



GRETSA UNIVERSITY - THIKA

UNIVERSITY EXAMINATIONS

JANUARY - APRIL 2017 SEMESTER

BACHELOR OF COMMERCE

COURSE CODE: BCCR 401

COURSE TITLE: MICROFINANCE

DATE: 3 APRIL 2017

TIME: 11.30 AM – 2.30 PM

INSTRUCTIONS TO CANDIDATES

1. SECTION A IS **COMPULSORY**.
2. SECTION B: ANSWER ANY OTHER **THREE** QUESTIONS.
3. **DO NOT** WRITE ANYTHING ON THIS QUESTION PAPER AS IT WILL BE AN EXAM IRREGULARITY.
4. ALL ROUGH WORK SHOULD BE AT THE BACK OF YOUR ANSWER BOOKLET AND CROSSED OUT.

CAUTION: All exam rooms are under CCTV surveillance during the examination period.

SECTION A

Question One

Usalama Microfinance is an MFI situated in Mariakani village. Its clientele consists mainly of peasant farmers and small scale entrepreneurs. During the drought period, the MFI suffers much delinquency as the clients are unable to repay their loans and to make their weekly savings. In assessing clients before a loan is granted, the credit officers at this MFI usually conduct a site visit to the clients' homes and/or businesses.

- (a) What information does a loans officer collect that would help in the decision to accept or reject a loan application (10 marks)
- (b) What mitigation or measures can be Microfinance Institution apply when dealing with this type of clients to cushion itself as well as its clients against loss and delinquency during the difficult periods (10 marks)
- (c) Explain other non-financial interventions that MFIs offer to their clients (10 marks)

Microfinance has been defined as: Efforts to improve the access to loans and to saving services for poor people (Shreiner 2001). In its operations, the microfinance applies three main methods to lend money to its clients as listed below. Explain these methods:

- (d) Individual Lending (5 marks)
- (e) Solidarity Group Lending (5 marks)

SECTION B

Question Two

The key mission behind the creation of the Microfinance concept is to ensure that credit is accessible to small and micro businesses as well as individuals who are termed as “unbankable”, by mainstream financial institutions. The key challenge in dealing with microfinance clients is designing a loans repayment approach that makes it possible for the poor to make daily or weekly micro payments. In view of this, explain the following:

- (a) What factors should be considered when structuring an efficient lending procedure (10 marks)
- (b) Define the acronym CAMPARI and explain how the loans officers in microfinance institutions use CAMPARI to assess clients applying for loans (10 marks)

Question Three

The history of microfinance dates back to about four decades when in 1979 Professor Mohammed Yunus, who is believed to be the founder of formal microfinance, founded the Grameen Bank in Bangladesh and began accessing micro finance services to poor women in South Asian villages.

Explain ANY TWO of the following three major shifts of microfinance since inception:

- (a) The community based enterprise (CBE) model (10 marks)
- (b) Small business development (SBE) model (10 marks)
- (c) Small and Micro Enterprises (SME) model (10 marks)

Question Four

During the initial years, MFIs were not much concerned about client drop out since there were plenty of un-accessed potential microfinance members; but now the number of MFIs has grown bigger targeting the same market niche, and MFIs are finding themselves in need of retaining their clients and hold the market niche for a long time.

- (a) What, in your opinion, can the MFI do to retain old clients and attract new ones (10 marks)

- (b) Why do you think the Microfinance concept has gained a lot of popularity in Kenya (10 marks)

Question Five

MFIs should be able to process more applications, disburse more loans at the shortest possible time period from application to disbursement, satisfy more clients, and make more profits. This can only be possible if the Microfinance develops a sound lending policy. You have been contracted by Bidii Yangu Microfinance Institution to develop an effective lending policy.

- (a) Explain the key items that should be included in the policy (8 marks)

- (b) Define and explain the following methods used by microfinance institution as savings strategies
 - (i) Savings up (4 marks)
 - (ii) Saving down (4 marks)
 - (iii) Savings through (4 marks)