INTERNATIONAL UNIVERSITY OF EAST AFRICA
'Learning to Succeed'

FACULTY OF BUSINESS MANAGEMENT

END OF SEMESTER EXAMINATIONS - APRIL 2025

PROGRAMME: BBA
YEAR/SEM: YEAR 3/SEMESTER 2
COURSE CODE: FIN 3201
NAME: MICRO-FINANCE MANAGEMENT

DATE:
TIME:

INSTRUCTIONS TO CANDIDATES:

SECTION A

SECTION A IS COMPULSORY

Question 1:

In a rural region of a developing country, a microfinance institution (MFI) was established to provide much-needed financial services to low-income families who had limited or no access to traditional banking services. The MFI was designed to offer small loans, savings accounts, insurance products, and money transfer services to a population of small-scale farmers, local artisans, and small business owners. These individuals were previously excluded from formal financial services due to factors such as lack of collateral, credit history, or proximity to financial institutions.The MFI's mission was to improve the financial inclusion of the poor, help them expand their businesses, and enhance their overall living standards. By offering microloans, the institution sought to empower individuals to invest in income-generating activities, thereby creating employment opportunities in the region and reducing poverty.Over the years, the MFI expanded rapidly, attracting both local and international investors. Its client base grew significantly, and it became a critical source of financial services in the region. However, with growth came a series of challenges that threatened the sustainability of its operations and the achievement of its poverty-reduction goals.As the number of clients increased, the institution began facing a higher rate of loan defaults. Many clients, particularly small-scale farmers, struggled to repay loans due to factors beyond their control, such as poor harvests, adverse weather conditions, and fluctuating market prices for agricultural products. This resulted in a significant financial

strain on the MFI, as it relied heavily on loan repayments to fund further lending operations.While the MFI initially relied on donor funding and external investments, the institution recognized the need to become financially self-sustainable to continue serving the growing demand for financial services. Balancing social objectives with financial sustainability proved to be difficult, especially as operational costs rose with the increase in clientele and the expansion of services.

Required

a) How can the MFI manage and reduce loan default rates, particularly among small-scale farmers, while ensuring the continued provision of financial services to its clients? (20 marks)

b) What strategies can the MFI implement to maintain its social mission of poverty reduction, while also achieving long-term financial sustainability? (10 marks)

c) What role does financial literacy play in the success of microfinance institutions, and what steps can the MFI take to educate its clients on managing loans, savings, and other financial products effectively? (10marks

Question 2:

In Search of the Right Balance: The Costs of Credit Risk Controls and their Effect on Customer Satisfaction Microfinance institutions should strive to find the appropriate balance between managing credit (and fraud) risks, the costs and effectiveness of each control, and the attainment of customer satisfaction. For example, many MFIs require new clients to repay their loans in weekly installments. This is considered an important control for credit risk because smaller installment sizes are easier to repay and frequent repayments are easier to monitor. But how much more effective in controlling credit risk are

weekly repayments than biweekly? Is it effective enough to endure the costs of having twice as many repayment transactions? Does the benefit of assumed lower loan losses justify the high costs (time and money) to clients in the form of travel and lost business? What effect does this control have on customer satisfaction and loyalty? MFIs should explore the same series of questions for all of their credit risk controls, such as forced savings, staggered disbursements, months of pre-loan training, etc. in an effort to significantly reduce the costs to both the client and the institution while hopefully improving the effectiveness of the controls. Often MFIs assume that certain controls are necessary to exact timely repayment, but they have not determined exactly how important they are, nor have they analyzed whether they are worth the cost

REQUIRED

a) Suggest ways of Reducing Credit Risk by microfinance institutions through Product Design Features (20Marks

b) Using examples from the case explain the 5C,sand show how micro finance institutions use them to hedge against credit risk during the screening process. (20marks

SECTION B

ANWSER ANY THREE QUESTIONS

Question 1:

Using examples, discuss Factors and Requirement for Successful Operation of MFIs in your country. (20marks

Question 2:

a)Sound financial activities based on best practices play a decisive role in providing the majority of clients with access to financial services through sustainable institutions. However, there has been more failures than success. Discuss the challenges facing microfinance in your country. (10marks

b) The contribution of Microfinance institutions to the poor in your country. (10marks

Question 3:

Discuss the factors affecting the operations and sustainability of Microfinance institutions in your country. (20marks

Question 4:

As a student of microfinance, discuss Reasons for Growth of Microfinance Sector in your country. (20marke

Question 5:

a)Assume you are the loan officer in charge of loan initiation, evaluation, negotiation, documentation and disbursement of loans to clients, what conditions would you put in place for you to make sure that you are creating a quality loan portfolio. **(10marks**

b) Discuss and explain ways how donors, investors and policy makers can effectively build financial sectors that serve the poor. .

(10marks

Question 6:

a) Discuss the Factors That Help to determine credit terms in microfinance institutions. (10marks)

b) When giving out a loan, MFI are always concerned with its ultimate collectability. Discus the various forms of protection available to MFI against credit risk. (**10marks)**

Question 7:

The reasons for poor or delayed payment are either internal or external and these determine the quality of the portfolio. Using examples explain the causes of loan default in microfinance institutions. (20marks

Question 8:

Discuss using examples how microfinance institutions help the poor in your country. (20marks)

Question 9:

Discuss the challenges microfinance institutions face while carrying out their activities in your country.

(20marks)

Question 10:

a) The Role of donors agencies is mainly to ensure effective Collaboration between agencies, Set support guidelines and Collaborating with Government. Discuss the guidelines that donors follow to insure effectiveness of microfinance institutions .

(10marks

b) Explain the Challenges faced by Micro finance Institutions from donors. .

(10marks

Question 11:

Discuss using examples the negative effects created by microfinance in their areas of operation. . (20marks)

Question 12:

Explain the factors affecting the operations and sustainability of Microfinance institutions in your country.

(20marks)

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