

## The Inhibitors of Micro-financing: A Myth or a Reality in Zimbabwe

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### Abstract

The research study was aimed at exploring the inhibitors of micro financing institutions in Zimbabwe. The research objectives of the study were to find out the challenges faced by Zimbabwean MFIs in providing services to the informal sector, to investigate how MFI requirements are inhibiting their performance and to determine strategies that need to be adopted by MFI to stimulate better performance. Descriptive research design was used to get data and Closed and open ended questionnaires were administered in six provinces of Zimbabwe targeting government institutions, microfinance institutions and beneficiaries of microfinancing. In-depth interviews were conducted to policy makers in Zimbabwe. The target population for this study was 298 (comprising of MFI managers, beneficiaries and government institutions) and 5 policy makers respectively. A sample size of 169 was used. The study revealed that, microfinancing operations in Zimbabwe are being crippled by poor management skills which is blocking them to achieve their goals and objectives, again minimum capital requirements levied to them by the policy makers is also a stumbling block for MFIs performance, lack of sound capacity to attract long term loans from foreign direct investment and non-performing loans are also among the stumbling block for MFIs performance.

**Keywords:** Micro financing, Challenges, inhibitors, performance, MFIs

### 1. Introduction

Micro Finance Institutions (MFIs) play a pivotal role in the provision of services to the financially excluded population, particularly the informal sector and poor. This study seeks to find out the inhibitors of micro financing in Zimbabwe.

### 2. Background of the Study

Microfinance is a new industry in Zimbabwe, which began in the early 90s growing exponentially in early 2000s. The rapid growth of this industry was due to the factors that led to the formalization of the economy. Zimbabwe, a home population of 13.2 million, 70% live in rural areas and at least 72% live in poverty, with unemployment rate of about 80 % (ZAMFI, 2013). The informal sector is now the largest employer in the country. Soon after the dollarization era in the country the demand for microfinance was large and it grew rapidly in cycle with the growth of informal operator countrywide. The sector had become the main source of survival for the larger part of the population and therefore largely responsible for absence of the usual strife that characterizes other nations and yet to date there has been no direct fiscal allocation to this key sector (Klinkhamer, 2009).

The country has witnessed an increase in activity by microfinance players as a reaction to a steady decline in the country's economic fortunes since 1997. Empirical evidence shows that a dynamic and growing microfinance sector has contributed to the achievement of a wide range of development objectives, including: the attainment of income distribution and poverty reduction and production of goods and services that meet the basic needs of the poor, (Cook & Nixon 2000).

MFIs have experienced significant transformation in Zimbabwe during the current decade. Since the late 90s the economy of Zimbabwe has been affected with severe deterioration which led to the exceptional growth of the informal sector and sector activities. Business in urban areas, growth points and business and service centers grew a multifold in order to accommodate the continuous growing entrants into the sector. Microfinance activities at growth points and

service centers in rural areas also grew and provided employment to rural people. The inability of traditional banks to provide financial services during this period gave a chance to the informal sector to access capital, and emerged strongly in providing access to capital to members of the informal sector. Demand for micro-loans kept growing in leaps and bounds during the decade and yet there was no corresponding increase in the availability of funding.

During the year end of 2003, inflation intensified with three digits which resulted in some banks closing up. With the intention to normalize the financial service sector the RBZ took over the licensing of MFIs in December 2003, drafting new requirements of registration for both MFIs and banks which are still functioning up to date.

That marked a sharp decline in the registration of these institutions with the number not exceeding 200 up to date (ZAMFI, 2013). Despite this high demand and the initial surge in microfinance service providers. A lot of these institutions closed operations for example, Capital Base in Mutare, McDowell's and All Angels in Masvingo and More yields in Bulawayo, just to mention a few. Economic analysts have indicated that MFIs are feeling the impact of the current liquidity crisis and are operating on low capital bases, impacting on their lending activities to individuals and small-to-medium enterprises.

### 2.1 Statement of the problem

Most Micro financing institutions are struggling to attain financial stability and growth, diversification of product and service offering is still at its infant stage. The majority of them have failed to craft market driven strategies which are market facing. At the same time some of them have failed to attract donor funding and even the subsidies from the government and as such they have been passing on the burden to the consumer through charging exorbitant interest charges. However the government intervened with policy measures to protect the consumer leading to majority of them failing to reach sustainability levels leading to their shut down. This has given the researcher the keenness to explore the challenges of micro financing with the hope of enacting radical strategies which are market driven to pave way for MFI development.

### 2.2 Research objectives

- i. To find out the challenges faced by Zimbabwean MFIs in providing services to the informal sector.
- ii. To investigate how MFI requirements are inhibiting their performance.
- iii. To determine strategies for MFI to stimulate better performance.

## 3. Literature Review

### 3.1 Challenges faced by micro finance institutions in providing services to the informal sector.

#### 3.1.1 Financial

Financial constraints refer to the inability of firms to obtain funds for profitable investment projects, which results in inefficient allocation of resources and a decrease in firm performance (Banerjee *et al.* 2009; Claessens and Tzioumis, 2006). Many entrepreneurs from developing countries report financial constraints as a key obstacle to their daily business operations (Rijkers *et al.* 2010). According to Timmons and Spinelli (2004) as cited in Rijkers *et al.* (2010), the most serious causes of bankruptcy in small enterprises are: lack of vital business skills or knowledge, lack of access to finance, and an unfavourable economic climate. Savings and credit facilities have the potential for improving the incidence of survival among small enterprises. Some literature reveals that the provision of financial services is an important tool for mobilising resources for more productive use (Watson and Everett, 1999 as in Banerjee *et al.* 2009).

Financial constraints are a major problem for micro enterprises and their business operations. Love and Mylenko(2003) show that countries with better and greater financial development have very few financially constrained firms, compared to those with lower financial development. Most developing countries are said to have a problem with their financial markets and this pose difficulties to microenterprises when doing business (Carreira and Silva, 2010). Hence, financial constraints prevent firms from investing the optimal amount in their enterprises, and depress growth, productivity and firm survival (Carreira and Silva, 2010; Parker and Van Praag, 2006).

Firms that are financially constrained have insufficient or no access to finance.

Access to finance is relevant for investment and also for coping up with shocks in an unstable business environment (Castro *et al.* 2009). Dercon (2008) added saying institutions who are financially constrained are not likely to

mitigate the adverse effects of negative shocks in the financial business. Negative shocks in business reduce the performance of most micro finances, (Vereshchagina and Hopenhayn, 2009).

Rijkers *et al.* (2010), carried out a research in Ethiopia and found out that access to finance enhance productivity among firms. This means that entrepreneurs that are able to overcome financial constraints are able to improve their firm performance. (Beck *et al.* 2006; Masakure *et al.* 2008).

Banerjee and Duflo, (2008) say, when capital markets are functioning poorly, capital fails to reach the most productive investment which results in lower returns for financially constrained microenterprises. In addition, Fisman and Love (2003) indicated that startup firms are struggling to overcome the weakness in the financial market development. Comin and Nanda (2009) also agreed to Fisman and Love, saying that difficulties faced by firms in raising capital might causes them to crumble and fall. Paravisini (2008) shows that microfinances do not face frictions in accessing external funding, but these frictions are also preventing them to undertake profitable investment opportunities in the real economy. Banerjee and Duflo (2008) also agreed basing on the findings in the context of a directed lending program in India.

Studies by Beck *et al.* (2006) provides some evidence that small institutions around the world face greater financing obstacles than large firms. In support to this referring to the Zimbabwean firms the Nzaro *et al.* (2013) say, poor access to finance for small to medium enterprises was the major factor that was affecting their development and growth. Schiffer and Weder (2001) indicated that small firms report growth obstacles due to finance shortages than medium-sized or large firms. In supporting this Demircuc *et al.* (2006) went on saying that size, age and ownership also influences financial obstacles of a firm. The authors observed that older and larger firms report lower financial obstacles. Kyereboah (2007) found that most MFIs used high gearing from long terms sources of finance for their operations. This coupled with the firms lending to more clients reduced risk. However, Shankar (2007) in a case study in India found that the drivers of the costs of transactions were mainly field worker remuneration, the number of groups each worker dealt with and the collection activities.

Beck *et al.* (2005) also said that financial and institutional underdevelopment affect the small firms more in their operations and growth than larger firms. This resulting mainly from lack of networking in the developing world (Atieno, 2009, Nyoni, 2010).

### 3.1.2 Regulatory frame work and supervision

Christen and Rosenberg (2000), are of the opinion that, financial institutions are subject to regulations as a way to protect small depositors from loss of savings when the financial system becomes insolvent. Nzaro *et al.* (2013) also say, regulations are important as they ensure that the financial system won't be unstable due to loss of confidence as a result of insolvency. Nzaro also went on and argued that unless microfinance institutions accept deposits they should not be subject to regulations.

In Zimbabwe the Microfinance Bulletin (2011) reported that some registered microfinance institutions were forced to shut down operation as they had failed to meet the minimum capital requirements as set by the RBZ. In response to this situation Carpenter (1997) as sited in Nzaro *et al.* (2013) say, unregulated financial sectors results in growth and development of MFIs as there will free from regulations that impede their sustainability and growth. He added that most countries have limited administrative resources and the imposition of government regulations does not result in better microfinances performance.

Nzaro *et al.* (2013) also supported saying that, in some countries the unregulated MFI sector performs better than the regulated sector. They went on saying that the informal unregulated microfinances grew faster with a better performance than those that are formal and regulated in Zimbabwe. Christian and Ronsberg (2000) suggested that, there is need to strengthen microfinances capacity as a higher priority than regulating them. However a study conducted by Nzaro *et al.* (2013), on the impact of regulation on growth of MFIs shows that, regulation of MFI improved delivery of services which resulted in the provision of innovative financial products.

### 3.1.3 High Risky environment

In some developing countries, the business environment is very risky, comprised with greater market uncertainty, since the market is less established leading to investment decisions based on imperfect information (Willebrands *et al.* 2012). This is because many financial institutions in these countries face severe financial constrains because they operate in a very risk environment (Tang and Tang, 2007). Some studies suggest that risk taking on business practices is negative in risky environments (Kraus *et al.* 2012). High risk environment leads to high interest rates, because of the cost of getting loans repaid (Banerjee and Duflo, 2010; Dehejia *et al.* 2012). This results in an increased number of financially

constrained microenterprises, due to high discount rates which restrict investment of projects with good returns.

Common operational risk

<ul style="list-style-type: none"><li>❖ Lack of effectiveness and insecurity of the portfolio management system</li><li>❖ Inconsistencies between the loan management system data and the accounting system data.</li><li>❖ Misrepresentation of loan payoffs,</li><li>❖ Rescheduling disguises loan quality problems,</li><li>❖ Inconsistent implementation of the loan administration.</li><li>❖ Lack of portfolio related fraud controls,</li><li>❖ Loan tracking information is not adequate</li></ul>
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Adapted from: GTZ (2000:18)

Entrepreneurs can be over confident about their abilities (Koellinger *et al.*, 2007), they can have an imperfect understanding of the uncertainties in the market or they can try their luck when they have an outside option available to fall back on (Vereshchagina and Hopenhayn, 2009). In such cases risk taking does not lead to better performance. The risky environment of developing countries is marked by greater uncertainty as the market place is less well established, leading to investment decisions based on imperfect information hence failure of the operations (Kraus *et al.* 2012).

### 3.1.4 Competition

Competition is healthy and beneficial for the customer as at least two or more companies are striving for something that not all can obtain (Stigler 2008), it requires innovation and is generally said to bring down prices or interest rates charged on a loan. Once microfinance institutions are committed to managing business on a commercial basis, competition quickly becomes a hallmark of the environment in which they will be operating. Marulanda (2005), articulates that the more threatening competition to existing MFIs is not coming from informal money lenders as in the past; but from private commercial banks and other regulated financial intermediaries. Increased competition creates a problem in growth and expansion of organizations.

Increased competition is always welcome, because competition spurs technical efficiency, improvements in the quality of outreach and in the variety of services offered. Competition spurs actions to reduce costs that, in turn, allow lower interest rates. The drawback of competition is that it forces some MFIs out of the market, due to entry of better actors in the market. Navajas *et al.* (2003) studied competition in the microfinance market and the results propose that outcome of competition is ambiguous since competition leads to innovation thereby expanding outreach. However, it reduces the ability of lenders to cross-subsidize less profitable smaller loans. The entry of new competitors improves the repayment performance of borrowers through the formation of a general equilibrium, several theoretical analyses within the microfinance industry have shown that competition has a negative impact on the performance of socially motivated MFIs (McIntosh and Wydick, 2005).

Theoretically, McIntosh and Wydick (2005) show that there are adverse effects of the entrance by new microfinance institutions into the same pool of borrowers. They say competition between MFIs within the subset of profitable borrowers reduces the ability of socially oriented lenders to generate revenue. Navajas *et al.* (2003) in their study of the Bolivian microfinance market in the late 1995 showed similar results.

#### 3.1.4.1 Empirical evidence on competition

Olsen (2010) conducted a study to assess the role that increased completion on MFIs, in 18 Latin American and Caribbean countries. The analysis showed that increased competition reduces the number of borrowers, resulting in MFIs becoming inefficient with increased competition. McIntosh *et al.* (2004) also carried a similar research on the impact of rising competition on lending firms and the results showed a reduction in the level of lending. However, a similar research was done by Dzene and Aseidu (2010) on the impact of competition on the sustainability of MFIs in Ghana. The results showed that competition enhanced their sustainability and growth.

However competition in Zimbabwean MFIs has a negative influence in their operations.

### 3.1.5 Poor Management Skills

According to Hudon (2006), he says, management performance and skills are clearly associated with firm performance. The four dimensions which include leadership skills, technical skills, organizational and communication abilities provide

better results for MFIs performance. In support, Karedza *et al.* (2014) emphasized that internal environment of a firm is the ability of the management to develop effective strategies that will stimulate positive performance. They went on saying that it is the same problem most MFIs in Zimbabwe are facing, the problem of appropriate management skills to run their business entities. Lack of formal management training in the management of the small firms is a weakness and a limiting factor limiting growth and expansion of these institutions (Yan, 2010).

Masuko and Marufu, (2003) further said that most MFIs in Zimbabwe lack skills in human resources, marketing, financial management and general management skills to ensure continued survival of their firms and the sector in the country at large. Lack of management skills therefore has a serious negative impact on the growth of the microfinance sector in Zimbabwe (Karedza *et al.* 2014). Porter and Ketels (2003) have also viewed that poor productivity by firms in UK was because of poor manage skills which they were employing in their business activities. Also Keep and Westwood (2003) also supported giving arguments about business arguments saying that low business gains and business re-engineering programs and mergers does not affect performance but a lack of managerial skills.

Yosuf and Aspinwal (2000) studied the challenges faced by small firms and they found that lack of managerial skills, training general education and practical experience has a great impact on firm performance and growth. They went on saying that the dynamism of markets and intensifying of competition the management of a firm to have more than just general knowledge, in order to be able to plan strategically, improvising competitive strategies, benchmarking and gathering information and basic requirements that sustains the survival of an institution. Zelealen and Pansiri (2005), suggested the only way to overcome these problems is through an excellent managerial in an institution.

Monk (2000) illustrated that overemphasis on short term profitability, inflexible decision making patterns and the poor use of external advisors are also threats to microfinance institution. He also noted that family commitments and personal problems put pressure on managers thereby affecting their performance.

### 3.1.6 Poor Corporate Governance

Labie (2001) finds out that the emergence of structural problems has emphasized the importance of MFIs management and governance. The MFIs community has experienced major failures, for which inadequacy of corporate governance and management is to blame. Good corporate governance can indeed improve firm performance and help assure long-term survival. Good practice of corporate governance can minimize corruption and bribes which increases the cost of doing business. Zimbabwe as a developing country is also experiencing high levels of corruption in every aspect of business transactions as many executives are trying to satisfy their own personal needs rather than the company. Poor corporate governance is a stumbling block to MFIs as they have to pay some top officials to have permits or licenses to operate even to get loans from commercial banks (Nyoni 2010).

A research done by Kyereboah (2007), in India, shows that the issue of ethical practices is the weakest area in the industry of microfinance. He went on and suggested that manager's attitude determine the market orientation of a firm as well as customer satisfaction.

Nkamnebe and Idemobi (2011) argued that, the borrower's attitude affect credit recovery, and adding on that the skills of employees and their corrupt tendencies also have an impact on ethics in an organization activities. Labie (2001) also say, poor ethical behaviours were a cause of the failure of MFIs.

### 3.1.7 MFI requirements

According to RBZ (2014) MFIs are registered and supervised by the RBZ, which is tasked to ensure that licensed MFIs carry out money lending operations in accordance with the laws and regulations of the country. It is the duty of the RBZ to ensure that all MFIs that are found breaking the laws governing their operations will exit the sector immediately as they may cause financial instability.

### 3.1.8 Minimum Capital Requirements

In 1988, the first Basel Capital Accord was published, recommending a risk-weighted capital adequacy ratio (CAR) of 8% for all internationally active banks, this is according to Basel Committee on Banking Supervision 1988 as cited in Eschborn (2003). The ratio was accepted worldwide as a minimum standard for all financial institutions. More strict capital adequacy requirements are recommended for MFIs than for traditional banks. This ratio is a more sophisticated measure than the minimum capital requirement because it correlates capital with different degrees of risks on the asset side.

**Table 1.** Minimum MFI capital requirements in Zimbabwe.

Type of Institution	Current Level	31 December 2020
Deposit-taking Microfinance Institutions (microfinance banks)	\$5,000,000.00	\$10,000,000.00
Credit-only Microfinance Institutions(including Money lending Institutions)	\$20,000.00	\$50,000.00

Adapted from RBZ circular document; (2014)

A research by Eschborn, (2003), on regulatory requirements for MFIs, of 11 countries shows that even though there might be a difference in the amount but each country sets a minimum capital for these institutions to operate legally depending on the type of the institution that is whether it's a deposit taking or a credit only institution. The table above shows the minimum capital requirements that were set by the RBZ for Zimbabwean institutions to be registered. ZAMFI (2013) shows that minimum capital requirements has reduced the number of microfinance institutions registered in the country.

Ben and Kandil (2009) as cited in Eschborn (2003) studied the impact of capital requirement in Egypt and found out that, microfinances and banks were in support of the Egypt Central Bank in enforcing minimum capital requirements to improve their financial sector.

Other studies shows that minimum capital requirements are a basic but they are leveled accordingly, in the sense that there are specific authorities that regulate microfinance institutions unlike in Zimbabwe where the RBZ control is in umbrella terms. There is no specific act for these institutions that are able to set levels of minimum capital, with the business environment they are operating in. Most of these institutions fail to raise the required minimum capital, and they have no option than to shut down operations.

### 3.1.9 Ownership Concentration

Ownership Concentration stipulates the maximum percentage of capital that can be held by a single owner. In Zimbabwe, individuals have an effective shareholding maximum limit of 50% and institutions a maximum limit of 100% (RBZ 2014). Differences in identity and resource endowments determine the relative power and ability to monitor managers among owners of an institution (Douma *et al.* 2006). Ownership concentration has a negative impact on risk taking, this was also supported by Sullivan and Spong (2007) highlighting that the firms risk decline when managers and owners concentrate their personal wealth in the firm. Dwivedi and Jain (2005) say, the presence of various types of shareholders have a multiple effects on corporate performance. Different ownership groups adopt different tactics in influencing firm strategy (Ramaswamy *et al.* 2002).

However, Leaven and Levine (2009) noted that the presents of large shareholders increase the risk of an institution after they had conducted a worldwide study on financial institutions. Other researchers argued that, the ownership structure does not impact on the riskiness of an institution (Barry *et al.* 2011).

### 3.1.10 Corporate Governance

Corporate governance refers to the way in which companies are governed, and is particularly concerned with the relationship between shareholders and directors (Cadbury Report, 1992 as cited in Hermalin and Weisbach 2007). Within an organisation there are a number of internal parties involved in corporate governance. These include the board of directors among others (RBZ, 2009). Bhagat and Black (2002) documented that institutions with more independent boards have poor performance compared to those with little. And also those poorly performing institutions are likely to increase the number of independent directors which does not improve the performance of an institution. Bhagat and Bolton (2008), in their recent studies found a negative relationship between board independence and operating performance saying that more independent board of directors does not lead to better performance and may actually lead to worse performance. Hermalin and Weisbach (2007) came up with a model which shows that board independence provides greater oversight of managerial actions. Bhagat and Bolton (2008) says firms with greater board independence are more likely to replace the CEO after periods of bad performance.

Harford (2003) documented that during a process of takeover, directors are not retained, so this calls for the directors to be active in the environment of loose antitakeover. They should increase their performance in board meetings and they should be in a position to monitor the managers, which in turn contribute to a better firm performance. The RBZ (2014) in support of this reiterated that, it is a requirement that the directors should be well educated with good qualifications.



Also the RBZ (2014) states that the chairperson of the institution should be a non-executive director and the committee should include Credit & Risk Committee and Audit Committee with their respective Terms of Reference. Bhagat and Black (2002) supported this saying board independence significantly and negatively, correlates with short-term performance, but however, board independence makes no difference in improving corporate performance.

### 3.1.11 Management

The RBZ (2009), stated that the management team of a microfinance institution should comprise of a chief executive officer who is full time employee and the directors and senior management should have sufficient and relevant academic qualifications and professional experience. Adams and Ferreira (2007) came up with a model which says CEOs may be reluctant to share information with more independent boards, hence decreasing shareholder value. In another model Laux (2008) considered CEO turnover and board independence, and showed that greater board independence might be unfavorable to the firm because independent boards might be too active in replacing the CEO and in formulating CEO compensation. Raheja (2005) came up with a model which shows that, inside directors have more knowledge of the firm's investments. He went on saying that, the ideal board structure will depend on project verification costs to outsiders and private benefits from projects to insiders. In the model documented by Raheja (2005) it shows that greater board independence can be beneficial to some firms at the same time being damaging to some firms. Coles *et al.* (2008) suggested that smaller and more independent boards may not be vital in all cases.

### 3.1.12 Determining strategies for MFI performances

To rescue the remaining microfinance service providers and to resurrect the dead microfinance service providers in Zimbabwe, there is a huge need for loan capital, grants for operations, and medium-term finance. The lack of funding is by far the biggest obstacle for all financial institutions, including institutions active in lower-income markets.

Regulatory obstacles, the legal and regulatory environment, in particular the requirement to renew licenses every year should be softened so as to allow a fair participation to all participants in this sector.

There is also the need to be efficient in doing business as the cost of doing business in Zimbabwe went up dramatically towards the end of last year and beginning of this year, although they have come down slightly again. Given that higher costs of living affect everybody, small and microenterprises likely will be more price sensitive than usual. As a result, microfinance service providers are faced with the unusually difficult situation of having to rebuild their institutions from scratch under a climate of tight margins they need to be efficient. More so, there is a great need of having trained staff so as to remain efficient and effective in business (.Klinkhamer, 2005).

### 3.1.13 Regulating the legal and regulatory environment

MFIs are small firms which are said to be the engine for achieving national development. The ability of these firms to realise their objectives depends on the regulatory and policy environment in which they operate (ILO, 2000 as cited in Zindiye *et al.* 2008). Nzaro *et al.* (2013) highlighted that there is need for a modified approach of supervision and regulation of MFIs to improve on service delivery. He went on saying that the minimum capital requirements of MFIs should be lower than those for banks. Supporting this Christen and Rosenberg, (2000) say, supervisory tools used for banks are not suitable for MFIs, hence there is need to revise tools like capital calls. Policy makers should ensure that the regulations do not impose disproportionate cost to small firms. The regulatory remedies should be on simplification of Complex Regulations; Improved Access to Information, centralising and streamlining procedures. (Zindiye *et al.* 2008).

## 4. Methods

The researchers used descriptive research design as it relies on both primary and secondary data (Berry 2004). The descriptive research helped the researchers to condense large volumes of data obtained from respondents into summary measures. Data was gathered from MFIs managers, beneficiaries of MFIs and government institutions in six provinces of Zimbabwe through the open and closed ended questionnaires and from policy makers through in-depth interviews. Questionnaires were pre-tested before field work to verify some irregularities. The target population for this study was 303 (298 MFIs and 5 policy makers respectively). Population is the entire group under study in a given area (Berg and Gall 1993). Krejcie and Morgan (1970) model was used to select a sample size of 169.

## 5. Results and Discussion

### 5.1 How has the following constrains affected the operations of your institution?

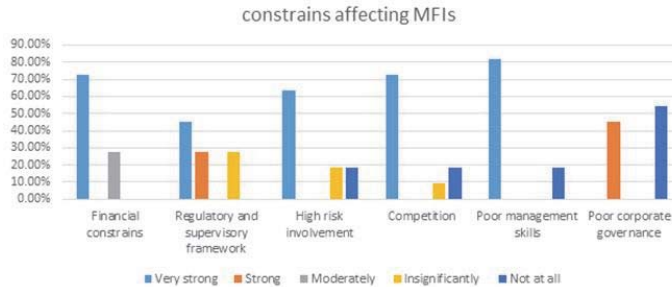


Figure 5.2.1: Impact of MFI requirements

The results on constrains affecting microfinance institution shows that 72.7% are strongly being affected by lack of finance in their institution. This concurs with Rijkers *et al.* (2010) in their results of the study which showed that many small firms mainly from developing countries were reporting that financial constrains was a key obstacle to their daily business operations. Only 27.3% showed that financial constrains moderately affect their operations. To firms like these, finance is not a problem as they have access to financial assistance from their headquarters. However, Nyoni (2010) has indicates that, the problem might seem not to be big, but most of them are financially constrained.

The respondents agreed that the regulatory and supervision framework affects their operations. 45.4% showed that, the regulatory and supervision of MFIs in the country had adversely affected their operation very strong and 27.3% strongly and the other 27.3% insignificantly. These results uphold Nzaro *et al.* (2013) who say unregulated MFIs in some countries performs better than the regulated sector.

Most MFIs in Zimbabwe show that, the liquidity crisis in the country has affected their operations very strongly with 63.6% of them saying it was very hard for them to do business in an environment with very high costs of doing business. However the remaining percentage was showing that they were not yet feeling the impact of high risky environment as 18.2% were insignificantly affected and the other 18.2% are not affected at all, showing that the regulatory and supervision framework was improving product and service delivery.

The other challenge identified in the research was competition. Fig 4.6 shows that 72.7% of the MFIs were strongly affected by competition rivalry from other MFIs who are said to be subsidiaries of commercial banks who are offering their services at very low interest rates than they are offering thereby narrowing their clientele base. 9.1% affected so insignificantly, see the consequences of competition and the other 18.2% has not been negatively affected with competition; rather they perceived competition as a way of innovativeness, thereby increasing their technical quality.

81.8% of the respondents have shown that, poor management skills have negatively impacted on their business with the remaining 18.2% indicating that they have what it takes to manage their business. Karedza *et al.* (2014) concurs and says, the internal environment of a firm is the ability of the management to develop effective strategies which are resilient to environmental torment.

Nyoni (2010) emphasized that, poor corporate governance is a stumbling block to MFIs performance; however the research has shown that 54.5% of the respondents were not feeling the negative impact of poor corporate governance. The remaining 45.5% shows that, there were strongly affected by poor corporate ethics when they were trying to get financial assistance from banks, with most of them ended up not getting the assistance due to increased cost.

### 5.2 How are MFIs regulated in Zimbabwe?

100% of the results show that, there are not yet clear statutes that are used to regulate MFIs specifically rather there are regulated under the Money Lending Act Chapter14 and supervised by the RBZ. Many explained that the Money lending and Rates of Interest Act is outdated as it dates back to 1930. This shows that, its content is somehow not suitable and they is need to be adjusted to the current times. These results concur with those of Klinkhamer (2009).



75% respondents indicated that, there was also the Banking Act, which was said to be restrictive as it contains a clause with conditions that, no banking institutions is allowed to engage in any business or activity other than the approved banking business. This shows that the country's tax laws are exorbitant to the development of an efficient microfinance sector in Zimbabwe.

25%, emphasized on a review on the requirements of board of directors and the minimum capital requirements saying they should be viewed in tandem with capital levels of the institution with lower being exempted.

### 5.2.1 How can you rate the impact of MFI requirement on MFI performance?

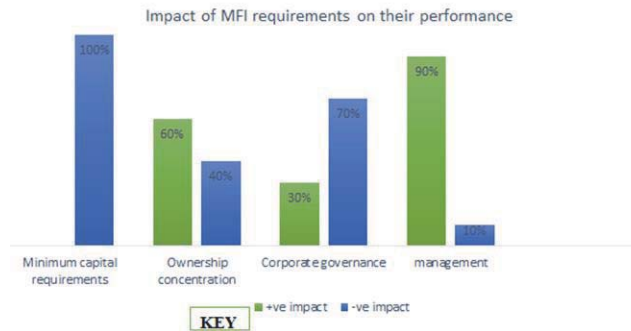


Figure 5.2.1: Impact of MFI requirements

100% of the respondents have shown that, minimum capital requirements have a negative impact on their performance. These results are the same with ZAMFI (2013) saying that, the minimum capital requirements have reduced the number of registered microfinance companies in Zimbabwe.

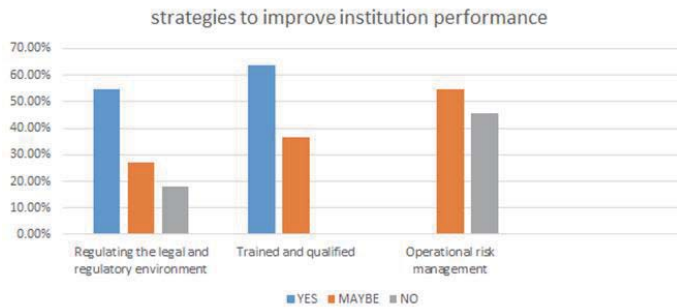
60% have viewed that, ownership concentration has a negative impact on microfinance institutions. This was also supported by Sullivan and Spong (2007) highlighting that, the firms risk decline when managers and owners concentrate their personal wealth in the firm. The remained 40% indicated that, ownership concentration has a positive impact on their performance. These results support Ramaswamy *et al.* (2002) who says, different ownership groups adopt different tactics in influencing firm strategy.

70% of the respondents indicated that, corporate governance requirements have a negative impact on their firm performance. The remained 30% of the respondents indicated that corporate governance has a positive impact on their firm performance. 90% of the respondents have shown that, management requirements have a positive impact on their performance. However the remaining 10% shows that, the management skill requirements have a negative impact on their performance. This can be because they are not able to meet the requirements of the management as stipulated by the reserve bank of Zimbabwe.

### 5.3 Has the following strategies helped improve your institution performance?



Figure 5.3: Strategies to improve institution performance



**Figure 5.3:** Strategies to improve institution performance

54.4% of the respondents in this study indicated that, the revision of legal and regulatory environment will be of a benefit to their institutions. This goes in hand with the finding of Nzaro *et al.* (2013) which highlighted that, there was need for a modified approach of supervision and regulation of MFIs to improve on service delivery. However 27.3% are not sure if it will benefit them and the remaining 18.2% indicated that, it will not help them.

The results have shown that, most of the respondents in this study are not qualified to perform their duties, hence 63.6% have a belief that training and qualified personnel has improved their performance and it will improve their performance. This upholds Gray (2006) who says, the exposure to training and development ensures that managers in small businesses are provided with requisite skills for developing the change demands placed in the market. The remaining 36.4% was not sure if training had improved their performance or will improve their performance.

Operation risk management seemed to be unpopular in the jargon of most MFIs as 54.5% indicated that they were not sure if it has improved their performance or it will improve if they had not yet implemented it. The remained 45.5% showed that operational risk management has not helped improving their performance neither will it improve in the future. the results shows that most MFIs are not familiar with operations risk management this supports literature which shows that surely most microfinance institutions management are unskilled, but however Willebrands *et al.* (2012) emphasized a lot to the adoption of this strategy by MFIs as it gives guidelines to mitigate challenges associated with risk taking.

### 5.3.1 If there are any strategies specify?



**Figure 5.3.1:** Suggested Strategies

100% of the respondents wish the government to assist MFIs operations as they are also small entrepreneurs who need support to grow. 65% further explained that the local government and the city council should if possible assist by providing cheap land or infrastructure as a way of supporting them.

60% of the respondents indicated that, they are campaigns and advocacy programs to ensure that the regulatory

and supervisory environment is conducive for MFI operations in Zimbabwe. Also there was a call to the ministry of finance to amend the policies that govern microfinance operations and that the parliament and the finance committee to support on a host amendment of policies governing microfinance institutions in their budget.

35% gave emphasis on that, the sector has to technologically advance to be competitive in the market and to boost innovativeness. They say, there is need for training in ICT as a way to encourage the adoption of e-commerce by MFIs so as to be competitive and also for proper documentations.

20% added to this study saying they were also working with other partners for an Apex fund that allows microfinance institutions to be capacitated which result in low interest rates being charged in the long run.

10% indicated that, they were advocating for the Client Protection Principle to develop pro-consumer codes of conduct and practices. These principles are said to be the minimum protection microfinance customers should expect from borrowers. And the remaining 10% indicated that they were helping MFIs to come up with bankable business plans that will help them access loans from banks.

## 6. Conclusions

The researchers noted out these challenges like financial constraints, high risk environment, competition, poor management skills and poor corporate governance.. Access to finance is a major constrain microfinance institutions face. The researchers also observed that most of these institutions are managed by people who are not skilled and unqualified hence poor management skills resulting in an unhealthy business practices.. The government has to intervene in MFIs operations to help them negotiate with local banks to get loans if they cannot get foreign direct investment. They are also advocating for the Client Protection Principle and undergoing campaigns and advocacy to ensure a conducive regulatory environment. Considering the foregoing, the researcher recommends the following:-

- Microfinance firms should make use of equity capital even though it can lead to dilution of ownership and control. Funds should be raised through the issue of shares to complement funds generated internally.
- Also the government and the responsible authorities should take steps to revise the legal and regulatory obstacles preventing the growth of MFIs.
- The government should initiate loan guarantee schemes for small firm as a way to help them improve financiers' confidence.
- A stock market specifically for small firms should be established, where small firms like MFIs can sale shares and issue debentures as a way of raising funds.
- MFIs should enact a robust credit reference system to vet undeserving loan applications.

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