



**STRATHMORE BUSINESS SCHOOL**  
**MASTER OF SCIENCE IN DEVELOPMENT FINANCE**  
**END OF SEMESTER EXAMINATION**

**MDF 8205: FINANCIAL INSTITUTIONS AND ECONOMIC GROWTH**

**Date:** Wednesday 19<sup>th</sup> May 2021

**Time:** 3 Hours

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**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer Question **ONE** and **ANY OTHER THREE** Questions

**Question 1 (40 Marks) (Compulsory)**

- a. Fintech “financial technology” is officially a major player in the global economy, business landscape and fabric of modern society at large. Fintech strives to make financial services more accessible for both consumers and businesses. By connecting customers to a digital world, Fintech enhances their experiences, making them efficient, economical and frictionless. (Forbes, 2019)

Because of the importance of Fintech cited above, you have decided to conduct a study to examine the effect of Fintech on financial inclusion.

- i. Highlight three variables that are generally used in empirical studies to measure financial inclusion using Fintech. **[3marks]**
- ii. Highlight three variables that are unique to the Kenyan financial sector that can be used to measure financial inclusion using Fintech. **[3marks]**
- iii. Discuss one theory that you can use to inform your study. The theory should clearly discuss the link between Fintech and financial inclusion. **[4marks]**

Although Fintech has contributed to the growth of the financial sector and enhanced financial inclusion among its consumers, it also has the potential to negatively impact its users.

- iv. Discuss the negative effects of Fintech on financial institutions and consumers of the Fintech products **[10marks]**

- b. Assume that you are a member of the Monetary Policy Committee (MPC) in Kenya and have noted the following:

The inflation rate is expected to remain within the target range in the near term, supported by lower food prices and muted demand pressures. The recent increase in fuel prices is expected to have a moderate impact on overall inflation.

However, you are concerned about continued uncertainties over the Covid-19 pandemic. The lock down in the capital city of Nairobi have affected several sectors of the economy especially the hotel and restaurant industry which continues to experience low bed occupancy and low sales occasioned by the takeaway only policy introduced by the government.

Since inflation is well anchored within the Government's target range of 2.5 percent on either side of the 5 percent medium-term target, the Central Bank Rate (CBR) will be maintained at the current rate and the usual open market operations will be routinely used to maintain inflation. However the committee wishes to use extraordinary monetary policy tools to boost the survival of the hotel and restaurant industry.

**Required:**

- i. Discuss three extraordinary monetary policy measures that the MPC can use to boost the hotel and restaurant industry to cope more effectively with the effects of the pandemic. **[9marks]**

Inflation targeting is increasingly seen as the 'best practice' for central bank policy in many economies around the world, including a growing number of developing countries. To date, inflation targeting has not made inroads into African economies, with only a few countries having formally adopted this policy regime. Although many African countries have inflation targets, they have not implemented a policy of formal inflation targeting.

- ii. Highlight the main features of an inflation targeting monetary policy **[3marks]**
- iii. Is an inflation-targeting regime the right approach to monetary policy for African countries? **[8marks]**

**Question 2 (20 Marks)**

Revenue generation by the Kenya Revenue Authority (KRA) in the next two years will be impacted negatively by the aftermath of the Covid-19 pandemic and the reduction in local and global economic growth.

- a. Highlight new mechanisms that KRA can institute to raise sufficient revenues **[8marks]**
- b. The Central Bank of Kenya (CBK) wants to strengthen the sources of inflows into Kenya apart from taxes. One of the most important sources of foreign exchange into Kenya is diaspora remittances (cash and noncash). To harness this resource the CBK has decided to conduct a survey in the months of April-May 2021 to collect information from Kenyans in the diaspora on remittances in order to make informed policy changes on enhancing remittance flows into the country. The CBK wishes to collect data on the following items among others:
  - Average cost of cash transfers to Kenya
  - Efficiency cost e.g. how long does it to remit the transfers
  - Challenges encountered in transmitting cash/noncash items (such as medicines) into Kenya
  - How are the proceeds of remittances used in Kenya?

- Awareness of the investment opportunities in Kenya e.g. Government securities

Assume that the CBK has asked for your help as a student of development finance in conducting the survey.

**Required:**

- Apart from Kenyans living in the diaspora, who else should the CBK request to fill the survey instrument? **[4marks]**
- What challenges do you expect the CBK to encounter by using a survey instrument to collect the above data? **[4marks]**
- Discuss the policy changes that the CBK can institute to enhance remittance flows into Kenya **[4marks]**

**Question 3 (20 Marks)**

China has become a big player in infrastructure development in the continent. It is the largest provider of bilateral loans in Sub-Saharan Africa and many countries risk being trapped into unsuitable debt situations, if they do not receive valuable alternatives for financing critical development projects. One such alternative is the African Development Bank (AFDB)

- Discuss the challenges that the AFDB has experienced which has hampered its ability to be the main player in financing Africa's growth. **[10marks]**
- Although Small and Medium Enterprises (SMEs) in Kenya are important contributors to jobs and the growth of our economy, they face significant constraints, including lack of access to finance yet they are very reluctant to list on the Growth Enterprise Market Segment platform specifically set up of them in order to access finance
  - Why are SMEs in Kenya reluctant to list on the bourse? **[5marks]**
  - Discuss the policies that the Nairobi Securities Exchange can adopt to improve listings by the SMEs **[5marks]**

**Question 4 ( 20 Marks)**

- The International Monetary Fund (IMF) has a performance track record rarely praised among scholars. Among its various activities, the most contentious has been its practice of conditional lending.
  - Using examples discuss the types of quantitative and structural conditions usually imposed by the IMF **[4marks]**
  - Discuss the effects of the IMF programs in Kenya. **[6marks]**
- Discuss the strategies that countries in the African continent can adopt to make them less reliant on the services of the Bretton Wood Institutions. **[8marks]**

**Question 5 (20 Marks)**

When answering all the questions below refer to case attached titled: The Corona Virus Pandemic and the global economy

- a. Discuss the geopolitical and global trade effects of the pandemic **[6marks]**
- b. What were the possible effects of the global trade trends on Africa Countries? **[4marks]**
- c. Discuss the effect of the pandemic on developing countries **[6marks]**
- d. Highlight the factors that hampered the effectiveness of the fiscal response by the less developed countries **[4marks]**