AN ANALYSIS ON THE IMPACT OF THE ADOPTION OF ISLAMIC FINANCIAL PRODUCTS IN REDUCING NON - PERFORMING LOANS IN HARARE'S COMMERCIAL BANKS

PHILLEMON RINOMHOTA
R181196F

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Methodology

AN ANALYSIS ON THE IMPACT OF THE ADOPTION OF ISLAMIC FINANCIAL PRODUCTS IN REDUCING NON - PERFORMING LOANS IN HARARE'S COMMERCIAL BANKS

The research adopted a quantitative research method which was achieved through the use of online survey research questionnaires. Online research questionnaires were used to collect data from 60 respondents who are bank managers and directors from a sample of 85 to assess the impact of IFPs on NPLs. The study was designed to answer questions on whether IFPs reduce NPLs in Harare's commercial banks and data collected was analysed through the use of quantitative methods using regression analysis to determine the relationship between variables together with hypothesis testing so as to approve or reject.

Declaration

I, Phillemon Rinomhota, do hereby make the declaration that this research study was prepared from my own work and has never been presented for any academic award in any other university or learning institution. Literature and materials used from any other research was acknowledged and referenced in the research.

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Dedication

I would like to devote this dissertation to the following family members my wife Jean, son Phill, daughter Reina and Tanaka.

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First of all, I would like to express my heartfelt gratitude to the Almighty, the most gracious, and the most merciful, for his blessings in health, mental strength and guidance for accomplishing this dissertation.

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Abstract

Non-performing loans (NPLs) are a cause of concern nationally and globally as it affects the normal functioning of the economy as financial sector stability drives economic growth. This is not easy to achieve as financial institutions are face challenges in addressing NPLs levels which affect their performance. The main purpose of this study was to assess the impact of adopting Islamic Financial Products (IFPs) on non-performing loans (NPLs) in Harare's commercial banks in the year 2019. The study adopted a positivist research philosophy and quantitative research approach with an online survey strategy as the research design. Managers and directors of ten commercial banks in Harare's commercial banks constituted the population of the study. Stratified random sampling was used to come up with the sample from these banks and management as well as directors were selected to come up with a sample which was used in the study. A self-administered online research questionnaire was used for data collection from this study.

Research results indicated that the adoption of Islamic Financial Product (IFPs) that there is a negative correlation between adopting IFPs and commercial banks' levels of NPLs as three out of five IFPs indicated that there adoption minimises NPLs levels. Results revealed that equity finance (Mudaraba), lease financing (Ijarah) and phased payments (Istisna) reduces banks' NPLs in commercial banks. Whilst mark-up financing (Murabaha) and venture capital (Musharaka) adoption was viewed as not contributing in NPLs reduction which resulted in the accepting of three hypothesis whilst rejecting two with the main hypothesis being accepted.

Recommendations from the research were that the RBZ and the ministry of finance should continuously promote financial inclusion of IFPs in the financial institutions as well as coming up Islamic Financial instruments which promote diversity in the financial sector. The government of Zimbabwe through the ministry of finance should promote Islamic banking as well as amending existing financial legislation and regulations to create a favourable legal environment for efficient setup of IFIs, Islamic Window or for conventional banks to fuse IFPs with conventional products. A commission may be entrusted to draft an Islamic Banking Act to promote IFPs. Commercial banks should try to fuse the Islamic principles in the conventional products especially the principles inherent in equity financing and phased payments which can benefit both borrower and the lender.

Table of Contents

List of Tables

List of Figures

List of Appendices

List of Acronyms

BODs	- Board of Directors
BIS	- Bank for International Settlement
CAMEL	- Asset Management Companies
CAR	- Capital Adequacy Ratio
CEO	- Chief Executive Officer
COVID-19	- Novel Corona Virus
FDIC	- Federal Deposit Insurance Corporation
GCC	- Gulf Cooperation Countries
GDP	- Gross Domestic Product
IFIs	- Islamic Financial Institutions
IFPs	- Islamic Financial Institutions
IMF	- International Monetary Fund
MBA	- Master of Business Administration Degree
MPT	- Modern Portfolio Theory
NPLs	- Non-Performing Loans
PLS	- Profit Loss Sharing System
PSR	- Profit Sharing Ratio
RBZ	- Reserve Bank of Zimbabwe
SRR	- Statutory Reserve Ratio
VUCA	- Volatility Uncertainty Complexity Ambiguity
ZAMCO	- Zimbabwe Asset Management Corporation

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter highlighted the background to the study, the statement of the problem, research objectives, research questions, and research hypotheses, rationale of the study, the scope of the research analysis, dissertation outline and the chapter summary.

An analysis on the impact of adopting Islamic financial products on non-performing loans (NPLs) in Zimbabwe's Commercial banks was investigated. This is important in analyzing the inclusion of IFPs in conventional commercial banks and its impact on reducing non-performing loans (NPLs) assessed.

1.1 Background to the study

Islamic finance is the provision of financial services in accordance with Islamic jurisprudence (Shari'ah).Shari'ah bans interest (riba), products with excessive uncertainty, gambling, short sales, as well as financing of prohibited activities that it considers harmful to society. It also requires parties to honor principles of fair treatment and the sanctity of contracts. Transactions must be underpinned by real economic activities, and there must also be a sharing of risks in economic transactions (International Monetary Fund, 2015).Islamic financial institutions offered a range of Islamic financial products as a practical reality and started to function in the 1970s with the idea of providing services to clients free from interest (riba), and prohibited the giving and taking of premium (riba) in all exchanges. Prohibition of interest (riba) makes Islamic financial banking products differ from the conventional banking products. The primary distinction amongst Islamic and conventional banks is the use of cash. In conventional banks, cash is utilised as a product that is purchased and sold through the premium's utilization (Al-Omar and Abdel-Haq (2016). International Monetary Fund, (2015) report on Islamic Banking has demonstrated that Islamic financial products has grown rapidly over the past decade, and its banking segment has become systemically important in a dozen countries in a wide range of regions. Islamic financial products is projected to continue to expand in response to economic growth in countries with large and relatively unbanked populations especially the Muslim communities which is estimated to one percent of the country population of over 12 million people. It is also accelerated by the large savings accumulated by many oil-exporting countries that are seeking to invest in Shari'ah-compliant financial products especially to fund various sectors (International Monetary Fund, 2015). The increasing reach of Islamic financial products promises a number of possible benefits among them less prone to crisis hence reducing non-performing loans (NPLs) because of its risk-sharing feature which reduces leverage and encourages better risk management on both financial institutions and clients. It was also argued that Islamic financing is more stable than conventional finance as it involves prohibitions against speculation; financing is asset-based and thus fully collateralized; and is found on strong ethical principles. Moreover, Islamic financial products are considered to be a good platform for increasing access to financial inclusion, including access to finance thereby supporting growth and economic development hence reducing non-performing loans (NPLs) in the country's commercial banks (International Monetary Fund,2015).

Njanike (2010), alluded that there is need for a change in the status of the banking system in Zimbabwe hence a different way of doing business which may go a long way in solving the economic problems faced by the country especially that of liquidity challenges. With many firms (businesses) having collapsed due to prohibitive high cost of funds, a non-interest system will bridge the gap. The interest rate regime has caused financial disintermediation in the economy contributing to the collapse of the economy and contraction of Gross Domestic Product (GDP).

Non Performing finances in the Zimbabwean banking sector portfolio increased during the years 2017 to 2018 as reflected by the ratio of non-performing loans (NPLs) to total loans of 8.25% as at 30 December 2018, from 7.08% as at 31 December 2017 above normal international benchmarks of 5% with the country having 19 operating banking institutions as at December 2018 of which 13 are commercial banks (Reserve Bank of Zimbabwe, 2019) and only one bank Standard Chartered Bank provides some open windows for Islamic Financial Products. The Reserve Bank of Zimbabwe set up the Zimbabwe Asset Management Corporation (Private) Limited (ZAMCO), in July 2014 as part of measures to deal with problems of rising non-performing loans (NPLs). ZAMCO's primary objective is the acquisition of non-performing loans (NPLs) in a phased and orderly manner. In 2017 ZAMCO acquired NPLs close to USD 1 billion dollars (The Independent, 2017). The central bank accredited additional asset managers or investment advisors so that ZAMCO has a larger pool of institutions which it can utilize in raising of funds and manage acquired NPLs (Reserve Bank of Zimbabwe, 2015).

1.1.1 Islamic Banking

This refers to a banking system that relies on the standards of Islamic law, also known as Shariah law (Hassan and Bashir, 2003). Islamic banking system has been growing quickly in the course of recent years. This framework has been growing meaningfully around the globe including Africa (Guyo and Adan, 2013). The clarification behind establishing Islamic Financial Products is to attract clients who want to avoid premium. Since premium is restricted in Islam, Islamic Financial Products need to refrain from it in any form. Hence, Islamic Financial Products established Profit-Loss Sharing System (PLS) and various sales contracts. The Islamic banking system needs to work as per Islamic rules and standards (Hassan and Bashir, 2003). The primary impression of Islamic Financial Products is to provide services to its clients free from premium, and prohibits interests (riba) in all transactions. Prohibition of interest (riba) makes Islamic financial products contrast from the conventional banking products. The principle distinction between the two is the utilization of money. In conventional product banks, money is utilized as a product that is purchased and sold through interest.

Mudaraba and Musharaka are the two primary Islamic Financial Products of fund in Islamic banking system; the Zimbabwean banking industry has not fully promoted these basic Islamic modes of finance except Standard Chartered Bank which have some Islamic Financial Products opening window to promote financial inclusion. This means Murabaha and Ijarah play a major role in Islamic banking (Ringim, 2013). Ijarah contract is an agreement in which a lessor rents physical property or assets to a tenant who gets the advantages connected with responsibility for resource against instalment of predetermined rentals. Murabaha is a contract which standout amongst the most broadly used financial products by the Islamic banks (Ahmad and Haron, 2002).This financial product is mostly used for financing of real estate, consumer durables and in business for the procurement of raw materials, equipment or plant and machinery.

Mudaraba is an agreement between a capital supplier and a business visionary under which the capital supplier gives capital to be overseen by the visionary and any benefit produced from the capital is shared between the two in line to mutually settled profit sharing ratio (PSR) while losses are borne by the capital supplier as long as those disasters are not due to the visionary's carelessness, wrongdoing, or breach of contract terms.

Istisna gives medium term financing to meet the finance needed for supplying, manufacturing or sale of distinguished products, for example, construction or industrial machinery and equipment.

Murabaha (Mark-up Financing) this is a mark up on sale, as it is an instrument for buying and reselling purchases of capital goods and other commodities. Under this contract, a customer provides the bank with the specifications and prices of the goods that would be purchased and the profit that accrues to the bank is mutually agreed upon as a profit margin (mark-up) on the cost of purchase of the asset or commodity.

1.1.2 Non-Performing Loans (NPLs)

A non-performing loan is defined as a loan with outstanding principal or interest for a period of more than 90 days (Guy, 2011). Non-performing loans are used as a measure of asset quality for financial institutions. These assets are categorized based on the time of repayments when overdue. There are other good reasons to doubt that payment will be made in full (IMF, 2009). Hennie and Sonja (2009) define NPLs as assets not generating income or when principal or interest is due and left unpaid for 90 days or more. Loan defaults are inevitable in any commercial bank but they can be minimized through diffusion of Islamic Financial Products with conventional products. Non-performing loans (NPLs) are important because they affect the financial intermediation of commercial banks which constitute the banks' main source of their income, and ultimately, the financial stability of any economy (Fafack, 2013). For this purpose, NPLs have progressively gain attention recognizing that a consequence of large amount of NPLs in the banking system is bank failure as well as a symptom of economic meltdown. This is largely because the financial performance of any commercial bank is measured in terms of profitability and NPLs have a direct opposing impact on the bottom line due to the provisions which the unembellished forced to make on account of NPLs (Ezeoha, 2011).In this study a NPL is a loan with more than 90 days of non-payment of principal amount and interest.

1.2 Statement of the research problem

The problem is the increase in the level of non-performing loans (NPLs) in the country‘s commercial banks with most banks shunning financing business because of the inherent credit risk associated with financing in the country. The Independent (2018), in its survey alluded that a turbulent economic environment saw NPLs peaking above 20% before the government, through the Zimbabwe Asset Management Company (ZAMCO), which bought close to USD$1 billion worth of non-performing finances from the banks. The survey also showed that, one of the largest agricultural lender in the country is among the banks with the highest cost of funds at 4, 2% in which the greater part is agricultural non-performing loans (NPLs).The problem with the current conventional banking system is the lack of Profit Loss Sharing System (PLS) as well as risk sharing in its financial products as well as the utilization of cash. The adoption of Islamic Financial Products will increase the diversification of financial products and decrease the level of non-performing loans through Profit Loss Sharing Systems (PLS) and both borrowers and financial institutions will benefit from the adoption of these products. Conventional banks, apart from concentrating on interest financing they can also offer Islamic banking products that are finance based and Profit Loss Sharing Systems (PLS).

1.3 Research objectives

Main: To investigate the impact of adopting Islamic financial products on the reduction of non-performing loans (NPLs) in Harare's Commercial Banks.

Specific

i) To investigate the impact of adopting equity financing (Mudaraba) on reducing non-performing loans in Harare's Commercial Banks.

ii) To assess the impact of adopting lease financing (Ijarah) on reducing non-performing loans in Harare's Commercial Banks.

iii) To determine the impact of adopting mark-up financing (Murabaha) on reducing non-performing loans in Harare's Commercial Banks.

iv) To investigate the impact of adopting venture capital (Musharaka) on reducing non-performing loans in Harare's Commercial Banks.

v) To examine the impact of adopting phased payments (Istisna) on reducing non-performing loans in Harare's Commercial Banks.

1.4 Research questions

The study answered the following questions about agricultural non-performing loans in commercial banks:

Main: What is the impact of adopting Islamic financial products on the reduction of non-performing loans (NPLs) in Harare's Commercial Banks?

1) Does the adoption of equity finance (Mudaraba) reduce non-performing loans in Harare's Commercial Banks?

2) What is the relationship of adopting lease finance (Ijarah) on non-performing loans in Commercial Banks in Harare?

3) How does the adoption of mark-up financing (Murabaha) reduce non-performing loans in Harare's Commercial Banks?

4) What is the impact of adopting venture capital (Musharaka) on minimizing non-performing loans in Harare's Commercial Banks?

5) What impact does the adoption of phased payments (Istisna) have on non-performing loans in Harare's Commercial Banks?

1.5 Hypothesis

Main: Islamic financial products adoption by conventional banks reduces non-performing loans (NPLs).

H_1: Equity financing (Mudaraba) adoption negatively impacts on non-performing loans in the Commercial Banks of Harare.

H_2: Lease financing (Ijarah) adoption reduces non-performing loans in Harare's Commercial Banks.

H3: Mark-up financing (Murabaha) adoption minimizes non-performing loans in the Commercial Banks of Harare.

H_4: Venture capital (Musharaka) adoption negatively affects non-performing loans in Harare's Commercial Banks.

H5: Phased payments (Istisna) adoption improves the position of non-performing loans in Harare's Commercial Banks.

1.6 Scope of the research / Delimitation

This research investigated the impact of adopting Islamic financial products in Harare's 10 Commercial Banks and assessed the impact of adopting Islamic Financial Products on non-performing loans levels. The study population will be management and Board of Directors of these ten Commercial Banks as management and board members are highly involved in the development of financial products at strategic level of banks. A sample size of three hundred participants will be selected from this population.

1.7 Rationale/Significance of the study

The study is going to benefit financial institutions in Zimbabwe in that they will be able to understand the impact of adopting Islamic financial products on non-performing loans and therefore come up with product innovations which are Shariah compliant in order to realize more revenue by commercial banks and reduce non-performing loan hence improve financial sector stability through financial inclusion. The findings will also be valuable to future researchers and academicians as it will extent the existing body of knowledge besides acting as a source of reference. The study will also contribute to theory especially on the impact of adopting Islamic financial products on non-performing loans. In addition, the study would propose areas for further research that future researchers and academicians can advance their knowledge.

The government through the Reserve Bank of Zimbabwe will make efforts in promoting financial innovations, deepening and inclusion in Zimbabwe through Islamic financial products in the banking sector as well as cater for people who have excluded themselves due to religious sensitivities. This will allow even economic development in the country. The Central Bank as the main watchdog of commercial banks will come up with policies on how to regulate Islamic financial products to ensure financial diversity and health of commercial banks.

1.8 Dissertation Outline

This research will comprise of five chapters which will be composed of:

Chapter 1-This helps to introduce the research with background of the study, research problems, objectives, questions, hypothesis, rationale, scope outline and the summary.

Chapter 2-Reviews the literature related to causes of non-performing loans and possible solutions. This assists to find out what other researchers have revealed in this research area. It will also show gaps in the literature which must be filled with further research.

Chapter 3-This looks at the methodology employed in this research to get the data. It underscores on justification of all the methods used to collect information as well as showing why other methods are not appropriate for this study.

Chapter 4-This shows the presentation and analysis of the data collected from the research. It also presents interpretations of information from the findings.

Chapter 5-It deliberates on recommendations based on the results of the research as well as highlighting areas of further research.

1.9 Chapter Summary

This chapter provided the contextual background to the challenge of non-performing loans in Zimbabwe’s banking sector. The chapter highlighted the statement of the problem, research questions, main research hypotheses, justification of the study and briefly outlined the scope of the study. Chapter 2 reviews literature related to non-performing loans in conventional financial products and Islamic financial products.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviewed five theories underpinning this study as well as discussed the impact of Islamic financial products on non-performing finances as well as Islamic finance principles. The chapter also reviewed similar studies and their findings on a global and local perspective as well as the research gap.

2.1 Literature Review

This chapter focuses on literature related to the study of Islamic financial products on non-performing loans in conventional banks. In this part, the theoretical foundation of the study is discussed where the theories underpinning the study are reviewed and for each theory, the initiator is mentioned, what it advocates and the relationship with the study. Five theories underpinning this study will be discussed which analyse the impact of Islamic Financial Products on non-performing finances.

2.2 Explanation of Literature Search Strategy

This involves a systematic review of literature from various sources among them journals and articles of the related topic of research which made the database. Current journals were searched especially within five years in this research to assess the impact of Islamic Financial Products in reducing NPLs levels. Significance of literature was identified if it is providing information on the topic and the other variables (independent and dependent variables).Key words were identified to assist as well in literature relevance.

2.3 Theoretical Foundation

In this part, the theoretical foundation of the study is discussed where the theories underpinning the study are reviewed. For each theory, the originator is mentioned, what it advocates and the relationship with the study. The five theories are economic theory, agency theory, information asymmetry theory, the modern portfolio theory and the stakeholder theory.

2.3.1 Economic Theory

The theory analyses the principles which are aligned to Islamic Financial Products (IFPs) and how they differ with conventional banking products. These principles include the rate of interest and risk sharing and market structure as well as how these principles negatively impact on non-performing loans (NPLs) as well as the relevance of Islamic Financial Products to increase bank performance.

The rate of interest principle of the economic theory emphasise that Islamic finance is based on a simple rule, which is to avoid trading present for future money at a premium. This effectively eliminates finance through debt, although it does not exclude providing interest free loans for philanthropic purposes (Al Jarhi, 2017). Finance is provided through equity participation or profit and loss sharing (PLS) in return for equity or rights to share in pre-agreed proportions of profits. It is also provided through the sale and lease of assets in return for commitment to repay their value or for their usufruct at a future date. It is further provided against a commitment to deliver or manufacture commodities. The theoretical work on the relationship between the level of the rate of interest and the optimality of resource allocation concludes that a zero nominal interest rate is a necessary condition for the optimal allocation of resources (Samuelson, 1958; Friedman, (1969). They expounded that in a world of paper money, adding an extra unit of real balances costs the economy no real resources. Therefore a positive rate of interest becomes a positive cost of utilising money and it allows dealers to economise on the use of money in transactions, thereby frustrating their attempt to fully benefit from the means of exchange in minimising their transaction costs hence minimising non- performing loans. To keep the same volume of transactions, traders will have to substitute real resources for money and such substitution removes real resources from the production sector to the transactions sector, leading to a suboptimal level of output. In contrast, reducing the rate of interest to zero removes all incentives to substitute real resources for money and the optimal level of output can therefore be maintained. This was also reinforced by Wilson, Cole and Kocherlakota, (1979, 1998) in which they emphasised the use of general equilibrium models which illustrates that a zero interest rate is both necessary and sufficient for allocative efficiency of finances thereby reducing non-performing loans. Friedman (1969) suggested that the final rule for the optimum quantity of money is that it will be attained by a rate of price deflation that makes the rate of interest equal to zero and thereby amounting to steadily contracting the money supply at a rate equal to the representative household time preference and the rule imposes an optimal rate of deflation on the economy. This in itself is symbolic of denying the benefits of price stability and disregarding the serious inefficiency and redeployment effects of both inflation and deflation (Lucas, 1994).

The risk sharing principle of the economic theory is another basic feature of the Islamic banking system in which the financial sector and households provides their funds to financial intermediaries on a PLS basis in which financial intermediaries supply funds to their users partly on PLS and partly on equity finance basis and IFPs are associated to a participatory approach in which everyone shares the risk in contrast to conventional financial products in which the risk is borne only by borrowers whilst the financial institutions are spectators when it comes to risk which they only bear through collateral (Al-Jarhi, 2004, 2017). In this principle it is quantified that IFPs' risk sharing goes beyond the mere integration of capital markets and it is more prevalent through the financial market structure, producing more specialization and greater overall efficiency whilst conventional financial products are almost void of risk sharing and it will have a negative impact on the resource mobilization side which will allow fund owners to provide their financial resources on the basis of the classical loan contract which in turn increases the level of non-performing loans. Accordingly, banks taking deposits would guarantee both principal and interest on their customers' deposits and on the resource use side, conventional banks take risk only on collateral and not on entrepreneurial activities. The use of collateral enables conventional banks to limit the monitoring of their borrowers hence increasing default risks which leads to high levels of non- performing finances as compared to profit sharing and risk sharing agreements.

2.3.2 Agency Theory

The original researchers to explicitly propose that a theory of agency be made, and to actually start its creation, were Mitnick and Ross (1971, 1973), independently and coarsely instantaneously. Ross (1973) is accredited as the origin agency economic theory whereas Mitnick (1971) for agency institutional theory as well as Jensen and Meckling (1976) who expanded on the theory as it is today where an agency relationship is supposed to transpire when at least one person (the principal (s) engage someone else (the agent) to carry out some duties for their benefit which includes the delegation of some basic leadership roles to the agent. Worthy instances of agency relationships are that of employer and employee; or shareholders (principal) and Chief Executive Officer (CEO) (Eisenhardt, 1989). Agency theory describes that the principal conflict between self-intrigued managers and owners, when the managers have the control of the firm yet the proprietors bear the greater part of the riches impacts. Jensen's and Meckling's (1976) innovative model shows this by depicting how lower administrative risks prompt to increments in non-monetary expenditure by the managers as they do not assume the expenditures fully. Agency matters of this kind lead to agency costs. A vital component in their theory is that outside shareholders cannot watch the managers 'activities without a cost. While the model makes numerous confining suppositions, the outcomes are relevant to a more broad setting as revealed by the various empirical and theoretical articles that have taken after Jensen's and Jensen's (1976) model. Sarker (2015), alluded this theory to Islamic Financial Institutions (IFIs) which was rarely reflected in writing until the year 1994 when Banaga et al. (1994), circulated a book covering Corporate Governance in IFIs, in spite of the fact that it concentrated more on accounting and auditing parts of Corporate Governance. Iqbal and Mirakhor, (2004) added that IFIs are applying a different model of Corporate Governance in light of the guideline of consultation where stakeholders have a similar objective in ethical business practises which benefit both the principal and agent. Karim, Archer and Al-Deehani (2015), reasoned that corporate governance in IFIs is based on the principle of Shari'ah laws and ethics hence the need to minimise this problem. Mirakhor and Iqbal (2004) clarify that managers are considered as trustees and not as managers, in this manner getting the idea of trusteeship and IFIs secure the rights and interest of all stakeholders instead of the shareholders only which will improve bank performance as well as minimising non-performing finances. This contractual connections in IFIs depends on Shariah principles and on money related contracts which guarantee the foundation of justice in contracts and the evasion of unjust exploitative components such as the components of uncertainty, interest, speculation and gambling (Sarker, 2015).The additional component of relationships in view of Shariah law and principles has particular implications for the agency issue and can take diverse forms. The agency associations are precisely indicated in the Islamic standards of Shariah and hence, the agency issue has an extra measurement when managers deviate from the Islamic standards of Shariah. Nevertheless, it is trusted that the Islamic ethical values and moral code that relate governance and accountability enshrined in the financial products contribute to good agency relationships. Agency relations in IFIs and products are to a great extent characterised by the underlying contract, which is developed from one or more of the base Islamic monetary contracts which reduces the level of non-performing loans (Omar, 2016).

2.3.3 Asymmetrical Information Theory

Akerlof (1970), foremost presented this theory in what he called, " the market of Lemons". It is the single most important study in the literature on 17 economics of information asymmetry. Karim, Chan and Hassan (2010), study Asymmetry of information related to access to information among participants in the process of making economic decisions. The exponents show that information sharing reduces adverse selection by improving banks information on credit applicants as in the case with IFPs terms and conditions. This theory is relevant for conditions where there is imperfect knowledge. It occurs where one party has different information to another. Asymmetric information is a problem in the financial market especially in borrowing and lending. In this market the borrower has much better information about his financial status than the lender especially when it is not equity based and profit sharing (Al Jarhi, 2017). This theory of information asymmetric tells us that it may be difficult to distinguish good borrowers from bad borrowers, which may result into adverse selection and moral hazards problems. It explains that in the market, the party that possess more information on a specific item to be transacted (in this instance, the borrower) is in a position to negotiate optimal terms for the transaction than the other party (in this case, the lender).The party that knows less about the same specific item to be transacted is therefore in a position of making either right or wrong decision concerning the transaction. Adverse selection and moral hazards have led to significant accumulation of non- performing loans in conventional banks (Al Jarhi, 2017). Loan applicants normally have full information about their financial status and their ability to repay loans which can be minimised when business ventures are profit sharing and risk sharing like those offered by IFPs. Therefore, debt finance is riddled with information asymmetry leading to risks of adverse selection and moral hazard, and ultimately raising the risk of default which increases non-performing loans whilst on the other hand, equity finance providers can be exposed to investing in a losing venture, which would be riddled by the lemon problem. In such a world where an entrepreneur who is more informed than fund suppliers would prefer to use internally available funds to invest in the firm. The entrepreneur would also prefer to use debt finance when more funds are required than internally available (Al Jarhi, 2017). The reason is that using equity finance and profit sharing would be interpreted as a belief that the stocks of the firm are overvalued. Information asymmetry in debt finance can be reduced through complete monitoring, including ex ante, interim and ex post monitoring (Aoki, 2013) of fund users, which would be extremely costly. Banks would have to raise the lending rates of interest to cover the extra cost of lending which at the same time increases non-performing loans. Shareholders' participation in management reduces the firm's incentives to substitute riskier for safer assets in equity finance. While, the bank's incentives to hide profits would be reduced by debt finance hence the need to fuse both debt and equity finance which would therefore be ideal so as to minimise the level of non-performing loans in commercial banks. Empirical studies confirm the merits derived from the fusion of debt and equity finance in financial institutions so as to minimise non performing finances in banks thereby improving bank performances. Theoretically, banks are relatively more exposed to adverse selection during economic booms and to moral hazard during recessions and studies have confirmed that IFIs face lower risk than conventional banks during both booms and seizures. Extensive and more noteworthy risk discrepancies have been found between these two banks as to the level of risk exposure (Al Jarhi, 2017).

2.3.4 The Modern Portfolio Theory (MPT)

This theory was originated by Markowitz (1952), in which he pronounced how to amalgamate resources into productively enhanced portfolios by showing that investors' neglected accounting for the high correlation among investments returns correctly, hence the need for commercial banks to fuse IFPs in their portfolio so as to minimise non-performing loans as well as improving bank performance. Markowitz's (1968), expanded that a portfolio's risk could be decreased and the normal rate of return expanded, when resources with different value movements were consolidated. Supportive to Markowitz (1952), expansion diminishes the unpredictability since a diversified portfolio is less unstable than the mean of the volatilities of its components. The MPT permits investors to assess both the expected dangers and returns, as estimated statistically, for their venture portfolios. In managing their portfolio, investors attempt to maximize the overall portfolio return for a given portfolio (Omar, 2016). The challenge of bank diversification has been deliberated in many studies and the association between the diversification and the level of non-performing loans as well as performance considered. Most of these studies highlighted a positive impact of diversification on the performance and on the decrease of the risks which leads to non-performing loans in banks though Acharya, Saunders and Hasan (2002), argued that diversification which is based on traditional portfolio theory wisdom, leads to greater safety for commercial banks. Bank's financial performance can be explained by diversification through the fusion of IFPs and conventional products which reduces exposure to default risk which increases the level of non-performing loans. Chatti, Kablan and Yousfi (2010), analysed the performance and the choice of portfolio in Islamic banks by considering a sample of 8 Malaysian Islamic banks between 2004 and 2008 and to determine the efficient frontier and the optimal portfolio, the study utilised the Modern Portfolio Theory (MPT).The results of the study showed that the corporate and investment activity increases considerably returns on assets. However, retail and commercial activity improves the results and performance of these banks which improves the liquidity of the banks as well as reducing non-performing loans in these banks.

2.3.5 Stakeholder Theory

Freeman (1994), is accredited with initiating the stakeholder theory though it started with the suspicion that qualities are explicitly and fundamentally a part of undertaking business (Freeman, 1994). It requires that managers to express the mutual feeling of esteem they create, and what unites its core stakeholders. Furthermore, this pushes managers to be clear about how they need to work together and the type of associations they want and require to have with their stakeholders to deliver on their objective (Ackermann and Eden, 2011).It also guides and reveals how managers work as opposed to basically tending to economists and theorists. The principal point of stakeholder theory is articulated in two fundamental questions (Freeman, 1994). Applying stakeholder theory to IFPs in conventional banks involves analysing the characteristics of these banks in the country as they are seen and it can be observed that the impact of several stakeholders' decreases and the identity of the banks is clear and imparted through a vast body of networks in both outside and inside the bank (Lewis and Algaoud, 2001).The stakeholder's interpretation of IFPs can be derived from this as the fusion of IFPs in conventional banks will comprise multiple networks that exist amongst customers, employees, businesses and communities. If managers of banks providing IFPs decides to keep up a remote position from their external environments and stakeholders, they will have endanger themselves as well as the bank and they may fail to function productively as this will impact on the level of performance as well as non-performing loans (Omar, 2017).The growth of IFPs and banks globally represents a noteworthy and persuasive pattern in the banking industry. The Islamic banking and finance have experienced significant growth and success during the past twenty years, particularly for stakeholders investing into abroad Islamic undertakings (Omar, 2017).This theory institutes responsibility and awareness that banks have towards both internal and external stakeholders.

Subsequently, the banks obligation is not constrained to the focus only on the expansion of annual incomes, but for the prosperity of all stakeholders thereby reducing the level of non-performing loans (Hasan, 2009).

2.4 Concept of Non-Performing Loans (NPLs)

CAMEL is a rating system usually applied by central banks, government policy makers and non-governmental policy analysts with the objective of evaluating the safety of financial institutions as far as non-performing finances are concerned. It was initially embraced by the controllers of North American banks and covers five elements which determine the level of bank non performing finances namely, asset quality, earning ability, capital adequacy and liquidity which minimises the level of bank non performing finances (Nazir, 2010). In the mid-1970s, the US government regulators created CAMEL rating system to evaluate how well commercial banks are running. By 1979, the uniform monetary institution's rating system was embraced to give government regulatory agencies a system for rating individual banks and financial condition. The use of CAMEL has spread up significantly since then in terms of inspecting the financial strengths of one of the fundamental constituents of currency market, that is, commercial banks. Consistent with Kabir and Dey (2012), CAMEL rating has been envisaged as one of the broadly utilized tools for judging the asset quality, capital adequacy, liquidity and profit capacity of the financial institutions including commercial banks by the main regulators worldwide which is an indicator on the financial health of the financial sector as it provide the composition of non-performing finances.

The Reserve Bank of Zimbabwe (2015), defined non-performing loans (NPLs) as assets that cease to generate expected revenue for the bank and reveals more risks than expected commercial risk for a period more than 90 days or more; or interest payments equal to 90 days or more have been capitalized, refinanced or rolled over. It expanded that a credit crunch may arise, as banks with high NPLs become increasingly reluctant to take up new risks and commit new loans. Most financial institutions in Zimbabwe have difficulties of non-performing loans which increases the financial sector's risk as most banks' bad loans was disposed to the Zimbabwe Asset Management Company (ZAMCO) (Reserve Bank of Zimbabwe, 2018). In a statement issued it was stated that, "the loan portfolio continues to improve as reflected by the ratio of non-performing loans (NPLs) to total loans of 6.22% as at 30 June 2018, from 7.08% as at 31

December 2017” which is still above international benchmarks of 5%.Financial institutions are supposed to report non-performing loans to the Reserve Bank of Zimbabwe (RBZ) regularly to ensure that the financial health of the sector is maintained. Non-performing loans affect the liquidity and cash flows of banks and finally the profitability and they cause major challenges to the viability of banks and the financial sector as a whole. This is proof that non-performing finances are a major challenge in the financial sector in the country hence the need to come up with innovative solution on financial integration and inclusion of IFPs to conventional banking products in the country.

2.4.1 Capital Adequacy

Capital adequacy is the capital expected to keep up adjusting with the risks exposure of the monetary organization such as market risk, credit chance, default risk and operational risk to integrate the potential misfortunes and secure the financial organization’s debt holder. Meeting a nation's legal least capital requirement is the key factor when determining the capital adequacy and keeping up a satisfactory level of capital is a basic component. Mitchell (1984), demonstrates that capital ampleness in terms of capital deposit ratio due to the fact that the essential risk is depository risk resulting from the considerably large scale and sudden deposit withdrawals. Mitchell (1984), added that Federal Deposit Insurance Corporation (FDIC) in 1930 propounded a new capital model referred to as capital-asset ratios because the default on credits came to uncover the most serious risk rather than deposit withdrawals. To assess the capital adequacy, banks use the capital risk asset ratio in an effort to gauge the level of non-performing finances. The ampleness of capital is determined based upon two most essential methods namely, the ratio of capital to assets and Capital to Risk-weighted Assets ratio or Capital Adequacy Ratio (CAR). This capital proportion is required to meet at least 8% standard benchmark set by the Bank for International Settlement (BIS). However, it is imperative to note that in a few countries the minimum capital requirements may change depending on regulators; and the bank may jump at the chance to have as high capital proportion as possible (Grier, 2007). The elements in the CAMEL model is recorded from a score of 1 to 5 in which capital sufficiency is a rating of 1 which shows a solid capital level in respect to the money related organization's risk whilst a rating of 5 demonstrates a basic deficient level of capital, which requires a prompt help from shareholders or outer assets. The computation of capital adequacy ratio is completed by taking loan loss provisions and ratio of equity capital less the non-performing loans to aggregate assets.

Articulated as a percentage, the proportion demonstrates the capacity of a bank to endure losses in the value of its properties.

Capital Adequacy Ratio = (Equity Capital / Loan Loss Provision) Less (Non-Performing Loans / Total Assets)

2.4.2 Asset Quality

Grier (2007), alluded that this shows the degree of financial health and risk level of assets within a bank in relation to the level of non-performing loans and that inferior asset quality is the primary reason why the failure of many banks. A standout amongst the most critical resource classifications is the loan portfolio. The most serious threat confronting the bank is the loan losses arising from loan defaults which give rise to non-performing finances. Credit analysis should be done by gauging the asset quality and this should be possible by performing credit risk management and assessing the nature of peer comparison and loan portfolio by making use of trend analysis. Frost (2004), explains that the asset quality indicators underline the use of non-performing finance ratios which are the intermediary of asset quality, and the provision or allowance to advance losses reserve. The general classification system of credits incorporate five classes which are standard, substandard, special mention, loss and doubtful. NPLs are viewed as the three most minimal classes which are past due or for which premium has not been paid after a worldwide standard of 90 days and some regulators in some countries allow a more drawn out period, mostly 180 days (Frost, 2004).The bank is directed to support the bad debts by giving sufficient provisions to the account holding the loan loss reserve. The compensation for loan loss and provision for loan loss to aggregate advances need to be considered when measuring the quality of loan portfolio (Grier, 2007).This is calculated as, Asset Quality Ratio = Provision for Loans / Total Loans.

2.4.3 Liquidity

The capacity of any financial institution is to provide liquidity which requires the presence of an exceptionally liquid and promptly transferable stock of financial resources (Hays, De Lurgio and Gilbert, 2009). Transferability and liquidity are the key elements for these exchanges. The requirement for liquidity implies that financial resources must be accessible to proprietors on short notice like a day or less at average. The requirement of transferability implies that proprietorship rights in financial resources must be compact, at average, to other financial agents, and in a form adequate to the other party. Investment securities and other liquid assets permit banks to react rapidly to unexpected requests for money and usually reflect moderately conservative economic procedures, while unpredictable liabilities like vast certificates of deposits, typically reflect generally aggressive economic procedures that force high premium costs, and are liable to quick withdrawal. Therefore, it is expected that higher values of venture securities will decrease the possibility of failure, while higher values of huge certificates of deposit which ought to build the likelihood of failure (Nazir, 2010). Additions were also that, liquidity management is vital amongst the most critical elements of a bank. On the off chance that funds tapped are not used properly, the bank ought to endure losses whilst storing idle cash in hand balance will generate no yield and if banks does not maintain stable cash in liquid form, they cannot have the capacity to pay the request withdrawal of investors, as well as the eventual payment for unexpected liabilities and instalments to creditors. These will place the bank at an overtrading position and force it to get reserves at high rate. Proper adjusted liquidity need to be sustained by avoiding both inadequate and excess funds position. Commercial banks need to manage a noteworthy dilemma which is the liquidity versus profitability. In response they need to pay regard to various elements in order to resolve this dilemma, particularly the maintenance of statutory reserve ratio (SRR) and cash reserve ratio; sufficient loan-deposit ratio; reliance on inter-bank deposit; and profitability (Omar, 2017). The loan to deposit ratio will be borrowed to present the liquidity position of commercial banks.

Liquidity Ratio = Total Loans / Total Deposits

2.4.4 Earning Ability

De Lurgio and Gilbert (2009), alluded that income is a conventional factor for measuring the level of non-performing loans and financial performance. The criteria set for profitability and earnings in the standard CAMEL rating structure are for the most part relevant to IFPs in which financial losses would first result in a deterioration of the estimation of the investor's wealth and afterward influence the bank's equity position if it had utilized its own particular assets to back the economic loses making investment project for example through Musharaka. Such risks to deposits, in the event that they materialize, may also bring about reputational loss and damage of funder base, prompting to liquidity as well as solvency concerns (Omar, 2017).

2.5 Islamic Finance Conceptual Framework

Islamic finance has grown rapidly over the past decade, and its banking segment has become systemically important in a dozen countries in a wide range of regions. It is projected to continue to expand in response to economic growth in countries with large and relatively unbanked Muslim populations and also fuelled by the large savings accumulated by many oil-exporting countries that are seeking to invest in Shari'ah-compliant financial products (International Monetary Fund, 2015).The growing reach of Islamic finance promises a number of possible benefits among them inherently less prone to crisis because of its risk-sharing principle reduces leverage and encourages better risk management on the part of both financial institutions and borrowers, more stable than conventional finance as it prohibits speculation in the financial markets as well as financing which is asset-based and therefore fully collateralized; and it is founded on strong ethical precepts. Islamic financial institutions (IFPs) are a good platform for increasing access to financial inclusion, including access to finance for Small and Medium Enterprises, thereby supporting growth and economic development (Al Jarhi,2017). Therefore, IFPs deals in Shari'ah Compliant Products and Services only which means no gain or reward is permissible without taking any commensurable risk equally applied to capital and labour, money is essentially a medium of exchange and not a store of or commodity. Its exchange makes wheels of business to move and this distinguishes IFPs fundamentally from conventional financial products. Islamic financial products are governed by four principles that distinguish IFPs fundamentally from conventional banking products.

2.5.1 Prohibition of Interest

The significant principle of Islamic financial products is the avoidance of interest, known as riba, (Interest) derived from the Quran's stipulation that only goods and services, and not money itself, is allowed to carry a price. Instead, Sharia-compliant finance promotes risk-sharing or profit and loss sharing principles in all forms of business transactions. While prohibitions on the receipt and payment of interest have historically been centrally held tenets of several major religions (Judaism and Christianity, chief among them), Islam is unique in the relative persistence of its adherents' attitude towards interest-bearing credit. The consequences of these views are widely debated, particularly within the large literature on the long-term economic legacies of historical institutions (World Bank, 2013).Islamic finance is based on a simple rule, which is to avoid trading present for future money at a premium. This effectively eliminates finance through debt, although it does not exclude providing interest-free loans for charitable purposes. The issue of interest (riba) is the most fundamental and far reaching aspect in the Islamic financial system though its interpretation is subject to many debates around the world. This is the most essential feature of IFPs in that it is interest-free. Islamic banks neither charge nor pay interest as it is prohibited as it is viewed as moneylending therefore against Islamic Principles (Algaoud and Lewis, 2007).The principle emphasises that there is a substantial difference between profits resulting from entrepreneurial activities and profits generated by granting loans taking or giving interest regardless of the purpose for which such loans are made and regardless of the rates at which interest is charged which is compared to receiving a monetary advantage without giving a counter value and is therefore forbidden. Interest is viewed as depriving wealth and blessings as well as encourages the wrongful appropriation of property belonging to others and only the principal should be paid and in case the counterparty non-payment it should be forgone provided ethical business practices were carried (Algaoud and Lewis, 2007).

2.5.2 Risk Sharing (Profit Loss Sharing - PLS)

IFPs based upon either on one of these two basic principles which are the profit and loss sharing and mark-up also referred to as the cost-plus financing. The profit and loss sharing principle is used for equity-based financing products as the bank invests directly in business ventures and participates in generated profits or losses. Whilst the mark-up technique is applied to debt-financing products as the customer appears as a debtor to the bank, paying the original purchase price of a commodity plus a predetermined mark-up (Al Jarhi, 2017). Profit-and-loss-sharing (PLS) financing have two modalities which are profit-sharing and loss-bearing whereby the financier provides capital and the beneficiary provides labour and skills whilst profits are shared, but losses would be borne by the financier who does not have the right to interfere in the management of the financed operation, unless negligence, misconduct, or breach of contract can be proven; and the pure profit-and loss-sharing where the two parties have equity-like financing of the project and would share profits and losses (IMF,2015).

2.5.3 The Prohibition of Gambling and Transactions Involving Speculation

This principle prohibits the unjustified enrichment through games of pure chance in the market in which transactions involving contracts where the ownership of a good depends on the occurrence of a predetermined, uncertain event in the future. In other words there will be a definitive gain for one party and a definitive loss for the other party, but when the contract is signed it is not sure who will be the winner or the looser.

2.5.4 Asset or Service Backed Financing

Al Jarhi (2010, 2017), concurred that Islamic asset-based finance has certain features due to which debt crisis are less likely to arise. In particular, the total value of debt, which includes the spot value of commodities purchased on credit as well as an implicit mark-up, is set from the very beginning. The total value of debt can be paid in instalments, without increasing its total value, as there is no compounded interest to pay on the outstanding balance. When debtors face unavoidable circumstances that would make them insolvent, they are often granted grace periods to assist them to bring their finances back into order. No penalty interest can be levied in this case hence minimises non-performing finances. In other words, debt rescheduling is granted at no extra cost to borrowers. Islamic asset-based finance is created through the finance of acquiring goods and services on credit, and the loan is thus used from the very beginning for its prescribed and asset-based purpose. Default resulting from improper use of borrowed funds is therefore most unlikely hence minimising non-performing loans. Asset-based finance directly contributes to the ability of the economy to meet its internal and external financial obligations whilst minimises bank exposure to bad loans.

2.6 Concept of Islamic Financial Products

Islamic Financial Products has been developed initially to finance trade and commerce in and subsequently to foster the economic development in the countries where it operates and have Islamic Finance windows in conventional banks (World Bank, 2013). Theoretically, there are different types of IFPs that link agricultural activities, industrial activities and trade activities however, five IFPs will be analysed and their impact on NPLs assessed and how they can fit in the country's conventional banks. This concept will be analysed in determining the impact of adopting IFPs on NPLs as well as bank performance. The analytical framework below will analyse the relationship between the dependent and independent variables shall be studied to see the explanatory power of each factor. Variables in the analytical framework will be tested using the regression model.

2.6.1 Analytical Framework

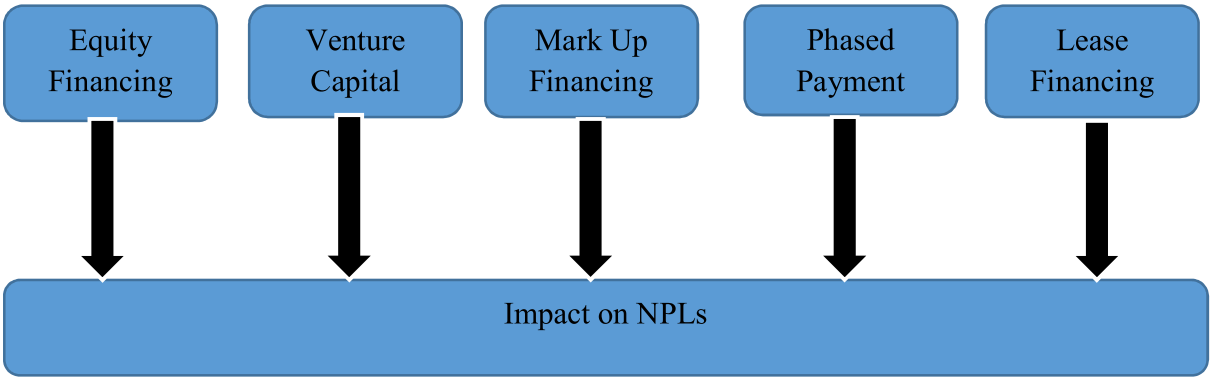


Figure 2.1 Analytical Conceptual Framework and Variables

The independent variables are Mudarabah (Equity Financing), Musharaka (Venture Capital), Murabaha (Mark-up Financing), Istisna (Phased Payment) and Ijarah (Lease Financing).Non-Performing Loans (NPLs) impact is the dependent variable of this research and the relationship is whether the adoption of IFPs has a negative or positive relationship.

2.7. Definition of Terms

2.7.1 Mudarabah (Equity Financing)

Mudarabah, in Shariah jurisprudence, is a mode of financing through which the bank (capital owner) provides capital finance for a specific venture indicated by the customer (entrepreneur). It is a contract between two parties the investor (businessman or bank), who provides a second party, the entrepreneur, with financial resources to finance a particular enterprise. Profits are shared between the two parties according to a pre-agreed profit ratio and if there are losses the investor bears all financial losses and the entrepreneur only loses his or her effort and time (Islamic Financial Services Board, 2019). Sharia-compliant deposit or savings accounts operate under profit sharing wherein the owner of the account does not explicitly receive interest, but rather shares in the overall profits of the financial institution or a specific investment account on the asset side of the financial institution's balance sheet. Equity financing encourages both parties to put maximum effort for economic growth and hence minimises NPLs in financial institutions as well as increases bank performance.

2.7.2 Musharaka (Venture Capital)

This is a full partnership and it is the second way of the PLS financial product found in an Islamic finance. It is a financial contract is defined where two or more parties establish a joint commercial enterprise and all contribute co-finance, expertise as well as human capital and management as a general rule (Islamic Services Board,2019). Profits and losses that proceed from this contract are shared amongst the parties as per a pre-agreed ratio as well as suitable for financing private or public companies and project financing for short, medium and long term periods. Lewis and Algaoud (2001), propose that this contract may be established in two ways which are a permanent contract which ensures for its parties (investor, bank and entrepreneur) an equitable sharing in profit or loss annually as per a pre-agreed ratio. This kind of contract (permanent contract) is constant for unlimited period according to their agreement. Whilst the other is a diminishing contract that is more preferred by bankers, because it allows the bank to reduce its equity share each year and receives periodic profits based on its reduced equity. The share of the customer in the capital of the enterprise increases over time by virtue of which client becomes the complete owner to this enterprise. In this context it is a joint venture between the conventional bank and a client or business firm for a certain business venture thereby minimising NPLs for the bank.

2.7.3 Murabaha (Mark up Financing)

Financial instrument used for procuring and reselling purchases or imports of capital goods and other commodities by institutions including banks and firms. In this contract, a customer provides the bank with the specifications and prices of the goods that would be purchased or imported. A bank examines the application and collects information about the specifications and prices of the merchandise focusing on the price and conditions for payment. When the bank and its client agree on the terms of the contract, the bank purchases the goods or commodities and resells them to the customer. The profit that accrues to the bank is mutually agreed upon as a profit margin on the cost of purchase by both parties (IMF, 2015).

2.7.4 Istisna (Phased Payment)

This financial product minimises NPLs in the manufacturing industry as it allows flexibility to one party to obtain industrial goods by an upfront cash payment and deferred delivery or a deferred payment and deferred delivery. The cost price is prepaid or deferred as instalments to create a product which is at a lower price than the cost of buying the complete product or building (Lewis and Algaoud, 2001).In this study, individuals or firms could request their bank to facilitate a contract of producing something, and thus the bank concludes the contract with a third party who is the manufacturer that produces and delivers specific items under particular requirements

2.7.5 Ijarah (Lease Financing)

There are two forms of leasing which are direct leasing finance, whereby a lessor (individuals or firms) allows a lessee to use capital assets owned by the lessor for a specified period of time ranging between a few days, months and years depending on the type of asset. In return the lessee pays a rental fee monthly or annually according to a pre-agreed amount**.** However, the ownership of the capital assets cannot transfer to the lessee in this type of leasing and the insurance on the capital assets is the responsibility of the lessor (World Bank, 2013).This has been adapted to the modern needs to be hire purchase, whereby an institution or individual customer could request the bank to purchase equipment with the intention of leasing it to the customer. In turn, the Islamic bank rents the asset to the client who pays a certain fixed rent and promises to purchase the asset within a specified period to transfer its ownership from the bank to the customer (Al-Jarhi, 2017).Furthermore, this mode of leasing could be converted as a decreased leasing method that allows the client to pay every specific period an instalment of the value of the asset plus its rent to reduce this value until completely the owner of this asset. This context will define this financial product as leasing arrangement which benefits both the lessor and lessee as well as reduces the level of NPLs if adopted by conventional banks.

2.7.6 Islamic Window

This refers to a period in conventional banks for where there is a regular introduction of Sharia-compliant Islamic Financial Products as to introduce financial products with Islamic principles (Islamic Financial Services Board, 2019).This research is going to adopt that Islamic window is the stage to be adopted by commercial banks in the country in an effort to introduce IFPs in the banking sector.

2.8 Empirical Review

This part analyses local and international empirical studies related to the current study. It synthesise the objective of each study, methodology and findings before revealing the research gap that the present study aims to achieve.

2.8.1 Global Studies

Ariss (2010), analysed the profitability between Islamic and conventional banks all over the world who built a sample of banks from thirteen countries worldwide. The paper concludes that Islamic banks have more portifolio credit risk because its asset base is comprised of loans and advances mostly but there is no significant difference between the profitability of the two types of banking, that is Islamic banks are not more profitable than the conventional banks. The reason is may be that Islamic banking is still at its evolutionary stage and does not have attained its full potential. It also concluded that Islamic banks are showing less competition in the global financial markets. It was also concluded that Islamic banks have shown more resilience to the financial crisis around the world because they invest more in the real assets rather than the financial assets because in Shariah, there is a law that prohibits the sale of things that one does not own.

Irfan and Zaman (2014), examined the effectiveness of Islamic banks in South Asian Countries and revealed that Islamic banking efficiency is about 98.19% in terms of return on asset proportion; around 91.4% regarding return on equity ratio and 77.03% concerning net profit ratio which minimises the IFIs' levels of NPLs. Hamedian (2013), discovered the budgetary performance of conventional banks versus Islamic banks in Malaysia. The experimental analysis uncovered that conventional products performed better than their IFPs counterparts in areas of profitability. However, the performance of Islamic banks amid the 2008 economic crisis was better as compared to customary banks in the levels of bad loans in their balance sheet. Loghod (2010), discovered no substantial contrasts as far as profitability amongst conventional and Islamic banks from Gulf Cooperation Council nations. Yet the study revealed that Islamic banks are less exposed to liquidity risk and that customary banks depend more on external liabilities compared to Islamic banks. The ratio analysis technique was used in a study of comparison between Islamic and conventional banking in Pakistan .Calculations on the performance and profitability ratios for the year 2006 to 2008 for the sample of six Islamic and six conventional banks of the same size from Pakistan. The results from the analysis of ratios like return on equity, return on assets, return on equity, earning per share, equity to total assets, debt to asset, cash to deposit ratio, and others showed that most of the probability ratios were negative for the conventional banks that show their low performance during the study period, but the profitability ratios calculated of Islamic banks showed positive results that indicated high returns to the bank and its shareholders. The assets for Islamic banks increased about 278% as compared to only 57% in conventional banks' assets during the period 2006 to 2008 with a market share increase of 5% from 2.5%. The ratio for non-performing loans (NPLs) for Islamic banks was far less than that of conventional banks. Similarly, Islamic banks have more provisions for the bad debts than the conventional banks. The results concluded that the overall efficiency of Islamic banks is higher than that of conventional banks. Salman and Nawaz (2018), added by revealing that all these good results are not attained by exploiting the depositors or shareholders in fact the Islamic banks are paying more to its investors than the conventional banks. The cost of funds for Islamic banks was 6.5% as compared to 4.5% for the conventional banks as the banks share 50% of its profits on Mudaraba basis to its depositors. Also, the volatility of profitability in Islamic banks is less as that of the conventional banks in Pakistan. All these measures for Islamic banks showed positive results and hence suggests that the Islamic banking of the fusion of IFPs to conventional products is the ultimate solution to bank liquidity and levels of NPLs as well as addressing global financial crisis in the world.

Al-Gazzar (2014), focussed on the financial performance of conventional banks versus Islamic banks on the North Africa Region and Middle East and the findings advocated that Islamic banks are better than conventional banks regarding capital sufficiency, resource quality and earnings quality which reduces the levels of NPLs. Yet on the other hand, they had a vulnerable liquidity position in contrast with conventional banks. Furthermore, the survey discovered significant statistical differences existing amongst conventional and Islamic banks in capital adequacy and asset quality. Al-Fawwaz and Alawneh (2014), researched the effect of Islamic bank on various macro-economic variables; taking the contextual study of Jordan Islamic Bank. The analysis demonstrates a considerable positive relationship between Islamic fund and GDP. In particular, the study noted a significant positive relationship between Islamic bank and both domestic investment and economic growth. Trikki et al (2013), emphasised on efficiency and liquidity and find no significant differences between the overall efficiency of conventional and Islamic banks. Conversely, Al-Khasawneh et al. (2012), found that Islamic banks achieved higher average revenue efficiency scores over conventional banks in North Africa. Yet the growth rate of revenue efficiency scores for Islamic bank is lower than for conventional banks. Halkano (2012), on the other hand, finds that conventional banks in Kenya perform better than Islamic banks .Yet the results support previous conclusions on the greater liquidity of Islamic banks. Beck et al

(2013), revealed that there is little significant differences between Islamic and conventional banks in business orientation, efficiency, asset quality, or stability. The authors showed that higher cost-effectiveness of Islamic banks is not robust to the sampling methodology. Interestingly, they find that conventional banks operating in countries with a higher market share for Islamic banks are more cost-effective but less stable. They also found that Islamic banks better weathered the 2008 global financial crisis because of stronger capitalization and liquidity reserves. IMF (2015), reaches a similar conclusion using a sample of banks from Gulf Cooperation Countries (GCC) where an analysis on capital adequacy ratios and liquidity levels of Islamic banks in the GCC are found to be higher than for conventional banks hence there exposure to NPLs is low. In Kenya, Thomi (2014), researched the impact of Islamic banking on economic performance of commercial banks in Kenya over a time of five years from (2009 to 2013). The study found that there was a noteworthy positive huge relationship between bank performance and liquidity, Murabaha, Mudaraba and Musharaka. Although lease financing had a positive relationship with return on assets it was not significant.

Ng'ang'a (2013), examined the impact of economic structure on the financial performance of conventional and Islamic banks in Kenya. The study discovered that conventional banks displayed a clear relationship between all the financial structure variables and financial performance whereas for Islamic banks only the assets had a relationship with the financial performance. The study revealed that Islamic banks did not have debt to equity ratio in their financial structures combination, unlike conventional banks. Wang'oo (2013), examined the relationship between monetary advancement and financial inclusion in Kenya. The findings suggested that there is a positive relationship between economic development and financial inclusion such that an expansion in financial inclusion prompts to an expansion in economic development. Tuitoek (2012), examined the effect of providing Shariah compliant products on economic performance of business banks in Kenya. The study found that offering new products such as Shariah compliant products has a positive effect on financial performance of banks as well as reducing the levels of NPLs and that this broadened investment or innovation opportunities for the banking sector in Kenya. Adano (2010), analysed the factors affecting improvement of Islamic banking in Kenya and it was exposed that conforming to Islamic banking was driven by religious compliance and clients' needs being met. It additionally revealed that continuous survey and developments of Shariah compliant services together with expanding market specialty will prompt to drastic improvement and marketing of products offered by the Islamic banking. Salah (2009), examined the factors that encouraged the rise of Islamic banking in Kenya and the regulatory difficulties confronting the business. The outcome demonstrated that Islamic Banking rose as a financial innovation as a result of worldwide patterns towards Islamic Banking, demand from the Muslim population, changes to the Banking Act and shareholder expectation of profits and it was disclosed that the statutory system militates against the full improvement of Islamic Banking in Kenya.

2.8.2 Local Studies

Njanike (2010), analysed problems and challenges likely to be faced in introducing interest free banking services in Zimbabwe where issues on readiness and awareness of such challenges will ensure Islamic banking system to fully utilize its potential. It was found that Islamic banking could not operate with its full efficiency level if it operates under a conventional banking framework. It also revealed that there may be resistance to change as Christianity dominates and Muslims are just a small group and the education and dissemination of information will be hampered by the bureaucratic nature in the organizations expected to lead the program. Personal interviews and document reviews were used to gather data for the research as well as possible to introduce full-fledged institutions with cooperation of the central bank, Ministry of Finance, research institutions, media, and the banking community. Njanike (2010), added that there is need for Zimbabwe to carry out much operational work and in-depth research work so as to allow Islamic banks to flourish with highest quality and strength. The government of Zimbabwe should think actively for the promotion of Islamic banking in the country, considering its pro-development role. It should amend existing financial laws, acts, and regulations to create a favourable environment conducive to smooth operation of IFIs or for conventional banks to fuse IFPs. A commission may be entrusted to draft an Islamic Banking Act. The government should also allow establishment of Islamic insurance and other subsidiary companies in order to facilitate their operation. The Reserve Bank of Zimbabwe would have to develop some Islamic monetary and saving instruments, create an Islamic Finance Window for transactions with the Islamic banks, and a full-fledged Islamic banking department for analysing, supervising, monitoring, and guiding purpose, thereby facilitating Islamic banks for their smooth development in Zimbabwe. Additions were that the world is becoming weary of the instabilities, inflation, and poverty that are a gift of the present economic system and the non-interest system will provide an economic system for sustainable development. Global changes are causing the world to move towards discovering the concepts that form the bases of Islamic economics hence the need for the country to embrace IFPs.

2.8.3 Conceptual Framework

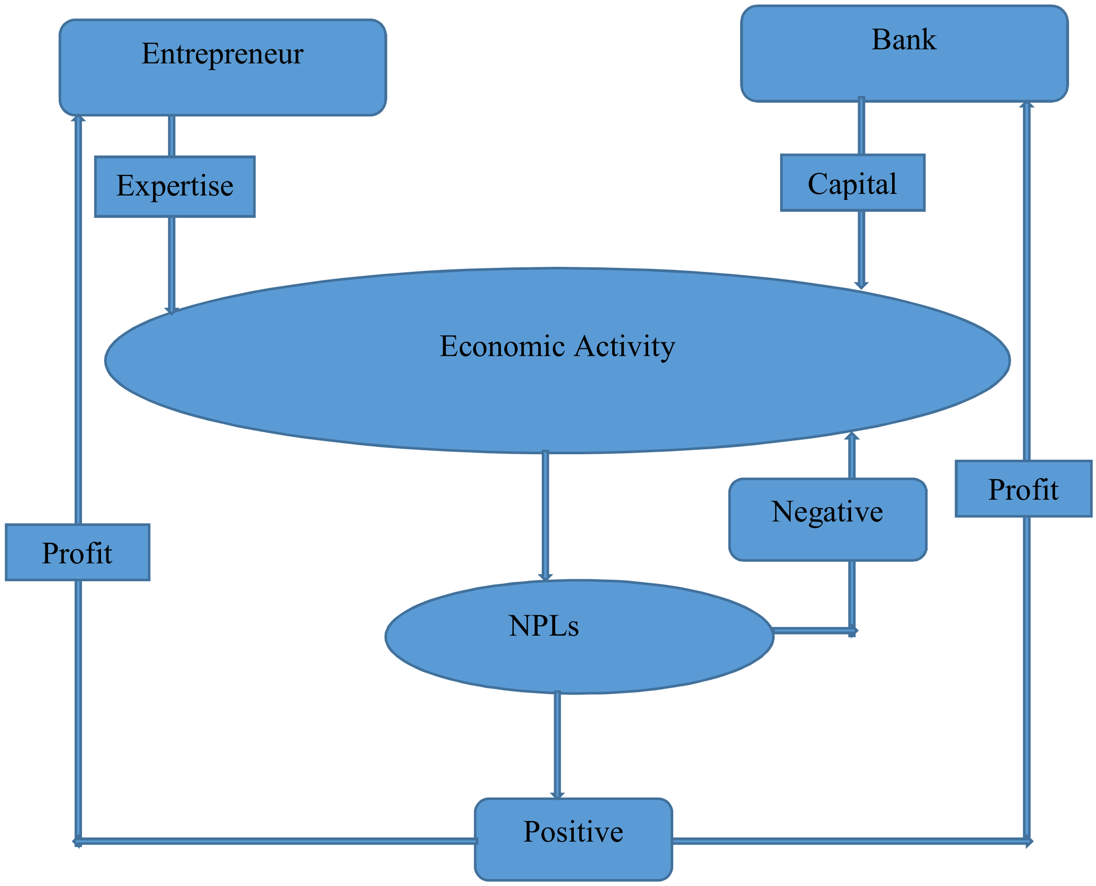


Figure 2.2 Conceptual Framework Adapted from Jarhi, (2017).

2.8.3 Literature Research Gaps

It was noted from the synthesis of literature that there was, no research that has been done in Zimbabwe which examines the impact of adopting or fusing IFPs with conventional products on NPLs. The research that was done by Njanike, (2010) only explored the problems and challenges likely to be faced in introducing interest free banking services in Zimbabwe. This research goes beyond the study by Njanike, (2010) to examine the impact of adopting IFPs in the country's conventional commercial banks and the impact of each product on bank NPLs. Significance of the adoption of IFPs on NPLs on the banking sector are also evaluated in this research.

Recommendations on further studies especially on the role of customer involvement and perception on the adoption of IFPs in the country should be investigated as well as the various factors influencing the adoption of these products in conventional banks.

2.9 Chapter Summary

This chapter discussed the concepts of non-performing loans and Islamic Finance focusing on the impact of adopting IFPs on NPLs and the relation between the two concepts was explained. Theoretical framework of Islamic Finance and principles was briefly discussed emphasizing areas where adoption or fusing of IFPs to conventional banking products are assessed in relation to NPLs. Theories which link Islamic Finance to NPLs were examined which include economic, modern portfolio, asymmetrical information, agency and stakeholder theory were analysed. The chapter noted that the adoption of IFPs or fusion of IFPs with Shariah principles must be adopted to deal with the level of non-performing loans in the country's commercial banks as well as reviewing literature which link IFPs and its impact on NPLs. Chapter 3 will present the methodology used in this research where sampling, data collection, measuring instruments and the way data was analysed are examined.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlined the methods to be used in analysing the impact of adopting and fusing IFPs on commercial banks' NPLs. It examines the methodology, sampling, data collection, measuring instruments and the way data was evaluated. The chapter outlined and justified methods used to collect and examine data. A justification of the sample size used is also made. The unit of analysis in which bank managers, directors and Board of Directors (BODs) within the selected 10 commercial banks in Harare, Zimbabwe is selected. This chapter also discussed research assumptions, limitation of the study and ethical issues guiding the study.

3.1 Research Assumptions

Research assumptions are made in the study to act as a foundation for the investigators' decision on some of the matters during the research process. These assist readers and users of research outcomes to make their decisions on the validity of the study. The first assumption is that the response of managers, directors and BODs members in the country's 10 commercial banks in other parts of the country is the same as those which are in Harare as these represent banks' head offices; hence the research is restricted to Harare branches only. While the second assumption is that the adoption or fusion of IFPs by conventional banks will have a negative impact on NPLs in commercial banks which reduces the level of NPLs.

3.2 Research Design

The research adopted a positivist approach where knowledge is developed by testing hypothesis that is derived from theory, deductive approach and survey strategy research design. Survey research includes the design and implementation of interviews and questionnaires (Trochim, 2015). He added that the research design provides the adhesive that holds the study together as it is used to structure the research, to show how all the major components of the research work together in addressing the central research questions. A quantitative data analysis was used on primary data collected from respondents and secondary data from the commercial banks financial statements. Saunders et al, (2009), concurs that to generate a research strategy involves collecting data and use existing theory to develop the hypotheses. These hypotheses will be tested and confirmed, in whole or part, or disproved, leading to the further development of theory which then may be tested by further research.

3.2.1 Research Approaches

There are two approaches in carrying out research which are deductive and inductive (Saunders e tal, 2009), and added that the deductive approach is used where existing model is used to articulate objectives and research questions. The deductive approach is adopted because it started with theory. Hypotheses were formulated and data was collected to test and confirm, in whole or part, or disproved, leading to the further development of theory which then may be tested.

3.2.2 Research Strategies

An online structured survey strategy was chosen to collect data from respondents. This strategy was carefully chosen because it is suitable for the quantitative nature of the research being taken as formal lists of questions are asked of all respondents in the same way. A questionnaire was used to collect data from management, directors and BODs of the 10 commercial banks and this was administered through emails and online platforms as well as use of secondary data from financial statements because of the Novel Corona Virus (COVID-19) pandemic. Saunders e tal, (2009), alluded that a quantitative approach is correlated to deductive reasoning and this research followed a positivist viewpoint for the reason that it deals with reality. The use of structured closed questions in the research questionnaires was manipulated to ensure easy data analysis.

3.2.3 Research Methods

A quantitative research method was used through the use of questionnaires to gather data that is reviewed and tabulated numerically, which allows the data to be inferred to the population by the use of SPSS Version 22 statistical analysis tool. This single research method was chosen because of the quantitative nature of data collected and there was no need for the mixed method approach.

3.2.4 Research Time Horizons

Trochim (2015), stated that time is an important element of any research design, and mentioned one of the most fundamental distinctions in research design classification that is cross-sectional and longitudinal studies. Saunders e tal (2009), concurred that research time horizon refers to the period of time over which research results are directed and that there are two types of these horizons which are cross sectional and longitudinal where the earlier focuses on studying a phenomenon at a particular time as well as conducted over a short period of time, whilst the later involve a study conducted over a long period of time. Saunders et al, (2009) added that cross sectional researches are appropriate for survey studies while longitudinal horizons are appropriate for researches with interviews. A cross sectional time horizon is adopted in this research.

2.2.5 Unit of Analysis

The unit of analysis in this research were managers, directors and BOD members in the randomly selected commercial banks in Harare, Zimbabwe. Participants responded to the same set of questions in a pre-determined order from online survey questionnaires distributed.

3.3 Sampling

Trochim (2015), mentioned that sampling is concerned with how to draw representative samples so that generalizations and inferences are possible. A sample was taken from the target population of managers, directors and BOD members of 10 commercial banks in Harare instead of carrying out a census, whereby a census involves reaching out to every component of the population which is expensive and time consuming but allows the researcher to get precise results. Stratified random sampling technique was adopted to guarantee fair representation of all commercial banks in the country. An online questionnaire was designed to collect data on the views of management and directors on the impact of adopting IFPs on NPLs. Saunders et al, (2009) alluded that surveys permit the gathering of huge volumes of data economically compared to other methods. Sampling allows the researcher to gather findings which infers to the whole population with less costs incurred and time than a census as well as making the analysis of data easier since less objects are involved. Saunders et al, (2009) added that sampling derives the merits that it safeguards the possibility of higher accuracy of data than a census due to reduced errors compared to a census which deals with huge quantities of data as well as less time consuming to check the accuracy of data when a sample is adopted than a census. Despite these merits sampling is associated with the drawbacks that errors may arise when there is no representativeness of the sample thereby causing errors which tend to undermine the validate of research findings as well as determining the correct sample size. Diverse sampling methodologies can be adopted depending on the data as well as the type of study carried out but random stratified was adopted as differential response rates may be necessitated and re-weighted.

3.3.1 Sample Design

This encompasses considering a sample frame or population of the study, sample magnitude and sampling techniques adopted in the research. Wegner (2013), defines a sampling frame as an address list or database of population elements where sampling starts by randomly selecting the first sampling unit. Thereafter subsequent sampling units are selected at uniform interval relative to the first sampling unit and only the first sampling unit is randomly selected as well as some randomness forgone. Wegner (2013), also alluded that the process involves dividing the sampling frame by the sample size to determine the size of a sampling block and randomly choose the initial sample element from the first sampling block as well as choosing a subsequent sample element by selecting one member from each sampling block at a constant interval from the previously sampled elements. This study adopted the sampling frame which comprised of all managers and directors of the commercial banks in Harare including locally owned and foreign owned. These banks were randomly selected from each stratum and Harare branches were considered in this research because of the COVID-19 pandemic as it is easily accessible using online means as well as minimising costs together with time.

3.3.2 Sampling Method

Wegner, (2013) stated that stratified sampling ensures fair representation of each strata as well as ensuring that the merits of random sampling are enjoyed including reducing selection bias and sampling errors which makes the findings of inferential analysis valid. It is expensive to collect data from all management and directors of all the commercial banks hence a representative sample was selected. There are several techniques that are used to select a sample and these are ideal for different studies. The two sampling methods used when carrying out a research are probability and non-probability sampling techniques (Wegner, 2013). Probability sampling techniques are ideal for survey and experimental designs. This research adopted a survey approach hence the use of probability sampling technique and stratified sampling method was chosen to ensure representativeness of all commercial banks. Random sampling was carried out on commercial bank management and directors including non-executive directors.

3.3.3 Sample Size Determination

The significance of the test statistic is influenced by the sample size (Wegner, 2013). As the sample size increases, the standard error becomes smaller resulting in a narrower confidence interval. This leads to a more precise inference of the population parameter and conversely, smaller sample sizes result in larger standard errors and consequently wider, and therefore less precise, confidence intervals. It is difficult to come up with a more precise inference of the population by using a small sample size. This means that a large sample size is adopted in this research as it is important in research and the researcher has chosen a high confidence level of at 95% to minimise the risk of errors which is associated with low confidence levels. Wegner (2013), adopted Bartlett, e tal (2001) formula to calculate the sample size for a given population as well as the need to determine the type of data to be collected as sample sizes depends on data types. The formula includes a 95% confidence level, 2.97% margin of error and an estimated standard deviation of 1.96 to come up with a table of the expected sample size given the population. This research adopted this formula to come up with an appropriate sample size.

Table 3.1 Determining Sample Size

Population (N)	Continous Data Sample Size (n) Margin of Error=0.03 alpha=0.05 and t=1.96	Categorical Data Sample Size (n) Margin of Error=0.03 alpha=0.05 and t=1.96
100	55	74
200	75	116
300	85	143
400	92	162
600	100	187
800	104	203
1000	106	213
2000	112	239
4000	119	254
6000	119	259
8000	119	262
10000	119	264

Source: Bartlett, Kotrlik and Higgins, (2001)

3.3.4 Sample Framework

Three hundred managers and directors who are involved in banking strategic decisions on banking will be selected from 10 commercial banks from Harare who will provide data on the impact of adopting IFPs on NPLs. The formula adopted from the table in this study requires a sample size of eighty five respondents. Commercial banks in Harare were alienated into foreign and indigenous banks as well as selection done at random from each category.

Representativeness is ensured through stratified random sampling of respondents from banks is done from each division.

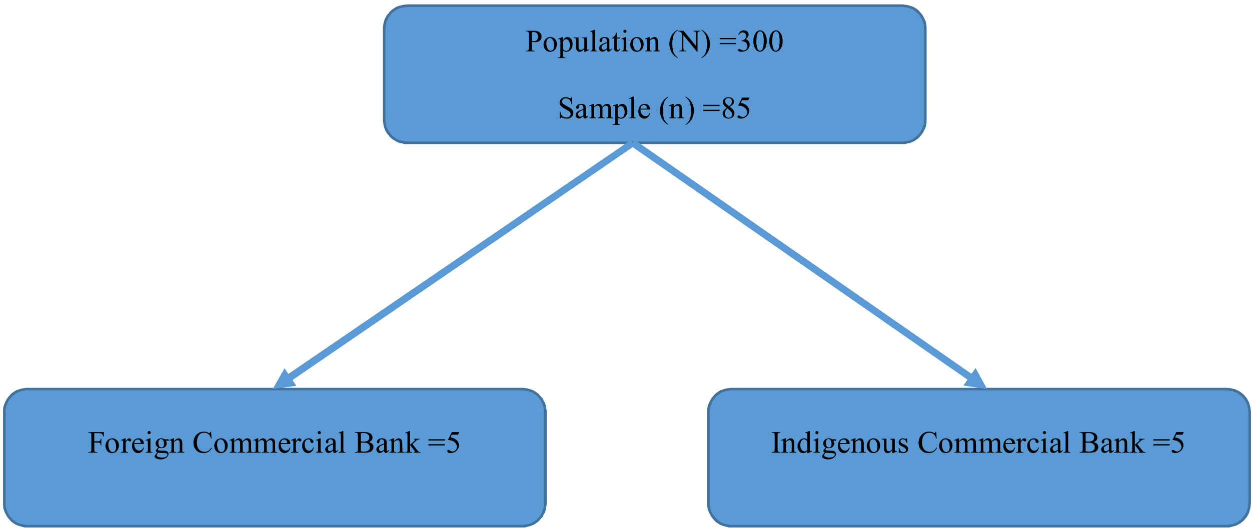


Figure 3.1 Stratified Sampling Framework for the Study

3.5 Data Collection

The primary data collection process from respondents was done through structured questionnaires. This enabled data collection from a large number of respondents especially through emails and online platforms given the impact of COVID-19 which made it impossible to distribute hardcopies of questionnaires. Respondents can give feedback through the questionnaire survey at their own convenient time hence ideal for a research carried under this pandemic. A self-administration approach was used in this research which was used with an introductory letter for clarity purposes. Respondents were given seven days for them to give feedback and the questionnaire was divided into several clearly labelled sections so that it was easy for participants to follow through. The first section was on demographic and the other section comprised questions on the impact of adopting IFPs on NPLs. The questionnaire was designed using a Likert Scale of 5 to 1 showing the level of impact each IFP has on NPLs where 5 was representing response which highly disagree that the adoption of IFPs have a negative impact on NPLs, whilst 1 highly agree that the adoption of IFPs have a positive impact on NPLs. Merits derived from this structured questionnaire is that closed questions were used that were easy to complete and analyse hence saved time on both the respondents as well as researcher.

Questionnaire pre-testing was done to ensure that it was meeting the minimum requirements of a standard instrument with accurate and precise questions. This also safeguards against ambiguity and confusion to respondents as well as ensuring questions reliability.

Table 3.2 Questionnaire Likert Scale

Highly Disagree	Disagree	Neutral	Agree	Highly Agree
5	4	3	2	1

3.6 Data Analysis

The dependent variable was the impact of non-performing loans (NPLs) measured by asset quality while the independent variables are IFPs and in this study only five IFPs were analysed. Several quantitative analysis were performed on collected data. Correlation test of IFPs and impact of non-performing loans (NPLs) was carried out. Tests of significance and regression were also done on data collected. Inferences were utilized on the population to summarize the data. This included frequencies and percentages. Diagrams such as tables and graphs were used which are suitable to present the collected data for simplicity of analysis and understanding.

3.6.1 Correlation Coefficient Analysis (r) and Regression Model

The coefficient of determination measures the proportion (or percentage) of variation in the dependent variable, that is explained by the independent variable, and the coefficient of determination ranges between 0 and 1 (or 0% and 100%).The correlation coefficient r is a measure of the linear relationship between two attributes or columns of data (Wegner,2013). The impact of adopting IFPs on non-performing loans (NPLs) was analysed. The regression model is as shown below.

$$\mathbf{Y = \beta 0 + Y + \alpha + Mus\beta i + Mud\beta ii + Mur\beta iii + Ija\beta iv + Ist\beta v + \varepsilon}$$

Where:

Y is Percentage level of NPLs

α= Constant term (Y intercept)

Beta (β0) = Beta coefficients

ε= Error term

Mus= Musharaka (Venture) financing as the relationship of adopting this IFP to NPLs level.

Mud= Mudaraba (Equity) financing as the relationship of adopting this IFP to NPLs level.

Mur= Murabaha (cost-plus) financing as the relationship of adopting this IFP to NPLs level.

Ija= Ijarah (leasing) financing as measured the relationship of adopting this IFP to NPLs level.

Ist= Istisna (phased) financing as measured the relationship of adopting this IFP to NPLs level.

3.6.2 Validity and Reliability Tests

Cronbach's alpha test was used to test internal reliability of responses from participants as well as measuring the consistency of responses across all questions (Saunders e tal, 2009).A pilot study was carried out to ensure reliability. Several threats to reliability are considered in this research so that they should not affect research results, among them participant bias, researcher bias, participant and researcher errors. Instrument validity was carried out to ensure that the research instrument is measuring the intended purpose as well providing assurance that if the same process is iteratively done the same results and data can be obtained. The validity of the instrument was safeguarded in this research through the use of a large sample size.

3.6.3 Hypothesis Testing

Wegner (2013), emphasized that hypothesis testing is carried out to compare the differences between two population parameters. Additions were that if the populations are different that is their central location measures different, then the factor that distinguishes the samples is assumed to explain the differences in the results and if the populations are the same that is their central location measures are equal, then there is no influence from the factor that distinguishes the two samples. In a research carried out in Ethiopia Banking sector the multiple regression model was used successfully to evaluate the relationship between NPLs and bank performance (Ebba, 2016).This study adopted multiple regression analysis to evaluate the impact of IFPs on the level of non-performing loans (NPLs) in commercial banks. The approach is appropriate as it satisfies that the dependent variable is measured on continuously, there are more than two independent variables, and there was linear relationship between dependent and independent variables

3.7 Ethical Issues

This research adopted high levels of professionalism and integrity by adhering to appropriate procedures when accessing information and data through the following of research guiding principles. The right to privacy, confidentiality and consent was observed before commencing of the study as well as the following of the University of Zimbabwe rules and regulation in carrying research work. Introductions were made to respondents before they can respond and the purpose for the study was well expounded to ensure clarity as well as understanding. Information collected was used for academic purposes only and disclosure of names reserved to preserve confidentiality.

3.8 Limitation of the Study

The Novel Corona Virus (COVID-19) pandemic regulations posed major challenges in the access of commercial banks to collect data physically through hardcopy questionnaires from respondents, though this was achieved through the use of emails and online platforms. This also impacted on the amount of time available for the study which was managed through the adoption of online surveys as well as online video appointments and conferences with managers and directors though schedules were changed from time to time because of their busy schedules as they were working from home so online questionnaires was mostly used as they were completed at their spare time. The researcher assured management that research results will be presented to management of commercial banks that participated, findings as well as recommendations used by these commercial banks for strategic decision making so that value can be derived from the research through their participation. Another limitation was that of limited literature on local studies carried out as only one research was done this was achieved by analysing literature at regional and global perspective in related studies.

3.9 Chapter Summary

This chapter discussed the methodology and methods used in the research in which a positivist approach was adopted correlated to a quantitative research methodology. The stratified sampling method was used to safeguard representativeness of research elements of the population under study. Sample size determination was also discussed and how it was done in which the research population was 300 and stratified random sampling was used to come up with a sample size of 85. Validity and reliability of this study was done through questionnaire pre-testing and Cronbach alpha. The chapter also considered data analysis and presentation which was done through correlation coefficient analysis (r) obtained from the multiple regression model and results from SPSS Version 22 as well as the testing of reliability for consistency and hypothesis.

This chapter has also looked at ethical considerations and limitations of the study. Chapter 4 will analyse the response rate, various tests performed as well as research findings.

CHAPTER FOUR

FINDINGS AND DATA ANALYSIS

4.0 Introduction

This chapter shows data analysis and findings of the study as stated in the research methodology. The major objective was to assess the impact of adopting IFPs on NPLs in Harare conventional banks and begins by evaluating issues on the demographic features and response rate from the sample. A detailed descriptive analysis of data collected and secondary data from the research is taken for each research objective with findings presented and questioned together with inferences drawn from the descriptive analysis for conclusions and recommendations. Tests including reliability, correlation, regression and hypothesis analysis were executed so as to answer the research questions.

4.1 Discussion of Response Rate

The research was on a sample of ten commercial banks where sampling was carried out through stratification so as to ensure representativeness of both locally and foreign owned commercial banks in Harare Zimbabwe. Participants from these commercial banks were randomly selected and these were managers at all levels, directors including both executive and non-executive directors. Respondents were chosen randomly from the selected bank managers and directors including non-executive directors and of the 85 online survey questionnaires 60 were returned by respondents with an overall response rate of 71% which was not bad for the research though a high response rate was expected by the researcher as the study is proffering solutions to national concerns on levels of NPLs to financial institutions by offering products which have the capacity to minimise the levels of NPLs. The low response rate was resulted by the COVID-19 pandemic as the research was carried out during lockdown regulations in the country as most respondents were mostly working from home hence have minimum time to respond to survey questions. This study on the impact of IFPs on NPLs was done on a sample of eighty-five managers and directors who were randomly selected from both indigenous and foreign owned commercial banks.

Table 4.1 Response Rate by Type of Banks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Locally Owned	38	63.3	63.3	63.3
	Foreign Owned	22	36.7	36.7	100.0
	Total	60	100.0	100.0	

Out of the 60 online research survey questionnaires returned 38 of them were from locally owned commercial banks whilst 22 were from foreign owned commercial banks with percentages of 63.3% and 36.7% response rate respectively. On gender variability there was a 76.7% response rate from male respondents whilst 23.3% were female respondents as shown on Table 4.2 below.

Table 4.2 Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	46	76.7	76.7	76.7
	Female	14	23.3	23.3	100.0
	Total	60	100.0	100.0	

On qualifications respondents with Masters Qualifications responded more than the others with a response rate of 60% followed by those with Bachelors qualifications with a rate of 33.3% whilst those with other qualifications and Diplomas were with 5% and 1.7% respectively as shown below.

Table 4.3 Highest Qualification of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College Diploma	1	1.7	1.7	1.7
	Bachelor's Degree	20	33.3	33.3	35.0
	MBA	36	60.0	60.0	95.0
	Other	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

Middle management responded more than the other management levels with a response rate of 51.7%, with those at supervisory level having 46.7% whilst only 1.7% was from executive management as they are not easily accessible because of their tight schedules.

Table 4.4 Level of Management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low Level	28	46.7	46.7	46.7
	Middle Level	31	51.7	51.7	98.3
	Executive Level	1	1.7	1.7	100.0
	Total	60	100.0	100.0	

4.2 Descriptive Analysis

An analysis of respondents is going to be made from the frequencies from the results produced from SPSS Version 22 as follows with the aid of tables and graphs starting with a demographic analysis of respondents as well as the response impact of each IFP adoption on NPLs. Respondents' mean and modal age were category 36 to 45 respectively. The mean age was 36 while the maximum age was 55 with a median of 36 to 45 category as well as a standard of error 0.087 which shows that the dataset was more accurate as the standard of error was small. The table that follows shows an analysis on the gender of respondents.

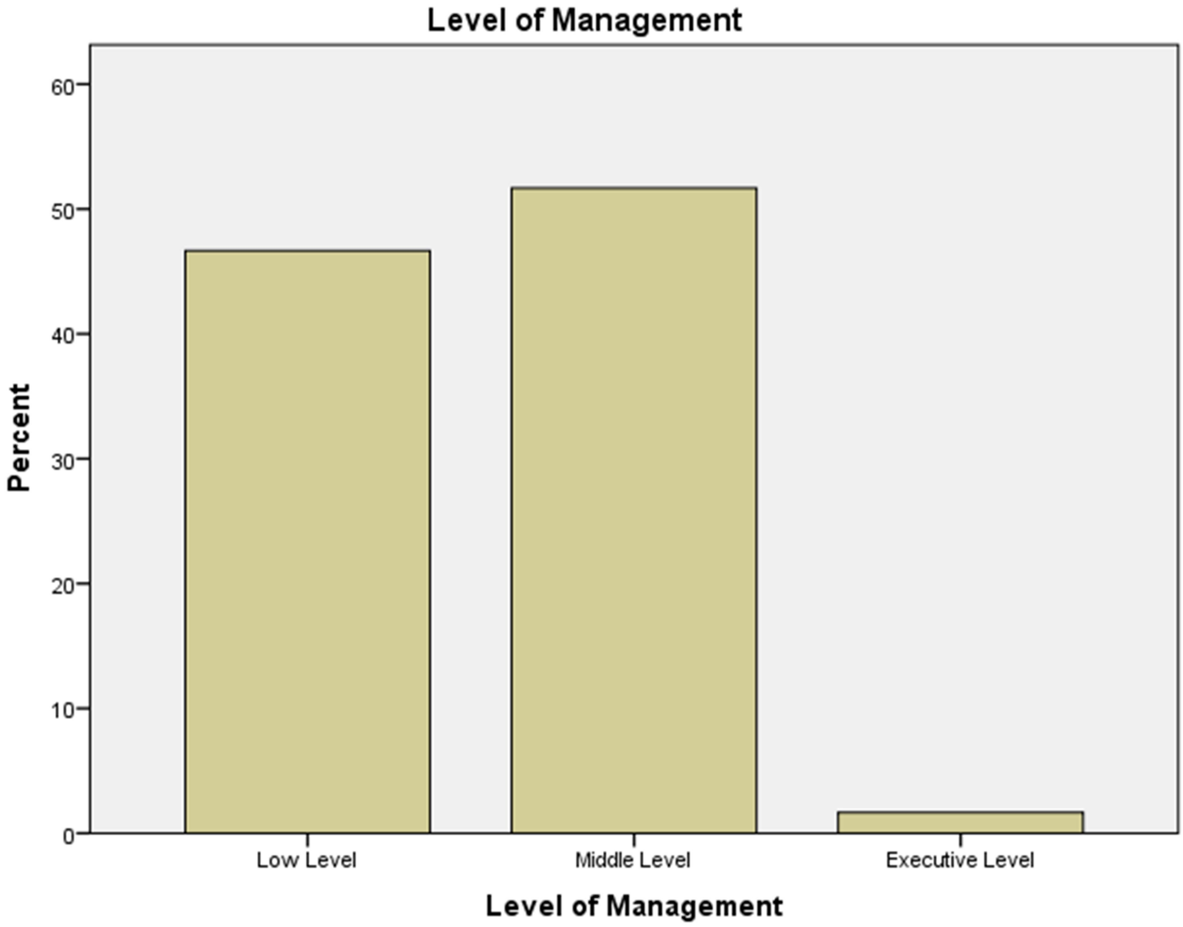
Table 4.5 Gender of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	46	76.7	76.7	76.7
	Female	14	23.3	23.3	100.0
	Total	60	100.0	100.0	

The sample of respondents comprised of 76.7% males and 23.3% females as shown on Table 4.5 above giving the assumption that more men are in bank management positions than their counterparts with a frequency of 46 against that of 14.

An analysis on the variation of management level response rate showed that middle level managers comprised over 51% of the sample, whilst low level managers were over 45% and executive level management only 1.7% of the sample size as shown by Figure 4.1 below.

Figure 4.1 Level of Management



Another analysis on respondents' qualifications showed that the sample comprised of more respondents who are MBA holders than other qualifications which showed that management qualification was considered vital and therefore the level of qualifications is vital so that managers understand the dynamics of the VUCA environment in the financial sector as well as the level of innovation required which is positively correlated to the level of management. The table below supported this fact as 60% MBA holders in management responded, followed by 33.3% Bachelor's degree holders whilst college diplomas and others with 6.7%.

Table 4.6 Highest Qualification of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	College Diploma	1	1.7	1.7	1.7
	Bachelor's Degree	20	33.3	33.3	35.0
	MBA	36	60.0	60.0	95.0
	Other	3	5.0	5.0	100.0
	Total	60	100.0	100.0	

Table 4.7 below indicated that most managers who responded have experience with banks NPLs as 45% of them have between 11 to 15 years with the financial institutions followed by those below 10 years who posted 38.3% and 16.7% from those managers who have above 15 years with their banks. This highlighted that the sample consisted of experienced managers in bank NPLs and financial innovation in IFPs hence most likely to provide informed responses on the research questions asked.

Table 4.7 Number of Years with Bank

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	6-10 Years	23	38.3	38.3	38.3
	11-15 Years	27	45.0	45.0	83.3
	Above 15 Years	10	16.7	16.7	100.0
	Total	60	100.0	100.0	

Another analysis on the impact of the adoption of each IFP on the level of NPLs is made with the level of agreement measured on a Likert scale. Table 4.8 below shows that most respondents agreed that the adoption of IFPs minimises the exposure of commercial banks to NPLs with 85%, 76.6%, 75% of the respondents agreed and strongly agreed that the adoption of equity financing (Mudarabah), lease financing (Ijarah) and phased payments (Istisna) minimises the levels of commercial banks NPLs though there was indifference on respondents' opinion on mark-up financing (Murabaha) on its impact on NPLs. On the other hand respondents disagreed as well as strongly disagreed that venture capital (Musharaka) minimises commercial banks NPLs levels with 68.4% whilst other respondents gave the opinion that there was no major difference on the impact of IFPs and conventional banking products impact on NPLs as they were neutral on each IFP. The general assumption from respondents showed that the adoption of IFPs minimises NPLs in commercial banks. Respondents also indicated that there is a problem of NPLs levels as 58.3% indicated that their banks' levels of NPLs is in the range 6%-10% which is above international benchmarks of below 5% whilst 41.7% indicated that their banks' NPLs levels are below 5%.Therefore the problem of NPLs levels needs to be addressed at national level as it affects the growth of the economy because the financial sector drives the performance of other sectors of the economy.

Table 4.9 Respondents of Banks Offering Islamic Financial Window or IFPs

Table 4.8 Response Analysis Summary on Each IFP on NPLs Levels

		N	Marginal Percentage
Percentage of NPLs	0-5 Percent	25	41.7%
	6-10 Percent	35	58.3%
Equity Financing (Mudarabah)	Strongly Agree	7	11.7%
	Agree	44	73.3%
	Neutral	1	1.7%
	Disagree	6	10.0%
	Strongly Disagree	2	3.3%
Lease Financing (Ijarah)	Strongly Agree	14	23.3%
	Agree	32	53.3%
	Neutral	5	8.3%
	Disagree	6	10.0%
	Strongly Disagree	3	5.0%
Mark-Up Financing (Murabaha)	Strongly Agree	3	5.0%
	Agree	20	33.3%
	Neutral	10	16.7%
	Disagree	21	35.0%
	Strongly Disagree	6	10.0%
Venture Capital (Musharaka)	Strongly Agree	2	3.3%
	Agree	4	6.7%
	Neutral	13	21.7%
	Disagree	31	51.7%
	Strongly Disagree	10	16.7%
Phased Payments (Istisna)	Strongly Agree	12	20.0%
	Agree	33	55.0%
	Neutral	5	8.3%
	Disagree	8	13.3%
	Strongly Disagree	2	3.3%
Valid		60	100.0%
Missing		0	
Total		60	

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	6	10.0	10.0	10.0
	No	50	83.3	83.3	93.3
	Not Aware	4	6.7	6.7	100.0
	Total	60	100.0	100.0	

Table 4.9 above indicated that 10% of the respondents have their banks offering IFPs or are providing an Islamic Financial Window whilst 83.3% of the respondents agreed that their banks do not provide IFPs or an Islamic Window and 6.7% are not aware if their banks are providing IFPs or Islamic Financial Window.

Table 4.10 Type of Bank and Ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Locally Owned	38	63.3	63.3	63.3
	Foreign Owned	22	36.7	36.7	100.0
	Total	60	100.0	100.0	

Table 4.10 above showed that 63.3% of the respondents are from locally owned banks indicating that local banks are more affected by NPLs than foreign owned banks which have 36.7% of the respondents. The sample revealed that locally owned banks are more exposed to NPLs compared to foreign owned banks hence gave the assumption that foreign owned banks manage NPLs better than locally owned banks.

Table 4.11 Descriptive Statistics Summary

	N	Min	Max	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Age of Respondent	60	2.00	4.00	2.7000	.08668	.67145	.451
Number of Years With Bank	60	1.00	4.00	2.4500	.08709	.67460	.455
Percentage of NPLs	60	1.00	2.00	1.5833	.06418	.49717	.247
Equity Financing (Mudarabah)	60	1.00	5.00	2.2000	.11596	.89821	.807
Lease Financing (Ijarah)	60	1.00	5.00	2.2000	.13819	1.07040	1.146
Mark-Up Financing (Murabaha)	60	1.00	5.00	3.1167	.14670	1.13633	1.291
Venture Capital (Musharaka)	60	1.00	5.00	3.7167	.12141	.94046	.884
Phased Payments (Istisna)	60	1.00	5.00	2.2500	.13367	1.03539	1.072
Valid N (listwise)	60						

Table 4.11 above revealed that there is less variance from the mean as well as a small standard of error which showed that the sample is reliable and precise as it is giving a true inference of the population. IFPs with large means showed that if adopted they will greatly contribute to the reduction of NPLs of commercial banks in Zimbabwe.

4.3 Reliability Tests

Reliability test was carried out to establish whether the questions asked about each variable on the research instrument reliably measure the impact of IFPs on bank NPLs levels as shown on the Cronbach's alpha score below where it has to be above or equal 0.7 on the scale to show reliability. There was no removal of items so as to raise Cronbach's Alpha because there was no substantial change in values after the deletion of the items. The reliability analysis on Table 4.12 indicated that there was reliability as the Cronbach's alpha is 0.878 which is above the 0.7 benchmark hence the questions asked from the instrument are reliable questions.

Table 4.12 Showing Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.878	.873	25

4.4 Normality Tests

Table 4.12 Test for Normality

		Equity Financing (Mudarabah)	Lease Financing (Ijarah)	Mark-Up Financing (Murabaha)	Venture Capital (Musharaka)	Phased Payments (Istisna)
N		60	60	60	60	60
Normal Parameters	Mean	2.2000	2.2000	3.1167	3.7167	2.2500
	Std. Deviation	.89821	1.07040	1.13633	.94046	1.03539
Most Extreme Differences	Absolute	.438	.341	.232	.302	.345
	Positive	.438	.341	.220	.215	.345
	Negative	-.295	-.193	-.232	-.302	-.205
Test Statistic		.438	.341	.232	.302	.345
Asymp. Sig. (2-tailed)		.000[c]	.000[c]	.000[c]	.000[c]	.000[c]

Table 4.12 above shows normality test that was done on collected data using Kolmogorov-Smirnov because the sample size was large and it indicated that data was not normally distributed as the level of significance is less than 0.05 (Sig < 0.05) hence it is likely to show a reflection of the population.

4.5 Correlation Tests

Non-parametric tests were adopted in this study because the data was not normally distributed. The aim of this research was to assess the impact of adopting IFPs on the levels of NPLs and the Spearman’s Rank Correlation Coefficient was adopted to test the relationship between the independent and dependent variables in this study and the level of significance is clearly shown on Table 4.13 and 4.14 below.

Table 4.13 Spearman's Rank Correlation Matrix

			Percentage of NPLs	Equity Financing Mudarabah	Lease Finance Ijarah	Venture Capital Musharaka
Spearman's rho	Percentage of NPLs	Correlation Coefficient	1.000	-.202	-.151	.133
		Sig.	.	.121	.250	.313
		N	60	60	60	60
	Equity Financing (Mudarabah)	Correlation Coefficient	-.202	1.000	.709**	-.631**
		Sig.	.121	.	.000	.000
		N	60	60	60	60
	Lease Financing (Ijarah)	Correlation Coefficient	-.151	.709**	1.000	-.539**
		Sig.	.250	.000	.	.000
		N	60	60	60	60
	Venture Capital (Musharaka)	Correlation Coefficient	.133	-.631**	-.539**	1.000
		Sig.	.313	.000	.000	.
		N	60	60	60	60

There was a weak negative relationship between NPLs and the adoption of equity financing (Mudarabah) which is significant hence the adoption of this IFP will reduce NPLs (rho = -202; p-value >0.05). It is also indicated that there was also a weak negative relationship between NPLs and the adoption of Ijarah (Lease Financing) hence its adoption minimises NPLs (rho = -151; p-value > 0.05).However, there was also a positive relationship which is weak between the adoption of Musharaka (Venture Capital) and NPLs (rho = 0.133; p-value > 0.05).

Table 4.14 Spearman's Rank Correlation Matrix

			Percentage of NPLs	Phased Payments Istisna	Mark-Up Financing Murabaha
Spearman's rho	Percentage of NPLs	Correlation Coefficient	1.000	.005	.172
		Sig. (2-tailed)	.	.967	.188
		N	60	60	60
	Phased Payments (Istisna)	Correlation Coefficient	.005	1.000	-.316*
		Sig. (2-tailed)	.967	.	.014
		N	60	60	60
	Mark-Up Financing (Murabaha)	Correlation Coefficient	.172	-.316*	1.000
		Sig. (2-tailed)	.188	.014	.
		N	60	60	60

*. Correlation is significant at the 0.05 level (2-tailed).

Table 4.14 above indicated that there was a very weak positive relationship between phased payments (Istisna) and NPLs which is not significant (rho = 0.005; p-value > 0.05).Finally there was a positive weak relationship between the adoption of mark-up financing (Murabaha) and NPLs (rho = 0.172; p-value > 0.05) which is significant.

4.6 Regression Tests

Regression analysis was used in this study to assess the predictability of the dependent variables by the independent variables. Relationships which exist between variables are explained by this model in this research.

Table 4.15 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.540[a]	.292	.051	.48440	.292	1.210	15	44	.0300

a. Predictors: (Constant), Phased Payments (Istisna), Equity Financing (Mudarabah), Mark-Up Financing (Murabaha), Equity Financing (Mudarabah), Venture Capital (Musharaka).
b. Dependent Variable: Percentage of NPLs

Table 4.15 above indicated that R is 0.54 which means that 54% of the variations in the levels of NPLs are explained by the model showing that these variables are not the only ones explaining the percentage changes of NPLs. The R Square is also showing that 30% of the changes in the levels of NPLs are measured by this model.

4.7 Anova Tests

Table 4.16 Analysis of Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.259	15	.284	1.210	.0300[b]
	Residual	10.324	44	.235		
	Total	14.583	59			

a. Dependent Variable: Percentage of NPLs
b. Predictors: (Constant), Phased Payments (Istisna), Equity Financing (Mudarabah), Mark-Up Financing (Murabaha), Equity Financing (Mudarabah), Venture Capital (Musharaka).

Table 4.16 above showed that the F- Value = 1.210 with (Sig =.03) which is significant hence the model was not that bad for the research and this model can be used to predict variations in the levels of NPLs.

Table 4.17 Variables Entered or Removed

Model	Variables Entered	Variables Removed	Method
1	Phased Payments (Istisna), Equity Financing (Mudarabah), Mark-Up Financing (Murabaha), Equity Financing (Mudarabah).	.	Enter

a. Dependent Variable: Percentage of NPLs

b. All requested variables entered.

All variables were entered in the regression model as shown on Table 4.17 above.

Table 4.18 Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.216	.995		1.222	.228
	Equity Financing (Mudarabah)	-.089	.157	-.190	-.563	.072
	Lease Financing (Ijarah)	-.637	.338	-1.354	-1.885	.036
	Mark-Up Financing (Murabaha)	-.295	.241	-.702	-1.226	.227
	Venture Capital (Musharaka)	-.194	.230	-.389	-.844	.403
	Phased Payments (Istisna)	-1.083	.496	-2.171	-2.186	.034

The regression model $Y=\beta0 + Y + \alpha + Mus\beta i + Mud\beta ii + Mur\beta iii + Ija\beta iv + Ist\beta v + \varepsilon$ becomes $Y=1.216 + -0.89Mudarabah + -0.637Ijarah + -0.295Murabaha + -0.194Musharaka + -1.083Istisna$ which was generated from SPSS Version 22.This showed that the adoption of IFPs by commercial banks reduces NPLs showing that there is a negative relationship between the adoption of IFPs and NPLs from the data collected from the research. The above regression model has indicated that, considering all components (Mudarabah, Ijarah, Murabaha, Musharaka and Istisna) respectively with a zero constant on NPLs in Harare will be 1.216. The findings presented also showed that taking all other independent variables at zero, the adoption of Mudarabah reduces NPLs by -0.89, Ijarah -0.637, -0.295 Murabaha, -0.194 Musharaka and -1.083 Istisna respectively.

4.8 Hypothesis Testing

The testing of hypothesis from the research findings were as follows from the main hypothesis to the specific hypothesis as follows.

Main: Islamic financial products adoption by conventional banks reduces non-performing loans (NPLs)

This hypothesis is supported as indicated from the findings that the adoption of three out of the five IFPs by Harare's commercial banks reduces the levels of NPLs thereby proving to be true.

H1: Equity financing (Mudarabah) adoption negatively impacts on non-performing loans in the Commercial Banks of Harare.

Table 4.18 above indicated that the significant value for Mudaraba was 0.0506 (β = -0.089) which reveals a negative relationship which is significant. Therefore H1 is supported by the findings from the research hence accept this hypothesis.

H2: Lease financing (Ijarah) adoption reduces non-performing loans in Harare's Commercial Banks.

This hypothesis was also supported by the findings from this research indicated a significant value of 0.036 (β = -0.637) for Ijarah which is significant hence H1 hypothesis is supported from the research hypothesis from Table 4.18.

H3: Mark-up financing (Murabaha) adoption mimimises NPLs in the Commercial Banks of Harare.

The findings from the research indicated that Murabaha has a significant value of 0.227 (β = -0.295) for the adoption of this IFP therefore H3 hypothesis is not supported from the research findings hence reject this hypothesis.

H4: Venture capital (Musharaka) adoption negatively affects NPLs in Harare's Commercial Banks.

H4 hypothesis was not supported by the findings from this research as indicated by a significant value of 0.403 (β = -0.295) therefore reject this hypothesis.

H5: Phased payments (Istisna) adoption improves the position of NPLs in Harare's Commercial Banks.

The research findings indicated that Istisna has a significant value of 0.034 (β = -1.083) therefore accept the hypothesis.

4.9 Discussion of Research Findings

Research findings indicated that the adoption of IFPs have a negative relationship with banks' levels of NPLs as 3 out of the 5 IFPs showed that their adoption has a negative correlation with the levels of commercial banks' levels of NPLs hence this minimises banks' exposure to NPLs. These findings from the research are confirmed by Irfan and Zaman (2014),who examined the effectiveness of Islamic banks in South Asian Countries and revealed that Islamic banking efficiency is about 98.19% in terms of return on asset proportion; around 91.4% regarding return on equity ratio and 77.03% concerning net profit ratio which minimises the levels of NPLs. Moreover a study by the IMF (2015), reached a similar conclusion using a sample of banks from Gulf Cooperation Countries (GCC) where an analysis on capital adequacy ratios and liquidity levels of Islamic banks in the GCC are found to be higher than for conventional banks hence there exposure to NPLs is low compared to conventional banks. Another study in Kenya by Thomi (2014), who researched on the impact of Islamic banking on economic performance of commercial banks in Kenya over a time of five years from (2009 to 2013). The study found that there was a noteworthy positive huge relationship between bank performance and liquidity, Murabaha, Mudaraba and Musharaka. Although lease financing had a positive relationship with return on assets it was not significant therefore in support of this research. Hypothesis from this study are also supported from previous studies especially a research by Al-Gazzar (2014), which focussed on the financial performance of conventional banks versus Islamic banks on the North Africa Region and Middle East and the findings advocated that Islamic banks are better than conventional banks regarding capital sufficiency, resource quality and earnings quality which reduces the levels of NPLs.

4.10 Chapter Summary

This chapter analysed the results and findings from the research starting with a demographic analysis of the research were male respondents dominated than their counterparts as well as qualifications of respondents in which those with MBAs gave the highest response percentage as compared to the other qualification. Followed by bank ownership in which a higher percentage of the respondents were from locally owned banks showing that they are more exposed to NPLs. The overall response rate was 71% as out of 85 survey questionnaires 60 were returned. Reliability tests indicated that questions from the research instrument were reliable with a Cronbach alpha above 0.7 and the overall reliability was 0.878. Collected data was not normally distributed indicated from the normality tests and non-parametric tests were used for this data. The regression model was adopted as this is the best model for the quantitative nature of the research with a significant value of 0.03 which is less than 0.05.The chapter also gave insight on the levels of correlation among variables and concurred with three hypotheses and rejected two. The following chapter will provide a synopsis on the conclusion and recommendations based on the research results pronounced in this chapter.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter will provide a synopsis on the conclusion and recommendations of the main outcomes on the relationship between the adoption of IFPs and its impact on NPLs which is based from this research. The recommendations are going to proffer solutions to management of financial institutions, RBZ and policy makers on the adoption of IFPs or Islamic Window so as to minimise NPLs levels in commercial banks as well as promote financial inclusion as well as financial innovation in the country.

5.1 Achievement of Research Aim and Objectives

The research managed to come up with an assessment on the impact of adopting IFPs on NPLs and the study managed to show that there is a negative correlation between adopting IFPs and commercial banks' levels of NPLs. Three out of five IFPs indicated that IFPs minimises NPLs. The Spearman's Rank Correlation Coefficient was adopted to test the relationship between the independent and dependent variables in this study and the level of significance with results indicated that there was a negative relationship between IFPs adoption and NPLs hence the research achieved the research main aim of reducing NPLs. Overall research objectives were achieved through the testing of hypothesis which resulted in three propositions being accepted whilst two of them being rejected. Analysis made managed to come up with a model which will be used to predict variations in the levels of NPLs through the adoption of IFPs showing sixty percent achievement of overall research objectives as three out of five hypothesis were accepted.

5.2 Conclusions

The study variables explained 54% it means that there are other factors which can be adopted by commercial banks in minimising the level of NPLs and also on the R Square it indicated that 30% of NPLs can be minimised through the adoption of IFPs showing that there are other factors which can be used by management in minimising NPLs exposure by commercial banks. It is established from the research through respondents that most of the commercial banks in the country do not offer IFPs or Islamic Window.

5.3 Answers to Research Questions

The research managed to proffer answers to the following research questions starting with the overall answer which provided that there was a negative relationship between the adoption of IFPs and NPLs. Equity finance (Mudaraba) adoption by commercial banks minimises banks' level of NPLs as shown by research findings from study. On the effect of adopting lease financing (Ijarah) on NPLs in commercial banks, it was provided that the adoption of lease financing will have a negative effect on NPLs therefore minimising NPLs in commercial banks. Moreover, the study managed to provide an answer on the adoption of mark-up financing (Murabaha) on reducing non-performing loans and proffered that this IFP will not reduce NPLs together with (Musharaka) venture capital and these were not supported by the hypothesis which was rejected. This study also answered the question on what impact does the adoption of phased payments (Istisna) have on NPLs levels in commercial banks and the research proffered that this IFP will reduce NPLs levels as well as supporting of the hypothesis which was validated by providing answers to the research questions.

5.4 Research Contribution

The research is going to provide contributions in theory, methodology, empirical evidence, policy formulation and practice to management.

5.4.1 Theoretical Contributions

Findings from the study are vital to the current body of literature on NPLs through the improved conceptual framework on the impact of adopting IFPs on the levels of NPLs in commercial banks together with the fusion of IFPs with conventional banking products. The study reviewed the impact of adopting five IFPs on NPLs. Proffered solutions on NPLs in the financial sector and the country were not on financial inclusion as well as diversification but rather on bank internal management capacity together with control systems. This study will provide theoretical basis for other researches on why commercial banks in the country need to fuse and adopt IFPs so as to have a diversified portfolio which minimises NPLs.

The research contributed in coming up with the theoretical model below in trying to assess the impact of five IFPs on NPLs. Y=1.216 + -0.89Mudarabah + -0.637Ijarah + -0.295Murabaha + -0.194Musharaka + -1.083Istisna.

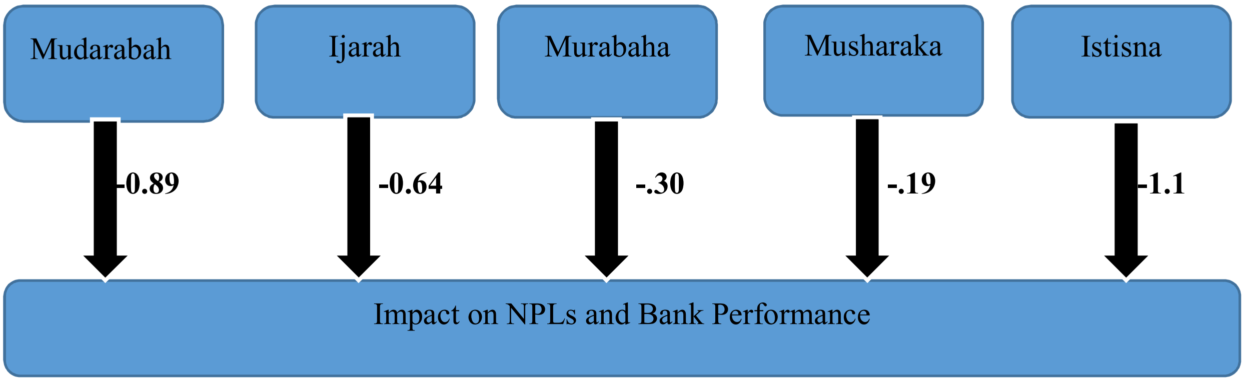


Figure 5.1 Modified Analytical Framework

The above analytical framework was supported from the research findings in which the adoption of IFPs will minimise banks' levels of NPLs in commercial banks hence a significant theoretical contribution of the research in future studies as supported by the framework.

5.4.2 Methodological Contribution

The research adopted a quantitative methodology through the use of online research survey therefore it is going to contribute on research methodological approaches to be adopted by other researchers. Though there are other quantitative studies carried on NPLs but these studies did not use online research questionnaire surveys for data collection and were not on assessing the impact of adopting IFPs on NPLs in the country's commercial banks.

5.4.3 Empirical Contribution

Findings from the research will be used by other researchers to measure the predictability of the dependent variable by the independent variables on the impact of adopting IFPs on NPLs as this problem need to be addressed from existing literature hence increasing the empirical evidence to be used by other researchers. It was shown from these findings that the adoption of IFPs minimises NPLs though there is need to assess the relationship when other more IFPs are adopted.

5.5 Practical Policy Recommendations

The RBZ and the ministry of finance should continuously promote financial inclusion of IFPs in the financial institutions as well as coming up Islamic Financial instruments which promote diversity in the financial sector. There is need for the Reserve Bank of Zimbabwe to develop some Islamic monetary and saving instruments, create an Islamic Finance Window for transactions with the Islamic banks, and a full-fledged Islamic banking department within the central bank for analysing, supervising, monitoring, and guiding purpose, thereby facilitating IFPs smooth development in Zimbabwe which have the potential to minimise the impact of commercial banks' exposure to NPLs as global changes are causing the world to move towards discovering the concepts that form the bases of Islamic economics hence the need for the authorities to embrace IFPs for financial inclusion and reducing NPLs. The government of Zimbabwe through the ministry of finance should promote Islamic banking in the country, considering its pro-development role. There is need for amending existing financial legislation and regulations to create a favourable legal environment for efficient setup of IFIs, Islamic Window or for conventional banks to fuse IFPs with conventional products. A commission may be entrusted to draft an Islamic Banking Act to promote IFPs. RBZ must consider adopting one of the IFPs mentioned in this research as these are some of the basic IFPs which can be easily fused to existing financial instruments in Zimbabwe to promote financial diversity and inclusion as well as reducing the level of NPLs in the country's commercial banks.

5.6 Managerial Recommendations

Research findings showed that the adoption of IFPs can minimise the impact of commercial banks' exposure to NPLs therefore there is need for management to have a diversified portfolio on various financial products which minimises the levels of NPLs in financial institutions. Management through the RBZ can advocate for the support of these IFPs by the government through crafting legislation which support these products. Commercial banks should try to fuse the Islamic principles in the conventional products especially the principles inherent in equity financing and phased payments which can benefit both borrower and the lender. Management should continuously monitor global trends in financial innovation and inclusion so as to be abreast with the VUCA environment.Bank management must consider adopting or one of the IFPs or have an Islamic Finance Window mentioned in this research as these are some of the basic IFPs which can be easily fused to conventional products to reduce the level of NPLs in the country's commercial banks.

5.7 Generalisation of Research Findings

Findings from the research can be inferred to commercial banks on the impact of adopting IFPs on NPLs as the banks in Harare are a reflection of the other banks in the country as they operate in the same environment. Interpretations drawn also indicated that the adoption of IFPs reduces NPLs levels in Harare's commercial banks hence the sample from this study is a good indication of all banks in Zimbabwe.

5.8 Research Limitation

Research sample was done in Harare's ten commercial banks so as to minimise costs as well as time and an online research survey was administered for easy accessibility of respondents because of the COVID-19 pandemic. These limitations of accessibility, costs and time were achieved by using online surveys and ensuring sample representativeness of all the commercial banks in Zimbabwe as these banks operate in the same environment as well as having the same lending principles.

5.9 Areas for Further Research

The research regression model only predicted 54% changes on NPLs and 30% on the R Square leaving more room for further researches to be carried out on the impact of adopting IFPs on NPLs. This variation implies that there are other areas and methods which can be adopted by commercial banks to minimise exposure to NPLs. Therefore there is need for more researches on proffering solutions on how banks should reduce exposure to NPLs in the country. Areas which can be research on are among others the impact of financial integration and innovation on NPLs as well as customer perception and involvement on the adoption of IFPs.

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Appendices

Appendix A: Introduction Letter
Dear Sir / Madam

RE: MBA FIN ONLINE RESEARCH QUESTIONNAIRE

My name is Phillemon Rinomhota (R181196F) and I am a student at the University of Zimbabwe's Graduate School of Management (GSM) enrolled for the Master of Business Administration Degree. As a requirement for the fulfilment of the degree programme, there is need for data collection on the research for academic purposes.

The research is on: THE IMPACT OF ADOPTING ISLAMIC FINANCIAL PRODUCTS ON REDUCING NON-PERFORMING LOANS IN HARARE'S COMMERCIAL BANKS. I generously ask you to complete the online research questionnaire which will take some few minutes to complete. Asked questions are rated on a Likert Scale and these are closed questions so as to save time.

Please kindly take note that the collected data will be treated with the highest level of confidentially and at the same time used for academic purposes only. Research findings and recommendations will be brought back to your organisation to proffer solutions on the research. For further explanations regarding this research study, please do not hesitate to contact the Researcher on mobile numbers: 0773544842 /0719544842 and any other correspondence on the email address philrinomhota@gmail.com.

Your support in this research will be greatly appreciated.

Yours faithfully

Phillemon Rinomhota

Appendix B Online Research Questionnaire

IMPACT OF ISLAMIC FINANCIAL PRODUCTS (IFPs) ON NON PERFORMING LOANS (NPLs) - COMMERCIAL BANKS HARARE

SECTION A – DEMOGRAPHIC INFORMATION

For each of the questions, kindly indicate your response by ticking in the appropriate box, representing the most appropriate answer.

A1.Kindly indicate your gender.

Male		Female		Prefer not to say	

A2. Please indicate your age range.

0-25		26-35		36-45		46-55		56-65		Above 65	

A3. Highest level of qualification attained.

College Diploma		Bachelors Degree		MBA		Doctorate		Other Please Specify	

A4. Kindly indicate your level of management.

Low Level		Middle Level		Executive Level		BOD Non-Executive	

A5. Please indicate type of commercial bank you manage.

Locally Owned		Foreign Owned		Both	

A6. Number of years with commercial bank.

0 -5 Years		6 -10 Years		11 -15 Years		Above 15 Years	

A7. Please indicate level of NPLs within your bank as a percentage of total assets for 2019.

0 - 5% Percent		6 - 10% Percent		Above 10% Percent	

A8. Kindly indicate whether your bank offers or will offer IFPs or Islamic Finance Window?

Yes		No		Not Aware	

SECTION B - IMPACT OF ISLAMIC FINANCIAL PRODUCTS (IFPs) ON NON-PERFORMING LOANS (NPLs)

This section seeks to measure the impact of adopting Islamic Financial products (IFPs) on the level of Non-Performing Loans (NPLs) in commercial banks. For each question that follows kindly indicate your rate of response as:

Highly Disagree	Disagree	Neutral	Agree	Highly Agree
5	4	3	2	1

Impact of Adopting IFPs on NPLs

B1. IFPs adoption is associated with low levels of NPLs than conventional banking products.

5		4		3		2		1	

B2. Banks with IFPs are likely to have better asset quality.

5		4		3		2		1	

B3.There is no variation between IFPs and conventional banking products impact on NPLs.

5		4		3		2		1	

Impact of Adopting Equity Financing (Mudarabah) on NPLs

B4. Equity financing is negatively correlated with NPLs.

5		4		3		2		1	

B5. Bank asset quality is improved through equity financing.

5		4		3		2		1	

B6. Equity financing adoption promotes bank stability.

5		4		3		2		1	

Impact of Adopting Lease Financing (Ijarah) on NPLs

B7.Lease financing positively improves the level of NPLs.

5		4		3		2		1	

B8. Lease financing promotes bank asset quality.

5		4		3		2		1	

B9. Bank stability positively correlates with lease financing.

5		4		3		2		1	

Impact of Adopting Mark-Up Financing (Murabaha) on NPLs

B10. Mark-up finance is associated with low percentage levels of NPLs.

5		4		3		2		1	

B11.Mark - up financing decreases the liability of failure for both borrower and bank.

5		4		3		2		1	

B12. Bank asset quality is not improved by mark-up financing.

5		4		3		2		1	

Impact of Adopting Venture Capital (Musharaka) on NPLs

B13.Venture capital adoption result in favourable NPLs percentages in commercial banks.

5		4		3		2		1	

B14.Profit sharing systems in venture capital products allows coordination between lender and borrower to minimise NPLs percentages.

5		4		3		2		1	

B15. Non-interest component in venture capital increases bank failure and bad loans.

5		4		3		2		1	

Impact of Adopting Phased Payments (Istisna) on NPLs

B16. Phased payments adoption is associated with low percentage levels of bad loans.

5		4		3		2		1	

B17. Banks offering phased payments know the challenges facing their clients and they collaborate in reducing bad loans.

5		4		3		2		1	

B18. Bank asset quality is enhanced by offering phased payments.

5		4		3		2		1	

Adoption of Islamic Financial Principles Impact on NPLs

B19. Profit Loss Sharing (PLS) principles are necessary financial innovations to be adopted in managing NPLs by commercial banks.

5		4		3		2		1	

B.20 Speculation increases the percentage of bank NPLs and bank failure.

5		4		3		2		1	

B21. Asset and service backed financing improves bank asset quality than asset based financing.

5		4		3		2		1	

B22. Non-interest lending negatively impacts on bank NPLs levels.

5		4		3		2		1	

THANK YOU FOR YOUR TIME AND PARTICIPATION IN THIS RESEARCH.