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The undersigned certify that they have supervised the student Registration Number R146178H dissertations title "*An Analysis of causes of default risk and its impact on Micro Financial Institution's performance. A case study of SMEDCO."* Submitted in partial fulfillment for the requirements of the Bachelor of Honors in Accounting.

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MIDLANDS STATE UNIVERSITY

RELEASE FORM

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PROJECT TITLE: An analysis of causes of default risk and its impact on Micro-Financial Institution's performance." A case of SMEDCO

DEGREE PROGRAM: Bachelor of Commerce Honours Degree in Accounting studies

.

YEAR GRANTED: 2018

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DEDICATION

I would like to dedicate this piece of work to God who made me to sail through, my parents for the inspiration and the emotional support they provided to me to enable me to work hard. I would also like to dedicate this dissertation to my friends who were always there for me in all hardships.

ACKNOWLEDGEMENT

I would like to express my indebtedness to the following people without whose assistance this project could not have been a success.

Sincere gratitude goes to my friends for standing by me throughout the period that I was doing my research. Special mention goes to my family who were always praying for me and there for me during my time of study. My sincere gratitude goes the Accounting Department Staff and special mention going to my supervisor Mr Mugozhi and Professor Nyamwanza. This dissertation would not have been complete without their assistance and supervision.

Lastly but not least my sincere gratitude and special mention goes to Tinotenda Samanga, Mighty Mandaza, Nester Chifamba, Nexine Chakabveyo, Rutendo Kadira, Tatenda and Vicky who were always there to give me encourage me when I felt like giving up. Without their support, this research would not have been a success. I say may the good Lord bless you all.

ABSTRACT

The study focused on the analysis of the causes of default risk and its impact on the performance of MFI's. SMEDCO was used as the case of study. The main objective of the study was to identify the main causes of default risk and to assess its impact on the performance of MFIs. Descriptive research was used for the study since there was a case of SMEDCO to enhance the study. The population of the study was 46, and 35 of 46 were set aside as the target population. Random and purposive sampling methods were used to come up with the sample size which was 25. The study applied the combined approach which takes into account both qualitative and quantitative information. Primary data was collected through the use of questionnaires which were given to SMEDCO employees at 170 Chinhoyi Street, Harare to fill and face to face interviews were carried out with some who were randomly selected from the sample. Data was presented through the use of tables, graphs, and pie charts and was analyzed using the reference of other authors who conducted the same studies and had similar or different results. The results indicated that the rate default risk was very high as well as the rate of losses as from 2008 up to 2016. The study then concluded that there was much to be done to reduce the levels of default risk in order to reduce losses, and it recommended that there should be high frequent repayment periods, a sharpened assessment process before issuing of loans and a critical credit analysis of clients before disbursement to reduce default risk.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

The chapter gives an introduction to the study problem and what it aims to achieve at the end of the research. The chapter also provides background information of the study as it happens in many situations around the globe, and went on to identify accounting gap in the case of (SMEDCO). Other topics covered in this chapter include statement of the problem, main research question, objectives of the study, sub research questions and justification of the study. It also has sub-topics covered which include significance of study, delimitations, and limitations of the study and definition of terms. Then lastly the chapter will end with a summary.

1.1 Background of the Study

In Southern Africa the ever rising of entrepreneurs is triggering the expansion of MFIs though their growth is still very constrained especially in the rural areas (Gok, 2004). UNIDO (1999) estimated that 50% of the GDP in the African countries is from SMEs as they occupy about 90% of the private businesses, also Abor and Quarter (2010) cemented that in South Africa 91% of the businesses are SMEs and they contribute between 52-57% of the countries' annual GDP. Although it is well known that banks have a stronger resource base and wide outstretch they don't have the expertise of MFIs as they can cater for SMEs despite their poor collateral security. On the other hand Schnoiner and colombet (2001) commented that because of the fact that many people cannot accesses financial aid from the formal sector due to lack of collateral security, it brought about the existence of MFIs.

Koranye (2014) states that most of the companies and businesses around the globe are coming up to the realisation that in order to ensure success of all the schemes and policies that may be put in place to reduce scarcity of the basic necessities needed for survival by humans MFIs are the real and absolute means to achieve such objectives. According to Korankye (2014) around the period of 1996, the World Bank's approximation of MFIs was that; they were around 1000 MFIs in more than 100 nations, and each one of them had knowledge of working for not less than 3years. This meant that around that period MFIs had already began to grow beyond reasonable doubt and their help was manifested by their help in the creation of employment by that time as more than 1000 people were employed under 1 of the 100 as the statistics of that time right fully states (Koranye, 2014). With a similar view

was Mokaddem (2009) who indicated that when a country intend to achieve economic growth it should make use of MFIs, the reason being that they can reach out to a large number of people especially the poor and give them access to financial help. This will result in enriched diet, advanced learning as well as enhanced physical condition and rallied well-being.

In an attempt to define MFIs Murekachiro and Matanda (2013) view them as providers of financial services to the side-lined inhabitants of a nation and also SMEs who do not have the right of entry into the official financial sector. They also went on to state that MFIs try to offer small loans and minor credits to those who are left out by banks. This means that MFIs save a niche market, which in this case is a group of people who do not meet the desired criteria for funding from the formal sector due to lack of collateral security. They also state that in Zimbabwe the concept of a niche market was proved to be true as it was discovered that 70% of those who are effective economically do not have any access to formal support of income, hence deserted and a greater need for MFIs (Murekachiro and Matanda, 2013).

In order not to leave out the youth in the definition, Murekachiro and Matanda (2013) added on to say that MFIs are the suppliers of monetary facilities to the youth, and to both men and women who are surviving underneath the poverty datum line and increasing their access to finance from the official financial divisions. Financial facilities includes; savings, credit, insurance, payment and capacity building (Murekachiro and Matanda, 2013). At present, the state in Zimbabwe is that the greater part of the population are poor people as they are living below the PDL, therefore the greater the need of MFIs to support them financially.

According to Korankye (2014) defines MFIs as any institution which gives financial assistance like small loans to individuals, groups and SMEs, but also offers other financial services like insurance, and services and other savings. The subject of default risk between MFIs and banks has been deliberated on in countless open lectures and conferences as the main cause why many banks are not interested in lending money to the poor and other SMEs who do not have enough collateral, as they mostly leads to default risk (Korankye, 2014).

Balogun and Alimi (1990) define default risk as the incapability of a debtor to live up to his or her loan agreed commitment when it will be scheduled. Most lending institutions in developing nations are facing default risk, the most important excessive rates of default risk in MSMEs lending should be of major concern to policy makers, because of its unintended negative impacts on MSMEs provided it is not corrected. All MFIs around the globe even in

Ghana are faced with the challenge of default risk, and it is probable that in most cases MFI do not recover their capital which they would have ploughed as borrowed funds and the interest they intend to receive as profits (Warue, 2012). She was also for the view that small loans are not very secured and that they are at risk as borrowers may easily default any time, and this may spread to other portfolios of the business which will result in losses being made. This contagious result is aggravated by the circumstance that MFI portfolios in most cases have an extraordinary concentration in certain or particular business sectors. Korankye (2014) stated that the issue of default rates in Ghana is escalating as it is affecting all MFIs including those from private institutions, commercial banks, and also stated that if the issue is not dealt with accordingly, its effects might have long term costs and consequences.

After surveying different MFIs in India, Berger and Young (1995) identified that there was a high rate of default payments and that default risk was mainly caused by wrong selection of borrowers, poor credit analysis and little to no consideration of the industry in which the borrower's business operates in, lack of collateral and mortgages against borrowed and poor repayment frequencies as well as absence of viable methods and precautions to follow up in the event of any default especially due to natural disasters. According to Warue (2012) the results from the study which was done in Kenya indicated that; high rate of default risk among MFIs is as a result of poor and in efficient management and failure to control all the factors in their direct control which they should use to reduce default risk. She went on to say that any factor outside the direct reach of MFIs reach may result in default risk, it is precarious for MFIs to appreciate and put, more concentration on the internal causes of default risk which they have more power over and pursue real and attainable ways to amend the harms and evils brought by default risk (Warue, 2012).

According Nguta, and Guya (2013) one of the causes of defaults on loans is the characteristics of the business of a borrower, in the studies they conducted in Kenya, it was discovered that the manufacturing sector had 67.9% as a default rate, second was the service sector with 64% as default risk, then the agricultural and trade sector had 59% and 35% respectively. Among the MFIs that had been in business from 0-2 years 52% of them were greatly affected by default risk, of those who had 2-5 years 44% were affected by default risk and only 4% was found in the business who had been in existence for about more than 5years. In addition, it was also discovered that the businesses which were within the municipality 44% did not default whilst 56% defaulted in contrast with those outside municipality, this meant that default risk is high the businesses inside the municipality.

Businesses with the least rate of profits of Kshs. ten thousand had the highest rate of default risk of 62.8%, while those firms making profits between Kshs. eleven thousand and fifty monthly had 42.5% as default risk. 22.7% rate of default risk was found among those businesses who had profits which range from Kshs. fifty one thousand to one hundred thousand and default cases were very low and minimum to all businesses who monthly would make profits above Kshs one hundred thousand .This study indicated that the higher the loan repayment default the less the profit of the institute will be.

Historically, in early 1970s it was noticed that a change in the participation of MFIs all over the African region as they started to develop especially in West and east Africa and also that most of the financial providers are now donors and NGOs and they would also grow and in most cases change and become into non-bank financial institutions by the end of the 2000. The highest rate of MFIs who are free and loos from any government regulations are located in East Africa though most of them are regulated on their activities by their government. However, Mokaddem (2009) noted that the number of regulated MFIs is most likely to fall as most of the MFIs want the advantages associated by the absence of governments regulations, this is because will fail to have even foreign investors due to some regulations. In 2006 CGAP totalled 467 active MFIs in Sub-Saharan Africa who were helping in raising the standards of living. According to Mokaddem (2009) MFIs in Africa were at times characterized by large organizations, including 16 MFIs who had about 50,000 borrowers, and young MFIs seeming new and working in well-known markets. The table below outlines the number of MFIs in the region in 2005, This period was characterised by few MFIs around the continent of Africa and from the research carried out indicated that one of the main causes was default payments on loans during this period and lack of a strong funding resulting in poor capital base, among many others. From that period it was noted that although there was increase in the number of MFIs, default payment remain one of the major challenges (Mokaddem, 2009).

Table1.1

African Region	Central	East Africa	Indian Ocean	Western Africa	West Africa
Number of MFIs	18	42	9	28	66

Source; "Overview of Outreach & Financial Performance of Microfinance Institutions in Africa". April 2005

Mahembei (2012) noted that In Zimbabwe it is legally required that MFIs register with RBZ, the current study shows that in 2003there were about 1700 MFIs who were registered with RBZ and around 2009 only 95 were registered under the auspices of RBZ, and these were the ones supposed to service about 71% of the total population of 12.2 million people as depicted underneath.

Table1.2

Years	2003	2008	2009	2010	2011	2012
Number of MFIs	1700	75	85	114	137	154

Source: Zimbabwean monetary policy statements

ZAMFRI and Mahembei (2012) also noted that one of the most operational challenges on MFIs is the record that MFIs are facing in default loans. He also noted that it is now considered a milestone since all those who were regarded to be financially strong and to be good social standing are now unable to repay the loans as well. Gono (2012) very few MFIs were able to with stand the severe slumps which started around 2001, He also noted that the bulk of the MFIs who were questioned on how they survived stated that; 69% of the MFIs stated that they closed down as a result of high levels of defaults in loan repayments that they were facing, 31% stated other reasons other than default risk. Also it was discovered that 69% who shut down operations because of default on loans, 69% had been in business for about 1-5 years, 25% of the 69% who shut down their businesses because of default risk had been in business for at least 5-10years of operations, and only 6% had been in operation for more than 10years. The 69% formed the majority of the MFIs and were mainly affected by default risk and only a few managed to escape those conditions especially the multi-currency era

According to Chikumbu (2014) the economy of Zimbabwe was facing slumps in the business cycles which included the shutting down of companies and liquidity problems since around the beginning of 2001 and it went through to the era of multi-currency which began early 2009. Mangudhla and Mambo (2013) cemented upon the issue of shutting down of companies as they stated that of a survey carried out by NSSA around July 2013 indicated that 711 companies closed down in Harare only between the period of 2011 to 2013, and went on to say a larger number of these firms were MFIs and some banks. As a result of these slumps, the unemployment rate of Zimbabwe was raised approximately to more than 87% and almost half of the population lost their jobs and was reported to be around 5.4 million

people, this meant that the informal sector was the major employer of the whole country. Maseko (2014) stated that those retrenched employees went on and formed SMEs for them to survive and thereby they started filling in the loop holes of the economy as some of them began to provide funds for others and others running their businesses, though they were still in the informal sector due to the hard requirements needed to be part of the formal sector. He went on to state that these SMEs currently represent of about 95% of enterprises who employ approximately 50% of the private sector as well as contributing to the GDP of the whole country significantly. According to the Minister of SMEs (2014) due to the fact that the SMEs were growing and contributing significantly to the GDP of the country the government then came up with an idea to fully support the activities of these SMEs by engaging some of the biggest companies and opening up of MFIs to help the SMs to increase their contribution to GDP of the country as a whole since it was estimated that almost US 7.4 billion was in circulation in the informal sector especially among these SMEs. Thus when there was an increase in the number of MFIs in Zimbabwe.

According to Chikumbu (2014) though the government helped in the opening up of more MFIs, but still the prevailing economic situation in the country still made it hard for most of the FIs to survive. The MFIs started facing a lot of challenges and chief among them was the issue of default risk as most of the borrowers were not able to spin back the borrowed funds and make profits to enable them to repay back the loans. This led to under capitalization and as a result it narrowed the base of borrowers as the MFIs could now only concentrate on those who were employed and offering them salary based loans at a faster rate, though they still continued to face so many losses even unto this day so as in the case study below.

The study will focus on the case of Small and Medium Enterprises Development Corporation (SMEDCO) was formed in 1983 and started operation in 1984, it is owned by the government of Zimbabwe and is funded by RBZ. It is a micro financial corporate company responsible for offering financial aid in terms of loans to both small and medium enterprises around Zimbabwe. Its headquarters is in Harare and has got other six branches around the country. The institute has five main products which are salary based loan; order finance; working capital; Micro finance institutions wholesale funding facility and capital expenditure. Given below are the changes in the losses of the institution from 2011 to 2015.

Table1.3

	2012	2013	2014	2015
Loss	USD(313,158)	USD(1,558,714)	USD(2,516,621)	USD(1,403,298)
% increase/decrease in Losses	NILL	79%	38%	-79%

Source; SMEDCO Financial statements (from 2010 to 2015)

The losses decreased in 2012 to ($313 158) from ($1 336 210) in 2011 due maybe to the 42.9% increase in the issuing of salary based loans which had a low rate of loan repayment since 2008. Although there was quite a difference it can be noted from the table that from 2013 to 2014 there was an increase in the rate of losses though they reduced in 2015 slightly.

1.2 Statement of the Problem

The above study it can be seen that there is a high rate of growth of MFIs in many countries around the world, but even though most of them are not yet able to fully satisfy their role of providing adequate financial help especially to the rural areas and those who are more poorer because of the challenges they are facing which the main of them all is default risk. MFIs are affected by the problems of default risk, and SMEDCO is also not immune to it which has also a negative effect on its profits as it was making losses from 2010 though it hasn't closed down. Therefore the study will seek to reveal the causes of default risk and other related risks to MFIs and their effects to the performance of MFIs particularly SMEDCO.

1.3 Main research question

What is the cause of default risk and what is its impact on the performance of MFIs?

1.4 Research objectives

1. To analyse the main cause of default risk in MFIs
2. To investigate the impact of default risk on performance of MFIs
3. To determine the factors that are to be considered before loans are issued.
4. To recommend measures to default risk to reduce losses at SMEDCO.

1.5 Sub-research questions

1. What are the reasons of default risk on the general MFI`s?
2. What is the effect of default risks in the performance of MFIs?

3. What critical elements should be carefully considered in default risk study before issuing of loans?
4. What measure can be taken by SMEDCO to reduce default risk and increase performance?

1.6 Limitations

Various difficulties were uncounted while completing the study. These difficulties influenced the objectivity and trustworthiness of the area under thought to some degree. For reasons of privacy the respondents were not willing to discharge a portion of the asked for data. This restriction was reduced by maintaining of simple and less sensitive data from respondents. A portion of the respondents to the questioners took too long to react and this prompted the need of all the more regularly follow up through telephone calls and messages. Satisfactory information from the populace may not be accumulated because of money related imperatives. An illustrative sample was utilized, which would be convenient.

1.7 Assumptions

In order to carry out the study effectively, there shall be sufficient access to SMEDCO's relevant materials as well as and other information relating to secondary data required for the study. The study also assumes to have unbiased response from the targeted respondents, also that money, time and any necessary resources needed for the study will not limit the scope of the study.

1.8 Significance of the study

This study is completed in part of the completion of the Accounting Honours degree. The research shall also help to enlighten readers on the causes of default risk and its analysis and how it impact the profitability of entities especially MFIs. Results from the study will provide deeper understanding of problems faced by the practitioners in managing loans and thus act as a useful guide to the formulation of realistic credit policies. The study will help SMEDCO in particular to identify factors that may be altered when offering loans to avoid high rate of default on loan repayment. The findings will also be useful to academicians and researchers because they will function as a base for further research in a similar area for development.

1.9 Delimitations

The study largely focuses on SMEDCO's lending department at 170 Chinhoyi Street Harare. The study also covered a period of only 5years; that is from January 2010-December 2015

which may produce inadequate information to make the necessary conclusions and recommendations. The study focuses on the effects of default risk analysis in improving profits for SMEDCO. The results from this case study may become true only under the specific condition and situation surrounding the case. In other words, it is essential to note that the results from the case study do not necessarily relate in every case: they are applicable under some detailed circumstances.

1.10 Definition of terms

Default analysis- the method used to assess whether or not there might be a chance of a client failing to pay

Default risk- refers to the likelihood that a company will be incapable to meet its financial commitment when they fall due or in the future, as well as the probability that a borrower will fail to repay their outstanding debts as they due.

Disbursement- when financial institution issue out loans to their clients who are known as borrowers

Salary Based Loan- are loans which are disbursed based on the salary of the recipient

Small To Medium Enterprises Development Corporation- is the name of the company being used as case study

Micro Financial Institution- is any small or medium enterprise which offer financial help to others

Small and Medium Enterprises are small and medium business that are operating around the world and aimed at providing the necessary goods and services to the whole world

Republic Bank of Zimbabwe this is the mother bank of all the banks and any financial institute in Zimbabwe

1.11 Summary

Provided in this chapter is the crisis at hand as well as the related past experience of the same problem. Given in short in this chapter is the trend of the study through explaining the challenge at hand. This chapter also stipulated the objectives of the research and the research questions which moulds the root of the study. This chapter also highlight all the assumptions, limitations, delimitations which existed to this study. It also introduces the following chapter which will provide the literature review of the subject under investigation.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

The chapter strive to evaluate, appraisal and examine the opinion of different authors and writers regarding the causes of default risk and its relationship to the performance of MFIs. The chapter also points out the importance of practical default risk evaluation in the MFIs. It also speaks of the relationship between default risk and financial performance to of MFIs. The chapter ends with a summary.

2.1 Theoretical Literature

2.1.1 Concepts of Default Risk

Management of risk is one of the most serious issues that MFIs should not neglect for the success of their businesses. Some of the types of risks that MFIs face are operational risk, marketing risk, default risk, foreign risk, disaster risks, interest rate risk and cred risk among many more (Setargie, 2013). However, (Setargie 2013) states that it is wise to concentrate with default risk when dealing with MFI because it has greater effects on their survival than any kind of risk. Delinquency can be described as a situation where the lenders are unable to recover disbursed funds (Kassim and Rahman, 2008.) They went on to say that it can also be when the borrowers fail to fulfil their financial obligations at the stipulated time due to various reasons. Kassim and Rahman (2008) also states that the risk of failure to repay loans is chosen rather than any other risks because it has damaging consequences on the achievement of MFIs, they say that the continues occurrence of default risk leads to problems in financial resources in MFIs and might then lead to shut down entire operations. This view was supported by Setargie (2013) as he was also for the idea that most of liquidity problems faced by MFIs are as a result of default risk, and is chosen instead of other types of risks in many studies because the threat it imposes on the success of MFIs.

Unlike other scholars ACGAP (1990) states that the reason why there is much focus on default risk other than any other types of risks is that its measurement shows an enlarged risk of damages, functioning difficulties, and also enables the forecasting on exactly how much of the schemes will ultimately be lost and not recovered at all. Nguta and Huka (2013) outlined that in most cases, MFI's more than 70% of resources are the main source of productivity and

which is responsible for lending, meaning there will be increase in the risk of capital in lending because since borrowers may default. This means that the viability of MFIs and the safety of its investors rest on loan default supervision, which is why there is more attention on default risk, is more than any other types of risks (Nguta and Huka, 2013).

In defining default risk Ameyaw-Amankwah (2011) was for the view that only when a debtor has not do the agreed terms of the contract, there will be default. He state that in the case where a debtor is supposed to attend a group meeting or make a payment plan and fails, there will be default as the debtor would have violated the loan condition. Unlike others scholars Ameyaw-Amankwah (2011) is for the idea that failure to do any action which was agreed on the loan contract like attending group meeting is as equal as failure to make a payment when it is due, because it is to these groups that clients make their payments or review their paying plans. Idama (2014) cemented that default can be of two types: when a client fail to pay the interest and principle of the funds received from an MFI, it is called debt service default, and when if any egreed promise has been broken or not kept tis is called technical default (Idama, 2014).

Pearson and Greeff (2006) they were of the view that default risk is when a borrower is at a risk verge, which is the repayment history of a borrower which reflect a time when he or she fails to meet payment deadlines at least 3 maybe in a period of a year. This represents a period where the borrower indicates that he or she might truly cease to make repayments. At this point it does not mean that the client will not pay the final instalment but it may take time before it's paid more than the expected. This means that the avoidance by a borrower to honour their loan obligations whether implicit or explicit as the due (Balogun and Alimi, 1990). On the other hand, Kassim and Rahman (2008) pointed out that one of the biggest MFIs in Bangladesh defines a loan as default if it still isn't paid off two years after its due date. Their study gives another suggestion that default risk is be measured or defined using different periods of time depending with the stipulated policies of the contract a client signed and the environment the MFI operates.

2.1.2 Indicators of Default Risk

According to Nguta and Huka (2013) the frequency of repayment, degree of owing payments, portfolio contamination rate and loss ratio they are pointers to be used in a joined way to examine the degree of default on loan repayment. The compensation rate is the proportion of the amounts which were actually paid against those which have fallen due. The

rate of outstanding payments is the fraction of the late payment or aged outstanding amounts not yet paid to the total loans; if a portion of the principal is unpaid at maturity then there will be high default. The portfolio contamination rate (PCR), is the owing debt amount which is not paid on time as a fraction of the total granted loans. Lastly, according to Nguta and Guya (2013) there is also what is known as the loss ratio (LR) which the total amount of loans deemed to be bad debts against all those that were issued. Ever MFI must then make sure they use any of these which will be most conducive and suitable for their situation, and to govern how it will be able to control, sense and prove to see if any of the MFI's data needs will be produced, on the other hand there is normally a greater challenge in choosing the kind of an indicator use to detect default risk as there is a risk of choosing a wrong one or the one which will not apply.

According to COBAC (2002), they are mainly three types of arrears that can be used as default indicators which are; bad debts, pending debts and engagements of doubtful reputation. Debts that come in place after forty five days of since the loan was issue are called pending debts, and they can-not be recovered immediately. Debts that fails to meet the repayment schedules as and when they due are called unpaid debts. All debts that are not paid for and their due dates will be long gone and even total failure of repayment is high are called bad debts, and their decision is normally reached at a judiciary level. Nguta and Huka (2013) stayed that once borrowers start to have outstanding payments it automatically mean that the payment of such payments in the future might be difficult and even the fact that there might be total failure to repay, tis becomes an indicator to MFIs.

2.1.3 Causes of Default Risk

According to Mokaddem (2009) the majority of the people in the continent of Africa stay in rural areas and the estimated percentage is 70%, and only few financial services exist, despite the fact that, that's where most funding is needed. Lending of small loans in these rural arrears is costly and also posse threats that the loans will not be return, and there are too big distances between the lenders and the clients. These areas are also associated with poor network connection, poor roads, and very long travelling distances which turn to be very costly and time consuming. African rural finance history scares most MFIs who are said to be courageous away, as it possess room for failure and as past failures line the way also.

According to Nguta and Huka (2013) default risk is caused by information asymmetry between lender and borrower. They are generally two types of information asymmetry that

affect default risk which are moral hazard and adverse selection (Nguta and Guya, 2013). When default risk increases due to the fact that the lender chooses an unsuitable borrower due to incomplete information such is known as adverse selection. When financial agencies exploit satisfaction at the expense of others is called moral hazard. Due to the fact that lenders do not have a say in the activities of borrowers do, the lender can only make use of the facts that they have and know about default risk to their advantage to avoid it. Nguta and Huka (2013) also stated that lack of enough information of the borrower raise the costs to the lender and raise default risk.

2.1.4 Measures to reduce Default Risk

Obeng and Krah (2016) state that Joint liability can be one of the measures to reduce default risk. This is when a member in a group has defaulted the other members are either guaranteed to pay the remaining balance for their group member, or the fact that a default by one member will mean that the whole group will not have access to bigger loans. This means that joining people in borrowing groups is an advantage to MFIs as the group member and associates will all be obliged to repay their loans not to burden other group member and encourage each other to repay as failure by one will mean failure by all and also means no future loans for all. Therefore in order to effectively reduce credit risk joint guarantees are recommended and they are to be in conjunction with close supervision and tight monitoring (Obeng and Krah, 2016).

According to Fischer and Ghatak (2010) in order to reduce default risk there is need for high frequency in the repayment periods of loans. This means that as soon as the loans are disbursed 2 or 3 weeks down the line the borrower should start to make the necessary repayments, so that they remain in touch and keep them under pressure for them to repay, so that at the end of the day they won't relax and spend the money waiting to repay it at a later of future date. There was also an introduction in high frequency of repayment meetings, in these meeting all borrowers should meet with their credit officers and held a meeting in which they will make the necessary payments and highlight any challenges they might be facing so as to quickly address them before they reach the stage of defaulting (Obeng and Krah, 2016). Field and Panda (2012) also believes that, frequent meetings with a loan officer does not only make the borrowers pay but also improves the relations between the lenders and borrowers and also help in improving the level of trust between the two, which can be used to reduce default risk if they all work together and cooperate. It is also a way that can be used by MFIs to have mitigating controls way ahead before default actually occurs; it means

that lenders can help the borrowers with ideas on how to maintain their business in order to have enough income to enable them to make repayments (Obeng and Krah, 2016).

Field and Panda (2012) also believes that repayment schedule offered by can be a way to reduce default risk especially when there is no collateral. They stated that the frequencies maybe after every forty nigh and that also these periods should be reached also after meetings held with the clients so that the MFI do not set the un realistic periods which none of the borrowers will be able to keep or meet their deadlines, as two weeks might not be enough to generate the income needed to repay the loan on a given instalments. In a study conducted in Bangladeshi it was shown that all those who opted to change from weekly repayment periods to forty night schedule there was no one who dropped out and the defaults were reduced (Field and Panda, 2012.). On the other hand, Field and Panda (2012) also states that high frequency of repayment, actually increases MFI transactional costs, thereby also affecting the loan sizes and client types. They also stated that the grater the repayment frequency the lower the defaults on loans and vice versa. However the rate at which the frequency of repayment affect default risk with, vary depending with the prevailing situation of an MFI, the frequency of repayment is just one on the measures that MFIs can put in place (Field and Panda, 2012.).

According to Kringlen (2016) In order for MFIs can raise the interest rate so that they pass on the cost they face in distributing the loans to the clients so that they reduce cost and increase profits, this is because in most studies it was discovered that the operational cost of MFIs are greater and in most cases they are more than 55%. Additionally, Rosenberg et al (2013) was for the view that MFIs should raise their interest rate much more that the banks because it is very expensive to lend and collect the repayments for small loans than it is for larger loans which banks offer. However raising the interest rate may mean too much burden exerted on the borrowers and might even loosen the rate of default in loans a they won't be able to repay after all. Also due to the fact that interest rate in most cases is set by the free forces of demand and supply or by the central or national bank it might mean that MFIs have little to no power to influence the rate of interest (Kringlen, 2016).

2.2 Empirical Literature

2.2.1 Default Risk on Indian MFIs

Bincanga and Aseyo (2013) carried out a research on Trans Nzoia County which is part of kenya in 2013, and their objective was to find the causes of default risk in Trans Nzoia Countries. Descriptive survey methods were used to gather information in short time. In total

the study had 100 MFIs, and of this 100, a sample of 50 MFIs was randomly selected as the targeted population. Stratified Random sampling was used, and 25% sample size was chosen from each stratum because the population was set into different sections' and 50% of each section was selected to accommodate all sections. 150 Questionnaires were used to collect data and it was presented in frequencies and percentages.

Bincanga and Aseyo (2013)'s results shows that the major number which was represented by 39% of the borrowers defaulted, 27% had settlements schedules in place, while only 34% of customers had completely paid their loans. Of this 39%, 23% of these said they defaulted because they were not able to plough back the borrowed funds into proceeds, 12% diverted the borrowed funds for consumption to raise the living standards and failed to replace, 18% of the defaulters stated that it was because of the fact that they run their businesses on credit basis so they were not able to retrieve their money from their clients and led them to fail to repay, 3% lost their possessions and could not manage repayments and 44% of the defaulters pointed out that they were not yet ready and they were still investing back the funds they had gained. On reason for repayment; Bincanga and Aseyo (2013)'s results record that 17% of repaid the loan to keep their collateral safe, while 24% were forced by their other loan members as they were guarantors, 18% repaid in order to maintain their status in their societies, and 5% repaid in time to be a to get another loan, 36 % being the majority, felt it was the right thing to do.

According to Bincanga and Aseyo (2013)'s results on level of education; it was discovered that 59% of the borrowers who defaulted had only secondary level, 26% had diplomas , 10% degrees, 3% masters and 1% doctrates, and it was discovered that those with low levels of education find their income from MFI loans and the ones who default the most, and upon the number of children; Bincanga and Aseyo (2013)'s results states that 15% of the borrowers who failed to repay their loans did not have kids, whilst 20% of the defaulters had between 1-2 kids and 34% which was the majority had 3-4 children. It was seen that too much family commitments leads most of the people to borrow to default. According to Bincanga and Aseyo (2013)'s results on supervision indicate that of the number of borrowers who defaulted 47% were supervised while 53% were never supervised by their lender. Therefore they concluded to say that lack of supervision of clients before and after loan disbursement leads to high default rate. Close supervision will help the MFI to have a close relationship and to enable tight monitoring of borrowers activities, to help them reduce level of defaulting repayments.

Bincanga and Aseyo (2013)'s study indicated that; 65% of the borrowers were trained before getting loans, although 35 % indicated that they never had any kind of training before they were given loans. To the majority which received training; 87% of these borrowers steted that the training helped them to increase their revenue, and only13% indicated that the training was of no use to them and never helped in any way. The evidence from the study showed that the high rate of default on loans is on hose borrowers who fail to get training as they will not be able to increase their own revenue. Bincanga and Aseyo (2013)'s results states that 70% the employees of MFIs were for the view that as a result of the stunted economic growth and the deep slumps which the country was facing in business cycles, this led to increase in default rate while 30% of the employees did not agree with the assertion that the decrease of the economy growth was lading to default risk. They advocated that there is need for MFIs to teach their clients disclipe on using funds even durin depression in the economic cycles of any county to reduce high rate of default on loans.

On change in use of the borrowed funds; Bincanga and Aseyo (2013)'s results suggest that 64% of the defaulters did not use the funds for their intended and agreed purposes, while only 36% said that used for the intended use, which kept them from making their repayments. They were for the view that in order to reduce default risk; there should be regular monitoring of borrowers to ensure compliance on the use of received funds, which can be achieved by constant follow up into the clients bank statements to assess any change in the level of activities and even paying them some visits to monitor how they will be running their businesses to ensure maximisation of profits.

On the other hand in 2014 Wachilonga et al (2016) carried out a similar study in Trans Nzoia County which is also part of Kenya. Unlike Bincanga and Aseyo (2013), the main aim of study was to determine the consequence or results of risk tolerance of borrower debt repayment among Youth Enterprise Development Fund (YEDF) Board beneficiaries in Trans Nzoia County. Wachilonga et al (2016) randomly selected 144 groups out of a total of 225 groups that were distributed in the county. This was 64% of the population where as Bincanga and Aseyo (2013) used only 25%. A total of 438 respondents participated in the study whose group membership ranges from 8 to12 members. Wachilonga et al (2016) used Primary data and secondary data, and data was collected through various methods like interviews, some information from the library and 438 surveys questionnaires were used. Both of the studies used survey questionnaires, though the survey questionnaires were not the

same. Frequencies mean and standard deviation were used to summarize the data. However both studies presented their data in the same way using frequencies and percentages.

Wachilonga et al (2016) finds out that the majority, 51.6% of the respondents were male and the rest 48.4% were female. This implies that most beneficiaries of YEDFB loans male. The default level was 9.3% and 17.9% among male and female respectively. This implies that default rate is higher among female borrowers, mainly because females are the ones who normally carry the burden of most household expense which make them to end up using borrowed funds to cover household costs. Wachilonga et al (2016) results stated that over half 54.7% of the respondents were single and good re-payers while 45.3% defaulters. About 49.8% of the respondents were married, and 53.2% of the married respondents were defaulters while 46.8% defaulted. Among those separated, majority 79.6% were good repaying of loan while 20.4% were defaulters. Results show that most of the YEDFB beneficiaries were married and in most cases most of them had bigger families and higher expenses than single ones and spend much of their income on their families. This led to the conclusion that; married people are high loan defaulters than single people.

Wachilonga et al (2016) results reviewed that the greater proportion of the borrowers were in trading industry30.6% and service 34.7%, manufacturing sector had 13.0% of the respondents while Agribusiness had 21.7%. Those respondents who engaged in trading indicated good repayment performance with 64.9% being good re-payers while 9.0% were defaulters. Only 35.1% operating in the manufacturing sector were good re-payers while 26.3% were defaulters. Agribusiness sector was second in repayment performance where 53.7% of the respondents were good re-payers while9.5% were defaulters. It can be noted that the manufacturing sector had the largest default rate.

Wachilonga et al (2016) recommended that the YEDFB management should take more interest in portfolio characteristics like, borrower risk tolerance, financial literacy and cost of capital inoder to improve repayment performance in Trans Nzoia County. Also recommended that YEDFB officers should give attention to continuous follow up on proper loan utilization, and appropriate training programmes that will improve borrower's decision making. This will minimize loan disbursement to unprofitable business ventures like domestic consumption. The national government should undertake a nationwide monitoring and evaluation assessment of YEDFB program and help them to improve, and also aggressively market

youth financial products, engage youth entrepreneurship programmes to school leavers to embrace enterprise development as a promising form of employment.

2.2.2 Default Risk in Developing Economies

Field and Panda (2012) carried out a research between April and September 2006 in Kolkata village welfare society in India. Their objective was to find out whether repayment schedule affect default risk. Of the 100 MFIs that were into this village it consisted of 1026 first time borrowers. They targeted women who were independent, living below the poverty datum line (PDL), meaning to say it targeted low to medium income earners, as well as joint ventures in clothing industry and services. They embarked on a survey to put people into groups by identifying potential neighbourhood people who had the same size of income, with a similar type of occupation, almost of the same age and with the same family size and who were both present in the month of group formation. Each group had eight to thirteen members, and 80% of formed units or groups had ten group members.

Statistical data and co-efficiency of weekly and monthly repayment was regressed and it was discovered that 11 clients had not paid in 60 weeks, 21 clients defaulted in 56 weeks and 48 clients defaulted in 54 weeks. This means that reducing the payment frequency in the repayment periods affect repayment of loans in a negative way. On the other hand 1.4% of those who repayment on weekly basis defaulted, while 2.9% of the clients who repaid monthly and had weekly meeting clients defaulted.

They concluded that more work should be done in recruiting in order to have the best combination of groups because the elasticity of repayment may actually depend on the composition of the group. In their experiment they were no drop out of clients which might not be the same in many occasions, it means the screening process requires a lot of patience and more work to be done (Field and Panda, 2012). Frequencies in repayment period are of more use mostly in cases where borrowers graduate to next levels in borrowing, normally to larger loans, however the discipline may cease to work if a borrower has graduated to the third and fourth loan. It was also discovered that the level of competition that prevails in the lending sector may influence borrower behaviour, borrowers may default knowing that they will receive funds from other available lending institutes. In this case study the borrowers were taken for the first time and had not borrowed any-where else, which is a bit different with many other cases where normally a borrower would be over-borrowed and if defaulting will not qualify to the next level, that MFI may lose clients to other lending facilities.

Nevertheless the frequency of repayment period on its own might result in default risk to a lesser extend as the MFI might have a week capital base, poor credit analysis and even bad economic environment to operate (Field and Panda, 2012.).

Unlike Field and Panda (2012), in December 2007 Nguta and Huka (2013) carried out a research in in Imenti North District, Meru Country part of Japan. The main aim of the study was to establish the connections between default risk in MFIs and characteristics of companies. The MFI used an approach in which an area with about 15 to 22 villagers an MFI would put one filed manger and a number of workers to help in. the study used roughly 37 credit officers and had about 4578 borrowers, they used clustered random sampling and census sampling and only 400 repentances were identified. Primary data was gathered using questioners and the results were evaluated by a hypotheses test. The objectives were different, studies were conducted in different places, and their data was presented in different ways as Nguta and Huka (2013) used hypothesis test and Field and Panda (2012) used regression.

On types of industries; Nguta and Huka (2013)'s study showed that the manufacturing sector had 67.9% of default of loan repayment, 64% in the service industry , 58.3% in the agricultural sector and the lowest of 34.9% in the trade industry due to the fact that it deals with goods that have a higher quantity demand, meaning that they are easily sold and increased revenue to enable repayment for borrowers that accounts for low default cases. According to the results of Nguta and Huka (2013); 52.4% of the firms which defaulted had been in business for less than 2years, 44.2% of the defaulters had 2-5 years of business operations, 6% in the businesses that had between 5-10 years of existence and default rates were rae in companies with 10years and above of existence. Adding on, only 44,3% of the firms outside the municipality did not default whilst the rest defaulted in comparison to those which are not in the municipality.

Nguta and Huka (2013)'s results also indicated that companies with the least rate of profits of Kshs. ten thousand had the highest rate of default risk of 62.8%, while those firms making profits between Kshs. eleven thousand and fifty monthly had 42.5% as default risk. 22.7% rate of default risk was found among those businesses who had profits which range from Kshs. fifty one thousand to one hundred thousand and default cases were very low and minimum to all businesses who monthly would make profits above Kshs one hundred

thousand .This study indicated that the higher the loan repayment default the less the profit of the institute will be.

Nguta and Huka (2013) suggested that the MFI stakeholders should see to it that they train their clients before any loan disbursement on business related issues to equip them to run their own.they also advocated that the local government should assit their MFIs with capital for them to gro and have a good financial base. Nguta and Huka advocate that MFIs should put in place a more secured credit policy in every level of loan issuing to make sure rules are followed and tight supervision to ensure full compliance with the set rules. This can be achieved through management internal and external audits to make sure everything on credit policies is kept and set internal controls for credit policies.

2.2.3 Default Risk in African Countries

Nzongan et al 2016 carried a study in Cameroon at an MFI called Muffa. Their main objective was to identify and analyse the determinants of default risk in Cameroon. They studied a set of borrowers from of Muffa natural members. Muffa has about ten thousand associates of which only seven thousand were active, they obtained its loan portfolios and it had 900 women loan borrowers, 603 were randomly selected for this study. The files had personal information, status, family situation and beneficiaries, and scale of business and lastly the information about the loan which is date of disbursement, amount and duration. Collected data from the entire sample was regressed in a logical manner.

Nzongan et al 2016 results indicated that more than 71% of defaulters were single, 18.33% of them were widows and the remainder of 10% was shared equally between those whoe were wedded and those who were divorced. On the other hand Nzongan et al 2016 states that about 60% of defaulters had no extra income while 40% of the defaulters had 26.7% extra income from their business activity, 5% from rents and 8.33% from other sources. They also say that 73.33% of the defaulters were remote from the agencies of MUFFA unlike the 26.67% of those who were close to the agencies. Nzongan et al 2016 states that of those operating in the retail industry 68% of the women who defaulted, while 16.66% of defaulters were in catering and restaurants, the smallest was 3.33% in natural juice production and embroidery, the agricultural and animal husbandry had 11%. On the type of collateral, Nzongan et al (2016) states that 13.33% delivered land title deeds as security, 6.67% gave in pledges, check deposits and sales certificate while 80% supplied less rigid securities in terms of a bank statement with consistence savings. Of the defaulters 97% were those people who were never

supervised or visited by MUFFA either before or after disbursement of loans, while only 3% were visited once during the repayment time.

They also advocated that MUFFA agencies should pay unknown visits to their clients to have an actual view of what is on the ground and to provide help where necessary before clients reach the stage of defaulting. They also suggested that the government officials should provide a main or central risk office and be given those with much knowledge of risk to help and assist in any risk related issues. This central risk office will allow MFIs to improve the follow-up of customers as most of them use the same collaterals to obtain several loans in many different institutions (Nzongan et al, 2016.)

On the other hand Murekachiro and Matanda (2012) carried out a study in Zimbabwe in 2009 and their main objective was to identify and analyse the determinants of default risk in Zimbabwe. They had a population of 95 registered MFIs which were supposed to serve a population of 12.2 million people as clients. Questionnaires were used to collect necessary information for the study, and interviews as well, while staff, investors and board of directors were interviewed. The descriptive survey was used, and the results were then presented in the form of tables and graphs. Although these two studies had the same objectives they were carried out in different places and the data was differently presented as the other was regressed and the other tabulated and put on graphs. Despite these differences they all of them used questioners and random survey selection for their population; however despite some of these differences some of their findings and recommendations were unique although others were different.

Results from the study of Zimbabwe showed that 69% of the MFIs who shut down because of default risk were mainly those who had been in business for years in the range of 1-5, of those who had 5-10years of operations only 25% closed down mainly because of default risk, and those who had 10years and above of operations; only 6% of such were greatly affected by default risk. According to Murekachiro and Matanda (2012) 75% which was majority of the clients who default were just those who desired to cover their household expenses and to raise their standards of living, and 25% were SMEs that hardly made it due to the economic environment. It was also discovered that of the total population of 12.2 billion to be attended by 95 MFIs, 71% of the people were from rural areas and they were the ones in most need of the funds. These cause contributed to a greater extend to the defaults in Zimbabwe.

Murekachiro and Matanda (2012) states that the majority of the people are extremely over-borrowed, and the bubble were anticipated to erupt due to the growing rate of borrowing. ZAMFI was for the view that due to the absence of a CRB in Zimbabwe, it resulted in many people becoming over borrowed, which led to increase in the default rate. Murekachiro and Matanda (2012) then advocated for a CRB in Zimbabwe, to lessen any antagonistic selection in their borrowing processes as MFIs could not precisely measure the extend and determine risky profiles given the lack of a CRB in the country. They also recommended that it is of great importance that MFIs work on refining and improving of their ways in collecting their funds whilst working on ethical circumstances. They advocate that MFIs were sternly warned to comply with laws and regulations when offering and collecting loans, they recommended that MFIs were to be appropriately supervised by the RBZ to ensure ethical and desirable practises were carried out to reduce default rate.

A case of Ghana and Nigeria

Korankye (2014) carried out a study in the city of Accra the capital of Ghana. The objectives were to examine the causes of loan default to endorse procedures to regulate the rate of loans defaults. The study used questionnaires and interviews were used to collect primary data and survey design and a mixed approach was used to collect information. The population for the study 200 MFIs and 25 MFIs were selected randomly as a sample size. 50 personnel from each MFI were selected for his research. In addition to the employees, 10 customers from each MFI were picked at random, suggesting that 250 clients in all were used in the study.

Korankye (2014) finds out that out of the 25 MFIs, 10 which was 40% were facing a default rate of 1-3% which is unswerving from the globally acknowledged rate of default. 8 signifying 32% had a default rate of 3-6%, while 4representing 16% experience default rate of 6-10%, and lastly 3 demonstrating 12% had a default rate of more than 14%. The study showed that 60% of the MFIs have default rates which are greater than the universally tolerable rate default which is 3% (Koranye, 2014).

Unlike any other authors Korankye (2014) was for the view that borrowers must be classified in different categories in order not to mix them which might cause confusion and will help in deciding the measures to deal with them separately. The four groups are; first willing and able to repay, second willing but unable to repay, third unwilling but able to repay, lastly unwilling and unable to repay. For borrowers who are willing and able the MFI officers should just make follow ups on the amounts and should allow they to make thei repayment

even in advance and if at times they have short falls the officers should be lenient on them, in order for them to remain motivated and even paying them visits at their homes or working places. To the second group officers might reschedule their payment periods, although this might mean default even in the. The third group of those unwilling but able to repay, the officers might restrain them to access future loans or to hand them over to legal courts. To the last group the officer's should just hand them over to debt collectors because perusing them waste time and money, also take their names down and make sure they will not be given any loans in the future.

On the other hand Asongo et al (2014) carried out a research on Yola an MFI in Nigeria. The main aim of their study was to detect elements or reasons that lead to high default of loan repayments in MFIs. The population consisted of 20 MFIs and 169 clients were randomly selected. Survey research methods were used and the source of date was from questioners to find out the response of clients and staff on default risk. The results were regressed. Korankye (2014) and Asongo et al (2014)'s studies had the same objective but they were held in different places, in Ghana and Nigeria respectively. All of the two studies used primary source of data and made use of questioners to gather data, though data was presented differently when Asongo et al (204) regressed his findings while Korankye (2014) used percentages and tables to present their findings.

Asongo et al (2014) states that 75% of the staff had 0-5years and 25% had more than 5years and it was discovered that high staff turnover and client dropout was as a result of dissatisfaction of clients as a result to lack of essential abilities and skills by the workers. On training, Asongo et al (2014) states that 89.8% indicated that they had some kind of training before getting loans and it helped them and it turned to be the majority, 7.8% stated that they were never trained; they only received loans, while 2.4% acknowledged that they were training, though they understood nothing.

Asongo et al (2014)'s results revealed that most of its clients were over-borrowing, this was indicted by their results which state that the 59.9% of the customers which was the majority were owing money from either a bank or a credit facility, 26.3% had borrowed from friends, 18.4% borrowed from their suppliers, 7.9% loaned out from money lenders, while 7.2% were owing other MFIs. Asongo et al (2014)'s results also showed that of the staff that were trained once only 25% of that did not have problems in locating customers, of the staff who attended training twice 30% did not face any challenges when they were dealing with

customers, while 45% of the staff who attended training more than two times were excellent when they were dealing with customers. This revealed that training of staff forms a solid foundation of goals attainment for any organization.

Asongo et al (2014) recommended that borrowers need to be trained first before any disbursements, to make sure the funds are given to people who are able to innovatively use the disbursed funds to gain profits and reduce default risk. They also called for government intervention to assist in the borrowing process and the central bank to make sure that the over borrowed customers are exposed before accessing other funds from other institutions. They are also recommended for staff training to enhance their skills which will improve their services to their customers which might have a positive impact on reducing default risk. Lastly Asongo et al (2014) also advocated that MFIs need to have a strong policy which will be put in place to prevent, cure and stop default risk and its effects.

2.3 Research Gap

From the above study it can be seen that most of the previous researchers focused mainly on finding the causes of default risk and giving its solutions, but there are mostly contradicting evidence of the rate of repayment frequency as some advocate for high frequency repayment period whilst others advocate for low frequency repayment periods which make it the study gape for this research as there is too much contraction information. Also the fact that most of the previous researchers as illustrated above provide solutions for MFIs operating in urban areas, and there is lees evidence of what can be done to reduce default of loans in rural areas, it leaves a this study with a gap to focus more on the mitigating factors of default risk on rural areas especially in Zimbabwe, Also as the case under study SMEDCO has six branches which are located mostly in rural areas which are experiencing high default loan repayments.

2.4 Summary

This chapter gave an introduction of the whole chapter, and clearly stated its aim to review the literature of this current study, look for any loop holes in previous studies and suggest endorsements for best practice. Having critically assessed the theoretical literature associated default risk, the causes, criticism and its mitigating factors, and also the empirical literature from others and how they feel that enough monitoring of default risk can be used by MFIs to improve and monitor their financial performance. Eventually this leads to the next chapter which is designed to discuss aspects of research methodology of this study.

CHAPTER 3

RESEARCH METHODOLOGY

3.0 Introduction

This chapter concentrate on the procedures and approaches used in collecting as well as evaluating data from defendants. This chapter also gives description of study design exercised in carrying out the study. Moreover, it goes on to describe the target population, sample size used and the methods and channels used to gather data. The chapter will also focus on the data collection procedures, data presentation analysis, its reliability and validity, and lastly data ethical considerations.

3.1 Research Design

According Creswell (2013) research design is the approach that defends how data will be put together. Farthing (2015) further states that research design refers to an agreed advance decision that create up the main complete line of attack to be used to combine the different components of the study in an understandable and reasonable method to discourse the problem of the study carefully. The research design joins the research questions to the available information and the study tools and techniques to be castoff to find answers and clarifications (Farthing, 2015). There are generally 5 types of research design namely, explanatory research, case study, descriptive research and experimental designs. Therefore for this current study descriptive study will be applied, which is made up of descriptive research and survey. According to Saunders et al (2009) descriptive design gives details of the current problems and is applied to evaluate and assess the current state at SMEDCO during the time of the study, which was facing high default rate and high rate of losses.

Atmowardoyo (2018) states that, when a certain research has a case study, it will be most appropriate to use a descriptive research, this is due to the fact that it is intended to describe the prevailing condition of a certain case. Due to the fact that this study is a case of SMEDCO, the study finds it necessary to use descriptive research in accordance with the argument of (Atmowardoyo, 2018). Farthing (2015) is of the idea that descriptive research enables the appreciation of earlier studies in arriving to the solution of the current study, meaning that in order to come up with the best results on the cause of default risk on SMEDCO, descriptive research will allow the acknowledgement of previous studies to enable

comparisons of the current and past results and allow formulating of better policies for SMEDCO as improvements will be made on the mitigation of previous researches. Atmowarddoyo (2018) also highlighted that descriptive research have subtypes of research methods such as content analysis, correlation study, survey and qualitative study, or content analysis. The subtypes help differently in the procedures of collecting data and analysis to come up with the best result, which makes it the appropriate method of the study.

Rajasekat et al (2013) stated that descriptive survey research technique is not merely placing facts together and tabularizing them but it includes a profound evaluation, analysis and identification of trends, interactions, connections and designs of variables which are descriptive survey research design, this is because it encompasses much power in evaluating the contributing factors. The technique was an appropriate one for this study in providing comparatively correct as well as precise and a just evaluation of the borrower's views and levels of submission on loan repayments, as well as the genuine causes for their performance of default. Descriptive survey method helped in gathering a lot of data on borrower's perceptions and the determinants that influence their decision to default or repay loans at SMEDCO.

According to Mcdonald and Headlam (2012) provides that descriptive survey is the best method for collecting data from the original source to describe a population and to measure attitudes and orientations in a large population. On the other hand they added that the use of questioners under descriptive research is the best method as they have problems and demands that are normally acceptable thereby guaranteeing that alike data from diverse and diffrent respondents is gathered and it also helps to capture what respondents think. This means that due to the use of questionnaires, the study will have enough knowledge on what both the borrowers and employees of SMEDCO think causes default risk and how it can be treated. However Johnson (2013) states that there is a likelihood of a mistake and bias for example when questionnaires and the questions are prearranged and prescriptive agreeing to standards.

3.1.2 Mixed approach

This study applied both the qualitative and quantitative approach, known as the joint or mixed methodology. Cooper and Schindler (2014) states that; the use of words to explain and illustrate a situation or condition or given data which can-not be measured numerically is called a qualitative research method. It depends on information in the custom of photgraphs,

interviews and films. Jamshed (2014) cemented that qualitative research method is the use of words in place of figures to collect and evaluate information relating to the issues essential a research crisis. Aaker (2008) states that qualitative research is a formally written document, of specification and procedures, which includes scrutinizing of intricate data that is other than a simple set of figures for conducting and controlling the research project.

Bougie and Sekaran, (2009) were for the view that qualitative research methods are means of gathering information that include interviews, dialogues, questionnaires, surveys, observations , document analysis, focus groups and Audio visual. Tricker (2010) cemented that qualitative research is anticipated at attaining a inclusive awareness and understanding into definite occasions as conflicting to a shallow description, This means that as the study will be going on there is hope to find out other cause of default on loans on SMEDCO which are not on the surface according to the theory of (Tricker, 2010). According to Tricker (2010) unlike qualitative research method, quantitative is flexible as it permits the gathering data methods to be altered in the course of study or the research. This means that as the study will be going if it is discovered that maybe interviews are no longer fit for the results of causes of default at SMEDCO changes can be made as of that point in time, maybe a switch from interviews to observations to have unbiased results.

Quantitative data is any information that is in geometric form such as figures, digits, percentages and ratios. This means that the quantitative research questions precise, contracted question and gathers a model of mathematical information from partakers to answer the question (Grossman and Rhodes, 2007). Quantitative research design was also chosen because of the simple fact that it's not every kind of information can be evaluated descriptively or using words, hence there is also necessity to use the quantitative research design. This therefore justifies why the study used combined approach, so as to comprehend statistical ideas as well as theoretical ideas that cannot be quantified.Due to the fact that collection of data using quantitative methods is relatively quick and it makes data analysis to be less time consuming, it means it will make things easy for this study in assessing even the financial statements of SMEDCO to see if there might be any indication of the causes of default risk. Quantitative research Provides precise numerical data and it enable the uses telephone interviews and quick response of data despite distance.

3.2 Population

Population can be defined as the total of every probable reflection of the variable which is being examined and from where an example is to be drawn for data exploration (Wegner, 2010). According to Birns (2000) population is a whole or complete sum or likely units or elements that are included in the study. For the purposes of this study, all the employees of SMEDCO, those from its head-quarters and the six branches of SMEDCO were used as the population of study, and had a total of 46 employees all together. It means that these 46 employees comprise the total population of this study, and it is from this total number of employees that the target population will be selected.

According to Premalal et al (2015) it is in most cases impossible to work with the whole population to come up with conclusion, so they were for the view that there is need for a target population to enable the carrying forward of a study. In their description target population is a number of nominated or a selection of staffs members who will be made useful in coming up with the results of an on-going study. Vonk (2017) cemented that any group of people in whom the study research results should apply is known as the target population, whilst Creswell (2013) states that for a study to be carried out in a prosperous style or method, there is a need group of people who will help in achieving this known as a target population. On the other hand there is also need to detect and classify the targeted population of the study in terms of maybe gender or age (Korb, 2012). SMEDCO was used as the case under study and much focus will be on employees on the following departments, which are; Finance, Risk, Operations, HR, IT and internal audit departments of the company, who are directly linked to disbursing and collection of loans. These workers have primary source of information on the main causes of default of loans and its effect on SMEDCO'S financial performance. On the case of SMEDCO, a target population of 35 employees will be used, and of the 35 only 10 are males, the targeted population comprise of 1 Ceo, 3 directors for finance, operations and risk, and the rest are employees from all sections of the organisation.10 from finance, 10 from operations, 4 from risk, 1 from internal audit and 5 from Harare branch.

3.3 Sampling method and technique

According to Sekeran (2008) a division or split of a population is called a sample or a model. Sekeran (2008) stated that the selection of a sufficient total number of the objects or items from the population so that current study will be able to analyze the characteristics of the population element is known as the sampling process. Sampling is done because it is

impossible to test every personnel from SMEDCO due to time. Sampling method is the plan entails choosing elements for sample based on fulfilling certain conditions. Probability sampling and non-probability sampling are known as the two sampling methods. Probability sampling is based on equal chance and results that can be hardly predicted. Non-probability sampling is technique in which sample selected on basis of personal judgments. This study made use of both probability and non-probability sampling methods.

When each participant of a given population of the study has the same chance as others of being nominated to be part of the data collection process, this is referred to as random sampling (Dooley, 2003). The results of the study were anticipated to be fair and not inclined to any form of prejudice in order to be representative enough of the target population as a whole. Sometimes quota sampling method is considered to fall into purposive sampling, and also stated that when using quota sampling, methods are to be chosen while scheming the number of people whose features and characteristics will be included as the respondents of the study. To some extent quota sampling was employed together with random sampling.

The selection of SMEDCO personnel used purposive sampling. The selection personnel were chosen as key provider of information. The criteria chosen allows to focus on people have knowledge of default risk. The sample selected is representative of the whole population because it is selected without bias using random numbers. It is suitable in the case of SMEDCO as it has 6 branches that are geographically dispersed all over the country, and also for dispersed elements when using an alternative technique of collecting data such as portal questionnaire or interviews. However the whole population might not be greatly represented for it can lead to the acquiring of poor results produced. Also if the area under study is too big and too dispersed, it will worsen the situation due to concrete restrictions and limitations to visit the other places for the results of the study to get reflecting results of each area as time may not be permitting as well as the available resources to access other parts of the study area.

Purposive sampling was used by the current study to get results for the related case of SMEDCO. This was because it enabled the selection of the suitable individuals to be respondents and the proper area to be used which was best and most appropriate for the study sample (Zikmund et al, 2010). Jankowicz (2011) cemented that the election of such respondents who possess a deep and wider knowledge on the problem at hand enable the

acquiring of the most suitable and appropriate responses that will help in solving the main problem at hand from people with their hands rightfully linked to the problem at hand.

Simple random sampling, quota and purposive sampling were used to select employees from SEMDCO who would partake in the process of data collection for both the interviews and the questionnaires in order to gather data on SMEDCO upon the issue of default risk. According to Faber and Fonseca (2014) samples should neither be too big or too small. Too small samples may prevent the findings from being analysed properly, whereas too large samples may amplify the detection of differences. A group of individuals who are part of the target population on whom the actual and definite results gathered for the purposes of the study came from is defined as the size of the sample (Premalal et al, 2015). According to Jalil et al (2014) the size of a sample should not be below 30%, for it is the minimum acceptable level for a sample size. They also went on to say that it is more efficient and effective for a study to use a sample unlike the whole of the targeted population for it cuts costs and saves time.

Table 3.1Sample Size

Section	**Target Population**	**Sample Size**	**% Representation**
CEO	1	1	100%
Managers	3	2	67%
Finance department	10	8	80%
Risk department	4	3	75%
IT	2	2	100%
Operations dpt	10	6	60%
Harare branch	5	3	60%
Total	35	25	71%

Shown on table 3.1 is the representation of the actual sample size of 25 individuals used as respondents which was used from a targeted population of 35 individuals from SMEDCO. Each department of the institute is represented by individuals who represent at least 50% of the targeted population which might mean a better reflection of the findings necessary for the study. According to Cooper and Schindler (2014) in order to have reasonable assurance on that the obtained results of a sample size are perfect and correct, it should be at least 60% and above and it can be seen from table 3.1 that the sample size is 71%, which according to

Cooper and Schindler (2014) gives evidence that the responses obtained from the sample are precise.

3.4 Sources of Data

Data source simply means where the data came from or its origin. The study made use of the two data sources, which are primary and secondary data.

According to Premalal et al (2015) any information that is related directly with the circumstance and the conditions as well as the respondents of the area under study is referred to as primary data. Primary data is the new basis or the foundation of material, which gives or delivers the direct and actual evidence ordinarily provided by partakers or observers (Mackey, 2013). The study used primary fact to gather first-hand information from employees on the causes of default risk on SMEDCO. According to Cooper and Schindler (2014) because of its neutrality and genuineness extraordinary reliability is placed on any information that is primary in nature. Due to the fact that primary data is also known as the first-hand information it means that it can rarely be tempered with or manipulated especially when all the channels of communications are followed through. Primary sources like interviews and questionnaires were used to know the main reasons which were responsible for the rise in default risk and how it was affecting the institution at large. The primary data was also used to come up with the factors that the institute considers before issuing out loans and how these issues at times led to the rise in the rate of default risk at SMEDCO. Then lastly the study manage to primarily know the measures that the employees presume to think that they can assist reducing default risk and what challenges they were currently facing to implement the strategies that reduce default risk at SMEDCO.

The data was collected to fit SMEDCO's specific purpose and the information is current data, unlike secondary data is not recent and it not be specific to the study, meaning to say that different people may have different opinions upon collected data and may evaluate and interpreted it differently to suit the needs of each and every user which might not be what it truly or actually means.. However due to the fact that primary data is normally more expensive and information gathered tends to be more time consuming because of exhaustive nature of the exercise, this hindered the study as well from interviewing every employees from the sample. Also because it is very expensive unlike secondary data which is cheap to get, it restrain the visiting of each and every branch as only 3 were visited out of the 6.

Dawson (2002) was for the view that any form of information which was distributed, circulated and published is referred to as the secondary data. It regularly outlines, assess examine and delivers clarifications of data centered on the sources of primary data. According to Bradley and Stewart (2003) secondary data is information or are facts that are exist already which were used to mend and resolve previous problems not recent ones. Secondary data include financial reports, diaries, journals, previous researches, web information and many more, and they were used because primary data on its own is not enough as some other responses may not clear enough. In this study losses were taken from SMEDCO's financial reports from 2011 to 2016 as secondary data, and they were attained quickly and appropriately cheaper as compared to primary data, as they were acquired from the web as published financial reports and some sent via email.

3.5 Research Instruments

According to Cooper and Schindler (2014) research instruments are tools responsible for collecting dependable and useful information for evaluation. Research instruments examples can be any scale intended to acquire data on a certain study or questionnaires.

3.5.1 Questionnaires

Creswell (2013) defines questionnaires as official papers which contain structured inscribed questions relating to the objectives of the study which are circulated to sample group so that they respond to provide information regarding the problem under study. According to Emengini et al (2014) in order to obtain qualitative information that can-not be expressed in numerical values, questionnaires are better suited in coming up with the relevant and reliable information in such instances.

The study opted for questionnaires due to the fact that there is no direct dialogue with the respondents which might lead to dependable information being provided as there might be no need for respondents to lie. Also filling of these forms provided participants with sufficient time to gather satisfactory answers to the questions. The study setting up appointments and check-ups were done to gather more Intel from every respondent to help investigation and evaluation of outcomes. The study also made use of closed questions which had proposed outcomes to gather information in line with the study objectives,

3.5.2 The Likert Scale

Likert Scale is a scale with 5 opinions of different evaluations and rankings where participants are obliged to give the necessary or needed information as they will be responding to the suggested solutions (Herron and Bishop, 2015). According to Cooper and Schindler (2014) in order to come up with the rate or the level of either agreement or disagreement of the respondents regarding the issue under study, a lirket scale should be used. Armstrong and Taylor (2014) were for the view that likert scale is a range of questions, from a risky one and to another extreme one. The use of a likert scale helped the study in grouping the opinions of employees of SMEDCO on the causes of default risk, measures and its effects of financial performance on SMEDCO, on whether they were in agreement or disagreement.

The use of likert scale enables gathering more reliable data from respondents. It offers a diversity of choices to choose concerning their views and skills with cost regulator methods. The study designed the questionnaires for management and employees of SMEDCO. Questionnaires were designed using Likert Scale, to come up with a conclusion of the extent of agreement or disagreement on a symmetric agree-disagree statement of respondents to the area under study. The used scale is given below;

Strongly Agree ☐ Agree ☐ Not Sure ☐ Disagree ☐ Strongly Disagree ☐

3.5.3 Interviews

According to Premalal et al (2015) an interviews is a way in which data is collected using a form of direct communication, like face to face interactions, with an aim to have an immediate feed-back concerning a subject under study interviews. Dikko (2016) was for the view that an interview is a dialogue between two or more which is meant for collecting evidence of a specific issue. Direct interviews with respondents from sample were conducted so as to get vital information on SMEDCO employees regarding default risk.it is impossible for people to express their emtions on a given paper when just filling in the required details, but when having a direct conversation like and interview, someone can express him or herslf where they strong feel like there is much need of attaintion needed, thereby in depth information can be collected from respondents as they will be able to let out their thoughts, experiences and opinions (Jamshed, 2014). According to Cooper and Schindler (2014), they are structured interviews, semi-structured and unstructured interviews and they vary depending with the issues to be addressed.

The study made use of structured and unstructured interviews in order to match, balance and understand data attained from the carried out surveys. The study used structured interview questions to all the department mentioned in the sample size, the main reason being that these respondents were the ones much involved in disbursing loans and in the repayment process, hence their response are valid and reliable. As the interviews were currently on going, unstructured interview questions were used to gather in-depth information among departments who are involved in the planning phase which affect the rate of default depending on the effectiveness of the employees on caring duties. However, Armstrong and Taylor (2014) believed that detailed interviews consume time as the respondents may end up diverting the interviews to irrelevant information not necessary for the on-going. The study tried to reduce time consumption on irrelevant issues by having a stated duration of each interview and enlightening the respondents on the main aim of the interview and stressing on its objectives.

3.6 Validity and Reliability of Instruments

3.6.1Validity

Alshengeeti (2015) defines validity as the point to which a research reveal the particular ideas it purposes to examine. According to Twycross (2015) states that validity is the extent to which an idea is precisely measured in a numerical study. In addition Dikko (2016), cemented that validity guarantees that the tools of measurement has cracked the notion it set to measure by comprising sufficient information so as to operationalize the idea. However according to Cooper and Schindler (2014) all instruments are regarded as valid if they measure what it should measure without failure and without being weakened by anything else. In this study the aims of the study were used so as to be assured that questionnaires and interview guide used in obtaining appropriate information as to causes of default risk at SMEDCO. The study used interview and questionnaires as the data collection tools, to ensure that data is more reliable. Interviews enabled the obtaining of more insight into the data that had been gathered through questionnaires thus giving full explanation of information gathered.

3.6.2 Reliability

Upon the issue of reliability, Dikko (2016) define reliability as a trial that is meant to make sure that the instruments of the study continue to measure reliably without any prejudice the planned theory or notion of the study. Twycross (2015) was of the idea that reliability is the

measure of consistency, in other words, an instrument is deemed reliable if it is used in the same situation repeatedly in different occasions, yet consistently giving the same results. According to Cooper and Schindler (2014) reliability is the level to which gathered data will be free from mistakes, favoritism and therefore produces honest outcomes and results. Objectives and the research were used in this study to come up with the interview guide questions and the questionnaires of the study which made it possible to collect the required data which was necessary for the study. To achieve reliability the questionnaires were clear and simple so as to remove any ambiguity and the reliability of the questionnaire was assessed through a pre-test of the instrument. The pre-test was done on SMEDCO staff and borrowers, and questions which caused problem during pre-test were removed and some rephrased.

3.7 Data analysis and presentation

3.7.1 Data Analyses.

According to Premalal et al (2015) data analysis refers to the procedure of thoroughly applying arithmetical and alphabetical methods to define and substantiate information in a reasonable way.this was also supported by Cooper and Schindler (2014) who were for the view that, the analysis of data illustrates the use of geometric as well as reasonable methods that enable a good and correct evaluationanalysis. In order to analyze data collected on the research of causes of default of loans on SMEDCO, the results will be put in percentages for comparison and will calculate the averages for the results as well as the mean.

3.7.2 Data Presentation

The data was firstly grouped according to the different questions and sorted on a Microsoft excel worksheet to calculate and come up with the percentages of each and every question asked according to the likert scale. Then the responses from both interviews and questionnaires were presented in accordance with the questions that relating to the continuing study. Diagrams and visuals such as tables line graphs, bar graphs and pie chats were used as Potter (2013) stated that they can be used to enhance the knowledge and improves the understanding of the presented information collected for any study. Visual aids such as bar graphs, pie charts and tables were used to illustrate the data collected. Therefore the results from this study will be presented using tables, line graphs, bar graphs, pie chart which will make it clearer to relate with information that had been gathered in the literature review.

3.8 Summary

Explained in this chapter, is the method which was used for the study. In this chapter are also details concerning the design of the study and the instruments used to collect data. Highlighted in this chapter was the study population, target population, the size of the sample, the sampling procedures and the design. The source of data, the procedures and the instruments were also discussed as well and it ends with a summary opening up for the next chapter which will focus on presenting the data and evaluate the findings of the study.

CHAPTER 4

DATA ANALYSIS AND PRESENTATION

4.0 Introduction

The section centers on analyzing records gathered from study respondents selected from the population with the aim of fulfilling the objectives of this stud. The presented data and information was gathered and collected through questionnaires and interviews. Data presentation is attained by using tables, graphs and pie charts. The chapter ends up with a summary.

4.1 Respondents Rate

Table 4.1 displays the reaction rate received on questionnaire forms issued:

Table 4.1 Questionnaire Respondents Rate

Departments;	Sample size	Respondents	Percentage of respondents
Finance	**8**	**7**	**77.7**
Operations	**6**	**6**	**100**
Risk	**3**	**3**	**100**
It	**2**	**2**	**100**
Internal Audit	**1**	**1**	**100**
Harare branch	**5**	**3**	**60**
Total	**25**	**22**	**88**

The response rate indicates the actual disseminated number of questionnaires as well as those that were returned back to the author by the respondents. 25 questionnaires were and out of the 25 questionnaires, the respondents managed to deliver back 22, giving a respond rate of 88%as shown on table 4.1 below. According to Cooper and Schindler (2014) a minimum sample size of 60% is required as it is known to giving evidence of reasonable assurance that the results obtained from the sample size would be correct and would give a fair value of what is actually on the ground. From table 4.1it can be seen that the results of the sample has 88%, which according to Cooper and Schindler (2014) gives evidence that the responses obtained from the sample are precise.

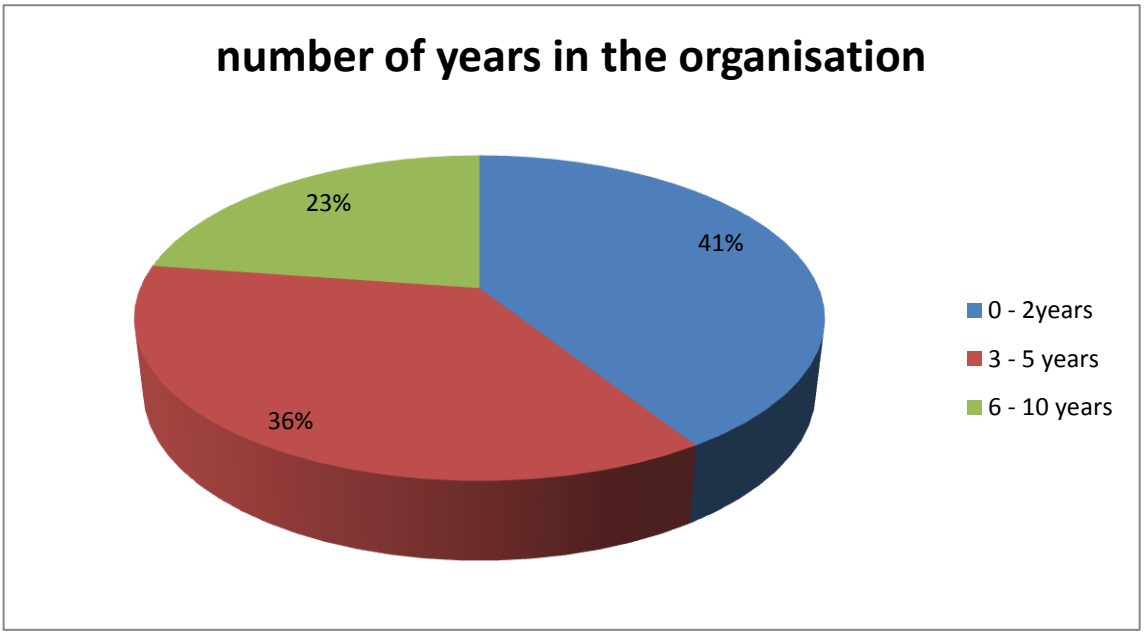
4.2 Background information

Table 4.2 Respondents years of work experience

Duration with the organization	**0-2 years**	**3-5 years**	**6 – 10**	**Totals**
Number of respondents	9	8	5	22
Percentage of respondents	46%	36.4%	22,7%	100%

(Source: Primary Data)

Fig 4.1 Duration with the organisation



From the information given on table 4.2, respondents with 0 - 2 years of work experience occupy 41% of the total respondent number. However, 36% of the respondents have got 3 - 5 years of work experience, also 23% of the respondent figure are employees with work experience of 6 -10 years, meaning that every respondent is much more familiar with the company. Asongo et al (2014) indicated that high staff turnover and client dropout was as a result of dissatisfaction of clients due to lack of necessary skills by the employees as they had worked for few years in the organisation and were find to be with les understanding of the necessary activities to be done. When Asongo et al (2014) stated this, their results were as

follows; 75% of the staff had 0-5years and 25% had more than 5years, which is almost similar to this case as 77% of the staff of the current study had 0-5 years and the only 23% had more than 5years.

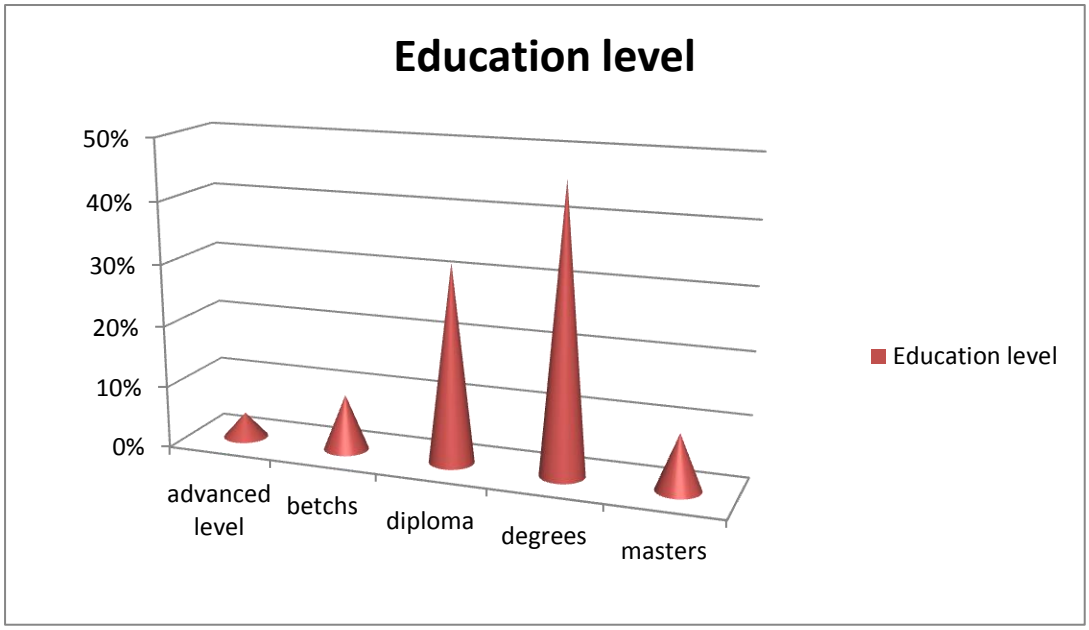
4.2.1 Level of education

This question intended to know the level of academic knowledge the respondent acquired in order to assess the reliability of the obtained information.

Table 4.3 Level of education

Education level	Advanced level	batches	Diploma	Degree	Masters	Totals
Number of respondents	1	2	7	10	2	22
Percentage of respondents	4%	9%	32%	46%	9%	100%

Fig 4.2 Highest level of academic qualification



The table clearly indicates that only 4 % had an Advanced level certificate. 9 % of the respondents are holders of relevant certificates. 32% of the respondents have got a diploma as their highest academic qualification. The table shows that 46 % of the respondents have got a degree and 9% have got a Masters' Degree, this clearly shows that most respondents are learned people, hence the data gathered can be confidently be relied upon. According to

Bincanga and Aseyo (2013)'s results on level of education; it was discovered that those with low levels of education find it hard to comprehend the work to be done during credit analysis and this a times results in default risk. This means that it is most advisable to have much of learned staff who can adopt fast to the working environment to reduce default risk.

4.3 Findings from the respondents

This section analyses responses gathered from the questionnaires that were issued for the sack of this study.

4.3.1 Causes of default risk

The aim of this question was to learn the chief causes of loan delinquency in MFIs but particularly SMEDCO as the study is using it as the case study.

Table 4.4 Response Key

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

(Source: *Shone (2013)*

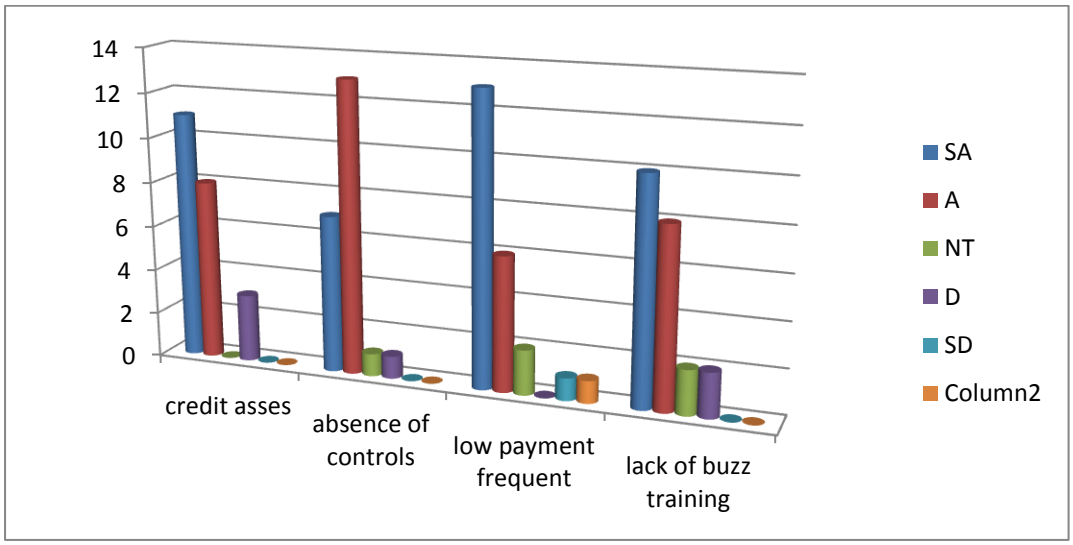


FIG. 3 default risk is caused by the following

The responses shown in Fig 4.3 above indicates that (11/22) 50% of the respondents strongly agreed that poor credit analysis greatly causes default risk in MFIs even in SMEDCO to be particular, while (8/22) 36.45% agreed to that as well, while only (3/22) 13.6% disagreed. On the other hand none of the respondents neither strongly disagreed nor were not sure on whether poor credit analysis causes default risk. Thus by aggregation, the rate of those who were in agreement is ((11+8)/22) 86%. This was in agreement with Nguta and Huka (2013)

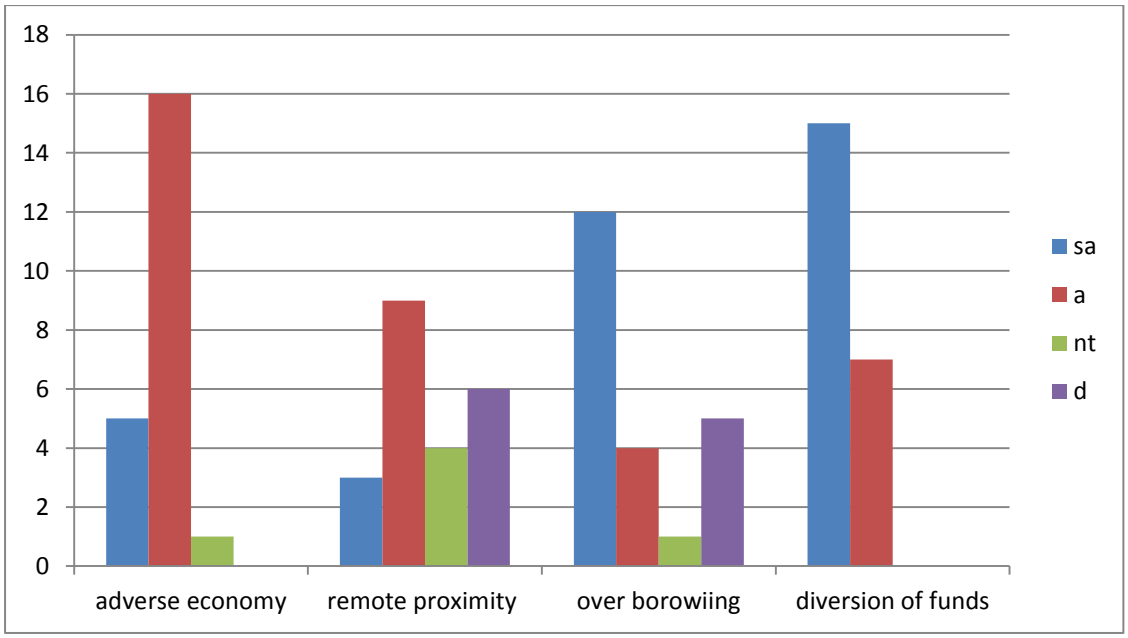
who advocate that MFIs should implement tight Credit policies to ensure reduction in the rate of default loans. This can be achieved through management internal and external audits to make sure everything on credit policies is kept and set internal controls for credit policies according to (Nguta and Huka, 2013).

The same Fig 4.3 shows that respondents had mixed feelings on the influence of absence of default risk controls on the causes of default risk with non to strongly disagree with the statement that absence of default controls is also causing default risk at SMEDCO, (1/22) 4.5% expressing ignorance on the subject in question and another 4.5% disagreeing that the absence of default controls is causing default risk in SMEDCO. On the other hand (13/22) 59.1% agreed while (7/22) 31.8% strongly agreed on the fact that absences of default controls is one of the causes of default risk especially at SMEDCO. This is indicated by a total of (20/22) which is 90.1%, who were of the view that absences of default controls is one of the causes of default risk especially at SMEDCO. Even though the respondents views were widely spread as evidenced by different responses, the views of Muiruri (2014) held true that where possible it is proper to assign a credit officer to a specific geographic region as a control measure for each geographic location to make sure that borrower are attended to their needs, and can even identify early where default risk may arise (Muiruri, (2014).

On the third question which was aimed at finding out the causes of default risk. Out of a total of 22 respondents (1) which is 4.5% respondent strongly disagreed, no one disagreed while 2 was not sure on whether low frequency of repayment causes default risk (6/22) which is 27.23% were in agreement with the subject in question while (13/22) which is 59.1% strongly agreed that low frequency of payment greatly result in default risk. The majority of the respondents agreed that was evidenced by the aggregate of those who agreed and strongly agreed [(13+6)/22] 86%. Low frequent of payment methods is one of the factors that is said to greatly affect default risk even at SMEDCO, this view was advanced by Field and Panda, (2012) when they stated that reducing the payment frequency in the repayment periods has a negative impact on loan repayment, though they went on to say that the frequency of repayment periods is more vital when borrowers proceed to bigger loans, this discipline may seaze to work when people no longer advance to bigger loans or when clients will be already at the third of the fifth loan and there will be no need to maintain the discipline for they will be in no need to have other loans, and when they know that they can go somewhere else to borrow other loans, (Field and Panda, 2012).

The responses of the fourth question as shown in the Fig 4.3 indicates that (10/122) 45.5% Strongly Agreed while (8/22) 36.4% were in Agreement that lack of business training on borrowers also leads to the rise of default risk. On the other hand, (2/22) 9.1% respondents Disagreed while (2/22) 9.1% were not sure. Most of the respondents were in agreement that lack of borrowers training results in default risk as most of them will not have knowledge on how to account for the borrowed funds; this was shown by the aggregate of those who strongly agreed and those who agreed (18/22) 81.8%. This view is supported by Bincanga and Aseyo (2013) as their study established that of those who turned to be high defaulters were borrowers who did not obtain any kind of training before getting loans from MFIs, and they were not able translate their borrowed funds into greater income so that they could be able to repay as a result of well managed businesses due to their entrepreneurial skills. Also Nguta and Huka (2013) cemmented that MFI clients ought to have satisfactory training and education on the kind of trades and business to venture into, to enhance borrowers decision making on how to appropriately run their companies as well as appropriate levels of the number of employees required for business, so as to reduce losses and to be able to repay the borrowed funds, to reduce default risk.

Fig 4.4 still more on causes of default risk



The responses shown in Fig 4.4 above indicates that (5/22) 22.7%% of the respondents strongly agreed while (16/22) 72.7% simply agreed that adverse economic conditions causes default risk in MFIs even SMEDCO to be particular as they started to suffer losses since the

economic down turn of 2008 that was experienced in 2008. Of th other hand (1/22) of the respondents were not sure , which was 4.5%, and not one of the respondents were in disagreement and strongly disagreed to the question that adverse economic environment results in default risk. Thus by aggregation, the rate of those who were in agreement is ((5+16)/22) 95.5%. This is also supported by Murekachiro and Matanda (2012) when they stated that of the study they conducted 75% which was majority defaulted because of the adverse economic environment which the country was facing, as most of the MFI clients were just individuals who borrowed mainly for household responsibilities and consumption and to raise their standards of living due to the adverse economic environment. Bincanga and Aseyo (2013) was for the view that MFIs should educate the borrowers on the need to able to save their money during of the adverse economic environment, as well as not to use borrowed funds on domestic activities in order to reduce defaulting in payment of loans.

Also shown on the results displayed on Fig 4.4 was that respondents had mixed feelings on how remote proximity between the lender and borrower causes default risk. None of the respondents strongly disagree, but (6/22) 27.3% just disagreed, (4/22) which is 18.2% expressed ignorance on the subject in question. On the other hand (19/22) 40.9% agreed while (3/22) 13.6% strongly agreed on the statement that remote proximity between the lender and borrower causes default risk, and they agreed that it is currently one of the factors currently causing default risk at SMEDCO. This is indicated by a total of (12/22) which is 54.6%, which form part of the majority, who were of the view that remote proximity between the lender and borrower results default risk. Even though the respondents views were widely spread as evidenced by different responses, the views of Nzongan et al (2016) held true that the longer the distance between the lender and the borrower the greater the default risk, this was supported by his results as they indicated that 73.33% of women who defaulted in his study were far from the MUFFA agency which was the MFI in his case, this was against 26.67% who were near, who did not default their payments.

Still on Fig 4.4, it also shows the results of over borrowing and the absence substantial collateral as one of the main causes of default risk. It indicates that (12/22) 54.5% of the respondents strongly agreed while (4/22) 18.2% simply agreed that over borrowing and the absence substantial collateral causes default risk in MFIs even SMEDCO to be particular as they were facing high default rate because most of the borrowers were highly were borrowed and fail to repay all the loans at once. On the other hand (1/22) 4.5% were not sure, and (5/22) 22.7% disagreed while noone strongly disagreed to the question. Thus by aggregation,

the rate of those who were in agreement is ((12+4)/22) 72.7%. This is also supported by Murekachiro and Matanda (2012) then advocated for a credit reference bureau (CRB) in Zimbabwe, to reduce selection of over borrowed clients in their lending processes as MFIs could not accurately measure how over-borrowed someone is, since Zimbabwe didn't have a CRB by that time which could then be used to track how over borrowed someone was. Asongo et al (2014) cemented this idea when they state that central banks ought to help these MFIs, so that they find a way in which they could inspect and know if a client was over borrowed or not. Therefore they were for the view of calling for government intervention through the use of the central bank to formulate other ways as it is one of methods that can be used to cure one of the main reasons why MFIs are facing high default rate .

The responses of the fourth question as shown in the Fig 4.4 indicates that (15/22) 68.2% Strongly Agreed while (7/22) 31.8% were in Agreement that diversion of borrowed funds greatly causes default risk, none of the respondents seemed ignorant of the question, and no one either disagreed or strongly disagreed. The aggregate of those who agreed and strongly agreed [(15+7)/22] which was a 100%, which means that all respondents were for the view that diversion of borrowed funds was greatly leading to default risk. Bincanga and Aseyo (2013) also cemented this view when they stated that to reduce default risk; MFIs ought to be regular monitoring of borrowers to ensure compliance on the use of received funds. This can be achieved by away of constant check-ups of the client's account statements, and also by actually paying the clients personal visits to observe as well as to assess their development and advancement in their businesses and ventures.

FIG 4.5 still more on causes of default risk

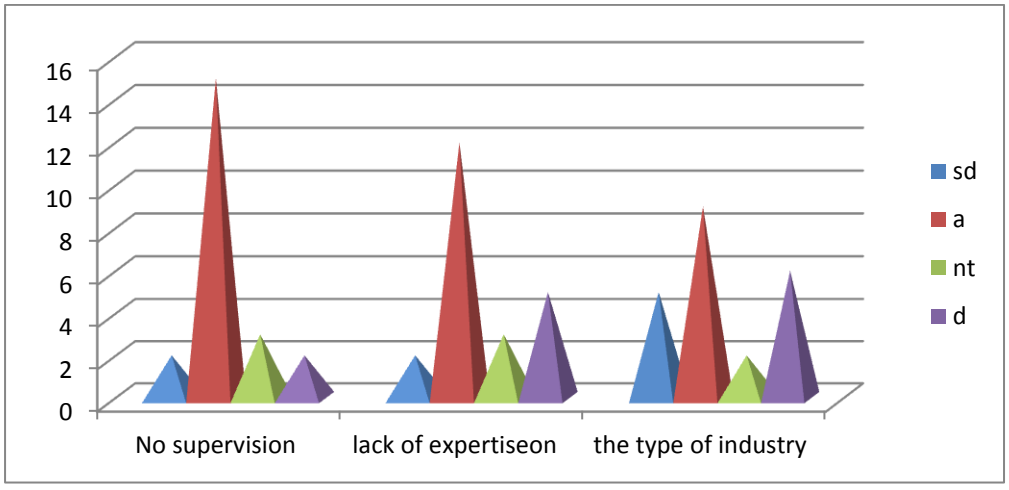


Fig 4.5 shows that respondents had mixed feelings on the question that absence of supervision on borrowers causes of default risk, no one strongly disagree with the statement, (2/22) 9.1% completely disagree, while (3/22) 13.6% expressed ignorance on the subject in question. On the other hand (15/22) 68.2% agreed while (2/22) 9.1% strongly agreed on the fact that absences of supervision on borrowers causes of default risk especially at SMEDCO. This is indicated by a total of (17/22) which is 77%, who were of the view that absences of default controls is one of the causes of default risk especially at SMEDCO. Bincanga and Aseyo (2013) was for the idea that insufficient observation of clients by the MFIs staff result in a high rate of defaulting loans. MFIs are obliged to do constant check-ups on borrowers f not weekly then on monthly basis, to enable close monitoring on the utilization and repayment performance of borrowers. This was cemented by Asongo et al (2014) as they indicated that borrowers were to be supervised to make sure that funds were not redirected to other financial needs, or funds will be wrongly put to use, which have a great negative effect on defaulting loan payments.

The same Fig 4.5 shows that respondents had mixed feelings on the question that lack of expertise on management and employees causes default risk, (5/22) 22.7% disagreed, and (3/22) which was 13.6%, expressing ignorance on the subject in question. On the other hand (12/22) 54.5% were in agreement and (2/22) 9.1% strongly agreed. In aggregate (14/22) were of the view that lack of expertise on management and employees causes default risk constituting a 63.6%. Even though the views of the respondents were not the same, the views of Asongo et al (2014) held true that standard employment should be maintained not based on favouritism, the best hands should be the ones engaged and adequate training given, and also stated that training of the members of staff is one of the core principals to triumph over any organizational issues that may arise, even those of default risk. Asongo et al (2014) also indicated that they noted that it was a bit hard for some of the MFI employees to locate the both business and residential addresses of borrowers, especially in the occurrence of default risk. This proved beyond reasonable doubt that the problems of loan default are as a result of lack of necessary skills by the staff, as most of them faced challenges in locating customers' residential or business addresses when default occurred (Asongo et al, 2014).

On the third question which is on fig 4.5 which was aimed at finding causes of default risk, the responses were as follows. Out of a total of 22 respondents, none of the respondent strongly disagreed, 6 Disagreed which was 27.3%, while 2 were not sure on whether the type

of industry in which the borrower operates causes default risk or not. However, (9/22) 40.9% were in agreement with the subject in question while (5/22) 22.7% strongly agreed that the type of industry in which the borrower operates causes default risk. The majority of the respondents agreed the type of industry in which the borrower operates causes default risk in most cases, as evidenced by the aggregate of those who agreed and strongly agreed [(5+9)/22] which was 63.6%. Nguta, and Guya (2013) advanced the view that the fast the products move in a certain industry, the low the default rate of the borrower and vice versa, this was after their studies which revealed that the type of industry in which a borrower operates also causes default risk. It was discovered that the manufacturing sector had the highest rates of defaults on paying back loans with an approximation of 67.9%. However in their study other sectors like service and agricultural also had high default rates, but the trading sector recorded the least of about less than 35% of default risk in paying back of loans. In explaining their results they were for the view that because the of the types of goods which the trade industry deals with, it is able to translate them into higher profits as their demand is high and they can be cleared off the market without delay, they can be translated into worthy businesses, increased income that will raise profits and reduce default risk.

4.3.2 The impact of default risk on performance of MFIs

The aim of this question was to determine the effects that default risk has operations of MFIs.

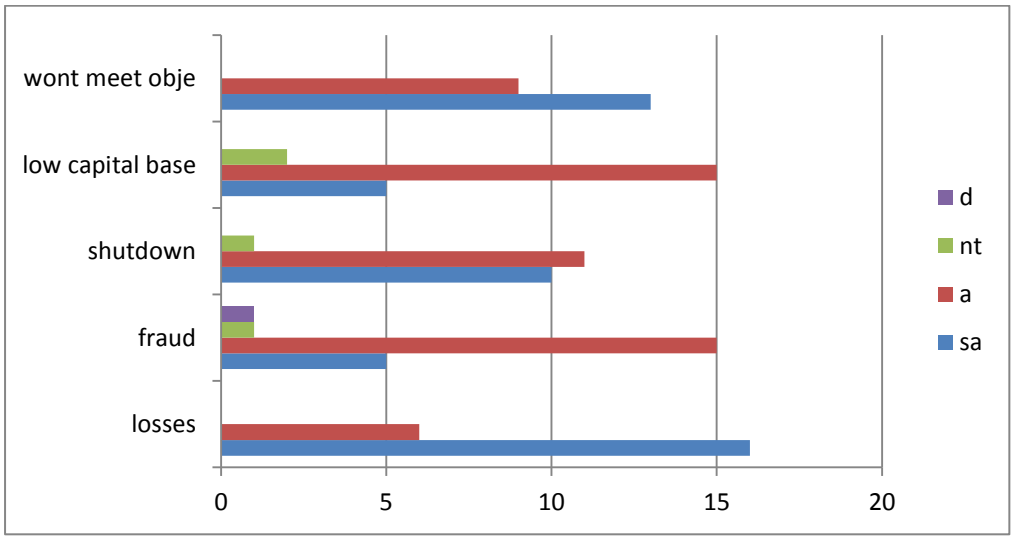


FIG 4.6 Factors considered before loan disbursement

Using the data shown in Fig 4.6 above (16/22) 72.7% strongly agreed with the view default risk results in losses and (6/22) 27.3% were in agreement with the same view. Ever respondent was certain of this view, and no one disagreed in any manner. The responses

stressed that default risk causes losses, which is the current problem which SMEDCO is facing right now from the period of 2008 as indicated in chapter 1. This was supported by Nguta and Guya (2013) who were for the idea there is a negative relationship between profits and default risk, which is to say; the higher the loan repayment default the less the profit and in most cases the higher the losses and vice versa.

The same Fig 4.6 shows that respondents had mixed feelings on the view that default risk leads to fraud if the controls are weak, with non to strongly disagree with this view, (1/22) 4.5% expressing ignorance on the subject in question and another 4.5% disagreeing that default risk leads to fraud if the controls are weak in SMEDCO. On the other hand (15/22) 68.2% agreed while (5/22) 22.7% strongly agreed to the view in motion. This is indicated by a total of (20/22) which is 90.1%, who were of the view that default risk leads to fraud if the controls are weak especially at SMEDCO.

Even though the respondents views were widely spread as evidenced by different responses, the views of Murekachiro and Matanda (2012) held true that default controls should be the top priority of management, for in some cases issuing officers end up disbursing out loans to their friends and close relatives even though they will not be able ability to pay back, this is normaly caused by lack of controls to verify the enrolling procedures. This also led them to act in contradiction of the regular values of coming up with the amount of the loan and going against all odds in offering large sums of money as loans to their close ones because of lack of controls which can detect their fraudulent activities. On the same note Muiruri (2014) stated that where possible it is proper to assign a credit officer to a specific geographic region as a control measure for each geographic location to make sure that borrower are attended to their needs, and can even identify early where default risk may arise (Muiruri, (2014).

Fig 4.6 also shows the results of the respondents on the question that default risk results in the shutting down of MFIs. (10/22) 45.5% strongly agreed while (11/22) 50% were in agreement that default risk results in decrease of the capital base of MFIs. On the other hand, (1/22) 4.5% respondents were not sure and no one was in strongly disagreement that default risk results in the shutting down of MFIs. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (21/22) 95.9%. ZAMFRI and Mahembei (2012) on the same note indicated that MFIs are facing default in loans as an operational challenge, and this is leading to the shutting down as they are not able to retrieve their capital which is tied up in lending funds.

The responses of the fourth question as shown in the Fig 4.6 indicates that (5/22) 22.7% strongly agreed while (15/22) 68.2% were in agreement that default risk results in decrease of the capital base of MFIs. On the other hand, (2/22) 9.1% respondents were not sure and no one was in strongly disagreement that default risk results in the decrease of the capital base for the MFIs. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (20/22) 90.9%. This view is supported by Nguta and Huka (2013) stated that more than three quarters of MFI's assets is the key foundation of output and which is responsible for lending and there will be increase in the risk of capital in lending when entire payments of borrowed loans are not probable as they may default. It is therefore obvious that MFIs manage default risk to reduce the effect of decrease in capital base (Nguta and Huka, 2013).

Using the data shown in Fig 4.6 above (13/22) 59.1% strongly agreed with the view default risk results in failure of MFIs to meet set objectives and (9/22) 40.9% were in agreement with the same view. Every respondent was certain of this view, and no one disagreed in any manner. The responses stressed that default risk results in failure of MFIs to meet set objectives, which is the current problem which SMEDCO is facing right now as they are not able to expand and grow big which they set as one of their objective, but is not being attained as a result of default risk.

4.3.3 Factors that are considered before disbursement

This question was meant to identify factors which contribute

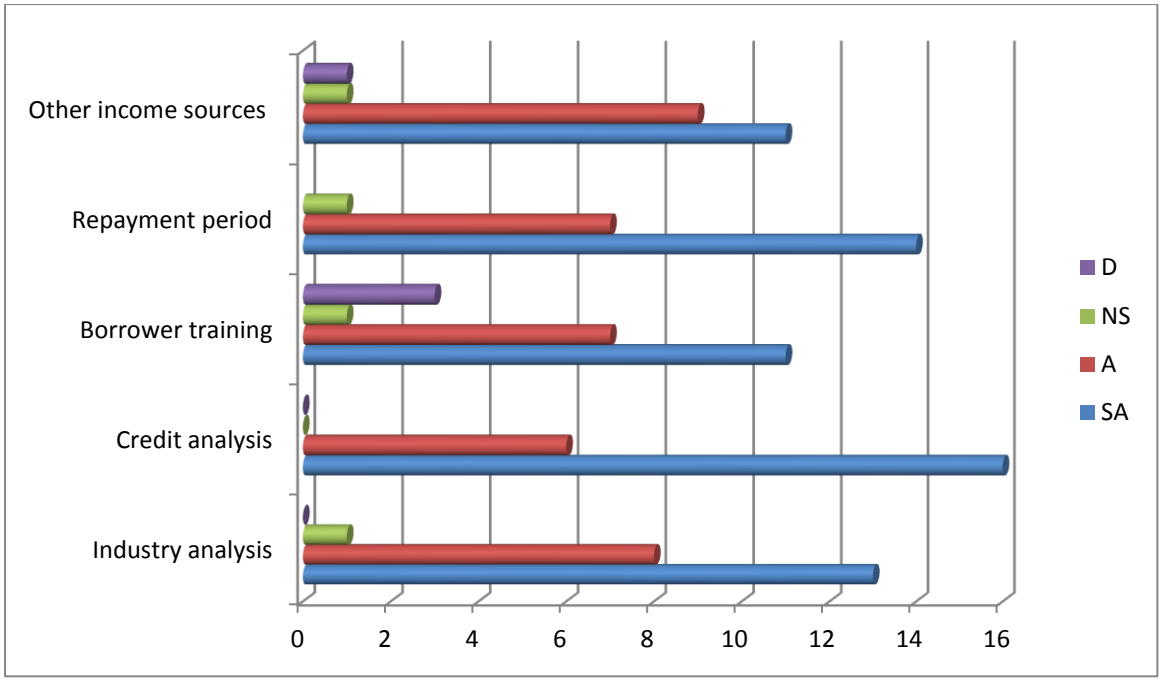


FIG 4.7 loans are disbursed after the following

Using the data shown in Fig 4.7 above (13/22) 59.1% strongly agreed with the view that crucial analysis of the borrower's industry is one of the processes that should be done before disbursement of loans to reduce default risk causes losses in MFIs, (8/22) 36.4% agreed with the same view. Only (1/22) 4.5% was not sure and no one neither strongly disagree nor disagree at all with the view crucial analysis of the borrower's industry is one of the processes that should be done before disbursement of loans. This was supported by Wachilonga et al (2016) when they state that borrowers should be directed into exploiting grey areas like the manufacturing and agribusiness sectors to maximise profits because very few people are in such industries and also agricultural and raw materials are cheaply available in most cases, unlike raw materials for other sectors which are a bit expensive, and hard to venture into as they are over croweded, as this might reduce the chances of success of the business of new borrowers and result in default risk.

On the other hand as shown in the same Fig 4.7 no one eight strongly disagreed or disagreed on that before loan disbursement there must be critical credit analysis of the borrower. (6/22) 27.3% agreed and another (16/22) 72.7% strongly agreed with the view that before loan disbursement there must be critical credit analysis of the borrower. Here most of the respondents agreed to this view as indicated by the 100% of those who agree that before loan disbursement there must be critical credit analysis of the borrower.

This view was supported by Nguta and Huka (2014) when they advocate that MFIs should implement tight Credit policies when enrolling borrowers for loans to ensure reduction in the rate of default loans. This can be achieved through management internal and external audits to make sure everything on credit policies is kept and set internal controls for credit policies. They also advocated for thorough work on client assessment, especially on the weaknesses of the business of the client, to see if there can be any credit extension to be made for such borrowers to reduce default. On the same note Korankye (2014) stated that there should be constant check-ups on credit controllers to make sure that all routines are followed and if any problems are to be identified or arise quick response should be given to such quickly for they might be indicators of future defaults and they should not be left un attended to. Wachilonga et al (2016) cemented that management should take more interest in portfolio characteristics and credit worthiness of a borrower in order to reduce default risk to a minimum level.

Fig 4.7 also shows the results of the respondents on the view that borrowers should be trained first before loan disbursement. There was no one who strongly disagree with this view, (3/22) 13.6% disagreed to the notion while (1/22) 4.5% were not sure on whether borrowers should be trained first before loan disbursement. Respondents who were in Agreement were (7/22) 31.8% while a further (11/22) 50% was strongly in agreed to this view. The majority of the respondents agreed to the view that borrowers should be trained first before the loans are disbursed. According to Bincanga and Aseyo (2013) teaching and preparation of borrowers prior to the acceptance of funds from MFIs, is very essential in giving borrowers expertise in industrial administration and supervision as well as accounting for both the used and remaining funds. It was also shown that from their study that of the borrowers who never attained any kind of training earlier from MFIs, defaulted since they were not able to expand their capital base to make more profits in order to have surplus funds to repay.

The results of the fourth question on fig 4.7 were as follows, out of a total of 22 respondents (14) 63.6% respondent strongly agreed, (7) 31.8% agreed while (1) 4.5% was not sure on if there is need to check the repayment period the borrower is suitable for or not before loan disbursement. However no one was antagonistic to this view of all the respondents. The majority of the respondents agreed that that MFIs should fist enquire from borrowers the repayments periods they can afford before loan disbursement to reduce default risk. This was evidenced by the aggregate of those who agreed and strongly agreed [(14+7)/22] 95.5%. on this view Bincanga and Aseyo (2013)'s results indicated that the majority of the respondents which was three quarters, advocated for a longer period for repayment of loans in order for

them not to default, although only a quarter of the respondents in their study were in agreement with the set rules for repayment by MFIs, and indicated that they would not default. This was because some of the borrowers businesses were not profitable and most of them do not earn income on daily basis which makes them to fail to meet deadlines for repayments.

The responses of the fifth question as shown in the Fig 4.6 indicates that (11/22) 50% strongly agreed while (9/22) 40.9% were in agreement that enquiry should be made first on the existence of other sources of income before funds are disbursed. On the other hand, (1/22) 4.5% respondents were not sure and (1/22) 4.5% disagreed, but no one was in strongly disagreement that enquiry should be made first on whether or not the borrowers has other sources of income or not before disbursement. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (20/22) 90.9%. This view is supported by Nzongan et al (2016) whose result indicated that about 60% of defaulters had no extra income while 40% of the defaulters had extra income from their business activity, rents and from other sources which helped them not to default their payments, therefore he advocated that MFIs should lend funds to those borrowers with other sources of income to reduce default risk.

4.3.4 Measures to reduce default risk

In line with the research objectives, the aim of this question was to find out from respondents on the measures that can be put in place by MFIs including SMEDCO to reduce default risk.

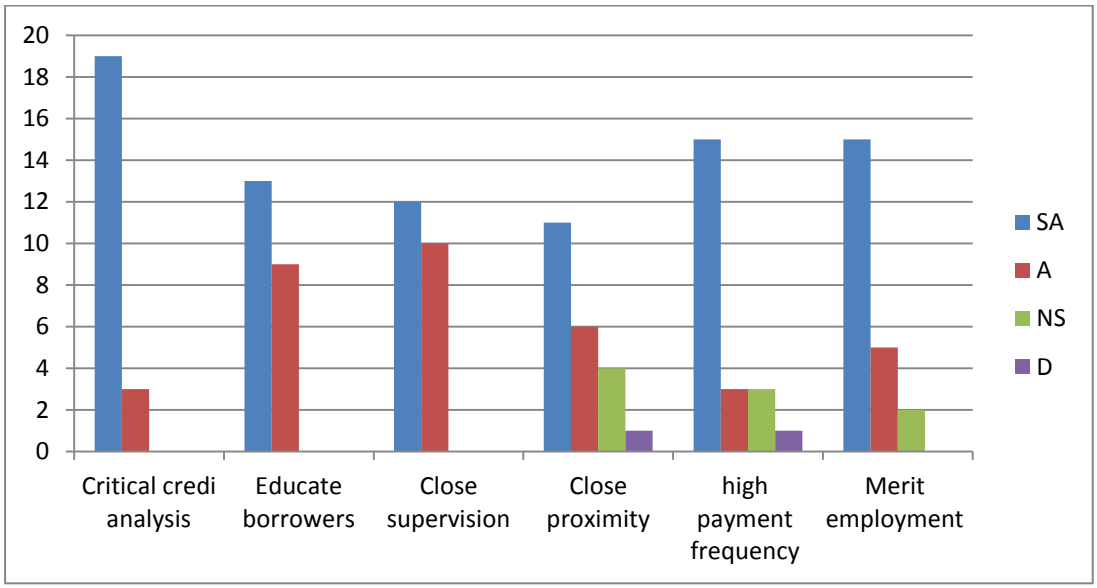


FIG 4.8 Measures to reduce default risk

Using the data shown in Fig 4.8 above (19/22) 86.4% strongly agreed with the view that there should be a critical credit analysis and a sharpened process of client selection before issuing a loan to reduce default risk and (3/22) 13.6% were in agreement with the same view. Every respondent was certain of this view, and no one disagreed in any manner. The responses stressed that there should be a critical credit analysis and a sharpened process of client selection before issuing a loan to reduce default risk, this was indicated by a total (22/22) 100%. This was supported by Korankye (2014) who was the view that the credit and lending policies of MFIs should have transparent, strong and active which will help stop default risk and processes and measures must be reviewed regularly. MFIs ought to make sure that the strong policies they have on paper are done effectively in the field, the MFI's managers must check with those responsible with the disbursements of funds and their repayments daily to confirm on whether the rules and guidelines are monitored and credit officer's folders ought to be tracked quarterly, monthly and even weekly where it's possible. Murekachiro and Matanda (2012) were for the view that the use of a Credit Reference Bureau can reduce adverse selection of over borrowed clients in their lending processes; this was because a number of MFIs in Zimbabwe were not able to precisely determine and measure with certainty risky portfolios in the absenteeism of a Credit Reference Bureau.

The same Fig 4.8 shows the results of respondents on the view that education of borrowers on entrepreneurial skills should be put as a measure to reduce default risk, with none to strongly disagree with this view. On the other hand (13/22) 59.1% agreed while (9/22) 40.9% strongly agreed to the view in motion. This is indicated by a total of (22/22) which is 100%, who were of the view that education of borrowers on entrepreneurial skills should be put as a measure to reduce default risk especially at SMEDCO. Nguta and Huka (2013) stated that the investors and managers of MFIs should guarantee that their clients have access to sufficient preparation and all the relevant training; to have a broader choice and experience on commercial and business surroundings, this will the enable them make more profits so as to repay. This was cemented by Asongo et al (2014) who stated that educating of borrowers on entrepreneurial skills and simple industry ideologies and philosophies endows them with understanding on employment of the both capital and other resources at their disposal, for them to increase profits and to be able to meet scheduled dates of repayments.

Fig 4.8 also shows the results of the respondents on the question that close supervision of borrowers on how they use funds can be used MFI as a measure to reduce default risk. (12/22) 54.5% strongly agreed while (10/22) 45.5% were in agreement that close supervision of borrowers on how they use funds can be used MFI as a measure to reduce default risk. No one was in strongly disagreement that close supervision of borrowers on how they use funds can be used MFI as a measure. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (22/22) 100%. There is need for close supervision on borrowers to make sure that funds were not redirected to other financial needs, or funds will be wrongly put to use, which have in most cases is leading to the increase of default risk (Asongo et al, 2014).

The response of the fourth question is indicated on Fig 4.6 that (11/22) 50% strongly agreed while (6/22) 27.3% were in agreement that close proximity between borrower and lender to reduce default risk. On the other hand, (4/22) 18.2% respondents were not sure and (1/22) 4.5% no one was in strongly disagreement that close proximity between borrower and lender to reduce default risk. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (17/22) 77.3%. Korankye (2014.) supported this view when he stated that borrowers should be visited more often and the distance between borrower and lender should not be too long that it increase the operational costs, as this might deprive these regular visits which were seen to be effective in reducing default risk.

Fig 4.8 also shows the results of the respondents on the question that high frequency repayment periods can be used MFI as a measure to reduce default risk. (15/22) 68.2% strongly agreed while (3/22) 13.6% were in agreement that high frequency repayment periods can be used MFI as a measure to reduce default risk. On the other hand, (3/22) 13.6% respondents were not sure and (1/22) 4.5% disagreed, while no one was in strongly disagreement that high frequency repayment periods can be used MFI as a measure to reduce default risk. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (18/22) 81.8%. this view saw cemented by Field and Panda (2012) as they stated that less the frequent of repayment the higher client default and the high the frequency of repayment the lower the default rate, high the rate of debt payments truly diminishes the probability that borrowers may fail to repay or default their loans and is one of the measures that can be taken to reduce default risk.

The response of the fourth question is indicated on Fig 4.6 that (15/22) 68.2% strongly agreed while (5/22) 22.7% were in agreement that employment of management and employees in every department should be based on merit to reduce default risk. On the other hand, (2/22) 9.1% respondents were not sure and no one disagreement in any way that employment of management and employees in every department should be based on merit to reduce default risk. Most of the respondents were in agreement with the statement as indicated by the aggregate of those who strongly agreed and those who agreed (20/22) 90.9%. this was supported by Korankye (2014) when he state that to reduce default risk standard employment should be maintained not based on favouritism, but rather on merit and the best hands should be the ones engaged and adequate training given, this will work to the advantage of MFIs and as there will be reduced errors and mistakes due to skilled workforce, which in turn reduce default risk.

4.4 Interview Response Rate

4.4.1 Conducted Interviews and their Success

The study intended to conduct 4 interviews and managed to conduct 3 successful interviews with the following departments, finance, operations, risk, IT and Harare Branch personnel. However the other executives that were supposed to be interviewed were not available due to work commitments. The table on the next page summaries the response rate of the interviews.

Table 4.5 Response rate to the interviews

Department of respondents	**Interviews**	**Success**	**Response Rate in %**
Finance	6	6	100
Operations	6	6	100
IT	2	2	100
Risk	3	3	100
Harare Brach	5	5	100
Total	**22**	**22**	**100**

The study successfully carried out interviews to complement data collected through the questionnaires. These interviews enabled compensation on the shortfalls of questionnaire by allowing explanations and clarification from response views. The interviews were conducted as per the interview guide provided in the appendix. And the interview rate was 100%.

4.4. 2. What are the major causes of default risk at SMEDCO?

The aim of this question was to allow the respondents to identify the major causes of default risk at SMEDCO. Most (19/22) 86.4% of the respondents pointed out that the major causes of default risk at SMEDCO are over borrowing, diversions of funds, low frequent of payment and a poor credit analysis before loan disbursement. They pointed out that if the factors are thoroughly rectified there will be reduction in the rate of default at SMEDCO, as highlighted by Bincanga and Aseyo (2013). However, on other hand, (3/22) 13.6% of the respondents raised the point that proximity between the borrower and the lender, adverse economic environment, absence of supervision and the type of industry in which the borrower operates in greatly causes default risk. These views were in agreement with Nguta and Huka (2013) who also mentioned these factors as the major causes of default risk especially in MFIs, which in turn is affecting SMEDCO also. Nzongan et al (2016) also indicate that age, type of industry, complementary income, economic environment, proximity and business of the borrower are other factors that determine default risk. Furthermore, all respondents acknowledged that all the questions mentioned in the questionnaires were greatly resulting in default risk at SMEDCO.

4.4.3 Is SMEDCO as a whole currently affected by default risk?

This question aimed at identifying whether or not SMEDCO facing any effects of default risk. Most of the respondents (20/22) 90.9% were quick to highlight that SMEDCO has been facing losses since 2008 from up to this day, and they greatly thought that it was as a result of default rate which started to rise since 2008 due to the economic condition which prevailed that time which was too harsh. Respondents further highlighted that during that period SMEDCO almost closed down as did the rest of the MFIs but it got quick help from the government of Zimbabwe since it is a parastal. However, (2/22) 9.1% of the respondents raised the notion that SMEDCO is just facing losses as a result of other factors rather than default risk such as completion in the industry as it is competing mostly with banks who have a bigger capital base, and also that lack of enough funding is the main reason beyond the losses they have been making among many others, although they agreed that default risk

resulted to a lesser extent. The views of the majority were confirmed by Nguta and Guya (2013) who were for the idea that there is a negative relationship between profits and default risk, which is to say; they strongly agree that these losses which SMEDCO is facing is as a result of default risk.

4.4.4 Are there any measures in place to reduce default risk at SMEDCO?

The aim of this question was to identify any kind of repacations that could be set in motion so as to reduce default risk at SMEDCO. Respondents were of the view that a critical credit analysis and a sharpened assessment process of a client before issuing a loan, education of borrowers, close supervisions, close proximity, high frequency in repayment periods can be used to reduce default risk. Most (22/22) 100% of the respondents were in support of this view. In emphasising the responses gathered from the questionnaires, the and the finance director shared the view that the character of borrower and their likelihood to direct funds more than anything contributes to default risk and state that if their might be challenges on the side of the borrower communication generally helps to work on their challenges.

4.5 Summary

This segment of the study presented, linked and analysed all the replies and views collected through the questionnaires and interviews during the research process. Different school of thoughts were included to support some of the respondent's views. Graphs, pie charts and table were used to present and analyse data to enhance understanding. The following chapter will focus on summaries, conclusions and recommendations concerning the research study.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This part finishes up the study by taking a gander at the summaries of previous chapters and gives a synopsis of the outcomes on the reasons for default risk and its effect on MFI's performance, utilizing SMEDCO a contextual investigation. To wind up this section it gives the proposals and recommendations, and also additionally suggestions for further studies in matters relating to default risk.

5.1 Summary of chapters.

The first Chapter concentrated on building the foundation of the study, this was achieved by the existence of the background of the study as to what causes default risk and its effect on the performance of MFIs, using SMEDCO as a case study, and the considered periods for this study was from 2011-2016. It gave the various definitions of default risk, highlighted default risk as it happened around the globe and how it was affecting performance of various MFIs. It went on to state the statement of the problem, the main research question, research objectives and sub-research questions. The chapter then gave the limitations of study, assumptions, significance and the delimitations of study. Then it concluded by giving the definition of terms and the summary of the same chapter.

The name of the second chapter was literature review, and centred around what other studies said in relation to the subject matter. It is divided into theoretical review and empirical evidence. Theoretical review gives an overview of causes of default risk. Empirical review gave the results of the same study as it was done in other countries such as; India, Kenya, Nigeria and Ghana learning on their experiences of the causes of default risk and its impact on performance of MFIs.

Chapter three looked at the research methodology. This chapter looks at the research design and it used both the descriptive research and descriptive survey as there was a condition of a particular case of SMEDCO.it also went on to talk about the mixed approach which was used as a result of its advantages. Of the population of 46, a targeted population of 35 was selected and purposive sampling was considered and used for data collection. In an effort to gather information regarding default risk at SMEDCO, the research uses questionnaires and

conducted selected interviews. In a sample of 25 which was used and 22 questionnaires were administered and interviewed to get the necessary results.

Following was chapter four, which covered the data analysis and presentation of the research findings from chapter three. A satisfactory response rate of 88% on questionnaires and 100% on interviews was achieved. The outcomes were presented in accordance to the order of the questions on the questionnaire and interview guide. Data was presented in pie charts, bar graphs, columns and tables and the gathered data was further analysed using the results from other scholars on the same issue of default risk.

5.2 Major findings.

The study revealed that when loans are issued out at SMEDCO there is a rush in disbursement before a critical credit analysis is done thoroughly, also that there are controls that detect default risk, as of when it happens is which is resulting in default risk. Also the issue of less supervision and follow ups that are being made to borrowers on how they spend money and how they are failing to repay loans is strongly resulting in default risk. The results of the study also revealed that so many factors are causing default risk at SMEDCO, like the fact that borrowers are never trained before they are given loans, less attention is paid to the proximity between the borrower and the lender, and there is no extra effort to study about the industry of the borrower to see if there might be a possibility of defaulting and that their repayment frequencies are too high which results in default risk.

This study has shown that although SMEDCO did not closes down during the deep depression of 2008, their capital base is now very low, and they are finding it hard to source for funds due the losses they were making since 2008 as a result of default risk. As a result they are also not able to meet their objectives to expand as are getting less of what they lend and their operating expenses are too high. They have also shown that they are poor IT standards in repayment periods at SMEDCO, also that there is poor communication between SMEDCO and its clients; as a consequence, there is no good payment plan and poor relations between SMEDCO and clients.

The study indicated that in order to reduce the rate of default risk at SMEDCO and in order to raise profits and reduce losses, much should be done before loans are disbursed, which some of them include enquiry on whether the borrower has another source of income or not, confirm if the set repayment period dates can be met given the industry in which the borrower

operates in and also training on entrepreneurial skills before they are to start their businesses, which might enable repayments of loans and reduce default risk.

5.3. CONCLUSION

The aim of this study was to analyse the causes of default risk and its impact on MFIs performance, and SMEDCO was used as a case study. Views from different scholars pertaining to the area under study were also. The study was successful as it was able to get all the information using the stated objectives, and it highlighted some the measures which were to be taken by SMEDCO so as to reduce default risk.

5.4. RECOMMENDATIONS

The study advocated for SMEDCO to tighten its policy on loan default; this will create fears into the customers to pay back their loans on time and also surprise visits to borrowers by SMEDCO staff to assess on how well the borrowers are managing their projects or business.as the study showed that it greatly reduces the chances of the loan not being completely recovered. Nzongan et al, (2016) supported this view when he states that it is important for an MFI to have a tightened policy which they follow through every stage in issuing loans to reduce default risk. When going for group or joint borrowing, more work should be done in recruiting in order to have the best combination of groups because borrower composition may be sensitive to the flexibility of the repayment periods (Field and Panda, 2012).

On the other hand SMEDCO should implement tight Credit policies to ensure reduction in the rate of default loans. This can be achieved through internal and external audits to make sure everything on credit policies on loan disbursements are being followed. These policies should not allow borrowers who are over borrowed to have access to loan, this will reduce default risk. The study also advocated for SMEDCO to tighten its policy on loan default; this will create fears into the customers to pay back their loans on time and also surprise visits to borrowers by SMEDCO staff to assess on how well the borrowers are managing their projects or business. MFIs should make regular visits to borrower and to remind them to repay, so that default risk will be greatly reduced, as the chances of the loan not being completely recovered will be low due to constant reminders being given (Nzongan et al, 2016).

The study also calls for MFIs improve their follow-up of customers as most of them use the same collaterals to obtain several loans in many different institutions, and also calls for

government intervention to help in reducing over borrowing by the use of a credit controller officer, who will be used to assess the credit worthness of borrowers from the central bank so as to reduce over borrowing which results in default risk. As Murekachiro and Matanda (2012) also advocate for a credit reference bureau (CRB) in Zimbabwe, to reduce adverse selection in their lending processes so MFIs can accurately measure and ascertain credit risk profiles.

SMEDCO should ensure that borrowers have access to adequate relevant training in the MFI businesses before they are given funds to venture into, the training will also guide the borrowers on the appropriate choice of types of businesses and how to run them. Asongo et al (2014) was also for the view that training of clients on basic business principles empowers them with knowledge on utilization of the funds, which in turn would translate to higher income and timely loan repayment and reduced default risk. SMEDCO should have high frequency repayment periods to reduce default risk, unlike to prolong the repayment period, borrowers may get relaxed and fail to repay at all. Field and Panda (2012) who cemented that high frequency of repayment, actually reduces client defaults loans.

The study recommended that officers should give attention to continuous follow up on proper loan utilization, and appropriate training programmes that will improve borrower's decision making. In support of this view Wachilonga et al (2016) recommended that management should take more interest in portfolio characteristics like, borrower risk tolerance, financial literacy and cost of capital in order to improve repayment performance. Also that SMEDCO should educate the borrowers on the need to spend less on household consumption so as to reduce on default as well as borrowers being able to save their money in the face of the shrinking economy (Bincanga and Aseyo, 2013).

SMEDCO should also monitor borrowers on use of funds so that they are not diverted to household consumption and other luxurious spending. Bincanga and Aseyo (2013) supported this when they state that MFIs should monitoring borrowers regularly to ensure compliance on the use of received funds, through regular check of the borrowers account statements if not per forty nights, then monthly or quarterly.

SMEDCO management should effectively and efficiently communicate and inform the Debtors management policy to all staff members, in order to guarantee control awareness in every department of the entity. This assist to confirm on effective debtors' management policy implementation as indicated by Christopher Wicks (2009) who stipulates that management of a function or a department ought to be acquainted with the Debtors management policy and determine the internal controls that are appropriately documented and surveyed by their superiors to confirm on the compliance in adapting the policy.

5.5 Suggested Areas of further research

This study focused on default risk, its causes and its impact on MFIs performance, however they are many kind of risks that affect the MFIs which were not discussed in this study, therefore further research should be done to determine what causes and how other types of risks like credit, foreign currency risk and many more affect MFIs.

5.6 Summary

This chapter made a final wrap up to the study by outlining the summary of chapters, major findings, conclusion and recommendations, and the area that the study suggests as a further research gap which further research should be focused on.

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APPENDIX 1

COVER LETTER

Midlands State University

P Bag 9055

Gweru

3 April, 2018

Dear Sir/ Madam

RE: APPLICATION TO CARRY OUT A RESEARCH AT YOUR ORGANISATION

My name is Chipo Emily Machaka, I do hereby seek your permission to undertake a research. The research is undertaken in partial fulfillment of the Bachelor of Commerce Honours Degree in Accounting which is the program the writer is currently undertaking. The research is on the topic: **analysis of the causes of default risk and is impact on Micro Financial Institution's performance. A case study of SMEDCO**.

To make the research a success, l kindly seek your assistance by responding to questions in this questionnaire. This exercise is purely for academic purposes and your views and responses will be treated with utmost confidentiality and will **NOT** in any way be used independently or in direct reference to you at individual level. If you have any queries please contact me at cezzamba@gmail.com

Your cooperation is appreciated.

Yours faithfully

Machaka Chipo

APPENDIX 2

QESTIONNAIRE FOR RESPONANCES

Research question; Analysis of the causes of default risk and its impact on performance of MFIs

Part A: Background of Respondent

Profession ……

Department…….....

Years of experience in the organization……

Highest academic qualification attained……

Part B: Default risk and MFI performance

Research objectives

1. To analyse the main cause of default risk in MFIs
2. To investigate the impact of default risk on performance of MFIs
3. To determine the factors that are to be considered before any loan disbursement
4. To recommend measures to default risk to reduce losses at SMEDCO

Scale

Strongly agree	Agree	Not sure	Disagree	Strongly disagree

Mark X for correct answer

1. Causes of default risk

Default risk is caused by the following;	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
Poor credit risk assessment					
The absence of default risk controls in MFIs					
Low frequency of payment					
Lack of business training of borrowers					
Adverse economic environment					

Remote proximity between borrower and lender					
over borrowing and absence of substantial collateral					
Diversion of borrowed funds					
Absence of supervision on borrowers					
Lack of expertise on management and employees					
The type of industry in which a borrower operates					

2. The impact of default risk on performance of MFIs

Default risk results in the following;	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
Losses					
fraud if the controls are weak					
Shut down of MFIs					
Decrease in capital base					
Failure to meet set objectives					

3. Factors to be considered before any loan disbursement

Loans are disbursed after the following procedures;	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
Crucial analysis of borrowers industry					
Critical credit analysis of the borrower					
Training of borrowers on entrepreneurial skills					
Confirmation on the repayment period which the client can be able to repay the loan					

Enquiry made on the existence of another source of income					

4. Measures to reduce default risk and to reduce losses at SMEDCO.

The following can be used to reduce default risk	**Strongly agree**	**Agree**	**Not sure**	**Disagree**	**Strongly disagree**
critical credit analysis and a sharped assessment process of a client before issuing a loan					
Education of borrowers on entrepreneurial skills					
Close supervision of borrowers on how they use funds					
a close proximity between borrower and lender to enable good repayment methods					
High frequent repayment periods					
Employment of management in every department based on merit					

APPENDIX 3

Part C: Interview guide questions

1. Major causes of default risk at SMEDCO
2. Is SMEDCO as a whole currently affected by default risk
3. Factors that the institution considers before disbursing loans
4. Measures in place to reduce default risk at SMEDCO

Any comments you might want to make

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……
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Thank you for your cooperation!

CHIPO MACHAKA