



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

P.O. Box 62157
00200 Nairobi - KENYA
Telephone: 891601-6
Fax: 254-20-891084
E-mail: academics@cuea.edu

AUGUST - DECEMBER 2018 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

ODEL / REGULAR PROGRAMME

CBF 324: MFI DEVELOPMENT

Date: DECEMBER 2018

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. a) Identify and discuss the main characteristics that distinguish a leading MFI. **(7 marks)**
- b) "Lack of capital is the main constraint why microfinance institutions do not grow into big organizations in the East African region". Discuss the truth of this statement. Do you think microfinance sector is adequately funded? **(7 marks)**
- c) Explain how credit appraisal is done in Microfinance lending. In your answer point out the criteria used. **(8 marks)**
- d) "Lasting peace on earth cannot be achieved unless large population groups find ways in which to break out of poverty. Fortunately, microcredit; a key innovation in microfinance has demonstrated that even the poorest of the poor can work to bring about their own development". Discuss how microcredit can contribute to poverty alleviation and economic development and thus get people out of poverty? **(8 marks)**
- Q2. a) MADA MFI is a deposit taking Microfinance Institution and has hired a consultant to identify why the loan portfolio is doing poorly. The consultant's report found out that the MFI had a delinquency problem: most clients were not repaying their loans; the repayment rate was 54% compared to standard performance in microfinance of 98%, and portfolio at risk of 48% and some clients had relocated to another estate in the city. The report pointed that the caseload of the loan officers (300 borrowers

per loan officer) though meeting international best practice was slightly on the higher side in the context of Madaraka environment. The officers were also underpaid in relation to their peers in the market and had low morale. The management of MADA MFI has asked you to:

- i) Explain to them what delinquency is **(2 marks)**
 - ii) Discuss institutional causes of delinquency **(6 marks)**
 - iii) Describe at least two ways MADA can use in managing delinquency **(6 marks)**
 - iv) Explain implication of the following ratios in relation to performance of their MFI:
 - 1) Borrowers per staff ratio **(3 marks)**
 - 2) Portfolio at risk ratio **(3 marks)**
- Q3. a) Discuss the reasons to why microfinance is growing. **(10 marks)**
- b) What are the major risks of microfinance? **(10 marks)**
- Q4. Read the case of Chambasho in order to answer the questions that follow.

An Example from the Field: Chambasho

Chambasho, in Hogoro Ward, Kongwa District (Dodoma Region, Tanzania) was formed in 2001 and legally registered as a SACCO in 2003. Within the Rural Finance Scheme, it is one of the more successful SACCOs. It is located in the 'maize belt' of Dodoma Region, and only 40 km. from the regional maize market. By August 2004, Chambasho had 312 members (33% women) and a mobilized capital of Tsh.12 Million (90% in shares – they only just started to accept deposits). Chambasho received a first loan from CRDB of Tshs. 10 million (for 10 months, 1% per month). In February 2004, Chambasho's outstanding loan portfolio was Tshs. 20 Million to 266 members (62% women), the majority for agricultural investment (8-months bullet loan, interest 2.5% p/month), a small percentage to 3-months business loans (2.5% p/month) and 30-day social/emergency loans (5% interest). Members can lend up to three times their shares plus deposits-value. So far repayment has been 100%. Deposits earn 4% per year. In 2004 Chambasho constructed its own building, and the bank is open five days a week. The SACCO is located 130 km from Dodoma, where it banks with CRDB. With twice-daily buses, however, this is not seen as a serious constraint.

Assistance from DFE-Dodoma included facilitation of the formation process (regular visits, printing of leaflets, and provision of basic stationary) member education and leadership education, support in development of by-laws, savings & credit policies and facilitation of the legal registration process. In addition, DFE facilitated the linkage between Chambasho and CRDB, and, with Hivos-funding, provided Tshs. 1.5 Million top-up funding for the construction of the building and a safe. CRDB provided the furniture and technical assistance in establishing

front-office services. DFE will continue with monitoring support, based on monthly reports from Chambasho.

a) What are the factors that contributed to its success, as mentioned by members? **(10 marks)**

b) In which ways did Chambasho assisted people, according to members? **(10 marks)**

END