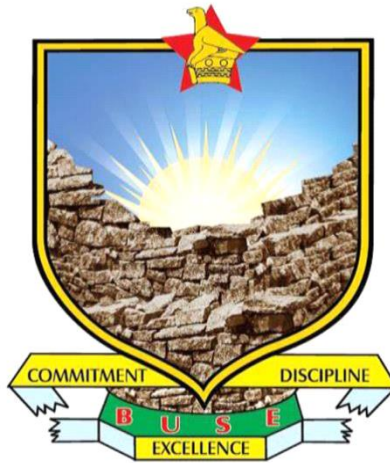


**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**



**DEPARTMENT OF BANKING AND FINANCE**

**RESEARCH PROJECT**

**THE EFFECTS OF INTEREST REGULATIONS ON SUSTAINABILITY OF MICROFINANCE  
INSTITUTIONS IN ZIMBABWE**

**SUBMITTED BY**

**B192298B**

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**APPROVAL FORM**

The undersigned certify that they have supervised the student **CHARMAINE M KUDANGIRANA** dissertation entitled: **“THE EFFECTS OF INTEREST RATE REGULATIONS ON SUSTAINABILITY OF MICROFINANCE INSTITUTIONS IN ZIMBABWE”** submitted in Partial fulfillment of the requirements of the Bachelor of Commerce in Banking and Finance Honours Degree at Bindura University of Science Education.

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**DEDICATION**

Dedication with lots of love to my family and friends .Who has been a pillar of help since day one .Thank you so very much for your love, advise, encouragement and support.

## **ACKNOWLEDGMENTS**

I would like to express gratitude to God for this success, acknowledging that without the challenges I faced, I would not have achieved victory. Would also like to express appreciation to my supervisor for her unwavering support and constructive criticism in preparing me for the future. I also acknowledges the inspiration which I received from my colleagues, and expresses deep gratitude to my family for providing both financial and emotional support. Would also like extend great thanks to everyone who played a role in my success. In addition, the I emphasizes the importance of perseverance and hard work in achieving personal goals and overcoming obstacles. Finally, I express hope that my success will inspire others to pursue their dreams with dedication and determination.

*God richly bless you all!*

## **ABSTRACT**

Microfinance institutions have become an integral part of the Zimbabwean economy by providing financial services to low-income households and the poor. They have been recognized for their role in poverty alleviation since the 1990s. However, policymakers are concerned about the relatively high interest rates charged by MFIs, which range from 20% to 30%. This has raised questions about how MFIs can fulfill their social mandate while charging high interest rates. The aim of the study is to investigate the effects of interest rate regulation on the sustainability of MFIs in Zimbabwe. The study uses the liquidity preference theory and a cross-sectional descriptive survey research design. The target population is one MFIs operating in Zimbabwe. The study collects primary data through questionnaires and secondary data through a survey sheet. Pretesting is done to ensure the questionnaire's reliability and validity. The study uses Statistical Package for Social Sciences (SPSS) to analyze the data. The study finds that changes in interest rates by the monetary authorities affect the sustainability of MFIs. The study finds a positive and statistically significant relationship between interest rates and the sustainability of MFIs. Decreasing the lending rate reduces the return on asset (ROA), which deters the sustainability of MFIs. Therefore, the government and policymakers should develop better interest rate policies that will promote the sustainability of MFIs.

## **LIST OF ACRONYMS**

**RBZ - Reserve Bank of Zimbabwe**

**MFI - Microfinance Institution**

**LR - Lending Interest rate**

**ROA - Return on Asset**

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# CHAPTER ONE

## INTRODUCTION

Microfinance institutions have become a popular tool for promoting economic growth in developing countries by providing funding and other financial services to those who are driven by poverty. However, many of these institutions are charging high rates of borrowing to cover their costs, which has raised concerns among regulators worldwide. To address this issue, the Monetary Authorities of Zimbabwe have implemented interest rate ceilings to protect the entrepreneurial poor in their country. The purpose of this chapter is to provide an introduction to the research on the impact of interest rate regulation on the sustainability of microfinance institutions in Zimbabwe. It includes a review of the background of the study, a statement of the problem, research objectives and questions, the significance of the study, justification, delimitations, assumptions, limitations, definition of terms, and organizational structure of the research. The study seeks to evaluate the effects of interest rate regulation on the sustainability of microfinance institutions in Zimbabwe. It is important to understand the impact of interest rate regulation on these institutions, as they play a critical role in supporting economic growth and development in the country. The findings of this study may be useful for policymakers, regulators, and microfinance institutions themselves, as they seek to balance the need for sustainable financing with the need to support the entrepreneurial poor.

### 1.1 Background of the Study

Microfinance was developed as a result of significant effort to combat poverty (Kimando, 2012; Brau & Woller, 2014). MFIs, according to the World Bank, are organizations that engage in relatively minor financial transactions while using a variety of strategies to assist low-income individuals, families, small businesses, and farmers among others, who are unable to access these services through the traditional banking system. Most of Asia, Latin America, and Eastern Europe are examples of countries with sparse bank infrastructure where microfinance has thrived. Microfinance organizations first appeared in Saharan Africa in the middle of the 1990s. Since customers had to improve their living conditions and deal with numerous obstacles during this time, credit risk for businesses was extremely high (Webster, 2006).

The earliest known instance of microfinance in Zimbabwe dates to the 1960s, when people came together to organize savings clubs in addition to the informal borrowing from friends and family at the time (Magog 2013). Over time, the number of savings clubs increased, and the post-independence era in Zimbabwe

provided a favorable conditions for the growth of microfinance, particularly SACCOs and ROSCAs. However, strict lending practices by banking institutions in the early 1990s prevented low-income individuals and institutions from accessing financial services due to a lack of sufficient collateral security (Magrini, 2019). The plight presented a great chance for NGOs to financially help the microfinance industry.

Considering the possible impacts of MFIs in the fight against financial exclusion and the reduction of poverty, the sector had 220 registered MFIs as of 31 March 2020, including 212 micro-credit only institutions and 8 deposit taking institutions, with a branch network of 820. Through economic growth, microfinance institutions are expected to break the cycle of poverty by providing financial assistance in a sustainable way. The total number of active clients decreased by 11.57% from 454 428 as of the end of the previous financial year to 401 825 as of the end of the current one .This downward trend in the sector can be attributed to the cost of borrowing money (interest rates) which have been fluctuating over time.

Microfinance Institutions (MFIs) have sprung on the financial scene in Zimbabwe over the past ten years. By providing more affordable amenities, these institutions were created to cater for the underprivileged. However, since MFIs charge high rates of interest, the majority of the poor are unable to access funding. According to Chung (2013) controversy over the high interest rates charged by Microfinance Institutions (MFIs) has existed since the beginning of microfinance. The notion of microfinance has only been used to help all groups that were without access to official financial services become financially included.

According to Chung (2013), the high interest rates charged by Microfinance Institutions (MFIs) have been a controversial issue since the inception of microfinance. Many people are concerned that the high interest rates, which can be as high as 30% per month, are oppressive to low-income borrowers who have limited negotiating power. This is particularly concerning as microfinance was created to provide financial services to those who are excluded from the traditional banking system. Despite this, there are results which shows microfinance institutions in Zimbabwe charge lending rates above twenty percent, which is higher than the typical interest rate offered by commercial banks.

Zimbabwe's monetary authorities recently passed a law capping microloan interest charges at 10% per month. Nevertheless, the reformation may force lending firms to close a certain number of locations as well as refrain from lending to businesses or people, which would lower their incomes and harm economic activity. Microfinance institutions (MFIs) often rely on subsidies and are not self-sustaining, which policymakers have prioritized over the issue of MFIs' social responsibility to alleviate poverty. This puts pressure on MFIs to balance their financial viability with their social mission. (Doyle, 2008).To the detriment of the client or borrower, policymakers have focused more on the problem of MFIs sustainability



.Between achieving viability and carrying out their social responsibility of eradicating poverty ,MFIs appear to be under strain.

Microfinance Institutions (MFIs) have been utilized to alleviate poverty in developing countries such as Malawi. However, the MFIs' sustainability in many countries is dependent on loan repayment and subsidies, which pose a challenge to their productivity and operations. Non-performing loans by clients are among the factors that affect the profitability of the MFIs, resulting in their failure to maintain and sustain themselves over time. Despite their usefulness to the less privileged, these institutions face challenges that hinder their productivity and operations. This information is based on studies by Chmelikova and Redlichova (2020), Ousombangi (2018), and Zeller and Sharma (2000).

According to Miller (2013) and Reifner (2010), the sources of funding for MFIs vary across countries. In Bangladesh, over 40% of MFI funds come from deposits, while in the Philippines, debt funding is the primary source of funds, with interest rates of 12% and above being paid. In India, where MFIs are not allowed to raise deposits, 75% of all funds come from bank borrowing. The average interest rate paid by Indian MFIs on borrowed funds in 2015 was 14%, resulting in an average cost of funds of 10.5%. This information highlights the funding challenges faced by MFIs across different countries.

## **1.2 Problem Statement**

Since the 1990s, microfinance institutions in Zimbabwe have become well known for their involvement in providing low-income clients with financial services, particularly the self-employed, who ordinarily do not have access to standard banking services, as well as their commitment to eradicating poverty. The interest rates that micro-lending in Zimbabwe has been charging are significantly elevated, ranging from 20.5% to 30%, despite their crucial function, according to Microfinance Quarterly Industry Report 31 March 2020. Concerns over how MFIs can fulfill their social responsibility while charging their clients lending rates which are far greater different from those given by conventional lenders like standard banks have been raised with policymakers as a result. Microfinance organizations play a crucial role in the fight against global poverty by making loans available to those with low incomes. Thus, the purpose of this study is to further our understanding of how interest rate control affect the viability of credit providers in the country.

## **1.3 Research Objectives**

The research major goal is to determine how interest rates control affects the viability of microfinance institutions in Zimbabwe. The subsequent secondary goals will help achieve this main goal:

- To examine how lending rate controls affect the probability of microfinance organizations.
- To determine the availability and need for credit are influenced by interest rates.
- To explore the impact of liquidity and sustainability of MFIs.
- To pinpoint variables to be taken into account when establishing loan prices.
- To examine if operating income sustains MFIs.

#### **1.4 Research Questions**

The following inquiries are aimed at being investigated and answered by the study:

- What impact do interest rate regulations have on the financial health of MFIs?
- How does the sustainability of MFIs depend on liquidity position?
- Do credit supply and demand depend on interest rates?
- What variables are taken into account when the MFI interest rate is set?
- Can MFIs survive on operating income?

#### **1.5 Significance of the study**

The findings suggest that this research will provide useful insights in improving the sustainability of microfinance institutions in Zimbabwe, particularly through interest rate regulation. Monetary authorities can use the findings to adjust interest rates based on the size and cost structure of MFIs to ensure their long-term viability. The study will also be useful for MFI management to assess their financial performance and ensure effective resource allocation. Furthermore, the researcher emphasizes the importance of benchmarking and comparing MFIs with their peers in the same sector to identify areas for improvement and best practices.

The study seeks to advance the hypothesis of the relationship between lending interest rates and sustainability by arguing for its applicability. Given that lending is one of their primary sources of income, MFI managers will be better equipped to comprehend the effect of lending rate controls on the sustainability of microfinance institutions. The finding will also serve as a useful platform for future research on similar themes and for other academics interested in the subject. This study will also aid in highlighting other crucial elements that affect the viability of microfinance institutions in the country.

The study aims to provide reliable data that can be used by the government to develop supportive legislation and governmental frameworks that promote environmentally and effective expansion of the micro-lending industry and remove entrance to barriers into the money markets. The population will also benefit from the results and implications on interest rate ceiling implemented for microfinance institutions. This information will help the public recognize the importance of microfinance institutions to their livelihoods and take responsibility for assisting the institutions in performing well. Additionally, the study will assist the Commercial Bank in developing policies designed at regulating as well as controlling the financial system. This will ultimately contribute to the overall economic growth and development of Zimbabwe.

### **1.6 Delimitations of the study**

The study is focused on microfinance institutions operating in Harare, Zimbabwe, due to the market environment, high credit risk, and operating costs in the city. Harare is home to a significant concentration of microfinance institutions, making it an ideal location for the study. Additionally, the presence of policy based organizations such as the Commercial Bank adds to the relevance of the research. The study will provide insights into the connection between lending rate control as well as the durability of microfinance institutions in Harare, Zimbabwe.

### **1.7 Limitation of the study**

Several obstacles have to be overcome in order to complete the investigation. There are many limitations placed on the data collection procedure.

Concern over confidentiality is the initial one restriction. In an effort to uphold their commitment to confidentiality, a lot of participants from microfinance institutions expressed a lack of willingness to disclose data pertaining to their businesses. But this was avoided by including a note from the institution in the questionnaire stating that the data would be utilized solely for studies and kept confidential.

The process of gathering the data was drawn out and biased because the scholar had to depart from the survey incomplete and return to discover it unfinished. As long as the response rate wasn't already considered acceptable, the person conducting the study had to remain understanding with the participants.

Regarding the expense of printing and distribution, finance presented a significant obstacle. The person conducting the study used the pick-and-drop method, distributing the questionnaire and collecting it on the scheduled day.

## 1.8 Assumptions of the study

The assumptions that follow are made by the study:

- The data gathered from the MFIs respondents is accurate and pertinent.
- The findings gives a correct representation about the MFIs that function in Zimbabwe
- The RBZ has documented each and every MFI in the sample.

## 1.9 Definitions of key terms

**Microfinance-** refers to the range of financial services such as savings, credit, money transfer, insurance, pension, and pension remittance offered to low income households and businesses in both urban and rural areas, as well as to public and private sector employees. (Webster, 2006)

**Microfinance Institutions-** are businesses that provide financial services to those who are extremely poor. They specialize in offering financial services to small businesses as well. (Webster, 2006)

**Interest rate-** is the percentage charged on the principal amount borrowed and is a critical factor in determining the profitability of a loan or investment. (Kimando, 2012)

**Regulation-** refers to the term for laws and regulations that set standards for acceptable conduct and improve certainty, transparency and level playing fields. (Brau & Woller, 2014)

**Sustainability-** is the ability to carry out a specific activity into the future while still using the organizations most likely existing resources, as part of its continuing budgeting and management process. (Doyle, 2008)

## 1.10 Chapter summary

This chapter provides an overview of the study, outlining the context and problem statement, research objectives and questions, significance of the research, and limitations of the study. The chapter also highlights the structure of the document, with chapter two covering the literature review, chapter three on the methodology, chapter four presenting the findings and analysis, and chapter five providing the conclusion and recommendations. Additionally, appendices and references are included at the end of the document. The study aims to contribute to the understanding of the connection between lending rates as well as the continuity of microfinance institutions in Zimbabwe, with a focus on those in Harare. By

examining the challenges and opportunities facing MFIs in Zimbabwe, the study can inform policy and practice in the microfinance sector.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The second chapter of the document is dedicated to a literature review, which provides an overview of the research that has been conducted by various authors in the area of study. The chapter is divided into two parts: theoretical and empirical literature. The theoretical literature provides an overview of the knowledge that has been derived from academic journals, articles, and textbooks on interest rate regulation and sustainability in lending. The empirical literature, on the other hand, focuses on the research that has been conducted on interest rate regulations in MFIs and its impact on sustainability. The chapter also includes a synopsis of the literature review.

#### **2.2 Microfinance: An Overview**

According to multiple research, various stakeholders share the belief that MFI internal factors, such as the desire to maximize profits in the market places where they operate, are the causes of high interest rates. To determine the MFI's unique effects on an organization's loan price, consideration is typically given to these factors. These considerations include the cost of capital, the cost of operations, customer satisfaction, the ownership structure, and the environment necessary to generate a profit with a view to uphold continuity.

Microfinance is a banking service that aims to provide financial support to low-income individuals or groups who typically have no access to traditional financial services. These institutions offer a range of services, including lending, savings, insurance, and education, to help impoverished people become self-sufficient. Microfinance institutions support various activities, such as providing capital to small business owners and educating individuals about investing. These organizations focus on helping entrepreneurs succeed rather than requiring collateral for the loan. Without microfinance, these individuals may have to rely on high-interest rate loans or borrowing from family and friends. By investing in their businesses, these individuals can improve their financial stability and become self-reliant.

### **2.2.1 Interest rates**

The cost of using money that a borrower borrows from an issuer or financial institutions is the interest rate (Crowley, 2007). In addition to the principal borrowed, it can also be described as a fee paid by the client or borrower to MFIs. In microfinance, the cost of borrowing, risk adjusted return and profitability typically determine interest rates. Risk is the possibility that there will be a default. The cost of capital refers to the price that MFIs paid when obtaining capital from other financial sources, like central bank and other monetary organization, or when sourcing funds from those institutions. According to a study conducted by Rosenberg (2009), the cost of funding, administrative costs, interest expense and opportunity costs.

According to Roodman (2011), differing dynamics used by many MFIs and other locations of the world make it impossible to determine an objective lending rate for microcredit products. MFIs in regions like Latin America and the Caribbean islands impose lending rates that can reach as high as 100% monthly, which some stakeholders deem to be extravagant (Campion, Ekker & Wenner, 2010). According to a research conducted in Mexico by Malkin (2008), MFIs can gain from customers by offering lower interest rates, and as a result, they can sustain and build their reputation.

According to Julien (2014), MFIs have different lending rates on banking services all over the continent and these rates change in relation to institutional frameworks. Institutions that charge high interest rates have the capacity to expand their operations and the possibility to lend money to a larger number of customers.

#### **2.2.1.2 The Liquidity Preference Theory**

The supply and demand for the total quantity of money in the financial system serves as the foundation for the liquidity preference approach's examination of interest rates. The goal of the investigation is to clarify the relationship between the viability of the lender and the money supply generated by MFI loans throughout periods of rising or declining lending rates. Based on this, the motion of market forces involving demand as well as supply for the available money holdings determines the fundamental interest rate. According to Keynes (1936), transactional, preventative, and speculative motives are the key drivers of liquidation need. He added that financiers continually select shorter-term investments over longer-term investments.

The yield curve is a graphical representation of the relationship between the maturity of debt securities and their yield. According to the liquidity preference theory, investors prefer to hold liquid assets such as

cash and expect to be compensated with interest when investing in fixed-income securities, equities, and real property. This hypothesis suggests securities with longer maturities should pay increased interest rates than securities with shorter maturities to compensate stakeholders for the extra liquidity risk they are taking on. However, Auerbach (1998) notes that as the maturity period increases, the rate of increase in the premium for releasing liquidity slows down. Howels and Brian (2007) further suggest that a higher preference for liquidity is equivalent to an increase in the demand for money, resulting in an increase in cash balances when more investors anticipate an increase in interest rates than a decline. Additionally, the yield curve can indicate the market's expectations of future economic conditions and inflation rates. A steep yield curve indicates that investors expect the economy to grow and inflation to rise, while a flat yield curve suggests a stagnant or declining economy.

### **2.2.2 Interest Rate Controls in Microfinance Organizations**

The primary objective of regulating financial institutions, as per the RBZ's 2015 microfinance report, is to promote transparency and ethical business practices while ensuring customer protection and stability. To safeguard clients from high-risk activities that might endanger their deposits, the government has implemented regulations. Zimbabwe's microfinance sector is governed by laws such as the Banking Act and Microfinance Act, which are enforced by the central bank and other authorized bodies. Regulatory organizations use a combination of restrictions and incentives to prevent MFIs from engaging in risky operations and align their goals with societal objectives.

In an effort to combat exploitative lending practices, some regulatory bodies have imposed interest rate caps on microfinance institutions. However, these caps often have unintended consequences, such as limiting financial access for those who need it most and reducing transparency in lending costs. Additionally, regulating MFIs can be costly, as they are required to offer better customer service and may feel pressure to increase their fees to cover these expenses. It is important to strike a balance between protecting borrowers and ensuring the sustainability of MFIs. Some experts suggest that instead of interest rate caps, regulatory bodies should focus on increasing transparency and promoting responsible lending practices.

### **2.3 Determinants of MFIs interest rates**

For MFIs, a number of factors, including funding costs, operational costs, earnings, and inflation, must be considered when deciding loan pricing.



### **2.3.1 Funding Costs**

When setting interest rates, one of the most crucial factors to consider is the cost of capital. Since a large amount of MFI funds come from other non-microfinance organizations, including conventional commercial banks, Rosenberg et al. (2013) claim that borrowing expenses are taken into account whilst establishing lending rates. Microfinance purchases the money at a cost and uses it to fund loans to borrowers. This suggests that when deciding on lending interest rates, the cost of borrowing money or the cost of obtaining money secured from non-traditional financial institutions must be taken into account. In Zimbabwe, a large number of MFIs accept the prices set by the market since they are unable to negotiate lower prices with their sources of funding.

### **2.3.2 Operating Expenses**

The majority of the rates charged by sustainable microfinance companies go toward operating expenses. These high costs are associated with disbursing and collecting a sizable amount of little borrowing, frequently to debtors in remote locations with inadequate facilities and safety. Even though there are many factors that affect these interest rates, administrative costs are the single biggest component (Gonzalez et al., 2007). According to Mcloughlin (2013), running costs and achieving profitability play a significant role in determining interest rates.

### **2.3.3 Desired Profitability**

For several reasons, MFIs' providers' commitment to profit is vital. It makes sense that the interest rate charged on credit includes income. MFIs need to make sure that returns are acceptable and don't show signs of extortion. Regardless of profits, interest rates will remain high, hence their impact on rates is negligible. The following is consistent with a study conducted by Ridder (2010) which propounded that because increased lending rates cover the large expenditures incurred, they may not be a real reflection of profitability. Nevertheless, according to Cull, Demirguc-Kunt, and Morduch (2009), there are other microfinance organizations whose earnings make up a sizable amount of the rates they impose.

### **2.3.4 Inflation**

In general, the economy of a nation's inflation affects interest rates. The classic definition says inflation is "an excessive amount of money pursuing relatively few commodities." By limiting the amount of money available in the market, nations use their monetary policies to lower inflation. The most typical method of limiting inflation is to set a predetermined rate of interest for financial organizations. High inflation slows down the economic expansion brought on by cheap interest rates for financial institutions. Additionally, inflation increases the demand for money because people require more money to make up for the loss of purchasing power brought on by price hike. Price hike also raises the price of microfinance funding by reducing funds provided by investors. Since increased inflation rates have an impact on the actual worth of equity, greater nominal microcredit rates of interest arise (Foruque and Khaliy, 2011).

## **2.4 The Relationship between Interest Rate Control and the Long-term Viability of Microfinance Institutions.**

The components of lending rate policy such as bank lending rate restrictions, cash flow status, and demand and supply dynamics credit based all have an impact on the viability of MFIs.

### **2.4.1 Interest Rate Controls**

The most significant sources of revenue for MFIs is lending. MFIs receive a significant portion of their income from interest on lending activities in a healthy economy. In other words, MFIs with high-quality assets (loans) typically see positive growth. According to Fernando (2006), because they are assured a return on their investment, many investors choose to participate in MFIs with good development. The MFI's interest income is directly impacted by interest rate regulation. Therefore, it is crucial to comprehend how regulation, such as interest rate restrictions, might affect the margins of interest revenue.

Return on assets (ROA), provides a comprehensive understanding successfully top management utilizes the firm's resources to generate profits, is a metric used to analyze profitability and financial performance (Rug, 2013). Interest rates affect earnings, which affects a financial institution's ability to survive (Aren & Duhn, 2016). There are two pathways on the returns side via which the interest rate affects MFI's income. A MFI's income from newly acquired assets increases first with high interest rates. But the rate of income adjustment will depend on how quickly interest rates change. According to Were and Wambua (2013), the influence also depends on the quantity of loans and securities held.

A rise in interest rates is advantageous for MFIs because it will result in higher returns on new investments and loan income margins. The financial institution receives a signal of strong returns in the form of dividends as a result of this, i.e., an increase in interest rates that result in sound financial performance. According to Njihia (2005), the reason why banks are so unprofitable is due to interest on loans.

#### **2.4.2 Liquidity Position**

A portfolio of investments for a company or an individual investor's finances may show signs of liquidity. Three liquidity ratios, including the current ratio, quick ratio, and cash ratio, can be calculated for this purpose (Diamond & Rajan, 2015). The researcher will consider four main categories of ratios when evaluating the financial health of a company. The working capital, inventory, receivables, current ratio, and acid test ratio are the liquidity ratios that are most frequently employed (Muranaga & Ohsawa, 2012).

The primary factor influencing a company's financial viability is its liquidity. According to Abor (2010), there are two basic methods for assessing the liquidity risk: the liquidity gap and liquidity ratios. Assets and liabilities at both current and future periods differ from one another, and this discrepancy is referred to as the liquidity gap. The quantity of capital that is readily available for investment and consumption is known as liquidity. Money, credit, and equity are all types of capital. Since major financial firms that conduct investments prefer using borrowed money, the majority of the capital is credit rather than cash (Jeanne & Svensson, 2012).

A study by Holmstrom and Tirole (2010) found a strong and negative correlation between the level of liquidity and financial sustainability. According to Bourke (2011), there is a correlation between liquidity and financial sustainability that is beneficial. He also found the reverse conclusion. The most popular financial ratios used to assess a financial institution's liquidity condition, according to Abor (2010), are deposit to total asset and total loan to client deposits.

#### **2.4.3 Supply and Demand for Credit.**

The purpose of credit is to fill the gap between a business owner's financial resources and those that are necessary for the operation of the company. Businesses are compelled to request credit as a result of the continuation of this discrepancy. According to Aryeetey et al. (1994), there are three types of demand for credit: perceived, potential, and disclosed demand. A situation where companies who believe they require capital describe finance as a constraint is a sign of perceived demand. Potential demand is defined as a

desire for credit that is not fulfilled as a result of institutional constraints and market flaws. The definition of revealed demand is a written request for financial assistance at a certain interest rate.

The argument over whether or not the demand for credit is impacted by high interest rates is unresolved and could continue indefinitely. There are two primary philosophical traditions. The first school argued that high interest rates have a negative impact on credit demand since few clients with high-risk projects can have their needs met. Stiglits and Weiss (1981), Stiglits (1989), and Besley (1994) are notable representatives of this school of thought who contend that high interest rates encourage the unfavorable selection of loan applicants. High default rates are a result of people who take on high risk and are successful in obtaining loans. According to the second school of thought, credit demand is unaffected by high interest rates.

It is commonly accepted that in the world of microfinance, borrowers are less concerned with the amount of interest rates they borrow at since they are more concerned with getting access to capital. Prior to a few years ago, it was thought that customers valued access to money significantly more than interest rates because it allowed them to launch small enterprises with the working cash they needed. In a recent study, Compartamos (a major microlender in Latin America) examined the effects of 10% lower loan interest rates on demand. According to the study, credit demand from both present and potential customers is indeed sensitive to interest rates. Other research showed that lower rates improve financial inclusion by luring new customers and that the elasticity of demand (the degree to which borrowers are sensitive to price changes) rises over time.

According to borrowers, lower loan costs can increase the potential for loan demand and financial inclusion, whereas high interest rates can cause borrowers to become too indebted. From the perspective of MFIs, reduced loan pricing could force them to rely on donor funding, but higher prices could lead to increased supervision and draw in the worst clients. It is clear that MFIs are unable to make enough money to pay their operating costs when the interest rate is lowered to the lowest level. High interest rates therefore result in a low demand for credit. Similar to low rates, little credit availability. Therefore, for policymakers and MFIs, the issue of fair rates is crucial.

## **2.5 Empirical Literature Review**

The purpose of the empirical review is to present the findings, arguments, and opinions of other researchers about the effects of interest rate regulation on MFIs. Numerous empirical studies have examined interest

rate control in both industrialized and developing nations. Studies are carried out in a variety of ways, depending on their objectives, the data at hand, and particular MFI system characteristics.

### **2.5.1 Studies Conducted in Developing Economies**

A study on the factors influencing the financial viability of microfinance organizations in Kenya was conducted by Wfula (2016). According to the study, the elements that have the greatest impact on financial sustainability are leverage, capital sufficiency, liquidity, and financial performance. Evaluating the factors that affect the financial sustainability of microfinance institutions was the main goal of the study. According to the study, while financial success is favorably but insignificantly correlated with financial sustainability, liquidity is positively and significantly. Leverage and insufficient capital are strongly and negatively correlated with financial sustainability.

According to a study by Kimondo, Kirhiro, and Njogu (2012), the lending interest rate, the regulatory framework that governs the institutions, liquidity levels, institutional leverage, and the individual lending model used are the main factors that affect the sustainability of MFIs in Kenya's Murang'a Municipality. Tehulu (2013) discovered, through the analysis of imbalanced panel data gathered from 23 MFIs in East Africa between 2004 and 2009, that financial sustainability is positively connected with the degree of leverage and liquidity.\*\*Kimondo, Kirhiro, and Njogu (2012) conducted a study on the sustainability of MFIs in Kenya's Murang'a Municipality and found that lending interest rate, regulatory framework, liquidity levels, institutional leverage, and individual lending model are the primary factors that influence sustainability. In another study, Tehulu (2013) analyzed imbalanced panel data from 23 MFIs in East Africa between 2004 and 2009 and discovered that financial sustainability is positively connected with leverage and liquidity levels. These studies highlight the need for MFIs to consider these factors when setting interest rates to ensure long-term sustainability and success. By carefully managing these factors, MFIs can maintain their financial stability and continue to provide vital services to low-income individuals and communities.

Chikalipah (2014) investigated the factors that affect the interest rates on microloans in Sub-Saharan Africa. The study, which covered the years 2003 to 2011, used unbalanced panel data made up of 292 MFIs chosen from 34 SSA nations. The study found that the main drivers of microfinance lending interest rates in SSA are finance costs, return on assets, operating costs, and inflation. The study's findings were unable to definitively establish if the success of an MFI is determined by the lending interest rates charged.

Using panel data gathered over a six-year period from 53 MFIs in Uganda, Bogan (2009) performed research on the relationship between capital structure and sustainability of MFIs. According to this report, well-known microfinance institutions are using grants more frequently, which lowers their ability to operate independently. Asset size is strongly and favorably associated to sustainability, it has also been confirmed. The two primary macroeconomic indicator variables for the economy, gross domestic product and inflation, are not important predictors of operational sustainability, nevertheless.

In Kenya, Githinji (2009) investigated the variables influencing the viability of microfinance institutions. According to the study, the sustainability of MFIs in Kenya was impacted by per capital income, savings that were mobilized, the kind of incorporation, and loans that were made. In addition to determining the relationship between the financial and institutional sustainability of MFIs, the study intended to determine the variables influencing MFI sustainability in Kenya. According to the research, the majority of Kenya's microfinance institutions have return on assets (ROA) levels that are below the acceptable market mean sustainability.

Gathuku (2010) conducted a research on how MFIs in Kenya responded to regulation under the Microfinance Act of 2006. The researcher examined potential sources of financial regulation in the interbank market, as well as their impact on interest rate spreads, loan or deposit flow, and bank equity. The researcher disputed the idea that, despite the fact that asymmetric information between contracting parties creates a significant risk of infection, the actual settlement process itself creates an institutional infection risk. According to the study's findings, this results from the ability of engaged institutions to diversify their credit exposures as well as those related to sovereign risk and liquidity.

### **2.5.2 Studies of Other Countries**

A case study on village credit institutions was used by Arsyad (2015) to undertake a study on the effectiveness and sustainability of MFIs in Indonesia. The investigation found that bank controls (regulation by the central bank) and supporting government policy by giving microfinance institutions a legal foundation are crucial for the development of the organizations. As a result, the district village credit institutions were identified to have met the criteria for sustainable MFIs by numerous scholars (Christen 1998, Yaron 1994), and it can therefore be deduced that they provide clients with a positive net social benefit.

Woller and Schreiner (2002) discovered in their relationship between financial sustainability and depth of outreach in the USA that there is correlation between the two. The study's conclusions went against the

notion that small loans intended for the underprivileged groups are more risky and associated with less stable financial situations.

According to a study done by Donor Brief 18 (2004) in USA, many countries use interest rate restrictions to shield their residents from dishonest lenders. In order to maintain low lending interest rates, the government also faces cultural and political pressure. The researcher also contests the idea that, despite their best efforts, lending interest rate limitations often harm low-income earners by impeding the emergence of new MFIs and making it difficult for those that already exist to run their operations. In countries where lending interest rates are capped, MFIs frequently leave the market, develop slowly, and become less transparent about their operations in remote regions like rural and pricey market. Bank controls frequently push customers back into the pricey black market where they have little safety by driving MFIs out of business. Therefore, it is clear that the lending interest rates MFIs charge could affect how sustainable they remain.

A study was undertaken by Ridder (2010) in Canada to determine whether MFI lending interest rates were excessive and unreasonably high for the low-income category. According to the study, MFIs' high operational costs which are higher than those experienced by conventional commercial banks- are what drive their interest rates. However, Ridder (2010) contends that since many clients lack access to such loans, the high lending interest rates are in contrast with the primary social goal of eliminating the cycle of poverty. It follows that high rates, which are the significant costs incurred, may not be a fair measure of profitability.

## **2.6 Research Gap**

Following an empirical assessment, it is clear that numerous studies reviewed various academic articles on interest rates, both from developed and developing countries. It focused on the research conducted on lending interest rates in MFIs. The findings of the literature analysis and empirical study revealed that factors such as loan interest rates, risk, economic growth, leverage, liquidity, the number of clients served, and the size of the organization affect the sustainability of microfinance institutions ( Mwangi, 2013; Okeye, 2013). However, there is a significant gap in the existing research, as most studies have not explored the impact of interest rate regulation on the viability of MFIs. To fill this research gap, the present study aims to investigate the effects of interest rate control on the sustainability of microfinance organizations in Zimbabwe. The next chapter will discuss the target population, data collection tools, and research design used in this study.

## **2.7 Summary**

This chapter provided a comprehensive review of various academic articles on interest rates in microfinance institutions, with a focus on lending interest rates. The literature analysis and empirical study findings indicated that the sustainability of microfinance institutions is influenced by several factors, including loan interest rates, risk and economic growth, leverage, liquidity, the number of clients served, and size of the organization. The next chapter will discuss the target population, data collection tools, and research design, which are crucial components of the research process. It will highlight the methods used to gather data and the population of interest in the study.



## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter provides an overview of the methodology used in the study to achieve its objectives. It includes the study design, population and sampling techniques, data sources, research tools, model description, variable justification, data type and sources, estimation, and summary. The study design was carefully chosen to ensure that the data collected was reliable and valid. The population and sampling techniques were also carefully chosen to ensure that the sample was representative of the target population. The data sources utilized were selected based on their relevance to the study. The research tools used were designed to gather data on the variables of interest. The model used was carefully chosen to ensure that it was appropriate for the research questions. The variables used in the study were justified based on their relevance to the research questions. The data type and sources were selected based on their reliability and validity. The estimation method used was carefully chosen to ensure that the results were accurate. Finally, the chapter provides a summary of the methodology used in the study.

#### **3.2 Research Design**

According to Cooper & Schindler (2006), a study design outlines how data collection as well as analysis are organized to achieve research aims. In this study, a cross-sectional descriptive research design was used, which aims to provide an accurate and reliable visualization of relevant variables. This methodology was chosen because it presents a profile of issues, individuals, or events through the gathering of information and presentation of the mean and frequencies on the study variables. This design was appropriate as it enabled the researcher to explain the current situation without manipulating variables, which aligns with the study's aim. Kothari (2008) also supports the use of descriptive research designs for presenting an accurate and reliable visualization of relevant variables.

#### **3.3 Research Population**

The population to whom the study's findings are extrapolated is known as the target population. All MFIs with a Harare location and under Reserve Bank of Zimbabwe regulation as of December 31, 2020, were included in the studies targeted demographic. Out of the 220 MFIs in Zimbabwe, 170 have their headquarters in Harare. Due to the concentration of credit lenders, the environment, the high loan risk, the high operating costs, as well as the presence of regulatory organizations like the Central Bank of Zimbabwe (CBZ), it was determined that the study population was pertinent to represent the microfinance sector in Zimbabwe. Additionally, it is believed that the majority of staff affiliated at the headquarters have sufficient awareness of the institution's activities and judgments.

### **3.4 Research Sample**

The researcher employed both purposive and random sampling methods. Purposive sampling involves selecting members of the population based on accessibility or their ability to serve as a representative sample (Kothari, 2004), while random sampling does not have predetermined odds of selecting a particular member of the population (Wretman, 2010). The researcher selected 50 respondents, consisting of branch managers, loan officers, administration officials, and loss control officers from MFIs, using judgement sampling as the optimal sampling unit to create the sample. This approach was chosen because it enables the researcher to select participants based on their knowledge and experience in the area of study (Coyne et al., 2011).

### **3.5 Sample Size**

In this study, the researchers used a census survey methodology, which means that they collected data from the entire population of interest rather than just a sample. This approach was necessary because the population of interest was limited in size. A census survey is a method of data collection that seeks to gather information from every member of the population being studied, rather than just a subset of that population. This approach can be useful when the population of interest is small and easily accessible, and when the cost and time required to collect data from every member of the population is reasonable.

**Table 3.1 Description of the Sample Group**

<b>Respondent</b>	<b>Number</b>
<b>Supervisor</b>	<b>15</b>
<b>Loan Officers</b>	<b>15</b>

<b>Administration Officers</b>	<b>10</b>
<b>Loss Control Officers</b>	<b>10</b>
<b>Total</b>	<b>50</b>

Source: Primary data (2023)

### **3.6 Data Collection Methods and Instruments**

Primary data and secondary data are two different forms of data, according to Mugenda & Mugenda (2003).

#### **3.6.1 Primary Data**

The study utilized primary data, which refers to data that are collected for the first time and are unique in nature. To collect the primary data, the researcher distributed 50 self-administered semi-structured questionnaires to MFIs in Harare. According to Saunders et al. (2009), questionnaires are a useful method for collecting data from multiple participants, and the results are easy to analyze. The surveys were distributed using the drop-and-pick method, and to increase response rates, the researcher visited the respondents directly. The questionnaire was designed to elicit information about the relationship between interest rate and the sustainability of MFIs in Zimbabwe. The self-administered semi-structured questionnaire is a common data collection technique in survey research that includes pre-recorded questions that participants can answer directly on the questionnaire itself without the need for an interview (Monette, 2009). By using a semi-structured questionnaire, the researcher was able to obtain both qualitative and quantitative data, which can provide a rich understanding of the research problem.

To gather primary data, the researcher distributed self-administered semi-structured questionnaires to 50 MFIs in Harare. According to Saunders et al. (2009), questionnaires are a useful method for collecting data from multiple participants and analyzing results. The researcher used the drop-and-pick method to distribute the questionnaires and visited the respondents directly to increase response rates. The questionnaire aimed to understand the relationship between interest rates and the sustainability of MFIs in Zimbabwe, and by using a semi-structured questionnaire, they were able to gather both quantitative and qualitative data, providing a more comprehensive understanding of the research problem.

#### **3.6.2 Secondary Data**

Peil, M (2004) defined secondary data as information that has previously been gathered and subjected to the statistical analysis by another party. In this study, the researcher collected secondary data from various

sources, including the Reserve Bank of Zimbabwe (RBZ) website, microfinance institutions' annual reports, and published articles related to microfinance in Zimbabwe. Secondary data was used to supplement and validate the findings from the primary data. Additionally, the use of secondary data allowed the researcher to access data that might have been challenging to gather through primary data collection methods.

### **3.7 Data Validity and Reliability**

Mugenda (2008) emphasized that the accuracy of data collection methods is crucial in ensuring the validity of research findings. Data dependability refers to the extent to which test results are free from measurement errors and accurately represent the population under study. This implies that research instruments are deemed reliable if the results can be replicated using different techniques and yield the same outcome.

To guarantee the accuracy of the data, a pilot study was conducted, and changes will be made to the questionnaire that was given. The most crucial factor in measuring is validity, which is the accuracy of the interpretation of test scores. Carter and Porter (2000) claim that there are two types of validity: internal and external. They also claim that internal validity is related to how well the study design tests the hypothesis or research question. According to Cozyby (2009), a research study's internal validity is determined by how well the design enables the scholar to infer precise diagnoses concerning the source and outcome relationship. If research findings can be used outside the limits of the study, this is referred to as having external validity.

The study employed the Cronbach Alpha statistics to evaluate the reliability of the data collection methods. The Cronbach Alpha statistic is utilized to test the dependability of the data collection tool for a variable, with a threshold of 0.7 indicating reliability. In other words, the data collection tool is considered trustworthy if the Cronbach Alpha for the items used to measure the variable is above 0.7.

### **3.8 Data Analysis**

Data analysis, according to Gall et al. (2007), is the technique of organizing and arranging raw data so that conclusions may be drawn from it. Data analysis employed descriptive statistics like means and standard deviations. To gauge the variable's importance in the study, the standard deviation and mean were utilized.

The collected data from the questionnaires was prepared for analysis through several processes, such as editing, handling blank responses, coding, categorizing, and entry into the SPSS software. The SPSS

software was used to generate descriptive statistics like means, percentages, and standard deviations from the data. These descriptive statistics were then used to draw conclusions about the target population. The study utilized mean, percentages, and standard deviations as descriptive statistics to measure the importance of the variables in the study.

### **3.9 The Study Employed a Secondary Data Analysis Approach**

Exploratory research methods were used in this study to analyze the results of widely dispersed surveys.

#### **3.9.1 Model specification**

In order to determine how interest rate regulation affects the sustainability of MFIs, data analysis was carried out using SPSS. Model created by Demirgüç-Kunt and Huizinga (1999) was used in the investigation. To verify the relationship between the independent and dependent variables, this study will apply linear regression analysis.

Following is a general description of the model:

The study utilized a linear regression model to examine the relationship between the dependent variable, sustainability, and the independent variable, lending interest rate. The model is represented as  $Y = \alpha + \beta LE + \epsilon$ , where Y represents sustainability,  $\alpha$  is a constant,  $\beta LE$  is the coefficient for lending interest rate, and  $\epsilon$  represents the error term. The model is used to determine the impact of lending interest rate on the sustainability of microfinance institutions.

#### **3.9.2 Statistical significance test**

To investigate the link between the lending rate and the sustainability of MFIs in Zimbabwe, the study used the Pearson product moment coefficient (R) with population data. The coefficient of determination (R<sup>2</sup>) was implemented to measure the strength and direction of the relationship between the independent variable (lending rate) and the dependent variable (ROA). The R<sup>2</sup> value is a statistical metric that indicates how accurately the regression line approximates the actual data points. A higher R<sup>2</sup> value implies that the regression line better fits the data. The study aimed to provide insights into the factors that could influence the sustainability of MFIs in Zimbabwe and help to identify viable strategies for improving their performance.

### **3.10 Summary**

The focus of this chapter was on describing and clarifying the research methods used to conduct the study. To ensure that the data gathered by the researcher is real, it also addressed concerns over the authenticity and dependability of the data. Last but not least, the chapter highlighted how data will be gathered in a way that makes it possible to study how interest rates affect the sustainability of microfinance firms. The next chapter will focus on presenting and analyzing the gathered data to draw meaningful conclusions.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This section of the report focuses on the data collected during the study and its analysis. The first part of the chapter outlines the response rate and provides information on the participants' demographics. The second part of the chapter analyzes the primary data using SPSS 20 software to answer the research questions posed in the first chapter. The chapter presents descriptive statistics, with an emphasis on the mean and standard deviation as measures of variability. The results of the regression and Pearson correlation analyses are presented to confirm the relationship between interest rates and sustainability, as well as to determine the strength and direction of the relationship. The chapter concludes with a detailed discussion of the outcomes, including conclusions and recommendations based on the findings. Additionally, the chapter discusses the study's limitations and offers suggestions for future research.

#### 4.1 Response Rate

The response rate is an important factor in research as it reflects the number of participants who responded to the questionnaire compared to the total number of questionnaires distributed. A low response rate can lead to biased findings, while a high response rate increases the reliability of the findings. To determine the response rate, the number of returned questionnaires is divided by the total number of questionnaires distributed. Willman (2010) highlights the importance of response rates in research and suggests that researchers should aim for a high response rate to ensure the validity of the study's findings. The researcher presents the response rate in a table to show the number of questionnaires distributed and returned. This will provide an overview of the participation rate and help to determine the representativeness of the sample.

**Table 4.1 Response Rate**

Number of Questionnaires Distributed	50
--------------------------------------	----

Number of Returned Questionnaire	50
Number of Unreturned Questionnaires	0
Total	100%

Source: Primary Data (2023)

The table 4.1 involved a census survey which included 50 respondents of Head Office staff in Harare. The survey consisted of branch managers, loan officers, administration officers, and loss control officers from the microfinance institution. Out of the 50 questionnaires distributed, 50 were completed and returned, resulting in a 100% response rate. The high response rate of 100% in the survey is a positive indication of the willingness of the respondents to participate in the study and their interest in the topic. The fact that the study was conducted among different categories of staff in the microfinance institution this provides a diverse range of perspectives and experiences, enhancing reliability and validity of the study. The use of a census survey, which involves collecting data from the entire population of interest, also increases the representativeness of the sample and reduces sampling bias.

#### 4.2 Reliability Test

Before gathering data for analysis, the researcher conducted a pilot study to test the reliability of the data collection mechanism. The Cronbach alpha statistics were used to test for reliability. Cronbach Alpha is a statistical measure used to determine the reliability of a research instrument or questionnaire. Its value ranges from 0 to 1, with values closer to 1 indicating higher levels of reliability. The study used the Cronbach Alpha statistics to determine the internal consistency of the questionnaire items, ensuring that the study results were reliable. The diagram below shows the results of the Cronbach Alpha analysis

**Table 4.2 Reliability Test**

Cronbach's Alpha <sup>a</sup>	Number of Items	Status



.766	34	Accepted
------	----	----------

Source: SPSS Computed Data

The Cronbach Alpha statistic is a measure of internal consistency, which indicates how well the items in the questionnaire or data collection tool measure the same concept. If the Cronbach alpha is above 0.7, it suggests that the questionnaire is reliable in measuring the variable under consideration. This means that the data collected using the tool is consistent and can be used with confidence to draw conclusions about the variable being measured.

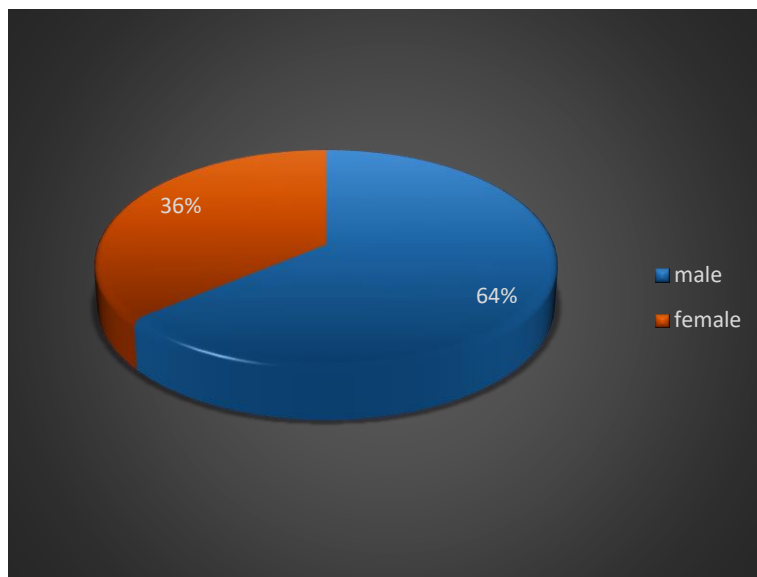
### 4.3 Demographic Analysis of Respondents

Demographic analysis refers to the study of the characteristics of a population or a specific group of people, such as age, gender, education level, income level, occupation, and other relevant factors that can provide insights into the behavior and preferences of the group. In the context of the research, demographic analysis of the respondents involves examining the characteristics of the 50 Head Office staff in Harare who participated in the survey, such as their job titles, length of service, educational background, and other relevant factors that can help understand their perspectives and responses to the research questions.

#### 4.3.1 Gender

The figure 4.1 below shows the gender percentage in the microfinance institution and provided true results of the study.

**Figure 4.1 Gender**



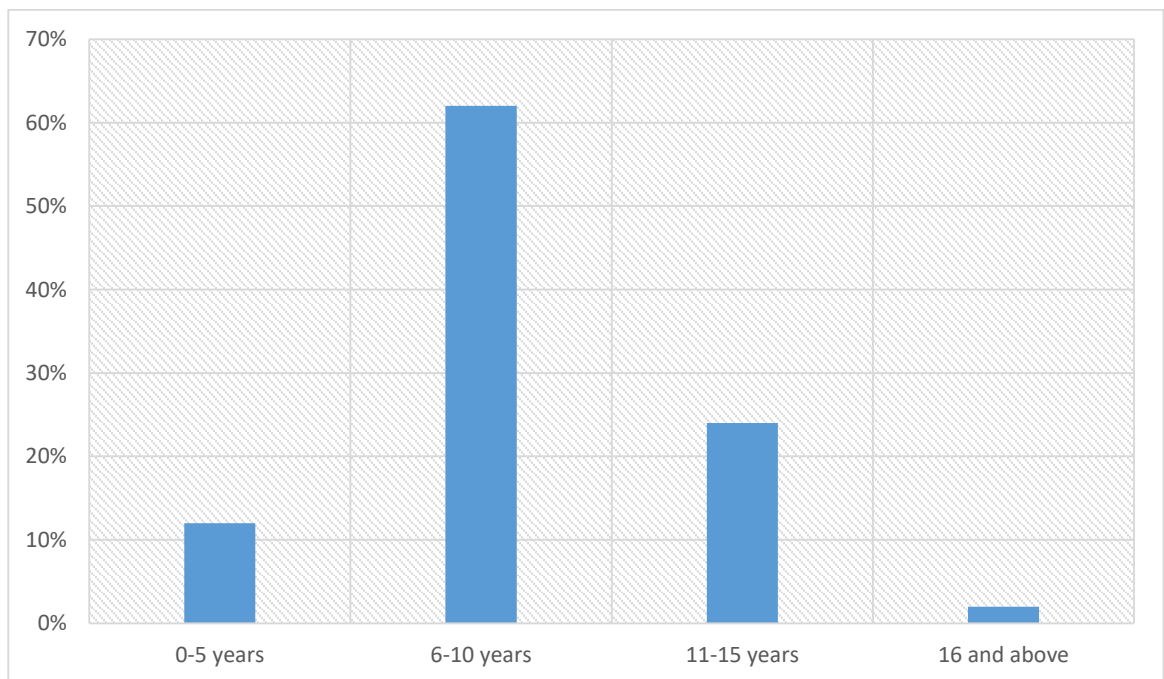
Source: Primary Data (2023)

As for the figure 4.1, it show the proportions of male and female respondents in the study, 64 % of the respondents being male and 36% being female. This information can be used to gain insights into the gender distribution of employees in the microfinance institutions being studied, which may have implications for issues such as gender equity and diversity in the workplace.

### 4.3.2 Experience Level in the Sector

The following figure display the percentage distribution of the number of years of experience of the respondent in the microfinance institution.

**Figure 4.2 Experience in the Sector**



Source: Primary Data (2023)

According to Figure 4.2, the study found that 12% of the respondents had a work experience ranging from zero to five years in the microfinance industry, while 62% had a work experience ranging between six to ten years, also 24% had a work experience of eleven to fifteen years and 2% had a work experience of

sixteen and above. The results indicate that the majority of the respondents were well-versed in the industry, with a significant number having worked in the industry for more than six years. The study deemed respondents with at least six years of work experience as highly knowledgeable and reliable in answering the structured questionnaire about the sustainability of microfinance institutions (MFIs) and lending rates. This enhances the credibility and dependability of the study's outcomes.

### 4.3.3 Position held in the MFI

The diagram depicted in Figure 4.3 illustrates the roles held by the participants in the microfinance institution.

**Table 4.3 Position held by respondents in the MFIs**

Position		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Administration Officer	5	10.0	10.0	10.0
	Loss control Officer	28	56.0	56.0	66.0
	Loan Officer	10	20.0	20.0	86.0
	Branch Manager	7	14.0	14.0	100.0
	Total	50	100.0	100.0	

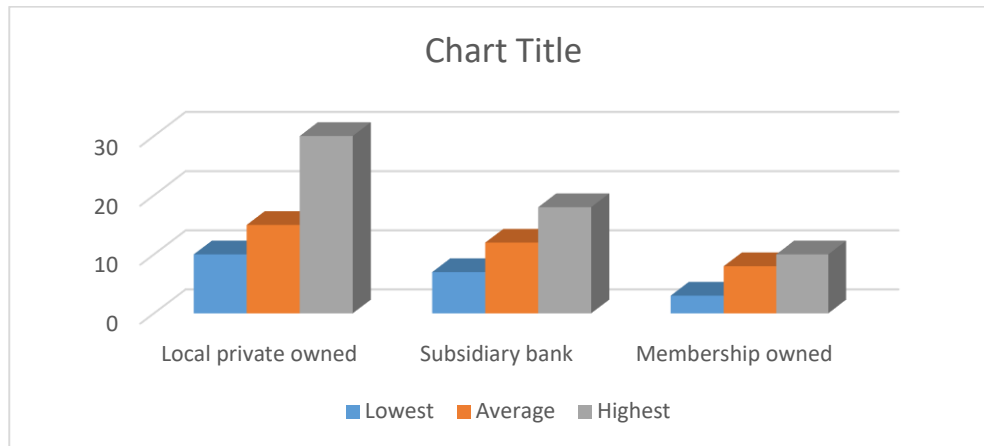
Source: Primary data (2023)

The provided table gives an overview of the number of respondents and their respective roles in the microfinance institution. Majority of the respondents, which is 56%, are loss control officers who implement measures to mitigate losses of their organization. The loan officers, who are responsible for credit analysis and assessing the level of risk associated with loan requests, constitute 20% of the respondents. Administration officers, who handle paperwork and maintain records, constitute 10% of the respondents. Similarly, branch managers, who hold the decision making authority and supervise the day to day operations of their branches organization, also constitute 14% of the respondents. With this information, it can be inferred that the data collected from the survey is accurate and reliable as it was sourced from individuals who hold significant roles in the organization.

### 4.4 The monthly interest rates commonly charged by microfinance institutions (MFIs) in the market.

The below figure illustrates the current interest rates in the market for microfinance institutions that operate under various proprietorship structures."

**Figure 4.3 Market Interest Rates**



Source: Primary data (2023)

The figure above illustrates the interest rates offered by local private owned, membership owned, and subsidiary bank microfinance institutions in the market. The lowest and highest interest rates prevailing in the market for each category are also presented, along with the average interest rate. According to the findings, local private owned microfinance institutions charge the highest interest rates, with the lowest being 10% and the highest being 30%, with an average of 15%. Subsidiary bank owned microfinance institutions, on the other hand, charge lower interest rates, ranging from 7% to 18%, with an average of 12%. Membership owned microfinance institutions offer the lowest interest rates, ranging from 3% to 10%, with an average of 8% per month. These results suggest that local private owned microfinance institutions charge higher interest rates than subsidiary bank and membership owned microfinance institutions.

#### 4.5 Effect of Interest Rate Regulation on Profitability of MFIs.

The purpose of the study was to investigate the impact of interest rate regulation on the profitability of MFIs. The researcher formulated seven different questions to gather opinions and insights from the respondents regarding this topic. The results of the study are presented using tables and charts to effectively communicate the findings.

##### 4.6.1 Interest Rate Regulation and Interest Income

The table below shows opinions of respondents regarding the effect of interest rate regulation and interest income.

**Table 4.4 Interest Rate Regulation**

	Count	Valid Percent	Cumulative Percentage
The effects of interest rate regulation and interest income	Strongly disagree	11	22.0
	Disagree	27	54.0
	Neutral	7	14.0
	Agree	5	10.0
	Strongly agree	0	0

Source: Primary data (2023)

Microfinance institutions (MFIs) provide financial services with the primary aim of increasing interest income to boost profitability. The study aimed to examine whether the regulation of interest rates impacts the interest income of MFIs. The results showed that 10% of respondents agreed, 14% were neutral, 54% disagreed, and 22% strongly disagreed that interest rate regulation has increased the interest income of MFIs. This suggests that measures such as interest rate ceilings imposed by the central bank have a negative impact on the profitability of MFIs. Such findings have implications for policymakers and regulators in the microfinance industry.

#### 4.6.2 Interest Regulation and Profitability of MFIs

Microfinance institutions target is to continuously increase their profitability. The study sought to ascertain whether interest rate has led to an increase in MFIs profitability.

#### Figure 4.4 Interest regulation and profitability of MFIs



Source: Primary data (2023)

The figure presented above displays the responses of the survey participants regarding the impact of interest rate regulation on the profitability of MFIs. The study found that only 10% of the respondents are neutral to that interest rate regulation resulted in an increase in MFI profitability, while 54% disagreed and 36% strongly disagreed. These results suggest that interest rate controls, such as interest rate ceilings, have a negative impact on the profitability of MFIs. The outcomes of this study are consistent with the findings of other scholars, such as Donor Brief 18 (2004), which revealed that interest rate ceilings negatively affect the financial performance of MFIs in the United States. By limiting the amount of interest that MFIs can charge on loans, the institutions may struggle to generate sufficient income to cover their expenses.

#### **4.6.3 Loan Loss Provision and Regulation of Interest Rates**

The table below shows the opinions of the respondents on whether loan loss provision decrease due to interest rate regulation.

**TABLE 4.5 LOAN LOSS PROVISION AND INTEREST RATE REGULATION**

	Count	Valid Percent	Cumulative percentage
Rarely	0	0	0
Sometimes	4	8.0	8.0
Occasional	11	22.0	30.0
Often	20	40.0	70.0
Very often	15	30.0	100.0

Source: Primary data (2023)

Loan provisions are funds reserved to cover potential losses from default loans and loan payments. The study investigated whether interest rate regulation affects loan loss provisions. The findings showed that 30% of respondents were very often, 40% were often, 22% occasional, and 8% sometimes that loan loss provisions decrease due to interest rate regulation. This suggests that lower interest rates lead to lower levels of loan defaults, as the affordability of the microfinance products increases. This finding is significant as it provides insight into the impact of interest rate regulation on loan loss provisions and the overall financial performance of MFIs. These findings align with the results of a study carried out by Esipisu (2003).

**4.6.4 Interest rate regulation and Default Rate**

The following table displays the findings on whether interest rate changes led to an increase in the default rate.

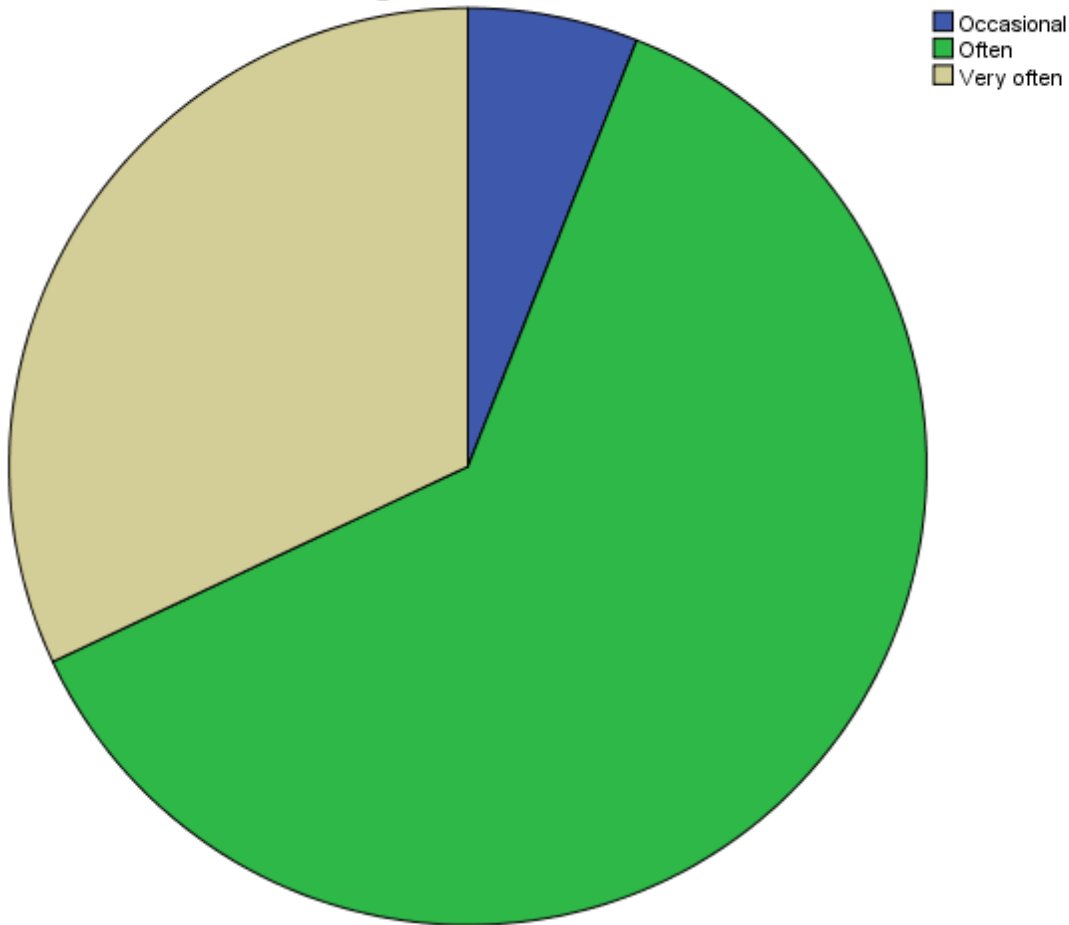
**Table 4.6 Default Rate and Interest Rate Regulations**

**The changes in interest rates increases default rate**

	Frequenc y	Percent	Valid Percent	Cumulative Percent
--	---------------	---------	------------------	-----------------------

Valid	Occasional	3	6.0	6.0	6.0
	Often	31	62.0	62.0	68.0
	Very often	16	32.0	32.0	100.0
	Total	50	100.0	100.0	

**The changes in interest rates increases default rate**



Source: Primary data (2023)

The failure to meet outstanding loan amounts or inability to pay due to various reasons such as disability or unemployment leads to an increase in loan default. Based on the findings of the study, 62% of the respondents were often, 32% were often, and 6% were occasional that the level of default rate increased due to interest rate changes. This implies that interest rate regulation negatively affects the ability of microfinance institutions to manage their loan portfolio effectively. This finding is in line with the principle of responsible lending, which advocates for affordable loans that borrowers can repay without defaulting. This principal is crucial in reducing the level of loan default rates in microfinance institutions. Moreover, according to Kpodar, K., and Andrianaivo, M. (2019) suggested that interest rate regulation negatively impacts the ability of microfinance institution to manage their loan portfolio effectively which could



ultimately result in higher loan default rates. Therefore policymakers and regulators should consider the implications of interest rate regulation on the microfinance industry carefully.

#### 4.6.6 Interest Rate Regulation and Liquidity

The opinions of the respondents on the relationship between interest rate regulation and profitability of MFIs are presented in Table 4.7

**Table 4.7 Liquidity and interest rate regulation**

	Count	Valid Percent	Cumulative Percentage
Strongly disagree	0	0	0
Disagree	1	2.0	2.0
Neutral	9	18.0	20.0
Agree	25	50.0	70.0
Strongly agree	15	30.0	100.0

Source: Primary data (2023)

The study suggests that interest rate regulation may have a beneficial effect on the liquidity of MFIs, which is important in their ability to provide loans and generate income. The study found that only a minority of respondents believed that interest rate regulation had a negative impact on MFIs' liquidity, while the majority believed there was no significant impact or even a positive impact. The correlation between interest rate regulation and liquidity was found to be positive. This finding supports the argument that interest rate control can help to stabilize the microfinance industry and promote its sustainability, according to Helms (2006).

#### 4.6.7 Interest Rate Regulation and Marketability of MFIs

The table given below illustrates the perceptions of respondents regarding the relationship between interest rate regulation and marketability of products offered by the MFI.

**Table 4.8 Marketability of MFIs products**

	Count	Valid Percent	Cumulative Percent
The marketability of products is affected by interest rate regulation	Strongly disagree	3	6.0
	Disagree	3	6.0
	Neutral	7	14.0
	Agree	37	74.0
	Strongly agree	0	0
			6.0
			12.0
			26.0
			100.0

Source: Primary data (2023)

The aim of microfinance institutions (MFIs) is to offer competitive loan products in the market. This study sought to establish whether interest rate controls expanded the marketability of microfinance organization's products. The findings revealed that a significant number of respondents agreed that regulation of lending rates made MFI products more attractive and affordable to clients. Specifically, 74% of the respondents agreed. Only a small percentage of respondents (6%) disagreed or strongly disagreed. These results suggest that interest rate regulation may positively impact the marketability of MFI products, as suggested by Armendariz (2010).

#### 4.7 Effect of Loan Interest Rate Controls on Market Forces

The purpose of this research was to investigate the relationship between lending rates and the market forces. The scholar designed four questions to gather the views of participants on this topic. The results were analyzed and displayed using tables and figures. The results of the study will provide insights into how interest rates affect credit markets and how they can be managed to ensure that they benefit both the lenders and borrowers.

#### 4.7.1 Total of existing borrowers and interest rate controls

The views of the participants on the effect of interest rate controls on the number clients in the microfinance institution as presented in Table 4.9

**Table 4.9 Number of existing borrowers**

	Count	Valid percent	Cumulative Percentage
The impact of interest rate regulation on borrowers	Strongly disagree	5	10.0
	Disagree	15	30.0
	Neutral	20	40.0
	Agree	10	20.0
	Strongly agree	0	100.0

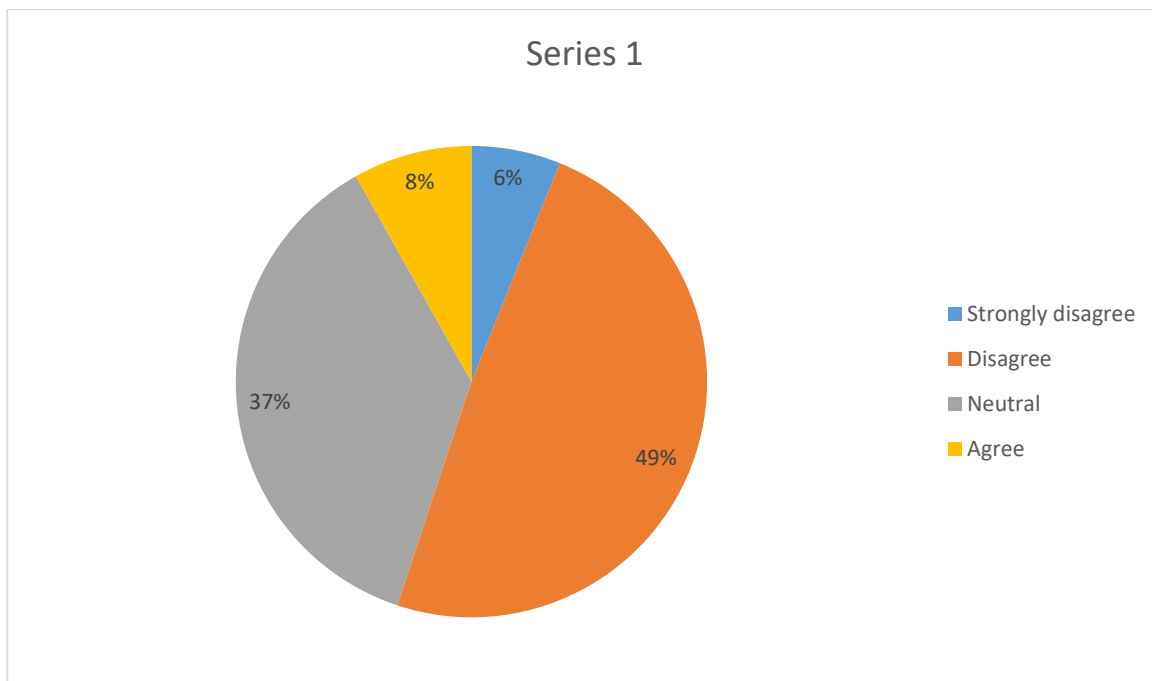
Source: Primary data (2023)

According to a study conducted by Kinyanjui, (2016), the aim was to investigate the relationship between the number of borrowers in the microfinance industry before and after the implementation of interest rate regulation. The results revealed that 60% of the respondents agreed that there were many borrowers before the regulation, while 40% disagreed. This indicates that when interest rate ceilings are introduced, some players in the microfinance industry may withdraw from the market or downsize their branch network since it may no longer be profitable to continue their activity. The findings suggest that interest rate regulation can have a negative impact on the supply of credit.

#### 4.7.2 Total of accepted Loans and Interest Rates controls

The following chart presents the opinions of the participants regarding the relationship between interest rate regulation and the number of approved loans

**Figure 4.5 Total of accepted loans and interest rates controls**



Source: Primary data (2023)

The research aimed to investigate if interest rate regulation displays impact on the number of loan applications received by MFIs. The results showed that a majority of respondents disagreed or strongly disagreed that the total of loan approvals expanded due to interest rate controls. This suggests that when interest rates are low, MFIs may be less willing to extend loans as it may not be profitable for them. This finding is consistent with the results of a previous study by Helms (2006), which found that MFIs in countries with interest rate ceilings tend to increase their fees to compensate for the lost income from lower interest rates. This could make borrowing more expensive and less accessible for-income clients, which is a concern for the mission of microfinance.

#### 4.7.3 Total New Borrowers and Interest Rate Control

The Table 4.10 presents the views of respondents regarding lending rate regulations and the number of new borrowers in the microfinance industry.

**Table 4.10 Total borrowers and interest rate controls**

	Count	Valid Percent	Cumulative Percentage
Strongly disagree	5	10.0	10.0
Disagree	5	10.0	20.0
Neutral	10	20.0	40.0
Agree	30	60.0	100.0
Strongly agree	0		

Source: Primary data (2023)

The research aimed to investigate on either the interest rate regulation affects the number of new clients or borrowers in the microfinance sector. The findings revealed that a small percentage of respondents strongly disagreed, while a larger percentage disagreed or were neutral. However, almost 70% agreed or were neutral thus numeral of discovered account holders rised since the control of interest rates. According to Mersland (2009), this indicates that interest rate regulation has a positive impact on the demand for microfinance services, which leads to an increase in the number of borrowers.

#### 4.7.4 Rate of lending and interest rate control

Table 4.11 presents the opinions of participants on whether interest rate regulation led to a decrease in lending activities by MFIs.

**Table 4.11 Rate of lending rate and cost of borrowing**

	Count	Valid Percent	Cumulative Percentage
Strongly disagree	0	0	0
Disagree	0	0	0

Whether interest rate regulation led to a decrease in lending activities	Neutral	9	18.0	18.0
	Agree	26	52.0	70.0
	Strongly agree	15	30.0	100.0

Source: Primary data (2023)

Microfinance institutions (MFIs) wish to generate significant interest revenue and risk adjusted returns through loan issuance. Nevertheless, if interest revenue and risk adjusted return from loans are small, micro-lenders may reduce their loan issuance, especially for unsecured loans, as there is not enough return on the risk from lending valuation. The research aimed to investigate if the results of interest rate control reduced the borrowed amount insurance of micro-lenders. The findings indicate that the majority of participants (82%) strongly agree and agree that interest rate regulation has led to a reduction in loan issuance by MFIs. This implies that the regulation has had an adverse effect on the profitability and sustainability of MFIs.

#### 4.8 Variables used to set Lending Rates in MFIs

The study aimed to investigate the level of agreement among respondents concerning the factors that should be thought about when setting interest rates for loans. The investigator sought to understand the perceptions of the respondents on the importance of various factors in determining the interest rates of loans. This information could be useful for microfinance institutions in setting interest rates that are acceptable to their clients while also ensuring their profitability and it is presented by the table below.

The table presents the statistical description used to set interest rates in MFIs

**Table 4.12 Statistical description**

	Statistic	Mean Statistics	Std Error	Std Deviation Statistics
Funding cost	<b>50</b>	<b>4.5600</b>	<b>.07699</b>	<b>.4887</b>
Operating Costs	<b>50</b>	<b>3.9200</b>	<b>.1985</b>	<b>1.3240</b>
Profit	<b>50</b>	<b>3.2051</b>	<b>.2125</b>	<b>1.3987</b>
Inflation	<b>50</b>	<b>4.6540</b>	<b>.08120</b>	<b>.5132</b>

Source: SPSS Computed data

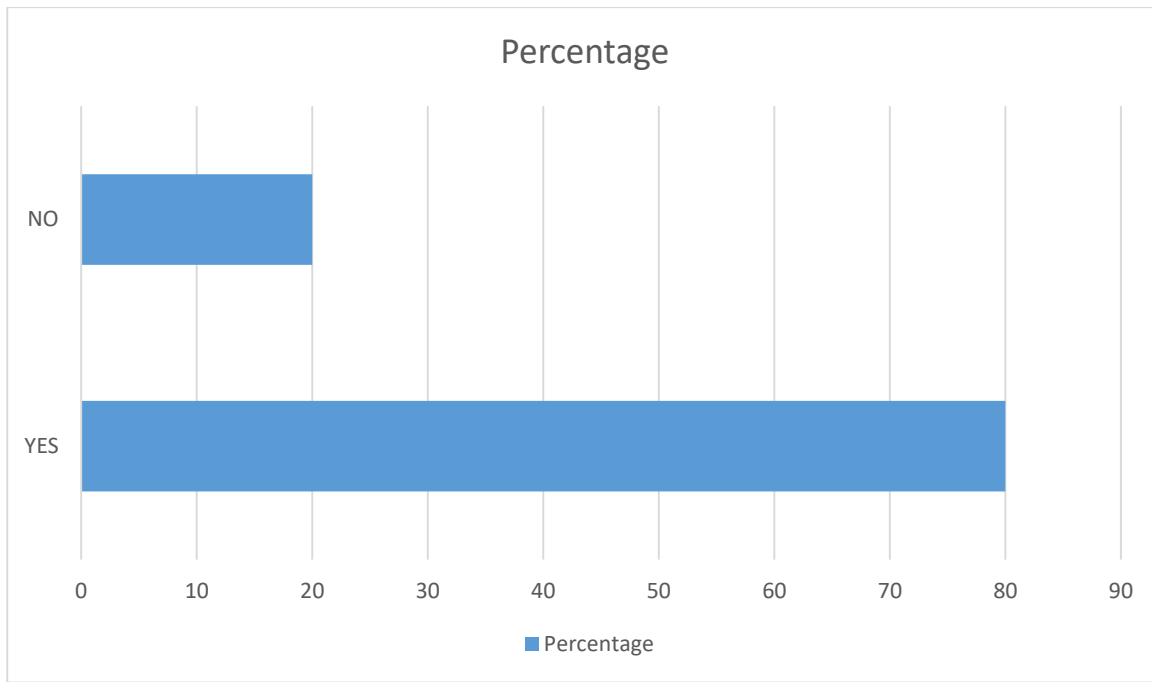
According to the results presented in table 4.12, funding costs and inflation are considered to a very large extent when determining interest rates, with ratings of 4.8 and 4.56 respectively on the Likert scale. On the other hand, operating costs and profit have lower ratings of 3.9 and 3.2 respectively, indicating that they are less influential in determining loan prices. These findings provide insights into the factors that influence the setting of interest rates by various MFIs.

The results presented in Table 4.12 align with the findings of Resenberg et al (2013), who identified funding costs, loan loss expense, and operating costs as key factors in ascertaining loan pricing. Additionally, Mcloughlin (2013) identified operating expenses and return on assets as crucial determinants of interest rates. This indicates that the factors identified in the study are consistent with the existing literature on the subject. The high rating given to funding costs and inflation suggests that these factors are given significant consideration by MFIs when setting interest rates. On the other hand, the ratings given to operating costs and profit imply that these factors are considered to a lesser extent in setting loan pricing.

#### **4.9 Loan Interest Rate and Continuity of MFIs**

The findings aimed to investigate the views of participants from MFIs on lending rate control and its impact on sustainability of these institutions. The research found that 80% of participants believed that there is a regulation of lending rate caps, while 20% did not agree. This finding supports previous research by Mwangi (2012), that highlights the negative relationship between high lending rates and investment levels and financial performance. However, there are also concerns that lending rate caps can lead to limited visibility in borrowing costs. The study found varied opinions among respondents, as depicted in Figure 4.6. Overall, the research highlights the importance of regulating interest rates to ensure the sustainability of MFIs while taking into account the potential drawbacks of interest rate caps.

#### **Figure 4.6 Response on fiscal policies on lending rates**



Source: Primary data (2023)

#### 4. 10 Descriptive statistics

The descriptive statistics provide a summary of the results obtained from the respondents of microfinance institutions (MFIs) regarding borrowing cost as well as continuity of microfinance institutions. These findings suggest a negative connection between loan interest rate and the continuity of microfinance organizations. This finding supports previous studies conducted by Mwangi (2012) and emphasizes the importance of regulating interest rates to ensure the continuity of micro-lenders.

**Table 4.13 Statistical description of loan rate and financial performance of MFIs.**

	<b>N</b>	<b>Mean</b>	<b>Std Deviation</b>
Changes by Central Bank affects the financial performance of microfinance institutions	<b>50</b>	<b>4.4900</b>	<b>.63569</b>
Sustainability of an organization is negatively impacted by its Liquidity position.	<b>50</b>	<b>4.2500</b>	<b>.90052</b>
Interest rate determines the supply and demand for credit	<b>50</b>	<b>4.3480</b>	<b>.86006</b>



Valid N	50		
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Source: SPSS Computed data (2023)

The study utilized a survey to gather opinions from respondents on the factors influencing lending rates and the financial performance of MFIs in Zimbabwe. According to Table 4.13, the respondents' opinions suggest that interest rate regulation by the Central Bank of Zimbabwe has a negative effect on the financial performance of microfinance institutions, with a mean value of 4.49 and a standard deviation of 0.63569. Additionally, the study found that interest rates have an impact on the demand and supply for credit, with a mean value of 4.3480 and a standard deviation of 0.84007. The respondents also indicated that the liquidity position of the institution affects sustainability, with a mean value of 4.2500 and a standard deviation of 0.90052. These findings suggest that policymakers need to consider the impact of loan rate regulations on the profitability and long term success of MFIs in Zimbabwe to ensure that they strike a balance between affordable interest rates for borrowers and generating enough interest income to cover operating expenses.

The study highlights the importance of lending interest rates in determining the liquidity and sustainability of microfinance institutions. It suggests that monetary authorities should devise policies that benefit both borrowers and lenders. The findings are in line with the liquidity preference theory developed by Keynes in 1936, which states that loan rate is a result of interdependence of money financial factors. Additionally, the findings supports King's (2009) assertion that the government can influence lending rates by adjusting interest rates, thus affecting citizens' access to credit for economic investments.

#### 4.11 Regression Analysis

The coefficient of determination (R squared) is to measure the strength of the relationship between the lending interest rate and the return on asset of microfinance institutions in Zimbabwe. In this study, the R squared value of 0.523 indicates that the loan interest rate (predictor variable) explains 52.3% of the variable in ROA (outcome variable), while the remaining 47.7% is influenced by additional variables not included in the model. A coefficient of variation is also used to determine the extent to which the dependent variable (ROA) is influenced by the independent variable (LR). The table presented in the study shows the percentage of the dependent variable that is explained by the independent variable.

**Table 4.14 Model Summary**

Model	R	R Square	Adjusted Square	R	Std .Error of the Estimate
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<b>1</b>	<b>.719</b>	<b>.523</b>	<b>.535</b>	<b>.167005625</b>
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**Source: SPSS Computed data**

The data presented in the table found in section 4.14 depicts regression coefficient value of 0.523 that means the borrowing cost, an independent variable, explains about 52.3% of the variation in the dependent variable. The remaining 47.7% of the variability in the return on asset can be attributed to other factors that were not included in the model. This indicates a good fit of the model and suggests that the lending interest rate has a significant impact on the sustainability of MFIs in Zimbabwe.

#### **4.12 Summary**

In this chapter, the response rate of the distributed questionnaires was analyzed, as well as the experience and position of the selected respondents. According to the research, there is a correlation between lending interest rate and the ability of MFIs to remain financially stable, indicating that an increase in lending rate leads to a decrease in return, which hinders sustainability. This finding is in line with previous studies, such as the work of Mwangi (2012), which also found that high lending rates have a negative impact on investment levels and financial performance. The chapter emphasizes the importance of regulating interest rates to ensure the sustainability of MFIs.

## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This study sought to investigate the impact of interest rate regulation on the sustainability of microfinance institutions in Zimbabwe by analyzing the different factors that influence lending interest rates. The previous chapter presented the results of the study and how they align with the literature review. This chapter provides a comprehensive overview of the research, including the conclusions and recommendations based on the findings. The study's recommendations aim to improve the sustainability of microfinance institutions in Zimbabwe and guide policymakers in making informed decisions concerning interest rate regulations. These recommendations may include expanding business associations, offering technical support and capacity building, and establishing lending rate policies that promote sustainability while ensuring that borrowing costs remain affordable.

#### **5.2 Summary of the Study**

The research was conducted as a response to the practice of imposing interest rate ceilings on microfinance institutions by monetary authorities, despite the high operating costs associated transacting little loans and the increased cost funds. Its objective was to evaluate the influence of interest rate regulation on the sustainability of MFIs and explore the outcomes of such regulations. By examining the effects of lending interest rate regulation on the return on assets of MFIs, the study aimed to provide insights into the relationship between interest rate policies and the sustainability of MFIs in Zimbabwe.

The literature review highlights the key factors that impact the sustainability of microfinance institutions, including interest rate regulation, liquidity position, and supply and demand for credit. The empirical study conducted a comprehensive analysis of global research on the impact of interest rate regulation on the sustainability of MFIs. The findings suggest that interest rate regulation can have a negative effect on low-income individuals by creating barriers for new MFIs to enter the market and making it difficult for existing ones to sustain their operations. These insights can inform policymakers on the appropriate policies to enhance the financial inclusion of low-income individuals and promote the sustainability of MFIs.

The study utilized questionnaires to gather data from various respondents and employed a descriptive research design to measure the impact of lending interest rates on the sustainability of MFIs in Zimbabwe. The Likert scale, which is a widely used method for evaluating people's opinions and attitudes, was used to collect data. The study also investigated how the different ownership structures of MFIs can affect interest rates and analyzed the factors considered when determining interest rates. The results of this research are expected to provide valuable insights into the effects of interest rate regulation on the sustainability of MFIs. Policymakers can use these insights to develop policies that promote financial inclusion among low-income individuals.

The research revealed a robust and statistically meaningful connection among the lending rate and the sustainability of MFIs. According to the Pearson correlation study, the correlation coefficient was calculated at  $r = .766$ , with a p-value below 0.05. This implies that any adjustments made by monetary authorities to the lending interest rates have a directly impact the sustainability of MFIs in Zimbabwe.

The research conducted a regression analysis, which revealed that 52.3% of the variation in the dependent variable (ROA sustainability) is explained by changes in the independent variable (lending interest rate). The coefficient of determination ( $R^2$ ) indicates a good fit between the variables.

### **5.3 Conclusion**

Based on the results obtained from the questionnaires and regression analysis, the study concluded that:

- Changes made by monetary authorities to lending rates have a direct impact on the sustainability of MFIs in Zimbabwe. Therefore, interest rate regulation plays a significant role in determining the level of sustainability of MFIs in Zimbabwe. The results of the regression analysis further confirm this, showing that there is a positive correlation between lending interest rate regulation and return on assets (ROA). It can be concluded that interest rate regulation is a critical factor in determining the sustainability of microfinance institutions in Zimbabwe.
- An increase in borrowing rates leads to a decreased return on assets in the MFI, affecting sustainability of the institution. This is because high interest rates discourage borrowers from obtaining loans from the MFIs, and instead, they seek alternative sources from either formal or informal players. Therefore, it is crucial for MFIs to strike a balance between setting interest rates that are profitable for them while still being affordable for borrowers. This will encourage more borrowers to seek loans from the MFIs, thus improving their sustainability.
- However, reducing lending rates resulted in an increase in returns as it attracted more borrowers, whereas increasing rates decreased the return on assets and sustainability of MFIs as it deterred borrowers from seeking loans.

- By regulating the lending interest rates, monetary authorities can influence the interest rates for individuals seeking to borrow funds for economic investment. This study found that MFIs can quickly adapt to changes in interest rate regulations and the overall output.
- The study's findings emphasized the importance of regulating lending rates to ensure the sustainability of MFIs.
- The information gathered also showed that cost of funds, operating expenses, profit margins, and inflation were the important factors considered by MFIs when setting interest rates.

## **5.4 Recommendations**

### **5.4.1 Establishment of Interest Rate Policies**

The study recommends that policymakers and monetary authorities should formulate lending rate policies that promote the sustainability of MFIs in Zimbabwe. Any lending interest rate policies that hinder the sustainability of MFIs should be eliminated. The interest rate policies should ensure that borrowing from MFIs is affordable to most borrowers. Furthermore, the government should implement measures to regulate inflation levels to prevent inflation from driving interest rates high. The government should also take steps to strengthen the country's currency in relation to other currencies. MFIs should be encouraged to invest in capital and avoid unrequired borrowing to remain sustainable. Finally, the government should support profitable MFIs that offer affordable interest rates to the poor, lower than the prevailing market rate, as this can effectively help alleviate poverty among marginalized groups.

### **5.4.2 Technological Advancement Assistance**

To address the issue of high loan prices for financial products in microfinance institutions in Zimbabwe, it is recommended that the Zimbabwe Association of Microfinance Institutions provide technical support and capacity building on grants to address organizational weaknesses. This can help increase efficiency and reduce operating costs, which are major factors contributing to high interest rates. Staff training and development in areas such as information technology, loan advancement, and technical assistance for computer hardware and systems can also help address these issues. By improving operational efficiency and lowering costs, microfinance institutions can offer more affordable interest rates to borrowers, thereby promoting financial inclusion and economic growth in the region.

### **5.4.3 Development of Cordial International Associations**

The study recommends that microfinance institutions in Zimbabwe should consider expanding their business associations globally to attract offshore funding or lines of credit. This will enable them to access cheaper sources of financing, especially during times when local sources are expensive or when there is a shortage of money supply in the economy. When MFIs can access cheaper funds, they are likely to charge lower interest rates on loans, which will benefit their clients and improve their sustainability. By accessing offshore funding, MFIs can also diversify their funding sources, reduce their dependency on local sources, and reduce the risk of interest rate fluctuations in the local market.

### **5.4.4 Suggestions for Future Studies**

The study focused solely on microfinance institutions in Zimbabwe. To gain a more comprehensive understanding of the influence of interest rate regulation on the banking industry, it is recommended that further research be conducted on traditional financial institutions, such as commercial banks. This will provide policymakers with valuable insights into how to regulate interest rates in a way that promotes sustainability and growth in the banking industry, which is critical to the growth of the economy.

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## QUESTIONNAIRE

### Bindura University of Science Education



Dear respondent

My name is B192298B an undergraduate student at Bindura University of Science Education pursuing a Bachelor's Degree in Banking and Finance. I am required to carry out a research project in partial fulfilment of the requirements for the degree. As such the student is carrying out a research on *“the effects of interest rate regulation on sustainability of microfinance institutions in Zimbabwe”*. The researcher is kindly asking for your assistance as respondents to the research understudy by filling in the questionnaire. The responses you will provide will be treated with utmost confidentiality and will be used solely for academic purposes. Your co-operation will be greatly appreciated.

**SECTION A: PERSONAL INFORMATION**

i. Kindly indicate your gender.

Male	
Female	

ii. Kindly indicate your age.

20 to 35 years	
36 to 45 years	
46 to 60 years	
Above 60 years	

iii. For how long have you served the organization?

0 to 5 years	
6 to 10 years	
11 to 15 years	
16 years and above	

iv. May you kindly indicate your highest level of education?

High school	
Diploma	
Undergraduate	
Post graduate	

v. Indicate your job position

Administration Officer	
Loss Control Officer	

Loan Officer	
Branch Manager	

**SECTION B TO EXAMINE HOW INTEREST RATE CONTROLS AFFECT THE PROFITABILITY OF MFIs**

i. Kindly indicate the extent to which you agree or disagree with the following statements on the profitability of MFIs probably used by your organization

**1 = Strongly Disagree, 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree**

number	Statement	1	2	3	4	5
6	Were there strategies that your organization implemented to mitigate the effects of interest rate control on profitability					
7	My organization growth and expansion plans were affected					
8	There was an impact on the overall profitability in my organization					
9	My organization faced changes in the repayment behavior of microfinance clients					
10	My organization was affected by lending					

ii. Kindly answer the following question on interest rate controls,

**11.** What recommendations do you have for policy makers regarding interest rate control policies and their impact on MFIs?

.....

.....

.....

.....

.....

**12.** Do you think interest rate controls are effective in balancing the profitability of your organization with the needs of borrowers ?



**YES**

**NO**

**SECTION C TO FIND OUT IF THE SUPPLY AND DEMAND FOR CREDIT ARE INFLUENCED BY INTEREST RATES.**

i. Indicate the extent to which you agree or disagree with the following statements on the supply and demand for credit in your organization

**1 = Strongly Disagree, 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree.**

Code	Statement	1	2	3	4	5
13	My organization is affected by the supply of funds available					
14	My organization is affected by changes for the demand for loans					
15	I have taken out a loan or applied for credit from my organization					
16	Do you think interest rates in your organization is influenced by the amount of credit available in the market					
17	The interest rate is controlled by the government only.					

2 ii. Kindly indicate how often these are influenced by interest rates

**1 – Rarely; 2 – Sometimes; 3 – Occasional; 4 – Often; 5 – Very Often**

Code	Statement	1	2	3	4	5
18	My organization offers credit when interest rates are high					
19	My organization offers credit when interest rates are low					
20	The changes in interest rates increases default rate					
21	The changes in interest rates affect loan loss provision of the organization					
22	My organization’s savings behavior is affected by supply and demand					

**SECTION D TO DETERMINE THE EFFECT OF LIQUIDITY POSITION ON SUSTAINABILITY OF MFIs.**

i. Indicate the extent to which you agree or disagree with the following statements on payment of purchases by the company

**1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree.**

Code	Statement	1	2	3	4	5
23	My organization is able to manage its liquidity position					

24	My organization ensures that it has sufficient liquidity to meet its financial obligation					
25	My organization has ways to ensure that its liquidity position is aligned with its strategic goals					
26	My organization uses strategies to balance its need for liquidity with its profitability objectives					

**SECTION E TO IDENTIFY FACTORS TO BE CONSIDERED WHEN SETTING INTEREST RATES.**

i. Indicate the extent to which you agree or disagree with the following statements on factors considered when setting interest rate in your organization

**1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree.**

Number	Statement	1	2	3	4	5
27	The current economic conditions affect interest rate					
28	Do inflation rates have a significant impact on interest rates					
29	The level of competition in the market affect interest rates					
30	Do the changes in the interest rates can impact the borrowing behavior of consumers and businesses					

**SECTION F TO EXAMINE IF OPERATING INCOME SUSTAINS MFIs.**

i. Indicate the extent to which you agree or disagree with the following statements on operational performance in your organization

**1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 = Strongly Agree.**

Number	Statement	1	2	3	4	5
31	Interest rates improved my organization's operation performance					
32	My organization operating income changed over the past year					
33	My organization implemented strategies to increase its operating income					

34	The operating income of my organization affect its capacity to provide affordable interest rates to borrowers					
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ii. Kindly rate the effect of operating income in your organization

**1 = Very poor; 2 = poor; 3 = satisfactory; 4 Very good; 5 = Excellent.**

Very poor	
Poor	
Satisfactory	
Very good	
Excellent	

**THANKS FOR YOUR TIME & COOPERATION**

