



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

BACHELOR OF BUSINESS ADMINISTRATION

End of Second Semester Examination, 2020/2021 Academic Year

Level 300

CSBF 356: MICROFINANCE

May, 2021

40 marks

Time: 1 Hour 15 Min.

***Instruction:** The paper is in two sections. Answer question 1 in section A and any other 1 question in section B. All answers should be written in the answer booklet provided.*

Examiner: Joyce Ama Quartey

Section A**Question 1 is compulsory (24 marks)****Question 1**

Read the case below and answer the questions that follow.

With strong and dynamic leadership Victory Microfinance Company (VMC) was established in 2014. Victory Microfinance was able to increase their outreach by opening four branches as at 2019. Realizing the important role Loan or Credit Officers' play in the overall credit management of VMC, Credit Officers were trained periodically to ensure that they perform their work efficiently in terms of screening, monitoring and collection of loans. In order to increase productivity, VMC set up an incentive scheme by linking the salary of Loan Officers and Branch Managers to the number of clients and overall branch client population respectively.

VMC also introduced products that are tailored to their market niche. In addition to giving individual loans, VMC also adopted the group based lending mechanism. VMC also introduced a management information system which makes it easier to record transactions such as deposits as well as keep track of loans given out. This has helped to reduce error and fraud risk at VMC. Their repayment system has also been automated to ensure transparency and efficiency. As a microfinance institution, the clients of VMC are typically the economically active poor, who do not have physical collateral to present for loans. VMC therefore, enables the use of collateral substitutes.

VMC has transformed the lives of many clients by providing them with financial services which have enabled them to start businesses and expand their microenterprises. However some clients of VMC have criticized them for the rigorous repayment process and high interest rates they charge.

Required:

- (a). A number of factors determine the success and sustainability of MFIs. Explain four factors which in your opinion account for the success of VMC. **12 marks**
- (b). The flexible nature of microfinance enables the use of collateral substitutes. Discuss three collateral substitutes that are likely to be used by VMC. **6 marks**
- (c). As a development tool, VMC has a number of objectives. Discuss four objectives of VMC.

6 marks

Section B**Answer only one question from this section (16 marks)****Question 2**

Over the last two decades microfinance activities have increased tremendously especially in developing countries. Examine the factors responsible for the rapid growth of microfinance.

16 marks**Question 3**

(a) The principles of lending employed by MFIs are flexible and responsive concepts on lending. State and explain the “CAMPARI” principle of lending used by most MFIs. **12 marks**

(b) While some argue that microfinance has a positive impact on the lives of the beneficiaries, others caution against such optimism and draw attention to the negative impacts that microfinance can have. Briefly discuss some of the possible negative impacts of microfinance. **4 marks**

Question 4

The sustainability of MFIs is critical if they are to continue their core mandate of providing financial services to the poor.

The table below shows the 2015 financial records of Gracefield Microfinance Company.

Item	GH¢
Operating income	358,500
Financial expense	50,000
Net impairment loss, gross loan portfolio	72,000
Operating expense	132,000
Gross loan portfolio	150,000
Delinquency + 1 month or more	14,000
Net subsidy	12,000
Interest rate charged on loans is 25%	

(a). Use the information above to determine the sustainability of Gracefield Microfinance Company by estimating the three indicators of sustainability, namely;

- i. Subsidy dependence index (SDI) **4 marks**
- ii. Operational self-sufficiency (OSS) **4 marks**
- iii. Portfolio at risk (PAR) (a proxy for financial self-sufficiency) **4 marks**

Explain your results.

(b). Explain two sources of private sector capital available to microfinance institutions. **4 marks**