The Management University of Africa

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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: 27TH 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:

MICROFINANCE FOR THE POOR

Microfinance in Kenya has inherited a long history of innovative financial inclusion. After a couple of decades of development, the term microfinance is still recognized as relatively new. A more popular and practical term has been microcredit, which emphasizes the main focus of the various financial institutions involved, although small savings have always been a part of microcredit operations. Gradually, in response to demand, other services such as savings, insurance (life and non-life) and remittance services have been developed or piloted and are now being bundled together under the term microfinance (Alamgir 2009). Another important feature has been the focus on the poor. Although this focus very much remains, in order to achieve greater sustainability, the MFIs also offer services to non-poor such as small farmers and **micro entrepreneurs.** Therefore, the scope and target beneficiaries have evolved over time. The development trends of the term 'microfinance' likely include many financial products for both the poor and the near-poor and we would like to focus more on the term 'financial inclusion'. However, there are two opposite schools of thought regarding the inclusion of non-poor or near-poor in the micro financial market; first, academics identify the need for commercializing microfinance for sustainable financial development and second, they identify the microfinance mission drift (increasing loans to individuals rather than to a group, to men rather than women, to urban people rather than rural people and reaching out to wealthy clients rather than to the poor). The proponents of the first school of thought encourage loans with increasingly larger amounts given to non-poor (or near-poor) that is, micro entrepreneurs and small farmers, and believe that this is a trend of more established organizations that have the opportunity to build up a 'graduated' client base ready for such loans. Therefore, it is not yet a sign of mission drift in the fundamental sense because the client base and the initial loan amounts are the same: only the average loan amounts are increasing (Charitonenko and Rahman 2002). The opponents of this school of thought believe that mission drift is occurring as more small NGOs are likely to engage increasingly in microenterprise lending, since most NGOs in this group are unlikely to have been established long enough to have 'graduated' clients and may be seeking to expand their client base by attracting high-income, lower-risk clients. Based on the first school of thought, the present study conducted a field investigation on microenterprise clients of various microfinance suppliers and measured the potential impact of such loans in developing sustainable incomes and entrepreneurship development.

Most of the earlier studies on microfinance in Kenya have focused on either economic impact or on the social impact of microfinance, but such studies have overlooked one important point that is the necessity of innovation to widen the economic and welfare impacts of microfinance. Just like 'Shanzhai innovation'[2] in China and 'Jugaad'[3] in India, microfinance in Kenya could also be an organized industry for innovative and creative solutions to alleviating the financial problems of poor rural and urban populations in the country. The introduction of microfinance in Kenya was seen as a useful way to alleviate the financial problems of the majority of the population, as most of them are not well off economically.

Required:

A. In relation to enterprise development in Kenya, explain what the term " micro finance" entail **(8 marks)**

B. With the help of a well labelled diagram, illustrate the poverty cycle in households and discuss how micro finance assists in breaking the cycle **(11 marks)**

C. Discuss the three levels of micro entrepreneurs in Kenya and the parameters you would use to classify them as so. **(6 marks)**

QUESTION TWO

A. List the categories of enterprises targeted by government's devolved fund disbursed for achievement of vison 2030 **(3 marks)**

B. Outline any four examples of MFIs in Kenya and discuss the roles that each play in enterprise development **(12 marks)**

QUESTION THREE

A. Describe any five sources of funds available for an MFI short term operations

(5 marks)

B. Discuss any five government initiatives that have enhanced international trade in the last three years **(10 marks)**

QUESTION FOUR

A. Before deciding on the MFI to start and its location; 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

(12marks)

B. Explain the term sub-contracting as used in entrepreneurship **(3marks)**

QUESTION FIVE

A. Discuss what is involved in capacity building to entrepreneurs by an MFI

(4 marks)

B. Enumerate the various sources of risks for financial institutions **(11 marks)**

QUESTION SIX

A. Discuss any five social advantages associated with growth of an MFI

(5marks)

B. Discuss any five tools available for measuring performance of an MFI

(10 Marks)