



# MACHAKOS UNIVERSITY

University Examinations for 2016/2017

SCHOOL OF AGRICULTURE AND NATURAL RESOURCES MANAGEMENT

DEPARTMENT OF AGRIBUSINESS MANAGEMENT AND TRADE

THIRD YEAR SECOND SEMESTER EXAMINATION FOR BACHELOR OF  
SCIENCE IN AGRIBUSINESS MANAGEMENT

**KBT 315: AGRIBUSINESS FINANCE AND CREDIT MANAGEMENT**

**Date: 7/12/2016**

**Time: 8:30 – 10:30 AM**

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## INSTRUCTIONS

**Answer question ONE and ANY TWO questions**

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) Define Agricultural value chain finance. (3 marks)
- b) Outline four main categories for agribusiness financial services. (4 marks)
- c) Outline five methods of raising funds for agribusiness value chain. (5 marks)
- d) Explain five emerging trends and innovations that are encouraging financial inclusion of rural poor and agribusiness sector in Kenya. (5 marks)
- e) Suppose the demand for a Limuru Dairy stock is expected to be strong with a probability of 25%, normal with a probability of 40% and weak with a probability of 35%. The rate of return if strong, normal or weak demand occurs is 100%, 15% and -70% respectively. What's the expected rate of return for a Limuru Dairy stock? (5 marks)
- f) Outline four components of financial environment that influence financial decisions of agribusiness entrepreneur. (8 marks)

**QUESTION TWO (20 MARKS)**

- a) Differentiate between stand-alone risk and portfolio risk. (2 marks)
- b) Suppose Githunguri Agro-processing Company has the following sales data under stated scenarios:

Scenario	Probability of outcome ( $P_i$ )	Sales volume (Units)	Sales price (\$)	NPV (\$'000)
Worst case	0.25	15,000	1,500	(5,768)
Base case	0.50	20,000	2,000	6,989
Best case	0.25	25,000	2,500	23,390

- i) Calculate the firm's
- Expected NPV (2 marks)
  - Standard deviation (2 marks)
  - Coefficient of variation (CV) (2 marks)
- ii) How does the project fare if the firm's existing projects on average have a CV of 1.0? (2 marks)
- c) Demand for financial services by rural agribusiness and small and medium agribusiness enterprises are low. As an agribusiness credit advisor, explain five potential business development interventions that you could use to petition for financial services by agribusiness enterprises. (10 marks)

**QUESTION THREE (20 MARKS)**

- a) Outline four relevance of capital budgeting. (4 marks)
- b) Suppose an agribusiness entrepreneur seeks your advice on two viable projects, Project A & B with the following cash flows:

Year (t)	Expected net cash flows ( $CF_t$ )	
	Project A	Project B
0 (investment)	(\$10,000)	(\$10,000)
1	5,000	1,000
2	4,000	3,000
3	3,000	4,000
4	1,000	6,000

- Using discounted payback period approach, advice the entrepreneur on which project to undertake and why. (6 marks)

- c) Banks, development projects and programs are averse towards lending to agribusiness because of many risks associated with the sector. As an agribusiness program advisor, explain five interferences that you could put into attention to encourage the supply of financial services to rural agribusiness enterprises. (10 marks)

#### QUESTION FOUR (20 MARKS)

- a) Explain two main methods of agribusiness financial analysis. (2 marks)
- b)
- i) Suppose you deposit \$10,000 at the end of each year for 3 years in a savings account that pays 5% p.a. How much will you have after 3 years? (4 marks)
  - ii) Suppose that the \$10,000 payments in (i) above were made at the beginning of each year. What would be the annuity due after 3 years? (4 marks)
- c) Default risk either willing or unwilling is a major risk facing lending individuals or institutions. As an agribusiness credit advisor, explain five benchmarks you could apply for carrying out a comprehensive financial assessment of a potential borrower before lending the credit. (10 marks)

#### QUESTION FIVE (20 MARKS)

- a) What is a yield curve? (2 marks)
- b) If a Mumias sugar company stock sells for Kshs.41.50 today and it is expected to rise to Kshs.55 at the end of one year. Evaluate
- i) Company's expected capital gain (2 marks)
  - ii) Company's expected capital gains yield (3 marks)
  - iii) Expected total return (3 marks)
- c) Financial services are essential in agribusiness development in Kenya, but the sector face various drawbacks
- i) Outline five challenges in agribusiness development financing in Kenya (5 marks)
  - ii) Outline five policies to overcome aforementioned challenges in (i) above focusing on financing in terms of agribusiness development. (5 marks)