



**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: 2025-04-16**

**TIME: 9:00AM-12:00PM**

**INSTRUCTIONS TO CANDIDATES:**

1. Read the instructions very carefully
2. The time allowed for this examination is STRICTLY three hours
3. Read each question carefully before you attempt and allocate your time equally between all the Sections
4. Write clearly and legibly. Illegible handwriting cannot be marked
5. Number the questions you have attempted
6. Use of appropriate workplace examples to illustrate your answers will earn you bonus marks
7. Any examination malpractice detected will lead to automatic disqualification.

**DO NOT WRITE ANYTHING ON THE QUESTION PAPER**

## 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?

## Section B ANSWER ANY THREE QUESTIONS

### Question 1:

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

**Question 2:**

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

**Question 3:**

- Discuss the Factors That Help to determine credit terms in microfinance institutions. (10marks)
- When giving out a loan, MFI are always concerned with its ultimate collectability. Discuss the various forms of protection available to MFI against credit risk. (10marks)

**Question 4:**

- 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)
- Explain the Challenges faced by Micro finance Institutions from donors. (10marks)

**Question 5:**

Discuss the challenges microfinance institutions face while carrying out their activities in your country. (20marks)

**Question 6:**

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