



**CHRISTIAN SERVICE UNIVERSITY COLLEGE
KUMASI**

CSUC SCHOOL OF BUSINESS

DEPARTMENT OF ACCOUNTING & FINANCE

BACHELOR OF BUSINESS ADMINISTRATION

**End of Second Semester Examination, 2021/2022 Academic Year
Level 300**

CSAD 356: MICROFINANCE

May, 2022

70 marks

Time: 2Hrs 40Min.

Instruction: The paper is in two sections. Answer question 1 in Section A and any other 3 questions in Section B. All answers should be written in the answer booklet provided.

Section A**Question 1**

Read the case below and answer the questions that follow.

Shalom Microfinance Limited was established in 2012. By 2018 it had opened 6 more branches. It recruited more staff to fill the new branches. To meet client targets, it 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. Shalom Microfinance also used collateral substitutes to attract more customers. Thus the outreach of Shalom Microfinance was enlarged and financial performance improved during this period.

However, the MFI failed to develop sufficient staff capacity in credit administration, and consequently, loan portfolio quality started deteriorating steadily. There were also reported cases of manipulation of data by some of the staff as a result of inadequate training. Due to the worsening cases of delinquency and default, the MFI decided to reward its Loan Officers according to level of their portfolio at risk (PAR) and suspended loan disbursements in all the branches until the trend changes. Also to control escalating branch costs, the MFI decided to fire all low-level staff and allowed only few of them to receive calls. It also reduced travel allowances of Loan Officers by 25% and centralised many purchases at the head office only. News about the staff who were laid off was interpreted to mean the MFI was at the verge of collapse. This situation had a negative impact on the image of Shalom Microfinance Ltd.

a). A Mission Statement defines the rationale and direction of an organization's business. As a manager of Shalom Microfinance, suggest a "mission statement" for Shalom Microfinance Ltd.
3 marks

b). List and explain four risks that Shalom Microfinance Limited is exposed to. **12 marks**

c). What consequences will Shalom Microfinance Limited face if it ignores the ever-changing risks it faces? **5 marks**

d). The flexible nature of microfinance enables the use of collateral substitutes. Discuss two collateral substitutes that are likely to be used by Shalom Microfinance Ltd. **5 marks**

Section B

Answer any 3 questions from this section. All questions carry equal marks of 15 each.

Question 2

Microfinance is associated with a lot of innovations. The principles of lending employed by MFIs are thus, flexible and responsive concepts on lending. State and explain the "CAMPARI" principle of lending used by most MFIs. **15 marks**

Question 3

Microfinance has been perceived as a development tool which enables the economically active poor to come out of poverty. This idea and other factors have contributed to the rapid growth of microfinance especially in developing countries where the poor are mostly found. Examine five factors that are responsible for the rapid growth of microfinance. **15 marks**

Question 4

- a. Most MFIs in developing countries have adopted the Grameen Solidarity Group Lending Model. Explain four features associated with this lending model. **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 two possible negative impacts of microfinance. **3 marks**

Question 5

- a). The need for the "Financial Systems" approach to microfinance necessitated a shift from over dependence on donor- funding to private sector capital. Examine four sources of private sector capital available to microfinance institutions. **12 marks**
- b). Microfinance has become an attractive theme in recent years. Thus raising money via capital market could be beneficial to microfinance. One way of doing this is through the use of Microfinance Investment Vehicle (MIV). Explain 2 criteria which must be met for a fund to qualify as an MIV. **3 marks**

Question 6

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 2019 financial records of Victory Microfinance Company.

Item	GH¢
Cash at hand	90,000
Cash at bank	60,000
Operating income	450,220
Financial expense	62,500
Total Deposits	345,500
Net impairment loss on gross loan portfolio	79,800
Operating expense	151,500
Gross loan portfolio	185,000
Delinquency + 1 month or more	16,400
Net subsidy	15,800
Interest rate charged on loans is 32%	

- a. Use the information above to determine the sustainability of Victory Microfinance Company by estimating the three indicators of sustainability, namely;
- i. Subsidy dependence index (SDI) **3 marks**
 - ii. Operational self-sufficiency (OSS) **3 marks**
 - iii. Portfolio at risk (PAR) (a proxy for financial self-sufficiency) and interpret the results **3 marks**
- b. Determine the liquidity ratio **2 marks**
- c. State and explain 2 determinants of the success and sustainability of MFIs **4 marks**