BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMET OF ACCOUNTANCY

A Risk Assessment Framework For Microfinance Institutions In Zimbabwe, A Volatile Economy.

BY

KNOWLEDGE JIRA

(B200185A)

DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE BACHELOR OF COMMERCE HONOURS DEGREE IN ACCOUNTING AT BINDURA UNIVERSITY OF SCIENCE EDUCATION.

JUNE 2024

APPROVAL FORM

With my consent as Academic Supervisor, this research study is submitted to Bindura University of Science Education for review as a component of the Bachelor of Accountancy honour's degree.

Name of student: KNOWLEDGE JIRA…Signature .. ....Date 2 Oct.. 2024………….

Name of supervisor: Dr Mabhungu .Signature ..Date…2 Oct 2024………

Name of chairman: O. Manyani Signature… .Date…03/10/24…………

RELEASE FORM

The author of this project grants permission to the Bindura University of Science Education Library to duplicate and lend or sell the copies of the project for private, scholarly, or scientific research purposes only. However, the author's explicit consent is required for any form of transmission, including photocopying, recording, or use of any other information storage or retrieval system. The author also retains other publication rights.

Student Name : KONWLEDGE JIRA

Registration_Number: B200185A

Date : JUNE 2024

Student signature : ....

DEDICATION

This research is dedicated to my parents. You all have been a pillar of strength to me and you taught me the value of having a strong heart and mind. I pray for radical grace upon your lives. Thank you and may the lord increasingly bless you.

ABSTRACT

The research assesses the risk for Microfinance Institutions operating in Zimbabwe, a volatile economy. The main key objectives of the research study were to identify specific risks faced by Microfinance Institutions in Zimbabwe, to determine the strategies used by Microfinance Institutions to manage risks, to determine the cost effective ways to identify prospective risks faced by Microfinance Institutions and to determine the ways to successfully forecast the results of credit transactions. Microfinance`s core objective is to lessen poverty and for them to attain this goal, they have to develop very resilient in financial performance because donor reliance is not always guaranteed. The researcher used both primary and secondary bases of information. The researcher collected secondary data from the journals, newspapers and previous researches. The research findings clearly stipulate that Microfinance are being affected negatively by many risks. The Microfinance institutions can embark on diversification and offer more on the market so as to improve their cash inflows on daily basis. A population of 62 Microfinance Institutions has been used in the study. Employing descriptive research design, the study applied mixed methods which is qualitative and quantitative data collection methods, analysing responses from a sample of 248 was selected using random sampling and purposive sampling techniques. In each Microfinance Institution accountancy, auditors, finance managers and operations managers were selected and received email link of a questionnaire followed by face to face interviews which involves 48 interviews conducted successfully. Data was analysed using Microsoft Excel and SPSS version 21. The research findings reveal that credit risk, operation risk, liquidity risk and bad debts deeply affect the operations of Microfinance Institutions in Zimbabwe, a volatile economy. Most Microfinance Institutions rely on a competent audit committee, diversification lending, group guarantor-ship and financial education to minimize risks they face. Recommendations of the study are that Microfinance Institutions should embark on adaptive and modernization. This is due to the fact that, in the face of Zimbabwe`s volatile economic landscape, Microfinance Institutions should be active and innovative in their tactics, continuously exploring new products, distribution networks and risk mitigation approaches to better attend their clients and safeguard the long-term sustainability of their operations, also Microfinance Institutions should focus on improving their operational flexibility by investing in robust internal controls, business stability planning and workforce training to boost their capacity to resist and recover from disruptive occasions. The Microfinance Institutions should reinforce loan collection and recovery practices, which include establishing clear, stable and transparent loan collection policies and procedures. They should also invest in workforce training on effective collection techniques and debt restructuring skills. Lastly they should also influence legal and extrajudicial actions to recover delinquent loans.

Key words: *Credit risk, Loan delinquents, Sustainability, Transparency, Strategies, Risk mitigation, Operational flexibility.*

ACKNOWLEDGEMENTS

I give glory to the Almighty God for giving me the strength to sail through oceans of hardships and trails. He gave me the power, protection, knowledge, endurance and wisdom to reach this far. Special thanks also goes to the department of accounting lecturers and staff for their unlimited guidance, advices and continuous support through the entire period of learning.

With great gratification, I would like to register my heartfelt gratitude to my supervisor Dr Mabhungu for the unyielding support throughout the research. He has been there, giving me guidance, direction and every single success of this project is due to his patient tutorship and leadership.

Special acknowledgements go to my friends for inspiring and motivating me greatly to work extra hard on this project. I wish you good fortunes in your future endeavours.

I am persistently obligated to you all.

Table of Contents

LIST OF TABLES

LIST OF FIGURES

ABREVIATONS

MFI – Microfinance Institutions

BEE – Black Economic Empowerment

SMMEs – Small to medium enterprises

NCA - National Credit Act

CHAPTER 1
INTRODUCTION

1.0 Introduction

This research aims to assess the risks that are affecting Microfinance operations in a volatile economy of Zimbabwe. Several studies have been done on this, but little has been done to assess the impact on all microfinance institutions in Zimbabwe. The need to understand the effects of these risks on Microfinance organizations is critical, as these institutions plays a pivotal role in the economy by reducing poverty, creating employment and reduce one of our macro-economic challenges of unemployment. The chapter introduce the background of the study, the statement of the problem, research objectives, research questions, limitations of the study and delimitations of the study.

1.1 Background of the study

Microfinance Institutions have appeared as a fundamental tool for financial inclusion and poverty easing globally. These Institutions provide admittance to small scale financial services for example loans, savings and insurance to people and micro enterprises who are frequently excluded from the traditional banking system. This model has gained momentous grip worldwide with Microfinance Institutions operating in both industrialized and unindustrialized economies.

In the African region, the Microfinance sector has experienced notable development over the past two decades. Countries for example Kenya, Ethiopia and South Africa have established exciting Microfinance industries, which have added to improving the incomes of millions of people. However, the performance and sustainability of Microfinance Institutions in the region have been deeply influenced by the underlying economic and political circumstances.

Zimbabwe a country in Southern Africa, has a volatile economy that has encountered several challenges over the years including hyperinflation, currency crisis and political uncertainty. These macroeconomic and political dynamics have had a significant influence on the Microfinance sector in the country. MFIs operating in Zimbabwe have had to navigate a complex and persistent evolving atmosphere which has posed exceptional risks and challenges to their operations and sustainability.

The volatile landscape of Zimbabwe`s economy has made it mostly essential for MFIs to have a strong risk assessment framework in place. This framework would assist them to pinpoint, analyse and lessen the numerous risks they face, safeguarding their long term sustainability and the persistent provision of critical financial services to the underserved people.

This research intent to develop a wide-ranging risk assessment framework precisely tailored for Microfinance Institutions operating in the volatile atmosphere of Zimbabwe. By inspecting the global and regional movements in Microfinance as well as the distinctive challenges encountered by the Zimbabwe MFIs, the research will deliver valuable perceptions and recommendations to reinforce the flexibility and sustainability of the Microfinance sector in the country.

Risk is the possibility that a choice taken in the face of ambiguity and incomplete knowledge will not work out as intended (Centrowski and Mair 2019). The institutions that provide microfinance (MFIs) are generally seen as companies with greater risk in comparison with Zimbabwean banks (Drennan, 2015). Therefore, risk management in this higher-risk context would probably be different from risk management in microfinance firms in Zimbabwe. Microfinance firms are required to determine which risks are deemed appropriate within the microfinance context and which ones pose an undue risk to the organization. How carefully a microfinance organization draws the line between acceptable risks and un favourable exposure will determine whether it survives or fails.

The financial environment of any country is made up of five components: financial markets, financial institutions, money, rules and regulations, and financial instruments (Douglas, 2013). Poverty is still a major concern because, despite bank financial assistance, it is difficult to obtain credit facilities, particularly in Zimbabwe, which hinders growth. The majority of adult population does not have enough collateral security to qualify for a loan (Dixon et al., 2017). In Zimbabwe, microfinance companies are generally seen as riskier businesses than commercial banks (Wright and Haynes, 2005). As a result, risk management in these conditions of increased risk would probably be different from that of commercial banks in Zimbabwe. Companies in the microfinance sector must determine which risks are reasonable given the circumstances of the sector.

Previous studies on the topic of financing still-growing businesses (SMMEs) by Mutezo (2015) and Van Heerden (2018) included an analysis of the possible effects of the he National Credit Act of 2006 in regard to the microfinance imminent of a small number of specialized Zimbabwe micro-lending institutions. The aforementioned authors have elucidated how the microfinance sector in Zimbabwe is negatively seen, with the loan shark connotation among other things, primarily due to a lack of knowledge about this enterprising field. The industry-related concerns that Mutezo (2015) and Van Heerden (2018) addressed will be integrated into this study, along with features of international microfinance, risk characteristics associated with microfinance and how they are managed, and common elements of an industry, a typical Zimbabwean microloan client.

1.2 Statement of the problem

In Zimbabwe it is challenging for small, medium and even large Microfinance institutions to manage credit risk, reduce business risk and forecast results indicating loan transactions. This could be brought on by inconsistent character of its clients, the unknowns around the client demographics and unavailability of corporate risk management tools. It is more difficult for small and medium businesses to manage credit risk efficiently. This could end up resulting in the industry`s key players leaving the customer base for microfinance becoming excessively indebted as well as unsustainable business practices. Without a forceful and wide-ranging risk assessment framework, Microfinance Institutions in Zimbabwe are exposed to a range of dangers that might ruthlessly weaken their operations, financial stability and capacity to accomplish their operation of financial inclusion. The absence of such a framework leaves Microfinance Institutions ill-equipped to pinpoint, measure and ease the mass of risks they face, possibly exposing their long term capability and the livelihoods of their customer base. (Russell 2018). Developing a tailored risk assessment framework is necessary for MFIs in Zimbabwe to navigate the volatile economic landscape, maintain their organizations and continue providing dynamic financial services to low income individuals and small businesses. (Drennan 2015). Such a framework would offer MFIs with tools and tactics essential to be able to manage risk, guarantee operational flexibility and eventually raise sustainability, growth and expansion in the face of Zimbabwe`s economic turbulences.

1.3 Research objectives

The ensuing research goals have been established to obtain requisite demands of the research problem:

- i To identify specific risks faced by Microfinance Institutions in Zimbabwe.
- ii To determine the strategies used by Microfinance Institutions to manage risks.
- iii To determine the cost effective ways to identify prospective risks faced by Microfinance Institutions.
- iv To determine the ways to successfully forecast the results of credit transactions.

1.4 Research Questions

About microfinance institutions in Zimbabwe, this study will attempt to respond to the following inquiries:

- i What are the specific risks faced by Microfinance Institutions in Zimbabwe?
- ii What are the strategies used by Microfinance Institutions to manage risks they are facing?
- iii What are the cost effective ways to identify the risks faced by Microfinance Institutions?
- iv What are the ways to successfully forecast the result of credit transactions?

1.5 Significance of the investigation

Therefore, this investigation will be helpful in identifying hazards to Zimbabwean microfinance institutions' operations and helping them implement risk-reduction strategies. Enhancing the researcher's academic and practical skills is another goal of the research.

1.5.0 Importance of the study to the researcher.

This investigation enhances the examiner`s knowledge on risks that affecting the Microfinance institutions. The results of the study may likely to be used to inform policy makers, decision makers and can aid in the development of strategies to minimize the risks affecting Microfinance institutions operating in a volatile economy like Zimbabwe.

1.5.1 To the Microfinance institutions

The research is important to the Microfinance institutions in Zimbabwe as it provides a leeway into the impact of risks faced by Microfinance institutions. The research results can be used to inform decision makers regarding planning and policy making.

1.6 Limitations of the study

The examiner will become aware of several restrictions that could compromise the validity of this investigation as it progresses. The consequences of the noted constraints will be addressed with suggestions.

- Inconsistent data gathering for the study could out to be the largest challenge, the researcher discovers. While yearly reports for the last five years will be sought from each of the five microfinance organizations that comprise the study's population, the researcher will use the data that is currently available and so considered adequate, even though the bulk of them might not have completely updated records.

- The researcher will use convenience sampling to investigate the microfinance organizations because he lacks the resources to do an appropriate and thorough study, such as travel and photocopying costs.

1.7 Delimitations of the Study

- The investigation is restricted towards micro lending organizations and will not concentrate on other money lending organizations like banks that similarly offer credit facilities to the same customers.
- It ignores regional distinctions within Zimbabwe and concentrates on the country as a whole.

1.8 Definition of important terms

Micro-lending

The provision of several financial services to the poorer classes of the population is known as microlending (Russell 2018).

Risk

Risk is defined as the possibility that a delinquency would occur or that the objectives are not clear (Cendrowski and Mair, 2019). An outcome that deviates from the intended outcome is the problem. The level of danger is closely correlated with the degree of ambiguity.

Organizational peril

Organizational peril is well-defined as a threat that primarily relates to operations and a company's daily activities.

Credit danger

There exists a possibility that noncompliance with contractual debt obligations could result in injury. Debt raises credit risk. financing rises.

Deal for temporary recognition

This is usually a deal where the maximum repayment term is six months and the amount is over $10000.

Scores for credit

It is a process that assesses a client's propensity to repay a loan and renders a credit decision. Most estimations that are available are based on how old a customer's credit is.

1.9 Summary

This chapter emphasized the problem's context by focusing mostly on the problem and its surrounds. The study's significance, primary goals, and research questions were emphasized. The goal of the research was highlighted, as was the description of terms used especially in the evaluation.

CHAPTER 2
LITERATURE REVIEW

2.0 Introduction

This chapter provided a critical review of the matter that was explored and studies both theoretically and empirically in the existing literature made by others scholars and academicians on risk assessment framework for Microfinance institutions in a volatile economy, factors and risks affecting the operations of the MFI and strategies which MFI are using to effectively manage the risks. This chapter also includes empirical literature, with the intention of presenting empirical material to examine earlier work and many research techniques use on this subject to find any gaps in the literature.

2.1Theoretical review

2.2 The Theory of Portfolio Diversification.

A portfolio is a gathering of reserves in monetary properties like bonds and stocks, as well as intangible assets like real estate and supplies (Harry Markowitz (Markowitz, 2017), there is a trade-off between risk and return, with a larger financial return corresponding to a higher level of risk an investor is willing to take. Furthermore, the theory adopts that incomes from diverse asset classes have poor correlations. Put differently, market conditions vary across asset classes. An efficient portfolio is one that optimizes returns while maintaining a certain level of risk. It's challenging to draw an effective border in real life.

"Don't put all your eggs in one basket" (Watson & Head, 2017) refers to common practices that are similar to portfolio diversification. For instance, Opportunity Albania, a member of Opportunity International's global microfinance network, offers loans to borrowers in a range of industries, including manufacturing, trade, services, and agriculture. As a result, diversification is applied not only at the investor level but also at the bank level, or in this case, the MFI level. To optimize earnings at the lowest likely risk, a stockholder must spread among a number of asset classes (such as risky and risk-free assets) in different markets and geographical areas. This alignment is crucial for Microfinance Institutions in Zimbabwe so as for them to embark on diversification lending so that they will not over rely with only one market or section. Therefore, this may help them to manage credit risk in an effective and efficient manner, hence the overall success of the Microfinance Institutions.

2.3 Agency Theory

Agency connections, one of the most common and established types of social collaborations, are the origin of agency theory, according to Ross (2016). An agency relationship, according to Ross (2016), arises when two or more persons are in a position where one of them, the principle, engages the other, the mediator, to act on his behalf in decision-making. The following are examples of agency relations, per Eisenhardt (2016), Ross (2016), Thomson & Conyon (2019): employer and employee (A), debtholders and shareholders (A), and shareholders and management (Principal, P). In agency relations, the agent usually has a greater understanding of the industry than the owner. Consequently, when the principle delegated decision-making authority, the agent used his experience to act on the principle's behalf, as soon as the principle gives him the ability to make decisions (Jensen & Meckling, 2017). In an agency relationship, for example, stockholders delegate decision-making power to management in return for the management's responsible use of their money and generation of profits. By keeping an eye on the day-to-day activities of the business, managers have access to information such as financial reports and management accounting data (Watson & Head, 2017). The only ways for shareholders to remain up to date on the company's activities are through reading available annual reports and appearing in annual general meetings. Therefore, information asymmetry is an issue in agency relations.

This knowledge asymmetry allows certain managers to act unscrupulously because their behaviors are often unobservable (Fahlenbrach & Stulz, 2019). Furthermore, if both the managers and the shareholders are utility maximizers, it is projected from an economic perspective that the managers will act against the interests of the stakeholders (Jensen & Meckling, 2015). An agency problem typically arises when an agent acts contrary to the principal's best interests. Agency theory has been implemented in microfinance research mainly in the context of corporate governance (Hartarska, 2015; Mersland & Strøm, 2019; Strøm, D'Espallier, & Mersland, 2019) and ownership studies (Galema, Lensink, & Mersland, 2019; Mersland, 2019; Servin et al., 2019). Nonetheless, it has also been utilized in other domains, like global commerce (Mersland, Randy, & Straem, 2017). The aforementioned dissertation is relevant. This may help the Microfinance Institutions in Zimbabwe to minimize the extent of risks they face in the Microfinance industry.

2.4 The Information Asymmetry Theory

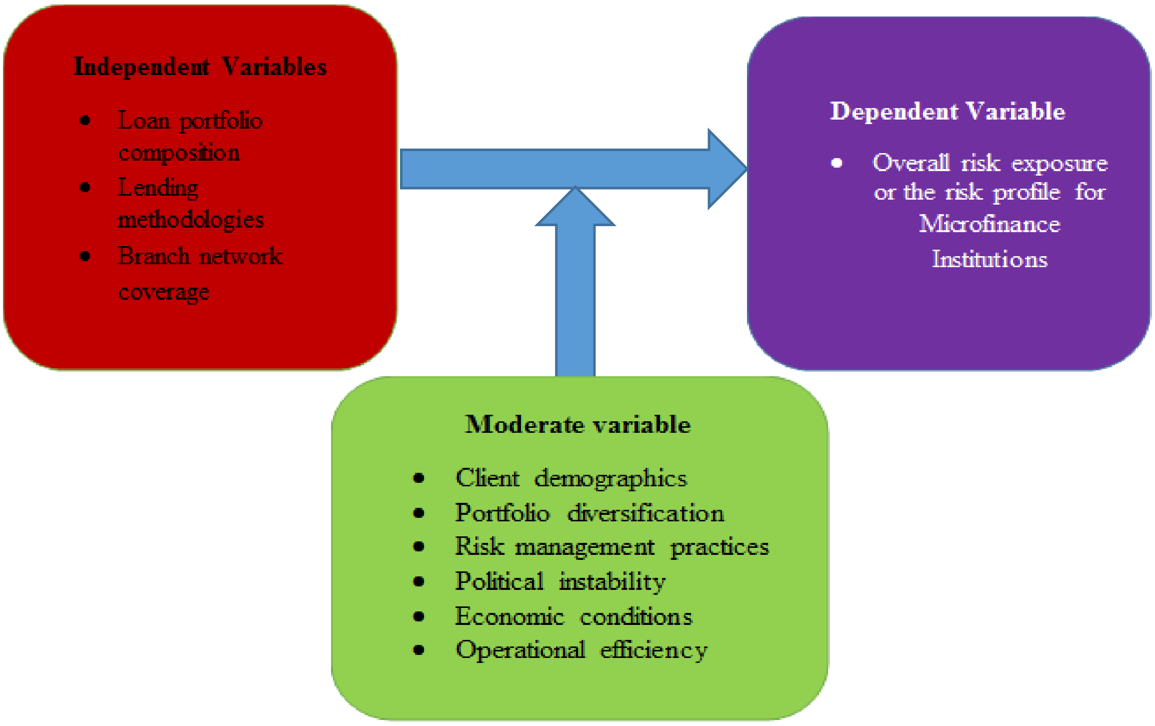
According to Galindo and Micco (2018), lenders that share information are better able to assess credit risk, which lowers credit risk and default rates. Akerlof (2016) and Stiglitz (2014) proposed the notion of asymmetric information, which states that one party lacks sufficient knowledge about the other side to make informed decisions. Tumay adds that by exchanging information on payment history, total debt exposure, and general creditworthiness, information sharing aids in bridging the knowledge gap between lenders and borrowers. This is an essential approach to managing credit risk.

The disparity between the two negotiating sides' levels of understanding of relevant details and aspects is referred to as information asymmetry (Russell, 2018). When an institution has less understanding about the borrower's actual ability to make payments, information asymmetry in the credit market becomes more evident and has major effects (Barbosa & Marcal, 2014). This is because financing a project entails risks. Asymmetric information difficulties in borrowing arise when a lender's perception of a borrower's chance of repaying (risk profile) is imprecise and needs to be inferred based on the available information (Turner & Varghese, 2019).

Information asymmetry can be addressed directly by appraisal, which necessitates a sophisticated credit risk strategy to shield institutions from risk, or indirectly by screening, signalling, or contingent payments, claim (Turner and Varghese 2019). By integrating information exchange into the corporate culture, a lender may also assess a potential borrower's risk profile more precisely. This is so that the borrower won't be able to get credit from other organizations if they make late payments. Therefore, the overall success of the Microfinance Institutions in reducing credit risk since sharing information may be useful in the process of screening clients who holds another loan from another Microfinance Institution.

2.5 Conceptual framework

A conceptual framework is an essential tactic to understanding and analysing a specific topic or spectacle. It offers an efficient way of organizing and interpreting data, concepts and perceptions linked to a specific area of study. By using a conceptual framework, people can gain a more wide-ranging and coherent understanding of a topic leading to more informed decisions, problem solving and concept development.



Operationalization of Variables

Variable	Measurement
INDEPENDENT VARIABLES	
Loan portfolio composition for example sector concentration and loan size distribution.	-Measure the diversification of the loan portfolio across different sectors, regions and borrower types. - calculate the percentage of the loan portfolio in high risk sectors or borrower segments. - Monitor the portfolio at risk (PAR), that is the percentage of loans with payments overdue by more than 30 days.
Lending methodologies for example individual or group lending.	- Analyse the prevalence and performance of different lending approaches for example as individuals or group lending. - Assess the loan approval process including the criteria used, level of documentation required and the turnaround time for loan disbursement. - Evaluate the effectiveness of the institution`s credit risk management practices for example client screening, collateral security requirements and loan monitoring.
Branch network coverage.	-Measure the geographical spread of the branch network including the number of branches, the distance between branches and the population coverage. - Assess the accessibility of the branch network to the target client base, considering factors like transport infrastructure and availability of public service.
DEPENDENT VARIABLE	
The overall risk exposure or risk profile of the Microfinance Institutions.	- Operational self-sufficiency, that is the ability of the Microfinance Institution to cover its operating expenses through its operating revenues. - Portfolio at risk (PAR), that is the percentage of the loan portfolio that is delinquent beyond a certain number of days.

	- Liquidity ratio, that is the ratio of liquid assets to total assets which demonstrates the Microfinance`s capacity to meet its short term obligations and manage liquidity risks.

Empirical Review

2.5The Microfinance Industry

2.5.1 A risk management and efficiency of Microfinance Institutions in Denmark.

Alan Greenspan and Daniel Levitin (2018) examined the influence of various risk management practices so as to improve on minimizing risks faced by Microfinance Institutions in Denmark. The researcher engaged a cross-sectional study methodology with descriptive analysis and the research found a strong significant impact on risk assessment, risk measures implementation and risk measures evaluation. The outcomes advocate that risk controlling and proficiency are very vital for the endurance of all Microfinance Institution. They also emphasized that, improved risk controlling might be the merely accurately essential component of victory in Microfinance industry. In Microfinance Institutions, risk management and proficiency are extra essential for the success of both financial services to the underserved people in the world. Disbursing un-securitized loans to risk clients is uncertain yet that is what Microfinance Institutions do. This vision can enlighten management of the Microfinance Institutions to exercise caution and implement more efficient and effective risk mitigation measures.

2.5.2 Credit risk in a volatile environment: a case of Zimbabwe Microfinance Institutions.

Anthony Mazikana and Tafadzwa Mujombi (2019) conducted a research aiming on the determining measures which can be used by Zimbabwe`s Microfinance Institutions to minimize credit risk in a volatile economy in Zimbabwe. The examiner embraced the positivism research viewpoint and quantitative research approach. The examiner clearly stipulated that credit risk is most influential risk exposure of the Microfinance Institutions in Zimbabwe. It was established that Microfinance Institutions face a lot of loan delinquencies due to the inconsistence characters of its clients and unavailability of risk management tools. The examiner established that having a board of management which can articulate credit risk management strategies, procedures, aggregate risk limits and reporting and audit systems can act as procedures that can be engaged to ease against high credit risk in a unpredictable atmosphere of Zimbabwe.

2.5.3 The risk analysis of Microfinance Institutions in Zimbabwe. A case of Masvingo Urban.

Costa Hofisi and Shamiso Mago (2016) conducted a research to evaluate the risks faced by Microfinance Institutions in Masvingo Urban and to focus on how the risks can be minimized amicably. The research uses qualitative data collection tactics. These includes the questionnaires, interviews as well as the focus groups to collect wide-ranging perceptions. The secondary data was collected from Journals, publications and text books as well. The outcomes revealed that, many Microfinance Institutions face collapse or near collapse due to the fact that they are not capacitated to spot credit risk and operation risk earlier. This is due to the fact that, management tent to focus much more on market share and forgetting the outcomes of the loan disbursement. This perception can help the operations management to make informed decisions pertaining risk mitigation practices. Therefore, they can now focus on preparing for cost effective ways of identifying risks before they occur.

2.5.4 Analysis of performance determination of Microfinance Institutions and risks they are facing. A case of Harare Microfinance Institutions.

Edson Mataruse (2018) conducted an investigation and analysis on the performance of Microfinance Institutions and the risks they face. The examiner, put focus on the Microfinance Institutions in Harare. The researcher used descriptive research design. A total population of 40 operations managers and 10 accountants was used. The sample size was 37 operations managers and 8 accountants. The examiner uses judgemental sampling technique as it allows the researcher to get information from the ones with enough knowledge. The results show that the Microfinance Institutions face credit risk, operations risk, liquidity risk and bad debts, hence results in inefficiency of Microfinance Institutions. Therefore, the management should emphasize on the importance of being efficient and managing risks much more so that they will be able to minimize unnecessary costs. This can help the management to sit down and prepare a comprehensive risk management tools as it works hand in hand with efficiency.

2.5.5 Principles for the assessment of Microfinance Institutions in managing risks in Australia.

Van Heerden (2018) have conducted an investigation into the principles for assessment of Microfinance Institutions in managing risks. The research drew insights from 55 participants including the auditors, operations managers, accountants and the finance managers. The analysis revealed that the senior management have the obligation for applying the credit risk strategies agreed by the board of directors and for developing policies and procedures for detecting, assessing, checking and controlling credit risks, operations risk, liquidity risk and market risk. This shade light to the management of Microfinance Institutions in Zimbabwe so that they can be able to clearly focus on implementing some effective and efficient risk mitigation measures.

2.5.6 The management of risks in Microfinance Institutions in Nigeria. A case of Microfinance institutions in Nigeria.

Victoria Voelwoen Danaan (2018) conducted a research focusing on the management of risks in Microfinance Institutions in Nigeria. The study examined the impact of the risks faced by Microfinance Institutions in Nigeria. The researcher employed a random sampling approach and the outcomes were analysed using descriptive and inferential statistics. The researcher stipulated that, there is a risk of misappropriation of loans by the borrowers, low level of knowledge and skills by experts, low implementation of financial technology and poor coordination and responsiveness of the common operation of Microfinance Institutions. This therefore, gives insight to the management of Microfinance Institutions to embark on financial education to its clients and embrace technological advancement.

2.5.7 A risk management framework for Microfinance Institutions in South Africa. A case of South African Microfinance Institutions.

Fanie Jansen Van Vuuren (2011) have conducted an investigation on the risk management for Microfinance Institutions in South Africa. The examined that the Microfinance Institutions industry in South Africa is a high risk industry and risk controlling must be a fundamental part of all Microfinance Institution in order to keep control and safeguard stability. If the management recognizes the risks in the Microfinance Institution and has the tools to curb these risks, with understanding of the shape of the ideal borrower, it will permit them to ensure sustainability of their Institutions. This gives the indication to the management of Microfinance Institutions in Zimbabwe that they should embark on numerous risk mitigation measures since it is the pillar to sustainability.

An MFI's twin mission is to serve the needy while preserving its financial stability (Mersland, 2019). The three main products and services offered by MFIs are loan, insurance, and investing. Despite their prominence, financial journals have not covered these well-established issues enough (Brau, 2014).

"Micro lending" combines the phrases "micro" and "lend," separately of which has the next definitions.

- Micro: Having an incredibly little scope or little ability.
- Lend: To provide temporarily or allow ownership for a short while (Van Heaten, 2018).

Consequently, offering short-term financing sources, including loans instruments with a set payback duration (Van Heerden, 2018).

MFIs place a high priority on giving people with lower incomes access to financial products. The size of the different role players in Zimbabwe varies, ranging from small businesses with one branch to massive businesses with banking licenses. According to Brau (2014), all of these MFIs in Zimbabwe have the following traits in common:

- They are all targeting the same consumer niche that has lesser incomes.
- Their main asset is money.
- All of them desire to develop and improve.
- The same regulations apply to them all.
- Each of them can tolerate a certain amount of risk.

The following are the products that these organizations sell most frequently:

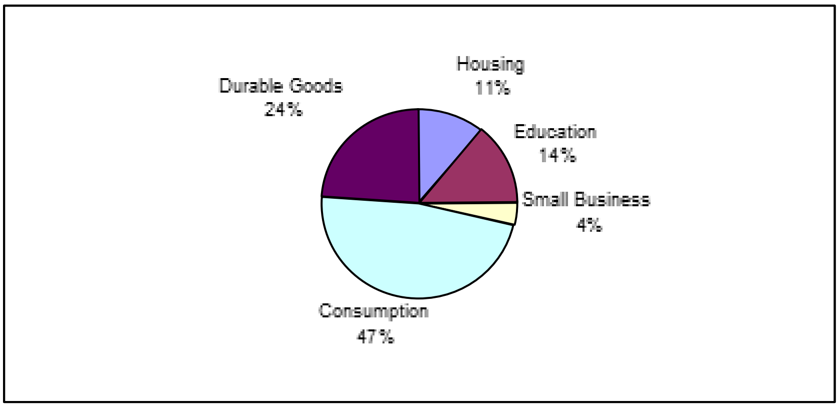
As stated by Capitec (2017), these consist of:

- private credits
- business expansion mortgages
- accommodation lends
- protection merchandises (such as lifespan, home, auto, and delicate indemnity)
- burial coverage
- education credits
- investments and reserves.

Van Zyl, Botha, and Skerritt (2013) state that the microfinance industry is seen as a positive growth of the financial system because it reaches underrepresented economic sectors. The bulk of micro-lending in Zimbabwe is customer borrowing, often called ingesting or microcredit, as seen in figure 1. illustrates. Nevertheless, as more goods hit the market, this is changing (Brau, 2014).

Figure 1 shows that virtually half of all microloans are put to use in food. Journey expenses, funeral charges, medical expenses, and food necessities are all included in consumption. A significant portion of buyer loaning is for alternative mortgages. Conferring to Collen, (2019), burial costs account for the majority of emergency loans taken out in Zimbabwe. Severe illness or injury, theft, violent crimes, house fires, and property loss are further factors. Emergencies like these burden Zimbabwe's lower income workers more financially because these households have no savings. Thus, the emergency loans that micro-lenders provided to the underprivileged turned out to be popular and sometimes even saved lives (Collen, 2019).

Figure 1: The use of micro mortgages



According to the report, a personal microloan has a maximum loan amount of $800 and a maximum loan period of 36 months. Therefore, transactions involving both short-term and unsecured credit will be covered.

Another method for further classifying different kinds of microfinance companies is size.

The three categories are shown in Table 1.

Table 1: Size-based categorization of microfinance companies

Size	Characteristics
Small	< $260 thousand in sales turnover between 1 and 20 branches.
Moderate	< $360 thousand in sales turnover between 10 and 84 branches.
Big	> $500 thousand in sales turnover - Listed entities

Small organizations usually only have one branch, although they can have up to twenty. Usually, their primary financial product is personal loans, with a focus on short loans with maturities ranging from one to four months for repayment. Because of the loan terms, they are owner funded and usually operated in an informal way with relatively minimal capital needs. A wide range of financial products are often available from medium-sized firms, with loan repayment lengths varying from one to eighteen months. They consist of both owner-owned and listed businesses. The vast majority of "mutual household trademark" objects are included in this group. The mainstream of these businesses are aiming for greater growth and a more methodical approach to risk management. Huge objects are possibly ones that underway out as middle-sized or uniform smaller but through the accurate choices when they had to. Also known as "term lenders," their main emphasis is on loans with durations ranging from three to forty-eight months, with a greater proportion of lengthier time frames.

MFIs in Zimbabwe vary in size, as this example shows, and they most likely have different risk appetites as well. Most crucially, micro-lenders will need to enhance their risk management strategies if they want to stay competitive in this heavily regulated market.

Globally, MFIs rely mostly on donors (Mersland, 2019). Van Heerden (2018) states that ninety-five percent of the money released in Zimbabwe's microfinance sector comes from the private sector. This shows that Zimbabwe differs from the rest of the world in that most funding for this sector comes from private sources. However, due to the risks and preconceptions around equity capital, the majority of businesses substantially relied on it. The requirement for debt has significantly increased as a result of the industry's recent rapid expansion. This made companies recognize how important it is to get capital in order to expand and improve their current operations. Microfinance companies now need more capital to stay afloat since loans are secured for longer periods of time. More people were assessed, but the most important development was the growth of products, which increased the number of financial items available to those with lower incomes and enhanced their quality of life.

In addition to variable costs, microfinance organizations have modest fixed costs that are meticulously accounted for. Lending industry may likely be highly lucrative since little immovable charge source, enabling it to finance its own expansion once it breaks even.

Stronger role players gain more weight through market consolidations, but smaller firms are also put at risk. Even though it's never easy to combine two businesses, the market can be greatly impacted by the right partners that have comparable product offers, knowledge, financial sources, Black Economic Empowerment (BEE), footprints, brands, and management styles. It will probably make financial sense for an organization to if it has a substantial finance line but insufficient clients or a sufficiently wide consumer base to sell to. These business partnerships may have the following benefits:

• A stronger company identity and market presence.

• Abroad national footprint.

• For entities with restricted finance sources, an immediate funding line via the business partner

• enhanced systems and new products.

• the amalgamation of existing debt and

• reduced business hazards as a result of larger scale

These corporate alliances may have the following drawbacks:

• Conflict arising from the merger (which is typically mismanaged).

• Loss of control as a result of the size of the company.

• Difficulty functioning in a more formal business setting

• The credit act, poor performance, and other illegal actions that can harm the brand's reputation.

Last but not least, a successful MFI also has to have moral, customer-focused, and highly motivated staff members who are driven by incentives (Hartungi, 2017). This is applicable to all workers, including management and branch personnel. Clients of micro-lending value having the same staff member help them each time they come into the office.

2.6The Microfinance Threats

Microfinance institutions have a number of hazards, the most important of which is probably the potential for client default on loans and if they can manage these risks well, they will prosper. Parker (2017). Successful MFIs have strong internal control, excellent financial practices, sound internal audit procedures, a competent audit committee, financial education, group guarantor-ship, diversification lending and efficient financial risk management, according to Hartungi (2017). As such, putting in place effective internal controls to control microloan risk could be difficult.

Parker (2017) distinguishes between two sorts of risks: particular risk, usually referred to as non-marketplace jeopardy, and market menace. Marketplace danger cylinder be measured using a company's common share beta. The beta statistic is used to determine how sensitive an enterprise's portion payment is to fluctuations in the marketplace. For example, during the previous five years, Capitec's beta has been 0.74, implying that they will move by only 0.74% for every percentage movement in the market McGregor BFA, (2014). Because they are less prone to market changes.

As to the yearly statement published by Capitec in 2017, distinctive risks, or business risks, are linked to unique elements that are peculiar to a given organization. This could include the following:

• Credit risk: the perfect borrower's reserve is susceptible to acclaim exposure because loans and advances are unsecured.
•. Bad debt: due to the nature of the diligence they work in, depraved obligation is a component of the company.
• Risk associated with interest rates: Capitec's interest profile is simple.
• Operational risk: Capitec is subject to National Credit Act regulations (NCA). hazards to one's reputation, legal status, and systems are examples of additional operational hazards.
• Liquidity risk: Compared to the extent of the bond reserve, the loan book's short duration lowers the company's liquidity risk.
• Management: According to Vigario (2016), efficient management is required.

Purchasing stock in a variety of businesses or industries can help diversify your portfolio and reduce certain risks, but it cannot reduce market risk. According to Chicken and Posner (2013), the most common risk in the financial sector is non-performance of loan products.

The secretarial word for measuring fiscal peril is gearing. Firms with sophisticated beta are usually more focused. Gearing, also referred to as leverage, is the connection between the money of common shareholders and different types of debt Parker, (2017). Debt can come in a variety of forms, including deposits, loans, preference shares, and debentures. Securities seized as a financing stripe are a reasonably reduced source of funding because savings have a low interest rate. The gearing risk attached to the credits is greatly reduced by the fact that the securities comprise of these items.

In summary, the following factors must be considered when assessing the risks associated with an MFI:

• interest cover.
• volatility
• expansion
• performance in comparison to the industry

In a nutshell, business risk is the possibility that the organization won't be able to generate the necessary return for.

2.7 Organization and Credit risk

Three fundamental components make up the concept of risk:

- The conviction that something might transpire.
- The potential for something to transpire.
- The penalties should it materialize.

According to Dixon, Ritchie, and Siwale (2016), high-quality loans and a risk portfolio with an upper limit of 5% should be prioritized in order to reduce the likelihood of loans defaulting. Based on how precisely the credit judgment was made when the loan was granted, the loan's quality. Adverse selection, according to Russell (2018), happens when lenders are unable to distinguish between borrowers who pose a danger and those who do not. Adverse selection, a problem of concealed information, occurs when the borrower has greater knowledge of their financial status than the lender. This is a part of the following forms of information asymmetry:

- Limiting credit
- Demanding security
- Assessing potential hires
- Keeping an eye on debtors

The final two interventions that are examined in this study are applicant screening and observation. Transmission comprises congregation as plentiful data as possible approximately the application to aid in the acclaim verdict, according to Russell (2018). Loan application screening processes are given priority by lending institutions outstanding to the ineffectiveness of recognized agreement prosecution. Personal familiarity with loan candidates plays a significant role in screening in the unofficial sector. It is feasible to contact small borrowers at a reduced cost when determining whether to offer credit by taking their risk profiles into account.

The financial sector assumes risks that it believes are reasonable and will result in a respectable return (Chicken and Posner, 2013). The financial sector in Zimbabwe includes both MFIs and commercial banks. It may not always be clear what makes a sufficient return or what risks are acceptable. Enhancing MFI corporate governance is crucial to raising the viability of the sector (Mersland, 2019).

If the micro-lender doesn't follow through on the conditions of the deal, it could lose important assets.

- The corporate funder of the microfinance company could potentially impede its entrepreneurial aspirations.
- The entity runs the danger of damage to its reputation if it selects the wrong financial partner.

According to Reekie et al. (2018), a prudent approach and a diverse pool of funding sources helps mitigate the risks involved in financing decisions. For an MFI to be viable, it must expand to a specific size. However, this poses a problem because it is sometimes hard to get commercial loans (Latifee, 2013).

2.8 Financial Risk

A non-performing loan could lead to foreclosure or possibly the MFI's dissolution; this is a possibility with all MFIs (Harper, 2015). Debt is less expensive than equity because of tax benefits; yet, equity is more expensive because of the financial risks attached to debt (Vigario, 2016).

All these can be used to identify the funding sources (Vigario, 2016).

According to Allen (2017), a micro-lending company ought to establish a structured procedure for developing new products, as this would provide operational management with a well-defined framework and upper management with an understanding of the risks associated with dedicating time and resources to the new endeavour. Due to the high level of risk associated with micro-lending, rigorous planning is necessary to manage development and guarantee a steady flow of funds. Adequate plans must also be in place, including those pertaining to marketing, pricing, and funding. A company strategy genuinely provides guidance and maintenance for these crucial fundamentals (lerry, 2015).

2.9 The Evaluation of Risks

The significance of peril controlling protocols for small and large enterprises has been highlighted by the 2008–2009 financial crisis, and Basel II regulatory changes are being pushed by the banking sector. De Andrade and Thomas (2017) assert that putting in place efficient risk management is essential to reducing fraud, stock losses, and overall business risk.

Having trustworthy data at hand is essential for completing a risk assessment. This data ought to be centered clearly on the future, in addition to historical data.

2.10 The Risk Tools in Zimbabwe Microfinance Institutions

Cendrowski and Mair (2019) state that the components of a risk management strategy are as follows:

2.10.1 The Threat Documentation

This is the procedure for gathering information to spot potential threats. The end product of the procedure will be a list of potential risks associated with various issues.

2.10.2 Risk Assessment

During this step, separately peril on the incline must have its impacts unwavering, with special attention paid to the different stakeholders—directors, shareholders, employees, suppliers, and so on. After this task is finished, an evaluation of the current risk-mitigation controls needs to be done. Risk assessment can be viewed from both a magnitude and probability standpoint. Magnitude is the potential harm that could arise from an error, while probability is the chance that anything will go wrong.

2.10.3 Mitigation of Risk

After determining the risks and their consequences and assessing the controls. This process could involve removing the factors that contribute to these risks, implementing new controls, or modifying the ones that are already in place. Therefore, this section's objective is to lessen the possibility of an event occurring and its consequences in the event that it does. Risk instruments that incorporate probability and size will effectively decrease risks.

2.10.4 Diversification lending

Diversification lending is when an institution provides loans to a diverse range of borrowers rather than concentrating on few sectors or geographical areas. This may help Microfinance Institutions to balance their social mission of financial inclusion with the need to maintain a sustainable and resilient lending portfolio.

2.10.5 Group lending

Group lending involves a group of people gathered together to apply for a loan so that they can push each other to settle the debt, hence it is effective to use this strategy because it makes the clients push each other to payback their balances before they fall due which reduces tasks to the Microfinance Institutions.

2.10.6 Technological advancement

Technological advancement gives a Microfinance Institution a competitive advantage in the industry since technology sometimes it makes the job simple and fast. Technological advancement has facilitated Microfinance Institutions to assemble, examine and pull enormous quantities of customer information to make more well-versed resolutions. This could include using information to evaluates the credit worth, identify product offerings and be able to minimize threats more successfully.

2.10.7 Regular monitoring of client`s business

The process of regular monitoring of client`s business gives you an in-cite on the performance of client`s business in the present day and this can help you to judge the credit worthiness of the client if the client request for a loan top up or loan reduction.

2.11 RESULTS PREDICTION AND ACTIVE RISK MANAGEMENT

Our digitally advanced society provides a plenty of information regarding consumer trends. By using this data, work arrangements should be altered and limitations should become more apparent. Micro-lenders would use this data to pinpoint loaning tendencies, great-peril borrowers, and to better comprehend the demands of their clients. A keen ear and fast thinking are necessary to achieve those perfect aims (Drennan, 2015). The affordability test is one of the most important requirements set by the business. This process differs among lenders because each one has distinct requirements. It is important because, by taking recoverability risks into consideration, the affordability trial controls the number and excellence of mortgages that are managed. Any financial organization that ultimately chooses to write off a debt would have done so with extremely bad credit judgment (Chicken and Posner, 2013).

Utilizing data from credit bureaus can minimize transaction costs and boost organizational effectiveness by eliminating customers who have a history of non-payment (Drake and Rhyne, 2016). Computerized techniques, such as credit measures and scoring models, are primarily employed by banks and MFIs to assess if a credit risk is acceptable (Chicken and Posner, 2013). We refer to these as acclaim peril evaluations. The objective of acclaim peril valuation is to ascertain the type of customers

Lenders can choose who to trust and who to be less confident in a borrower's ability to successfully repay their loan based on credit scores. Acclaim slashing and peril evaluations of latent credit claimants have proven to be among the most successful applications of statistical and operational research principles throughout the past 10 years. This also makes the competition in the microfinance industry more intense because competitors want to reduce risk by making incredibly accurate predictions based on clients' credit scores. Effective credit scoring reduces costs by enabling more frugal decision-making and, eventually, by lowering the quantity of bad debts, claim (Crook et al. 2017).

Several disadvantages of credit rating models include the following:

- Since book value of accounting data serves as the models' main foundation, they may be erroneous in a hectic setting.
- The models might not correctly predict some events since the world is not linear.
- It's common for theoretical models to be connected to the models that predict bankruptcy based on credit score. 2017 saw Alterman and Saunders publish.

2.12 Summary

This section provided an outline of the literature on risk mitigation measures that can be implemented to minimize credit risk in Microfinance Institutions. Different types of risks that can also hinder the operations of Microfinance Institutions as well as the controls that can be put in place to minimize the possibility of credit risk has also been discussed.

CHAPTER 3
RESEARCH METHODS AND DESIGN

3.0 Introduction

The study design, research ethics, research design quality, research philosophy, sampling procedure, inquiry strategy, and data collecting and analysis are all covered in this section.

The research methodology and data analysis techniques are covered in this chapter. A thorough summary of the study area is given at the outset, and then the research design, survey method, sample design, sampling procedures, sample size, and data collection tools are covered. The key objective of this chapter is to give a thorough and understandable explanation of how the study was conducted and how the data was collected, arranged, and examined.

Primary and secondary data served as the foundation for an empirical study. Questionnaires were used to collect data for the study, which was then combined with qualitative data analysis techniques. In addition, a trial of customer acclaim data that was sourced from a nationwide acclaim agency was added. A thorough rundown of the entire procedure is provided in the remainder of this section.

3.1 Study Area

This research covers Microfinance Institutions in Zimbabwe.

3.2 Research Design

Russell (2018) posits that a researcher's choice of procedures and protocols for a study are informed by their research design. A research design is an all-encompassing approach that the investigator uses to meet the study issues. The study design is a series of recommendations that the researcher proposes using when carrying out the research, according to (Saunders, Lewis, and Thornhill 2015). According to Allen (2017), a study design is essential for answering the who, why, and how of research questions. The research design contains the details pertaining to the gathering and displaying of data. The mixed methods were used since it allows for the collection of both qualitative and quantitative data. However, the quantitative research strategy is utilized to allow statistical amounts and distribution under the research study, but the qualitative research approach directly derives from this inductive approach.

3.3.1 Practical Investigation

An empirical study is any type of research that includes the acquisition of new data (independent of the methodology used) or the reanalysis of data that has already been gathered

(Allen, 2017). Fresh information for the exercise was gathered concluded surveys, and earlier acclaim office information was re-examined. A non-empirical investigation was rejected due to a lack of supporting theories and notions.

3.3.2 Basic Research

Understanding processes and their results is the main purpose of basic research, which is mainly carried out in schools as an outcome of educational agendas, with the academic community acting as the major consumer (Russell, 2018). This education will improve considerate of material-world structural complications and offer managerial advice on how to make decisions. On the other hand, it will contribute to the advancement of scientific knowledge on the risks that microfinance institutions face.

3.3.3 Descriptive Research

According to (Saunders et al. 2018), descriptive research aims to accurately depict people, things, or conditions. Information was obtained from small, medium, and big role players in the microfinance sector to accurately represent the full range. Each category is thoroughly explained in the study.

Investigating new questions, gaining new perspectives on phenomena, and seeking new insights into them is the definition of exploratory research, according to Saunders et al. (2018). This study can provide as a springboard for further research into the topic of microfinance in Zimbabwe, as there are still many unsolved questions. We are going to keep posing new queries and compiling fresh information.

3.3.4 Intersectional research

Cross-sectional studies look at a precise miracle at a precise period (Russell 2018). Owing to the questionnaires' temporary usage, the suggested study will be cross-sectional in character. Time constraints almost probably preclude the feasibility of a long term investigation.

3.3.5 Collecting Primary Data by Use of Questionnaires

Being non-experimental, the study collected most of its data via questionnaires. (Saunders et al 2018) state that the aim of a questionnaire is to gather reliable and accurate information relevant to the objectives and research issues of the study. Questionnaires are used by the researcher to create a list of refrains and a set of enquiries that need to be addressed. Appendix 1 contains the format of the utilized questionnaire.

The researcher used questionnaires and interview guides to collect data. Researchers can quickly and simply design their own expert online surveys claims that this program has advanced functionality for designing surveys and the capacity to evaluate data. Instead of giving the respondents paper questionnaires, the researcher sent them an email with a link. The link directs readers to an online version of the survey, which they may complete whenever it's convenient for them. The reaction time was greatly accelerated by this tool.

3.3.6 Primary Data

Primary data are those that are collected specifically for the ongoing study effort (Saunders et al. 2018). There has never been a study like this conducted in Zimbabwe, thus new information from questionnaires will be acquired. The study obtained primary data from the face to face interviews and the survey questionnaires.

3.3.7 Qualitative Data

Non-numerical or unquantified data are categorized as qualitative data by (Saunders et al. 2018). Credit bureau data offers quantitative information, thus in order to present a complete picture, it will be combined with questionnaire answers.

3.4 Sampling

Probability and non-probability sampling techniques are the two categories of sampling techniques. According to (Saunders et al. 2018), probability sampling is a statistical technique used in research to choose a sample from a bigger population so that each person in the population has a known, non-zero chance of being chosen. However, non-probability sampling is a sampling technique where samples are chosen according to non-random standards. Purposive or judgmental sampling is a non-probability sampling technique used in this study to determine the true population representation while aiming to accomplish the research objectives and taking into consideration the validity and reliability of the data collected from that sample was to be used.

3.4.1 Purposive or Judgemental sampling

Purposive sampling, often referred to as judgmental sampling, is a non-probability sampling technique in which researchers purposefully choose particular people, situations, or events according to their knowledge and judgment. By using this technique, the researcher was able to choose a sample of people based on the qualities that interested them, making sure that the people selected were representative of the qualities required.

3.4.2 Target Population

The Microfinance Institutions in Zimbabwe served as the study's units. A total of 62 Microfinance Institutions in Zimbabwe were targeted for this study All microfinance organizations are most likely exposed to identical dangers, albeit with different degrees of severity. Because the study is mixed, the financially responsible individuals of the various entities received an email with a link of the questionnaire.

The study has been limited to Zimbabwe organizations due to practical reasons, financial constraints, and its focus. The bulk of microfinance companies are not permitted to function as banks since they offer unsecured loans and other financial products to the lower income market; nevertheless, a few big operators in the large category are permitted to function. After being divided into the four groups, the relevant personnel of the entities received questionnaires about risk, operations, and finance.

Client information refers to Zimbabwean consumers who have registered at least one microloan, according to data gathered from a credit bureau.

3.4.3 Sample Size

The data was collected from a total of 62 Microfinance Institutions in each of the Microfinance Institutions accountants, auditors, finance managers and operations managers were selected to answer the questionnaires and then followed by the face to face interviews. This then gives us a sample of 248 from various informants from different Microfinance Institutions. There are weaker entities than stronger ones, but because they are less well-known, they are also harder to contact. A total 220 replies from persons in control of finance, operations, or risk across a range of institution sizes were gathered by sending out questionnaires to pertinent individuals, and the data was then analysed using SPSS and Microsoft Excel.

3.5 Data Collection

Both secondary data sources and primary data were used to get accurate and trustworthy data. A list of topics and questions to be addressed made up the questionnaires (Saunders et al., 2018).

It is crucial that you approach the respondents in a methodical and organized way. Since the various businesses won't want to divulge any trade secrets or private information, the themes and questions must be carefully crafted to prevent offending the responders. The following could offer difficulties in gathering data for the suggested study:

- Those who answer the questions but are not the right people assigned to do so.
- Businesses that are reluctant to take part because they feel uncomfortable answering inquiries from outsiders regarding the hazards associated with microfinance.
- To formulate pertinent queries in order to elicit precise responses to the study questions.

In this study, data was collected using online data collection techniques which includes distribution of google forms on emails to each one of the informants. This technique gives the researcher much needed data from various Microfinance institutions in Zimbabwe on a short period of time since online google forms saves time when distributing.

3.5.1 Duration of Data Collection

On the same day, each questionnaire was given out, and participants had two weeks to complete them. After a week, those respondents who still hadn't responded or hadn't completed the questionnaires received an email reminder.

3.5.2 The Strategy for Gathering Data

For the questionnaire, it created a list of questions and subjects. The Appendix contains the format for the list of questions. Microfinance Institutions (MFIs) operations managers, credit controllers, auditors and finance managers were the primary recipients of the questionnaire, which was disseminated based on the MFIs' size, market share, and reputation. Finding the suitable risk-accounting or financial personnel in the particular organizations, industry contacts were utilised. They were contacted via email and provided with a concise overview of the goals, themes, and inquiries of the study. An individual with industry knowledge was given a test questionnaire to evaluate the set of themes and questions.

3.6 Data Analysis

Based on the similarities and differences between the different sized micro-lenders, the categories were sorted. Microsoft Excel and SPSS version 21 method of data analysis were used to analyse the collected data. The most significant interview replies served as the basis for the study's themes. The development of the themes involved examining the parallels and discrepancies between the various answers. Utilizing statistical tools from the Microsoft Excel software, the quantitative client credit data was examined.

3.6.1 Evaluating and presenting the suggested research design's quality and rigor

A few bias or error causes could affect the standard and accuracy of the proposed study. Accuracy is defined as the replies' validity and dependability. Bias in the responses' translation is another topic of discussion. The procedure of gathering the data didn't entail anything personal.

3.6.2 Problems with data quality

As per (Saunders et al. 2018), the problems with the questionnaire's data quality will be talked about below.

Validity: Assessing whether study findings actually address the topics they seem to be addressing is the process of determining validity. Making sure the data gathered is truly required requires asking the correct questions. The proposed study's problem statement must be supported by each and every questionnaire question. To ensure validity the study used authoritative and authentic sources to collect information and the questionnaires were designed to be understandable and applicable to the research problem as well as research objectives.

Reliability: If a standard questionnaire is utilized to ensure consistency, the results will be more trustworthy. The question of whether different researchers would find the same information needs to be asked. To ensure reliability in this study, the reliability was assessed using the Cronbach Alpha test.

Type of bias: It is crucial to consider the following kinds of bias:

- Reactions that are impacted by the attitude of the person answering.
- Input that is construed in a biased manner
- Untrustworthy responses
- Limited usefulness of the supplied data.

These kinds of prejudice will also affect the reliability and validity of the information.

The following suggestions will improve the quality of the questionnaire and, as a result, the calibre of the data:

- To improve dependability, the surveys are identical.
- Asking the appropriate questions on a questionnaire requires preparation.
- A comprehensive explanation is given outlining the reason for the research as well as the absence of a trade secret collection goal for the survey.
- Each respondent is free to complete the questionnaire whenever it is most convenient for them.

3.7 Research Ethics

Aspects of research ethics include developing and clarifying a research topic, designing the study, obtaining access, collecting, processing, and storing data, analysing data, and responsibly and morally disseminating research findings (Saunders et al., 2018). Depending on the stage of the research, different codes and concerns apply, such as:

- Bargaining for access: It's critical to build trust and honour participants' right to confidentiality. The option to remain anonymous will be provided to organizations in order to safeguard that the information is kept private and utilized exclusively for this study.
- Ethical considerations in the collection, handling, interpretation, and dissemination of data: The researcher is prepared to sign a confidentiality agreement with any organizations asking to stay nameless. Participants won't be forced to provide trade secrets or personal information, and their privacy will be respected. Personal information will be used only for specified purposes and kept safe.

3.8 Summary

This chapter enclosed the research methods used by the examiner in data collection processes. This involves the research approaches, the research design, the population, the research tools, gathering techniques, the sources, the presentation, examination and interpretation of outcomes.

CHAPTER 4

DATA INTERPRETATION AND ANALYSIS

4.0 Introduction

This chapter presents the research results and pursues to offer an in depth exploration of the results insight of the research questions which were imitative from the research objectives. The results will be centred on the exploration of responses to the questionnaire. The chapter will cover the response rate, demographic data, tests of validity and the ultimate results and discussion of objective issues.

4.1 Primary data

4.1.1 Response rate

Conferring to Tran (2014) the response rate refers to the percentage of people who answer to a survey questionnaire out of the entire number who were requested to contribute. The bigger the response rate, the more trustworthy are the outcomes of the sample.

4.1.2 Response rate to the questionnaire

The researcher mailed 248 questionnaires to the targeted respondents and 220 of them were completed and returned giving a prosperous response rate of 88.7%. Table 4.1 below displays the responses for the questionnaire that were overseen.

Table 4.1 Response Rate Questionnaire

Questionnaire	counts	percentage (%)
Dispatched	**248**	**100%**
Returned	**220**	**88.7%**
Unreturned	**28**	**11.3%**

According to (Dixon 2015) in an investigation acclaimed that a response rate that is more than 50% is applicable, 75% good and more than 80% is admirable. The questionnaire response rate was 88.7% and be able to give trustworthy data results.

4.2 Presentation of demographic data of Respondents

4.2.1 Duration in the Microfinance Institution

Table 4.2.1: Responses to duration in the Microfinance Institution

The side view of the respondents is defined in terms of age and period of employment at a particular Institution. The table specifies the spell of the respondents in a specific entity.

Time period in the Microfinance Institution

Number of years (years)	**Less than 5 years**	**From 5 - 10 years**	**From 10 - 20 years**	**20 years or more**
Responses percentage (%)	**34%**	**30%**	**23%**	**13%**

As it is articulated by the table above the majority of the respondents have been working in the Microfinance Institution a long period of time. Only a smaller percentage of the respondents have been in the Microfinance Institutions for a less period of time. Therefore, this shows that the respondents have enough experience to provide much needed information which contribute to the overall success of this study.

4.3 Question 4 extent of the risk in affecting Microfinance Institutions

Key

Extremely large	**Very large extent**	**Large extent**	**Moderate**	**Small**	**Very small**	**Extremely small**
1	**2**	**3**	**4**	**5**	**6**	**7**

4.3.1 Credit Risk

This question is trying to find the view of the respondents on whether credit risk is the main risk affecting Microfinance Institutions adversely.

Table 4.3.1 Responses to credit risk

Strength of feeling	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**total**
Respondents	**74**	**61**	**48**	**37**	**0**	**0**	**0**	**220**
Responses%	**33.6%**	**27.7%**	**21.8%**	**16.9%**	**0%**	**%**	**0%**	**100%**

Table 4.3.1 shows that there were no respondents who disagreed, hence it can be concluded that there is a strong evidence that credit risk is a noteworthy aspect that affects the operations of Microfinance Institutions in Zimbabwe. The survey proposes that credit risk is critical

concern for the Microfinance industry in the economy. The lack of any divergence further reinforces the strength of this finding.

Therefore, the majority of the respondents agreed to varying degrees that credit risk affect Microfinance Institutions to extremely large extent, very large extent and extremely large extent respectively. (Van Heerden, 2018) highlights that credit risk to a greater extent can lead to a deterioration in the MFI`s loan portfolio, with an increase in the number of non-performing loans. This reduces the Microfinance Institution`s portfolio quality which is critical metric for assessing the Institution`s financial stability and performance.

More on that, the majority of the interviewees said that credit risk is a parasite to the operations of Microfinance Institutions in Zimbabwe, as the interviewees agree that the perfect borrower's reserve is susceptible to acclaim exposure because loans and advances are unsecured. Berry (2017) supported the interviewees` opinion by saying credit risk can directly impact MFIs profitability as they may need to set aside more provisions for loan losses and reducing their net income.

Ultimately, the survey questionnaires and interviews results provide a clear indication that credit risk is a major challenge facing Microfinance Institutions in Zimbabwe and should be a key area of focus for the industry stakeholders and policy makers.

4.3.2 Bad debts

The question is trying to find the opinions of the interviewees on whether bad debts are affecting Microfinance Institutions adversely or not.

Table 4.3.2 Responses to bad debts

Strengths-of feeling	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**total**
Respondents	**68**	**60**	**57**	**35**	**0**	**0**	**0**	**220**
Respondents%	**30.9%**	**27.2%**	**25.9%**	**16%**	**%**	**0%**	**0%**	**100%**

Table 4.3.2 clearly shows that bad debts are perceived as a significant challenge for Microfinance Institutions in Zimbabwe. The large number of respondents agreeing to a large extent or higher extent specifies that bad debts are perceived as a major aspect that negatively affect the operations of Microfinance institutions. (Dixon., 2013) highlights that, when borrowers default on their loans, it directly reduces the MFI`s revenue and profits. This can undermine the Microfinance Institution`s ability to cover its operating expenses and continue lending to new clients.

In conclusion, bad debts are one of the essential risks that affect the smooth running of the Microfinance Institutions as agreed by the respondents and the interviewees that most of the clients may likely fail to settle their debts after they fall due. This will affect the profitability of the organization negatively.

4.3.3 Operation Risk

Table 4.3.3 Responses to Operation Risk

Strengths-of feeling	1	2	3	4	5	6	7	total
Respondents	26	64	72	28	30	0	0	220
Respondents%	11.8%	29.1%	32.7%	12.8%	13.6%	0%	0%	100%

Table 4.3.3 above indicates that most of the respondents agreed that operation risk affect the operations of MFIs negatively. This specify that a strong agreement amongst the respondents that operation risk poses significant challenges for MFIs in the country. The high number of respondents agreed to a large extent, very large and extremely large extent advocates that operational risk is critical concern that MFIs in Zimbabwe, are facing.

The comparatively lower number of respondents agreed to a moderate extent and small extent specifies that the negative effects of operation risk are extensively recognized and considered to be a significant concern for Microfinance sector in Zimbabwe.

The majority of the interviewees highlighted that operation risk is one of the risk to consider since it involves legal status, and systems as additional examples of operation hazards, hence it affects the operations of the Microfinance Institutions negatively if it is not well managed. Tran (2013) supported the interviewees opinion and says that, operation risk is a significant concern for MFIs, as it can have a profound impact on their ability to serve their target client base effectively.

In summation, the data shows a robust and extensive consensus amongst the respondents that operational risk has significant negative effects on Microfinance Institutions in Zimbabwe, a volatile economy. The overwhelming majority of respondents agreed to a large, very large and extremely large extent. Therefore, this offers a convincing conclusion that operation risk is a critical challenge affecting the Microfinance industry in the country and needs instant attention and easing strategies.

4.3.4 Liquidity Risk

The question is trying to find the opinion of respondents on whether liquidity risk is affecting the operations of Microfinance Institutions to a larger extent or to a smaller extent.

Table 4.3.1 Responses to Liquidity Risk

Strengths-of feeling	1	2	3	4	5	6	7	total
Respondents	72	68	56	24	0	0	0	220
Respondents%	33%	31%	25%	11%	%	0%	0%	100%

From the table above, the data shows that a significant majority of respondents agreed to an extremely large, very large and large extent regarding the negative effects of liquidity risk on Microfinance Institutions in Zimbabwe. This indicates that there is a strong consensus among the respondents that liquidity risk is a critical issue facing MFIs in Zimbabwe, a volatile economy, with vast majority recognizing the substantial negative impacts.

The relatively lower number of respondents agreeing to a moderate extent further reinforces the significance of the problem as it suggests that the negative effects of liquidity risk are widely acknowledged and not considered a minor concern.

One of the interviewees said. "*Liquidity risk can make it tough for Microfinance Institutions to access inexpensive capital sources. Insufficient liquidity may dishearten promising financiers or investors from providing funds to the Microfinance Institutions, distressing its capacity to distribute loans to customers. This can limit the Microfinance Institution`s capability to range its target market and enlarge its operations."* Russell (2018) supported the interviewee`s view and says that, if a Microfinance Institution lacks sufficient liquidity, it may be unable to disburse new loans or renew the existing ones, hence limiting its ability to serve its client base and grow its portfolio.

In a nutshell, the data offers a convincing basis to state that liquidity risk is a major challenge for MFIs operating in Zimbabwe. The irresistible agreement amongst the respondents that the negative effects are experienced to an extremely large, very large and large extent emphasizes the significance and insistence of addressing liquidity risk within the Microfinance sector in the country. This is reinforced by the clear and reliable responses from the vast majority of the study participants, specifying a robust agreement on the critical nature of liquidity risk and its negative influence on the performance and sustainability of the Microfinance Institutions in Zimbabwe, a volatile economy.

4.4 Question: To what extent are the following strategies effective in minimizing the risk faced by Microfinance Institutions

The question is trying to find out the opinions of the respondents on whether the following strategies are effective in minimizing credit risk in Microfinance Institutions.

Table 4.4.1 Responses to Implementation of group guarantor-ship as a risk mitigation measure.

Strengths-of feeling	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**total**
Respondents	**75**	**68**	**64**	**13**	**0**	**0**	**0**	**220**
Respondents%	**34%**	**31%**	**29%**	**6%**	**%**	**0%**	**0%**	**100%**

Table 4.4.1 indicates a strong agreement amongst the respondents that group guarantor-ship is an effective risk easing measure in the MFIs in Zimbabwe. A substantial majority of the respondents agreed to an extremely large, very large and large extent concerning the effectiveness of this methodology. The irresistible consensus among the vast majority of respondents proposes that group guarantor-ship is extensively accepted and valued as an effective tool for managing and alleviating risks within the Microfinance Institutions sector in Zimbabwe.

The moderately small number of respondents who agreed to a moderate extent further strengthens the conclusion that group guarantor-ship is usually regarded as an extremely effective risk easing measure, with minimal dissent or doubts amongst the study participants.

Therefore, the majority of the respondents were with positive mind towards the effectiveness of group guarantor-ship as a credit risk mitigation measure and they were very optimistic about group guarantor-ship. According to one of the interviewees says "*Group guarantor-ship, is very effective in minimizing credit risk as the clients will tent to push each other to settle their debts amicably within the stipulated dates so as to avoid all of them to be in a position to pay for the remaining client as it is the rule of group guarantors-hip, that all the clients will be there for each other to settle debt before they fall due."* Russell (2018) supported the interviewee by saying the group structure creates social pressure for members to repay the loans as defaulting can jeopardize the ability of entire group to access future loans. Social collateral pressure can be an effective substitute for physical collateral.

In conclusion, group guarantor-ship is considered a highly effective risk mitigation strategy by Microfinance Institutions in Zimbabwe. The strong consensus among the respondents with over 90% agreeing to an extremely large, very large and large extent underscores the importance and effectiveness of this approach in addressing the challenges faced by MFIs in the country. This is supported by the clear and consistent responses from overwhelming majority of the survey participants, indicating a widespread recognition of the value and efficacy of group guarantor-ship as a risk management tool for Microfinance Institutions in Zimbabwe.

4.4.2 A competent audit committee

Table 4.4.2 Responses to the effectiveness of a competent audit committee in minimizing credit risk in Microfinance Institutions in the Microfinance industry.

Strengths-of feeling	1	2	3	4	5	6	7	total
Respondents	78	67	57	18	0	0	0	220
Respondents%	35.5%	30.5%	25.9%	8.1%	%	0%	0%	100%

The table above specifies that the data intensely propose that a competent audit committee is regarded as an effective tool for minimizing risk in Microfinance Institutions. The majority of the respondents agreed that the influence of a competent audit committee is large, very large and extremely large in this regard. This specifies that MFIs must embark on establishing a competent audit committee as part of their risk management framework, as it is broadly observed to be a very effective measure for alleviating risks. The data offers an exciting case for the significance of a robust audit committee in the effective governance and risk management of Microfinance Institutions.

A competent audit committee should always be put in place in order for MFIs to reduce risks. Tran (2013) highlights that, a competent and engaged audit committee can be a valuable asset in managing and reducing credit risk, which is crucial for long term sustainability and success of these Institutions.

To sum up all, a competent audit committee is very effective in minimizing risk in Microfinance Institutions as decided by the majority responses from questionnaires and interviewees.

4.4.3 Financial Education

Table 4.4.3 Responses to the effectiveness of Financial education as a credit risk mitigation measure.

Strengths-of feeling	1	2	3	4	5	6	7	total
Respondents	74	65	62	19	0	0	0	220
Respondents%	33.6%	29.6%	28.2%	8.6%	%	0%	0%	100%

The table above specifies that the high level of agreement among the respondents proposes that financial education is observed as an effective strategy for lessening risks in the MFIs in

Zimbabwe. The data shows that a noteworthy proportion of the respondents consider that financial education can play an extensive role in risk management for MFIs in the country.

The moderately small number of respondents who agreed to a moderate extent proposes that the overall insight is that financial education is very effective risk easing measure rather than just reasonably effective., hence it is clear that financial education is of paramount important in reducing credit risk in Microfinance Institutions since it involves education between the borrower and the lender. This may help the borrower to have education on how to use those funds in a better way that can enable him/her to settle the debt in time before it falls due. Drennan (2015) financial education can be a valuable tool to reduce credit risk and enhance the long term sustainability of their operations as it empowers clients to make more informed decisions and improve their repayment behaviour.

Conclusively, financial education is an effective measure in minimizing credit risk in Microfinance Institutions as established by the large number of responses from the interviewees and the questionnaires.

4.4.4 Re-assessment of clients

Table 4.4.4 Responses to the effectiveness of re-assessment of clients as a credit risk mitigation measure.

Strengths-of feeling	1	2	3	4	5	6	7	total
Respondents	**72**	**57**	**49**	**42**	**0**	**0**	**0**	**220**
Respondents%	**32.7%**	**25.9%**	**22.3%**	**19.1%**	**0%**	**0%**	**0%**	**100%**

The table above indicates that the high level of agreements among respondents advocates that client reassessment is perceived as an effective strategy for alleviating risks in Microfinance Institutions. The data specifies that a substantial amount of the respondents consider that client reassessment can play a significant part in risk management for Microfinance Institutions.

Therefore, re-assessment of clients is very effective in curbing credit risk in the present day due to inconsistent character of the client base in the Microfinance industry. (Russell, 2018) sympathizes on re-assessment of clients by saying that, by implementing a robust client re-assessment process, MFIs can gain a deeper understanding of their client`s evolving circumstances and adapt their credit risk management strategies accordingly.

However, there is also a remarkable number of respondents who agreed to a moderate extent, specifying that while client reassessment is perceived as effective, there may be some limitations or nuances in its application or perceived effectiveness.

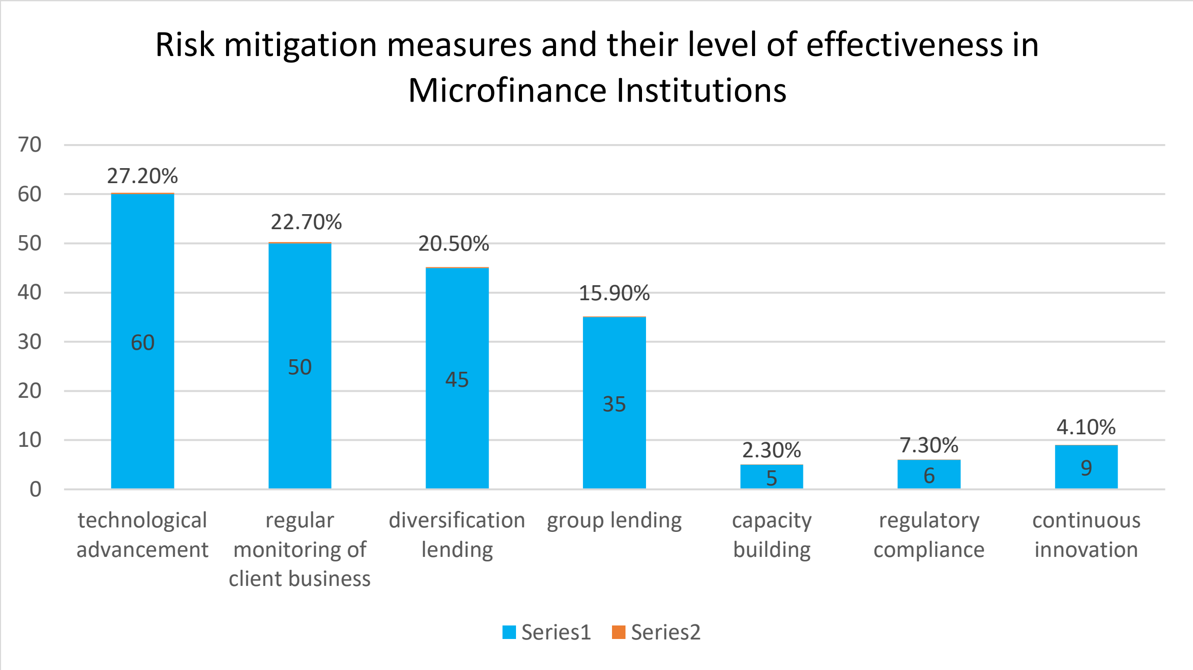
In summation, the data analysis proposes that the researcher can conclude that client reassessment is broadly viewed as an effective risk easing measure in MFIs, with a robust majority of respondents agreeing to numerous extents on its effectiveness. Nevertheless, the existence of a moderate level of agreements among some respondents proposes that there may be area for more exploration or contemplation of the nuances in the application and perceived effectiveness of this risk alleviation measure.

4.5 How is your Microfinance Institution managing the challenges they are facing

Table 4.5 Responses to the effectiveness of most risk mitigation measures and their level of effectiveness in Microfinance Institutions.

Measures which can be used to mitigate risks	**Responses (numbers)**	**Percentage (%)**
Technological advancement	**60**	**27.2%**
Regular monitoring of client business	**50**	**22.7%**
Diversification lending	**45**	**20.5%**
Group lending	**35**	**15.9%**
Capacity building	**5**	**2.3%**
Regulatory compliance	**16**	**7.3%**
Continuous innovation	**9**	**4.1%**
Total	**220**	**100%**

Fig 4: Responses to the effectiveness of most risk mitigation measures and their level of effectiveness in Microfinance Institutions.



4.5.1 Technological advancement

The table above clearly indicates that, with the highest number of respondents agreeing to its effectiveness, technological advancement appears as the most extensively supported risk easing measure. This shows that the majority of respondents recognize technological advancement as a very effective strategy for alleviating risks in the Microfinance Institutions. The robust support for this measure recommends that MFIs should contemplate financing in technological resolutions and innovations to enhance their risk management proficiencies.

According to one of the interviewees the, "*technological advancement gives us a competitive advantage in the industry since technology sometimes it makes the job simple and fast. Technological advancement has facilitated Microfinance Institutions to assemble, examine and pull enormous quantities of customer information to make more well-versed resolutions. This could include using information to evaluates the credit worth, identify product offerings and be able to minimize threats more successfully."* Russell (2018) supports the interviewee`s view and says, the effective integration of technological advancements into credit risk management process can help lenders make more informed decisions and reduce the likelihood of defaults

In summation, technological advancement is one of the key measures which need to be taken into account so as to curb different challenges in the Microfinance industry since the implementation of technological solutions helps to rise financial inclusion, expand operational competence and well attend the wishes of the nation`s low income and underbanked societies.

4.5.2 Regular monitoring of client`s business

From the above table it is clear that most respondents also agreed to the effectiveness of regular monitoring of client business as a risk mitigation measure. This endorses that a significant number of respondents consider that close monitoring and oversight of client businesses can be an effective way to manage risks in Microfinance Institutions. Implementing a vigorous client monitoring systems and practices can help clients` financial health and manage risk proactively.

Brau (2014) said, the process of regular monitoring of client`s business gives you an in-cite on the performance of client`s business in the present day and this can help you to judge the credit worthiness of the client if the client request for a loan top up or loan reduction. (Dixon, 2017) sympathizes on re-assessment of clients by saying that, by implementing a robust client re-assessment process, MFIs can gain a deeper understanding of their client`s evolving circumstances and adapt their credit risk management strategies accordingly.

Conclusively, the majority of the respondents and the interviewees were in support of regular monitoring of client`s business as a credit risk mitigation measure in the Microfinance industry, hence it is a measure which needs to be embraced so as to curb challenges in the Microfinance Industry.

4.5.3 Diversification lending

From the table above, it is indicated that diversification lending is one of the measures which need to be embraced by Microfinance Institutions in order to overcome challenges in the industry. This is due to the fact that a considerable number of respondents recognize diversification lending of the loan portfolio as an effective approach for managing risks in Microfinance Institutions.

The respondents and the interviewees were saying by lending to a various selection of borrowers across diverse segments, Microfinance Institutions can reduce their overall risk exposure. This diversification helps safeguard the organization from rigorous losses if one certain part or borrower segment experiences complications. Parker (2017) supported the interviewee`s view and says, by implementing a diversification lending approach MFIs can effectively manage various types of risks, enhance the resilience of their loan portfolio and improve the overall sustainability of their operations.

In a nutshell, diversification is a vital tactic for Microfinance Institutions in Zimbabwe a volatile economy to boost their flexibility, enlarge their influence and safeguard their long term feasibility in helping the underbanked residents.

4.5.4 Group lending

The table above shows that a notable number supported the idea of group lending as one of the approaches which can be used by the Microfinance Institutions to lessen challenges they face. While this is a remarkable number of respondents, it is lower compared to the top three procedures (technological advancement, regular monitoring and diversification lending). This recommends that group lending, while still seen as an effective risk easing strategy, may not be perceived as the most prominent or broadly used methodology among the respondents. Van Heerden (2018) highlights that, group lending is a vital risk management tool especially when serving the underserved and financially excluded populations by harnessing the power of peer support and social capital.

In conclusion, group lending in Microfinance Institutions help alleviate risk by leveraging combined responsibility, societal principal, peer observing and lowering administration overheads. It promotes a philosophy of repayment, boosts financial restraint and stimulates financial inclusion. However, it is not the most prominent or widely used approach among the respondents.

4.5.5 Capacity building

The table shows that only very few respondents agreed to the effectiveness of capacity building as a risk easing measure. This very low level of support shows that capacity building is not broadly viewed as an effective risk alleviation strategy among the respondents. Therefore, Microfinance Institutions may need to re-evaluate the role and execution of capacity building initiatives to boost their success in managing risks.

Therefore, due to the fact that the majority of people go against capacity building it gives clear the evidence that it is not much effective and cannot guarantee permanent results to curb the challenges faced by Microfinance Institutions. Mersland (2019) highlights that, capacity building is not a silver bullet for risk mitigation since MFIs still face external risks such as natural disasters and political instability, that capacity building alone cannot fully address.

Conclusively, capacity building is less effective in alleviating different challenges faced by Microfinance Institutions as decided by the majority of the respondents. Therefore, less efforts should be vested into that practice since it cannot guarantee best results.

4.5.6 Regulatory compliance

Form the table above regulatory compliance has been supported by very low number of respondents and this recommends that respondents do not recognize regulatory compliance as a very effective risk mitigation approach on its own. Therefore, Microfinance Institutions may need to contemplate how to integrate regulatory compliance more efficiently with other risk easing procedures to boost their inclusive risk management approach. Brau (2014) supported the interviewees and said, compliance with regulations on internal controls, government and risk management processes strengthens the Microfinance Institution`s operational resilience.

Conclusively, regulatory compliance only focuses on legal and regulatory issues and neglect other risks such as credit risk, therefore it can be concluded that it needs to be monitored so that the Institution will not be penalized by tax authorities and other bodies such as NSSA.

4.5.7 Continuous Innovation

The table above indicates that, continuous innovation is the second lowest level of support, indicating that respondents do not usually view continuous innovation as a very effective risk alleviation strategy. Therefore, Microfinance Institutions may need to explore ways to raise a culture of innovation that is more closely tied to their risk management purposes. (Parker 2017) highlights that, Microfinance Institutions operate in a dynamic and competitive markets, facing challenges like increasing client demands, new technologies and evolving regulatory environments. Therefore, there is need of powerful risk mitigation strategies.

Microfinance face inherent risk sometimes for example operation risk, credit risk and market risk. According to one of the interviewees, "*continuous innovation allows Microfinance Institutions to embark on developing new risk management and assessment tools to minimize different challenges."*

In summation, continuous innovation is less effective in Microfinance Institution in Zimbabwe a volatile economy. This is supported by the second lowest number of support from the respondents and the interviewees.

4.6 Interview Responses

Table 4.6.1 Responses to face to face Interview questions

Instrument	**Scheduled**	**Respondents**	**Response rate (%)**
Face to face	**62**	**48**	**77.4%**

From the table above it is shown that, of the majority scheduled face to face interviews many of them they were done and a few have failed to be done. Interviews were targeting the crucial informants. An interview should be designed in a manner that is operational and proficient and the higher number of interviews which are not inequity can present dependable data on a certain matter. (Drennan 2015).

4.6.2 Interview Response Exploration

Question 1: Have you experienced any loss from errors or fraud?

Majority of the interviewees said that,

"Loss through fraud is very common in Microfinance Institutions and they are almost being experienced every month and thanks to the audit team to help minimizing theft margins".

"The management were with the opinion that the continuous losses through theft are sometimes caused by poor organizational structure, lack of proper accountability at some branch level since most of the time the branch staff will be few with only one leader. Other were also with the view that poor internal control sometimes can cause branch staff to relax and become involved in some unscrupulous practices".

"Using questionnaires and secondary data only neglecting management`s perspectives in implementing policies to mitigate different challenges is risk and can cause poor decision making."

In a nutshell, both the questionnaires and interviewees have agreed that losses of fraud are inevitable in a Microfinance Institutions and they need proper planning to minimize them since it is more favorable to make decisions basing on facts not assumptions.

Question 2: How many days past due before a loan is considered to be delinquent?

Majority of the interviewees said that,

"*A loan is considered to be delinquent after 95 days. This is the time period that it can be articulated that the client is now going against the repayments agreements. This can result in some branch staff making an appeal in court against the client so as to push him/her to pay back the money lend to him/her with immediate effect since those funds can be used to grant other faithful clients some loans".*

"By the end of a 95 days rule it will be clear that the client is not faithful and need legal actions so that he/she can give the actual dates that he /she will never betray."

Ultimately, basing on the mainstream response of the questionnaires and the interviewees, execution of 95-day rule is being used by many Microfinance Institutions in the Microfinance industry so as to give the client amble time to settle debt and pay back the money without the involvement of legal actions against the client.

Question 3: What are the specific risks faced by Microfinance Institutions in Zimbabwe?

The majority of the interviewees said that,

"In this volatile economy of Zimbabwe, the economy is declining and this gives birth to inherent risks such as the credit risk, market risk and the operation risk. These risks affect the operations of Microfinance Institutions negatively in the Microfinance industry and they may force majority of Microfinance Institutions to rely much on internal control, financial education, capacity building, re-assessment of clients and diversification lending so as to minimize the spread of risk".

In summation, the response from the majority interviewees credit risk, operation risk and market risk are the main risks affecting Microfinance Institutions negatively in the economy of Zimbabwe. Hence, they seriously need to be taken into account and monitored continuously so that they do not hinder the operations of the Microfinance Institutions in Zimbabwe.

Question 4: What are the strategies used by Microfinance Institutions to manage risks they are facing?

The majority of the responses from the interview questions have suggested that the strategies they use to mitigate credit risk, operation, market risk are regular monitoring of client`s business to see if it is growing or going downwards are,

"group lending so that the clients will push each other to settle debts in time since the debt of one will affect all of them collectively, diversification lending so that Microfinance Institutions will not rely on just one market and if one market goes down it may likely be compensated by the other market and technological advancement which may help the Microfinance Institutions to gather much needed information about the client so as to make informed decisions".

In summation, the mainstream of the examinees all suggested that diversification lending, technological advancement, group lending and regular monitoring of client`s business are mostly used strategies to minimize the percentage of risks that affect the operations of Microfinance Institutions, hence all Microfinance Institutions must embrace them.

4.5 Summary

This chapter consist of demonstration and exploration of data that was gathered by the examiner by the use of questionnaires. The researcher presented graphs and tables. Data which was collected from interviews was also summarized.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter will give a summary of the exploration completed and estimate whether the outcomes have pleased the research objectives and research questions. The deficiencies will be discussed as well as any additional exploration prospects. The research will be concluded with recommendations in the last part of this chapter.

5.1 Chapter Summaries

In chapter 1, the researcher presented a problem with risks faced by Microfinance Institutions in Zimbabwe, a volatile economy, from which the examiner was capable to acquire research topic. Chapter one covered the background of the study where an exploration into risks faced by Microfinance Institutions was examined by the examiner. Credit risk is affecting Microfinance Institutions negatively causing profit margins to decline. Many Microfinance Institutions complained that credit risk is affecting them negatively to a greater extent and this could be brought on by inconsistent character of its clients, the unknowns around the client demographics and unavailability of corporate risk management tools. This chapter also covers the problem statement, research objectives, research questions. The delimitations of the study, limitations of the study and significance of the study were also debated.

Chapter 2, discusses literature from the different scholars, authors and examiners on their thoughts and understanding on how credit risk influence the operations of Microfinance Institutions. Many different risk mitigation measures were studied and how Microfinance Institutions implement the approaches so as to curb the negative impacts of credit risk. The risk mitigation measures were discussed and the best risk mitigation measures which benefits in reducing or minimizing credit risk and improve profit margins was also advocated. The noticeable authors in this chapter were Parker (2017), Van Heerden (2018), Brau (2014) and Mersland (2019).

In chapter 3 the researcher covers research design and the research tools used by the examiner in conducting the research. The questionnaires and interviews assisted the researcher to attain primary data. The researcher adopted judgemental sampling to decide the population and sample size.

In chapter 4 the researcher presented and research data that was acquired from the questionnaires and the interviews conducted. Questionnaire response rate was 88.7%. Data was presented in graphs and tables. The outcomes were examined using percentages.

5.2 Major Findings

5.2.1 What are the specific risks faced by Microfinance Institutions in Zimbabwe?

- Microfinance Institutions are facing inherent risks such as credit risk, operational risk, liquidity risk and bad debts.

5.2.2 What are the strategies used by Microfinance Institutions to manage risks they are facing?

- Microfinance Institutions have implemented Financial education to their clients as a way of preparing their clients to make better financial decisions and reduce the likelihood of default.
- Microfinance Institutions have implemented regular monitoring and evaluation of client`s business and financial performance so that potential risks are identified earlier and necessary steps can be taken to mitigate them.
- The other strategy which is being used by Microfinance Institutions is Group lending. That is providing loans to group of borrowers, rather than individuals since this can benefit Microfinance Institutions to spread out the risk and provide social pressure to borrowers to repay their loans in time.

5.2.3 What are the cost effective ways to identify the risks faced by Microfinance Institutions?

- Microfinance institutions have implemented a vigorous client due diligence process to thoroughly estimate the credit worthiness and repayment ability of the prospective borrowers.
- The Microfinance Institutions have also implemented portfolio analysis which consist of closely examining the institution`s loan portfolio to detect high risk areas, geographical regions or client sectors. This can help flag probable credit risk concerns.

5.2.4 What are the ways to successfully forecast the result of credit transactions?

- The Microfinance Institutions have implemented a system to monitor early threatening signs of probable defaulting for example missed payments, declining business performance and variations in the client`s personal situations.

5.3 Conclusion

The research questions were dealt with and this means that the research was prosperous. Basing on the outcomes it can be settled that credit risk is affecting the operations of Microfinance Institutions negatively in Zimbabwe a volatile economy and mainly this could be brought on by inconsistent character of its clients, the unknowns around the client demographics and unavailability of corporate risk management tools.

5.4 Recommendations

- Microfinance institutions should embark on adaptive and modernization. This is due to the fact that, in the face of Zimbabwe`s volatile economic landscape, Microfinance Institutions should be active and innovative in their tactics, continuously exploring new products, distribution networks and risk mitigation approaches to better attend their clients and safeguard the long-term sustainability of their operations.

- Microfinance Institutions should focus on improving their operational flexibility by investing in robust internal controls, business stability planning and workforce training to boost their capacity to resist and recover from disruptive occasions.
- The Microfinance Institutions should reinforce loan collection and recovery practices. That is to say, they should establish clear, stable and transparent loan collection policies and procedures. They should also invest in workforce training on effective collection techniques and debt restructuring skills. Lastly they should also influence legal and extrajudicial actions to recover delinquent loans.
- They should also set aside adequate loan loss provisions centred on portfolio quality and economic circumstances. MFIs should ensure the Institution upholds sufficient capital ratios to absorb sudden losses. Also explore credit risk transfer mechanisms like guarantees or insurance.
- To manage liquidity risk, Microfinance Institutions should embark on diversifying their capital sources further than traditional deposits and pursue different capital mechanisms, for example lines of credit, bond issuances and partnerships with expansion finance institutions.
- Microfinance Institutions should reinforce their institutional governance structures and promote a vigorous risk management philosophy all over the Institution, safeguarding that risk considerations are inserted in all decision making processes.

5.5 Further Research

The research did not go through all aspects and further research can focus on:

- The reason why age impacts the probability of delinquents can be examined.

REFERENCE LIST

ALLEN, D. 2017. *Developing successful new products*. London. Pitman Publishing**.**

BERRY, T. 2015. *CPA's guide to developing effective business plans*. San Diego.

Harcourt Brace Professional Publishing.

BRAU, J.C. & WOLLER, G.M. 2014. *Microfinance Institutions: A comprehensive review of the existing literature and an outline for future financial research*. Provo. Brigham Young University.

BRUNER, R.F. 2014. Charlottesville, VA: *University of Virginia Darden School Foundation, Structuring Corporate Financial Policy*: diagnosis of issues and strategy evaluation.

CHICKEN, J.C. & POSNER, T. 2013. *The Hazard Philosophy*. UK. Publishing by Thomas Telford.

CAPITEC 2017. *KEY FACTS AS AT 31 AUGUST 2010*. AVAILABLE FROM: htt:\\www.capitecbank.co.za\aboutKeyFacts.asp (Accessed 12 September 2015).

CENDROWSKI, H. & MAIR, W.C.2019. *ENTERPRISE RISK MANAGEMENT AND COSO*. New Jersey. John Wiley & sons.

COLLINS, D., MORDUCH, J., RUTHERFORD, S. & RUTHVEN, O. 2019. *Portfolio of the Poor*. Cape Town. UCT Press.

CROOK, J.N., ELDELMAN, D.B., Thomas, L.C. 2017. *Credit Scoring and its Applications*. Philadelphia. Society for Industrial and Applied Mathematics.

DRURY, C. 2019. *Management & cost accounting*. South Africa. Business Press.

Dixon, R., Ritchie, J., & Siwale, J. (2017). *Loan officers and loan 'delinquency'in Microfinance*: A Zambian case. Paper presented at the Accounting forum.

Douglas, M. (2013). *Risk and culture : An essay on the selection of technological and environmental dangers.* Berkeley: University of California Press.

Douglas, M., & Wildavsky, A. (2013). *Risk and culture: An essay on the selection of technological and environmental dangers*: Univ of California Press.

Drennan, L. T. (2015). *Ethics, governance and risk management: Lessons from Mirror Group Newspapers and Barings Bank.* Journal of business ethics, 52(3), 257-266. doi:10.1023/B:BUSI.0000037531.33621.2c

HARPER, S.C. 2015. *Extraordinary enterprenuership. The professional`s guide to starting an exceptional enterprise.* New Jersey. John Willey & Sons, Inc.

JOHNSON, H.T. 2015. *Relevance has returned: bottom-up empowerment has replaced top-down control.* New York. Press Free.

KASBERGEN, P. 2019. *Explaining why microfinance institutions in the Netherlands have a restricted reach*. The University of Rotterdam.

KEVANE, M. & WYCICK, B. 2020. *Lending money to female entrepreneurs through microenterprises*: Giving up economic expansion to reduce poverty? Global Development, Volume 29, Issue 7, pages 1225–1236.

LATIFEE, H.I. 2019. *Funding initiatives for microfinance. International conference on the role of microfinance in reducing poverty and the difficulties faced by MFIs in Vietnam*. City of Ho Chi Minh. Workshop for the CEP Fund.

LEE, C.F & FINNERTY, J.E. 2011. *Corporate finance: theory, approach, and practical use*.

San Diente. Professional Publishing, Harcourt Brace.

LEVY, H. & SARNAT, M. 2011. *Financial management tenets*. NJ. Pearson Education.

MARTINS, J.H. 2016. *Cash Outlays for Families by Living Standards Measure Group*.

Journal of Consumer and Family Ecology, Vol. 34, pp. 1–9.

McGregor BFA 2018. *Domain of Research*. The website http://www.mcgbfa.com is the source (accessed August 15, 2010).

MERSLAND, R. 2019. *Historical Insights into Nonprofit Microfinance Institution Governance*. Norway. Springer.

MUTEZO, A.T. (2015). *Barriers to obtaining financing for small and medium-sized enterprises*: an empirical analysis focused on Tshwane. Master's thesis, not published. South African University [Virtual] Accessed on April 11, 2009, from etd.unisa.ac.za/ETD-db/theses/available/etd-07062006-123347.

OBERDORF, C. 2019. *Microfinance: Conversations with the Experts*. the Americas as a united nation. ACCI International and Calmeadow.

OJAH, K. & MOKOALELI-MOKOTELI, T. 2019. *Two viable sources of funding for South African entrepreneurship are venture capital and microfinance*. The African Finance Journal. Vol. 12, no. 1, p1-22.

PARKER, R.H. 2017. *Comprehending financial statements of a corporation*. England, Fifth Edition.

Business Penguin.

PORTEOUS, D. & HAZELHURST, E. 2014. *Democratizing finance in South Africa*: banking on transformation, 1994–2004 and beyond. Town of Cape Town. books with two stories.

Russell, L. D., & Babrow, A. S. (2018). *Risk in the Making: Narrative, Problematic Integration, and the Social Construction of Risk.* Communication Theory (10503293), 21(3), 239-260. doi:10.1111/j.1468-2885.2011.01386.x

REEKIE, W.D., LINGARD, G.S. & COHEN, M.B. 2018. *Financial components for businesses in South Africa*. Johannesburg. Book publishers in the South.

ROSS, S., WESTERFIELD, R.W., JORDAN, B.D. & FIRER, C. 2016. *corporate finance foundations.* Version 2 in South Africa. Boston. Irwin McGraw-Hill.

SAUNDERS, M; LEWIS, P & THORNHILL, A. 2017. *Research Techniques for Students Studying Business*. Fourth Edition. England. Pearson Education.

SEYMOUR, M. 2020. *A South African viewpoint on the microfinance sector*. Johannesburg. Brooks University in Oxford,

SHREINER, M. 2015. *A framework for discussing the social advantages of microfinance is provided by the outreach aspects*. p591-603 in Journal of International Development, Vol. 14.

STICKNEY, C.P., BROWN, P.R. & WAHLEN, J.M. 2014. *A strategic viewpoint on financial reporting and statement analysis*. Australie. Thomson Southwest-style.

Siwale, J., & Okoye, N. (2016). *MICROFINANCE REGULATION AND SOCIAL SUSTAINABILITY OF MICROFINANCE INSTITUTIONS*: THE CASE OF NIGERIA AND ZAMBIA. Annals of Public and Cooperative Economics, 88(4), 611632. doi:10.1111/apce.12165

VAN EWIJK, C. 2018. *Regarding the relationship between debt and growth*. Oxford: Clarendon Press.

VAN HEERDEN, G. 2018. *The National Credit Act of 2006's possible impact on the survival of certain, niche microlending organizations in South Africa*. University of Pretoria, Pretoria.

VAN ZYL, C., BOTHA, Z. & SKERRITT, P. 2016. *becoming aware of the financial markets in South Africa*. Vand Schaik, Pretoria.

VIGARIO, F. 2016. *Managerial Finance*. Durban. F. Viagrio.

WRIGHT, N. & HAYNES, B. 2015. *Developing Financial Independence*. Microfinance Journal, Vol. 7, no. 2, pp. 1-154.

Tran, T. (2013) Participatory Research, New York: St Matins.

APENDIX 1

QUESTIONNAIRE

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMET OF ACCOUNTANCY

QUESTIONNAIRE

I am a student at Bindura University of Science Education studying a Bachelor of Accountancy Honors Degree fulltime. I am required to undertake a research study whose success depends on your o-operation in answering this questionnaire. My research study entitled.

A risk assessment framework for Microfinance Institutions in Zimbabwe, a volatile economy.

You are hereby kindly requested to answer the attached honestly and objectively as much as possible. It is my assurance that the findings will be used for educational purposes only and the recommendations may be used to improve the performance of the Microfinance Institutions. The gathered information is confidential and no harm will be attached to this study.

INSTRUCTIONS:

i. Please answer all questions fully and honestly.
ii. Where boxes are provided, indicate your answer by a tick in the appropriate box.
iii. Do not write your names or address on the questionnaire.

Section A: DEMOGRAPHIC DATA

i. Duration in your Organization:

Less than 5 Years [ ] From 5 - 10years [ ]

From 10 – 20 Years [ ] 20 years or more [ ]

ii. Position held in your Company

Finance Manager [ ] Internal auditor [ ]

Accountant [ ] Operations manager [ ]

iii. Highest Level of education attained

Post Graduate [ ] Graduate [ ]

Tertiary [ ] Others (ACCA, CIMA, .) [ ]

Section B:

Please respond by filling in the space spaces provided and where boxes are provided put a tick in the appropriate box.

i. To what extend are the following risks affect your Microfinance Institution?

Extent	**Extremely large**	**Very large**	**Large extent**	**Moderate extent**	**Small extent**	**Very small**	**Extremely small**
Credit risk							
Bad debts							
Operation risk							
Liquidity risk							

Other……………………………………………………………………………………
……………………………………………………………………………………………

ii. To what extent are the following strategies effective in minimizing the risk faced by your Microfinance Institution?

Extent	**Extremely large**	**Very large**	**Large extent**	**Moderate extent**	**Small extent**	**Very small**	**Extremely small**
Group guarantor-ship							

A competent audit committee							
Financial education							
Re-assessment of clients							

others…………………………………………………………………………………………
…………………………………………………………………………………………
…………………………………………………………………………………………
……

iii. How is your Microfinance Institution managing the challenges they are facing?

Technological advancement [ ]
Regular monitoring of client business [ ]
Diversification lending [ ]
Group lending [ ]
Capacity building [ ]
Regulatory compliance [ ]
Continuous innovation [ ]
Others………………………………………………………………………………………
…………………………………………………………………………………………
……………………………………………………………………………………….

iv. What are the cost effective ways to identify the risks faced by Microfinance Institutions?

Portfolio analysis [ ]
Client assessments [ ]
Staff training [ ]
Operational reviews [ ]

APENDIX 2
INTERVIEW GUIDE

INTERVIEWER: KNOWLEDGE JIRA (BACHELOR OF ACCOUNTANCY HONORS DEGREE, BINDURA UNIVERSITY OF SCIENCE EDUCATION)
INTERVIEWEE: FINANCE DEPARTMENT.
PROJECT TITTLE: A RISK ASSESSMENT FRAMEWORK FOR MICROFINANCE INSTITUTIONS IN ZIMBABWE, A VOLATILE ECONOMY.

Question 1: Have you experienced any loss from errors or fraud?
Question 2: How many days past due before a loan is considered to be delinquent?
Question 3: What are the specific risks faced by Microfinance Institutions in Zimbabwe?
Question 4: What are the strategies used by Microfinance Institutions to manage risks they are facing?