



MACHAKOS UNIVERSITY

University Examinations for 2022/2023 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM

MANAGEMENT

DEPARTMENT OF ECONOMICS

FOURTH YEAR SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS & FINANCE

EAE 402: ECONOMICS OF MICROFINANCE II

DATE:

TIME:

INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions
- (ii) Do not write on the question paper
- (iii) Show your working clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

- a) A financial institution's credit risk policy should clearly set out how unperforming credits are to be managed. The positioning of this responsibility in the credit department of an institution may depend on the size and complexity of credit operations. One of the key aspects the management will like to discuss with credit department is how credit recovery strategy had been documented and structured. Assume you are a staff in the credit recovery division tasked by the head of credit department to put down structures taking keen on detailing ways that can be used to recover defaulted loans. Give a brief notes on how you will go on with the assignment at your work desk (5 marks)
- b) In an interview with the Women Enterprise Fund (WEF) for the position of supervisor a manager said, WEF was established through Legal Notice No. 147 of 2007 and began its operations in December 2007. The Fund was established to provide alternative financial services to women who are excluded from the formal and informal financial Market and to undertake a number of other functions. Give a briefly explanation of the other functions of WEF in Kenya the manger was referring to in the interview. (7 marks)

- c) Consider a risk-neutral bank that lends a total amount $L = \text{Ksh.} 2,000,000$ to the impoverished. The total cost of lending is $C = \text{Ksh.} 200,000$, the total subsidy from a donor agency to the bank is $S = \text{Ksh.} 60,000$, and the total income from other investments is $I = \text{Ksh.} 200,000$. The expected fraction to be repaid is $(1 - d) = 0.8$. Assuming that the bank is an NGO that just wants to break even, compute the interest rate charged by the bank when it is subsidized and when it is not. (8 marks)
- d) A good plan serves as a guide to operations for the first few months and even several years, creating a management blueprint. Briefly discuss the statement in the context of microfinance institutions. (4 marks)
- e) Savings is encouraged among the poor and rich. Saving creates national pool of fund for investments. Without enough savings the country will have to borrow from foreign countries and multinationals that may cause ripple effects during the periods of repayment due to huge amount of interest to be paid. This has been a key part of government in the current government where president is tasking his administration to craft a method to mobilize saving from individual to form large pool of funds. However, he is aware that savings among the poor has come with a number of constrains. As graduate briefly give key notes explaining why saving may hardly be realized among the poor. (6 marks)

QUESTION TWO (COMPULSORY) (20 MARKS)

- a) Nanok who is running a small business in an informal site, approached you as graduate in bachelor's degree in economics and finance, to discuss the external sources of capital for his business. Nanok informs you that he is not good in academic field but has good experiences in business world; however he seriously lacks capital to expand his business. Briefly give concise note about the entail the discussion between you and Nanok. (5 marks)
- b) Non-governmental organizations (NGOs) had an active role in MSEs' lending in Kenya especially due to donor interest in the field as result there are many NGOs providing credit to MSEs in Kenya. Explain the basis for NGO involvement in MSEs financing. (5 marks)

- c) Assume after graduating with bachelor's degree, you make a decision to follow your long time nagging dream of being a successful business person. One of the disturbing questions is where to get the seed capital to quench your dream. Having done successfully both economics for microfinance I and II, you are aware that there are four sources of funds that can provide the seed capital, i.e internal, external, government and non-government. At the back of mind you recall there a number of weaknesses of external sources of capital seed. What are these disadvantages and advantages if at all they exist and give you own reasonable judgment if you may prefer it or not. (6 marks)
- d) Jeyden a young businessman approached you for an advice on sources of capital in Kenya. You informed him that there are number of sources categorized generally as internal and external sources. Then he grew much interest and wanted more explanation on Overdraft as a source of external source of capital. Briefly give notes on **Overdraft** as the source of funds to start or expand the business detailing on the merits and demerits. (4 marks)

QUESTION THREE (20 MARKS)

- a) The problem in designing incentives for microfinance credit officers is made more challenging by the multiple tasks that managers expect their staffs to perform, that is to reducing poverty and achieving financial self sufficiency. Mosley (1996) investigated these two objectives and found that, rather than being complementary, the two objectives often conflict. With the help of illustration briefly explain the conflict of the said twin objectives. (6 marks)
- b) Assume you met Kiptoo who is skipped lecture when Credit Appraisal was clearly explained by the lecturer but Kiptoo is not able to follow the scanty notes shared in class. Share briefly the note on what you told Kiptoo, meant by the term Credit Appraisal mean and why it is important exercise in Microfinance Institution? (4 marks)
- c) As a graduate in Bachelor's degree in Economics and Finance, John Mark a wealth man approached you to help him draw a business plan because he is expecting to open soon a new business line. The first you briefed him with key business plan components that are general and must be considered for any successful business venture. Briefly give an account of what you brought to John Mark note book. (5 marks)

- d) One of panelists of the interview you attended in Hustler Fund Authority, posted to you that, as you be aware Microfinance Institution (MFIs) is a special and important institution in developing countries that bridge the gap between the poor and rich in terms of accessing formal credit. Therefore, due to their nature, these institutions demands special management that considers several special issues. Give note of those special issues an interviewer was referring to. (5 marks)

QUESTION FOUR (20 MARKS)

- a) Assume you are called for an interview with Women Enterprises Fund for the supervisor position. One of the panelist mentioned that there are many sources of capital for SMEs government included; now you asked to briefly give account of Government as a source of capital for SMEs in Kenya giving note on Hustler fund. (6 marks)
- b) Assume you are one of the panelist interviewing new recruits into UNITAS Sacco, you said that Credit appraisal is an importance exercise that cannot be overemphased, where the firm intent to reduce the possibility of disbursed loans end up increasing a list of defaulted loans. In this note while developing Credit appraisal criteria, a good list of aspects must be taken into account for success to be realized. You asked the interviewee to briefly explain these aspects. What did you expect from the interviewee? (5 marks)
- c) The microfinance institutions credit to the poor is expected to have impact to the village, society, families and entire region. Therefore, it is important to measure the impact of microfinance. Briefly explain the methods of measuring the impact of microfinance credit to the society and region. (5 marks)
- d) Assume the first question, after introduction in the interview you attended with Youth Enterprises Development Fund, was that state and explain why the fund was established and if you think it has achieved the objectives. What was your answer? (4 marks)

QUESTION FIVE (20 MARKS)

- a) I want to start side hustle and join other members of hustler nation. I want luck enough seed capital from my little saving and intent to supplement it with borrowing from friends, my brother and wife. Am not aware of any demerits of borrowing from my brother and wife to start business. I have approached you for advice. What did you tell me? (5 marks)
- b) The success of credit and savings products within the microfinance fraternity has seen the emergence of new micro-products. Amongst the products that are being introduced is insurance. The insurance industry has the same characteristics as financial services when it comes to addressing the needs of the poor that is there is no much access by poor households, inefficient government providers who are characterized by running huge losses and informal mechanisms that are often very costly. In view of these shortcomings briefly discuss health insurance problem in Kenya in attempt to operationlise universal healthcare for all and giving examples. (5 marks)
- c) Omondi is a serious entrepreneur in Siaya County. Omondi met me at the lake shores and approached me seeking to know the different sources of funds to expand his business. We sat around a coffee table I informed Omondi that there a number of sources for funds that can be leveraged on to expand the business. Such sources include internal sources such as own savings and salaries and profits. However such sources have limitations .Briefly give note explaining the limitations of such sources of capital for business that I brought to Omondi notebook . (6 marks)
- d) Assume you attended an interview with Faulu for the position of credit officer II. The head of panelist post to you that our company (microfinance) has a number of clients we serve with different products we have developed over time. One of the clients is corporate companies. You are asked to briefly explain some of the advice and product this client may seek from Faulu (micro finance institution). (4 marks)