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BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF BANKING AND FINANCE

DETERMINANTS OF NON-PERFORMING LOANS IN MICROFINANCE SECTOR OF ZIMBABWE (2018 - 2022)

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APPROVAL FORM

The signatories confirms that they have overseen, reviewed, and endorse the research project titled: " Determinants of Non-Performing Loans in the Microfinance Sector of Zimbabwe: An Analysis of Zimbabwe's Microfinance Industry (2018-2022)" for approval by Bindura University of Science Education, presented as part of the criteria for the Bachelor of Commerce Honours Degree in Banking and Finance

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DISSERTATION TITLE DETERMINANTS OF NON-PERFORMING LOANS IN MICROFINANCE SECTOR OF ZIMBABWE (2018 - 2022)

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DEDICATION

The document is devoted to my whole family for their unwavering support during the course of my degree program. To my mother, my sister and also to my uncle, I really appreciate all the effort, love and support you have given me throughout the whole period of my study

ACKNOWLEDGEMENTS

"To start off, I want to thank the Almighty God for guiding me through the entire program and helping me achieve my dream of becoming a banker. I am truly grateful to my family for their unwavering support during my academic research. Additionally, I want to express my gratitude to my supervisor for the guidance throughout the study. I also want to acknowledge the BUSE Banking and Finance Department for fostering my chosen career."

ABSTRACT

This researchl explores the factors influencing non-performing loans (NPLs) in the microfinance industry of Zimbabwe from 2018 to 2022. The aim of the study is to analyze the different macroeconomic, institutional, and borrower-related elements that affect NPLs in microfinance institutions (MFIs) in Zimbabwe. The study is based on credit rationing theory, loanable funds theory, the Monti-Klein model, and the delegated monitoring of borrowers theory. A combination of methods, including surveys, interviews, and observations, was used to collect primary and secondary data from MFI executives and other stakeholders.

The results identify various factors contributing to NPLs, such as economic conditions, lending policies, customer profiles, and credit risk management practices of MFIs. The study emphasizes the importance of a comprehensive and collaborative approach involving MFI management, policymakers, and customers to address the NPL issue. The research offers valuable insights to assist MFIs in developing effective credit risk mitigation strategies, creating innovative financial products, and improving customer targeting methods. The conclusions stress the significance of ongoing monitoring, capacity building, and regulatory oversight to ensure the stability and growth of the microfinance sector in Zimbabwe.

Contents

LIST OF ACROMNYMS

NPLs: Non-Performing Loans

IMF: International Monetary Fund

MFIs: Micro financial Institutions

RBZ: Reserve Bank of Zimbabwe

OSS: Operational Self-Sufficient Ratio

LPM: Loan Portfolio Management AI:

Artificial intelligence

MLM: Machine Learning Models

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CHAPTER I

INTRODUCTION

1.0 Introduction

History of microfinance in Zimbabwe could be traced back to the 1960s when savings clubs were formed. Before this, people relied on informal credit sources such as family and friends, which is a common practice worldwide. According to Adams and Raymond (2018), people have been obtaining credit from sources such as moneylenders, commercials, friends, and family members for centuries. In Zimbabwe, private moneylenders offer exploitative loans known as "chimbadzo."

Microfinance institutions in most countries offer both financial and non-financial services, including small business loans, savings, insurance, mortgages, and retirement plans for low-income clients who are denied such services by traditional financial institutions. The Reserve Bank of Zimbabwe (2019) defines microfinance institutions as organizations that provide financial services such as money transfer, insurance, and small loans to marginalized populations and SMEs who lack access to mainstream financial institutions.

As defined by the International Monetary Fund (2017) non-performing loans (NPLs) are payments of interest and principal amount that are over 90 days due. High levels of NPLs can reduce the capacity of MFIs to reissue loans without investing new capital. Supporting MFIs is crucial to building the economy by empowering SMEs and the informal sector, which can make a significant impact if financially supported.

1.1 Background of the study

Between 2018 and 2022, there has been a notable increase in the number of microfinance institutions registered in Zimbabwe's financial sector. As of March 31st, 2022, there were 220 registered microfinance institutions, consisting of 8 deposit-taking microfinance institutions and 212 credit-only microfinance institutions. This represents a substantial increase compared to previous years and can be attributed to the sector's favorable average operational self-sufficiency ratio. Operational Self Sufficiency Ratio (OSS) is a measure of an MFI's operating revenue to its operating expenses, including financial costs and impairment losses to loans. If an MFI's OSS is less than 100%, it will require external assistance to survive, whereas an OSS above the break-even point will enable institutions to expand.

Source RBZ 2022

The depicted chart below illustrates the growth of microfinance institutions and their branches since 2018. The number of microfinance institutions has surged from 147 to 189 during this time frame. Additionally, the branches have seen an upswing from 373 to 698.

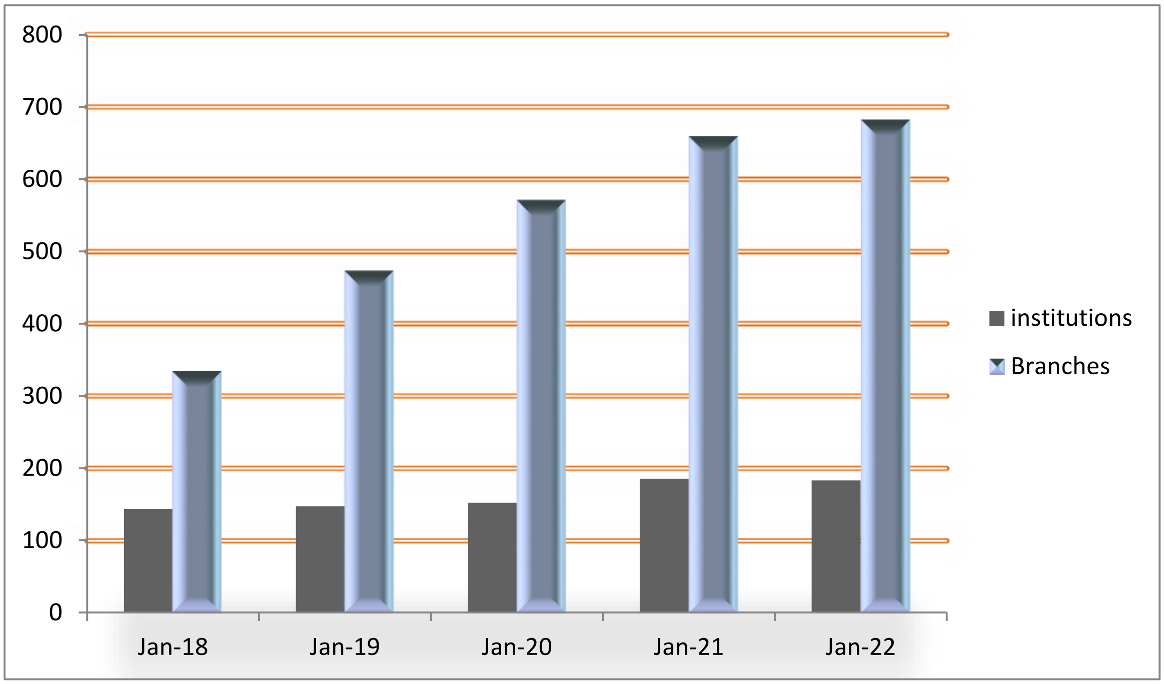


Figure 1.1 Growth of the Microfinance sector in Zimbabwe (Jan 2018- Jan 2022

The RBZ provides the data in the diagram below, which indicates the NPL rate in the microfinance sector

Despite the growth of the microfinance sector, the rate of NPLs has fluctuated above the international benchmark of 5%, as shown in Figure 1.2 below. Basel Committee on Banking Supervision (2004) attributes this to high-interest rates charged by microfinance institutions. According to RBZ (2020), these high-interest rates have resulted in a high level of indebtedness among microfinance clients, leading to a high level of NPLs. Consequently, high-interest rates charged by MFIs result in a high level of NPLs, which, in turn, leads to a deterioration of the microfinance institution's capacity to disburse loans without new capital injection. These ratios exceed the international benchmark of 5% stipulated by the Basel Committee on Banking Supervision, posing a threat to the financial stability and growth of microfinance institutions, as noted in Basel 1 (2004).

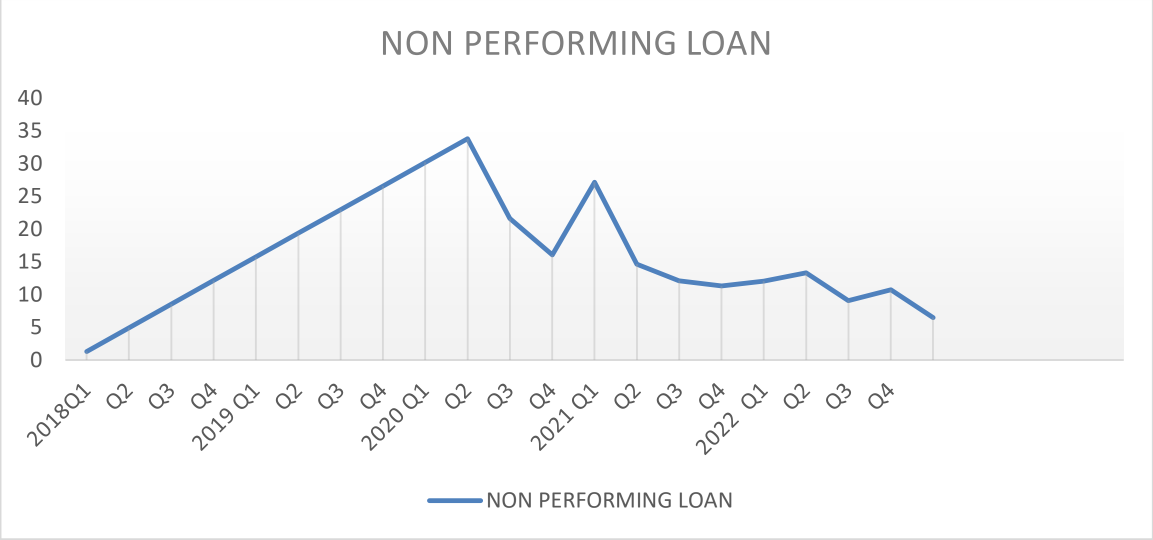


Figure 1.2 Microfinance sector non-performing loans (2018Q1-2022Q2)
Source: RBZ (2022)

The trend of NPLs in Zimbabwe's microfinance sector is illustrated in the graph above, spanning from Q1 2018 to Q4 2022. The graph indicates that the NPL ratio has consistently exceeded the international benchmark of 5% set by the Basel Committee on Banking Supervision. This poses a threat to the financial stability and growth of microfinance institutions, as outlined in BASEL 1(2004). Possible reasons for the fluctuations include the growth of the microfinance sector, loan distribution for consumption, inflation, unemployment, and interest rates.

1.2 Statement of problem

There have many research on the determinants of non-performing loans in countries like Kenya , Nigeria and Canada, but non of them were targeted at the MFLs in Zimbabwe. This research serves to adress the determinants of NPLS in the Zimbabwean microfinance institutions and was directly targeted only at Zimbabwe's microfinance industry.

Therefore, this research aims to identify the factors contributing to NPLs in Zimbabwe's microfinance sector

1.3 Objectives of the Study

a) To measure the impact of NPLs on the performance of the microfinance sector of Zimbabwe for the period 2018 up to 2022

b) To explore and identify the primary determinants of non-performing loans in the micro-financial sector.

c) To measure how lending policies affect the NPLs in the Microfinance sector.

1.4 Research questions

a) What are the main factors that affect the performance of microfinance institutions in Zimbabwe?
b) What are the consequences of NPLs in microfinance sector of Zimbabwe?
c) What impact do interest rates have on the non-performing loans of microfinance companies?

1.5 Hypothesis

(H0): there is a relationship between NPLs and microfinance sector performance

(H1): there is no relationship between NPLs and microfinance sector performance

1.6 Assumptions

This research is based on the assumptions below about the topic:

- The participants will provide truthful and accurate data
- Micro financial institutions expect that checking a candidate's disposable income,collateral security or individual assurances is very crucial when granting loans.
- The financial statements of microfinance institutions offer precise and pertinent insight into their non-performing loans
- The performance of microfinance institutions is significantly impacted by NPLs

1.7 Significance of Study

To the microfinance sector

The predominant concern is that most of the research on non-performing loans has been conducted outside of Zimbabwe, with little attention given to the MFl sector within the country. This has resulted in a significant gap in information. What sets this study apart is its focus on microfinance-specific variables, rather than broad economic factors. By addressing this information gap, this study aims to provide more literature on the determinants of NPLs in Zimbabwe's MFI sector

The credit arrangement of the loaning establishments are significant resources that produce a lot of interest income. It assumes a basic part in deciding the monetary exhibition of the MFIs and it can consequently be said that the great strength of the credit of the MFI is straightforwardly connected with how its monetary presentation will be. Given the significance of the well-being of the credit portfolio, a review should be directed to recognize the issues that adversely influence the presentation of MFIs. The results of this research will empower Microfinance institutions to embrace serviceable procedures to control the issue of NPLs in the foundation and consequently work on its monetary execution and productivity

The researcher

Commitment to information: By directing this review, the researcher has the potential chance to add to the current assemblage of information on the subject. The discoveries can fill holes in the writing and give important experiences to professionals, policymakers, and specialists keen on the field of microfinance and monetary consideration

Upgraded understanding: This study will help to expand the knowledge of the researcher on the contribution of these factors to non-performing loan exploration and will extend the comprehension specialist might interpret the difficulties faced by MFIs during times of liquidity imperatives and how they explore through them. It gives a valuable chance to acquire bits of knowledge into the elements of the microfinance area and the techniques utilized by MFIs to support their tasks.

To the University

The review made a critical commitment to the collection of data that will be used by researchers from different colleges as well as those at Bindura University of Science Education who have a comparative premium in microfinance loaning and credit the executives. The review's discoveries can be used as a thorough asset for staff individuals who might need to embrace research in the space of microfinance loaning from here on out, as well as concerning planned understudies who might decide to seek after examinations around here

1.8 Limitations

Reluctance among the respondents to fill out questionnaires was observed, with some even leaving questions unanswered. This not only reduced the number of respondents but also compromised the accuracy of the sample collected. However, the researcher took measures to address this issue by personally approaching the respondents and highlighting the potential benefits of the study

Another constraint was admittance to data as not much exploration has been finished concerning MFIs. Some MFLs did not promptly unveil data to analysts inspired by a paranoid fear of breaking of Vow of Mystery (Obligation of classification). These limitations were managed by depending on distributed yearly reports and budget summaries and guaranteeing the respondents that the data was primarily for scholarly purposes and that their personalities would not be uncovered anywhere.

1.9 Delimitation

The greater focus was on exploring the determinants of NPLs in the microfinance sector in Zimbabwe with the study mainly on non-deposit-taking microfinance institutions. Mostly preferred Fund House Finance because they have been active participants and some of the gaps were observed during the internship period at the organization. The respondents of the study are the clients and employees or staff members from microfinance institutions

1.10 Ethical consideration

In any research undertaking, ethical considerations hold utmost importance as they safeguard the welfare and safety of participants and maintain the authenticity of the study. David and James (2015) define ethical consideration as moral value systems that focus on the extent to which research procedures comply with professional, legal, and social responsibilities. This particular study places great emphasis on ethical values, particularly in its interaction with participants hailing from microfinance institutions in Zimbabwe.

During my research, one of the most crucial ethical considerations was obtaining informed consent from participants. I provided them with all the relevant information about the study, and they willingly agreed to participate without being coerced or deceived.

Additionally, I also prioritized anonymity as an ethical consideration. This is a stricter form of privacy compared to confidentiality, as it ensures that the identity of the participant remains unknown to the research team. I implemented this measure to protect those who wished to remain anonymous

1.11 Definition of key terms

Non-performing loans: are payments of interest and principal amount that are over 90 days due

Microfinance institutions: are organizations that provide financial services such as money transfers, insurance, and small loans to marginalized populations and SMEs who lack access to mainstream financial institutions

Operational Self Sufficiency Ratio (OSS): is a measure of an MFI's operating revenue to its operating expenses, including financial costs and impairment losses to loans

Loan Disbursement:when the agreed upon sum is paid into the client's account and is accessible for use. The conveyance of a credit adds up to a borrower

Ethical Consideration: are moral value systems that focus on the extent to which research procedures comply with professional, legal.

Bad Debts: loans or different sums owing that are not generally viewed as recoverable and can be discounted are alluded to as bad debts (Shawn, G, 2019). Since there is generally an opportunity of default while giving credits, gathering bad debts is a part of the cost of working with clients. Bad debts normally result from the indebted person declaring financial insolvency; however, it can likewise happen when the cost to the leaser of gathering the obligation surpasses its aggregate sum owed.

Credit Portfolio:A credit portfolio is the total of all advances held by a financial institution or lending organization

Loan portfolio management: is the cycle by which risks born in the credit cycle are overseen and controlled.

1.12 Chapter summary

This chapter explains the reasons for conducting the study and outlines the objectives and issues that the study aims to address. It also outlines the limitations of the study to determine the determinants of NPLs in the microfinance sector. A writing survey will be examined in the ensuing chapter. The next chapter is the literature review of the study

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

Lawrence a (2016) said, "Literature review plays a pivotal role in the development and execution of research project." Brenda T. McEvoy (2016) went on to say, "they provide access to academic conversation surrounding the topic of the proposed study." In this part of the study, the researcher reviews the theoretical literature which helps to formulate theoretical framework to examine the determinants of non-performing loans in the microfinance sector of Zimbabwe. The literature survey covers important writing determined to acquire understanding into the elements that causes NPLs inside the Microfinance sector in Zimbabwe. It covers definitions and clarification of wordings relating to credit, credit risk, non-performing and failing to meet expectations advances. This study is very significant in light of the fact that it tries to help answer inquiries in the review. There have been concentrates on that study to decide the connection between NPLs and other macroeconomic factors, for example, interest rates, and the degree to which NPLs influence microcredit. This section would survey a portion of these examinations and examine theoretical foundation of the study

2.1 Theoretical Review:

2.1.1 Credit Rationing Theory

This Credit Rationing theory presents that lenders rely upon winning financing costs and accessible security or substitutes for guarantees to control the measure of credit they give out to borrowers. Decision making by moneylenders to all things considered loan or not to loan is restrictive on the sort of guarantee the borrowers present to them. To stay away from more dangerous speculation and the possibilities of the borrowers not satisfying their credit commitments, moneylenders give out advances at low rates of interest. The arrangement of advances in light of different options in contrast to guarantee gives borrowers a road of defaulting from reimbursing their advances since their relationship with the loan specialist isn't areas of strength for as insurance is involved. The hypothesis proposes that loan fee is exceptionally critical in deciding the sum monetary organization will actually want to loan and decide the capacity of the borrower to reimburse the credit.

2.1.2 Loanable Funds (Assets) Theory

Loanable funds are cash which is accessible for borrowing in the loanable funds market. According to Loanable funds theory, the loaning does not entirely settle by the organic market of loanable assets which are accessible in the loanable funds market. On the off chance that stock of loanable assets is held consistent, an increase sought after for credits will be trailed by an increase in the rate of interest. Likewise on the off chance that there is an expansion in the stockpile of loanable assets while request is held steady, the outcome will be a fall in financing costs.

As indicated by Musgrave (2016) the loanable assets theory makes sense of how people save and how these investment funds are changed into credits which are dispensed by loaning institutions. Families and firms supply funds to the loanable funds market and the funds are then advanced out to firms and people by the lending organizations. Lending organizations are at the center of investment funds and borrowings. Families are providers of investment funds and their choice to still up in the air by loan costs among different elements.

At the opposite finish of the scale, the loan fee to borrowers (firms and people) addresses the expense of capital implying that a pessimistic connection between financing costs and eagerness to borrow exists. In Zimbabwe low deposit financing costs, high bank charges as well as absence of certainty by contributors have prompted a decline in the stockpile of loanable simultaneously there has been an increase in the interest for loanable assets by firms and people. This has prompted a raise in the loan fees to disbursed credits which mean an increase in the rate of interest. Significant expense of acquiring diminishes the borrower's ability to reimburse advances. This adds to an ascent in NPL ratio

2.1.3 The Monti-Klein Model

The Monti-Klein model was propounded by Klein (1971) and Monti (1972). The fundamental presumptions of this model are that the intention of the loaning establishments is to create gain, the subsequent supposition will be that loaning organizations are not complete cost takers.This suggests that these monetary organizations have a level of independence in deciding the loaning rates. The third supposition is that loaning institutions don't have command over interbank currency market as well as the security financing costs. This suggests that the interbank market rate influences the loaning rates as well as the deposit paces of the lending establishments. In deposit taking MFLs, the expense of the funds is the significant determinant of loan costs. The expense is not entirely set in stone by development in the interbank market rates. An expansion in the market rate is trailed by a raise in the loaning rates. This suggests an increase in the expense of acquiring. In Zimbabwe, microfinance foundations are cost takers as their loaning rates are gazetted by Reserve Bank of Zimbabwe.

Initially, the RBZ had fixed the rates of interest at 10% yet in any case, because of the level of independence that microfinance firms have in deciding costs and the absence of management from RBZ's financial area, microfinance organizations have been arm turning/controlling rates of interest for as much as 25%. Such higher loan fees are causing NPLs since the expense of borrowing is extremely high. Abukir and Feininger (2013) argued that loaning rates builds the up the weight of repaying credits to the borrowers. This adds to an ascent in the raise in bad loans.

2.1.4 Information Theory

Moline (2016) suggested that borrowers ought to be screened particularly by microfinance institutions organizations in the form of credit appraisal. The collection of solid data from planned borrowers becomes basic in achieving successful screening. Subjective and quantitative methods can be utilized in surveying the borrowers even though one significant test of utilizing subjective models is their emotional nature. However, borrower's credits evaluated through subjective models can be assigned out of numbers with the amount of the qualities contrasted with a limit. This method limits handling costs and reduces emotional decisions and conceivable biases.

The rating frameworks will be significant assuming they demonstrate changes in expected levels of credit advance losses. Brown (2019) noted that quantitative models make it easier to mathematically lay which elements are significant in making sense of default risk, assessing the overall level of significance of the variables, working on the evaluating of default risk, screening out bad advance applicants, and calculating any hold expected to meet anticipated future non-performing loans.

2.1.5 Credit Market Theory

This model proposes that terms of the credit clear the market. In the event that guarantee and other relevant limitations stay given, it is just the loaning rate that decides how much credit that is administered by the financial area. Hence with a rising interest for credit and a decent inventory of something very similar, rates of interest should rise. Any extra risk to a task funded by a financial institution ought to be reflected through the premium risk that is added to loaning rate to match the rising default risk. In this manner, there exist a positive connection between the default likelihood of a borrower and the loan cost charged on the development.

It is hence accepted that the higher the disappointment dangers of the borrower, the higher the premium interest. Even though the theory doesn't expressly examine how guarantee would impact on the premium risk, it makes the feeling that security affects loaning rate, and in the event that a hazardous borrower would wish to confront a similar loaning rate as a borrower with a lower risk, then, at that point, everything necessary is to vow more insurance to bring down his risk profile and hence partake in a lower risk expense.

This achieves the 'ethical danger' and adverse choice' peculiarities, first and foremost due to data asymmetry existing between the moneylender and borrowers. The borrower has a more precise evaluation of risk profile of this venture that isn't known by a financial institution and hence may perform secret activities to build the risk of his speculation without the acknowledgment of the loan lenders. The unfavourable choice issue shows up as loan lenders raise their financing costs to protect themselves from default and then again draw in just high risk borrowers and kill generally safe borrowers (Artisan and Roger, 2017).

2.1.6 The Delegated Monitoring of Borrowers Theory

This is one of the most compelling in the writing on the presence of financial institutions. In a broad sense, monitoring of a borrower by a financial institution refers to data collection when a credit is about to be granted, including screening of advance applications, looking at the borrower's progressing creditworthiness, and ensuring the borrower complies with the contract's terms. A financial institution frequently has advantaged data in this cycle if it works the client's current record and can notice the progressions of pay and use. This is most important on account of small and medium-sized businesses, and it has to do with the lender's role in the payment system (Matthews and Thompson, 2018)

2.2 Conceptual framework

2.2.1 Artificial Intelligence Variables in NPLs

Natural Language Processing: a method for identifying sentiment analysis, reputation, and potential risks associated with borrowers by analysing unstructured data sources like social media, news articles, and customer reviews. This helps to reduce the risks of client default.

Machine Learning Models: Using historical loan performance data, borrower characteristics, and other relevant variables, construct Machine Learning Models to predict the probability of default. This ensures that the loan is disbursed to well deserving borrowers

Behavioural examination: Use artificial intelligence strategies to break down client conduct, spending designs, and value-based information to distinguish early advance notice indications of likely default or monetary misery. This enables the financial institutions to predict the likelihood of their clients to repay their loan obligations on time

Elective Information Sources: Investigate contemporary information sources, for example, satellite symbolism, cell phone use designs, or conditional information to distinguish examples and connections that might impact credit risk.

Detection of Fraud: Use AI algorithms to find fraudulent activities, identity theft, and other forms of financial misconduct that could result in non-performing loans (NPLs). The use of artificial intelligence can help to eliminate the risks of fraud as they can be detected using artificial intelligence algorithms before they could even occur

2.2.2 Factors that influence NPLs in the Microfinance sector

Rates of interest

Because interest rates are fixed, interest rate ceilings and fixing have been extremely damaging in the assembly and designation of an asset. The levels and types of participation are restricted by the government's interest rate restrictions by monetary middle people in the country's monetary business sectors since financing costs are coordinated. Typically, fixed credit rates are lower than market rates. Interest rates that are too low discourage savings and may make lending to small borrowers less appealing. The interest in advances may not be essentially impacted by the degree of loan fees, yet financing cost setting is connected with client choice (Meyer, 2021).

Additional promising ventures may be chosen at a sensible market rate. If bad projects are not chosen, loan collection performance might be better. Financed rates lead to proportioning, which will in general lean toward the rich and politically associated, and borrowers probably won't view the credits in a serious way enough (Muraki, et al., 2014). Borrowers can utilize loans that are given less importance because the rate is lower than the market rate and the funds may not be used for the best possible investment on the market. Nevertheless, lower interest rates may be advantageous for small borrowers who might not be aware of many investment opportunities with high returns.

Policies, terms and objectives

Clear arrangements must be conveyed well to the member staff and clients with appropriate signs. Goals may not be set clearly or taken seriously if there is no clear policy. Unclear targets on credit assortment, for instance, may bring about bad quality of advance portfolios. Loan officers may not be able to concentrate on serving the target if the outreach objectives are unclear. (Holt and Ribe, 2017)

Adverse Selection

The thought fundamental in this model is that borrowers do not necessarily in all cases give all the data required. Regardless of whether they, According to Chengeta (2017), not all information will be correct. Borrowers for the most part have private (interior) data about their tasks that is more precise than the data moved by loan specialists. As a result, a moneylender may as yet be uncertain about the default hazard of a credit contract and experience difficulties in evaluating and controlling the nature and conduct of the borrower. The unfriendly choice issue happens assuming that loan specialists attempt to safeguard themselves against default risk by setting their legally binding terms in a way suitable for the normal typical nature of their credit applicants.

Loan type

Returns on investments vary depending on the type. Some homestead produce might give better returns than other produce. The concentration of kinds of credit might influence the performance of MFIs. A lower return on investment may be achieved by investing in low-earning or high-risk farm products and business reimbursement rates. Borrowers may not have as much of an opportunity if they are limited in their investment choices. Furthermore, bring about higher dangers. MFIs ought to be urged to lend to non-ranch ventures and non-farm families (Sachay and Randhawa 2020)

Knowledge of the borrowers

Understanding of borrowers Information on record keeping and business might assist borrowers when dealing with their incomes and pursuing better business choices, particularly for borrowers who are restarting new organizations. The level of education and training (Bhatt, 2018) is thought to have an impact on how well a business operates. The capability of lenders brings up that preparation for borrowers could end up being expensive for borrowers who need the credits rapidly to catch the valuable opportunities.

Loan amount instalments and the schedule

Little and continuous instalments might make it simpler for little borrowers to deal with the cash. Many successful microfinance firms require small, regular repayments, households derive their income and expenditures from a wide variety of sources. The borrower's needs should be reflected in the payment terms of the loan.

2.2.3 Performing loans

Lawfully, a credit office is characterized to mean a legally binding commitment between two gatherings where one party, the loans officer consents to give an amount of cash to an account holder, who vows to return the expressed sum to the loan boss either in one knot or in instalments over a pre-defined timeframe. The understanding may remember arrangement of extra instalment of rental charges for the assets progressed to the borrower (account holder) for the time the funds are in the possession of the debtor. The extra instalments that maybe interest charges, handling expenses, commissions, checking charges, among others are typically paid notwithstanding the chief aggregate loaned. For sure, these extra instalments whenever made as per the pledges of the credit office comprise the interest pay to the moneylender or creditor.

A credit/credit office may in this manner be considered as performing if instalments of principal and interest energizes are to date as concurred between the moneylender and the borrower. Per RBZ arrangement, advances are viewed as current in the event that the instalment of principal and interest are forward-thinking. It goes further to specify that an overdraft is delegated current or performing if there are standard exercises (swing) in the record without really any indication of no-nonsense obligation development (Lowland, 2020). Interest instalments are viewed as performing advances and they comprise the solid resource portfolio.

2.2.4 Non-Performing Loans

The word NPLs is used conversely with bad credits and impaired loans. Berger and De Youthful (2018) describe these types of credits as "problem advances" In a wide setting, loans that are remarkable in both interest and principal for a while in opposition to agreements spelled out in the credit arrangement are considered as non-performing loans. Available studies gives different portrayals of non-performing loans.

A few researchers found out that while certain countries utilize quantitative standards, like the number of days the credit office is late, others depend on subjective rules, for example, data about the client's monetary status and management of future instalments (Bloem& Porter, 2016). Alton and Hazen (2017) describe NPLs as advances that are ninety days or more past due or done gathering interest that is both the principal and interest on these credits stay neglected for something like 90 days. NPLs may be referred to one that isn't earning pay and full instalments of principal and interest is not generally expected, principal or interest is 90 days or more or the development date has passed and instalments in full have not been made.Non-performing loans are problematic and can hush up poisonous to the microfinance institution (Bexley Nenninger, 2017).

When a credit is nonperforming, the possibilities that it will be settled completely are generally low. When the account holder begins making instalments again on an NPL, it turns into a re-performing loan, regardless of whether the full obligation has not been completely paid. For example, the NPL and failure to meet expectations credits have habitually required rebuilding of reimbursement terms, which has brought about liquidity challenges for the institution, negatively influencing adversely on consumer loyalty and maintenance.

2.2.5 Causes of NPLs / Bad Loans

Banks and other monetary institutions act as a protected spot for one's cash. As others deposit cash for safekeeping, others request cash for various reasons, including business advancement. In this way, the credit officer must qualify the borrower to decide the risk in giving that credit (Benes 2015). Concerns incorporate the limit of the borrower to repay the credit, as well as the reason for the credit among different inquiries. Good risk evaluation goes far too moderate instances of default, for example, NPLs. Nonetheless, different variables have been noted as supporters of the NPLs.

Discoveries from studies by Richard (2015) show that in Zimbabwe, NPLs in microfinance institutions can be credited to moral hazards. Results demonstrated that managers surrender to unseemly loaning systems subsequently of promptings and additional payoffs. Accordingly, loans are given at "exorbitant rates of interest to borrowers in the most unsafe sections of the credit market, hence a change in public pay and joblessness will affect credit risk through changes in the business cycle, conversion standard, loan cost, credit accessibility also, and credit quality.

Liquidity crunch or monetary issues can influence borrowers' capacity to satisfy their commitment. What's more legitimate and administrative change could make monetary foundations change how they direct exchange, as well as the quality and capacity of obligation assortment.

Once more, rivalry among microfinance institutions about development, productivity and the longing to be a market leader can cause monetary institutions to settle for less or inappropriately value their credit items. This could bring about higher expenses of expanding non-performing loans. Competence of staff could likewise represent credit default in microfinance. Loan officers without the essential mastery in the exercises they are answerable for can prompt poor lending practice, ineffective administration, and eventually, misfortune to monetary organizations, and trade rates, including past-due loans, credit focuses, and examination of bad loans

2.2.6 Microfinance Institutions

Microfinance comprises of providing monetary services such as savings, micro-credit, micro-protection, leasing, and transfers in moderately little transactions intended to be open to micro businesses and low-income families. MFLs might be supplemented by non-monetary administrations, particularly preparing, to work on the capacity of clients to use the offices.

According to RBZ's working principles and rules for Microfinance institutions, their establishments were ordered into deposits-taking and non-deposits-taking. Deposit-taking MFIs are expected to keep up with higher capital levels compared with non-deposits-taking firms. This is to guarantee that depositing MFIs are better financed to prevent the risk of microfinance institutions involving clients' deposits for capital use.

2.2.7 Implications of Non-Performing Loans in the Microfinance Sector

Loans create huge interest for microfinance institutions which contribute to their financial performance. However, when advances turn sour, they have some adverse consequences on the micro-financial institution's health. This is because under the RBZ banking guidelines on microfinance institutions, they make satisfactory arrangements and charge for bad obligations that influence adversely their performance.

RBZ guidelines on loan provisioning show that credits in the non-performing classes that is loans that are somewhere around ninety days past due in default of reimbursement will draw in the least provisions of 25%, 50% and 100% for inadequate, doubtful and loss, separately (RBZ Report, 2015).

A potential impact of NPLs is on investors' profit. Dividend instalments depend on payments from interest earnings generated. Consequently, since bad loans unfavourably affect the productivity of microfinance institutions, it can influence how much profit is to be paid to investors. The impact of NPLs on how much profit is paid to investors can additionally influence capital preparation since financial backers won't put resources into institutions that have NPL portfolios (Davis 2017).

Other economic and financial ramifications for NPLs are loss of current income prompting high-risk premiums, high loan misfortune arrangement leading to high loan price, erosion of microfinance institution capital prompting low rate of venture, and financial crisis prompting slow financial and economic development.

2.2.8 Credit Portfolio Performance

A credit portfolio is the total of all advances held by a financial institution or lending organization. It can be characterized as the credits that the lender is owed and is typically recorded as a resource on the asset report. Advance portfolios are the significant assets of microfinance firms, banks, and other loaning institutions. The worthy of a loan portfolio depends not just on the rates of interest earned on the credits, but additionally on the quality or probability that interest and principal will be reimbursed. One of the main exercises of financial institutions is to grant loans to borrowers.

Credits are among the most yielding assets a microfinance institution can add to its monetary record, and they give the biggest part of working income. In this regard, financial institutions are confronted with liquidity risk since credits are progressed from reserves stored by clients. Hamah, (2015) noticed that credit creation implies huge dangers to both the lenders and the borrower. Risk of the counterparty not satisfying their commitment according to the agreement on the due date or whenever can incredibly impact the smooth working of the firm's business. On the other hand, a financial institution with high credit risk has a high risk that puts depositor's assets in peril.

2.2.9 Credit Portfolio Management

Successful administration of the credit portfolio and the credit capability is essential to a financial institution's well-being and sufficiency. Loan portfolio management (LPM) is the cycle by which risks that are inborn in the credit cycle are overseen and controlled. Since a survey of the LPM interaction is so significant, it is an essential administrative activity. Surveying LPM includes assessing the means a financial institution, board takes to recognize and control risk all through the credit interaction.

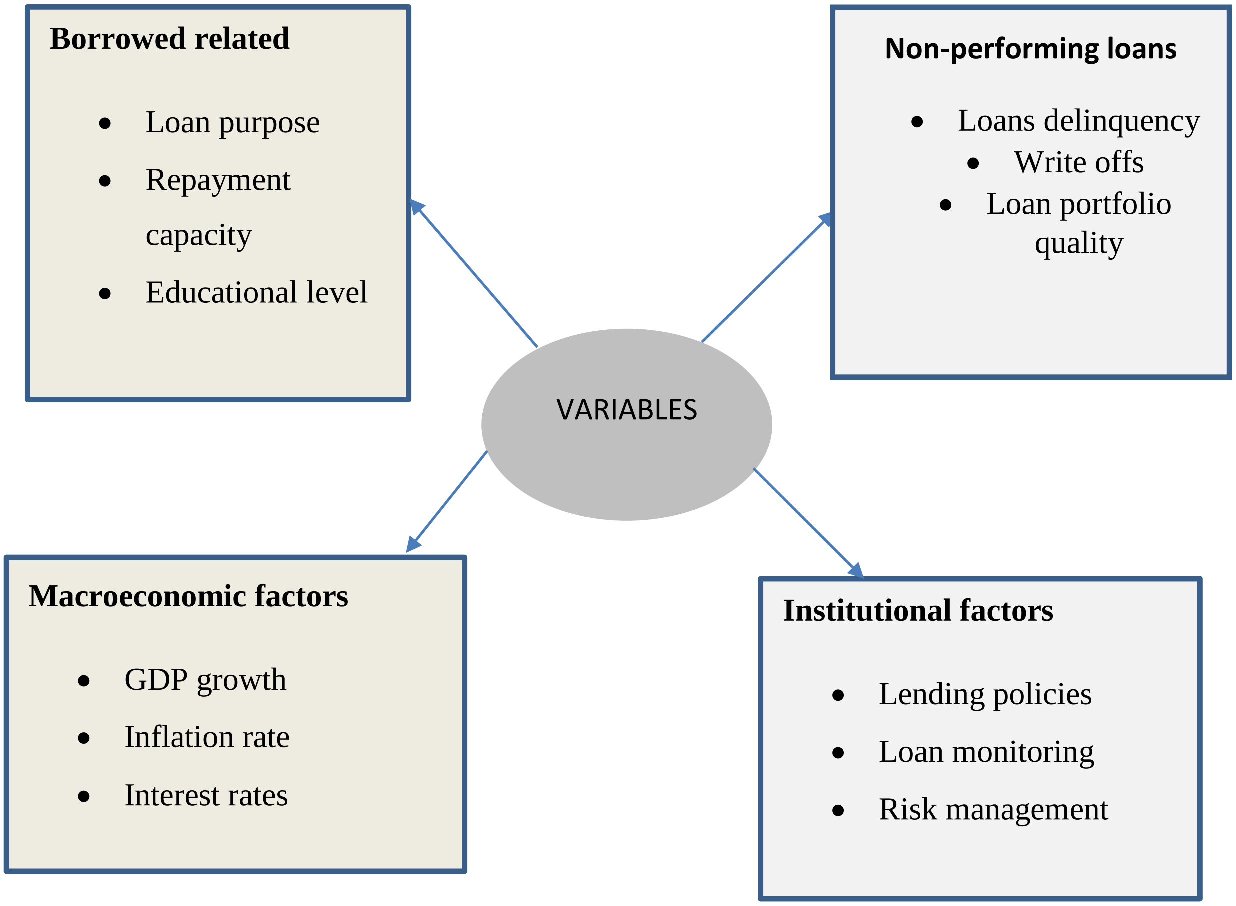
The evaluation centres on how the board distinguishes issues before they become issues. For quite a long time, great credit portfolio supervisors have focused the majority of their work on wisely endorsing credits and cautiously observing credit performance (Chide chai. 2018). Even though these exercises keep on being pillars of advanced portfolio management, examination of past acknowledged issues, for example, those related to oil and gas loaning, rural loaning, and business land loaning during the 1980s, has clarified that portfolio managers ought to accomplish more. Customary practices depend a lot on the eventual results of acknowledging quality like wrongdoing, non-gathering, and chance rating patterns.

2.2.10 Concept of Credit Default

Credit default happens when the borrower is either reluctant or incapable to pay their obligation. A default is the inability to repay a credit (Addae-Korankye, 2019). This can happen with all obligation commitments including bonds, home loans, advances, and notes. Moreover, credit default is characterized as the occasion of over 90 days past due date of instalments. Advance default might be wilful and compulsory; compulsory default could emerge due to ominous conditions that might influence the capacity of the borrower to reimburse.

In contrast, hand, wilful default is by which a borrower doesn't repay regardless of whether he/she can do as such. Default can be of two sorts which are obligation administration default and specialized default. Obligation administration default happens when the borrower has not made a planned instalments of interest or head whiles specialized default happens when a positive or a negative pledge is abused. The latter, on the other hand, is uncommon in microfinance. Foundations however predominantly applies to different financial institutions. Credit default has been distinguished as presumably the single most important factor in the downfall of credit-granting institutions (Mensah, 2018).

Fig1.3conceptual framework depicts the key factors that influence NPLs in the microfinance sector. The framework highlights four categories of factors



2.3 Empirical Review

The expansion in the levels of nonperforming loans in the microfinance sector is straightforwardly connected with financial institution failures. Subsequently, deciding variables that increment the levels of NPLs will empower to distinguish factors that hinder credit reimbursement in businesses. The existing literature gives proof that proposes strong association among NPLs and macroeconomic elements. A few macroeconomic variables which the literature proposes as significant determinants are financial condition, Gross domestic product, loan cost, country risk and so on.

Nyabanda (2015) concentrated on the determinants of non-performing advances in the financial area of Zimbabwe for the period (2009-2014). The examination utilized normal least square regression investigation. Gross domestic product, inflation, joblessness and rates of interest were independent variables, while NPL was the dependent one. The review explored that rate of interest, inflation, and unemployment have a positive relationship with NPLs while Gross domestic product has a negative relationship with NPLs. The microfinance's explicit elements included solvency ratio, Return on Equity, as well as institution size while the macroeconomic variables included Gross domestic product development rate, loaning rate, and joblessness.

Dissecting the potential beneficial outcomes related to collective vibes, a few examinations inspect the effect of various degrees of friend choice, peer checking, and peer pressure. Werner (2015) provides a method for determining whether the selection mechanism influences the repayment execution of 25 Costa Rican credit gatherings and whether bunch individuals utilize nearby information for their peers' screening. His review shows that loaning bunches utilize private information to choose their peers, as well as the fact that this selection mechanism boosts group repayment performance.

Abeita (2018) explored the Microfinance repayment execution of Oromia credit and saving Institution in the Ethiopian city of Kuyu. The after effects of the Probity model showed that schooling, income, advance oversight, reimbursement period, accessibility of other credit sources and domesticated animals were huge elements that upgraded credit reimbursement performance, while advance redirection and size were found as genuinely immaterial. Afolabi (2020) analysed the advance reimbursement among limited scope ranchers in southwest Nigeria, utilized direct discriminant capability. The outcomes uncovered that age, gross pay, nonfarm disposable income, net homestead pay, rates of interest and experience were not entirely set in stone non-defaulters as well as defaulters

Regarding the same subject, Zeller's (2018) study confirms the positive impact of internal rules of conduct (peer selection) on repayment performance. Wydick (2019) utilizes information from 137 Guatemalan credit gatherings to show what social union means for bunch execution as far as reimbursement rates, bunch protection, and moral risk. He tracked down that companion checking in metropolitan gatherings and friend strain in country ones altogether influence bunch performance.The investigation of Roslan and Abdkarim (2019) researched the determinants of advance reimbursement among microcredit borrowers in Malaysia, utilized probit and logit model. The outcomes showed that the gender of the borrowers and the type of loan had an impact on the likelihood of loan default business movement, measure of advance reimbursement period and preparing.

Fikirte (2021) completed a concentrated on the determinants of credit reimbursement execution in Addis Ababa credit and saving organizations Ethiopia. The binary logit model's outcomes uncovered that age, business types (baltina& insignificant market, booth and shop, administrations giving, winding around and fitting and metropolitan farming), sex and business experience of the respondents were found to have a significant impact on the determined repayment of loans.

During the monetary emergencies, solvency ratios and Gross domestic product adversely affected NPLs while the loaning rates made no difference. Vegan (2019) embraced an investigation of non-performing credits. He was exploring NPLS to improve Microfinance firms in Burkina Faso. In his examination utilizing an example of 118 borrowers, he found that client attributes, establishment's attributes, credit use, institution-client relationship, nature of data as well as client banking conduct impact the institution's credit risk. The review showed that legitimate credit use, recurrence of credit development, guarantee, and item expansion hurt loan default risk.

Chase (2016) inspected the credit apportioning innovation of banks and the repayment conduct based on 504 sample observations of borrowers at a rural financial institution. Credit proportioning conditions and credit repayment conditions were assessed utilizing the Tobit model utilizing study information According to the Guyana Cooperative Agricultural and Industrial Development Bank, just 33% of the models used recognized credit commendable borrowers suggesting that the screening innovation was not effective and required to have been fixed. The outcomes likewise showed fixing the advance contract terms by rejecting applications with prolonged grace periods and reducing the grace period for loans.

Handling times upgraded the pool of credit commendable borrowers. Female borrowers were likewise not proportioned uniquely in contrast to male borrowers, nor were they more awful borrowers than male borrowers (for example the variable sex was unimportant in the two conditions), however, affluent borrowers were awful credit risks as their reimbursement execution is poor. By large, the review showed that main four out of twelve illustrative factors (fishing, guys in food harvests and domesticated animals, credit insight, and sugar stick) improve financial soundness, while different factors particularly beauty period, deferrals, and joint the problem of default is significantly exacerbated by borrowers.

Mokhtar, Nartea, and Gan (2020) looked at the issues with loan repayment among Microfinance borrower's in Tekum and Yum organizations in Malaysia. The legit relapse model outcomes found borrower's age, orientation, business type, method of instalment and reimbursement sum were among factors added to microcredit advance reimbursement.

Mensah (2020) explored the connection between credit default and reimbursement plan in Ghanaian Sinapi Microfinance Institution Normal least square relapse results showed that there were no critical connections between advance default and reimbursement plan. Nguta and Huka (2019) did a concentrated-on factors impacting credit reimbursement default in Microfinance organizations of Imenti North region Kenya, utilized a 400-respondent sample used a design for a descriptive survey. The discoveries uncovered that there was critical connection between the kind of business, time of business, number of workers, business profit and default on loan repayment

Berloff (2017) analysed the delicacy of the financial system of Argentina for the period covering 2007-2015. He argued that NPLs are because of financial institution's explicit elements as well as macroeconomic variables. Special factors were isolated from macroeconomic elements utilizing endurance investigation. In 2019, Saurina concentrated on the determinants of NPLs in Spanish business and savings funds banks utilizing the board informational index for the period 2012-2017, the examination uncovered that genuine Total national output, rapid acknowledge development, capital proportion as well as market power illuminate the deviation in NPLs.

The concentrate likewise looked into those credits with long holding up periods from application to payment, past default as well as the presence of different credits that have a positive relationship to advance defaults. Sabah (2020) concentrated on the determinants of NPLs in the US. The connection results showed that genuine Gross domestic product per capita had the most noteworthy relationship followed by financing costs and absolute loans. The relapse results showed that a negative relationship existed between financing costs and NPLs. Genuine Gross domestic product as well as all out credits were likewise found to have a negative relationship with NPLS.

Vigano (2018), utilizes a credit scoring model for improvement banks in light of 118 examples Taking the Development Bank of Burkina Faso as an example, borrowers discovered that customers' qualities, venture attributes and customer's actions, benefits and revenue stability, resource worth, and organization, monetary circumstance, credit use, bank-client relationship, legally binding circumstances and credit risk control, nature of data and the customer's banking behaviours that have an impact on the bank's credit risk are identified.

The review uncovered that being ladies, married, old, close to the bank, using more advanced technology, and adaptable to market changes, legitimate utilization of the advance, project expansion, recurrence of credit development, Loans are negatively correlated with collateral, personal guarantees, and being an existing depositor. Default risk, advances in kind, long waiting period from application to disbursement and being a small company, previous defaults, and the existence of additional loans are positively correlated with loan default rate.

While trying to observe the advance repayment determinants in credit gathering. (Zeller, 2018) utilized an information-based Tobit model for microenterprises in Madagascar at the family gathering and local area level. Based on 146 sample groups, the conclusion showed that gatherings with more significant levels of social union have a superior reimbursement rate. The outcome likewise leads to the end that it isn't the degree of physical and human resources of the gathering members, but the degree of variation in risky assets between members that improves credit reimbursement.

The outcome subsequently showed that heterogeneity in resource possessions among members and the corresponding intra-group diversification in on- and off-farm businesses give members to pool risks to more readily get reimbursement of the advance. Additionally, gains from the repayment rate because of chance pooling lessen at the edge given inflated expenses of coordination, monitoring, and moral hazard brought on by groups' greater heterogeneity.

In 2018, Padamanabhan identified specific reasons for rural credit project default, which an improvement broker might conceivably prepare for at the hour of undertaking planning or examination in light of Indian experience. These elements include: supporting, over-venture, blemished examination, rate of advances cases per field staff, informal financial arrangement designation, weak specialized counsel (lacking specialized help), inappropriate preparation of infrastructural support, incapable tie-up courses of action, insufficient correspondence between the branch office and head office, ridiculous repayment plans, quick evaluation of reaction from the ranchers, decrease in the unit worth of activities and high propensity to borrowers

2.6 Research gap

Based on researches conducted, there is a general agreement that NPLs have a negative impact on the overall performance of MFLs. This issue has been identified as a major contributor to poor MFLs performance and failures around the world. The literature suggests that loan performance is affected by macroeconomic factors such as GDP, interest rates, inflation, unemployment, as well as institutional-specific factors like credit risk management practices. Studies have also shown a strong correlation between credit risk management and Nonperforming loans where a negative relationship between credits risk management and non-performing loans has been observed.

However, most studies have focused on the financial industry as a whole, including banks and microfinance institutions. There is no enough research on how credit risk management affects loan performance specifically in microfinance institutions in Zimbabwe. Therefore, this study aims to fill this gap by examining the relationship between credit risk management and loan performance in the microfinance sector, providing guidance to management in controlling loan performance and achieving financial success

2.7 Chapter summary

The chapter discussed about the theoretical literature review and emperical review of the determinants of NPLs in the microfinance sector in Zimbabwe. Credit Rationing theory, Monti Klein model, Information Theory, Credit Market Theory, Delegated Monitoring of Borrowers Theory, and the Loanable Funds theories were the theoretical literature review talked about in the main segment. In the subsequent part, the researcher looked on the empericalreview of the study and the outcomes showed that rates of interest and inflation had various signs in various researches.The next chapter is the research methodology

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This research methodology is organized in a way that addresses the research problems. It centres on the model particular, the information type to be used as well as the support of variables that will be included for the model. Researcher will be analysing the approaches and methodologies utilized for the review project in this part. This covers the plan of the review, picking the members, the exploration instrument, guaranteeing exact and legitimate information, moral issues, and a brief rundown of the whole strategy.

3.1Research design

Descriptive layout approach was considered appropriate due to the fact that the primary focus was on establishing the relationship and examining how factors upheld matters under examination. The factors that determine NPLs in the microfinance institutions in Zimbabwe were the focus of this descriptive survey study. T. As indicated by Pamela (2017), a descriptive approach is worried about figuring out the where, how and what of a situation. This research design (descriptive) was chosen due to its capacity to sum up the discoveries to a bigger populace. It is as stated by Porter and Mandy (2019), significant and appropriate to utilize information where subjects are seen in either regular set-up without influencing the surroundings.

3.2 Population

According to (Peter Dong 2019), a well-defined or specified group of people, thing, household, or business is the study population. Services, components, or occurrences that are the subject of investigation. As a result, the population ought to be a certain particular, and the populace ought to be homogenous (James 2018). The study targeted Zimbabwe's MFIs, with a lot of focus being directed to FundHouse Finance’s staff members and clients, a microfinance firm where the researcher was attached to during the attachment period.

3.3 Sample

According to Goodman (2019), a sample size is the proportion of the entire population that is selected for participation in the research through the use of sampling methods. A sample is useful for research because it saves money and time by reducing the number of study subjects. This means that less time and money are needed to travel and collect data. The following table is a tool that was used in previous researches.

Table 3.1 Sample size

Category	**Sample**
Loan Officers	3
Credit Analysts	2
Credit and Risk Manager	1
Credit Controllers	3
Customer Service Officers	5
Total	**14**

3.4 Sampling technique

Purposive sampling technique was utilized. Adolph Jenson (2019) says and I quote, “A purposive selection denotes the method of selecting a number of groups of units in such a way that selected group’s together yield as nearly as possible the same average or proportion as the totality with respect of those characteristics which are already a matter of statistical knowledge.

"The researcher has intentionally chosen individuals who are employed in MFIs or who previously worked and poses some understanding of the operation of MFIs to take part based on specific criteria such as size, location as well as years of experience. Formulas that were used in previous stud Sample size represents the total number of units, elements, or individuals picked from a population or the desired group of the research to represent them (Gentles et al., 2015)

3.5 Data sources

There is a large number of ways to collect data. Deciding on a tool and the instruments mostly depends on the characteristics of the subjects, the research topic, and the problem question, goals, plan, anticipated information and results. This is based on the grounds that each device and instrument collect particular data. This study utilized primary and secondary information data.

3.5.1 Primary data

Primary information was gathered via organized and semi organized questionnaires with both closed and open finish questions, see (Appendix). The surveys were directed by various approaches that incorporate drop and pick later strategy, face to face and utilization of mobile phones to contact the respondents. To build the reaction rate, a follow up was finished by utilization of calls.In any case, there is need for the researchers to focus on the proficiency of information assortment and different factors like reluctance and unwillingness of respondents.

3.5.2 Secondary data

Secondary information data was gotten from the distributed RBZ, s yearly reports and financial reports statements of the institutions. The data covered a time of long from year 2018 to 2022. This classification of information was essentially found in electronic media and the print implied for public consumption. The utilization of this sort of data was useful in more than one way to the review and a portion of the advantages incorporate.

3.6 Research instruments

3.6.1 Questionnaires and Reviews

Utilization of questionnaires or surveys to collect quantitative data from MFIs. They can help with social affair information on various components of endurance strategies, including the sorts of strategies utilized, their viability, and the challenges experienced. Multiple choice questions, closed and open-ended questions can all be used to collect a variety of responses. The researcher will use a questionnaire that was used in previous studies to maintain the reliability and the usefulness of the questionnaire

A precise review gathers generally potential examinations connected with a given point and plan, and surveys and breaks down their outcomes. During the efficient survey process, the nature of studies is assessed, and a factual meta-examination of the review results is led based on their quality. A meta-examination is a legitimate, objective, and logical technique for dissecting and consolidating various outcomes.

3.7 Data reliability and validity

The study went to lengths to guarantee the legitimacy of this research. In order to collect data, the researcher worked with loan officers and clients from microfinance institutions to develop questionnaires that were tailored to the research issue. Prior to circulating questionnaires, the researcher gained an exhaustive comprehension of microfinance organizations. To additionally improve reliability, a pilot review was directed at one MFI, which is the cycle by which researchers uses to test their gear (in this model, surveys) to check whether the inquiries posed are important and pertinent to the review Dong (2018). The pilot study recognized muddled questions, prompting proposed changes and updates to the questionnaire. After professional content review and feedback from participants who were not involved in data collection, the questionnaire was improved. The researcher likewise utilized the respondents' local language, perform demo meetings to pre-test the inquiries, and utilize straightforward jargon and language in the survey to limit misconceptions and blunders during the examination. These measures were taken to guarantee clearness, straightforwardness, and fair-minded reactions from the members

3.8 Data analysis and Presentation

The information data was analysed by utilization of summary measurements to determine the variables' relationships with one another. Diagrams were likewise used to show the information to make the analysis results' presentation easier to understand. Questionnaire data completed were coded to make statistical analysis easier. The data were analysed using descriptive inferential. Additionally, MS Excel was also utilized for the analysis of the collected data

3.9 Chapter summary

The chapter details the research approach employed in the investigation of the factors influencing NPLs in the microfinance industry in Zimbabwe from 2018 to 2022. Research design, population, data sources research instruments data reliability and validity data analysis, sample as well a sampling technique

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter provides a comprehensive analysis of the collected data, using various arithmetical tools such as tables, pie charts, and graphs to represent the results. The data analysis focuses on key variables such as the level of education and working experience of the respondents, the causes of loan defaults, and strategies for mitigating loan defaults. The chapter provides a detailed analysis of the collected data, commenting on the results and drawing conclusions based on the research objectives and questions. The analysis of the data is presented in a clear and concise manner using appropriate statistical and graphical tools approach. This chapter also discusses the limitations and sources of bias in the data collected, highlighting the steps taken to address these issues and ensure the validity and reliability of the study's outcomes. The analysis of the data provides important insights into the causes of loan defaults and strategies for mitigating them, which can inform the development of effective risk management practices in microfinance institutions.

4.1 Response Rate

The respondent’s percentage may be calculated as the number of participants divided by the entire number of individuals the researcher submitted the survey to, multiplied by 100. (Lund, 2021). Saleh and Bista (2017) propounded that the response rate may be used to gauge the validity of a study. The researcher handed over 14 questionnaires to the Zimbabwe Microfinance workers chosen randomly from different Micro finance institutes mainly based in Harare, which were dispersed to 3 loan officers, 2 credit analysts, 1 credit and risk manager, 3 credit controllers, and 5 customer service offices. The questionnaire response rate was 86%. The researcher was able to distribute the questionnaires to all 14 participants in the target population. For a sufficient interpretation and conclusion to be drawn, a response rate of 65 to 90 percent is required (Waters 2018). The table below presents the response rate from the target population:

Table 4.1 Questionnaire Response Rate Analysis

Member(s)	**Distributed**	**Answered**	**Response Rate %**	**Non-Response Rate %**
Customer Service Officer	5	4	80	20
Loan Officer	3	3	100	0
Credit Risk & Manager	1	1	100	0
Credit Controller	3	2	67	33
Credit Analyst	2	2	100	0
Total Respondents	**14**	**12**	**86**	**14**

Source: Primary information

4.2. Educational Level of respondents

The researcher examined the respondents' educational backgrounds. The researcher was trying to have the know-how and the concentration of the micro finance institutions. This has a greater contribution to the performance of the institutions. The respondents were also asked what do they think must be the level of education in the micro finance, is it what is on the ground and why? The diagram below shows the level of education of respondents who answered the questionnaires.

People with PHDs in micro finance are a few followed by people with other qualifications followed by post graduates and concentrated by undergraduates. In the research process the respondents were of the view that post graduates are supposed to be more than any other in related fields but however it is not the case. The researcher analyzed the unstructured answers and came out with an answer that the current concentration is dominated by undergraduates because they are conceded as cheap labor and the most vulnerable sector due to the economic hardship. The undergraduates had a greater percent of more than 40% followed by post graduates with slightly above 30%, preceded by other qualifications and lastly with the least number of people but of great know how PHD is with less than 10%.

4.3 Years of Experience in the Microfinance Industry

Respondents were also asked about their level of experience so to see if that can have a contributing factor to the performance of MFIs. Unstructured questions were utilised so to have full understanding of the mind and answers of the respondents.

Fig 4.2 Years of experience

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The diagram above shows the distribution of years of experience of the respondents. The pie chart is dominated by the respondents who are of 3 years to 5 years of experience followed by the ones who have 5 and half years and above which is slightly on top of the less experienced respondents. The respondents were also asked of the group that must dominate the industry. Respondents are of the view that people with 5 and half years and above must be many because of the volatility of the market, it requires knowledgeable personnel who have higher concentration and more skills to use. This enables credit risk to not emanate from employees, as supported by ISO 31000; reduced adverse selection and moral hazard as well will be limited given the people of experience are consulted on the solutions.

4.4 Credit Risk Management Policies

The primary goal of the study was to ascertain if the respondents were aware of the credit risk management policies in their respective firms. In the questionnaire, all respondents said that their organisations have a policy for credit risk management that has been shared with the staff and to what extent has it been shared. The extent is the main concern of this question and the unstructured part which asks “support your answer”.

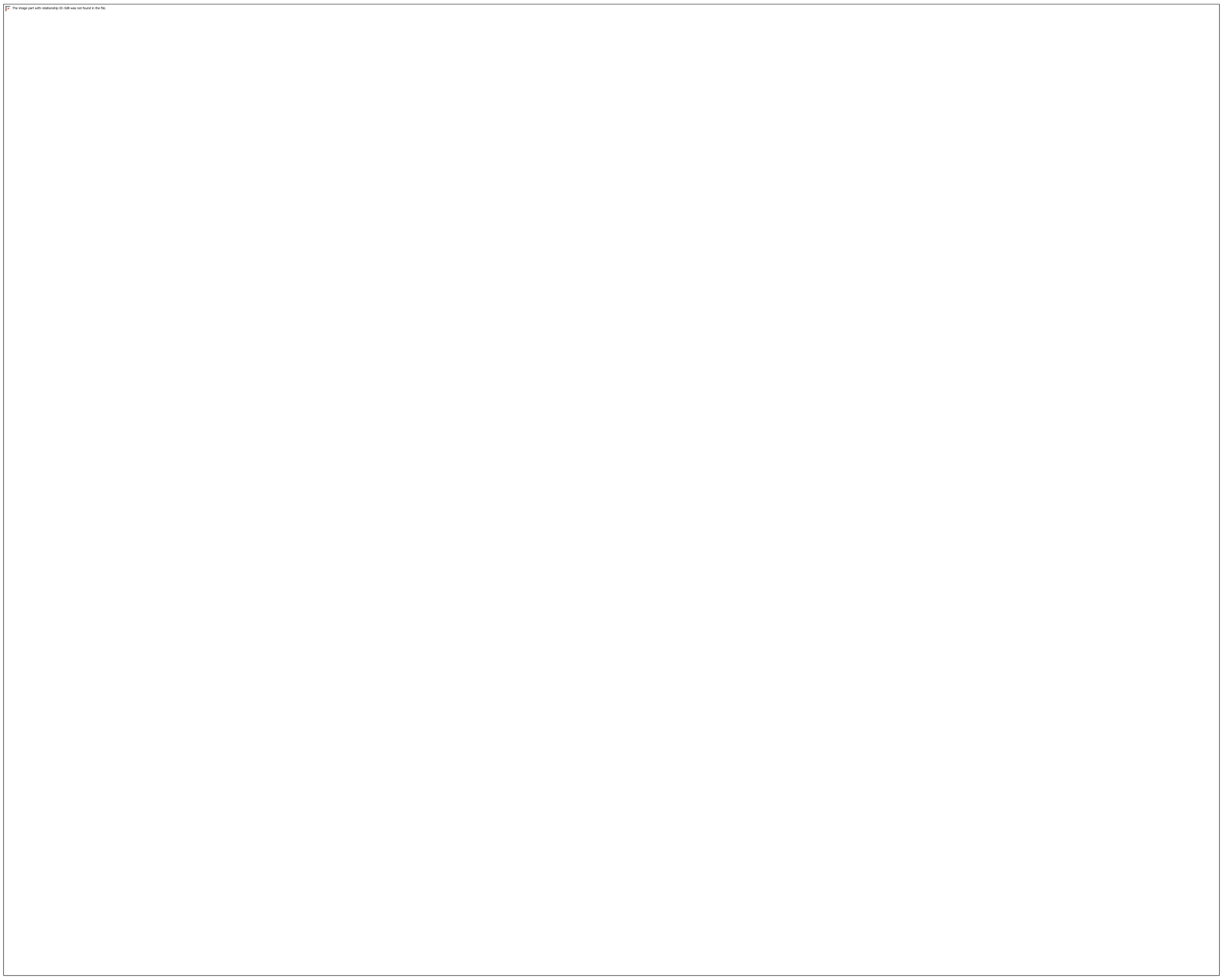


Fig 4.3 Extends of credit risk adoption

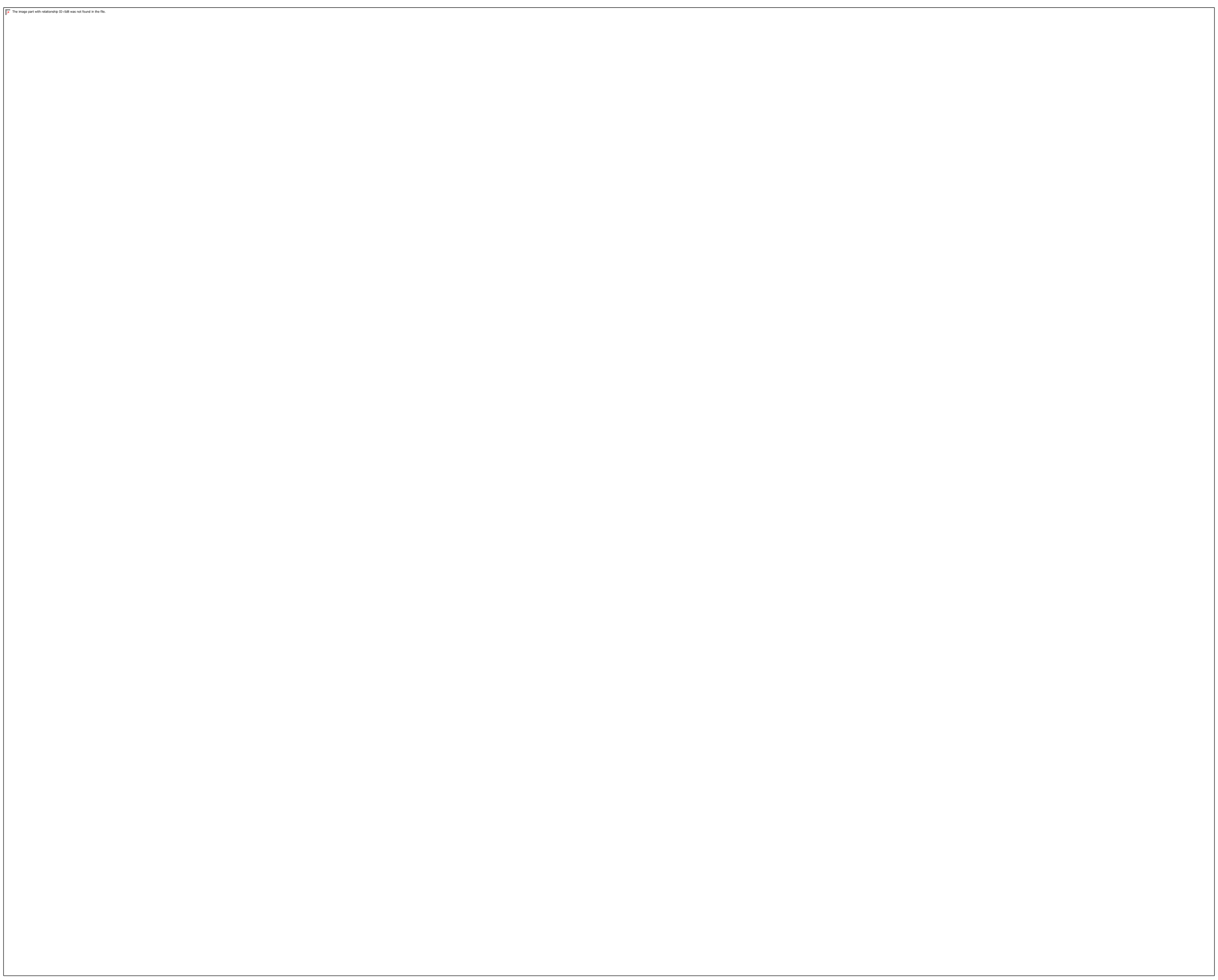
Source: Primary Data

The research shows that the majority of micro finance organizations has not yet completely teach their workers especially of the lower levels a policy for credit risk management in its entirety. (Marchetti, 2012) is of the view that, "In order to effectively communicate processes and procedures within the company, there needs to be a credit risk management policy adopted." Employees in some of the companies are generally aware of the credit risk management policy, which has to act as a guide to them of the ways and procedures to be precisely followed so to reduce microloan defaults. The other matter arose was the issue of lack of proper adequate training to the lower level so to execute an effective delightful work in creditworthiness assessment. These polices also outlines the steps which should be followed on loan approval, monitoring and default management (Freedman, 2023). The workforce has to be informed, taught and updated of the new policies that comes in and out of the micro finance institution. The half the respondents concerns were lying also in the technological factors. They were of the view that there is less technology that in invested in the micro finance, and they said it has to be of paramount importance to reduce human error

4.5 Loan default in your organization

Loan Defaults in organizations is on an upward trend. The micro finances are not managing well their policies so the researcher put it to the respondents to see the major cause of the defaults and try to bring inn solutions. The respondent’s views concerning the causes of defaults are represented as follows in a graph below:

Figure 4.4 Causes of Loan Defaults



Source: Primary Data

The misuse of funds is highly rated on the causes of loan defaults. This has a history in Zimbabwe of crushing many MFIs. The problem of moral hazard and adverse selection has a domineering effect in the downfall of MFIs in Zimbabwe.it contains slightly below 50% of the causes. The microfinance industry is believed to be suffering defaults from inadequate loan supervision and monitoring, and the microfinance needs to install systems that automate loan monitoring and reporting processes, making it easier to identify potential losses. Inadequate consist of slightly above 15%. Low sales are the other factor that is rising above 20%. Lastly multiple borrowing is low but needs to be eliminated or reduced to an insignificant number

4.6 Measures taken to ensure repayment of loans

The questionnaires also had to ask on the ways that the elite respondents of this volatile market about the solutions they think are good and also asked of those they think they had to be added.

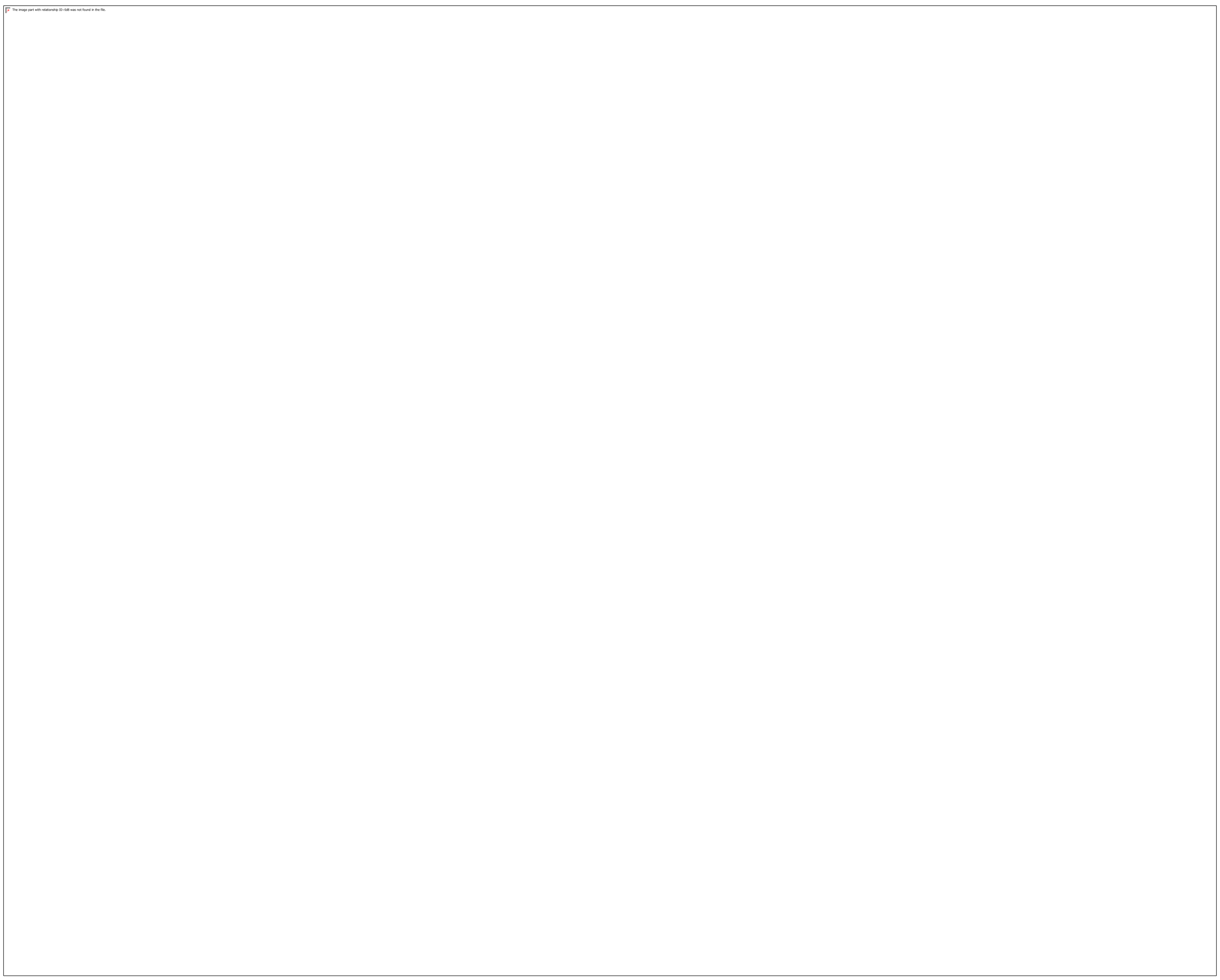
Fig 4.5 Measures to repayment

Respondents were asked about measures taken to repay loans; 45% indicated legal action, approximately 20% said outsourcing (external solicitors or debt collectors), and 35% said writing off debts, as seen in the graph above: this graph was also adopted from a study that was done and it came out exactly the same meaning that the market has same views. In addition some respondents in their unstructured questions they were of the view that, what is in the system already is not enough since the analysis to offer a loan can be distracted by adverse selection and moral hazard. These measures are taken but they later on create a bad reputation of the MFIs since the KYC and customer care will be anticipated to be bad by potential customers.

4.7 Contribution factors to the reduction of credit risk

Credit risk management being the life blood of MFIs it needs to be looked into very carefully and with precision. The strategies that need to be used must be verified to be working in the current situation. This can be a difficulty process due to the environment we operate have been operating for the past decade where interest rates could change overnight.

Fig 4.6 reduction of credit risk



Source: Primary Data

Credit scoring and short-term loans are major contributors to the reduction of credit risk in the institutions, as reflected by 35% and 35%, respectively. Credit scoring provides microfinance with a reliable way to assess the creditworthiness of potential borrowers, Short-term loans have smaller principal amounts and shorter repayment periods, which means that borrowers are less likely to become chocked by their debt. Above all, all these factors play a crucial role as their overall goal is to reduce loan defaults. The respondents also were of the view that insured loans must be offered in most cases as a strategy that can work to reduce the defaults which are leading to bad debts and court cases as shown by the study above.

4.8 Hypothesis Table

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Reduction of credit risk	12	2.5000	1.00000	.28868

One-Sample Test

	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Reduction of credit risk	-32.909	11	.000	-9.50000	-10.1354	-8.8646

Test results

The p-value is less than the commonly used significant level of 0, 05%, we reject the H0 and conclude that there is no relationship between NPLs and microfinance sector performance.

4.9 Discussion of findings

The findings to the empirical review in Chapter 2, such as studies by Louzis et al. (2012) and Espinoza and Prasad (2010) which found macroeconomic factors like GDP growth, unemployment, and inflation significantly impact NPLs was found to be similar to this research study. Same factors were found to be affecting NPLs in the microfinance sector in Zimbabwe. In addition, a rise in NPLs over the 2018-2022 period aligns with trends observed in other developing economies such as Ghana, Malawi and Nigeria.

4.10 Chapter Summary

The research shows the determinants of the NPLs in the MFIs in Zimbabwe.
The research paper provides a comprehensive analysis of the data collected from the Zimbabwe Microfinance Institutions. The findings indicate that Microfinance institutions are making a great effort to fight against the disease that led the collapse of many micro finance institutions from loan defaults within their organisation, including those left behind by banks due to their inability to access loans with collateral. The data was presented using arithmetical tools such as pie charts, graphs, and tables, which helped to provide a better picture of the findings. The findings supported the researches done by other scholars that the major cause of the NPL include the economic downturn mainly in Africa. The next chapter is the summary, conclusion and recommendations of the study.

CHAPTER V

SUMMMARY, CONCLUSIONS&RECOMMENDATIONS

5.1 Summary

The research's primary objective was to look at determinants of NPL and see the major cause of the NPLs and to find solutions on how to reduce the issues through getting answers from the various knowledgeable people in that sector. The first chapter described the problem statement, backdrop of the research, the research objective and research questions, the study limitations, the importance of the investigation, the research preposition, and the scope of the study. The second chapter addressed theoretical and empirical literature reviews. It primarily examined academic research articles, online academic journals, textbooks, and dissertations on the sources of loan defaults in MFIs and how they might be effectively managed using a credit risk framework. The third chapter discussed research technique, including the study procedure and data collection tools used for gathering and presenting data. In Chapter four, data analysis and presentation were covered through the examination of primary data that had been gathered through questionnaires and interviews. Pie charts, graphs, and tables were all used in Chapter four to convey data

5.2 Conclusion

1. The first objective was to look into the impact of NPLs in 2018 to 2022 in MFIs. The objectives indicate that managing credit risk in MFIs is the main priority. The first objective involves assessing the current credit risk management framework for loan defaults at MFIs. This implies that there could be a requirement to evaluate the efficiency of the current framework and pinpoint areas that can be improved. From the findings, it has been shown that the MFIs needs to improve and strictly monitor compliance with their framework, which provides guidelines to minimise loan defaults.

2. The second objective is to identify the primary determinants of NPLs in the micro-financial sector.

It relates to the first question due to the fact that the determinants are showing in the first objective. Main objective was credit risk management. They need to give out security-based loans as well as fully assess the creditworthiness of their clients through their application process. With collateral security, the MFI will be able to recover its principal loan amount through the disposal of the security attached to the loan. In addition, insured loans must become more popular since they aid in recovering the principal amount and interest. The lack of clarity in the current policies and procedures leads to inefficiencies in the credit risk management process.

3. The third objective was to measure how lending policies affect the NPLs in the Microfinance sector.

The respondents recognised the fact that loan defaults have a significant impact on the financial health of MFIs and that there is a need to take proactive measures to mitigate this risk. From the findings, the organisation has implemented the mitigation strategy, but they need to inform all the employees of all the procedures, for instance, the follow-up procedures, when to engage debt collectors, debt factoring, surety ship, and insuring loans. They can also involve strategies such as diversifying the loan portfolio, setting aside reserves to cover potential losses, and implementing collection strategies that are both effective and ethical.

5.3 Recommendations

According to data gathered and study findings, the researcher deduced the following recommendations to the MFIs to reduce loan defaults:MFIs have to enhance credit risk management by adopting systems for classifying credit risk. The framework should identify the borrower's risk profile and ensure account management and pricing are appropriate for the risk involved. The risk grading system is an essential and crucial indicator for an MFI's asset quality; hence, it is important that grading be an effective procedure. A risk rating must be assigned to every facility. The risk grade given to a borrower should be modified right away when a risk worsening is noticed. On credit applications, borrower risk grades need to be made clear. This will aid in lowering non-performing loans and default rates.

According to the researcher's findings, MFIs also offer collateral-based loans, but unlike commercial banks, they do not ask their consumers to offer up any actual collateral. The MFI can employ an essential approach known as collateral substitutions as a way to assure repayment with the goal of maintaining a high repayment rate. The MFI may take the borrower's college degree certificate, driver's licence, marriage certificate, and any other official papers as collateral. Borrowers can offer household valuables as collateral if they have enough personal value for them. Additionally, MFIs that offer individual microcredit might request a guarantor to agree to back up the borrower's repayment of the loan if they default.

MFI can utilise non-financial services like Business Development Services (BDS). The BDS offers programmes that offer services beyond financial services, such as adult literacy programmes, health care, or training. These services' primary goals are to increase and refresh clients' production technology knowledge as well as their management and technical abilities. The addition of nonfinancial services as a supplement to lending and saving services does not simply strengthen the borrower's financial capacity for loan repayment but also increases the value of his connection with the MFI. One important variable in the achievements of microcredit programmes can be the provision of non-financial services, which has a good correlation with repayment results.

5.4 suggestion for further studies

These suggestions below could be built on the foundations laid by this research proposal and provide a more comprehensive understanding of the NPL issue in the Zimbabwean microfinance sector.

- Assess the impact of technological innovations, such as the use of artificial intelligence and data analytics, on credit risk management and NPL reduction in Zimbabwean microfinance institutions.
- Conduct a comparative analysis of NPL determinants between the microfinance sector and the mainstream banking sector in Zimbabwe to identify any unique challenges faced by microfinance institutions.
- Investigate the effectiveness of credit risk management policies and practices implemented by microfinance institutions in Zimbabwe in reducing NPLs. This could involve a more in-depth analysis of the factors contributing to the success or failure of these policies

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Appendix 1: Questionnaire

a) **You are advised not to write names on the questionnaire**
b) **Fill or tick on the appropriate gapes provided on each question**

1. What is the background and history of the MFIs in Zimbabwe?

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

2. Level of education

[ ] PHD

[ ] Post Graduate

[ ] Undergraduate

[ ] Other Qualification

3. What do you think is the level of education that must be dominating in hope for success of the MFIs?

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…………………………………………………………………………………………………
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4. What innovative financial products or customer targeting methods could MFIs explore to better serve their clients and minimize the risk of loan defaults?

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5. What is the dominating level of education and why do you think it is?

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………………………………………………………………………………………………
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6. Years of experience in MFI jobs?

[ ] 1 to 2 years

[ ] 3 to 5 years

[ ] 5 years and above

7. What are the key macroeconomic factors that have influenced non-performing loans (NPLs) in the microfinance sector in Zimbabwe from 2018-2022?

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8. Which group of people must dominate in the MFI, s in Zimbabwe in hope for success?

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……………………………………………………………………………………………………….

9. Do you have a credit risk management policy that are followed and to what extent?

[ ] yes

[ ] no

10. If your answer is yes, to what extend?

[ ] perfect extend

[ ] lower extend

[ ] greater extend

[ ] moderate

Support your answer.

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11. What do you think causes much of NPLs (loan defaults) in Zimbabwe's microfinance sector?

[ ] low sales

[ ] misuse of funds

[ ] inadequate supervision

[ ] multiple borrowing

12. What measures are used the most to do repayment in MFIs in Zimbabwe?

[ ] legal action

[ ] debt collection

[ ] bad debts

13. What are the solutions and the impacts that those solutions can cause?

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…………………………………………………………………………………………………

14. What ways are used to reduce credit risk by organizations (where you are working or used to work)?

[ ] accurate loan affordability

[ ] credit scoring model

[ ] short-term loans

[ ] smaller loans amounts

15.In your opinion, what role have regulatory authorities and policymakers played in addressing the NPL issue in the microfinance industry? What more can be done?

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Appendix 2: Collection Letter

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BINDURA UNIVERSITY OF SCIENCE EDUCATION

30 May 2024

30 Samora
Machel Ave
HARARE

RE: REQUEST FOR DATA COLLECTION

Please may you assist our student **TinotendaMusara B201014B** carry his research in your organization on his topic on **"Determinants of Non-Performing Loans in the Microfinance sector of Zimbabwe between 2018 to 2022".** He is our final year student at Bindura University of Science Education in the Banking and Finance.

Your assistance to our student will be greatly appreciated.

Yours faithfully

TinotendaMusara

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Dr K. Njanike