

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

BDS 305: MICROFINANCE FOR ENTERPRISE DEVELOPMENT

DATE: 16TH APRIL 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 IN KENYA

Microfinance in Kenya consists of microfinance facilities and regulations in Kenya which has been developing since the mid-1990s. Legislation was passed in 2006 with the Micro Finance Act which became active in 2008. By 2010 there were more than twenty large micro finance institutions in Kenya, which provided US \$1.5 billion to approximately 1.5 million active borrowers. With over 100,000 clients, Equity Bank Kenya had the largest share of business loans representing market share of 73.50% followed by Kenya Women Microfinance Bank with 12.06%. Most microfinance firms as in other countries have eligibility criteria which may include gender (as in the case for special women's loans), age (at least 18 years of age), a valid Kenyan ID, a business, an ability to repay the loan and be a customer of the institution. Corruption is a major problem in Kenya. In 2010 Kenya ranked 154th (out of 178) on the International Corruption Index. Political riots such as during elections in year 2007, which led to violence and economic disturbance. As a result of this political risk, the Portfolio at Risk rate increased during the riots during the elections in 2007. And infrastructure issues, where despite the economy having risen at a real growth rate of 4% in 2011, banking infrastructure remains weak.

The banking system in Kenya is regulated by the Companies Act, the Banking Act, and the Central Bank of Kenya Act. In addition, there are several existing guidelines. The responsibility for monetary policy and the banking system is held by the Central Bank of Kenya, which also releases information about interest rates, banking guidelines, and the financial institutions. The Kenyan Micro Finance Act was adopted in 2006 and became active in 2008. With the adoption of this act, institutions could apply for microfinance licenses at the Kenyan Central Bank either as a national or community institution. In order to do so, these institutions must be registered as: deposit-taking institutions, non-deposit-taking institutions or informal organizations (supervised by an NGO). The four steps of approval for a micro finance institution are: Approval of name, Application for license, Letter of intent and Issuance of license.

In 2010, there were more than twenty large micro finance institutions in Kenya, which provided US \$1.5 billion to approximately 1.5 million active borrowers. Those institutions offer business loans on a larger scale, specific agriculture loans, education loans, and loans for any other purpose. Additionally there are: emergency loans, which are more expensive in respect to interest rates, but are quickly available, group loans for smaller groups (4-5 members) and larger groups (up to 30 members) and women loans, which are also available to a group of women

Required:

- a) Discuss any five major micro finance institutions in Kenya (10 marks)
- b) Assess any five requirements for starting a micro finance institution in Kenya (10 marks)
- c) Suggest any five challenges faced by MFIs while operating in Kenya (5 marks)

QUESTION TWO

- a) Discuss any five services that MFIs in Kenya provide to MSMEs (10 marks)
- b) Assess any three cottage businesses that MFIs may assist in ASAL*(Arid and Semi-Arid areas (5marks)

QUESTION THREE

- a) Determine any five importance of cottage businesses in the economy (10 marks)
- b) Discuss the term Joint Liability Group and suggest functions of a joint group in relation to MFIs for enterprise Development (5 marks)

QUESTION FOUR

- a) Explain five records that a small business which has been funded by a micro finance institution should keep (10 marks)
- b) Assess any five reasons for high failure rate of MSMEs in Kenya (5 marks)

QUESTION FIVE

- a) Discuss five sources of Finance to a Micro Finance Institution (10 marks)
- b) Examine any five programs that the Kenya Government has started to assist MFIS in their growth journey (5 marks)

QUESTION SIX

- a) Explain any five items discussed in chapter five of an entrepreneur's business plan (10marks)
- b) Describe five qualities of a rural entrepreneur (5 marks)