BINDURA UNIVERSITY OF SCIENCE EDUCATION

AN INVESTIGATION OF THE CHALLENGES RELATING TO CREDIT GRANTING AND RECOVERY IN PARTICULAR: STEWARD BANK

By

B192401B

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Dissertation submitted in partial fulfillment of the requirements for the Bachelor of Commerce Honors Degree in Banking and Finance, department and the Bindura University of Science Education.

APPROVAL FORM

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PROJECT TITLE	:	An Investigation Of The Challenges Relating To Credit Granting And Recovery. A Case Of Steward Bank (Zimbabwe).
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DEDICATION

I dedicate my research to my late parents, as well as my family, for their unending support and encouragement during my studies. I am delighted to deliver this to you, and I hope I have done you proud.

THE ABSTRACT

This study investigated the challenges faced by Steward Bank in credit granting and recovery. The study collected data from the bank's employees in Harare focusing on the credit management practices of the bank in areas of problems in loan recovery, effects of loan defaults, credit management practice of the bank and measures to lower loan defaults in banks. Fifty bank employees participated in the questionnaire survey, and the results were collected to determine how each thought about the bank's credit-granting and debt-recovery policies in regard to the above mentioned procedures. To measure the study's variables, closed-ended questions were employed in a survey format. Using SPSS version 20 and Microsoft Excel version 2016, descriptive statistics, percentages, and frequency were used to evaluate the data. The survey's findings reveal that the majority of bank employees are concerned about the country's hyper-inflationary conditions, the rates on parallel markets, the inadequate credit research used to approve loans, and the equally inadequate follow-up and recovery efforts. The research project concludes with a set of recommendations for commercial banks to enhance their credit granting and recovery practices. These recommendations encompass the development of comprehensive credit policies, investment in staff training and capacity building, and fostering collaboration between banks and regulatory authorities. By addressing these challenges and implementing the proposed solutions, commercial banks can strengthen their credit operations, reduce credit risks, and contribute to a more resilient and sustainable banking sector.

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CHAPTER I

INTRODUCTION

1.0 Introduction

Chapter one provides an overview of the study that the research intends to do. This chapter provides context for the research study by laying the groundwork for the research objectives, research questions, and problem statement. As a result, the background will generally highlight the primary focus of this research, "Assessing the challenges associated with credit granting and recovery in commercial banks in Zimbabwe using Steward Bank as a case study." The examination study will include the study review's limits as well as definitions of terminology.

1.1 Introduction of the study

In Zimbabwe, businesses typically have credit arrangements with financial institutions, particularly banks. As World Bank (2017) found, credit is a key financial tool that helps businesses succeed, which in turn contributes to the country's economic growth. Credit is used by businesses for a wide range of objectives, including short-term loans for working capital and long-term loans for capital expenditures, acquisitions, and long-term expansions. The Fair Credit Reporting Act (FCRA) requires that all loan applications be properly assessed to determine the borrower's capacity to repay the amount when it is past due.

Commercial banks carry out regular banking activities such as trading cash for deposits into banks and transfer of deposits between corporations, providing trustee and executor services, safekeeping money and valuables, and remitting foreign exchange, among others. While commercial banks may vary from country to country, their primary goals are to make a profit and provide banking services. Profit maximization is the bank's primary objective, despite social and economic obligations that may divert them from this objective Smith (2008). Lending has become an essential part of banking operations due to its direct impact on economic growth and corporate development.

Scott (2009) states that in a market-oriented economy, the two essential players who drive economic progress are the suppliers of hidden cash and the individuals who utilize these funds for productive purposes. These players are spread out across the economy and might not be directly related. According to Mankiw (2014), banks act as intermediaries, gathering surplus money from small and large savers. These funds are used by individuals and capitalists who have great ideas but require the funds to put these into practice. These people request institutions for loans, making lending an unsafe business that banks will only undertake after a thorough and comprehensive project review. The bank's management must create and implement clear lending policies, specifying who will receive how much money, for how long, and for what purpose. Lending officers must understand the regulations and the areas in which they are allowed to operate. Regular reviews of these policies ensure that banks remain competitive and keep pace with the economy's dynamic nature and innovation.

As a result, evaluating the risks associated with lending to bank customers is one of the main objectives of credit analysis. Risk refers to the volatility of earnings in finance McConnell (2016). Lenders are especially worried about earnings or income changes that affect the borrower's ability to pay back the loan. While certain risks, such as those associated with the debtor's behavior and ability to fulfill their obligations, cannot be directly evaluated, others, such as those associated with the debtor's personality and ability to pay back the loan which can be quantified using previous and predicted financial data.

1.2 Background of the study

In the early 2000s, the Reserve Bank of Zimbabwe stated in a report that the banking sector's high levels of non-performing loans were a major problem. According to the research, "the banking sector has experienced high levels of non-performing loans, which eroded banks' profitability and solvency and negatively impacted the country's financial stability." Reserve Bank of Zimbabwe (2003). The report goes on to explain that the high levels of loan defaults were caused by a variety of reasons, such as the hyper-inflationary environment, a lack of access to foreign money, and commercial banks' weak credit risk management policies.

In more recent years, the government of Zimbabwe has implemented various economic reforms aimed at stabilizing the economy. For example, the government introduced a local currency in 2019 to replace the multi-currency system that had been in place since 2009. The government also removed price controls, which had previously been used to combat inflation but had contributed to shortages of goods and services International Monetary Fund (2019). Despite these reforms, challenges relating to credit granting and recovery in commercial banks in Zimbabwe still exist. For example, a report by the World Bank notes that small businesses still have restricted access to loans, especially those who lack collateral. World Bank (2019). The same report emphasizes the need for commercial banks to strengthen their credit risk management practices.

To summarize, the challenges relating to credit granting and recovery in commercial banks in Zimbabwe are complex and multifaceted, and addressing these challenges will require a coordinated effort from various stakeholders. However, the government's economic reforms and the efforts of commercial banks to improve their credit risk management practices are positive steps towards improving the stability and growth of the banking sector in Zimbabwe.

1.2.1 Background of the Organisation Steward Bank

The Reserve Bank of Zimbabwe regulates Steward Bank, also known as Steward Bank Limited, as a registered financial institution. Steward Bank was founded in July 2013 as a result of Econet Wireless Zimbabwe, a division of TN Holdings Limited (now Lifestyle Holdings), acquiring TN Bank. Since its founding, the bank has focused on positioning itself as a mass-bank and providing financial solutions by utilizing technology. Wikipedia (2023).

Steward Bank, according to Wikipedia (2023), is one of the earliest banks in the country to have integration with communications, and the bank's digital focus is likely to transform the way Zimbabweans approach banking. The financial institution has played an important role in offering funding and loans to its customers in order to increase funding for the country and generate profits for its owners. Steward Bank (2021/22).

According to the information the researcher gathered, Steward Bank presently operates its banking service nationwide through 8 branches and offers 325 employees, both permanent and temporary, job opportunities. Due to a 139% increase in net interest revenue (from lending activities) and a 25% increase in non-funded income (charges, fees, and commissions), the bank reported a 235% increase in annual net profit before taxes for the fiscal year 2021/22.The increase in interest income was partially due to 322,924 new customers using Kashagi to obtain loans totaling ZW$1 billion and ZW$937 million for SME financing. In Zimbabwe, non-performing loans (NPLs) have risen steadily in recent years and will reach a record high of 24% in 2022.Steward Bank (2023). The country's economic crisis, which has caused a fall in economic activity and an increase in unemployment, is one of the causes of this. The high cost of credit, the lack of access to credit information, and the political instability in Zimbabwe have also contributed to the problem. The researcher used Steward Bank as a case study as it is the place where the researcher was attached where she was exposed to the credit system of the Bank.

1.3 Statement of the problem

Credit recovery is critical to the stability and profitability of Zimbabwean institutions. According to the Institute of Bankers in Zimbabwe (2018), the banking sector in Zimbabwe confronts several challenges in properly recovering credit, resulting in a high percentage of non-performing loans and financial distress. This research aims to identify and analyze the key challenges faced by banks in Zimbabwe in the process of credit granting and recovery, including factors such as inadequate legal frameworks, limited collateral valuation mechanisms, ineffective credit risk assessment, and challenges in debt collection. By understanding these challenges, this study seeks to provide valuable insights and potential solutions to enhance credit recovery practices, improve loan quality, and foster the overall financial health of banks in Zimbabwe.

1.4 Research objectives

Knowing that a commercial bank's lending goals are to support expansion, profitability, and liquidity and that a substantial percentage of the bank's income comes from deposits, the overall consequence of loan default will be the loss of trust in the system of banks.

1.4.1 Aim

To investigate the challenges relating to credit granting and recovering of commercial banks in Zimbabwe in particular Steward Bank.

1.4.2 Specific objective

1. To evaluate the problems faced by Steward Bank in loan recovery.
2. To determine the effects of loan default on the performance of Steward Bank.
3. To investigate current credit analysis methods of Steward Bank.
4. To identify and recommend measures that will help Steward Bank reduce the number of loan defaults.

1.5 Research questions

The researcher came up with the following research questions:

1. What are the challenges that Steward Bank faces in recovering loans?
2. How do loan defaults impact the performance of Steward Bank?
3. Is the significance of sound credit analysis sufficiently addressed by Steward Bank's present credit management methods?
4. What measures can be taken to reduce the frequency of loan defaults at Steward Bank?

1.6 Hypothesis statement

The researcher came up with the following hypothesis statement:

H_0: Loan defaults do not have a negative impact on bank performance.

H_1: Loan defaults have a negative impact on bank performance.

1.7 Significance of the study

The study is significant to the stakeholders below:

Significance to practice: This study will help banks to improve their loan recovery practices by identifying the problems that they face and by providing recommendations for improvement. The study will also help banks to be more selective in their loan disbursements and to develop more effective loan recovery procedures.

Significance to policy: This study will help policy makers in the banking industry to develop more effective policies for reducing loan defaults. The study will also help policy makers to understand the factors that contribute to loan defaults and to develop strategies for mitigating these factors.

Significance to theory: This study adds to the existing body of knowledge on loan defaults by providing empirical evidence on the effectiveness of measures taken by banks to reduce loan defaults. The study also contributes to the theoretical understanding of loan defaults by providing insights into the factors that contribute to loan defaults and the strategies that can be used to mitigate these factors.

1.8 Assumptions

i. The sample of respondents chosen is representative of the total target population.

ii. Respondents are willing and able to participate in the research review.

1.9 Limitations of the study

Several limitations confronted the researcher over the duration of the study. One of the restraints was the limited time frame for completion of the investigation. Another challenge was a lack of funds, which kept the researcher from traveling to gather data. Furthermore, most credit analysis procedures in the Bank was not revealed in order to provide the necessary data.

1.10 Definition of terms

Throughout the study, the researcher uses various terms that must be clarified in order to guide the reader.

BAD AND DOUBTFUL DEBT: Bad debts are loans that are not redeemable but are written off as losses, whereas doubtful debts are loans for which full or partial recovery is unclear. Warren et al. (2018).

BANKING: A financial institution that converts and exchanges loans and credits between owners. Turner et al. (2006).

CAPITAL: It is the bank's equity worth divided by the present value of the future profits. Tato (2001).

CREDIT: Credit is the bank's faith in its customer to lend him a specified amount to be used for a certain purpose for a specific period of time, with payment made under specific terms, and providing confirmation for the bank to recover his loan. Mankiw (2014).

LIQUIDITY: This is a term used by banks to define their capacity to meet cash requests in return for deposits.

LOAN: The act of permitting a borrower to make temporary use of cash at his or her disposal. It is also an official contract in which a bank agrees to lend a specified amount to a customer for an agreed-upon duration of time. Merriam-Webster (2023).

NON-PERFORMING LOAN: A non-performing loan (NPL) is a loan that is not performing according to its agreed terms. This may include loans that are in default, past due, or impaired. Bank for International Settlements (2017).

RISK: Risk is the measure of uncertainty inherent in any decision-making process. It is a function of the probability of an event occurring and the magnitude of the consequences of that event. Lam (2007).

1.11 Organization of the study

The research report is divided into five chapters.

i. The first chapter discusses the introduction, background of the study, problem statement, aims of the investigation, research questions, and significance of the study, scope, and constraints of the study.

ii. Chapter two is an analysis of important literature that contains information on the notion of credit granting, the effects of loan defaults, and the obstacles associated with credit granting.

iii. The third chapter, which focuses on research methodology, discusses the research design, data source(s), and population, sampling, and sampling strategies.

iv. Chapter four examines the findings and outcomes of the actual data analysis from the field survey.

v. Chapter five contains the findings, suggestions, and conclusion.

CHAPTER II

LITERATURE REVIEW

2.0. Introduction

This chapter seeks to explore the literature surrounding the area of study. The researcher focuses on understanding and outlining the concepts within the area of the study and getting exposed to previous studies on issues surrounding the study. The literature review is beneficial to the researcher because it allows the understanding of the concepts and previous findings to set parameters for comparison and guidelines.

2.1. Theoretical framework

The study focuses on the asymmetric information theory and the Time-value of money theory.

2.1.1 Asymmetric information theory

The theory claims that there is frequently a knowledge gap between lenders and borrowers, according to Moti et al. (2012). According to this viewpoint, one side possesses information that the other does not. As a result, there is a power disparity in interactions. Information asymmetry is thought to be crucial in all communication processes and might result in misunderstandings. In the framework of commercial bank lending, it is extremely possible that borrowers have more and better information about commercial banks than the latter. Banks may be unable to properly analyze the creditworthiness of potential borrowers on mobile platforms due to information asymmetry in this situation. Because of the information asymmetry in this situation, banks may not be able to appropriately assess the creditworthiness of potential borrowers on mobile platforms. As a result, commercial banks can make loans to customers on mobile platforms with a significant default rate Moti et al. (2012). This theory is pertinent to the current study because it demonstrates the inherent difficulties in credit granting when information is lacking, particularly in the lender rather than the borrower. The banks cannon predetermine to great length the creditworthiness of their customers, and thus, naturally they stand to risk the potential loss due to this lack of knowledge. Since the customers already know that the banks do not know everything, they can manipulate the truth or play around with facts and ultimately end up defaulting their loans, leading the banks to loss.

2.1.2 Time value of money theory

The theory of the time value of money posits that a dollar received today is more advantageous than receiving the same dollar in the future. This concept arose from the need to comprehend how money's value depreciates over time due to a discounting factor. This factor is very important when it comes to banking, loans, and loan repayments Investopedia (2021). In the case of corporate entities that frequently borrow substantial sums of money, both the bank and the company must assess whether the amount borrowed and repaid generates a positive net present value and enhances their cash position. This assessment involves considering the profitability achieved over time, considering the diminishing value of money caused by the discounting factor associated with the time value of money Investopedia (2021). Understanding the time value of money is instrumental as it reveals how banks preserve the value of money over time through loan issuance. Furthermore, it facilitates evaluating a borrower's ability to repay loans while maintaining the value of money, notwithstanding the impact of interest charges and the discounting factors affecting the money's value Investopedia (2021).

2.1.3 Adverse selection theory

This theory refers to a problem that occurs when one party to a transaction has more information than the other. In the context of mobile lending, this means that borrowers may have more information about their creditworthiness than banks do. This can lead to a situation where only high-risk borrowers apply for loans, as they are the ones who most need the money. This can make it difficult for banks to make loans, as they are more likely to default. For example, Moti et al. (2012) found that adverse selection was a major problem in the mobile lending market in Kenya. The study found that borrowers who applied for loans through mobile phones were more likely to be high-risk than those who applied for loans through traditional channels. This was because borrowers who applied through mobile phones were less likely to have a credit history and were more likely to be located in rural areas, where it is more difficult for banks to collect on loans. Thus, this theory is of paramount importance as it comes up with many ways to mitigate the problem of adverse selection in mobile lending, which can help banks to assess the risk of lending to a particular borrower.

2.2. Credit granting

To understand the study, the researcher focused on trying to understand the concept of credit granting within banks, the concept of credit granting, credit recovery, and the challenges in credit granting.

2.2.1 Credit granting concept

Credit granting is the process of issuing loans to individuals, corporations, and other bodies from the bank's facilities. Credit granting is the practice of issuing credit facilities to different kinds of clients, especially in financial and monetary institutions such as banks.

Commercial banks are among the leading credit-granting facilities globally. The credit granting concept is a practice that considers issues of risk and security above all else. Generally, as a practice, credit granting focuses on five Cs which are character, capacity, capital, collateral, and credit. These were findings by Swami (2014), who showed that they the main concepts that need consideration when issuing credit facilities. Character refers to personality, capacity refers to the ability of the creditor to pay, collateral refers to the security that can be liquidated in case you fail to pay, capital refers to the net worth of an individual, and credit refers to the qualitative characteristics of the recipient of credit and the credit policies in place.

Character is defined by Forbes (2023) as the borrower's capacity and willingness to repay the debt. It is evaluated based on the borrower's history, honesty, integrity, and dependability as well as the owners' dedication. While a good character is seen to be the most crucial element in loan approval, it is also the most challenging to judge. When evaluating character, the borrower's honesty, integrity, and dependability are all taken into account. The history of the borrower and the owners' dedication are also taken into account. A firm is, specifically in terms of credit, based on prior performance, claims Moorman (2011). A borrower has a strong reputation or credit record if their prior promises were kept and payments made on time. Character is seen as being the most important and yet the most challenging to assess.

Credit risk has historically been the most important management concern for banks Moorman (2011). For banks, whose fundamental business strategy is to take on financial risks in exchange for rewards, the effectiveness of credit risk management is crucial. The borrower or company counterparties are unable to meet their contractual responsibilities as a consequence of deterioration and other variables from the entrepreneurs (such as entanglements between businesses); thus, there is a danger of agreement breach and revenue loss as stated by Basel Committee on Banking Supervision (2010). Issuer risk results from a breach of contract when issuers of bonds or lenders fail to make payments on time or when their credit ratings decline, causing a financial loss.

The debt credit conditions of borrowers and bond issuers are frequently connected with lending risk or issuer risk, as is the degree to which financial products are susceptible to risk. The second kind of credit risk is the counter-party risk. Settlement risk and pre-settlement risk are the two categories into which it is split. The possibility that counter-parties fail to meet their contractual obligations by the due settlement date, resulting in the loss of the bank's full principal, is known as settlement risk. Pre-settlement risk, according to Standard & Poor's (2018), is the possibility that counter-parties will break the terms of the deal before the final settlement day.

2.2.2 Challenges of loan granting

There are both internal and external factors that can affect loan granting challenges as according to Muguse (2019). The difficulties that arise within the company that extends credit are referred to as internal challenges. Such factors include operation management, strategy, information and technology infrastructure, organizational culture, organizational structure, and risk management practice within the organization. World Bank (2015) found that the risk management platform contributes greatly to the ease or challenges in granting and recovering credit. The inability for an organization to adequately know their clients, manage their finances, organize resources, track their funds, and manage credit facilities also contributes toward the challenges involved in loan granting.

Banks also experience external factors that hinder the granting of loans. Political, Economic, Social, Technological, Environmental, and Legal (PESTEL) variables make up the majority of the external components. In developing countries, World Bank (2019) found that there is a high over involvement of the political powers, which tends to hinder the granting and repayment of loans. In Zimbabwe, issues with political involvement are seen when the government establishes schemes like the Pfumvudza, Command Agriculture, and other schemes where politically inclined persons are given agricultural loans and they do not pay back in the end, leaving the banks in debt Makaarau (2020). The political sphere crafts such policies and the banks are not in a better position to negotiate because of the political nature of the request. In the end, banks offer loans and credit without the due process at the request of the government and political leaders. This leads to challenges in loan granting and recovery of said loans.

Despite the politics, economic challenges are involved within the banks in the granting of credit. The fiscal and monetary policies dominant within an economy and the economic stability of the country often determine the availability of credit in banks. In modern Zimbabwe, according to Dube (2020), banks are highly reluctant to issue credit, especially in the local currency, because of the instability of the currency and the parallel (black) market for money within the country. The use of a multi-currency system led to the development of a parallel market, which in turn created a high inflation rate for the local currency as it struggled to pace with the foreign currency. The black market also contributed toward the increase in the inflation rate of the new currency. This creates challenges for banks that offer credit in the local currency. There are no realistic interest rates that can recuperate the loaned sums profitably if the rate of inflation exceeds their interest rate. Muzorori (2019) also indicated that economic policies within the country often create challenges for banks to disburse funds if the policies are being challenged by a parallel market or a dominant informal sector within the country. Thus, Muzorori (2019) thought that there is high credit risk and greater challenges in credit recovery in countries where there exists a parallel market that offers better interest rates than the official market and seemingly offers better value for money than the established official rates.

Furthermore, technological factors have been noted to contribute toward the granting of credit among banks. Xi et al. (2020) in a study in China found that the technological framework included in screening loan applicants and disbursing and recovering loans leads to better and faster credit risk management and credit recovery processes by the banks. Technology considers more in-depth analyses of information regarding the creditworthiness of an individual, including their “social” value. With technology, there has been a rise in credit facilities being granted without collateral, including group loans and crowd funding efforts. Through advances in technology, it has become possible to grant loans online and complete an evaluation of clients online without interacting much with them. The challenges presented in the use of technology, especially in African environments, are connectivity, access, and willingness to comply. Mwangi (2020) in a Malawian study toward understanding the impact of technology on the granting of credit noted that there were factors that hindered the credit facilities on African banks that relied heavily upon technology. The main challenge was the inability of the audience to comply with automated technological platforms. It seems that for the sake of security concerns and resistance to change, most customers do not feel comfortable divulging their financial and personal information online, despite how confidential and secure the banks say the information is. Therefore, customer preferences would push the banks to stick to the old ways of doing things because of this resistance to change. Technology has also opened up possibilities for scams and fraud through these loan facilities. There have been instances in Zimbabwe where technological platforms like mobile banking and internet banking have provided challenges to banks. In 2022, NMB Bank in Zimbabwe was defrauded of a whooping USD$66 million through an error on their technological platform Moyo (2022), which saw them at a loss. Therefore, technology might pose advantages toward the granting and recovery of loaned amounts, but it is also important to note that technology also poses challenges and threats in loan granting and recovery.

Tembo (2013) found that there are also social, legal and environmental factors that challenge the issuing and recovering of loaned amounts. In Zimbabwe, Tembo (2013) indicated that the society was no longer confident in the banking system because of past experiences where the economic crisis in the country made the amounts which were in banks become trapped and lose value. This was in reference to the 2008 economic crisis in the country. Therefore, Tembo (2013) argued that the society has lost confidence in the banking system within the country and this led to people shunning to deposit money into the banks. This creates a challenge because the bank can no longer offer credit facilities without the adequate capital required to sustain such engagements.

2.3 Effects of loan defaults

Numerous studies have been done to look at the reasons why financial institutions experience bad loans. Berger and De Young (2017) found that poor management is a key cause of bad loans. Managers in many financial institutions fail to conduct proper credit underwriting, tracking, and management. Additionally, Goldstein and Turner (2016) discovered that a variety of circumstances, such as economic downturns, unstable macroeconomic conditions, deteriorating terms of trade, increased interest rates, and a significant reliance on pricey inter-bank loans, can contribute to problematic loans. The problem of unpaid loans may also be caused by an overdrawn account without an overdraft limit, an overdraft granted on a bank account that has not been used for a while, an overdraft taken in excess of appropriate operational limits, a lender's poor skills and judgment, or a combination of these three.

Another problem is that banks have suffered financial losses as a result of failing to exercise appropriate prudence with certain strained credit structures. Highly leveraged debtors who are given credit run the risk of suffering significant losses in the event of default. Lending against non-financial assets leads to bad loans. In this situation, lending banks fall short of performing a thorough analysis of the correlation between the borrower's financial situation and price changes and market liquidity for collateral assets.

Another problem is that several banks overlook how the lending cycle affects the economy. Credit analysis may contain unrealistic assumptions in the growing phase of the business cycle as income prospects and asset values increase. These assumptions include competition among financial institutions for growth and profitability as well as the desire to lead the market, which can lead to financial institutions lowering their standards or incorrectly pricing their loan products.

These findings indicate that credit risk management difficulties throughout the banking industry are a complicated issue with multiple interlinked and intertwining components that are difficult to disassemble or fully handle.

2.4 Credit analysis/evaluation practice in banks

Over the last two decades, global banking credit risk management and evaluation have progressed through numerous stages, as follows:

- As a result of the 1980s financial crisis, banks began to prioritize preventative measures and credit risk management. Thus, the "Basel Accord" was born, which was a form of imprecise study of the credit risk; this accord defined the risks by the adoption of different rankings on various assets.

- The majority of banks acknowledged that credit risk, the most important element of financial risk, remained cause for concern in the 1990s. They tried to develop an internal method and model for measuring credit risk and the model that attracted the most interest was "Credit Metrics," a credit risk management system from J.P. Morgan.

- The Asian financial crisis of 1997 exposed new patterns of international financial risk. Losses were caused by a combination of credit risk and market risk, rather than by a single risk. The banking sector was motivated by the financial crisis to evaluate the mix of market risk and credit risk, as well as to focus on the measurement issues of operational risk. Following that, the complete risk management. Chen & Fabozzi (2009)

Traditionally, expert systems, internal credit rating evaluation models, and Z-rating models have been used to control credit risk. However, current banking innovations have rendered these approaches outdated and unreliable. Modern technological advances and improvements in the management of markets and other risks have also brought modern credit risk management to a certain level.

According to current research, there are numerous methods for credit risk measurement, including Credit metrics, KMV, and Credit risk. However, the validity and reliability of these models remain debatable. As a result, there is still no all-encompassing criteria for gauging credit risk. Creditworthiness is determined by qualitative analysis (borrower's character, goodwill, social standing, etc.) rather than the borrower's income or collateral size Acharya & Richardson (2010). To determine credit and borrower legal compliance institutions often utilize credit scoring algorithms to mathematically analyze an applicant's credit history.

Banks evaluate the creditworthiness of corporate customers by considering multiple factors. To create an effective credit rating model, credit officers need to have expertise and experience. Previous studies have not considered the diverse opinions of loan officers. Asamoah (2014) developed a superior rating system, but it lacks the ability to handle unexpected events. The knowledge of top credit officers with experience making credit decisions can be incorporated into credit scoring models to determine credit classifications and rating weights.

2.5 Measures to lower frequency of loan defaults in banks

Findings in other studies have shown that borrowers should be educated on the methods that they can use in order not to overspend loans and find themselves incapable of repaying them. Grant (2019) found that, based on the positive relationship between the size of management and loan default, it is recommended that corporate borrowers should reduce the number of employees in high-ranking positions who oversee the firms’ activities. This will reduce management expenses and free resources that can be used to fulfill loan repayment obligations. Moreover, the savings to be made from the reduction in management expenses such as salaries and allowances may preclude the need for additional loans to finance firms’ activities and consequently, avoid multiple borrowing.

The positive relationship between multiple borrowing and loan default can be attributed to the higher financial burden of borrowers. Having multiple borrowings increases firms’ indebtedness, which in turn makes it difficult for firms to meet all loan repayment obligations. This result justifies Nkomo (2017) who reports that multiple borrowing increases the indebtedness of firms and makes loan repayment very difficult. Afroze et al., (2014) also reported that individuals who have multiple loans from different financial institutions often delay in loan repayment. The positive relationship in this study is also consistent with the finding of Mokhtar et al. (2012). These are studies on Kenya, Bangladesh and Malaysia, respectively. Other important findings are that a larger size of management (employees in high ranking positions who oversee firm is) increases the likelihood of loan default. A high profit level and pledging of collateral reduce the likelihood of loan default.

2.6 Empirical studies on challenges relating to credit granting and credit recovery in commercial banks

1. Matenda, Sibanda, Chidzoka and Gumbo (2022) found that there exist a number of important factors that affect the likelihood that a private non-financial firm in Zimbabwe will be able to repay its bank loans, including firm size, collateral value, exposure to default, earnings before interest and tax/total assets ratio, the length of the workout process, total debt/total assets ratio, inflation, interest rates, and the real growth rate of the country's gross domestic product. They conducted their study using the linear ordinary least squares regression model. Their research focused on identifying and interpreting the factors that affect the likelihood that private firm bank loans will be

recovered after default. Their findings are crucial to this study since they inform the researcher's understanding and provide information on the viability of utilizing regression analysis in data analysis. The researcher benefits from this study because it shows factors that need to be considered when choosing to understand loan recovery.

2. Trautmann and Vlahu (2010) found that when greater transparency regulations make a bank's flaws more widely known, solvent borrowers are more inclined to strategically fail to succeed. They also found that loan defaults increase during economic downturns, which often make the borrowers uncertain of their financial well-being. The study helps the current study understand that there is a need to determine the reason why borrowers are defaulting and an assessment of the economic environment to ensure that there is stability in the economy to allow the borrowers to faithfully pay back their dues.

3. Hu (2021) in a study entitled "Dynamic theory of bank lending, firm entry, and investment fluctuations" found bad economic shocks affect the repayment of borrowed amounts. The study also found that bank lending standards negatively affect potential borrowers because of their excessive needs and ambiguous security/security requirements. The due process for loan approval also takes time and this often discourages borrowers. Therefore, the findings of the study indicate a weakness in the banks as they try to be thorough in their screening process, there is a delay in their granting of credit, which leads to dissatisfaction from potential clients. The study is useful to this study because it shows aspects of credit granting that are considered before giving out loans. These factors help ensure the ability of a customer to not default on the loan repayment.

4. Higgins (2021) argues that loans remain the highest source of credit risk in banks. He suggests that banks need to have tighter controls over their credit risk by establishing robust credit risk management systems. These systems should be exhaustive in vetting loan approvals and should consider the non-financial profiles of the borrowers, such as their social status, reputation, character, and past behavior. This is done to avoid loan default because of the lack of due process from the banks. This article is helpful to the current study because it shows potential solutions to some of the problems being experienced in this study. For example, the study found that borrowers are often able to sway banks into believing that they are capable of repaying a loan, even if they are not.

This suggests that banks can address this problem by establishing robust credit risk management systems that consider the non-financial profiles of borrowers.

5. McKinsey and Kim (2019) found that the inherent asymmetry of knowledge between banks and borrowers leads to a disparity between the two parties. Borrowers naturally have more knowledge about the banks than the banks have about the borrowers. This creates a problem where borrowers can sway banks into believing that they are capable of repaying a loan, even if they are not. This creates a high risk for the bank. The study explored and explained the asymmetry of information theory upon which this study is based. They found that the knowledge gap creates challenges and increases risk for the bank. This study is helpful to the current study because it shows how banks need to put much effort into bridging this knowledge gap if they are to handle issues of loan defaulting.

2.7 Research gap

The researcher has emphasized that there is a need for more research on loan repayment, particularly among Zimbabwean banks. The bulk of studies, it has been discovered, are primarily concerned with the use of paperless banking, the adoption of new technologies by banks, and changes in the technical environment and how they impact bank performance. Despite the significance of these ideas, there is a lack of research on how banks are also impacted by loan defaults and banks' incapacity to pursue defaulted loans fully and adequately. As a result, the researcher decides to concentrate the study's attention on an analysis of the difficulties commercial banks in Zimbabwe have when granting and recovering credit.

2.8 Chapter Summary

This chapter examined the researcher's area of study. The researcher discovered that the theoretical framework surrounding the area of the study is based on the time value of money, adverse selection theory, and asymmetric information theory. The researcher also reviewed previous studies and found their opinions on the area of the study. Through this chapter, the researcher became adequately equipped to develop a research methodology that should assist in gathering information for this study. The following chapter shows the research methodology used by the researcher.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter captures the research strategy, methodology, data source and collection tools, sample size and sampling methods, and data analysis processes, highlighting the criteria used to collect, analyses and present that data to give my research legitimacy and to provide findings in a smooth, effective and manageable manner, thereby satisfying the study objectives.

3.1 Research design

A survey was undertaken to obtain the perspectives of several bank executives on the challenges involved in extending and collecting loans using Steward Bank as a case study. Zikmund (2011) defined study design as a process that outlines the procedures for gathering and processing necessary data. In the end, they come to the conclusion that it offers a framework for the study procedure. Using this technique, the researcher gathered and took into account the views of bank customers as well as personnel from the credit division, the operations department, customer consultants, and management. Using a questionnaire, both primary and secondary data were acquired. Since it was founded on factual data collection, practical in character, objective, and free from the influence of its social actors, this study adhered to the positivist research theory. Its foundation was ontological objectivism. Participants in Steward Bank's credit risk management operations were given the survey questions that the researcher had created based on inquiries from a literature analysis. Babbie (2010) states that the deductive approach is often used in research that is conducted using the positivist philosophy of research thus the study used a deductive methodology. According to Mugenda &

Mugenda (2010), questionnaire studies comprise questionnaires to collect data from a larger number of sources. Surveys frequently contain some quantitative analysis due to growth in instances. Using a quantitative research approach, the current study's goals, objectives, and problems were addressed. Surveys are frequently carried out to gather data directly from a population or sample in order to learn more about the facts. Surveys are frequently carried out to gather data directly from a population or sample in order to learn more about the facts. Kothari (2010) analyzes and categorizes various demographic groups, understands connections and their causes, and forecasts events in a natural setting using periodic survey data. This requires direct responses from a sizable number of respondents. Creswell (2009) asserts that whereas an extended survey is used when the researcher wants to make assumptions, an intensive survey is used to produce estimates.

3.2 Population of the study and sample size

Obtaining data from each aspect of the population is typically challenging for researchers, thus samples must be gathered using the appropriate sampling techniques. According to Kothari (2010), a good sampling design should properly reflect the entire population, produce a minimal sampling error that can be managed given the available resources, and enable generalization of the sample study's findings to the full population.

3.2.1 Population of the study

Three members of the bank's executive management who directly engaged in the process of credit approval, branch managers, customer service representatives, and all workers in the credit management department were included in the study. A systematic questionnaire was used to assess the participants. Five members of the management team from each Steward Bank branch were chosen using the census sampling method. This is consistent with the claim by Fellows and Liu (2008) that a certain stratum can be concentrated on if it makes it easier to collect data and produce relevant conclusions. Because they were technically in charge of the daily operations of Steward Bank and thus had an adequate understanding to respond to the primary targets of the study. The following table summarizes the questionnaire-based study of the aforementioned target group that was conducted on the management team selected from the Lending Department, Operational Department, Customer Officers, and their managers.

Table 3.1 Population Size of the Study

Respondents	Population size
Department Heads	3
Client Managers	15
Customer Service Officers	10
Loan Officers	10
Legal Officers	4
Operations Managers	8
Total Population	50

Accordingly, 50 bank employees were taken into account for the study, whose data was gathered using the census method from the population of employees who directly participate in daily credit management operations of the bank.

3.2.2 Sample size

The population of the study was small, so the census sampling method was used to collect data from all of the employees in the Lending Department, Operational Department, Customer Officers and their managers. The census sampling method is appropriate for small populations because it enables the collection of data from all members of the population in this case, which included all 45 credit processing employees.

3.3 Research Instruments

For this study, both primary and secondary data were gathered. In order to collect the information required, 50 of the bank's target audiences answered a closed-ended questionnaire. Secondary data was collected via the Steward Bank website, the bank's credit regulations and policies, annual reports, published and unpublished information, books and journals from libraries, and internet searches. The questionnaire was created to gather information from bank workers who work in credit processing so as to protect their safety at work by their participation in this study.

3.4 Data Collection Procedures

The researcher issued a letter of introduction from the Department of Banking and Finance at the Bindura University of Science Education in order to gather data from Steward Bank management members. The letter gave the Steward Bank management the reassurance that any information submitted would be kept private and used only for academic research. Fifty employees selected from the Credit Department, Operations Department, Customer Advisers, and Managers of the eight Steward Bank branches were then given questionnaires by the researcher. To provide the necessary respondents with the questionnaire, the researcher went to each branch. The researcher made an introduction and gave the respondents the study's rationale. When requested to participate in the survey, the respondents were given the assurance that their answers would be kept private. The choice to engage voluntarily or not in the study was provided to the respondents. Those who could read and write were given a questionnaire to complete. The questionnaire had to be completed and returned to the researcher by the respondents within seven business days.

In order to assure data quality control, the researcher decided to self-administer the questionnaire. It was predicted by the researcher that some respondents could be reluctant to provide financial information on the state of their enterprises. The researcher was able to react to any queries the respondents had and make sure the surveys were completed accurately by self-administering the survey.

3.5 Validity and Reliability in Research

As Kimberlin and Winterstein (2008) states, validity and reliability are essential components of good research and the effectiveness of the research is strongly influenced by the quality of the instruments employed and the data collecting techniques. The accuracy of a research instrument is based on how reliable and steady the data collecting procedure is since validity relates to the extent to which an instrument measures what it is intended to measure. The researcher made sure that the following principles formed the basis of the questions they created:

1. Respondents could readily grasp the questions because of how they were written.
2. The number of questions asked was kept to a minimum in order to obtain the necessary information.
3. The questions necessitated straightforward and precise responses.
4. The questions asked were relevant to the data that was needed.
5. Questions were constructed in a way that allowed for truthful and fair responses.

To make sure the research objectives were mainly attained following the study, the content validity and reliability of questionnaires were carefully examined. After analyzing the existing literature on banks' credit risk management strategies, the researcher first created questionnaires, making sure they precisely assessed those processes. In order to verify that the questionnaires included all crucial aspects of the study, the questionnaire content was lastly checked by my supervisor who was professional in the field.

3.6 Ethical Considerations

According to Babbie (2013), Ethics have a significant impact on respondents' cooperation in the collection of data. The cooperation of respondents during data collection is significantly influenced by ethics. None of the respondents were under any kind of duress to take part in the study, which helped to ensure that the rules for research were followed. This suggests that the respondents retain the right to call an end to the investigation whenever they see fit. Additionally, each respondent's verbal consent was requested, and this was followed by an explanation of the purpose and nature of the study. This shows that the researcher adequately informed and reassured participants about participating so they could comprehend the implications of support and decide whether to participate or not. The SAGE Handbook of Qualitative Research Ethics Contents Handbook's list of ethical concerns was taken into consideration. Additionally, the investigation was planned to respect study participants and provide them with a remarkable arrangement for safeguarding their safety, confidentiality, and in private. To acknowledge the works of other writers in any portion of the theory, the Harvard reference style was once more adopted. Finally, the highest objectivity was maintained throughout the investigation by discussing and investigating information.

3.7 Data Processing and Analysis

The researcher used SPSS version 20 and Microsoft Excel version 2016 to sort, filter and analyze data for the study. The data analysis will be done considering the objectives, and mathematical and statistics models such as regression, correlation, and hypothesis testing will be performed. Following the distribution of the questionnaire, the raw data were examined using SPSS version 20 and Microsoft Excel version 2016 in order to provide valuable findings for the subject of the research that were displayed in charts, graphs, and tables. Regression, correlation, and hypothesis testing were used as descriptive statistical techniques to analyze the volume of data gathered from the field.

3.8 Chapter Summary

This chapter described the study approach utilized to analyze the research questions. The researcher obtained data by distributing fifty (50) questionnaires to management members picked from various departments throughout Steward Bank branches. The researcher employed a questionnaire to obtain primary data from respondents. Using mathematical and statistical procedures such as regression, correlation, and hypothesis testing, the study's data were examined and presented in tables. The findings and outcomes are presented in the fourth chapter of this study.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter focuses on presenting the facts discovered while carrying out the research methods indicated in the previous chapter. The chapter includes an analysis of the presented data as well as a discussion of the data in relation to previous studies. It also contains statistical interpretations of the data collected.

4.1 Response rate

According to Singh (2007), the response rate is the proportion of surveys' questionnaires that were successfully completed. In this study, the researcher gave out 50 questionnaires to participants, and 45 of them were utilized, yielding a 90% response rate on average. The questionnaires were distributed over the phone and email. The information is summarized in the table below:

Table 4.1: Response rate

Instrument	Issued	Returned	Percentage returned
Questionnaire	50	45	90%

According to Saunders et al. (2009), a high response rate is crucial for research since it ensures that the findings are representative of the population under study. In this study, a high response rate was achieved. This suggests that the researchers used effective strategies to encourage respondents to complete the survey.

4.2 Demographic data

4.2.1 Age distribution of respondents

The figure below shows the age distributions of the respondents.

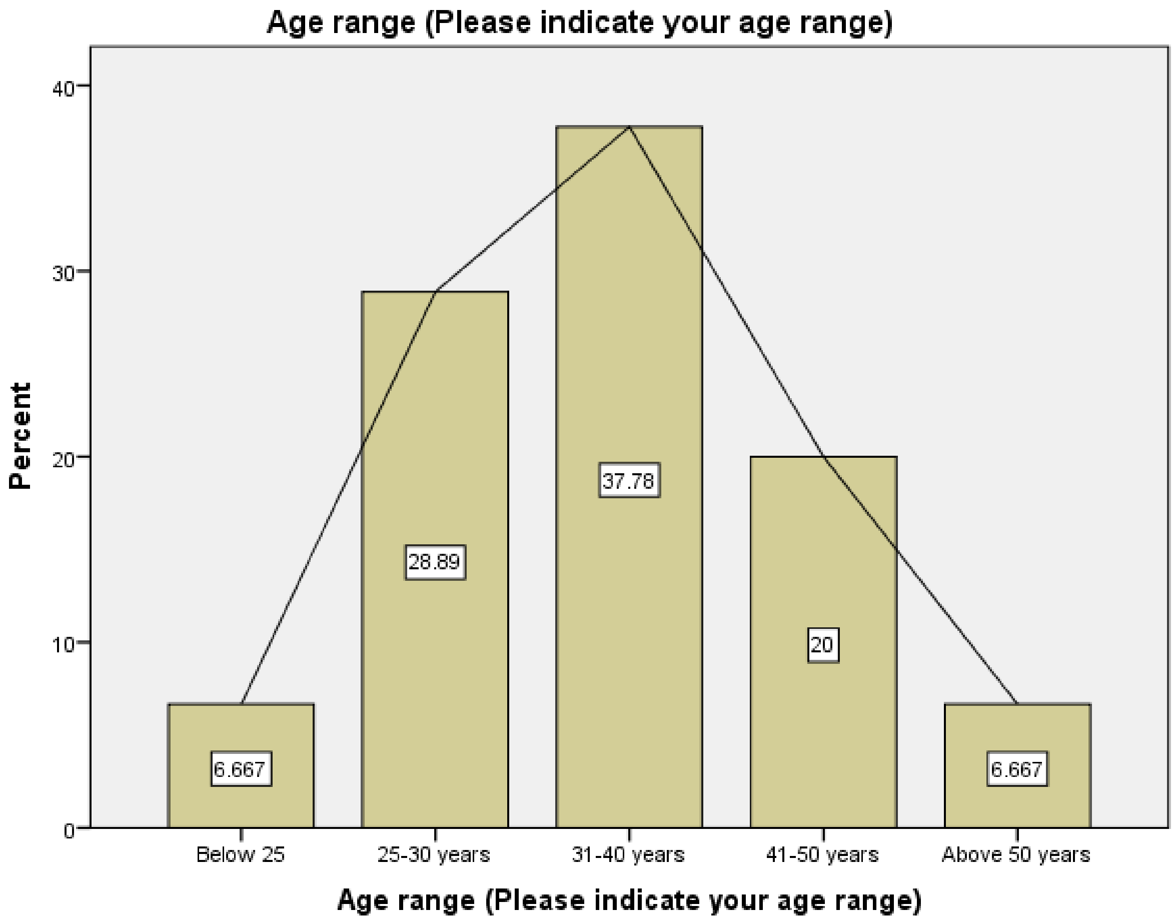

Fig 4.1 Age distribution of respondents

From the figure above, 37.37% of the respondents were in the 31-40 age-group which shows the majority of the respondents. The distribution followed a normal distribution curve with a skewness to the right indicating that there were younger respondents than there were older persons. This result shows the distribution of age within Steward Bank and thus the research findings reflect materially the age distribution of the workforce within the Steward Bank ranks.

4.2.2 Gender distribution

The figure below shows the distributions of the gender of the respondents.

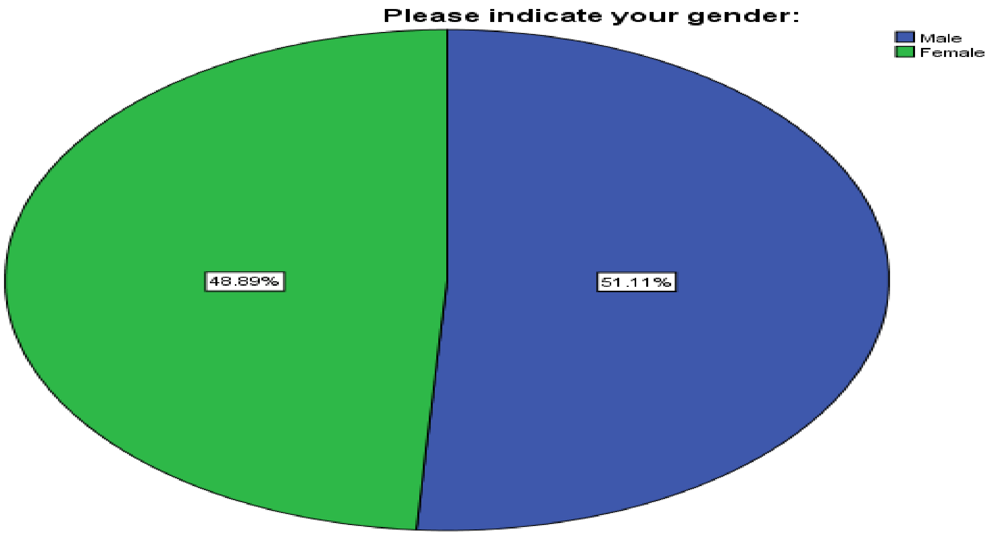

Fig 4.2 Gender distribution of respondents

The above figure shows the distribution of genders across the respondents. There were 51% male and 49% female respondents. This distribution shows an almost equal distribution among the genders. This shows that the data contained views of both women and men in the subject matter and thus was more reliable in the respect of gender.

4.2.3 Number of years using Steward Bank

The figure below shows the number of years the respondents have been using Steward Bank.

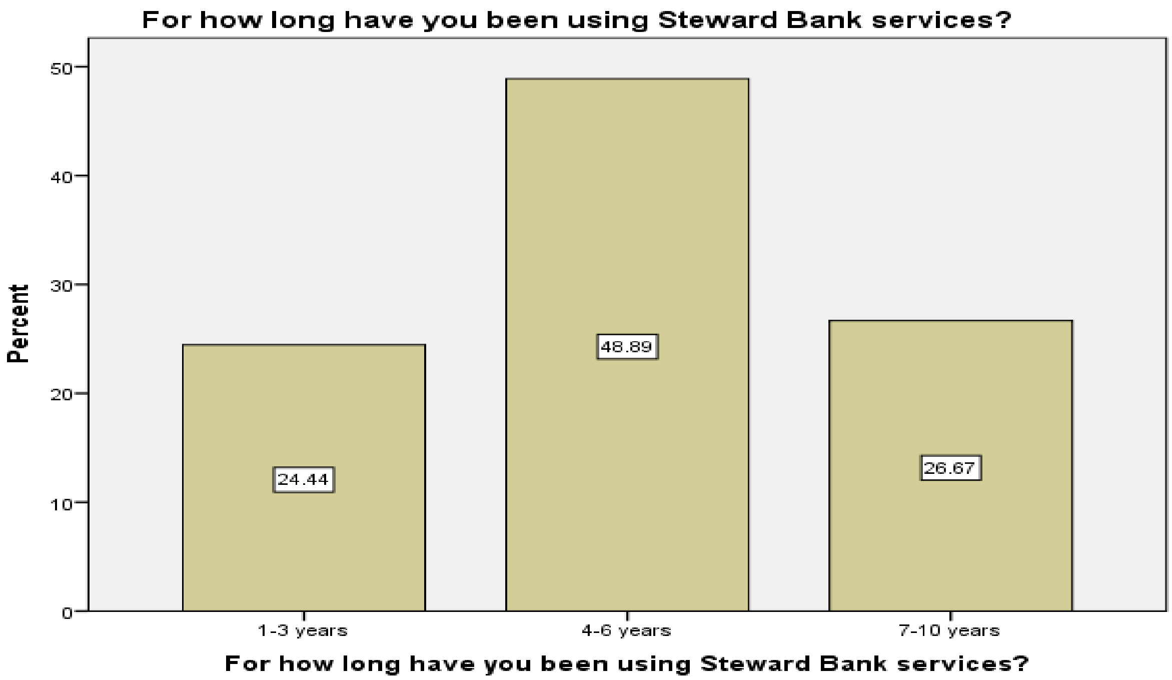

Fig 4.3 Number of years using Steward Bank.

The figure above shows the distribution of the number of years the respondents have been using Steward Bank. The majority of the respondents (49%) indicated that they have been using Steward Bank for 4-6 years. The users are distributed across a normal distribution. The number of years from the respondents inspire confidence in the researcher because the majority have been using Steward Bank over a long time. This improves the reliability of their responses as it reflects that they are answering the research instrument from a position of much experience and knowledge of the bank and its operations.

4.2.4 Level of education

The figure below shows the levels of education of the respondents.

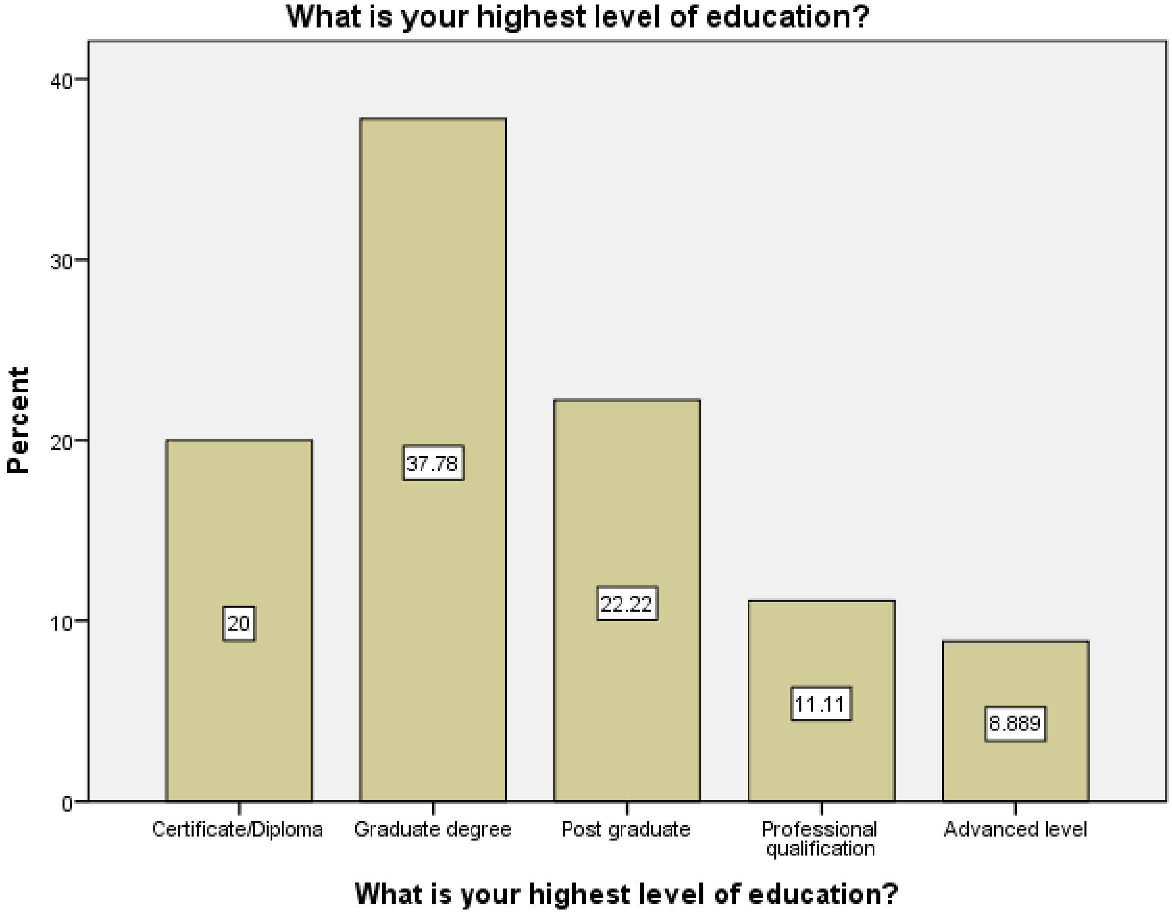

Fig 4.4 Level of education of the respondents

From the above figure, the majority of the respondents (38%) have graduate degrees, while 28% of the respondents are either certificate/diploma holders or have Advanced level certificates only. The researcher found all respondents to have a competent level of knowledge which allows the respondents to understand and interpret English. Thus, the researcher was convinced that the research instrument would not contain bias due to illiteracy or misunderstanding from the respondents.

4.3 Problems in loan recovery

The researcher gathered information from the respondents towards understanding the first objective of the study which was, "To evaluate the problems facing loan recovery at Steward Bank " found the following information.

Table 4.2: Descriptive Statistics- Problems in loan recovery

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Banks do not have enough manpower to recover loans	45	3.00	5.00	3.9333	.83666	.700	.129	.354	-1.567	.695
There are legal barriers which deter bans from effectively recovering loans	45	3.00	5.00	3.7333	.71985	.518	.452	.354	-.925	.695
The costs of recovering loans at times outweigh the loaned amounts making it a costly exercise	45	3.00	5.00	4.1111	.74536	.556	-.184	.354	-1.139	.695
Loan recovery is difficult in a hyper-inflationary environment like Zimbabwe.	45	3.00	5.00	4.0222	.75344	.568	-.037	.354	-1.196	.695

Multi-currency system and the parallel market makes it hard to recover loans.	45	3.00	5.00	3.9778	.81153	.659	.041	.354	-1.474	.695
Valid N (listwise)	45									

From the above table 4.2, the researcher found that the problems being faced by banks in the recovery of loans span across multiple factors. In that respect, the issues regarding the availability of manpower to follow up the defaulters, legal constraints, and recovery costs are dominant problems in trying to recover loans. The researcher found that, on average, the respondents were agreeing to the assertions that banks do not have enough manpower to follow up each individual loan and secure it, thus it leads to many defaulters. It was also found that, the recovery of loans is difficult to perform in hyper-inflationary conditions which make it difficult to recover loans because by the time the loan recovery is being done, the amount to be recovered will have lost its value. Furthermore, the researcher also found that the majority of the respondents have indicated that they strongly agree to the assertion that the parallel market is making it extremely difficult to recover loans properly by the banks. The main challenge is that the recovery of loans is done at official rates which often carry a far lower value than the parallel market rates which skyrocket often. These parallel rates are the drivers of inflation.

Other studies agree with the findings of the researcher, particularly, Mark (2019) who found that in developing countries the factors that most affect the loan recovery are the existence of parallel markets and hyper-inflation.

4.4. Effects of loan default on bank performance

The researcher indulged in trying to understand the second objective of the study which was “To determine the effects of loan default on bank performance of Steward Bank”

4.4.1 Descriptive statistics on effects of loan defaulting on bank performance of

Steward Bank

The following information relates to the second objective of the study.

Table 4.3 Descriptive Statistics on effects of loan defaulting on bank performance

	Mean	Std. Deviation	N
There is a decrease in the financial performance of banks because of loan defaults	3.8667	.96766	45
Loan defaults affect negatively the cashflow of banks	3.8889	.83182	45
Loan defaults reduce profits of banks	3.9778	.83907	45
Loan defaults threaten the survival of banks	3.9778	.89160	45
Loan defaults makes banks incompetent and unable to compete with other banks	4.1333	.75679	45
Loan defaults increase the risks in banks	4.0444	.82450	45

The table above shows the descriptive statistics obtained from the research findings. It was found that, the majority of the respondents on average agree that loan defaults affect the financial performance of banks, increase negative cashflow, reduce profits, and threaten bank survival and increase risks in banks. The agreement was an average of 3.9, 3.9, 4, 4, and 4 respectively for each of the above-mentioned effects of loan default on bank financial performance.

The findings indicate that the financial performance of banks is negatively impacted by the loan defaults. Previous studies who have engaged in finding the impact of loan defaulting on bank performance have also indicated that the loan defaults negatively affect bank performance. De Young (2017), Goldstein and Turner (2016), and Swami (2014) all found that the loan defaulting leads to negative impact on financial performance of banks.

4.4.2 Regression analysis

To further understand the relationship between loan defaulting and bank performance, the researcher conducted the following regression and correlation analysis for the variables. The regression model used was linear regression analysis.

Table 4.4 Model Summary: Regression analysis of loan defaulting and bank performance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.261[a]	-.068	-.051	.99209

a. Predictors: (Constant), Loan defaults increase the risks in banks, Loan defaults makes banks incompetent and unable to compete with other banks, Loan defaults threaten the survival of banks, Loan defaults reduce profits of banks, Loan defaults affect negatively the cash flow of banks

The researcher found that there is a negative relationship between loan defaulting and bank performance. This implies that as loan defaulting increases, the bank performance decreases. The adjusted r-square was found to be -0.51 indicating that there is a strong inversely correlation of loan defaults and bank performance. At any given time, should there be an increase in the loan defaulting, there is a subsequent 51% decrease in the performance of the bank. This is a significant impact on the financial performance of the bank and thus the relationship is significant and material for consideration when assessing and deliberating on bank strategy.

These findings correspond with the previous findings by De Young (2017) who also found a significant negative relationship between the loan defaulting and bank performance.

4.4.3 Hypothesis testing on effects of loan defaults on commercial banks performance

The researcher further tested the information for the hypothesis which was developed in chapter one. The hypothesis had been stated as:

H_0: Loan defaults do not have a negative impact on bank performance

H_1: Loan defaults have a negative impact on bank performance

In the quest to test this hypothesis, the researcher used the ANOVA analysis method in SPSS and the results came up as follows:

Table 4.5 ANOVA hypothesis testing for relationship between loan defaulting and bank performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2.814	5	.563	1.572	.721[b]
	Residual	38.386	39	.984		
	Total	41.200	44			

a. Dependent Variable: There is a decrease in the financial performance of banks because of loan defaults

b. Predictors: (Constant), Loan defaults increase the risks in banks, Loan defaults makes banks incompetent and unable to compete with other banks, Loan defaults threaten the survival of banks, Loan defaults reduce profits of banks, Loan defaults affect negatively the cash flow of banks

From the ANOVA test above, the researcher obtained a high F-value (1.572) which implies that there is a significant difference in the means of the tested data. The ANOVA thus suggests that the researcher should reject the null hypothesis and opt for the alternative hypothesis which in this case is that loan defaults have a negative impact on bank performance.

This conclusion remains in close agreement with the regression analysis and the previous studies (Mark, 2019; De Young, 2017) as they all point towards the existence of a negative relationship between the loan defaulting and bank performance.

4.5 Credit analysis practices in banks

In the pursuit of the third objective of the study which stated that “To investigate current credit analysis methods of the bank (Steward Bank)”, the researcher found the following:

Table 4.6. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Credit analysis is thorough in banks before the letting of credit facilities	45	3.00	5.00	4.1111	.77525	.601	-.198	.354	-1.286	.695
Political influences often interfere with the credit analysis process of banks	45	2.00	5.00	3.4000	1.07450	1.155	.041	.354	-1.250	.695
Contracts signed in loan granting allow for effective loan recovery procedures	45	2.00	5.00	3.5556	1.09867	1.207	.121	.354	-1.333	.695
Loans are granted to capable persons who pledge tangible assets as collateral	45	2.00	5.00	3.7556	1.09036	1.189	-.367	.354	-1.142	.695
Incomes of receivers of credit are stable	45	2.00	5.00	3.3778	1.15383	1.331	.220	.354	-1.386	.695
Valid N (listwise)	45									

From the above table, it can be seen that the credit analysis process in renowned to not be very thorough. This is because of the inability to conduct thorough background analysis of the clients especially in hyper-inflationary conditions and mixed currency economies like Zimbabwe. The challenge emanating from the inability to be thorough in assessing leads to the increased risk and potential to default the loans. Thus, it is also the problem with the banks not being thorough that leads to loan defaulting. The researcher also found that political influences are interfering with the natural flow of credit analysis in banks. At Steward Bank, though it is a private bank without government interference/management it does not absolve it from interference form the political forces in the country. This interference often leads to the system of credit analysis to not be done thoroughly and effectively. Thus, from the follow-up interviews the researcher made, the political forces of the country often bind one to override the credit analysis procedures and when such loans are defaulted, which is highly likely, it leaves the bank with significant losses. The researcher also found that the loan recipients do not have a stable income which often disrupts their inflows of cash which leads to them having cash crises during the owing period, this too increases the chances of loan defaulting.

The findings above are in agreement with the findings from Mark (2019) who found that within developing countries, the chances of loan defaulting are higher because of the political interference in the banking policies and the inability to predict the incomes of the loan recipients.

4.6 Measures to lower loan defaults

The researcher indulged to understand the measures which are possible in order to lower loan defaulting as this was an objective in the study. The researcher found the following:

Table 4.7 Descriptive Statistics loan defaulting solutions

	N	Minimum	Maximum	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
The bank could improve its credit granting criteria and make it more robust to avoid loan defaults	45	2.00	5.00	3.4889	1.17980	1.392	-.103	.354	-1.502	.695
Loans should be granted in more stable currencies like the US dollar	45	2.00	5.00	3.5111	1.12052	1.256	-.029	.354	-1.351	.695
Loan contracts should provide clauses that make defaulting impossible	45	3.00	5.00	3.8222	.80591	.649	.341	.354	-1.372	.695

Immovable properties should be pledged as collateral in securing credit	45	3.00	5.00	3.9778	.83907	.704	.043	.354	-1.587	.695
Political influences should not impact the choice of loan/credit granting	45	3.00	5.00	4.0222	.83907	.704	-.043	.354	-1.587	.695
Valid N (listwise)	45									

From the table above, the researcher found that the banks can improve their credit analysis process and make it robust if they are to avoid loan defaulting. The loans are also to be given in foreign currency, particularly the USD dollars currency which is more stable and robust to hyper-inflation. There is also need to lobby against political interference in the granting of loans if the organizations are to manage loan defaulting probabilities.

4.7 Chapter summary

This chapter sought to analyse the data in relation to the study's objectives. The researcher discussed on the results and contrasted them with previous studies. The study's hypothesis showed that there is a negative relationship between loan defaults and a bank's financial performance. The researcher's overview, findings, and suggestions from the study are presented in the following chapter.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The research is concluded in this chapter. It presents an overview of the study along with its findings. Additionally, it includes the researcher's conclusions regarding the study objectives and their recommendations based on those objectives. The chapter concludes by highlighting the areas that the researcher believes require further investigation.

5.1 Summary

The study focused on comprehending the difficulties associated with granting and recovering credit in commercial banks located in Zimbabwe. The researcher specifically concentrated on analyzing the operations of Steward Bank's main branch in Harare. This branch served as the central point of investigation. The study incorporated the Asymmetric Information Theory, Time Value of Money, and Adverse Selection Theory as the theoretical framework. The researcher adopted a pragmatic research philosophy for the methodology, which allowed for the utilization of primary data as the preferred research data. To describe the phenomena of risk in credit creation through loan granting in commercial banks, a descriptive study design was used. A population of 50 employees was identified at the Steward Bank branches, and data was collected from all elements of the population using a census sampling method. The questionnaire was selected as the research tool. Data analysis and presentation were conducted using SPSS and Microsoft Excel. Ethical considerations were given due attention throughout the research process.

The study's findings revealed that loan defaults are primarily set off by the economic climate of the country and the high interest rates. The unfavorable economic conditions, particularly the fluctuations in exchange rates and the inflation rate of the local currency, make it challenging to repay loans in a timely manner and in the desired amount.

Additionally, the researcher discovered that loan defaults have significant financial implications, leading to losses, liquidity crises, and ultimately bank failures within Zimbabwe. They also result in reduced return on assets and diminished revenue for the banks. In addition to loan defaults, factors such as the bank's competitive strategy, use of technology, external business environment (including political, economic, social, technological, environmental, and legal aspects), management quality, and organizational agility were discovered to influence bank profitability.

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5.2 Conclusions

Regarding the study, the researcher reached the following conclusions:

5.2.1 Problems in loan recovery

The causes of loan defaults are mainly insufficient manpower to follow up with defaulters, legal constraints and high recovery costs. The major causes are to do with the hyper-inflationary conditions within the country, the parallel market prevailing rates, and the less confidence in the local currency among Zimbabweans which makes it difficult to be faithful towards loan repayments.

5.2.2 Effects of loan defaults on commercial bank performance

The researcher concludes that there is an adverse relationship between loan defaulting and bank performance. The negative relationship shows an antagonistic relationship where the higher the loan default the lower the financial benefit derived. High loan defaults lead to low financial well-being of financial institutions in terms of liquidity, profit and asset value which threaten bank survival.

5.2.3 Credit analysis practises in banks

The survey's third key result was that the bank's credit control procedures needed improvement in order to reduce its existing substantial credit concentration. Currently the political influences are interfering with the natural flow of credit analysis in banks leads to the system of credit analysis to not be done thoroughly and effectively. The hypothesis showed an ANOVA F-value of around 1.572 which implies that the alternative hypothesis must be adopted. The researcher adopted the alternative bank performance.

5.2.4 Measures to lower loan defaults

The researcher concluded that the main issues which affect probability outside the loan defaults are reduced by the bank's strategy to improve their credit analysis process and make it robust if they are to avoid loan defaulting. The loans are also to be given in foreign currency, particularly the USD dollars currency which is more stable and robust to hyper-inflation. There is also need to lobby against political interference in the granting of loans if the organizations are to manage loan defaulting probabilities.

5.2 Recommendations

The researcher recommends the Steward Bank to closely monitor their outstanding loans to promptly identify instances where borrowers fail to repay as scheduled and also employ risk control procedures to mitigate losses. For instance, they can use covenants, which are written agreements where borrowers commit to providing specific financial statements at regular intervals throughout the loan term.

The researcher recommends the Steward Bank management to carefully scrutinize who they offer loans to and the economic conditions in which they decide to offer loans. These have a deciding factor on the ability of the loan to be repaid. Before granting loans, they should thoroughly examine the customer's project and financial statements (such as cash budgets and income statements). This assessment helps determine realistic repayment patterns and evaluate the viability of the projects depending on the customer's prior history of performance.

The researcher recommends policymakers in the banking sector to focus on the risk which is attracted by loan defaults on banks. This indicates that the researcher advises that policymakers in the banking industry use the findings of this study to determine the reasons of loan defaults and implement in their policies guidelines and requirements which circumvent the challenges highlighted in this study.

5.3 Areas of further study

The researcher suggests that future studies should prioritize evaluating the impact of loan defaults on both the banking industry and the country's overall economic growth. This approach will enable research to demonstrate how loan defaults affect the economy as a whole, rather than focusing solely on individual banks. Additionally, the researcher recommends further investigation into strategies for restoring confidence in the banking system in Zimbabwe and identifying measures to increase banks' willingness to grant loans.

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APPENDICES

Questionnaire

My name is Tatenda, I am an undergraduate student with the Bindura University of Science Education pursuing a degree in Banking and Finance. In partial fulfillment of my degree, I am requested to complete a dissertation and this questionnaire will help me to fulfil the requirement. You have been chosen to participate in the study.

You are reminded that your identity should not be disclosed on the questionnaire, confidentiality is maintained in this study, your information will be kept securely, you are also reminded that you are free to stop answering the questionnaire at any point, participation is not forced.

In answering the questions, please provide your answers in the spaces provided for each question/phrase. For answers that have been categorized, please be guided by the following ey:

SD= Strongly disagree; D=Disagree; N=Neutral; A=Agree; SA= Strongly agree

Section A: Demographic data

Age range (Please indicate your age range)

Below 25	25-30	31-40	41-50	Above 50

Gender

Please indicate your gender:

Male	
Female	

Number of years using Steward Bank

For how long have you been using Steward Bank services?

1-3 years	4-6 years	7-10 years	Above 10 years

Level of education

What is your highest level of education?

Certificate/Diploma	Graduate degree	Post-graduate degree	Professional qualification	Advanced Level

Section B: Problems in loan recovery

The following information refers to the problems being incurred in loan recovery. Please indicate your opinion regarding the questions/phrases.

Question/Phrase	**SD**	**D**	**N**	**A**	**SA**
Banks do not have enough manpower to recover loans					
There are legal barriers which deter bans from effectively recovering loans					
The costs of recovering loans at times outweigh the loaned amounts making it a costly exercise					
Loan recovery is difficult in a hyper-inflationary environment like Zimbabwe.					
Multi-currency system and the parallel market maes it hard to recover loans.					

Section C: Effects of loan default on the performance of Steward Bank

Question/Phrase	**SD**	**D**	**N**	**A**	**SA**
Loan defaults affect negatively the cashflow of the bank					
Loan defaults reduce profits of banks					
Loan defaults threaten the survival of banks					
Loan defaults makes banks incompetent and unable to compete with other banks					
Loan defaults increase the risks in banks					

Section D: Credit analysis practices

Question/Phrase	**SD**	**D**	**N**	**A**	**SA**
Credit analysis is thorough in banks before the letting of credit facilities					

Political influences often interfere with the credit analysis process of banks					
Contracts signed in loan granting allow for effective loan recovery procedures					
Loans are granted to capable persons who pledge tangible assets as collateral					
Incomes of receivers of credit are stable					

Section E: Measures to lower loan defaults

The following questions/phrases refer to the measure which could possibly lower loan defaulting. Indicate your opinion in the spaces provided following the key.

Question/Phrase	**SD**	**D**	**N**	**A**	**SA**
The bank could improve its credit granting criteria and make it more robust to avoid loan defaults					
Loans should be granted in more stable currencies like the US dollar					
Loan contracts should provide clauses that make defaulting impossible					
Immovable properties should be pledged as collateral in securing credit					
Political influences should not impact the choice of loan/credit granting					

Section F: Other information

If there is any other information which you think might help the researcher, please indicate it in the space below:

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END OF QUESTIONNAIRE!!! GOD BLESS!!!

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