AN ASSESSMENT OF FACTORS AFFECTING THE FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN ZIMBABWE

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A dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration 2015

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DECLARATION

I, Nyikadzino Chideme, hereby declare that this dissertation is the result of my own research, except to the extent indicated in the acknowledgements, references and by comments included in the dissertation report. I further declare that this dissertation has not been submitted partially or in full to any other university and for any other degree.

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Student signature            Date
ACKNOWLEDGEMENTS

This dissertation is dedicated to my wife, Emilia Chideme, and my children, Nyasha Mitchelle Chideme, Ruvimbo Etna Chideme and Shaun Denys Chideme, who have been a great source of inspiration and support throughout.

I am grateful to my supervisor, Dr W Mkumbuzi who made it possible for me to complete this dissertation.

I would like to give special thanks to my family members and colleagues in business and social circles for their support and prayers.

May God bless you all.

Nyikadzino Chideme
ABSTRACT

This research study investigates the factors affecting the financial performance of MFIs in Zimbabwe. The research study is important to Zimbabwe because of the crucial role MFIs are expected to play in the economy which has become to be dominated by the informal sector. The informal sector has become a source of employment and livelihood for the large proportion of the population who are faced with high levels of formal unemployment and poverty.

The analytical framework developed and used in this study was examined using data collected from the successful administration of 92 questionnaires and 2 interview sessions. In terms of data analysis, the research study utilized techniques which included descriptive statistics and inferential statistics. In inferential statistics, the research study employed regression analysis and correlation analysis.

The research study found different levels of influences on financial performance and these included MFI specific factors, macroeconomic country specific factors, and external governance and regulatory factors. The study found out that in the model, the MFI specific factors were significant predictors of financial performance of MFIs. However macroeconomic country specific factors, and external governance and regulatory factors were found to be insignificant in predicting the financial performance of MFIs in Zimbabwe.

These conclusions were derived from the regression analysis of data inputted into the model. The research study found out that the model was not significant and not entirely depictive of the situation in the microfinance industry of Zimbabwe. The research study thus concluded that there may be other major factors not captured in the model that have a significant effect on the financial performance of MFIs in the country.

Despite the model not being significant in its entirety, the study concluded that MFI specific factors were the most critical factors influencing the financial performance of MFIs in Zimbabwe. On the basis of the conclusions, it is recommended that the development and growth of MFIs in Zimbabwe should be focused on building their institutional capacities.
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CHAPTER ONE

INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION

Microfinance is considered as a mechanism to raise the incomes of the very poor (Ledgerwood et al., 2013). Various studies revealed that microfinance is a powerful instrument for poverty alleviation, enabling the poor to accumulate assets, boost their income and reduce their economic vulnerability (Batra and Sumanjeet, 2012). According to Armendariz and Labie (2011), microfinance involves a set of financial practices to serve the unbanked poor.

Microfinance has accordingly been employed as a poverty alleviation tool in many countries with challenges of high poverty levels and high levels of formal unemployment. In Africa and other developing regions, Microfinance Institutions (MFIs) are the main funders of microenterprises as commercial banks traditionally lend to medium and large enterprises which are deemed to be more creditworthy as opposed to microenterprises which are perceived to be associated with relatively high costs and risks (Emeni, 2008).

In Zimbabwe the economy remains fragile with unsustainably high deindustrialisation and informality (Monyau and Bandara, 2012). According to the African Economic Outlook (2012), Zimbabwe is faced with economic slowdown due to liquidity problems (lack of and high cost of capital), outdated technologies, and structural bottlenecks like power shortages and infrastructural deficits. The World Bank (2013) indicated that Zimbabwe is a low income developing country and as of 2013 it had a Gross Domestic Product (GDP) of USD12 billion.

As a result of these prevailing conditions in Zimbabwe, the microfinance sector is viewed as quite important to the growth of the economy. The microfinance sector is recognized in Zimbabwe as an important sector in enhancing economic growth and development through building inclusive financial systems (Reserve Bank of Zimbabwe, 2014b). In Zimbabwe,
microfinance has been playing a crucial role in enhancing financial and economic
development in an economy that has turned informal, has low levels of financial inclusion
and has limited involvement of commercial banks in microfinance activities (Makina, 2012).

Accordingly this dissertation takes cognizance of the importance of MFIs to the economy of
Zimbabwe and hence seeks to investigate the factors currently affecting their performance.

This chapter begins with an outline of the background to the study followed by statement of
the problem, research objectives, research questions and hypotheses. The chapter further
gives justification of the study as well as the scope of the research. The chapter ends with an
outline of the dissertation.

1.2 BACKGROUND TO THE STUDY

This section highlights the performance of the microfinance sector in Zimbabwe from the
1990s when the country’s economic conditions started to deteriorate up to the time of the
introduction of dollarisation in 2009 as compared to the performance of the sector after the
adoption of dollarisation. The section looks at how the changes in the macroeconomic
conditions, governance and regulatory systems, and the transformations within the MFIs
have affected the performance of MFIs in Zimbabwe. The section also gives a general
overview of the microfinance sector from a global perspective.

1.2.1 GENERAL OVERVIEW OF THE MICROFINACE INDUSTRY

In the last few years growth in microfinance worldwide has been unprecedented and the
microfinance industry grew from a few million clients in the 1980s to reach more than 190
million families in 2013 (The World Bank, 2013). The World Bank (2013), further stated that
in the 15 years up to 2013, the microfinance industry grew exponentially in terms of the
number of clients and the number and types of microfinance providers.
Alongside the growth in the microfinance industry the number of MFIs has also grown dramatically. Next to the growing number of Non-Governmental Organisations (NGOs), commercially oriented MFIs have also recently been entering the market (Assefa et al., 2013). According to the World Bank (2013), funding for microfinance is no longer the purview of donors alone and also regulatory systems have been changing thereby transforming MFIs into regulated institutions with return seeking investors. The World Bank (2013) also notes that over the years the industry discourse shifted from microcredit to microfinance.

In many countries the microfinance industry architecture has evolved over the years. In Latin America, NGOs dominate the microfinance sector followed by Nonbank Financial Institutions (NBFIs), Credit Unions and banks (Oslen, 2010). Many NGOs in Latin America are transforming to formal financial institutions in order to be closer to the formal financial sector which provide benefits like access to commercial capital and thus less reliance on state subsidies and donations (Oslen, 2010).

Whereas MFIs in many Latin American countries have made progress in the transition to regulated and market funding, unregulated and NGO MFIs still dominate in the Middle East, North Africa, Eastern Europe and Central Asia (Banerjee et al., 2003). In India, most MFIs are however financed by banks and domestic and international donor agencies (Pati, 2012).

MFIs in Sub-Sahara Africa (SSA) include a wide array of institutions that provide financial products and services to low income people and these institutions include NGOs, NBFIs, cooperatives, rural banks, savings and postal institutions and an increasing number of commercial banks (Microfinance Information Exchange (MIX), 2014). MIX (2014) indicated that unlike trends in most regions around the world, the vast majority of MFIs in Africa offer savings as a core financial service for their clients and a source of funds for on lending. In Nigeria, microfinance banks (MFBs) are private (generally for profit) deposit taking institutions and they fall into three major categories namely Unit MFBs, State MFBs and National MFBs (Ulrich and Hoback, 2014).

In some African countries commercial banks have increasingly been entering the microfinance market. In SSA, banks’ participation in microfinance has been on the rise and
despite banks accounting for only 8% of SSA financial institutions reporting to MIX in 2009, they served 25% of total borrowers and 40% of total depositors (Microfinance Information Exchange and Consultative Group to Assist the Poor, 2011).

In Zimbabwe, microfinance services are offered by many different types of financial institutions which include banks, building societies, deposit taking MFIs, credit only MFIs, Savings and Credit Cooperatives (SACCOS) and Small Enterprises Development Corporation (SEDCO) (Reserve Bank of Zimbabwe, 2013). As at 31 March 2014 there were 153 registered MFIs operating in Zimbabwe under the supervision of the Reserve Bank of Zimbabwe (RBZ) (Reserve Bank of Zimbabwe, 2014b). According to Makina (2012), the Zimbabwean economy has continued to witness high demand for microfinance services.

The microfinance industry in Zimbabwe is regulated under the Microfinance Act (Chapter 24:29) which came into effect in August 2013 to take the place of the Moneylending and Rates of Interest Act (Chapter 14:14) which was previously used to govern and regulate MFIs in Zimbabwe (Reserve Bank of Zimbabwe, 2014b). The Microfinance Act empowers the Reserve Bank of Zimbabwe (RBZ) to regulate and supervise MFIs.

The banking regulations of Zimbabwe also allow commercial banks and building societies to set up microfinance departments on condition they get approval from the RBZ. There are also MFIs operating in the country which are owned by NGOs and these can access grants from international development partners (Reserve Bank of Zimbabwe, 2012c).

Despite the phenomenal growth of microfinance worldwide, the microfinance movement has achieved differing success rates from country to country. Although somehow similar in general trends, the microfinance practices have distinct differences among continents and countries.

One of the most common characteristic of microfinance has been that outreach for many countries has generally remained low. Globally, 50% of adults report having an account at a formal financial institution, 9% of adults report having originated a new loan from a formal financial institution in the previous 12 months (Demirguc - Kunt and Klapper, 2012a).
In Africa, financial inclusion is very low with less than a quarter of adults having an account with a formal financial institution and many adults reported to be using informal methods to save and borrow (Demirguc - Kunt and Klapper, 2012a). The rate of formal and informal loan origination is relatively high in SSA with 47% of adults reporting having borrowed money in the past year compared to 34% worldwide. However, in SSA a high proportion of loan originations was reported to be informal with 40% of adults reporting having borrowed from friends or family and only 5% of adults reporting having originated a new loan from a formal financial institution in the preceding year (Demirguc - Kunt and Klapper, 2012b).

In the recent past there have been some positive developments on financial inclusion in SSA with the growth of the global cellular market being a major driving force. The global cellular market is growing fastest in SSA than anywhere else in the world with 65% of the population living within reach of wireless voice networks, and countries of the region such as Kenya being examples of how the cellular market can be leveraged to offer financial services at a greater scale and lower cost (Microfinance Information Exchange and Consultative Group to Assist the Poor, 2011). According to the Microfinance Information Exchange (MIX) and the Consultative Group to Assist the Poor (CGAP) report of 2011, despite the positive outlook for microfinance in SSA, serious challenges persist and threaten this momentum. MIX and CGAP report (2011) indicate that in SSA operating costs are among the highest in the world, returns are falling, portfolio quality has remained quite poor, supervision is weak and success remain far concentrated in certain few markets and institutions with overall penetration and progress toward reaching scale still very low.

One of the distinguishing features of African MFIs has been that savings play an influential role in microfinance. MIX and CGAP (2011) highlighted that savings play a prominent role in SSA with the number of depositors at 21.6 million as of 2009 in the region exceeding the number of borrowers who stood at 7.8 million. MIX and CGAP (2011) also indicated that the volume of deposits at USD5.2 billion exceeded the gross loan portfolio of USD4.7 billion in 2009. However it was noted that the offer of savings was lower for NBFIs and NGOs in SSA as regulations in many of these countries expressly restrict them from mobilizing deposits.
The structure in loan portfolios in SSA is such that most of the loans are classified as either microenterprise or household loans with terms of less than one year. For NBFIs and NGOs in SSA, the 2009 microenterprise loans represented 88% and 95% respectively but in banks and cooperatives, consumption loans accounted for a larger portion of their portfolios (Microfinance Information Exchange and Consultative Group to Assist the Poor, 2011).

Grants and debt are widely used financing instruments in SSA microfinance sector, but equity is also rising with equity commitments from cross border funders amounting to USD82 million in 2009. However about 50% of cross border equity investments in 2009 was recorded as going to affiliates of international networks and were concentrated in four countries namely Democratic Republic of Congo, Kenya, Mozambique and South Africa.

**1.2.2 OVERVIEW OF THE MICROFINANCE SECTOR IN ZIMBABWE IN THE PERIOD BEFORE DOLLARISATION**

The microfinance sector in Zimbabwe has undergone significant transformation from its pre-independence status when the sector was dominated by informal credit sources such as unregistered moneylenders, rotating savings and credit associations or clubs, and family and friends (Mago, 2013). Mago (2013) stated that after the independence of Zimbabwe in 1980, international and local NGOs started to emerge as a dominant form of MFIs in the country.

During the pre-independence and early independence days the microfinance operations were not quite pronounced and small firms and low income groups had very limited access to credit. People in the rural areas could not easily access credit and their savings options were mainly limited to POSB which maintained branches across the breadth of the country. Rural people engaging in farming activities had limited access to funding from the then Agricultural Finance Corporation. Low income people needing personal loans relied on informal mechanisms.

As a result of the developments which had taken place from the 1980s to the 1990s, the microfinance sector in Zimbabwe started to be more noticeable in the early 1990s. Following the launch of the World Bank (WB) and International Monetary Fund (IMF) sponsored
Economic and Structural Adjustment Program (ESAP) in the 1990s, there were some notable improvements in the financial services sector which resulted in the entry of new banks and formal and informal MFIs. In spite of this, the levels of financial inclusion in the financial services sector remained a major challenge for the economy. ESAP also led to retrenchments and downsizing of the formal sector, and this had serious repercussions on the poor.

1.2.3 ZIMBABWE MICROFINANCE SECTOR PERFORMANCE PRIOR TO 2009

The microfinance sector in Zimbabwe having rose to prominence in the early 1990s started to grow exponentially in the early 2000s when a host of macroeconomic factors led to the rapid in-formalisation of the economy (Zimbabwe Association of Microfinance Institutions, 2013). According to the Zimbabwe Association of Microfinance Institutions (ZAMFI) (2013), the informal sector has since taken root in Zimbabwe with estimates of formal unemployment exceeding 80%. ZAMFI (2013), further stated that these macroeconomic conditions bred fertile ground for the setting up of MFIs in Zimbabwe as the rapidly growing informal operators have been failing to access funding from the traditional banking system.

From the late 1990s the Zimbabwe economy had started to be weighed down by macroeconomic challenges resulting in persistent budget deficits. This situation was worsened by the granting of gratuities to war veterans in 1997, the allocation of a supplementary budget for the country to participate in the Democratic Republic of Congo war in 2000, and the land reform program that was also implemented in 2000.

These fiscal fissures took a toll on the economy resulting in massive macroeconomic challenges underpinned by unprecedented inflation rates. As the economic situation deteriorated, the informal sector ballooned as formal businesses were collapsing. However, the traditional banking system was inflexible to accommodate the emerging informal traders. During this period, a large contingent of moneylending institutions grew substantially in response to the high and growing demand for consumption loans by employed people who were finding it difficult to survive on their basic salaries and wages in an environment in
which microfinance, as proffered by MFIs was generally accepted as funding for micro projects/businesses (Zimbabwe Association of Microfinance Institutions, 2013).

In the period 2000 to 2008, the performance of MFIs in Zimbabwe was mainly shaped by the prevailing macroeconomic conditions which were characterized by high inflation rates, excessive money supply growth and contracting GDP. As a result of the continued deterioration of the macroeconomic conditions in the country, a large number of MFIs and moneylending firms started to engage in illegal and non-core activities such as foreign exchange trading and commodities trading in order to hedge their assets against inflation.

In December 2003, the RBZ sought to bring normalcy to the financial services sector by taking over the licensing and supervision of MFIs and introduced strict registration and operating requirements for MFIs (Zimbabwe Association of Microfinance Institutions, 2013). A large number of MFIs and moneylending firms failed to meet these requirements and exited the market thereby reducing the number of operating MFIs.

The graph below illustrates the trend in the number of licensed MFIs operating in Zimbabwe from 2003 to 2014.
1.2.4 FACTORS AFFECTING PERFORMANCE OF MFIs IN ZIMBABWE AFTER DOLLARISATION

1.2.4.1 External Environmental Influences

Since 2008 when the country reached its lowest ebb economically, a number of developments took place in Zimbabwe. These developments span political, socio economic, technological and regulatory or legal factors.

The signing and implementation of the Global Political Agreement (GPA) in 2009 between Zimbabwe’s two major political parties, the Zimbabwe African National Union Patriotic Front (ZANU PF) and the Movement for Democratic Change (MDC), coupled with the dollarisation of the economy in 2009, are the two most significant developments which provided a positive business climate in the country. For the first time in a decade, the economy started to grow after years of recording negative GDP growth rates (Central Intelligence Agency, 2011).
Table 1.1: Zimbabwe GDP Real Growth Rates (1999 – 2011)

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<td>*GDP</td>
<td>0</td>
<td>-6.1</td>
<td>-12.1</td>
<td>-13.6</td>
<td>-8.2</td>
<td>-7.7</td>
<td>-5.5</td>
<td>-4.4</td>
<td>-14.1</td>
<td>-1.3</td>
<td>9.0</td>
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*GDP represents GDP Real Growth Rate %


However in the financial services sector, the post 2009 developments did not bring immediate positive results to a sector that had also been crippled by hyperinflation. Dollarisation rendered the RBZ lender of last resort (LOLR) role non-functional. This resulted in a dysfunctional interbank market, high concentration of deposits and assets, and liquidity constraints.

1.2.4.1.1 Socio Economic and Political Developments in the Zimbabwe Microfinance Sector

The country has continued to face increased sovereign risk due to the poor servicing record of its international debt, and the country’s international debt overhang stood at USD6.7 billion in 2009 and was perceived as an impediment to unlocking new external financing requirements (Ministry of Finance and Economic Development, 2010). As at June 2014 Zimbabwe’s external debt amounted to USD8.8 billion and this debt problem has continued to undermine the capacity of the economy to meet debt servicing obligations resulting in accumulation of payment arrears since the year 2000 (Ministry of Finance and Economic Development, 2014).

As a result of Zimbabwe’s failure to honor its financial obligations to the IMF and the WB since 1999, these institutions suspended balance of payments support and technical assistance to the country (Reserve Bank of Zimbabwe, 2007). RBZ (2007) indicated that Zimbabwe’s relations with other Western countries have remained constrained, leading to suspension of bilateral loan disbursements to Zimbabwe by these countries.

The country has also continued to be under international isolation and sanctions even though the GPA prospects had initially seemed to be pointing towards progressive international reengagements. The sanctions against Zimbabwe have resulted in a substantial number of
donors withdrawing their programs and redirecting new funding to other countries (Reserve Bank of Zimbabwe, 2007). According to RBZ (2007), sanctions have resulted in withdrawal of donor funding and NGO support for Zimbabwe’s microfinance sector has dwindled.

Despite the persistence of all these other challenges, the advent of dollarisation in Zimbabwe brought currency stability and stability to the economy at large. The economic and political stability in the country, together with prudent fiscal and monetary policies have further assisted in stabilising the economy (The World Bank, 2013).

1.2.4.1.2 Competition in the Zimbabwe Microfinance Sector

In addition to the many developments confronting the microfinance sector in Zimbabwe, there has been gradual increase in entry of banks in the microcredit segment of micro financing and in particular consumer loans to salaried employees. Furthermore, some banks have even been venturing into core microfinance activities by targeting the non-salaried poor people engaging in informal trading and Micro, Small and Medium Enterprises (MSMEs) as evidenced by banks such ZB Bank and Metbank which have established presence in informal marketplaces.

Also in the recent past other banks in Zimbabwe have been venturing into microfinance and these include Banc ABC and FBC Bank who established ABC Easy Loans (Private) Limited and Microplan Financial Services (Private) Limited respectively to be subsidiary microfinance companies. Agribank and POSB have set up departments focused on microfinance business. Tetrad Bank and Afrasia Bank have long been involved in microfinance through Multiridge Finance and Micro King respectively. There are also other large NBFI s which have ventured into microfinance or have reported plans to enter into microfinance and these include National Social Security Authority (NSSA), Fidelity Life Assurance and Zimnat Insurance.

The banking sector in Zimbabwe is facing a multitude of challenges that include among others inadequate capitalisation, liquidity problems, funds circulating outside the banking system, governance problems, non-performing loans and a high rate of domestic bank failures (Makina, 2012). According to Makina (2012), it was recommended that among other
strategies to alleviate these challenges, Zimbabwe need to remove barriers that are hindering small banks to downscale to microfinance banks. Thus the challenges in the banking sector have also been acting as a push factor on small commercial banks in Zimbabwe to get into microfinance.

Against the background of the informal sector and MSMEs gaining prominence in Zimbabwe, there are growing calls for banks to downstream into the microfinance sub sector. Zimbabwe Economic Policy and Research Analysis Unit (ZEPARU) has been advocating for the Government to consider transforming POSB into a fully-fledged commercial microfinance bank (Makina et al., 2014). According to Makina et al. (2014), commercial banks and building societies should be encouraged to go downstream into microfinance by providing wholesale funds to MFIs or by retailing microfinance products and services to consumers.

1.2.4.1.3 Regulatory Developments in the Zimbabwe Microfinance Sector

In the period after dollarisation of the economy in 2009, MFIs continued to come under more scrutiny and regulation. Some of the issues which have been regularly coming up as an area of concern in the operations of MFIs include high interest rates. MFIs have been reported to be charging interest rates ranging from 4% per month to 40% per month. MFIs have also been reported to be using unorthodox lending and collection practices and engaging in illegal taking of deposits. Some of these malpractices resulted in the RBZ cancelling the operating licenses of MFIs like All Angels Private Limited and McDowell’s International Private Limited among others (Reserve Bank of Zimbabwe - Bank Licensing, Supervision and Surveillance, 2012a).

1.2.4.2 Influence of Institutional Factors on MFIs in Zimbabwe

On specific MFI level, the developments in the country since 2009 have resulted in institutional changes across the whole range of MFIs’ performance measurement or rating criteria. Using the CAMEL rating methodology, below is an assessment of changes which
have happened to MFIs in Zimbabwe in their capitalisation, assets, management, earnings and liquidity.

1.2.4.2.1 Capitalisation

Dollarisation resulted in MFIs that remained in operation in 2009 having to kick start their operations with very little or no capital at all as their capital bases had been eroded by successive years of unprecedented inflation rates.

1.2.4.2.2 Assets Growth and Quality

Individuals and entities also had their savings and investments wiped away by the hyperinflationary conditions which affected Zimbabwe prior to 2009. In the adjustment to the dollarised economy, borrowers committed to expensive loans which MFIs had priced high to cover for high operating expenses, high cost of funds and the lack of economies of scale due to the limited loan portfolios. This has resulted in MFIs having poor loan portfolios.

In the absence of a credit reference system, over indebtedness by lowly paid employees who often have to rely on multiple borrowings from banks and MFIs to survive, has been a major problem. This has resulted in high levels of non-performing loans among some MFIs.

The over concentration on non-productive microcredit loan portfolios for salaried employees is also a major problem associated with MFIs’ operations in Zimbabwe. As at 31 March 2014 the lending activities of the larger proportion of MFIs were concentrated on salary based loans for consumption purposes thereby neglecting support to MSMEs (Reserve Bank of Zimbabwe, 2014a). According to the RBZ Quarterly Microfinance Industry Report as at 31 March 2014, MFIs had outstanding loans amounting to USD170 million as at 31 March 2014 and out of these loans, USD121 million was channeled into consumption lending.

1.2.4.2.3 Management

The post dollarisation era brought dramatically different operating conditions to what was prevailing before and this required management to adjust to the new conditions. Business models had changed and the operating structures had to be aligned to suit the new conditions.
1.2.4.2.4 Earnings

The period soon after dollarisation was associated with the inability of MFIs to lend in hard currency as their capital was wiped away by hyperinflation prior to 2009 (Klinkhamer, 2009). Although margins on microfinance loans have been quite good for MFIs, the limitations on the sizes of loan book portfolios has been a major challenge for a number of MFIs.

In the aftermath of dollarisation, MFIs have also started to face new competition from banks which have been downscaling into microfinance in pursuit of higher margins and new markets amid shrinking margins and quality borrowing clients in the main stream banking sector. The competition from banks has resulted in reduced market shares and margins for MFIs which had been heavily reliant on the microcredit market segment for salaried borrowers.

1.2.4.2.5 Liquidity and Funding

Also with dollarisation, the RBZ lender of last resort function was rendered non-functional and this did put a strain on all institutions in need of liquidity support. Accordingly in the post dollarisation era, MFIs have been struggling to get funding for on lending from the financial markets and the little funding available has been at very high interest rates.

The other challenges affecting MFIs in Zimbabwe are weak capitalisation, liquidity challenges and limited availability of wholesale funds which all result in MFIs struggling to build financial capacity to underwrite meaningful business to sustain their operations (Reserve Bank of Zimbabwe - Bank Licensing, Supervision and Surveillance, 2012a). According to the Reserve Bank of Zimbabwe – Bank Licensing, Supervision and Surveillance (2012a), MFIs in Zimbabwe also face challenges of weak risk management systems due to funding constraints which inhibit access to critical skills and information and communications infrastructure.

Credit only MFIs in Zimbabwe rely on their capital, other contributions from shareholders and also often source loans from the banking system to underwrite loans as they are not
allowed to mobilise any form of deposits (Reserve Bank of Zimbabwe, 2012c). Resultantly with donor funding and public funding lacking in the Zimbabwe microfinance sector, Credit Only MFIs have been struggling to achieve financial sustainability on their small loan books.

1.2.4.3 General Performance of MFIs in Zimbabwe in the Post Dollarisation Period

As a result of the transformations in the microfinance sector brought about by dollarisation and other major developments in Zimbabwe’s economy, some MFIs have had to exit the market and at the same time some new entrants have entered the market. Events have continued to unfold in Zimbabwe’s microfinance sector yet there is scant research literature on the performances of MFIs in Zimbabwe and their determinants. The instability in a sector considered to be now a key driver to the country’s economic growth is a matter that calls for more research into the performances of institutions operating in this sector. This is necessary in order to determine the challenges the institutions are facing and devise appropriate strategies to make these institutions drive the economic development and growth of the economy.

Dollarisation was expected to enhance the performance of the financial services sector of Zimbabwe in general. However, in the period after dollarisation the economy has been characterised by continued failures of some MFIs. Some MFIs were closed down by the RBZ in the post dollarisation era for errant behaviors such as illegally taking deposits.

In line with the mixed fortunes of the microfinance sector even after the currency and economic stability brought by dollarisation, the number of licensed and operating MFIs did not increase from the 2008 figures when 200 licensed MFIs were operating. Instead as at 31 March 2014 there were 153 registered MFIs operating in Zimbabwe under the supervision of the RBZ (Reserve Bank of Zimbabwe, 2014b). In contrast to this, the economy has continued to witness high demand for microfinance services (Makina, 2012).

Notwithstanding the fact that MFIs are playing a significant role in Zimbabwe, the microfinance delivery mechanism is still not quite effective. Whilst the world over banks
traditionally pursue clients with adequate and acceptable security and MFIs cater for the clients who are non-bankable on account of being without acceptable security, in Zimbabwe MFIs are behaving in no different way from banks by calling for adequate and acceptable collateral.

Zimbabwe is faced by a challenge whereby microfinance has been helping the poor, the low salaried employees and the informal and microenterprises to bridge their financial needs and engage in income generating activities yet the mainstream commercial banks have not been too much involved in microfinance activities. Notwithstanding the current low rate of commercial banks involvement in microfinance in Zimbabwe, there has been in the recent past a slow and gradual entry of more commercial banks into the microfinance market and at the same time there has been a high rate of failure among the Credit Only MFIs.

1.3 STATEMENT OF PROBLEM

Although the microfinance sector just like the rest of the financial services sector was severely crippled by the hyperinflation that affected the country in the period prior to 2009, the sector was largely expected to recover and grow after the adoption of dollarisation. Despite dollarisation having brought stability to the general economic environment, the MFIs operating in the country have continued to be hogged by a number of challenges and the performance of the MFIs in terms of both outreach and financial sustainability remain constrained.

Even with the economic stability brought by dollarisation, the MFIs in Zimbabwe have remained concentrated in urban areas and offering a limited product range largely skewed towards consumption microcredit and thus failing to measure up to the outreach performance criteria. In terms of financial sustainability there are clear signs that a number of MFIs in Zimbabwe continue to struggle to cover operating costs as a number of these institutions have collapsed in the period after dollarisation because of viability challenges.
The lack of improvement in the microfinance sector is a major challenge for Zimbabwe’s marginalised sections of the population and the formally unemployed citizens. Worse still, the numbers of the marginalised and the formally unemployed people in Zimbabwe continue to increase as a result of increased company closures and employee redundancies being precipitated by the difficult operating conditions prevailing in the country.

The lack of improvement in the performances of MFIs is even more worrisome when one considers the general reluctance by some of the mainstream banks in Zimbabwe to accommodate the banking needs and requirements of the poor and their microenterprises.

As such MFIs in Zimbabwe are required to improve in their performance so that they are capable of harnessing the growing informal sector into the mainstream economic activities and play a part in driving the economic growth and development of the country. Highly performing MFIs can also assist to fight poverty in the country through providing access to credit to a wide range of poor people so as to engage in trade and generate income to sustain themselves.

As a result of the importance of vibrant MFIs in Zimbabwe, the main research question centers on why MFIs in the country are not performing very well in terms of financial performance as evidenced by the continued collapses of MFIs and the failure by the majority of MFIs to maintain strong financial positions and to grow.

The main research question is centered on the performance criteria of financial performance because the researcher is of the view that other microfinance performance measurements of outreach and impact are also largely dependent on the financial performance and sustainability of MFIs.

The aspect of financial performance of MFIs has been studied by a number of researchers worldwide but there is a general lack of literature on the subject in Zimbabwe. Accordingly this research seeks to establish the financial performance levels of MFIs in Zimbabwe and identify the determinants of performance in the sector as well as come up with strategies MFIs can employ to ensure their long term survival.
1.4 RESEARCH OBJECTIVES

1.4.1 MAIN OBJECTIVE

On the basis of the problem statement as stated in the previous section, this research study analyses the factors affecting the outreach and financial performance of MFIs in Zimbabwe. However, the main research objective is to establish the major factors that are influencing the financial performance of MFIs in Zimbabwe.

1.4.2 SPECIFIC OBJECTIVES

The specific research objectives are as follows:

i. To examine the performance of MFIs operating in Zimbabwe.
ii. To establish the influence of MFI specific factors on the financial performance of MFIs in Zimbabwe.
iii. To investigate how external governance and regulatory framework variables are impacting on the financial performance of MFIs in Zimbabwe.
iv. To evaluate the extent to which macroeconomic country specific characteristics are affecting the financial performance of Zimbabwe’s MFIs.
v. To suggest recommendations that will enhance the financial performance of MFIs in Zimbabwe.

1.5 RESEARCH QUESTIONS

i. How are MFIs operating in Zimbabwe performing?
ii. What is the influence of MFI specific factors on the financial performance of MFIs in Zimbabwe?
iii. How are external governance and regulatory variables impacting on the financial performance of MFIs in Zimbabwe?
iv. To what extent are the macroeconomic country specific variables influencing the financial performance of MFIs in Zimbabwe?

v. What recommendations can be drawn to enhance the financial performance of MFIs in Zimbabwe?

1.6 HYPOTHESES

1.6.1 MFI SPECIFIC FACTORS

According to Crabb (2008), there are various forms of MFI specific factors that influence the financial performance of MFIs. MFIs in Zimbabwe vary in institutional characters such as ownership, size, age, capital levels and operational and administrative management. The extent to which MFI specific factors influence the financial performance of MFIs in Zimbabwe is not clear and this accordingly leads to the following hypothesis.

**Hypothesis 1 (H1):** If the MFI specific factors for MFIs in Zimbabwe improve, the financial performance of the MFIs will significantly improve.

1.6.2 MACROECONOMIC FACTORS

Hartarska (2009) indicated that macroeconomic country specific factors is one major category of factors influencing the performance of banks. In Zimbabwe MFIs are also faced with a host of macroeconomic challenges whose effect on the financial performance of MFIs is not clear. This leads to the following hypothesis.

**Hypothesis 2 (H2):** The existing macroeconomic conditions in Zimbabwe have been adversely affecting the financial performance of MFIs operating in the country.
1.6.3 EXTERNAL GOVERNANCE AND REGULATORY FRAMEWORK

Hartarska (2009), further indicated that external governance and regulatory framework was also another element to consider in assessing factors affecting performance of financial institutions such as banks. Whether or not the existing external governance and regulatory framework in Zimbabwe is enhancing or hindering the financial performance of MFIs in Zimbabwe is a matter that need to be proved, and hence the following hypothesis.

**Hypothesis 3 (H3):** The external governance in Zimbabwe is not conducive to the financial performance of MFIs.

**Hypothesis 4 (H4):** The regulatory framework in Zimbabwe is not conducive to the financial performance of MFIs.

1.7 JUSTIFICATION OF THE STUDY

The Zimbabwean economy is facing a host of interwoven economic challenges which include company closures, rising formal unemployment, low production levels, high levels of non-performing loans and a disproportionate trade balance (Reserve Bank of Zimbabwe, 2014a). According to the Reserve Bank of Zimbabwe (2014a), the surge in delinquencies and loan losses has dampened banks’ risk appetite resulting in banks increasingly adopting a risk approach to lending.

In addition, the Zimbabwean economy is now faced with slowing economic growth as the country failed to hold onto the strong positive economic growth trajectory stimulated by the liberalisation of the foreign exchange system in 2009 (Reserve Bank of Zimbabwe, 2014a). The country’s poverty levels have continued to grow to very high levels.

As such in order for the country to achieve its broad financial inclusion goals and harness the marginalised people to contribute meaningfully to economic development, there is need to develop the microfinance industry in Zimbabwe. Apart from fostering economic growth and development, microfinance is crucial in reducing poverty for the ordinary citizens.
Zimbabwe has been characterised with increased poverty levels and the growth of the informal sector. These developments have been successfully addressed in other developing countries through the establishment of vibrant microfinance sectors. Accordingly this research study is significant as it seeks to address challenges and constraints affecting MFIs in Zimbabwe and thus contributing towards strengthening these institutions to become capable vehicles to support the increasing numbers of formally unemployed people and their microenterprises.

Whilst the performance of MFIs and factors affecting financial performance of MFIs are relatively well researched topics in most parts of the developing world, in a Zimbabwean context there is relatively scant literature on the subject especially on developments pertaining to the sector after the adoption of dollarisation (Murisa & Chikweche, 2013). This is ironic given that the Zimbabwean economy is estimated to be around 90% informal and has very high poverty levels.

Thus there are gaps in the available literature in that most of the empirical research into the performance of MFIs have been concentrated in South American and Asian countries from which microfinance originated. The few empirical studies on microfinance that have been carried out in African countries have largely been concentrated in countries remotely connected to the economy of Zimbabwe. Accordingly this research seeks to make an addition to the limited empirical studies carried in Zimbabwe and countries in Southern Africa.

In Zimbabwe the area of financial performance of MFIs is still not sufficiently covered and this research study intends to make a contribution towards the relatively limited number of microfinance studies in the country. In this regard the research is motivated by the desire to add to the body of knowledge on microfinance in Zimbabwe and also at the global level.

Apart from the intended contribution to literature, this study seeks to make some managerial contributions. The research study aims to provide MFIs managements in Zimbabwe with new insights into the variables that need to be successfully managed in order to establish and maintain sustainable MFIs. This is a particularly important intended contribution in light of the changes that happened to the Zimbabwean economy after dollarisation.
From the broader economic perspective, the researcher ascribes to the view that to stimulate economic growth in Zimbabwe, it is necessary to revive the microfinance sector. Accordingly this dissertation is also motivated by the need to contribute to ideas to further develop the Zimbabwe microfinance sector, bring sustainability to the sector and harness the unbanked people to meaningfully participate in the financial and economic development of Zimbabwe.

It is thus anticipated that this research study will capacitate MFIs, regulators and policymakers to come up with measures to enhance the financial performance and growth of MFIs, strengthen the microfinance sector in general and increase its capacity to drive the economic growth and development of Zimbabwe.

1.8 SCOPE OF RESEARCH

The scope of this particular study was confined to MFIs operating in Zimbabwe and registered by the RBZ as at 28 February 2014. The study is premised on the challenges facing MFIs from the point of view of MFIs and does not include the views of their clients.

Even after MFIs were put under the supervision of the RBZ, MFIs in Zimbabwe still trade in a rather obscure manner with little information pertaining to their operations readily available in the public domain except for general information about the performance of the sector.

1.9 DISSERTATION OUTLINE

The study comprises of five chapters. Chapter one gives an introduction to the study and provides facts about MFIs in Zimbabwe and the world over.

Chapter two covers the theoretical and empirical review of related literature and Chapter three discusses the research methodology used in this study.
Chapter four deals with the analysis of data and results of the study and finally chapter five outlines the conclusions of the study and proffers recommendations.

1.10 CHAPTER SUMMARY

This chapter provided an introduction to the research by outlining the background to the Zimbabwe microfinance sector, the research problem, research objectives and questions as well as the hypotheses.

The chapter further gives details on the justification of the study, the boundaries within which the study was undertaken and the structure or organisation of the research study.
CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews authoritative literature related to the previously outlined research problem. The literature that has been reviewed include the concept of microfinance, general view of microfinance, microfinance performance in terms of financial sustainability, outreach and impact, and factors affecting the performance of MFIs. This chapter reviews the theoretical and empirical literature on factors influencing the performance of MFIs by way of reviewing different country experiences with microfinance.

2.2 THE CONCEPT OF MICROFINANCE

The concept of microfinance is not a new or recent development as small and informal savings and credit groups have operated for centuries across the world, from Ghana to Mexico to India and beyond (Batra and Sumanjeet, 2012). According to Batra and Sumanjeet (2012), the following were the major stages in the evolution of microfinance.

i. In Europe, the Catholic Church founded pawn shops so as to provide an alternative to usurious moneylenders in the early 15th century and since then, formal credit and savings institutions for the poor have also been around for generations.

ii. In the early 1800s Europe saw the emergence of larger and more formal savings and credit institutions that focused primarily on the urban and rural poor.

iii. In the early 1900s variations on the savings and credit theme began to appear in rural Latin America and elsewhere.

iv. The 1970s saw the birth of microcredit as programs in Bangladesh, Brazil and a few other countries began lending to poor women entrepreneurs and the early pioneers
include Grameen Bank in Bangladesh, Americans for Community Cooperation in Other Nations (ACCION) in Latin America and the Self Employed Women’s Association (SEWA) Bank in India.

v. From the 1990s the provision of financial services to the poor began to be termed microfinance instead of microcredit as the range of financial services offered to the poor now included savings, money transfers and insurance.

According to Batra and Sumanjeet (2012), microfinance has demonstrated that poor people are viable customers and this has led to the creation of strong institutions focusing on poor people’s finance and the business of microfinance has begun to attract the interest of private investors. In order to reach more poor clients, MFIs increasingly started to commercialize and in the process transforming into profit oriented entities that could attract increased levels of capital and thus attain more permanent status (Batra and Sumanjeet, 2012).

The concept of microfinance today is a broad concept encompassing more aspects than just microcredit or credit services which was the main feature in the early stages of the evolution of microfinance. Thus in order to put the concept of microfinance into perspective it is necessary to point out that there are many definitions proffered in literature for the term.

In some instances different countries have come up with definitions designed to meet their specific countries’ requirements or have attempted to define microfinance in the context of their own environments. The core concept however remains being that microfinance is concerned with banking the poor with no other alternative banking means (Ledgerwood, et al., 2013).

In one of the formal definitions, microfinance is defined as a set of financial practices to serve the unbanked poor (Armendariz and Labie, 2011). In a broader definition, microfinance has been defined as the provision of financial services for both lending and deposits taking that are offered to people engaged in small scale activities such as farming, fishing, herding, operation of productive microenterprises, trading of goods and those engaged in work for wages or commissions among other clients (Robinson, 2001).
In India the Taskforce on Supportive Policy and Regulatory Framework for Microfinance which was set up by the National Bank for Agricultural and Rural Development (NABARD) defined microfinance as the provision of financial services that include small amounts of savings, loans and other products targeted to poor people in both rural and urban areas with the main purpose of assisting them to uplift their incomes and their living standards (Agarwal and Sinha, 2010).

The Asian Development Bank (ADB) defined microfinance as serving the poor, low income households and their microbusinesses through giving them access to small scale financial services that include deposits or savings, loans, insurance, money transfers and payment services (Asian Development Bank, 2000).

In Zimbabwe, ZAMFI defines microfinance as the provision of financial services such as loans, savings, insurance and training to economically active poor and marginalized persons (Zimbabwe Association of Microfinance Institutions, 2013).

2.3 THE GENERAL VIEW OF MICROFINANCE

From all the definitions, the concept of microfinance is premised upon serving the poor clients. The microfinance equation is premised on the need to alleviate poverty and promote development through MFIs providing funds at relatively low cost to poor communities and populations previously excluded from credit with the aim to reduce role of state in providing costly social services, raise income levels of the poor and expand consumption to stimulate the economy (Olsen, 2010). The popular image of microfinance is that of a poverty alleviation tool devised in an innovative and sustainable way to assist the underserved poor people in order to develop income generating activities (Milana and Ashta, 2012).

However contrary to the traditional view of microfinance, the general view of MFIs in Zimbabwe is that they are institutions that mainly offer microcredit services or small loans to mainly employed individuals with verifiable salaries for which stop order arrangements can be effected to deduct and remit loan repayments to the lending MFIs on a month to month
basis. These individuals mainly include public servants as well as private sector employees struggling to survive on their low salaries and needing consumption financing. There is also the view that loans can be made to the unemployed and informal microenterprises who can provide security which though not acceptable to traditional banks can be acceptable to MFIs.

Although there is some presence of NGOs in the Zimbabwe market who provide mainly poverty alleviation and/or productive oriented financial services, their presence is rather limited such that what dominates are salary based consumption loans from the private MFIs.

In addition to the various definitions of microfinance, the general views and practices of microfinance also tend to differ across countries. In countries with more developed microfinance sectors, microfinance tends to be practiced in a broader context that not only covers microcredit and micro savings, but also payment services, insurance services and/or other products and services. In countries with less developed microfinance sectors, the services and products offered by MFIs may be limited to microcredit or microcredit and micro savings.

In Zimbabwe, the larger proportion of MFIs offer a narrow product range limited to mainly microcredit. A large number of MFIs operating in Zimbabwe are licensed under the credit only model with relatively few institutions operating as deposit taking microfinance banks (MFBs). Accordingly, this research focusses on the narrower definition of microfinance which defines microfinance mainly in terms of microcredit and micro savings.

2.4 MICROFINANCE PERFORMANCE

MFIs are generally perceived as pursuing double objectives in that they aim to reach out to as many poor people as possible and at the same time be able to cover their costs and remain in business going into the future. By definition a MFI has a dual objective of reaching many poor borrowers and also covering its costs (self-sufficiency) (Hartarska and Nadolnyak, 2007).
Microfinance performance is thus mainly measured by the two variables of financial sustainability and outreach. Financial sustainability is measured by ROA and Outreach is measured by the log of the number of active borrowers (NAB) (Hartarska, 2009). According to Hartarska (2009), although financial sustainability and outreach are the two commonly encountered measures of microfinance performance, there is a third element in the form of impact.

This research however focuses on the financial performance of MFIs, which in its own way is one of the three pillars of microfinance performance criteria.

2.4.1 FINANCIAL SUSTAINABILITY

MFIs performance in terms of self-sufficiency is measured by operating self-sustainability which measures how well a MFI can cover its costs through operating revenues (Hartarska and Nadolnyak, 2007). Thus, financial self-sustainability shows how well MFIs can operate and sustain their operations using just their operating revenues without assistance in the form of subsidies or donations from donors, governments or any other external financiers.

The promise of microfinance is to attain a positive impact on poverty through institutions that are financially self-sufficient yet this is unusual for anti-poverty strategies which tend to be associated with unending and substantial resource transfers (Balkenhol, 2007). Campbell and Tammy (2012) added that in order for a MFI to achieve its full potential it needs to be self-sufficient in a financial context so that it no longer has to rely on donors, subsidized grants or loans, NGOs or government programs for its continued operations.

The importance of MFIs’ sustainability was further underscored by Crabb (2008) who suggested that sustainability had become a necessary precondition for achieving growth and therefore greater outreach to the poor as this allows MFIs to access the formal sources of capital rather than relying on subsidies. Crabb (2008) further indicated that access to commercial capital results in expanded MFI operations as opposed to subsidized loans which are generally more fragile and less focused. Furthermore, Nedunchezian and Sivasankaran
(2009), highlighted that financial inclusion can happen only when there are large numbers of financially sustainable MFIs which operate in the microfinance field.

Although the above suggest that sustainability and more specifically financial self-sustainability is a necessity for the continued existence of MFIs, other microfinance literature point that in practice most MFIs are not sustainable. According to Morduch (2000), the larger proportion of MFIs were noted to be unsustainable and it was further highlighted that approximately 1% of MFIs were financially unsustainable and that no more than 5% were ever going to be sustainable (Brau and Woller, 2004). In addition, Morduch (2000) as cited by Brau and Woller (2004) went on to suggest that most MFIs were able to operate without necessarily covering their costs because of subsidies and gifts from governments and other donors. Another study in India also supported the notion that MFIs have generally been unsustainable by indicating that though an ambition for sustainable institutions has often been articulated in India, there was also an opinion that most MFIs working in this field have been unsustainable (Agarwal and Sinha, 2010).

In another survey of country specific experiences, Batra and Sumanjeet (2012) highlighted that Bangladesh MFIs with a large client base and loan volumes are still struggling to cover their operational costs even after 15 years of functioning. Brazil and Mexico were noted as countries in which MFIs were highly profitable, but on high interest rates and high average loan amount. Batra and Sumanjeet (2012) went on to indicate that in Pakistani, MFIs continued to struggle to cover costs whereas Indian MFIs with the lowest yield to gross portfolio were managing to cover even low average loan size.

The unsustainability of MFIs can no longer be taken for granted because unlike in the past when donor funding and subsidies were in abundance, in most developing countries today donor funding and subsidies have been on the decline. Ayayi and Sene (2010), indicated that microfinance promises to trim poverty and to achieve this MFIs have to become steady profitable because donor constancy is not a given, and as such the important question to be investigated is what factors drive financial sustainability of MFIs.

The foregoing demonstrates that it is through the process of building financially sustainable MFIs that there can be assurance of them continuing to assist the unbanked poor to uplift
their standards of living and partake in the economic growth and development of the country. Having financially sustainable MFIs can also enable the institutions themselves to grow and attain scale and have impact way beyond what they could do if they are not sustainable.

2.4.2 OUTREACH

Outreach refers to the degree to which MFIs reach a segment of the population that does not traditionally take part in the formal or semi-formal financial system (Zeller and Meyer, 2002). According to Zeller and Meyer (2002), outreach is measured by the breadth and depth of outreach. The authors defined breadth of outreach as the absolute number of households or enterprises in the target population that is reached by MFIs. The authors further indicated that the depth of outreach refers to the poverty levels of the poor people reached by MFIs.

Shue and Oney (2014) underlined the importance of outreach in microfinance by pointing out that the roots of microfinance lie in a social mission of enhancing outreach to alleviate poverty. In addition, Arsyad (2005) supported the value of outreach as he stated that outreach indicators are considered as proxies for impacts of MFIs on development.

Technological developments have emerged as an enabling tool for MFIs to improve their outreach. Adoption of technology such as wide use of cellular phones by even the poor people has also facilitated branchless banking which has further reduced service costs (Quayes, 2012).

Outreach remains limited in many countries (Zeller & Meyer, 2002). Manfred and Meyer (2002) also indicated that the limited microfinance outreach has resulted in the role of informal lenders remaining important in countries like Egypt.

2.4.3 IMPACT

Impact of microfinance is measured by its effect on clients, their enterprises, households and the communities in which they live (Brau and Woller, 2004). Thus impact assessment
focusses on issues like whether microfinance actually uplifts the standards of living of the poor, create employment and alleviate poverty among other social variables.

Among the major social objectives, microfinance is expected to impact positively on poverty levels in society. This form of impact was alluded to by Olsen (2010), who in reference to a report by UNCDP (2006) indicated that the United Nations considers microfinance crucial to the attainment of the millennium development goal of poverty eradication. Also most researchers agree that microfinance has an overall positive impact in the socio economic conditions of borrowers (Hudak, 2012).

According to Boudreaux and Cowen (2008), in terms of impact microfinance may not make substantial changes to individual incomes but may allow a family to send a child to school, pay medical expenses or build up more secure savings (Hudak, 2012).

According to Brau and Woller (2004), in practice the impact of microfinance is harder to identify and measure, and the difficulty and cost inherent in assessing social impact result in most MFIs not attempting to assess the social impact. In light of this and considering that the success of MFIs in terms of sustainability and outreach would one way or another result on impact on society in general, this research study does not dwell on assessing the impact of microfinance but instead dwells on financial sustainability.

2.5 EMPIRICAL REVIEW

In today’s environment MFIs are actively pursuing financial sustainability. In this regard a number of MFIs have undergone transformation to enable them to partake in sustainability enhancing activities such as deposit taking and listing on the stock exchanges among others (The World Bank, 2013).

However the road to financial sustainability remains difficult for most MFIs as the sector is faced with numerous challenges that adversely affect the financial sustainability of MFIs. The importance of financial sustainability and the levels of financial sustainability in
microfinance operations raises debate as to what really determines financial sustainability of MFIs.

On the other hand MFIs have to continue reaching out to the poor whilst at the same time aiming for sustainability because at the root of any microfinance program is the need to include the economically active poor and their microbusinesses in the economic growth and development of their countries as well as offer them sources of livelihood. Any MFI, no matter how viable it is, ceases to be a MFI if it is not serving the poor.

In addition to the difficulty in isolating the outreach and sustainability microfinance performance indicators, these two indicators often react differently and at other times react similarly to the same environmental and institutional conditions.

The complementarity between these two variables was underscored in a research study by Quayes (2012) which used data from a sample of 702 MFIs that were operating in 83 countries. This study revealed empirical evidence of a positive and complementary relationship between financial sustainability and depth of outreach. In some form of contradiction, Cull et al. (2007) demonstrates that MFIs can concurrently maintain profitability and the depth of outreach as long as they do not extend credit to the absolute poor.

Despite the difficulties associated with the relationship between sustainability and outreach, various research studies show that the factors affecting the performance of MFIs can be broadly classified into macro environmental factors and institutional factors (Crabb, 2008). An assessment of the performance of MFIs and the factors affecting their performance across the world reveal the aforementioned classification.

From a global macro environmental perspective it was noted that in terms of the global state of microfinance, the industry was affected by the global financial crisis with the first problem in early 2009 being the seizing up of the international credit markets and this made financing difficult to get and this hit hardest those MFIs that did not take savings (Rhyne, 2010). According to Rhyne (2010), the 2008/2009 crisis resulted in MFIs’ portfolio quality and profitability falling but for the larger part of the industry the decreases were manageable.
In another development emanating from the financial crisis in India and Mexico, many MFIs changed their legal structures and turned into companies to float their equity and bonds so as to be able to generate more funds (M2 Prewire, 2013). The author further stated that political intervention was one of the challenges to the microfinance sector.

MFIs in Africa face a number of challenges which include high operating and financial costs, low revenues, low efficiency in terms of costs per borrower, and lack of technological innovations (Lafourcade et al., 2005). Lafourcade et al. (2005) conclude that African MFIs compare favorably with their global counterparts, lead the world in savings mobilization, and lag behind in financial performance. The authors further stated that unregulated MFIs have greater outreach but they need to scale or merge to achieve greater efficiency. The authors also noted that commercial banks were entering the market and competition was increasing.

In a study carried out in Nigeria, Emeni (2008) analysed the problems and prospects of a sample of MFIs in Nigeria and identified that the Nigerian microfinance sector was faced with a number of challenges. It was noted that these challenges included governance problems, lack of adequate funding, inept management, lack of policy framework, weak deposit bases of MFIs and competition from banks driven to look for new markets by the loss of clients to large international banks. The author concluded that MFIs in Nigeria were faced with challenges of varying degrees and that outreach performance (financial or otherwise) was low.

Another study highlighting performances of MFIs in Nigeria revealed that during the mid-2000s there were over 1000 community banks in Nigeria but during this time weak financial and management performances led to collapse of many of these institutions resulting in the Central Bank of Nigeria (CBN) stepping in to absorb the community banks into formal regulated Micro Finance Banks (MFBs) (Ulrich and Hoback, 2014).

Another research study carried out in Cameroon concluded that MFIs in Cameroon were failing to serve the needy population and the MFIs in that country were limited in outreach and had very limited branches in the rural areas (Shue and Oney, 2014).
In South Africa it was also highlighted that there were problems in microfinance with commercial banks traditionally shunning serving low income earners, micro entrepreneurs and the poor because of the high costs involved in serving this market (Schoombee, 2004). It is particularly costly to serve the microenterprises market in South Africa compared to other countries because of high salary levels for management and staff, less dense markets, further distances to travel and difficulties to enforce repayment discipline (Calvin and Coetzee, 2009).

In Zimbabwe an analysis of the financial services sector in the multicurrency system published by ZEPARU and authored by Mpofu and Matsika (2014), show that the sector was characterised by problems which included the macroeconomic environmental challenges, challenges associated with different financial institutions, challenges associated with the structure and composition of the financial sector, challenges associated with dollarisation, challenges emanating from the international monetary system, challenges facing the Central Bank, and challenges facing the Government.

Another research done on the challenges and prospects of the microfinance sector in Zimbabwe revealed that the Zimbabwe financial services sector was facing more or less the same challenges enumerated above and most banks in Zimbabwe were faced with the challenges whereby commercial banks were facing liquidity problems, most banks had limited resources for lending, banks lacked access to lines of credit, and the government had not been adequately rehabilitated to borrow from international financial institutions (Murisa and Chikweche, 2013).

Murisa and Chikweche (2013) also highlighted that in the post-independence era, the Zimbabwe microfinance sector has largely been associated with fragile institutional structures and poor financial and management practices and all causing weak outreach and financial sustainability. The authors went on to highlight other challenges in the Zimbabwe financial services sector and more specifically the microfinance sector. These challenges included licensing shortcomings whereby the RBZ created similar licensing criteria for all MFIs and moneylenders, minimum capital requirements, and political interference in operations of some NGO MFIs.
Murisa and Chikweche (2013) argued that due to lack of investor interest, a larger proportion of the remaining MFIs were charging high and usurious interest rates and as a result the sector was increasingly becoming dominated by loan sharks with no developmental agenda.

From the foregoing assessment of the Zimbabwe financial services sector in general, the factors affecting the performance of the sector can be broadly split into institution specific factors and macro environmental factors. This is in line with Crabb (2008) who argued that factors affecting sustainability can be grouped into institutional and environmental factors.

On the macro environmental factors there has been reference to the political factors, macro-economic factors, and legal or regulatory issues. On the institutional factors, attention has been drawn to capitalisation, management capacity, funding and profitability. These challenges are elaborated below.

2.5.1 MACRO ENVIRONMENTAL FACTORS AFFECTING FINANCIAL PERFORMANCE OF MFIs

2.5.1.1 Operating Environment and Financial Performance of MFIs

Ahlin et al. (2011) used data collected on 373 MFIs and merged with country level economic and institutional data to study the relationship between MFIs’ performances and economic development. The evidence shows complementarity between MFI performance and the broader economy and also highlights that MFIs are more likely to cover costs when growth is strong. The author also found out that MFIs in financially deeper economies have lower default rates and operating costs, and charge lower interest rates.

Another study using a MIX Market database of 108 MFIs operating in over 30 countries found that size of the informal economy has a positive impact on sustainability as MFIs have comparative advantages in serving informal enterprises (Hartarska, 2009).
In a cross section study of 689 firms from the year 2007, it was established that MFIs are more likely to be self-sufficient in the poorest of countries where they face less competition from banks and similar institutions (Campbell and Rodgers, 2012). Campbell and Rodgers (2012), also indicated that MFIs will also be more successful under high price levels for consumption goods as this allows an entrepreneur a better return and gives them the ability to repay loans.

In a study based on a panel dataset of 114 MFIs from 62 countries, it was found out that MFIs seem to perform successfully in highly inflationary environments (Hartarska and Nadolnyak, 2007). In another study that used comparative analysis on a sample of MFIs in the West African Economic and Monetary Union, it was found out that there was high correlation between aid and the development of microfinance (Ashta and Fall, 2012).

The various research studies on the operating environment show that this is a major factor influencing the financial performance of MFIs. The results of the empirical studies show contradictions in that some studies point out that MFIs thrive under poor macroeconomic conditions characterized with poverty, poorly developed financial systems and high levels of the informal economy. On the other hand other studies show that MFIs are likely to cover their costs when the broader economy is strongly growing.

2.5.1.2 The Competitive Environment

Globally the banking sector has been rising in a big way to participate in the microfinance movement and most commercial banks have moved into microfinance business (Meenu, 2014). Drawn primarily by the vast unmet demand and high profit margins many banks are broadening their client base to include the poor and the process by which banks begin to loan to the poor sectors of the population is referred to as down scaling.

Research finds that competition matters and greater bank penetration in the overall economy is associated with micro banks pushing toward poorer markets as reflected in smaller loan sizes and greater outreach to women (Cull et al., 2014). An analysis of MIX Market data on 299 firms working in Latin American and Caribbean countries showed that increased
competition decreases the number of borrowers at each firm (Olsen, 2010). The implication of this is that as more competitors enter the market, the market shares for MFIs will be reduced as they will share the existing pool of borrowers with more financial institutions.

A case study using both qualitative and quantitative measures done on Tajikistan and Uzbekistan found out that MFIs in these countries did not have the traditional characteristics of microfinance business (Sabi, 2013). The study went on to indicate that MFIs in these countries did not require their clients to give up membership of other MFIs thus increasing probability of cross indebtedness. Sabi (2013) emphasized that there was high probability that if a client fails to repay a loan from one MFI he will join another and as such both countries were exposed to cross indebtedness even in the absence of intense competition (Sabi, 2013).

Assefa et al. (2013) evaluated data from 362 MFIs in 73 countries between 1995 and 2008 to study the effect of competition on the performance of MFIs. The results show that there is a general trend of increased competition in microfinance during the last decade. The study found that more competition leads to more loans at risk thereby causing higher levels of loan write offs. Thus these findings support the claims that competition leads to multiple loan taking by clients, resulting in heavy debt burdens and low repayment rates and/or it puts pressure on MFIs to increase output and lower costs which may lead them to relax lending and client selection standards (Assefa et al., 2013). The author further found that there was evidence that increased competition is associated with lower levels of loan repayment.

With regard to competition, the reviewed studies show that increased competition is detrimental to MFIs’ financial sustainability. On the positive side, there is evidence that competition in the form of increased bank penetration in the economy will result in banks moving toward poorer markets which appear to be contradictory to the overall finding that competition adversely affects MFIs sustainability and outreach. However on the negative side increased competition was found to lead to more loans at risk and over indebtedness of clients.
2.5.1.3 Regulation and Governance

The issue of regulation and its effects is a highly debatable issue in microfinance with differing views on the effect of regulation on the performance of MFIs.

According to Crabb (2008), MFIs cannot provide effective financial intermediation without a well-functioning regulatory framework in a country. Woller and Woodworth (2001), also supported the importance of regulations by indicating that poor macroeconomic conditions, regulations and trade policies will undermine the viability of small businesses and the MFIs that support them (Crabb, 2008).

Furthermore, Hubka and Zaidi (2005) asserted that governments can help market based MFIs by eliminating unfair competition from public institutions, undertaking overall regulatory reform and improving overall business environment (Crabb, 2008).

Other scholars have indicated that regulation can adversely affect the performance of MFIs. Balasubramanian (2009) argued that among other issues microfinance also faces the problem of excessive government regulation. Zeller and Meyer (2002) had similar arguments when they cited China as an example of a country where administrative interference and a distorted pricing system resulted in low level of outreach and high fragility of many MFIs (Crabb, 2008).

Hartarska and Nadolnyak (2007) undertook a research study to analyse whether regulated MFIs achieve better sustainability and outreach. The research study was based on data for 114 MFIs from 62 countries. The researchers used an empirical model where performance was specified as a function of MFI specific, regulation, macroeconomic and institutional variables. The findings from the research were that regulation does not directly impact on financial sustainability or outreach.

Research findings by Hartarska and Nadolnyak (2007) implied that the transformation of MFIs to become regulated financial entities may not result in improved financial performance and outreach performance. However the finding that MFIs with access to
savings are able to increase their outreach to borrowers was found to suggest indirect benefits from regulation particularly if regulation is the only way to access savings.

Hartarska and Mersland (2012) carried out a research study on governance mechanisms which promote efficiency in reaching poor clients. The study established that there is weak evidence that MFIs in countries with mature regulatory environments reach fewer clients and MFIs regulated by an independent banking authority are more efficient. This shows that advances in regulatory frameworks may not necessarily result in increased outreach by MFIs.

Another study on Indian MFIs did not provide convincing evidence on the effect of regulation as a determinant of performance. In a study to investigate the effect of regulation on outreach and sustainability performance of MFIs in India, it was found out that nearly 80% of reporting MFIs in India were operationally sustainable and the highly regulated ones showed better results (Pati, 2012). The study used data pertaining to 40 MFIs obtained from MIX Market for the years 2005 to 2006 and 2009 to 2010. The study went on to conclude that regulation did not emerge as a statistically significant determinant variable of performance. On the beneficial side of regulation the author indicated that funding becomes easier when an MFI is regulated because this gives them an edge to bargain for better and cheaper sources of funds.

In another study that showed the beneficial side of regulation on MFIs performance, Mersland and Strom (2009) established that a regulated MFI is more likely to earn the trust of customers. The authors also indicated that a regulated MFI is associated with costs like security requirements, investments in information technology and the stifling of MFI innovations.

In a study premised on a data set of 245 MFIs and focusing on whether or not regulatory supervision curtail microfinance profitability and outreach, Cull et al. (2011) found that profit oriented MFIs respond to supervision by maintaining profit rates and curtailing outreach to women and customers that are costly to reach. Institutions with a weaker commercial focus instead tend to reduce profitability but maintain outreach.
A research study by Hartarska (2009) also came up with results not in support of the assertion that governance has an effect on performance of MFIs. This research study was based on an analysis of MFIs performance using a database of 108 MFIs operating in over 30 countries. The research came up with conclusions that indicated that regulatory involvement and financial statement transparency does not impact performance.

In an article that also reinforced the negative effects of regulation on MFIs, Hartarska et al. (2012) concluded that MFIs on whom regulation is imposed incur higher costs neutralizing cost reducing technical progress. The implication of this was that policymakers were urged to instead focus on inducing MFIs to build governance and management capacity.

Alongside regulation, governance issues are also a topical issue in the performance of MFIs. There are various research studies on the issue of governance with some supporting that governance positively affects performance of MFIs whilst others show otherwise.

Kyereboah - Coleman and Osei (2008a), carried out a research study on the role of governance. The study used a quantitative approach based on panel data from both primary and secondary data from 52 conveniently sampled MFIs to analyse the impact of governance on performance of MFIs. The research study established that governance plays a critical role in performance of MFIs. In addition, the study highlighted that independence of the board and a clear separation of the positions of Chief Executive Officer (CEO) and that of the Chairperson have a positive correlation with both outreach and profitability.

In a research study carried out on MFIs in Central Asia, it was established that the hypothesis that good governance can lead to better performance in terms of risk and earnings performance was confirmed by the pooled regression estimation in a research study done by Janda and Turbat (2013). The research study utilized data that was collected from the MIX Market database and the World Bank databank. For the research, consequent dataset used was in the form of an unbalanced panel of 90 MFIs in Central Asia from 1998 to 2011.

Hartarska and Mersland (2012), came up with conclusions in line with governance theories. The conclusions from the study showed that efficiency increases with a board size of up to nine members and decreases after that. Among other findings the research concluded that
MFIs in which the CEO chairs the board and those with larger proportions of insiders are less efficient. The research also found that donors’ presence on board is not beneficial.

Also from a research study using a self-constructed global panel dataset on MFIs, it was found that the number of clients increase with CEO/Chairman duality. This research study also found that bank regulation has no effect on performance (Mersland and Strom, 2009).

From an African perspective, Kyereboah - Coleman and Osei (2008b) carried out a research study in Ghana focusing on outreach and profitability of MFIs and the role of governance. The research study used a quantitative approach based on data from conveniently sampled 52 MFIs that operated in Ghana at least for the 10 years between 1995 and 2004. The results from the research study indicated that the larger the board size the more profitable the MFIs.

This research by Kyereboah - Coleman and Osei (2008b), also found that CEO duality had a negative impact on both profitability and outreach because of conflict of interest and resultant agency costs. CEO tenure was found to be negatively related with profitability and the argument is that in some cases CEOs with longer tenures build empires and pursue their own objectives which adversely affect firm value. These findings are in line with the basic principles of the Agency Theory.

From the literature review of regulatory impact on performance, the general view is that regulation does not directly affect performance. Also in the research studies reviewed, the relationship between regulation and MFI performance is too often weak. The empirical results show that performance of MFIs increase with good corporate governance practices.
2.5.2 MFI SPECIFIC AND INSTITUTIONAL FACTORS AFFECTING FINANCIAL PERFORMANCE OF MFIs

2.5.2.1 Capital Structure

Capital structure reflects the make up or components of capital of MFIs whereas capitalisation reflects the extent or quantum of capital levels in MFIs. Sufficient capital is one of the key factors affecting the performance of MFIs because sufficient capital encourages lenders and depositors to have confidence in the MFIs (Mada, 2005). Mada (2005) further indicated that MFIs have to maintain a proper balance between debt and equity to ensure that the equity of the institution is not at risk. However on the other hand if an MFI has a large amount of equity and very little debt, it is likely limiting its income generating potential.

Capital structure for institutions involved in lending has emerged as an increasingly important issue in finance. MFIs have become invaluable lending institutions and since capital constraints have been a major hindrance to the expansion of microfinance programs and MFIs have had varying degrees of sustainability, how best to finance these MFIs is a key issue (Bogan, 2012).

Kar (2012) used a panel dataset of 782 MFIs in 92 countries from 2000 to 2007 to study the relevance of capital and financing structure on the performance of MFIs. The research findings confirm the agency claim that an increase in leverage raises profit efficiency in MFIs but up to a level, beyond which relatively high leverage raises costs of financial distress, bankruptcy or liquidation and thus agency costs of outside debt overpower agency costs of outside equity.

The study also underscores that leverage has a negative significant effect on depth of outreach. The research study further portrays that cost efficiency decreases with decreasing leverage.

Kar (2012) however noted that reverse causality in the relationship between capital structure and MFIs performance can happen resulting in firm performance affecting capital structure
instead of capital structure affecting firm performance. Kar (2012) further stated that this can be due to violation of the Miller and Modigliani (MM) capital structure market perfection assumptions. The author further stated that efficiency, risk and franchise value hypothesis explain why differences in firm performance may move the equity to capital ratio up or down.

The study by Kar (2012) raised an important issue on the possible causality and reverse causality between capital structure and MFI performance. However the study on the effect of capital structure on MFIs’ performance of MFIs by Kyereboah - Coleman (2007) spelt out that the higher the MFI leverage the higher the performance in terms of reaching out to more clientele, and attaining scale economies and thus better able to deal with moral hazard and adverse selection. The research study by Kyereboah - Coleman (2007) also concluded that a large proportion of MFIs use high leverage in their operations and finance their operations with long dated debt as opposed to short term debt.

A study by Hartarska and Nadolnyak (2007) dwelling on whether or not regulated MFIs achieve better sustainability and outreach, established that less leveraged firms have better sustainability and better capitalised MFIs have better sustainability. The study further found that MFIs using several funding sources are more sustainable and that outreach is not affected by the level of capitalisation and leverage. Thus whilst sustainability is affected by capitalisation and leverage, outreach is not affected by these variables. The research study was carried out using a panel data set of 114 MFIs from 62 countries.

In a study on capital structure and sustainability by Bogan (2012) that was conducted using panel data on MFIs as reported by MIX Market, found causal evidence that increased usage of grants by large MFIs decreases operational self-sufficiency. This implies that more funding options and resources particularly skewed toward grants will negatively affect attainment of operational self-sufficiency by MFIs. To investigate the optimal capital structure for MFIs, the research used MFIs panel data for the years 2003 to 2006 on MFIs in South Asia, Middle East, East Asia, Africa, Eastern Europe and Latin America. This data on MFIs was obtained from individual MFIs’ reports to MIX Market.
The above reviews on capital structure revealed that debt magnifies performance but only up to a level. Also the results from the reviews above indicated the challenge of causality and reverse causality between capital structure and performance of MFIs. From literature reviews above there are however some research studies which contradicted the notion that leverage magnifies performance as the results of these other studies indicate that less leveraged firms have better sustainability. There are also contradictions with respect to the effect of capitalisation and leverage on outreach.

2.5.2.2 Funding

In addition to capital, funding is a crucial element for MFIs to grow their lending. MFIs would need a varied array of funding sources to take advantage of each source of funding as well as achieve diversification in the sources of funding. Without alternative funding sources, MFIs will have their lending being restricted to the levels of working capital they will be holding.

A study by Hartarska and Nadolnyak (2007) that was carried out using data from 114 MFIs in 62 countries found that MFIs using several funding sources were more sustainable.

From another study that employed a panel dataset of 782 MFIs in 92 countries between 2000 and 2007 it was established that more funding motivates MFIs to widen their clientele base (Kar, 2012).

Caudill et al. (2009) worked on a research study using dataset of MFIs operating in Eastern Europe and Central Asia between 2003 and 2004 and concluded that MFIs offering deposits tended to improve over time, MFIs that were becoming cost effective were relying less on subsidies and more on deposits as a source of loanable funds. In addition the research study found out that larger MFIs that were offering deposits and those that were receiving subsidies were operating more cost effectively over time.

The importance of deposits in a MFI’s funding structure was also reinforced by a case study carried out in the Philippines to study the effects of deposits on sustainability of MFIs which
concluded that offering deposits enhances financial sustainability. The case study of MFI TSKI of Philippines confirmed that Opportunity International MFIs that offer micro savings were more financially sustainable.

This increased sustainability was coming through an increase in the number of clients. There was however no significant evidence that by offering micro savings, Opportunity International MFIs had abandoned the poorest and there was also no evidence that average loan balances increases when a MFI offers savings (Bergsma, 2011).

In India a study on the financial performance of MFIs done using a cross sectional analysis of data for a sample of 22 MFIs for the year 2008, it was established that the financing mix in India had not varied widely across firms and this mainly emanated from increasing reliance on commercial funds made available by banks and other agencies (Agarwal and Sinha, 2010).

A case study in Mali shows that whilst savings are an important source of MFIs funding, they come with some limitations connected with the quality of services (Sangare, 2011). All the same, savings as a source of funding was still viewed as the best form of funding for microfinance in Mali owing to the tradition of savings in informal practices, low cost of collection, and the underdevelopment of capital markets (Sangare, 2011).

Another research study in Cameroon done by Shue and Oney (2014) showed the extent to which deposits were being used as a source of funds in that country. Using panel data obtained from MIX Market database for six major MFIs in Cameroon for the period 2007 to 2009, it was concluded that MFIs in Cameroon largely depend on commercial funds and heavily depend on deposits as a source of funds and there are little or no donors (Shue and Oney, 2014).

The results of the literature review show that deposits enhances the performance of MFIs. Literature also shows that MFIs with more funding sources are likely to perform better.
2.5.2.3 Size and Age of MFI

Microfinance depends largely on scale and the more money a MFI receives, the more loans it can give and the less the overall risks an MFI incurs (Balasubramanian, 2009). According to Balasubramanian (2009), when a bank starts to cater for more borrowers, per unit costs decline and with less risk and lower costs the bank can offer even more loans. The author further argue that once industry reaches a certain size, MFIs can issue debt and equity capital in national and international markets. As such size of an MFI is viewed as a factor determining its performance. The author also noted that age of an MFI can also be a critical factor where issues of reputation and track record comes up for consideration.

Hartarska (2009) worked on a research study using a panel dataset of 108 MFIs obtained from over 30 countries to analyze their performance. The research study adopted an empirical approach which is usually employed in cross country research studies on the influence of regulation and market forces on the performance of banks. The research study concluded that with age, MFIs improve their performance. However the author argued that this positive relationship between age and performance was up to some age limit. The author indicated that as a MFI matures and go past the age of 20 years, the impact becomes negative.

In a later study by Ayayi and Sene (2010), age of a MFI was found to have a weak influence on sustainability. This was deduced from a study that collected and analysed data on 217 MFIs in 101 countries between 1998 and 2006 to find out factors that drive MFIs’ sustainability.

With respect to the relationship between size of a MFI and sustainability, another earlier research study had also established that MFI size affect sustainability but by a small magnitude. This was informed by the research by Hartarska and Nadolnyak (2007) which was carried out using a panel dataset on 114 MFIs from 62 countries to ascertain whether or not regulated MFIs achieve better sustainability and outreach using cross country evidence.

A study on MFIs operating in Ghana and conducted by Kyereboah - Coleman and Osei (2008b) also concluded that size of a MFI and profitability were significantly positively
related thereby suggesting that a large firm was able to accommodate risk and enhance productivity through diversification. The study used a quantitative approach based on primary and secondary data from conveniently sampled 52 MFIs that operated in Ghana between 1995 and 2004. However with respect to age this research study contradicted the later finding by Hartarska (2009) that with age MFIs improve their performance. This research study instead found that age has a negative impact on both profitability and outreach thereby implying that microfinance services do not necessarily follow the formal relationship of age and reputation.

In another research studying the relationship between size of NBFIs and performance by Sakyi et al. (2014) it was found out that size was positively related with performance. The research study used panel data analysis of 42 NBFIs over the years 2006 to 2010.

From the empirical literature, the overwhelming evidence is that MFI size affect performance. However other studies indicate that the magnitude of the relationship between MFI size and performance is small. With respect to age, literature shows mixed results with some studies indicating that with age MFIs’ performance improves whilst other studies show otherwise.

2.5.2.4 General Management and Operational Challenges

2.5.2.4.1 Operating Costs

A study in India based on data from 40 MFIs obtained from MIX Market and conducted by Pati (2012), found out that operating expenditure rather than regulation was a predictor of sustainability and profitability of MFIs.

In Egypt researchers conducted a research study using primary data to analyse the financial and operational performance of 42 NGO MFIs operating in that country (Khafagy, 2013). The data for the research was collected from the MIX Market database and the research found that the microfinance industry is labor intensive. As a result of the labor intensive nature of the industry it was noted that high personnel expenses impose a significant burden
on MFIs’ operations (Khafagy, 2013). Khafagy (2013) also found a positive significant relationship between personnel expenses and cost of funds on one hand and portfolio yield on the other. This evidence shows that operating expenses and more specifically personnel expenses forms a major component of the ultimate interest rate borne by the consumer of microcredit.

A study in Bangladesh produced results which showed that there were two main factors that were significantly related to MFI sustainability and these being interest rate spread and general administrative costs. It was then concluded that MFIs with lower administrative costs and a large interest rate spread were more likely to achieve sustainability prior to introduction of interest rate cap (Islam et al., 2014).

The results of the empirical literature review on operating costs reveal that MFIs need to manage their costs in order to not only attain sustainability but to also improve their performance. The results of the empirical research also showed that labor costs are a major component of the total operating costs incurred by MFIs. The implication is that managers need to closely manage this cost component in order to ensure sustainability of their MFIs.

2.5.2.4.2 Operational Management and Portfolio Quality

Portfolio quality especially repayment rate is the most important performance indicator of MFIs because it has a large bearing on whether a MFI is likely to be self-sufficient and sustainable in the long run (Mada, 2005). Portfolio quality embraces repayment rates, portfolio quality rates (arrears rate, PAR, ratio of delinquent borrowers) and loan loss ratio (Arsyad, 2005).

In a research focusing on factors that drives MFIs’ sustainability and employing data on 217 MFIs in 101 countries between 1998 to 2006, Ayayi and Sene (2010) found that high quality credit portfolio coupled with sufficiently high interest rates that allow a reasonable profit were crucial to financial sustainability of MFIs.
In terms of lending methodology, Mersland and Strom (2009) found that outreach is lower in the case of lending to individuals than in the case of group lending. This conclusion was arrived at after analysing self-constructed global dataset on MFIs in Central Asia. Using unbalanced panel dataset on 90 MFIs in Central Asia for the period 1998 to 2011, the authors noted that the hypothesis that group lending increases the portfolio yield was confirmed. The authors stated that the hypothesis that targeting women borrowers increases portfolio yield was confirmed to have a highly statistically positive relationship (Janda and Turbat, 2013).

In Ghana a study on outreach and profitability of MFIs and the role of governance was carried out by Kyereboah - Coleman and Osei (2008a). The research study used a quantitative approach based on primary and secondary data from conveniently sampled 52 MFIs that operated in Ghana between 1995 and 2004. MFIs in Ghana with a large proportion of their assets as fixed assets were found to have better profitability and outreach.

The empirical research shows that MFIs also need to manage their operations and portfolios well in order to achieve sustainability. The use of effective and efficient lending methodologies can result in better performing MFIs.

2.6 CONCEPTUAL FRAMEWORK

The conceptual model was developed on the basis of the literature review, and more specifically on the research by Valentina Hartarska titled ‘The Impact of outside control in microfinance” and also the research by Crabb (2008) which indicated that factors affecting the performance of MFIs can be grouped into macro environmental and institutional factors. Molyneux et al (1992), Samolyk (1994) and Barth et al (2003) as cited in Hartarska (2009), asserted that bank performance usually specifies performance as a function of bank specific factors, macroeconomic and institutional factors, and regulatory factors.

The model is stated as:  

\[ Pit = constant + \alpha EGit + \beta MFIt + \phi Mt + \epsilon t \]  

(Hartarska, 2009).
Where $P_i^t$ is a performance variable for MFI $i$ at time $t$; $E_{Git}$ is a vector of variables that account for the effect of the external governance framework and regulation; $M_{It}$ is a vector of MFI specific factors; $M_t$ are country specific macroeconomic factors, and $\varepsilon_{it}$ is an error term.

Figure 2.1 below illustrates the conceptual model.

**Figure 2.1: Conceptual Model**

- **External Governance and Regulatory Factors**
  - RBZ Licensing and Operating Requirements

- **Macroeconomic Country Specific Factors**
  - Competition
  - External Funding
  - Domestic Funding
  - Operating Costs

- **MFI Specific Factors**
  - MFI Size
  - Non-performing loans/PAR
  - Management Information Systems
  - MFI Age
  - Capital
  - Loan Portfolio

- **MFI Performance**
  - Financial Performance
    - Profitability
Source: Designed by Researcher

From the conceptual model, the performance of MFIs is measured by financial performance. The financial performance indicator for this study is profitability and this is the dependent variable (DV) whose outturn is determined by the external governance and regulatory factors, the macroeconomic country specific factors, and the MFI specific factors which are the independent variables (IV).

The governance and regulatory factors identified in the model are the existing RBZ licensing and operating requirements for MFIs operating in the country. The macroeconomic country specific factors include competition, external funding, domestic funding and the country’s operating cost structures.

The MFI specific factors are MFI size, assets quality as measured by non-performing loans, management as measured by factors such as management information systems in place, capitalisation, and age and track record of MFI. The other MFI specific factors are number of branches and branch network.

2.7 CHAPTER SUMMARY

The literature indicate that the factors affecting the performance of MFIs are multi-faceted and often the relationship between performance and the determinants of performance is not straightforward.

The literature reveals that microfinance is an important factor in the financial inclusion and development of poor countries. However the literature points out that despite the importance of microfinance and concerted efforts by many developing countries to implement microfinance programs, success is difficult because of the challenges that confront the sector.
MFIs need to manage these challenges in order to enhance their performance. On the other hand MFIs need the support of regulators and policymakers to enact regulations and create conditions that promote performance of MFIs.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter reviews the research methodology employed to gather and analyze the data used in the research study, and this includes discussions on the research methods and instruments used in the research for data collection, data capturing, data validation and analysis.

This chapter begins with an evaluation of the research design and followed by discussions on research strategies, population and sampling techniques, sources of data, data collection and analysis procedures, data reliability and validity. The chapter ends with an evaluation of the research limitations.

3.2 RESEARCH DESIGN

3.2.1 RESEARCH PHILOSOPHY

This research study is a pure or basic research undertaken for academic purposes, and it adopted a descriptive design to try and get information about the factors affecting the performance of MFIs in Zimbabwe and the research study also adopted an exploratory design to explore the determinants of MFI financial performance.

In terms of research philosophy, this research study is principally underpinned by the quantitative philosophy. However the research study also employed some qualitative questions in order to mitigate against the challenges involved in using a survey in a market where databases on MFIs are not readily available. Nevertheless the study is a quantitative research.
The use of both quantitative methods combined with some elements of qualitative questions is in line with other previous research studies such as the study by Ulrich and Hoback (2014) on the CAMEL rating of MFIs in Nigeria which used both quantitative and qualitative methods. The use of quantitative research methods is consistent with other researchers in the reviewed literature and these include research studies by Hudak (2012), Hartarska (2009), Assefa et al. (2013), Shue and Oney (2014) and de Cro Bruggle et al. (2008).

3.2.2 RESEARCH STRATEGY

The choice of a research strategy will be guided by the purpose of the research, the research questions and objectives, the extent of existing knowledge, the amount of time and other resources available and above all the philosophical underpinnings (Saunders et al., 2009).

In empirical studies reviewed under the literature review it was found out that the overwhelmingly used research methodology is original dataset of MFIs and panel dataset from MIX Market. In a research study undertaken in India on performance analysis for MFIs in that country, the researcher used original dataset of MFIs as assembled the regulatory authorities, Sa Dhan (de Cro Bruggle, et al., 2008).

Also other researchers to have undertaken similar research studies employing panel datasets of MFIs include Hudak (2012), Hartarska (2009), Assefa et al. (2013) and Shue and Oney (2014).

Other research studies in the literature that focused on factors that affect the performance of MFIs or problems and/or prospects of MFIs, used surveys to collect data. In a research study on the problems and prospects of MFIs in Nigeria, Emeni (2008) used cross sectional survey methodology based on questionnaires and simple random sampling of MFIs.
In another research study focussed on an assessment of microfinance institutions performance, Arsyad (2005) based his study on data from village credit institutions and interviews with some stakeholders of the village credit institutions.

Whilst from the literature reviewed, the most often used research methodology involves the use of databases and/or panel data sets on MFIs, this research adopted the cross sectional survey strategy instead of panel datasets on Zimbabwe MFIs because of the limited availability of data on MFIs in the form of databases. The survey methodology has also been successfully employed in other similar research studies as highlighted in the studies reviewed above.

This research study also adopted the cross sectional survey methodology because of its compatibility with the type of research being undertaken, the advantages of the cross section survey and the limited time and resources available for the study. This research study also adopted the cross sectional survey strategy as the study relies on inferences deduced from information and views gathered from ZAMFI, RBZ and MFI executives on the problems and factors affecting the performance of MFIs in Zimbabwe.

Though the cross section survey strategy has some disadvantages, there are mitigation measures which can be used to neutralize them. Cognisant of the limitations of the cross section survey research design, the researcher took measures to mitigate against these limitations by complementing questionnaires with interviews.

In this research study qualitative data was gathered through interviews and this was adopted as a strategy to counter off the limitations of surveys which were adopted insted of the more often used panel datasets which could not be employed in this particular research owing to information availability challenges.

In addition to administering questionnaires to the selected sample of 147 MFI executives and managers, the researcher interviewed two executive officials from ZAMFI and two RBZ Bank Supervision and Surveillance executives. The research also analysed secondary data from reports and other documents from RBZ, ZAMFI, MIX Market, World Bank and the International Monetary Fund.
3.3 POPULATION AND SAMPLING TECHNIQUES

3.3.1 POPULATION

The population was MFIs that were registered with the RBZ as at 28 February 2014.

In the study, 147 questionnaires were sent out to MFIs executives and managers, and this high number was aimed at limiting the effects of non-responses and late responses. Furthermore, the sample of 92 was adopted after taking into account the completeness and quality of responses received.

Two open ended questionnaires were sent to each of the RBZ Bank Supervision and Surveillance Division and ZAMFI. From both ZAMFI and RBZ all the questionnaires were responded to.

3.3.2 SAMPLING

In the study, questionnaires were sent to all MFIs executives and managers who appeared as contact persons on the RBZ register of MFIs that were registered with the RBZ as at 28 February 2014. As a result the chosen sample was on the basis of simple random sampling which is consistent with sampling methods adopted in similar research studies such as Emeni (2008).

The study further collected qualitative data from ZAMFI and RBZ Bank Supervision and Surveillance Division. The choice of respondents from ZAMFI and RBZ was based on the targeted respondents being in the top management of their institutions and having responsibility to deal with oversight of the operations of MFIs.
3.4 SOURCES OF DATA

3.4.1 PRIMARY DATA SOURCES

Primary data were gathered through the use of questionnaires and interviews.

3.4.1.1 Questionnaire

The study used a questionnaire with both closed and open ended questions. The open ended questions gave the sample respondents room to elaborate on their feedback. The closed questions allowed a lot of questions to be answered in a very short space of time.

The research used questionnaires because they allow gathering of responses in a standard manner which gives more objective and easily comparable data which suits this study as it requires comparative analysis of responses, and detailed descriptions and explanations (Saunders, et al., 2009).

3.4.1.2 Interview

The research conducted interviews with RBZ and ZAMFI officials in order to gather more elaborate qualitative data and explanations.

The study employed unstructured interview technique because it gives more freedom for the researcher to ask questions and control the direction of the interview, and also allows the respondents to provide in depth information.

In the literature reviewed the use of questionnaires was adopted in similar research studies in studies by Arsyad (2005) and Jayadev and Rao (2014).
3.4.2 SECONDARY SOURCES

Secondary data sources used in the study included publications and brochures from various MFIs operating in Zimbabwe, RBZ and ZAMFI. The study also used reports from databases of RBZ, ZAMFI, IMF, WB, MIX Market and newspapers to gather secondary data.

The data collected from the above mentioned sources showed that the microfinance industry in Zimbabwe as being adversely affected mainly by liquidity challenges and high levels of non-performing loans.

3.5 DATA COLLECTION AND ANALYSIS PROCEDURES

3.5.1 DATA COLLECTION PROCEDURES

Data was gathered using a questionnaire administered to the sample population of MFI executives and managers. Respondents were first contacted by e-mail and briefed about the research and requested to participate in the survey by completing an attached questionnaire. The emails were later followed up by phone calls and visits where necessary.

The questionnaires were administered to many respondents at the same time and this had the effect to allow respondents enough time to respond, and this also helped in improving the quality of the responses and data collected. However on the downside, the responses were slow to come and the response rate was generally low.

3.5.2 DATA ANALYSIS PROCEDURES

After the collection of data, the next processes involved checking questionnaires for completeness, data arranging, data capturing, processing and analysis. The Statistical
Package for Social Science (SPSS) software and Microsoft Excel were used in the data analysis process.

From the data, descriptive statistics were calculated to determine the distribution and summaries of variables. The descriptive statistics include frequencies, range, mean, mode, median, variance and standard deviations.

In the literature review it was found that research studies of a similar nature like the one undertaken by this researcher employed data analysis techniques which included descriptive analysis, correlation analysis, regression analysis, statistical functions, Generalised Method of Moments (GMM) and Instrumental Variables (IV) estimations, and difference of the means tests. The researchers who employed some of these data analysis techniques in their studies on performance of MFIs include Hartarska and Nadolnyak (2007), Arsyad (2005), Agarwal and Sinha (2010), Ashta and Fall (2012) and Caudill et al. (2009).

In line with these previous research studies and the nature of this research study, the study also employed correlation analysis, regression analysis and analysis of variances (ANOVA) statistical functions.

3.6 DATA RELIABILITY

Reliability refers to the extent to which data collection techniques or analysis procedures will give consistent findings when the research is repeated at different times and by different researchers (Saunders et al., 2009).

In order to ensure reliability this research study used three methods of data collection namely the interview, documentary review and the questionnaire. The questionnaire was developed in line with the research questions and objectives.

In order to ensure common interpretation and understanding of the questionnaire items among respondents, the questionnaire was pretested among a group of friends and colleagues.
3.7 DATA VALIDITY

Validity is a measure of whether the findings or conclusions are really about what they appear to be about (Saunders et al., 2009). In order to ensure validity, the research sought responses from all registered MFIs in Zimbabwe and this enabled the research to have representative views from different areas of the country. Another measure used to ensure validity was to cross check primary data against secondary data.

3.8 RESEARCH LIMITATIONS

The limitations faced during the conducting of the research included late returns of questionnaires and also some RBZ and ZAMFI officials were not readily forthcoming for interviews. The unavailability of secondary data on operations of MFIs made it impossible to have panel data for comparatives for the period covered by the research.

3.9 CHAPTER SUMMARY

The chapter highlighted that the research study used a quantitative approach. The research study used the cross section survey strategy based on simple random sampling and also used questionnaires for data collection. The study also used interviews to collect qualitative data on the factors affecting performance of MFIs in Zimbabwe.

In terms of data analysis the study used SPSS and Microsoft Excel to manipulate data and generate descriptive and inferential statistics.
CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

This chapter analyses the research results that came out from the research methodology adopted. In the analysis of the main factors affecting the performance of MFIs in Zimbabwe, this chapter highlights the results of both quantitative and qualitative research methods used.

The chapter begins with an outline of the descriptive statistics obtained from the study and covering MFI specific factors, external governance and regulatory factors, and macro environmental factors.

The discussion on descriptive statistics is followed by inferential statistics on the factors affecting the performance of MFIs in Zimbabwe. The inferential statistics include correlation analysis, regression analysis, analysis of variance, normality tests and reliability tests.

This chapter also compares the research findings and the literature reviewed in order to critically discuss the study findings.

4.2 THE RESPONSE RATE

In the research study 147 questionnaires were sent out to MFIs operating in Zimbabwe and 92 were successfully completed and returned for analysis.

This represents a total response rate of 62%. The response rate at 62% was adequate to warranty validity of the research analysis.
4.3 DESCRIPTIVE STATISTICS

4.3.1 MFI SPECIFIC CHARACTERISTICS

4.3.1.1 Number of Employees

Table 4.1: Number of Employees

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 to 10</td>
<td>4.55%</td>
</tr>
<tr>
<td>11 to 15</td>
<td>45.45%</td>
</tr>
<tr>
<td>16 to 20</td>
<td>40.81%</td>
</tr>
<tr>
<td>over 20</td>
<td>9.09%</td>
</tr>
</tbody>
</table>

The number of employees analysis in Table 4.1 above shows that about 4.5% of the organisations employed between 5 to 10 employees, 45% employed between 11 to 15 employees, about 41% employed between 16 to 20 employees and about 9% employed over 20 employees. The number of employees for a MFI can be a proxy for its size. This analysis shows that the majority of the MFIs employ less than 20 people and thus are small sized MFIs.

This small nature of MFIs is a potentially limiting factor for the general performance and financial performance of Zimbabwe’s MFIs as some researchers like Balasubramania (2009) indicated that success of microfinance heavily depends on scale of operations.

The effect of size of an MFI on sustainability was also underscored in a research studying the relationship between size of NBFI s and performance by Sakyi et al. (2014) which found out that size of an MFI was positively related with performance.
However in the literature review other research studies contend that size is not a significant predictor of performance. Hartarska & Nadolnyak (2007) for instance found that size affects sustainability of MFIs but by a small magnitude.

### 4.3.1.2 Capitalisation

**Table 4.2: Capitalization**

<table>
<thead>
<tr>
<th>Capitalisation Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to $20 000</td>
<td>4.55%</td>
</tr>
<tr>
<td>$20 001 to $50 000</td>
<td>68.18%</td>
</tr>
<tr>
<td>$50 001 to $100 000</td>
<td>9.09%</td>
</tr>
<tr>
<td>Over $100 000</td>
<td>18.18%</td>
</tr>
</tbody>
</table>

Table 4.2 above shows that of the surveyed MFIs about 68% of them have capitalisation levels of between $20 000 and $50 000, about 9% have capital between $50 000 and $100 000 and about 18% have capital amount exceeding $100 000. This generally shows that most MFIs have capitalization levels of not more than $100 000. This also reveals that the majority of MFIs are small sized and lacking in terms of scale as capital levels are generally very low.

This another limiting aspect aspect of Zimbabwe’s MFIs because the issue of capital and capital structure has been found to be a significant predictor of performance by many researchers. Mada (2005), indicated that sufficient capital is one of the key factors affecting performance of MFIs as it gives lenders and depositors increased levels of confidence in the MFIs. The over reliance of Zimbabwe’s MFIs on capital for lending as shown below under bank funding makes the levels of capital much more critical in the microfinance sector of Zimbabwe.

### 4.3.1.3 Bank Funding

**Table 4.3 Bank Funding**

<table>
<thead>
<tr>
<th>Bank Funding</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>63.64%</td>
</tr>
<tr>
<td>up to $20 000</td>
<td>4.55%</td>
</tr>
<tr>
<td>+$20 000 to $50 000</td>
<td>9.09%</td>
</tr>
<tr>
<td>Over $50 000</td>
<td>22.73%</td>
</tr>
</tbody>
</table>
Table 4.3 above shows an analysis of the amount of bank loans which MFIs currently have. It was found that 63.64% of the MFIs that responded do not have bank loans, only about 23% have bank loans exceeding $50,000, about 9% have between $20,000 and $50,000 and about 4.5% have $20,000 and below. This analysis shows that MFIs in general do not have bank loans which is in line with the current operating environment in the country.

Although this situation may not be unique to Zimbabwe it differs from the situation prevailing in other countries with successful microfinance programs. For instance in India MFIs rely to a large degree on funds lent to them by banks and other agencies (Agarwal & Sinha, 2010). In Cameroon research there found out that MFIs largely depend on commercial funds and deposits as a source of funding (Shue & Oney, 2014). Also a research study by Hartarska and Nadolnyak (2007) found that MFIs using a variety of funding sources were more sustainable. However in another study Hartarska and Nadolnyak (2007) came up with a contradictory conclusion that MFIs with less levels of leverage have better sustainability.

The overwhelming evidence from empirical research is that funding is a crucial predictor of MFI performance. As such in light of the limited funding for Zimbabwe’s MFIs, this is possibly one of the major limiting factors on the financial performance and overall performance of MFI.

Whilst leveraging is lacking in the Zimbabwe, there is empirical evidence that this increases profit efficiency (Kar, 2012). Elsewhere it also found that most MFIs employ high leverage and finance their operations with long dated debt (Kyereboah - Coleman & Osei, 2008).

4.3.1.4 Assets Quality

Table 4.4: PAR > 30 days

<table>
<thead>
<tr>
<th>PAR Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 10%</td>
<td>13.64%</td>
</tr>
<tr>
<td>+10% to 15%</td>
<td>9.09%</td>
</tr>
<tr>
<td>+15% to 20%</td>
<td>9.09%</td>
</tr>
<tr>
<td>+20% to 25%</td>
<td>50.00%</td>
</tr>
<tr>
<td>Over 25%</td>
<td>18.18%</td>
</tr>
</tbody>
</table>
The analysis in Table 4.4 above shows that the level of portfolio which is at risk for the MFIs operating in Zimbabwe is such that about 14% of the MFIs reported that their portfolio at risk (PAR)&gt;30 days is up to 10%, about 50% reported that it is between 10% and 15%, about 18% reported that it is between 15% and 20%, 9% reported that it is between 20% and 25%, and about 9% reported that it is over 25%. In comparison with other financial services providers in the country such as banks, the microfinance is performing very well in terms of assets quality as a small proportion of MFIs have PAR&gt;30 days exceeding 25%.

The generally good performance of the microfinance sector and their performance in terms of portfolio quality is in line with the research study by Ayayi and Sene (2010) which indicated that quality credit portfolios combined with relatively high interest rates were crucial for the sustainability of MFIs. Mada (2005) also established that good portfolio quality and especially good repayment rate was the top most important benchmark of performance for MFIs.

### 4.3.1.5 Assets Quality Trends

**Table 4.5: Trends in PAR &gt; 30 days**

<table>
<thead>
<tr>
<th>Trend</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>54.55%</td>
</tr>
<tr>
<td>Decreasing</td>
<td>13.63%</td>
</tr>
<tr>
<td>Increasing</td>
<td>31.82%</td>
</tr>
</tbody>
</table>

Table 4.5 above shows that about 68% of the respondents indicated that the level of portfolio at risk (PAR&gt;30 days) has over the past 5 years been constant and about 32% said it has been increasing. This implies that the average level of PAR over the past 5 years has been constant.

Most of the MFIs reported constant PAR levels and that could also explain the generally good performance of the sector and the improving profitability levels at the industry level.
4.3.1.6 Administration and Operational Issues

Table 4.6: Management Information Systems

<table>
<thead>
<tr>
<th>System</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer spreadsheets</td>
<td>68.18%</td>
</tr>
<tr>
<td>In house developed and vendor supplied</td>
<td>9.09%</td>
</tr>
<tr>
<td>Manual Systems</td>
<td>22.73%</td>
</tr>
</tbody>
</table>

Table 4.6 above shows that about 68% of the surveyed MFIs indicated that the operational, administrative and financial records are maintained through computer spreadsheets, about 23% indicated manual systems and about 9% indicated in-house developed and vendor supplied computer systems. This implies that the operational issues in the sector are largely administered through simple computer based spreadsheets.

4.3.2 EXTERNAL ENVIRONMENT AND GOVERNANCE FRAMEWORK

4.3.2.1 Competitive Environment

Table 4.7: Effect of Competition on MFIs

<table>
<thead>
<tr>
<th>Competition Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insignificant</td>
<td>9.09%</td>
</tr>
<tr>
<td>Moderately significant</td>
<td>59.09%</td>
</tr>
<tr>
<td>Very significant</td>
<td>27.27%</td>
</tr>
<tr>
<td>Extremely significant</td>
<td>4.55%</td>
</tr>
</tbody>
</table>

The analysis in Table 4.7 shows that about 60% of the respondents indicated that the competition which they are facing is moderately significant, about 27% said it is very significant, 9% said it is insignificant and about 5% said it is extremely significant. The results show that the majority of MFIs are not feeling intense competition, but a few MFIs are feeling extremely under pressure from competition.

The researcher further investigated the source of competition within the sector. It was found that competition in this sector is coming from auctioneering companies introducing movables backed microfinance products, banking institutions and other financial institutions, informal
and unregistered money lenders, latent competition from non-financial institutions, other MFIs and unregistered MFIs offering the same products lines. MFIs in Zimbabwe are set for increased competition from banks and NBIs who are downscaling into microfinance.

The increasingly competitive nature of Zimbabwe’s microfinance sector is similar to trends elsewhere in the world. The general trend of increased competition in microfinance was echoed by Assefa et al. (2013). Emeni (2008), also found that among other challenges MFIs in Nigeria were facing the problem of competition.

4.3.2.2 Interest Rates

Table 4.8: Interest Rate Regime Perceptions by MFIs

<table>
<thead>
<tr>
<th>Perceptions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favourable</td>
<td>95.45%</td>
</tr>
<tr>
<td>Unfavourable</td>
<td>4.55%</td>
</tr>
</tbody>
</table>

Table 4.8 above shows that about 95% of the respondents argued that the prevailing interest rates in the market are favorable and about 5% said they are restrictive. The researcher did a further analysis for the respondents to explain how the rates are favorable to the MFIs as found in table 4.8.

Respondents argued that the rates are above inflation rate, enables MFIs to adequately cover their costs and realise high profit margins, interest rates are higher than regional averages and there are no interest rate controls.

In Zimbabwe the effect of high interest rates was confirmed as enabling MFIs in Zimbabwe to record profitability. This situation is in line with research findings in the literature review which portrayed high interest rates as a benchmark for MFI performance.

Interest rate spread was found to be one of the major factors that was significantly correlated to MFI sustainability (Islam, et al., 2014). In Zimbabwe it can be concluded that even the small MFIs lacking in scale have been able to cover for this with high interest margins.
4.3.2.3 Funding Sources

The following table indicates the major sources of funding MFIs in Zimbabwe use and their order of importance to the MFIs.

Table 4.9: MFIs Funding Sources

<table>
<thead>
<tr>
<th>Type of funding</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Funds</td>
<td>100%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Banks and Investors Loans</td>
<td>-</td>
<td>86%</td>
<td>5%</td>
<td>9%</td>
<td>-</td>
</tr>
<tr>
<td>Donor Funds</td>
<td>-</td>
<td>10%</td>
<td>90%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>ZMWF Loans</td>
<td>-</td>
<td>4%</td>
<td>5%</td>
<td>18%</td>
<td>73%</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>73%</td>
<td>27%</td>
</tr>
</tbody>
</table>

Key: 1 = Most Used Source of Funding; 2 = Second Most Used Source of Funding; 3 = Third Most Used Source of Funding; 4 = Fourth Most Used Source of Funding; 5 = Fifth Most Used Source of Funding. ZWMF = Zimbabwe Microfinance Wholesale Facility.

MFIs in Zimbabwe are characterised with large amounts of equity and limited debt. This is likely limiting the MFIs’ income generating potential by not making use of external sources of capital. The trend exhibited in the above table shows that 100% of the respondents indicated that the major funding source for MFIs in Zimbabwe are their own funds, 86% of the respondents indicated that loans from banks and local institutional investors was their second most important source of funding and 90% of the respondents indicated that donor funding was their third most important source of funding.
The above results show that MFIs in Zimbabwe are over reliant on capital and/or shareholder funds as a source of funding which is in contradiction with what is prevailing in other countries with more successful microfinance sectors. This puts Zimbabwe’s microfinance sector at a major disadvantage.

4.3.2.4 Specific Regulation and Legislation Factors

The following table gives an analysis on the extent to which the factors given below affect the performance of MFIs in terms of both financial sustainability and outreach.

**Key**

<table>
<thead>
<tr>
<th>1=Highly Favourable</th>
<th>2=Favourable</th>
<th>5=Highly Unfavourable</th>
<th>4=Unfavourable</th>
<th>3=Insignificant or no Effect</th>
</tr>
</thead>
</table>

**Key for the row header**

A= Minimum capital requirements; B= Management qualifications requirements; C= Mandatory posts requirements; D=Restrictions on savings deposits; E=Board committees requirements; F=Licensing and license renewal; G=New Microfinance Act

**Table 4.10: Regulatory and Legislative Framework Statistics**

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Valid</td>
<td>90</td>
<td>90</td>
<td>89</td>
<td>88</td>
<td>89</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Mean</td>
<td>3.00</td>
<td>3.52</td>
<td>3.95</td>
<td>4.38</td>
<td>4.10</td>
<td>3.19</td>
<td>4.76</td>
</tr>
<tr>
<td>Mode</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>3</td>
<td>5</td>
</tr>
</tbody>
</table>
The analysis in Table 4.10 shows that the mean response on minimum capital requirements was 3 which implies that it was argued as having an insignificant effect on the profitability of MFIs. Management qualifications requirements was 3.52 which is just about close to unfavorable effect on the profitability. Mandatory posts requirements have unfavorable effect.

The table also reveals that restrictions on savings deposits and board committees’ requirements and the new Microfinance Act show that they have unfavorable effects to the level of profitability of MFIs. Licensing has no significant effect on the profitability of the MFIs.

Whilst MFIs in Zimbabwe perceive the regulatory and legislative framework to be mainly unfavorable as depicted in table 4.10 above, literature reviewed found that in most cases regulation was found to not affect self-sustainability and performance directly (Hartarska & Nadolnyak, 2007). According to Pati (2012), in India a study on MFIs did not provide convincing evidence on the effect of regulation as a determinant of performance. However Kyereboah - Coleman and Osei (2008a), found that governance plays a critical role in performance. Turbat (2013), confirmed that good governance can lead to better performance in terms of risk and earnings.

The finding of this research on the aspect of regulation and governance may be biased as it is from the view of the regulated who rationally would not like to under any form of restrictions.

4.3.2.5 MFIs’ Perceptions on Regulation and Legislative Framework

<table>
<thead>
<tr>
<th>Perceptions</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favourable</td>
<td>13.64%</td>
</tr>
<tr>
<td>Restrictive</td>
<td>81.81%</td>
</tr>
<tr>
<td>Very Restrictive</td>
<td>4.55%</td>
</tr>
</tbody>
</table>

Table 4.11 shows that about 82% of the respondents highlighted that the effect of the current MFI regulatory and legislative framework on MFIs is restrictive, about 14% responded that it
is favorable and 5\% responded that it is very restrictive. This shows that the effect of the current MFI regulatory and legislative framework is restrictive as perceived by the MFIs.

### 4.3.2.6 Effects of Regulatory and Legislation Framework on Outreach Variables

The following table gives an analysis on how has the legislation and regulatory framework has been affecting respective MFIs with regard to selected outreach variables.

**Table 4.12: Effects of Regulation and Legislation on Outreach**

<table>
<thead>
<tr>
<th></th>
<th>Favorable Effect</th>
<th>Unfavorable Effect</th>
<th>Insignificant or no Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing number of active borrowers</td>
<td>95%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Increasing number of branches</td>
<td>87%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>Increasing presence in rural areas</td>
<td>91%</td>
<td>9%</td>
<td></td>
</tr>
</tbody>
</table>

The analysis above shows that MFIs argued that increasing number of active borrowers, increasing number of branches and increasing presence in rural areas are not constrained by the nature of the currently existing regulatory and legislation framework. As such the conclusions are that what may be adversely affecting outreach of MFIs in Zimbabwe may be other factors outside the regulatory and legislation framework.

This finding is in line with findings by Hartarska and Nadolnyak (2007), which concluded that regulatory involvement does not directly affect performance.

### 4.3.2.7 Recommendations for Increasing Financial Performance of MFIs

The researcher also provided an analysis on the possibilities that the policy makers and regulators should implement to improve the financial performance of MFIs. Respondents argued that the policy makers and regulators must allow MFIs to engage in other trading activities whilst offering microfinance services so that MFIs can offer a total solution to the micro entrepreneur. Respondents also argued that policy makers and regulators must allow MFIs to accept savings deposits.
Respondents also highlighted that policy makers should encourage banks and institutional investors to pool financial resources into microfinance wholesaling facilities and also to give MFIs room to choose board and management structures which they can sustain. Respondents also indicated that the government should give MFIs mandates to manage disbursements of government financial assistance to the under developed areas.

4.3.2.8 Recommendations for Improving Outreach Performance of MFIs

The responding MFIs were of the view that the government must improve infrastructure in areas not being served by MFIs.

4.3.2.9 Other Factors Affecting Performance of MFIs

The researcher also tried to establish other factors affecting the financial performance and outreach performance of MFIs. The research indicated that these other factors included board interference in operations of MFIs, weak governance structures, lack of modern management information systems, lack of knowledge about the laws on the part of clients, and shortage of appropriate skills in areas like securities valuations and credit analysis.

4.3.2.10 Governance Factors

The arguments above are in line with some scholars who have indicated that regulation can adversely affect the performance of MFIs. Balasubramanian (2009) argued that among other issues microfinance also faces the problem of excessive government regulation.

Zeller and Meyer (2002) had similar arguments when they cited China as an example of a country where administrative interference and a distorted pricing system resulted in low level of outreach and high fragility of many MFIs (Crabb, 2008).
4.3.3 MFI PERFORMANCE INDICATORS

This section highlights the performance of MFIs in Zimbabwe in the study period in terms of financial performance and outreach performance indicators.

4.3.3.1 Outstanding Loans

Table 4.13: Outstanding Gross Loan Portfolios

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $20 000</td>
<td>27.27%</td>
</tr>
<tr>
<td>$20 000 to $100 000</td>
<td>50.00%</td>
</tr>
<tr>
<td>Over $100 000</td>
<td>22.73%</td>
</tr>
</tbody>
</table>

The analysis in Table 4.13 above shows that about 27% of the responding MFIs have outstanding loans which are under $20 000, 50% have between $20 001 to $100 000 and about 23% have outstanding loans exceeding $100 000.

This shows that the majority of MFIs have relatively small loan books with just under a quarter of the operating MFIs individually commanding loan books of over $100 000.

4.3.3.2 Profitability

Table 4.14: Estimated 2014 Net Profits for MFIs

<table>
<thead>
<tr>
<th>Profit Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss</td>
<td>9.09%</td>
</tr>
<tr>
<td>Under $20 000</td>
<td>54.55%</td>
</tr>
<tr>
<td>$20 001 to $50 000</td>
<td>18.18%</td>
</tr>
<tr>
<td>Over $50 000</td>
<td>18.18%</td>
</tr>
</tbody>
</table>

Table 4.14 above shows that about 55% of the MFIs have approximate profit levels which were under $20 000, about 18% have between $20 001 to $50 000, about 18% have approximate profit levels exceeding $50 001 and about 9% were in the loss category. This reveals that the majority of MFIs in Zimbabwe have approximate profit levels of amounts below $20 000.
According to Quayes (2012) MFIs can maintain profitability and at the same time increase the depth of outreach as long as they do not increase credit extension to the absolutely poor.

### 4.3.3.3 Profitability Trends

**Table 4.15: MFIs Profitability Trends**

<table>
<thead>
<tr>
<th>Profitability Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing Profitability</td>
<td>86.36%</td>
</tr>
<tr>
<td>Decreasing Profitability</td>
<td>13.64%</td>
</tr>
</tbody>
</table>

Table 4.15 above shows that about 86% of the MFIs indicated that their profit trend has been increasing over the recent years and about 13% said their profits have been decreasing. Though the trend is increasing for most MFIs the major concern is on the quantum of profitability.

The prevailing trend in Zimbabwe is consistent with Brazil and Mexico which were noted in literature as countries in which MFIs were highly profitable, but on high interest rates and high average loan amount. According to Batra and Sumanjeet (2012) Pakistani MFIs continued to struggle to cover costs whereas Indian MFIs with the lowest yield to gross portfolio were managing to cover even low average loan size.

Ayayi and Sene (2010), indicated that microfinance promises to curtail poverty and to achieve this MFIs have to become steady profitable entities because donor constancy is not given.

The analysis reveals that respondents who were anticipating to make losses were expecting these results due to smaller loan books, increased competition, and unconducive operating conditions. Increasing costs and low loan recovery rates were also highlighted as impediments to profits in the sector.

It was also highlighted that limited capital for on lending has resulted in revenue being not enough to cover operating costs. MFIs in profit making positions argued that they were
making profits due to high volumes of business, good business opportunities and also increasing demand.

4.3.3.4 Tenor of Loans

Table 4.16: MFIs Loans Tenor Structures

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short Term Loans</td>
<td>90.91%</td>
</tr>
<tr>
<td>Long Term Loans</td>
<td>9.09%</td>
</tr>
</tbody>
</table>

The analysis in Table 4.16 above shows that about 91% of the MFIs surveyed offer short term loans which are between 1 to 6 months and only 9% offer long term loans. This shows that generally MFIs operating in Zimbabwe offer short term loans.

The obtaining structure of MFIs loan tenors is not only unique to Zimbabwe. According to MIX and CGAP (2011), the structure of loan portfolios in SSA is such that most loans are classified as either microenterprise or household loans with tenors less than one year.

4.3.3.5 Type of Loans

Table 4.17: MFIs Loan Types

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumption Loans</td>
<td>90.91%</td>
</tr>
<tr>
<td>Working Capital loans</td>
<td>9.09%</td>
</tr>
</tbody>
</table>

The analysis above shows 90% of the MFIs offer consumption loans and about 9% offer working capital loans. No MFIs indicated that they were offering capital expenditure loans.

The result above shows that the general profile of Zimbabwean MFIs clients and microfinance practices are at odds with the basic tenets of microfinance. The scenario obtaining in Zimbabwe shows that MFIs are concentrating on advancing consumption loans at the expense of income generating projects and micro businesses.
4.3.3.6 MFIs’ Target Clientele

Table 4.18: MFIs Clientele Types

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried Individuals</td>
<td>63.64%</td>
</tr>
<tr>
<td>Individual Informal Traders</td>
<td>27.27%</td>
</tr>
<tr>
<td>Microenterprises and SMEs</td>
<td>9.09%</td>
</tr>
</tbody>
</table>

The analysis in Table 4.18 above shows that about 64% of the MFIs serve salaried individuals, about 27% serve individual informal traders and 9% serve informal microenterprises and SMEs. This implies that most MFIs operating in Zimbabwe are serving salaried individuals.

The results above are in line with the general norm in Zimbabwe. MFIs in the country target mainly public servants as well as private sector employees struggling to survive on their low salaries and basically needing consumption financing.

4.3.3.7 Collateral Security Requirements for MFIs

Table 4.19: MFIs Security Requirements

<table>
<thead>
<tr>
<th>Security Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offer Secured Loans</td>
<td>100.00%</td>
</tr>
<tr>
<td>Offer Non Secured Loans</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Table 4.19 above shows that 100% of the respondents indicated that they need security on the loans which they give to borrowers. This implies that all the MFIs operating in Zimbabwe need security on loans. A further analysis was done to investigate the type of security which the MFIs are using in order to secure their loans.
4.3.3.8 Branch Network Trends

Table 4.20: MFIs Branch Network Trends

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant Number of Branches</td>
<td>72.73%</td>
</tr>
<tr>
<td>Increasing Number of Branches</td>
<td>27.27%</td>
</tr>
</tbody>
</table>

Analysis in Table 4.20 above shows that about 73% of the surveyed MFIs indicated that the number of their branches has been constant in the dollarisation period and 27% indicating that their number of branches has been increasing. This analysis shows that no MFIs indicated a decrease of the number of branches over the period of study.

The MFIs who indicated that their number of branches has been constant highlighted that this was due to capital challenges, inability of some MFIs to have more than one branch, desire to control overheads, funding challenges and insufficient revenues to warrant new branches. For those MFIs with the trend which has been increasing it was highlighted that this was mainly due the managed growth being determined by internally generated resources.

4.3.3.9 Number of Active Borrowers

Table 4.21: Number of Active Borrowers (NAB)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 100 NAB</td>
<td>86.36%</td>
</tr>
<tr>
<td>Over 100 NAB</td>
<td>13.64%</td>
</tr>
</tbody>
</table>

Table 4.21 above shows that about 86% of the respondents indicated that they have active number of borrowers who are less than 100 whilst about 14% said they have active borrowers exceeding 100.

This generally shows that MFIs operating in Zimbabwe serve smaller numbers of clients with the majority individually serving less than 100 active borrowers.
4.3.3.10 Number of Active Borrowers Trends

Table 4.22: Trends in Number of Active Borrowers

<table>
<thead>
<tr>
<th>Trend</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant NAB</td>
<td>27.27%</td>
</tr>
<tr>
<td>Decreasing NAB</td>
<td>50.00%</td>
</tr>
<tr>
<td>Increasing NAB</td>
<td>22.73%</td>
</tr>
</tbody>
</table>

The analysis above shows that about 27% of the respondents highlighted that the trend on the number of active borrowers has been constant, about 28% said it has been increasing and 50% said they have been decreasing.

The fact that 50% of respondents reported that their number of active borrowers had been declining is in line with the increased competition from commercial banks for salaried clients.

4.4 INFERENTIAL STATISTICS

4.4.1 CORRELATIONS

4.4.1.1 Correlation between External Governance and Regulatory Factors, and MFI performance

In the table below, the Pearson correlation coefficient between MFI specific factors and MFI performance is moderately strong (0.556). This implies that in Zimbabwe the influence of MFI specific characters is stronger than the influence of macroeconomic country specific factors, and that of governance and regulatory framework.
Table 4.23: Correlation: External Governance and Regulatory Factors and MFI Performance

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>EG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>92</td>
</tr>
<tr>
<td>EG</td>
<td>Pearson Correlation</td>
<td>.076</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.639</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>92</td>
</tr>
</tbody>
</table>

The results in Table 4.23 above revealed weak positive relationship (0.076) between governance and regulatory factors, and MFI performance on the other hand. This implies that the impact of governance and legislative framework on MFIs in Zimbabwe is insignificant.

4.4.1.2 Correlation between Macroeconomic Country Specific Factors and MFI Performance

Table 4.24: Correlation: Macroeconomic Country Specific Factors and MFI Performance

<table>
<thead>
<tr>
<th></th>
<th>MFI Performance</th>
<th>Country Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFI Performance</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>92</td>
</tr>
<tr>
<td>Country Factors</td>
<td>Pearson Correlation</td>
<td>.147</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.367</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>92</td>
</tr>
</tbody>
</table>
Table 4.24 also shows that there is a positive relationship (0.147) between MFI performance and macroeconomic country specific factors. The relationship though is weak.

4.4.1.3 Correlation between MFI Specific Factors and MFI Performance

In the Table 4.25 below the Pearson correlation coefficient between MFI specific factors and MFI performance is moderately strong (0.579). This implies that in Zimbabwe the influence of MFI specific characters is stronger than the influence of macroeconomic country specific factors, and that of governance and regulatory framework.

Table 4.25: Correlation: MFI Specific Factors and MFI Performance

<table>
<thead>
<tr>
<th></th>
<th>Performance</th>
<th>MFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>1</td>
<td>.579**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>MFI Pearson Correlation</td>
<td>.579**</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>92</td>
<td>92</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).

4.4.2 HYPOTHESIS TESTING

4.4.2.1 Regression Analysis

The model is stated as:  

\[ Pit = constant + \alpha Git + \beta MFI_i + \phi Mt + \epsilon t \]  

(Hartarska, 2009).

Where Pit is a performance variable for MFI i at time t; EGit is a vector of variables that take into account the effect of the external governance framework, including regulation; MFIt is a
vector of MFI specific factors; Mt are country specific macroeconomic variables, and \( \epsilon \) is an error term. The above model is applied in the Zimbabwean context as shown below.

**Table 4.26: Regression Coefficients**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.814</td>
<td>1.623</td>
<td>-1.734</td>
</tr>
<tr>
<td></td>
<td>EG</td>
<td>.057</td>
<td>.266</td>
<td>.041</td>
</tr>
<tr>
<td></td>
<td>Mt</td>
<td>.105</td>
<td>.191</td>
<td>.104</td>
</tr>
<tr>
<td></td>
<td>MFI</td>
<td>1.307</td>
<td>.589</td>
<td>.365</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

The model is: 

\[
P = -2.814 + 0.057EG + 0.105Mt + 1.307MFI
\]

The results from Table 4.26 indicate that external governance (EG) and macroeconomic country specific variables (Mt) were not significant predictors of financial performance of MFIs in Zimbabwe. The insignificant predictors were left in the model presented because leaving them out has an effect on the p values because of the sample size used.

Also the insignificant predictors could not be left out because they had specific hypotheses enumerated for them and also the items involved in the model had interactions among them and thus taking out one of them would have altered the meaning of the model.

The results further show that the category of MFI specific factors (MFI) was a significant predictor of financial performance of MFIs because its t statistic (0.033) was significant at the 5% level. P value 0.033 < 0.05.

In all the three categories the predicted relationship with financial performance was positive.
4.4.2.2 Analysis of Variance (ANOVA) for the financial performance of MFIs

The technique of one way ANOVA was used for testing for the differences in the financial performance of MFIs by their assumed key performance predictors.

Table 4.27: ANOVA of MFIs Financial Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>2.246</td>
<td>3</td>
<td>.749</td>
<td>2.218</td>
<td>.103*</td>
</tr>
<tr>
<td>Residual</td>
<td>12.154</td>
<td>36</td>
<td>.338</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>14.400</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MFI, Mt, EG

b. Dependent Variable: Performance

The ANOVA results for the mean test differences from table 4.27 above indicate that there were no significant differences in the mean financial performance of the MFIs because the ANOVA test yielded the following:- F = 2.218, df = 3, 89 and P value > 0.05.

This implies that the financial performance of MFIs did not differ significantly, and any differences in the financial performance of MFIs was due to chance.

In the model, P value 0.103 > 0.05 and this means the conclusion is that there is not enough evidence that the model is significant at the 5% level. Accordingly this did not support that there will be differences in the financial performances of MFIs and thus the model is not significant.
4.4.2.3 Regression Analysis after Dropping MFI specific factors from the model

In a model where there are some insignificant variables but their coefficients were measured and retained in the model, there is need for expected control variables. The analysis below shows that these variables have been controlled for through systematic dropping of variables one by one whilst retaining the others.

<table>
<thead>
<tr>
<th>Regression Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

<table>
<thead>
<tr>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Mt, EG
b. Dependent Variable: Performance

After dropping off MFI specific factors, external governance factors and regulatory factors and macroeconomic factors remain not significant predictors of MFI financial performance.

The model become worse off as a predictor of financial performance at the 0.05 level.
4.4.2.4 Regression Analysis after Dropping Macroeconomic Country Specific Factors

Regression Analysis after Dropping Macroeconomic Country Specific Factors

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-2.466</td>
<td>-1.666</td>
<td>.104</td>
</tr>
<tr>
<td></td>
<td>MFI</td>
<td>1.398</td>
<td>.390</td>
<td>2.494</td>
</tr>
<tr>
<td></td>
<td>EG</td>
<td>-0.028</td>
<td>-0.20</td>
<td>-0.130</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

ANOVAs

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>2</td>
<td>1.072</td>
<td>3.237</td>
<td>.051a</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>89</td>
<td>.331</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>91</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), EG, MFI

The exclusion of macroeconomic country specific factors still leaves the combined effect of MFI specific factors and external governance and regulatory factors as insignificant in predicting the financial performance of MFIs in Zimbabwe at the 0.05 level.
4.4.2.5 Regression Analysis after Dropping External Governance Factors

Table 1.1: Zimbabwe GDP Real Growth Rates (1999 – 2011)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-4.384</td>
<td>1.198</td>
<td>-3.661</td>
</tr>
<tr>
<td>Mt</td>
<td>.154</td>
<td>.139</td>
<td>.142</td>
<td>1.109</td>
</tr>
<tr>
<td>MFI</td>
<td>1.901</td>
<td>.441</td>
<td>.551</td>
<td>4.312</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance

Table 1.1: Zimbabwe GDP Real Growth Rates (1999 – 2011)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>7.339</td>
<td>2</td>
<td>3.670</td>
<td>11.238</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>13.388</td>
<td>89</td>
<td>.327</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>20.727</td>
<td>91</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), MFI, Mt

Excluding the external governance and regulatory factors from the model results in the combined effects of MFI specific factors and macroeconomic factors being significant as predictors of MFI financial performance at the 0.01 level. This is shown in the tables above.

4.4.2.6 Conclusions on Regression Analysis

This study found external governance and regulatory factors as measured by the RBZ licensing and operating requirements to be insignificant as a predictor of MFIs financial performance. This finding is similar to the finding by Hartarska (2009) who concluded that external governance as measured by audit and rating had an insignificant relationship with financial sustainability.
This research study established that MFI specific factors had a positive significant relationship with MFI financial performance. This is partly supported by the study by Hartarska (2009) which found the MFI specific factors such as MFI age, loans and capital had positive significant relationships with return on assets (ROA) which was used as a measure of financial sustainability. However there are some MFI characteristics under the study by Hartarska (2009) which showed positive insignificant relationships and these were MFI size and debt, and PAR and savings showed negative insignificant relationships with ROA.

This research study concluded that macroeconomic factors have a positive insignificant relationship with financial performance. However in the study by Hartarska (2009) the broad measure of macroeconomic performance in the form of per capita GDP was found to be negatively and insignificantly related to ROA.
4.4.3 NORMALITY TEST

Figure 4.1: Normality Test

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Valid</td>
</tr>
<tr>
<td></td>
<td>Missing</td>
</tr>
<tr>
<td>N</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td></td>
<td>Variance</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
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<th></th>
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<tbody>
<tr>
<td>N</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>4</td>
</tr>
<tr>
<td>N</td>
<td>1.16134</td>
</tr>
<tr>
<td></td>
<td>1.349</td>
</tr>
<tr>
<td></td>
<td>3.10</td>
</tr>
</tbody>
</table>
The above diagram indicates that the data set has a variance of 1.349 and is not perfectly normally distributed. This non normal dataset was transformed for normality by firstly normalizing upward skewing through taking logarithms (or logs) of the data values. The downward skewing was corrected through squaring of values thereby pulling larger values further apart than the smaller values.

4.4.4 RELIABILITY

Table 1.1: Zimbabwe GDP Real Growth Rates (1999 – 2011)

<table>
<thead>
<tr>
<th>Cronbach's Alpha</th>
<th>N of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>.724</td>
<td>2</td>
</tr>
</tbody>
</table>

Cronbach’s Alpha was found to be within an acceptable range of 0.7 to 0.8

4.5 CHAPTER SUMMARY

The findings of this research study though not covering all MFIs operating in Zimbabwe, they are representative enough to provide an overview of the factors affecting the performance of MFIs in Zimbabwe.

In terms of financial performance the research study shows that the sector is generally profitable but some individual MFIs are limited in terms of realising this potential because of some MFI specific issues and macroeconomic country specific issues. Such issues include lack of adequate capitalisation, limited availability of funding sources and high operational costs.

The findings reveal that the outreach for MFIs in Zimbabwe is limited because of mainly MFI specific factors and to some extent macroeconomic country specific factors. However
the findings show that regulatory and legislative frameworks are not adversely affecting the outreach performance of MFIs in Zimbabwe.

The study shows that the major factors hindering the MFIs in Zimbabwe are mainly in the categories of MFI specific characteristics and macroeconomic country specific factors. Although the governance and regulatory framework did not come out as a major influence adversely affecting the performance of MFIs in Zimbabwe, a large proportion of MFIs implored the regulatory authorities to consider permitting MFIs to accept savings deposits.
CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The main aim of the study was to assess the factors affecting the financial performance of MFIs in Zimbabwe in the period after dollarisation of the economy. The study also sought to identify how MFIs in Zimbabwe are currently performing in terms of outreach and financial sustainability. In the end the research study was directed at identifying ways of enhancing the performance of MFIs in Zimbabwe and achieve national development.

This chapter provides conclusions from the research, validation of the research hypotheses or propositions and provides recommendations.

5.2 CONCLUSIONS

The research study analysed the general performance and financial performance of MFIs in Zimbabwe in the period from the dollarisation of the economy in 2009. The framework used in the study for the financial performance of MFIs was drawn from the literature reviewed. The analytical framework is premised on the MFI specific factors, macroeconomic country specific factors, and external governance and regulations as the major determinants of general performance and specifically financial performance of MFIs.

The following were the major findings from the research study.

i. The growth of MFIs in Zimbabwe is being hindered more by factors associated with the MFIs themselves and the macroeconomic and external governance and regulatory
factors are not critical elements in the performance of MFIs. The study indicated that external governance and regulatory framework has minimal influence on the financial performance of MFIs in Zimbabwe.

ii. There are no regulatory guidelines governing critical operations of MFIs such as the issue of interest rates charged to clients and client protection rules. As a result the sector is composed of a large number of MFIs who exploit clients through charging usurious interest rates and acting with no developmental agenda.

iii. The study concluded that whilst the larger proportion of MFIs in Zimbabwe was profitable, the sustainability of this was not certain as most MFIs are small scale operators with limited operations and only making profits out of the unusually high interest rate regime currently obtaining in the country.

iv. The research also reaffirmed the fact that most MFIs are over reliant on consumer loans and neglecting lending to the productive sectors.

v. The study found that Zimbabwe’s microfinance sector is isolated from international capital markets and the international donor community. Also it was found that well capitalised institutions like banks and NBFIs were making gradual inroads into the microfinance sector in Zimbabwe.

5.3 RESEARCH HYPOTHESES / PROPOSITION VALIDATION

The major findings of the research were that the general model of performance which defines performance of banks and financial institutions as a function of MFI specific factors, macroeconomic and country specific factors, and external governance and regulatory factors, was not a significantly predictive of the performance of MFIs in Zimbabwe.

However the study revealed that MFI specific factors as depicted in the model are significant predictors of performance of MFIs in Zimbabwe. The macroeconomic country specific variables, and external governance and regulatory factors were found to be insignificant predictors of the financial performance of MFIs in Zimbabwe.
5.4 RECOMMENDATIONS

In light of the findings of this research study, the following recommendations are offered for the microfinance practice, policy makers and for academic purposes.

i. The MFIs in Zimbabwe who are keen on improving their sustainability should pursue strategies to increase their scope of operations. Size will be an important parameter for sustainability and this can be attained through addressing MFI specific factors so as to be able to attract both domestic and international capital. In order to build the necessary minimum efficient scales and increase scope of operations, most small sized MFIs are recommended to consolidate through mergers and joint venture partnerships.

ii. The regulatory authorities should urgently operationalise the new Microfinance Act to ensure MFIs operating in the country operate in a responsible and sustainable manner.

iii. The regulatory authorities should urgently address how MFIs come up with interest rates and charges they levy on clients. The regulatory authorities should put more emphasis on moral suasion on this issue. This can be complemented by requiring MFIs to regularly publish their conditions of business and their audited financial statements.

iv. The regulatory authorities should implement a credit referencing system in the country. This will go a long way in minimizing multiple borrowings by clients and the problem of over indebtedness which is exposing the entire industry at risk of a credit crunch.

v. The regulatory authorities should encourage international banks operating in the country to finance microfinance activities. Should international banks take up the financing of microfinance, this will greatly enhance the operations of MFIs and their clients as they will be able to access more funds at cheaper rates. International banks using their international parenthood and associates are better placed to negotiate for and bring more international lines of credit into the country.
vi. The operations of MFIs in Zimbabwe is quite obscure to such an extent that it is impossible to have a panel data set of MFIs’ operations dating back into the past. It is recommended that regulators and academics should implement the setting up of databases on the operations of MFIs in Zimbabwe. It should be mandatory for MFIs to regularly report to the public on their performances.

5.5 STUDY LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDY

5.5.1 STUDY LIMITATIONS

This type of research is usually undertaken with a heavy reliance on panel dataset for MFIs’ activities. In the case of Zimbabwe it was difficult to find relevant data to construct a panel dataset because MFIs only recently started filing their financial returns to the RBZ and little of such data has been made available in the public domain. Also very few Zimbabwean MFIs report to MIX, and the few that do report to MIX do so in an irregular and inconsistent manner.

5.5.2 SUGGESTIONS FOR FURTHER STUDY

Further research can be considered to be undertaken focusing on studying specific elements of the MFI specific variables category in order to determine their individual influence on the performance of MFIs in Zimbabwe. This will also help to isolate the exact MFI specific variables with a significant impact on the performance of MFIs in Zimbabwe.
REFERENCES


APPENDIX 1

QUESTIONNAIRE FOR MFIs ON THE FACTORS AFFECTING THE PERFORMANCE OF MFIs IN Zimbabwe.

Please fill in the spaces provided with information that is requested and please tick or color code using a color of your choice where appropriate.

SECTION A: MFI Specific Variables

1. Type of Microfinance Institution (MFI)
   - Microfinance Bank (MFB)
   - NGO MFI
   - Bank Owned MFI
   - Non-Bank Financial Institution (NBFI) owned MFI
   - Other Privately owned MFI

2. Where is your MFI’s Head Office located?

3. How long has the institution been operating?
   - Below 2 years
   - 2 to 5 years
   - 6 to 7 years
   - 8 to 10 years
   - Over 10 years

4. How many employees does your MFI employ?
   - Less than 5
   - 5 to 10
   - 11 to 15
   - 16 to 20
   - Over 20
5. What is the capitalization level of your MFI
   - Up to $20 000
   - $20 000 to $50 000
   - $50 000 to $100 000
   - $100 000 to $500 000
   - $500 000 to $1 000 000
   - Over $1 000 000

6. How much donor funding do you currently have?
   - None
   - Up to $20 000
   - $20 000 to $50 000
   - $50 000 to $100 000
   - $100 000 to $500 000
   - $500 000 to $1 million
   - Over $1 million

7. How much bank loans do you currently have?
   - None
   - Up to $20 000
   - $20 000 to $50 000
   - $50 000 to $100 000
   - $100 000 to $500 000
   - $500 000 to $1 million
   - Over $1 million

8. Please indicate the current amount of loans your institution has lent out to clients.
   - Under $20 000
   - $20 001 to $50 000
   - $50 001 to $100 000
   - $100 001 to $500 000
   - $500 001 to $1 million
   - Over $1 million

9. What is your institution’s estimated net profit level for the year 2014?
   - Loss
   - Under $20 000
   - $20 001 to $50 000
   - $50 001 to $100 000
   - $100 001 to $500 000
   - $500 001 to $1 million
   - Over $500 000
10. What has been the trend in the profitability of your institution since the year 2009 or if you were not in operation then since when you started operations?

- Increasing
- Decreasing
- Constant
- Other trend (please specify)

Briefly explain the reasons behind the performance trend of your institution

11. How are operational, administrative and financial records maintained in your MFI?

- Manually
- Computer spreadsheets
- In house developed computer system
- Vendor supplied computer system

12. Which products do you offer?

- Microcredit
- Savings
- Deposits Acceptance
- Insurance
- Other (specify)

13. What tenor of loans do you offer

- Short term loans (1 to 6 months)
- Long term loans (over 6 months)
- Both short and long term loans

14. Which of the following types of loans or microcredit do you provide?

- Business working capital loans
- Business capital expenditure loans
- Consumption loans
- Other (specify).................................................................

15. Which of the following markets do you serve?

- Salaried individuals
- Individual informal traders
• Informal microenterprises and small and medium enterprises
• Formal micro and small and medium enterprises
• Others (Please specify) ..............................................................

16. Do you require security on your loans?
   • Yes
   • No

17. If YES to number 13, indicate the type of security you require
   • Cession of Fixed Assets
   • Employer Guarantees and Direct Deductions from company payroll
   • Stop Order Facilities with banks
   • Guarantees from other third parties
   • Other (please specify) ..............................................................

18. How many branches do you operate in each of the following geographic areas?
   • Rural Areas .................................................................
   • Urban Areas ..............................................................

   Briefly explain the reasons behind your current geographic location

19. What has been the trend in the number of your branches in the last 5 years?
   • Increasing
   • Decreasing
   • Constant

   Briefly explain the reasons for the above trend

20. How many active borrowers do you currently have on your books?
   • Less than 100
   • 101 to 200
   • 201 to 400
   • 401 to 500
   • Over 500

103
21. What has been the trend in the number of your active borrowers over the past 5 years?

- Constant
- Increasing
- Decreasing
- Other (specify)

22. From the following table indicate the major sources of funding you use in their order of importance.

<table>
<thead>
<tr>
<th>Type of funding</th>
<th>1=Most Important</th>
<th>2=Second Important</th>
<th>3=Third Important</th>
<th>4=Fourth Important</th>
<th>5=Fifth Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Own resources or funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Loans from banks and local institutional investors</td>
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<td></td>
<td></td>
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<tr>
<td>3. Donor funds</td>
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<tr>
<td>4. Loans from Zimbabwe Microfinance Wholesale Facility (ZMWF)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Other (Please specify)</td>
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</tbody>
</table>

23. What is the level of portfolio at risk (PAR) in your MFI?

- Up to 10%
- +10% to 15%
- +15% to 20%
- +20% to 25%
- +25% to 30%
- Over 30%

24. What has been the trend in the level of your portfolio at risk (PAR) over the past 5 years?

- Constant
- Increasing
- Decreasing
- Other (specify)
SECTION B: External Environment and Governance Framework

25. How stiff is the competition you are facing?
   • Insignificant
   • Moderately significant
   • Very significant
   • Extremely significant

26. What is the source of competition you are facing?
   Answer

27. Is the prevailing interest rate regime favorable or restrictive to your business?
   • Favorable
   • Restrictive

28. Explain why the interest rate regime is favorable or restrictive to your MFI.
   Answer

29. To what extent do the following factors affect the performance of your institution in terms of both financial sustainability and outreach? (Tick in the appropriate box).

<table>
<thead>
<tr>
<th>1. Inadequate donor funding</th>
<th>Not a Problem</th>
<th>Minor Problem</th>
<th>Moderate Problem</th>
<th>Great Problem</th>
<th>Very Severe Problem</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Limited loans from banks and institutional investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. Lack of financial support to MFIs from Government</td>
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<tr>
<td>4. High operating costs</td>
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<td></td>
</tr>
</tbody>
</table>
30. What is the effect of the current MFI regulatory and legislative framework on your MFI?

- Very Favourable
- Favourable
- Very Restrictive
- Restrictive

31. Indicate the extent to which the following regulatory and legislative requirements affect the profitability of your MFI.

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Highly Favourable</th>
<th>Favourable</th>
<th>Highly Unfavourable</th>
<th>Unfavourable</th>
<th>Insignificant or no Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum capital requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management qualifications requirements</td>
<td></td>
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<tr>
<td>Mandatory posts requirements</td>
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<td></td>
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<tr>
<td>Restrictions on savings and deposits</td>
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<tr>
<td>Board and committees requirements</td>
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<tr>
<td>Licensing and license renewal requirements</td>
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<td></td>
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<tr>
<td>New Microfinance Act</td>
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</tr>
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</table>

32. How has the legislation and regulatory framework been affecting your MFI with regard to the outreach variables below MFI?

<table>
<thead>
<tr>
<th>Variable</th>
<th>Favorable Effect</th>
<th>Unfavorable Effect</th>
<th>Insignificant or no Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Increasing number of active borrowers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii. Increasing number of branches</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii. Increasing presence in rural areas</td>
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</tbody>
</table>

33. Briefly explain why and how regulation and legislation has been having a favorable or unfavorable effect on your MFI’s outreach performance.

**Answer**
34. How is your MFI managed?

- Owner/s managed
- Managed by independent professional managers with no other relationships with the Board and/or shareholders
- Combination of owner managers and independent professional managers

35. With regard to your Board membership what is the proportion of independent board members (that is board members with no shareholding in the MFI or any other relationship with shareholders or the MFI itself?)

- Under 10%
- +10% to 20%
- +20% to 30%
- +30% to 40%
- Over 40%

SECTION C: Recommendations for policy makers and regulators

36. What do think policy makers and regulators need to do to assist MFIs to improve their financial performance?

Answer

37. What do you think regulators and policy makers need to do to assist MFIs to improve their outreach performance?

Answer

38. What other factors are affecting the financial performance and outreach performance of your institution?

Answer

Thank you for your valuable input.
APPENDIX 2

QUESTIONNAIRE TO ZAMFI, ZMWF AND RBZ ON FACTORS AFFECTING THE PERFORMANCE OF MFIs IN ZIMBABWE

SECTION A: Accessibility to credit by the poor

1. What was the rationale for the establishment of the Zimbabwe Microfinance Wholesale Facility (ZMWF) and what is its present day role?

2. There is an argument that the market mechanism has failed to channel resources to the poor. In your opinion what are the main reasons why the market has failed to provide credit to the poor in Zimbabwe?

3. What do you perceive to be the advantages of MFIs over the mainstream banking institutions in Zimbabwe?

4. Why do MFIs in Zimbabwe offer credit at very high interest rates?
5. Do you appreciate that some MFIs in Zimbabwe charge unjustifiable exorbitant interest rates and engage in other unprofessional conduct when dealing with clients? If so what could be the cause of this?

SECTION B: Nature of microfinance regulations

1. In your opinion does the current licensing of MFIs promote their activities and improve their operations?

2. What is your organization’s opinion on the period it takes to determine a license application and the documentation required?

3. Do you think regulatory recognition will enhance the operations of Non-Governmental Organisations engaged in microfinance and other MFIs seeking funding both locally and internationally?

4. Do you think regulation has had an impact and in what way on the performance of MFIs in Zimbabwe?

5. It is often argued that increased regulation may result in unlicensed moneylending. Is this applicable to the current Zimbabwean situation?

6. Do you think the new Microfinance Act (Chapter 24:29) established in 2013 adequately facilitates a regulatory regime that safeguards the interests of the poor microcredit borrowers and at the same time fosters the sustainability of MFIs.

Thank you for your valued input.