critique the statement that access to finance is necessary but not sufficient to the growth of MSMEs

**(10 marks)**

b) Explain any five benefits of the Fanikisha loan product to MSMEs **(10 marks)**

c) Assess any five challenges that Fanikisha loan project encountered in its implementation **(5**

**marks)**

**QUESTION TWO**

- a) Many countries are focusing their efforts on the small enterprise sector. Discuss any five benefits of MSMEs to a developing country

**(10 marks)**

- b) Assess any five advantages accrued to an MSMEs operating in a global market:

**(5 marks)**

### **QUESTION THREE**

- a) Explain five reasons why an entrepreneur requires a business plan before starting an enterprise

**(10 marks)**

- b) Assess any five methods that a business development service provider can use to train employees of a small enterprise

**(5 marks)**

### **QUESTION FOUR**

- a) It has been argued that entrepreneurship and innovation are inseparable, that one cannot do without the other. Assess any five importance of innovation to a small business in Kenya

**(10 marks)**

- b) Describe the process of starting a small business in Kenya **(5 marks)**

### **QUESTION FIVE**

- a) Among the key characteristics of an entrepreneur is identification of a viable business opportunity. Assess the essential characteristics of a viable business that you can start

**(10 marks)**

- b) Compare subcontracting with franchising types of business arrangement  
**(5 marks)**

**QUESTION SIX**

- a) Discuss any five advantages of buying on credit as a source of capital for a medium enterprise  
**(10 marks)**
- b) Justify the need for partnership as opposed to starting a business alone  
**(5 marks)**