

# FACULTY OF ARTS DEPARTMENT OF DEVELOPMENT STUDIES

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**TOPIC:** CREDIT RISK REDUCTION STRATEGIES ADOPTED BY RURAL BASED INFORMAL VILLAGE BANKS IN MASENDU WARD BULILIMA DISTRICT (ZIMBZBWE).

## **DECLARATION**

I, Rudo Valery Mavunga solely declare that, this thesis, being submitted to the Midlands State University in the Department of Development studies for the award of an Honours Degree in Development studies is my own original work, except where I have explicitly indicate otherwise, through referencing. This piece of work has not been submitted for any award at any University.

SIGNATURE	
DATE	

# **DEDICATION**

I dedicate this work to my beloved son Taona Madzoro whom I strive to inspire in future; hence I am where I am today. I treasure your encouragements socially, emotionally, and spiritually. I also dedicate this piece of work to all the informal lending schemes and institutions in Zimbabwe which brought financial inclusion to the rural sector.

#### **ACKNOWLEDGEMENTS**

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Sincere gratitude and tribute I give to my family members, relatives and friends, to Allan Mhagah my husband for his tireless support and encouragement .the Mavunga, Choga family's and, to Mrs F Mhagah and family am for ever grateful for their moral and spiritual support which contributed much to my studies.

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Last but not least, I would like to acknowledge the Almighty God for the guidance, protection and assurance throughout this research; I never would have made it without you.

#### **ABSTRACT**

Credit risk reduction is one of the most essential activities in any financial institution and cannot be overlooked by a bank's credit irrespective of its size and services issued. Effective credit risk reduction is a prerequisite for the village banks stability and continuous profitability.as with any financial institution in Zimbabwe, the biggest form of credit risk emanates from money loaned, and failure to retain it from the borrowers. The therefore sought to examine the credit risk reduction strategies adopted by the informal rural village banks of masendu .the study adopted a descriptive survey design ,the research population constituted of 8 village banks. The primary data was collected using questionnaires.

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# **ACRONYMS**

CSOs Civil Society Organizations

IRT Institute for Rural Technologies

FGDs Focus Group Discussions

NGOs Non-Governmental Organizations

VB's Village Banks

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#### **CHAPTER 1: INTRODUCTION OF THE STUDY**

#### 1.1 Introduction

In this chapter the research background, problem statement are going to outlined, as well as the conceptual framework, significance of the study which highlight the importance of credit risk reduction strategies for village banks (credit risk management). Also the research aims and objectives, limitations and delimitations of the study and the ethical considerations are the main components outlined in the thesis of the this research. Therefore the chapter focuses on giving an introduction of village banks in Masendu.

#### 1.2 Background of the Study

Effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization be it formal or informal. (Andersen & Terp, 2006) Since exposure to credit risk continues to be the leading source of problems in banks world-wide, banks and their supervisors should be able to draw useful lessons from past experiences. It's about time that rural banks should now have a keen awareness of the need to identify measure, monitor and control credit risk .As well as to determine that they hold adequate capital against these risks, and that they are adequately compensated for these risks.

Credit is the major source of revenue to rural banks and lending clubs in general. Credit therefore poses the major risk to banks due to the high default rate among borrowers. Since millions of poor, economically vulnerable and unbanked households want financial services to increase their standards of living. They thus seek a diverse range of services including loans, savings, insurance, and facilities for sending and receiving remittances (Umara Noreen, 2010). Due to such occurrences there is need for sound risk management techniques on the part of rural banks. For almost all rural banks in Masendu loans are the largest and most obvious source of credit risk; however, other sources of credit risk exist throughout the activities of a bank, including the banking book and in the trading book. The main goal of the research is to assess the credit risk management practices used by rural banks in bulilima precisely in Masendu region. This topic is

intended to survey the risk management practices used by the rural banks. Risks and uncertainties form an integral part of banking which by nature entails taking risks

To shed more light village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who are low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2000a). The loans are backed by moral collateral; the promise that the group stands behind each loan (Global Development Research Centre, 2005). The sponsoring NGO lends loan capital to the village bank, who in turn lend to the members. All members sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood, 1999). Members' savings are tied to loan amounts and are used to finance new loans or collective income generating activities and so they stay within the village bank. No interest is paid on savings but members receive a share of profits from the village bank's re-lending activities. Many village banks target women predominantly, as according to Holt (1994, p.158) "the model anticipates that female participation in village banks will enhance social status and intra household bargaining power.

Of late the rural microfinance institutions notably the village banks have brought about change in the province, and have played a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. In Masendu it has helped very poor households meet basic needs with improvements in household economic welfare, more so empowering women by supporting women's economic participation and encouraging their involvement in village banks.

To this background, the research will look at the strategies that can be adopted by the informal savings and lending schemes (village banks) to reduce credit risk, as they support rural economies in Masendu. Therefore, this research seeks to identify problems being faced by the village banks as they give out loans and make recommendation for probable improvements.

#### 1.3 Research Study Area

The research study was undertaken in Masendu ward 7, which is the name of a community ward in Bulilima District in Plumtree, and it being the biggest ward as it covers an area of 42km2, and its situated 53km north of Plumtree Town along the Plumtree-Ndolwane road. Plumtree town is hereby situated in Matabeleland South, one of the eight rural provinces of Zimbabwe. The ward is encompassed of six (6) villages; these villages below have approximately 480 homesteads with an average of six people per household and a total population of about ±3600 people. Therefore the villages are as follows: a), b)Luvuluma, c)Thandawani, d) Makumbi, e)Mambo village, f) Tjeboroma

BULILIMA DISTRICT WARDS

Makhudala

10

Bambadzi

11

Masendu

12

Gala

Figtree

14

Malanewazul

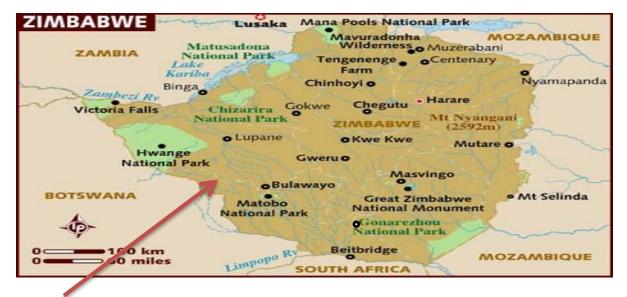
Dombolatu 16

Malanewazul

Dom

Figure 1: Map of wards in Bulilima district

Figure 2: Location of Plumtree Town in Zimbabwe



Plumtree Town Source: Google Map

#### 1.4 Statement of the Problem

Despite the fact that IRT provided platforms for training programmes to the village banks as a venture of instilling knowledge and skills in financial matters, village banks still incur challenges, leading to the decline of members from bank who were thirty members to seven females. Moreso debt collection strategies such as: a) increase in interest rates, b) summons to traditional courts, and c) Collateral as leverage for loans were adopted by the banks, but still the number of defaulter loans kept on rising especially since the rural people are poor and have less entitlements, absence of banking infrastructure, and lack of adequate and relevant training leading to credit risk and mull functioning of the banks operations.

More so, due to Zimbabwe's unstable economic meltdown and high levels of poverty and under development village banks continue to encounter challenges, especially since they are micro in nature and cannot withstand diverse economic crisis due to their minimum capital base, and inadequate knowledge on how to handle credit risk.

despite the devaluation of foreign currency (Rands and Pula's) in Zimbabwe around mid-2015 to early 2016. There is high circulation of Rand's and Pula's in Plumtree since the town is just

adjacent to the Botswana and south African boarder, thereby there is use of multi- currency in Plumtree ,and this on its own is a threat and avenue for credit risk as it stems from unbalanced foreign exchange cross rates .therefore these challenges faced by most village banks have led the researcher to seek solutions on how village banks can reduce and manage credit risk.

The major cause is directly related to lax credit standards for borrowers and counterparties, poor portfolio, or a lack of attention to changes in economic or other circumstances that can lead to deterioration in the credit standing of banks counterparty. Lastly due to lack of stationery and competent employees such as risk managers, records of defaulters tend to go missing as there are little follow ups on defaulters

For most banks loans are the largest and most obvious source of credit risk, however there are other sources of credit risk which exist throughout the activities of a bank, such as in the banking book, in the trading book, and both on and off the balance sheet. Hence in the case of village banks only the secretary and chairperson have assess and control of the ledger and trading books, creating room for corruption and alterations of loan records, thereby making the bank vulnerable to risk. Risks are associated with the operations of every type of organization. Therefore, risk mitigation factors need to be built into the institutional set-up, operations and practice, products offered by village banks. Risk management systems are highly specific as they are informed by the unique set of variable factors arising from the environment, target client group to the products and services offered. Village banks and their supervisors must draw useful lessons from past experiences, since village in their nature and structure lack adequate technology, experience of banking services, training and knowhow.

The experience is common to traditional and informal banks, since exposure to credit risk continues to be the leading source of problems in banks worldwide. Therefore the question is do rural banks have risk management policies that are relevant? And if in existence, how are they implemented by the banks to control credit risk? It's about time that rural banks should now have a keen awareness of the need to identify measure, monitor and control credit risk. As well as to determine that they hold adequate capital against these risks, and that they are adequately compensated for these risks.

#### 1.5 Significance of the Study

Credit risk is one of the most general risks that exist in the financial market and a major risk faced by financial institutions (Duffie &Singleton, 2003). Be it informal or formal financial institutions either in the urban areas or rural set up, regardless of the period of operation. Credit risk refers to the risk that a borrower will default on any type of debt by failing to make payments which it is obligated to.

Rural banking is now adopted and integrated into the Zimbabwean financial community in an effort of ensuring the availability of credit in the rural areas and eliminate financial exclusion for the rural poor, especially women. Village banks have a role to play in the context of sustainable rural development (economically, socially and politically). the key issue is to effectively manage credit risk and promote active lending to rural individuals and small to medium-sized enterprises (SMEs). Goodhart(1998) noted that poor credit risk management in the form of reduction strategies which results in undue credit is one of the major causes of bank failure.in this light effective credit risk strategies and management practices reduce the risk of customer default and help the emerging financial agents (village banks) to remain competitive in the financial market.

The study is therefore necessary to unravel the causes of high non- performing loans in village banks of rural Masendu. Since research in this area is still in scarcity, and also suggest strategies and ways of reducing credit risk, thus making the findings of the research of immense use to the managers of the village banks and the entire rural community.

#### 1.6 SCOPE OF THE STUDY

This study seeks to investigate the level of credit risk in the informal rural village banks in Bulilima District, Masendu ward 7 located in the Matebeland South Province of Zimbabwe. And also to identify the credit risk reduction strategies adopted by the village banks, and modify them into a framework which suits their characteristics.

#### 1.7 OBJECTIVES OF THE STUDY

- 1. To find out if village banks are familiar with credit risk, and to identify the strategies used by village banks in reducing credit risk. A case study of village banks in Masendu ward of Bulilima District from.
- 2. To find out the role played by the institute for rural technologies (IRT) in promoting credit risk reduction strategies for village banks.
- 3. To find out if credit risk reduction strategies are necessary, and to propose a practicable credit risk reduction framework that suits the characteristics of village banks in masendu

#### 1.8 RESEARCH QUESTIONS

- 1. How familiar are village banks with credit risk, and what strategies are used to reduce credit risk.
- 2. What is the role of IRT in promoting credit risk reduction strategies for village banks?
- 3. are credit risk reduction strategies necessary, and is there a practicable credit risk reduction framework that suits the characteristics of village bank

#### 1.9 RESEARCH METHODOLOGY

The study adopted the qualitative approach to evaluate credit risk reduction strategies adopted by village banks in Masendu. This approach is deemed relevant for studying credit risk, as it provides the researcher more descriptive space (Cooper and Schindler, 2001).the detailed methodology is therefore provided in chapter three.

#### 1.10 LIMITATIONS OF THE STUDY

The limitations of this study are explained below:

- Due to the current economic situation we are living in, it's difficult to acquire income since money is scarce.it would be hard for the researcher to have adequate funds for transportation, due to financial constraints.
- It was also difficult to get some of the critical respondents of the research for example the village bank chairpersons and there was also a general reluctance to participate by the

- beneficiaries of the bank ,mostly man as they thought that the information they would have given could be used against them in some way.
- Some respondents had some problems in understanding the questions as some of them were not illiterate in terms of reading and writing, thus having to use the services of an interpreter (Mr Freeman Dube) to facilitate the dialogue and enhance communication.

#### 1.11 STUDY DELIMITATIONS

Delimitations of the study are as follows:

- The Researcher will approach chairpersons that are working with village bank members in the District and seek help in terms of mobilizing these members so that they take part in the study. On top of that the Researcher worked with the NGO (IRT) based in the District and hence utilising the opportunity.
- The Researcher will be apolitical as the research will be carried out.
- Field observations will also be used also by the researcher so as to minimize the sensationalization of issues by the respondents.

#### 1.12 ETHICAL CONSIDERATIONS

As postulated by Schindler and Cooper (2003) ethics are norms or standards of behavior that guide moral choices about our behavior and relationship with others. On the same note Shamoo and Resnik (2009), state that ethics involve the application of fundamental ethical principles to a variety of topics involving research. The fundamental principle of this research is respect for persons regardless of their age, sex, religion or status. The goal of ethics in social research is to ensure that no one is harmed or suffer adversely from the research activities. The researcher procured all the possible steps of ensuring that the research participants were treated with sensitivity and respect for their status as human beings and every attempt was made to avoid belittling participants and undermining their status, and identity. The prospective participants received a summary of the key aspects of the research since it was not feasible to explain all the research aspects due to time limitations.

The following procedural principles guided the research in terms of ethical considerations.

#### **Voluntary informed consent:**

The issue of informed consent was given prominence, ensuring that the research was done with the approval of the village bank officials and its members, making them fully aware of the nature of the research and their role within it as well as obtaining prior consent of the respondents. Privacy and confidentiality of the respondents was held at the top most of the research so as to ensure that all the respondents gave the correct information as well as at their will.

- ➤ Consideration of language The researcher also considered the research area's cultural norms and beliefs. Seeing that the population is of a Kalanga tribe, their way of life differs from the Shona and Ndebele society, so the research adopted some of those norms as a sign of acceptance and respect.
- ➤ **Objectivity** The Researcher shall strive to avoid bias in experimental design, data analysis, data interpretation, peer review, personnel decisions, grant writing, expert testimony, and other aspects of research where objectivity is expected or required.
- ➤ Confidentiality The Researcher shall protect confidential communications and client records. The researcher assured the participants that their identity in relation to this research would remain anonymous. They are not going to be named in any way in connection with this research and the opinions they express will not be associated with them personally.
- ➤ Human Subjects Protection The Researcher shall minimize harms and risks and maximize benefits; respect human dignity, privacy, and autonomy; take special precautions with vulnerable populations; and strive to distribute the benefits and burdens of research fairly.
- ➤ **Transparency** There was no inducement whatsoever being it cash or kind to the participants during the research, and no deception was used thereby leaving no room for corruption and bribes, which alter and affect the research negatively.
- ➤ **Property rights** another ethical consideration was on the use of research findings (,interviews,observations,questionnairres) was solely for academic purposes, and to fill the gap of credit risk management in village banks. Property rights both from the academic and the researcher's point of views are to be respected.

#### 1.13 ASSUMPTIONS OF THE STUDY

The assumptions of this study are that the socio-economic environment will be stable thus the communities will be easily accessible to administer the research instruments. The other assumption is that the respondents will be willing to participate in the research. It is assumed that village bank chairpersons will consent to participate in the research and also the members of village banks as they are entailed to the banks operations. Especially since there are banks in the financial market which are traditional and informal that encounter credit risk as a major problem to their operations and services. Hence village banks will be stirred up to participate since village banks also operate with capital and are likely to encounter similar problems and theirs can still be far off.

#### 1.14 CHAPTER SUMMARY

In summation this research strives to be successful in addressing the credit risk reduction strategies adopted by village banks. The introductory chapter outlined and highlighted major issues of the study. A brief background to the study was outlined, the statement of the problems and its sub-problem that break the topic into workable units have been discussed. The rationale of the study has been explained and identified the risks that village banks encounter. In any research study to be carried out, thus the assumptions have also been discussed. No study can cover all the issues related to the topic; therefore highlighting the scope of the research .Moreso since every research has weakness, this study also has limitations which the researcher pinpointed. Therefore this chapter is essential because it prepares the reader with an understanding of the topic and, description of the area under discussion .as it highlights the operations and existence of village banks in Zimbabwe, how they are affected by credit risk, and what strategies they can adopt to risk the effects of credit risk based in Bulilima district.

# CHAPTER 2: THEORETICAL FRAMEWORK AND LITERATURE REVIEW

#### 2.0 Introduction

In an endeavor to understand and analyse the credit risk reduction strategies adopted by village banks in Masendu of Bulilima District, this chapter will review literature on, the definitions credit risk and village banks. The chapter will also give an overview of rural banking (Village banks) in Zimbabwe and its response to credit risk. It will also explain the link between credit risk and village bank's operations and services, the impact of credit risk reduction strategies and village banks, the approaches on mitigating the impact of credit risk It is also the intention of this chapter to analyse the role of NGO's (IRT) in mitigating the impact Of credit risk on village bank operations.

#### 2.1 Definition Of Terms

#### a) Credit Risk

Credit risk as stated by Henderson (2011) occurs when there is a loss in value as a result of a debtor's non-payment of a loan or other lines of credit, either the principle of interest (coupon) or both. Moreso, credit risk refers to the possibility of counter-party to a financial transaction failing to meet the financial commitments stemming from a credit agreement on time. It is the risk that a debtor will fail to service the interest payments or to repay the capital when it falls due either because of bankruptcy or for any other reason thereby causing the asset holder to suffer financial loss. The goal of credit risk management is to maximize a banks risks adjusted rate of return by maintain credit risk exposure within acceptable parameters.

The reserve bank of Zimbabwe risk management operating documents (2004), state that credit risk or default risk involves the inability or unwillingness of a customer or counterparty to meet commitments in relations to lending, trading, hedging, settlement and other financial transactions. Bessis (1998) also includes a decline in the credit standing of counterparty as party of credit risk .credit risk management covers both the decisions

#### b) Risk:

The Conventional viewpoint regard risk as a negative event that can only produce a loss, usually risk is regarded as follows: Risk is a condition in which loss (losses) is (are) possible (Athearn & Pritchett 1984:4). Also Risk is the objectified uncertainty about the occurrence of an undesirable event as stated by (Ritchie & Marshall 1993:142), and the chance of a financial loss (Gitman 2000:23 7)

while a modern view of risk regards it as either a positive or negative event: Risk is a measure of the anticipated difference between expectations and reality (Essinger & Rosen 1991:4) and risk as the presence of uncertainty, where there may be uncertainty as to the occurrence of an event producing a loss, and uncertainty as regards to the outcome of an event (Valsamakis, Vivian and Du Toit 2000:27).therefore risk can therefore be comprehensively defined as the deviation or variability of actual results from desired or expected results.

# c) Village Banks

Village banking is a concept of rural banking according to the (FINCA's model), whereby the notion of rural banking is the provision of banking services to the rural areas.it is classified by Helms (2009) as part of rural finance, while Los Banos (2007:1) states that "rural banks are primarily created to play a special role in regional economic development. The basic principle of rural banking is that the members of a self-selected group save money, which then forms a source of loan capital from which they can borrow, from time to time.

Village banks are also viewed as community credit and savings associations established to provide access to financial services in rural areas. They create self-help groups and assist members accumulate savings (Legerwood 199.p.85). While Rabb and Keller (2011) state that village banks are comprised of 25-40 women who cross guarantee each other's loans and manage the distribution and collection of funds.

## d) Reduction Strategies

Various researchers such as Akotey and Abor ,(forthcoming), Stulz ,1984 ,Smith et al.,1990,froot 1993 ,Fatini and Glaum,2000 have emphasised the reasons why managers should take keen interest in risk management. This is because risk management is intended to help an organization

meet its objectives, such as minimization of foreign exchange losses, reduction in the volatility of cash flow, protection of earning against fluctuations, (Faremi and Glaum, 2000) and to promote to promote the survival of the firm through the growth and profitability.

According to Abor (2005), risk management has received extensive attention from both the coporate world and the academia, because as Shimpi (2001) put it, it is the life blood of every organization and corporate officers to deal with it decisively wherever it appears. Schmist and Roth (1990) also defined risk management as coherent activities which are undertaken to minimise the negative impact of uncertainty regarding possible losses .from the forgone ,the process of risk management includes identification ,measurement ,administration of selected techniques and control.

#### 2.2 Overview of Village Banks in Masendu

In 2001, a scheme for rural banking facility was introduced in Masendu Ward7 in Plumtree, with support from the Institute of Rural Technologies (IRT) a NGO based in Bulawayo with the inciatives of introducing new technologies that usher sustainable development for the rural populace. The village bank inciative basically was imported from Uganda where some people pooled money together to start up the rural banking facility, and that's how they were implemented. In the same year, with the assistance of IRT some members from the Masendu facility were taken to Uganda to acquire better appreciation of how the village banking system works. The members came back and started the first Ward micro lending institution called Datose, which automatically became the central starting point for informal rural village banks in Masendu. Datose Ward Bank therefore commenced in the year 2001 and was registered in 2004, while other banks where formed in 2007 and 2009 with backing and grooming of Datose village bank.

since the purpose of rural banking is, principally, to provide savings services in a community that does not have access to formal sector financial services. To date, the Masendu facility comprises of 8 micro lending institutions (informal village banks) namely Vulingqondo, Masendu central, Lungisani, Datose, Musitisiye, Tjokula, Muzwimuse and Sedzelani, the banks have lending licenses and constitutions which govern their banking activities and operations The regulations are written in to the Associations' Constitutions and are intended to provide authority

to the Committee members: a framework for regulation and dispute resolution. The Constitution also specifies the terms and conditions of savings and lending.

Datose acts as the central bank and conducts the following services of lending, retailing, fundraising, providing venture capital for small projects. All banks register to be supervised by the central bank, currently six banks are formally registered thus; Musitisiye, Masendu Central, Sedzelani, Lungisani, Vulingqondo and Tjokula. Memberships participation ranges from 8 to 39 members per village bank, more so for one to attain identity and acceptance in the village banks, members are obliged pay a joining fee, of an average of R50.00 (when converted with the current exchange rate from Rand to US\$ it will be \$2.50) and also provide monthly subscriptions of R30.00 (also when converted it will be \$1.50).

The capital bases for the village banks as from march 2016 stands at US\$2 217 for Vulingqondo bank, Sedzelani bank stands at R1 500 ,Lungisani bank with US\$ 190.00 ,Muzwimuse bank has R400o in rotation and US\$ 600 in hand. And as for the other 4 banks including Datose there were no capital bases revealed . However interest is charged at a rate of 7 % a month to individuals and 20% to other banks, Datose does not levy penalties on late interest payments but for other banks, late interest payment attract surcharges of a further 15% a month The principal payment is also expected after a month to a period of not less than three months which is collected by the village bank finance managers.

The target clients for village banks are members and non-member (farmers and small to medium entrepreneurs), however for most banks; the other banks do not have enough funds to loan to non-members, instead there is more of insider loans. Bank transactions are recorded in ledgers; as a way of ensuring transparency on the use of funds, and also to keep in check records of defaulters, the secretary and, the chairperson are the only ones who have access to the records, while members for every bank are entitled to a once-off equal salary every yearend, Musitisiye village bank on the contrary pays its members in the form of groceries contributed monthly, thus promoting sustainable food security to the rural populace.

#### 2.3 The Relationship Credit Risk and Village Banks

According to previous research conducted on a bank's performance and credit risk management research by Achou and Tenguh(2008) ,found that there is a significant relationship between a financial institutions performance in terms of profitability and credit risk management (loan performance). Enhanced credit risk strategies result in a banks better performance . hence its of great significance that village banks adopt and utilise effective credit risk reduction strategies Village banks therefore need to manage the credit risk inherent in the entire portfolio as well as the risk in the individual credits or transactions. Moreso effective credit management is a critical component of a comprehensive approach to risk management, which is essential for the long term sustainability of the village banks credit service, that's why the village banks adopted the following debt collection strategies.

- Increase in interest rates
- Summons to traditional courts
- Collateral

#### 2.4 Characteristics of Credit Risk in Village Banks

#### a) Incompetent staff

The majority of village banks in Africa are set up in less developed rural areas, and there is no expectation for the village banks in Bulilima district. Due to poverty and poor economic activities, it is difficult for these banks to recruit highly qualified staff. From these poor working conditions which comprise of low wages, village banks in masendu don't have qualified financial managers with an excellent working experience to follow up defaulters and issue loans. But they are forced to recruit someone with a low educational background, with less to none working experience, which in this juncture has poor risk awareness and are risk dim. This thereby increases risk in the bank, and inevitably causing credit risk.

#### b) Village Bank Customer/ Client Attributes

Credit risk is the major risk faced by micro-finance institutions, and the effects hit hard on village banks. Especially since their major serving targets and clients are peasant farmers, small-medium size entrepreneurs who have little entitlements to stand as substantial collateral. Moreso they don't have credit history from the past nor is a sound financial industrial system available to evaluate them.

Loans to peasants and the SME's can be a great risk for the banks, despite the fact that the banks are facilitating the availability of credit in the rural economy, the bank will be unable to obtain the expected return as the farmers don't always pay the loans in time, apart from disturbances from the occurrences of natural disasters, infectious diseases and a poor information market. Since they have poor credit sense, and cannot relate to the importance of in-time money return, thereby contributing to increased occurrences of credit risk.

# c) Operation cost and high profit risk

Village banks are established and are functional in the less developed rural areas, where there are few leading enterprises and vibrant industries in the area.as they mainly rely on conventional agriculture, which in turn makes the rural economy to be underdeveloped. There aren't any highly effective projects supporting village banks, thus making the profit margin low. Since most of the customers of village banks are mostly peasants who are poor and poor income, they take small loans with low profit, thereby making entailing high levels of risk .Moreso, the operation cost becomes high from defaulter follow ups by the financial managers, since the peasants live remotely and are scattered. The operation cost of these village banks is affected leading to a negative effect on the banks economic efficiency and an increase in profit risk.

#### 2.5 Rural Banking in Zimbabwe

Rural banking particularly credit risk management is an area that suffers from little research in Zimbabwe, the notion of rural banking refers to the provision of banking services to the rural areas.it is classified by Helms (2009) as parts of rural finance. Los Banos (2007:1) point out that rural banks are primarily created to play a special role in regional economic development.

There is not much research on credit risk and village banks in Zimbabwe since the rural financial sector is not developed. yet these rural communities in the country increased demand for financial intermediation which can be supplied through rural banking .therefore the rural populace has no access to financial advice which will enhance their financial management endeavors .poor financial management has caused domestic violence and other social ills in areas like Gokwe (Mago.2010).rural communities demand the same services that are supplied to their urban counterparts (Von Piscke et al.1983).

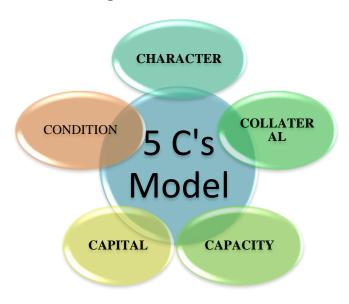
Zimbabwe's poor rural financial sector development has negative effects on savings. About 31% of Zimbabweans do not have savings, 49% had not borrowed in the last 12 months of the fin mark survey and 69% were found to be uninsured .this scenario keeps the rural communities of Zimbabwe in poverty.

#### 2.6 Reduction Strategies and Variables for Village Banks

The following are credit risk management variables which village banks can adopt and practice to ensure that village banks are not choked by the effects of credit risk, and that they can they retain their capital.

1) Client Assessment: This refers to the screening of clients and the affirmation of their willingness and ability to repay a loan. Therefore client assessment or appraisal is the first step in limiting credit risk. Other microfinance institutions use the 5C'S model of credit to evaluate a customer as a potential borrower as stated by Abedi (2000).since the 5c's model aids in the increase of loan performance for microfinance institutions in Kenya ,it is likely to be effective for village banks. Especially since they have already adopted one tenant of the 5c's model as their debt recovery strategy which is collateral in redeeming the money they lend. This also helps the village banks to know their clients well. Below is fig3:5C'S model village banks can adopt and put into practice.

Figure 3: 5C'S model of Village Banks



#### **character:**

It seeks to highlight to the bank the trustworthiness and integrity of the client. It's an indicator of the applicant's willingness to repay the loan.

- **Capital**: This stands for assets and liabilities of the household, it's an entitlement.
- ❖ Collateral: this stands for assess to an asset that the applicant is willing to give up in case of non-payment or acts as a guarantee by the person to repay a loan in default.
- ❖ Capacity: here the bank assesses whether the cash flow and income of the customers' business (household) can service loan repayment.
- **conditions:**
- 2) Collection Payment: There are various policies that village banks should put in place to ensure that credit risk reduction is done effectively. Collection policies are vital since, as they help follow up customers who fail to pay in time as they incur various challenges such as the economic constraints and their low levels of income.so since some customers are slow payers causing others to be non-payers, the collection strategy which aims at accelerating collections from slow payers and reduces bad debt losses, (Kariuki, 2010).
- 3) Loan Product Design: village banks can mitigate a significant portion of default (credit risk) by designing loan products which meet the client's needs. Loan products include the loan size, interest rate and fees, repayment schedule, collateral requirements and any other special

incentive. Loan products should be designed to address the specific purpose which the loan is intended for.

4) Credit Committees: village banks need to form credit committees within their banks, these will aid with the monitoring of loans and their approval, thereby creating a sense of belonging for other members and also this cuts loss of capital if they are to rely on outside loan officers. Churchill and Coster, 2001 state that, the key credit controllers compromise of delinquency management, loan product designs and the use of credit committees.

#### 2.7 Theories and Credit Risk Management Frameworks

Researchers such as Soke Fun Ho and Yusoff (2009) in their view on credit risk management strategies for selected financial institutions in Malaysia, state that the vast of financial institutions and banks losses arise from defaulters. Due to inability of the borrowers in meeting the obligations in line with lending, trading, settlement, and other financial transactions.

In this light credit risk emanates from a bank's operations with individuals, cooperate financial institutions or sovereign entities. Hence a poor capital base may attract liquidity which later escalates to credit risk.

the previous research's conducted on a bank's performance and credit risk management research by Achou and Tenguh (2008), found that there is a significant relationship between a financial institutions performance in terms of profitability and credit risk management (loan performance).better credit risk strategies result in a banks better performance .hence its of great significance that village banks adopt and utilise effective credit risk reduction strategies

The essentials of effective credit risk management in banking are viewed by the Basel II Accord. The Basel II then identifies that effective credit risk management is a critical component of a banks overall management strategy and is essential to the long term success of any banking organization overall the components of effective credit risk compromise of the following:

- ❖ Active board and senior management oversight
- Sufficient policies ,procedures and limits
- ❖ Adequate risk measurement ,monitoring

- Management information systems
- **❖** Comprehensive internal controls

The theory of asymmetric information argues that it may possible to distinguish good borrowers from bad borrowers (Auronen, 2003), which may result in the adverse selection and moral hazards problems. Adverse selection and moral hazards have led to substantial accumulation of non performing accounts in banks (Bester, 1994, Bofondi and Gobbi, 2003).

There are various scholars that have investigated on credit and sought of methods and strategies to eliminate and mitigate against the effects of credit risk, the majority of these credit risk management strategies where meant for commercial banks. The work of Old Field and Santomero (1997) investigated risk managements in financial institutions. In this study, they suggest for four steps for active risk management techniques.

- The establishment of standards and reports
- The imposition of position limits and rules (i.e. countermopary exposures, credit limits and position concentration.
- The creation of self-investment guidelines and strategies
- The alignment of incentive contracts and compensation (performance –based compensation contracts.

#### 2.8 Critic of existing literature

Despite the fact, the use of the Basel II Accord is mainly adopted by commercial and licensed banks .the components used for credit risk management can be also adopted by the village banks sideling the fact that these banks have a trivial structure and operations. Therefore if the village banks use the Basel Accord II, there is likely to be a change in their operations leading to the sustainability and growth of village banks.

The notion of the asymmetric information theory might be true and relevant for the commercial banks and licensed micro financial institutions, but it doesn't hold water in the case of village banks. Since they are rural based and having their main objective being that of assisting the rural poor to have credit inclusion and elevate them from being un-bankable but bankable so it will be

hard to distinguish who a bad or good borrower is. Moreso this theory states that adverse selection and moral hazards lead to the rise of non-performing loans, and these in turn cause credit risk, which is a major challenge for the informal rural based village banks.

# 2.9 Chapter Summary

The literature review has demonstrated how severe the impact of credit risk is on village banks.an overview of credit risk has been discussed in depth from the global perspective down to local level. It is true as evidenced by the literature review that village banks have a mixed bag of challenges. However the fortunate part is that there is hope for the future for these village banks as indicated by the approaches and variables being used by other microfinance institutions globally in trying to mitigate the impact of these challenges. This chapter is essential because it informs the reader about the impact of credit risk, and also provides the reader with information on how to reduce credit risk and its challenges.

#### CHAPTER 3: RESEARCH METHODOLOGY

#### 3.0 Introduction

The following chapter outlines a brief description of the research design and the research methods adopted in the study. It also discloses the sources of data, the collection procedure and the research instruments employed. It therefore consists of sub sections, with 3.1 describing the research method, 3.2 as the target population, with 3.3 as the research instrument presenting the data instruments used on the data collection, with 3.5 giving a description on the interview and lastly 3.6 providing an analysis and interpretation of the data received.

#### 3.1 Research Method

Research methodology is a technique of collecting data for research or an inquiry project; the data may be collected either theoretically or practically, thereby making it a procedure used for responding to a problem, with specific mechanisms such as methods, techniques, tools, tasks and phases. In order to evaluate and investigate the credit risk reduction strategies adopted by the informal rural banks, the study adopted the use of case studies, questionnaires and interviews.

The research methodology that is to be employed in this study is a combination of both qualitative and quantitative research methods which is also referred to as the mixed method approach. The Mixed methods approach is an innovative approach which conglomerates qualitative and quantitative research designs in a single study (Bryman, 2008:1, Creswell 2003:1). It forms a combination of concepts from the two research designs. The advantage of using both methods in one study is that, the two will complement each other in achieving the best results. DFID (2005:1) argues that qualitative and quantitative designs are corresponding in that, the qualitative method captures feelings, testimonials and perceptions of the respondents while the quantitative approach caters for the numerical inclinations and annotations.

Moreso Glasow (2005) argues that the amalgamation of research designs is imperious for this study because; the plausible shortcomings and biases of using a single design method will be compensated by the other. Furthermore, the mixed method approach affords sufficient data which is demonstrative of both the topographical area and the subjects under study (Creswell, 2003 cited in Mutasa (2010:29).

#### 3.2 Research Design

Gauch (2003) postulates that a research design is a plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance. Rocco (2011) argues that a research design is also defined as a framework for answering the research problem or question.

Due to time and financial constrains for analysing all the village banks in masendu the study will employ a survey as a way of obtaining a true picture of the challenges encountered by village banks due to credit risk. As Kraemer (1993) cited in (Glasow 2005:1) distinct a survey as a system of collecting data pertaining the physiognomies, sentiments, essentials, or activities of a large group of people. A survey makes use of a selected percentage of the population under study and the results can be universal for the whole population (Glasow 2005:1). Leedy and Omrond, (2005:148) postulates that, surveys are excellent vehicles that can be employed by researchers in quantifying attitudes and sensitivities predominant in large populations. The advantage of engaging a survey is that, it requires little investment to develop and to administer. Group members from various village banks members are going to be selected for the survey sample. The selection criteria will be random so that every respondent has an equal chance of being selected (Glasow 2005:1).

#### 3.3 Target Population

The target populations for the study are mainly the rural populace of Bulilima, having women and small to medium entrepreneurs as the major clientele of the village banks, and also the village bank chairpersons and their financial managers, and also IRT's staff. On this note Boyd and Gall (1979) defined population or universe as all members of a real or hypothetical set of people, events, or objects to which we wish to generalize the results of the research. Since there are 8 village banks in operation with about 35members each, therefore the number of respondents to receive questionnaires will be 30 thus 3 village bank members and 8members of the executive from each bank will participate in FGD's, as the researcher suspects that some of the members will not be willing to participate in the research. There would be interviews targeted for IRT's staff and the village bank chairperson along with the loan officers these will be 18 in total. The focus of this study is to evaluate credit risk reduction strategies adopted by the informal village banks. All research questions address issues that are of great relevance to

important groups of individuals known as a research population. According to Sullivan (2005) a population in research, is a group of individuals, persons, objects, or items from which samples are taken for measurement for example a population of presidents or professors, books or students.

#### 3.4 Sampling Strategy

Upon the time of survey there were 8 village banks with a total of members ranging from 8-30 in each group the current number of village banks members as at April 2016 is 55. The sampling method which shall be used is the stratified random sampling. Crowl (1986) defined it as that sampling method in which the sample is divided into strata or groups (age, sex, ethnic etc.) and individuals are selected randomly within these groups. The main reason being that it ensures that all groups which may have clear and distinct views on an issue to be sampled.

## **Sample Size**

Mhlanga et al (2003) defined sampling as a process of selecting a given number of people from a defined population as representative of that population. The study seeks to sample a total of 67 respondents of which **18** are the banks executive committee who will have FGD's amongst the respondents will be the **6** IRT staff members and **30** being village bank members or participants, **4** loan officers, **8** village bank chairpersons and **1** village bank administrator.

The sample size for this research will be tabulated below along with the research tools which shall be used to acquire the needed data relating to the credit risk reduction strategies which are adopted by the informal rural village banks of masendu in Bulilima district.

**Table 1: Study population frame and size** 

Study Population: 67respondents (6 IRT staff ,30 village banks members and 8 chairpersons member 4 loan officer and 18 members FGD )

Study Population by type	Target	Total	<b>Data</b> Collection
			Method
Village bank executive	18 that have disclosed	18	FGD
Loan officer	4	4	Interview
Village bank members	30 of those that have disclosed	30	Questionnaires
village bank administrator	1	1	interview
Key Informants	IRT Staff	6	Face to face interviews
	Village bank chair person	8	Face to face interviews
Total		67	

#### 3.5 Data Collection Tools

Hoffman (2003) defines research collection tools as instruments that are used to mine or pull together the required data to unravel a research problem. The tools used for data collection in this study include interviews, questionnaires, and case studies. Questionnaire probe deeper into the minds of the respondents, as they are documents containing questions designed to solicit information for analysis. And subscribers to the Positivist approach are of the view that data collected through a questionnaire can be analyzed more scientifically and objectively. Interviews according to Lovewell and Lawson (1970) are face to face verbal interchange where one person (interviewer) attempts to elicit information from another person. Mouton (2001:100) supports the use of these data collection tools when he argues that, measuring instruments in human sciences refer to; questionnaires, interviewing schedules.

#### a. Questionnaire

A questionnaire is a way of stimulating the feelings, beliefs, experiences, perceptions, or attitudes of some sample of individuals. The questionnaire is most frequently a very concise, preplanned set of questions designed to yield specific information to meet a particular need for research information about a pertinent topic. Leedy and Omrond (2005:149) support employing

questionnaires in research as they argue that, a questionnaire is a mutual domicile instrument for observing data beyond the observer. According to Hofstee (2006) questionnaires bring confidentiality to respondents and can be sent to more people in order to raise assurance in the sample. The advantage of questionnaires is that they can be sent to respondents who are a distant from the investigator in order to deliver the required data. The researcher is personally going to distribute the questionnaires both to village bank executive committee members and non-committee members for the purpose of increasing response rate. The researcher shall contact the village bank leader's s to book interviews session and the duration of each interview will between 20 to 30 minutes. The questioners will be collected after 5 days.

Glasow (2005) alludes that a questionnaire shelters extensive range of issues, it allows contact to what the respondent, discerns, ponders, does and likes/dislikes regarding the topic under study. Additionally apart from jacketing a wider range of issues and offering a consistent and uniform measure of all respondents, the questionnaire offers guarantee for privacy.

The questionnaire that will be employed in this study will consist of both closed and open ended questions. Closed ended questions have been described by Glasow (2005:1) as multiple choice or rating scales. Furthermore, closed ended questions are easy and less time consuming for respondents to answer. A number of open ended questions, sometimes called fill in the blank questions will also be employed. The open ended questions are necessary because they give room for comments and insights that are unforeseeable. They also provide richer and more descriptive facts as compared to closed ended questions.

In coming up or designing the questionnaire, certain guidelines listed by Cox (1996) cited are going to be considered and these include; warranting the use of diminutive and simple sentence structures instead of using unusual or bewildering words, expressions or phrases and avoiding questions that make respondents feel uneasy to answer. The questionnaires will be hand delivered to the respondents and will be collected soon after being completed.

#### b. Interviews

Knight (1999) argues that an interview is a direct face-to-face attempt to obtain reliable and valid measures in the form of verbal responses from one or more respondents. While Mhlanga et al (2003) argued that interviews allow a tape recorder to be used thus making the information complete without relying on memory which is inaccurate or rapid note-taking which is offputting to the respondent. Often a good rapport exists between the researcher and the interviewee thus enabling the detailed, honest, information to be obtained especially on sensitive issues. The advantages of interviews include, they permit the interviewer to clarify questions where they do not understand, they can be employed when also interviewing the elderly and the illiterate, they also permit the informants to answer in a way they are comfortable with, the interviewer can observe verbal and non-verbal behavior of the respondents, they are also a means of obtaining personal information, attitudes, perceptions, and beliefs, they also minimise nervousness so that potentially intimidating and sensitive issues and topics can be studied. However interviews have got their disadvantages which are that unstructured interviews often yield data which maybe too difficult to recapitulate or evaluate but the weaknesses of the interviews will then be addressed by other tools. Village bank chairpersons and financial managers are going to be reached by this tool.

#### c. Focus Group Discussions (FGDs)

Focus group discussions were conducted to supplement the information obtained from other data collection tools such as interviews and questionnaires. A typical focus group discussion involves 4 - 12 people as stated by Saunders et al. (2007), depending on the skills of the interviewer.

while Robson (1993) argues that focus group discussion (FGD) is a swift assessment, semistructured data collecting system in which a purposively selected set of participants gather to discuss issues and concerns based on a list of key themes drawn up by the researcher. This qualitative method is very efficient because it provides a fast way to learn from a targeted group of people and also able to retrieve information easily. The executive committee members of all the 8 banks were going to be reached through this tool.

#### d. Observations

The researcher will get involved in actual viewing of activities as they happen. The strong point of observations are that it is probable to have an understanding of the whole circumstance of the behavior which is being investigated; if the period of investigation or assessment is long enough, all the aspects of a society or culture of a small community can be studied. Toolbox (1996) argues that field observations encompass undeviating observation and systematic gathering of what is transpiring all over the place. To authenticate the responses obtained from the questionnaires, interviews and focus group discussions, observations are going to serve that purpose. This method of data gathering will be used both officially with people knowing and sometimes with the people unaware that they are being examined or observed. This is necessary and critical because people normally have a habit of behaving differently if someone is watching their movements or actions. It is imperative to note that the researcher chose to employ four data mining tools in order to ensure that high volumes of data will be collected. The tools employed are going to complement one another so that the research findings are holistic.

# 3.6 Data Presentation and Analysis

Data analysis is defined as the process of examining, reviewing, cleaning and transmuting data into useful information for making conclusions and suggesting recommendations. In this study, both numerical which is referred to as quantitative and descriptive also referred as qualitative ways of construing and analysing data will be employed because of their mixed method approach. Basing on the arguments of Rubin and Rubin (1995) all data that has got one similar theme will be clustered into one classification and an evaluation of the data classes will be performed to determine connections between themes. Computer soft-ware that will be utilised includes Microsoft office excels and, Excel sheets will be used to code and analyse all the data that will be gathered. The results from the excel sheet will be pasted to a word document where conclusions are going to be drawn and recommendations made.

Some of the findings will be presented through tabulations, pie-charts, graphs and percentages for easy understanding. Graphs tell a story visually and present data clearly as stated by Crossman (2013), he further argues that they help the reader to easily comprehend and appreciate

without querying or worrying with the technical details behind the numbers. Allowance for adjustments, alterations and contingencies have been made for uncertainties or unforeseen matters to be met in carrying out this research.

# 3.7 Chapter Summary

To sum up, chapter three presents the research design and methodology which is critical in harnessing data on the credit risk reduction strategies adopted by the informal rural village banks in Bulilima district. This chapter is critical because it provides direction on how the research is going to be conducted. The fourth chapter informs the reader about the key findings and results of this study.

# CHAPTER4: PRESENTATION, INTERPRETATION, ANALYSIS OF FINDINGS 4.1 Introduction

This chapter brought to the surface the research findings interpretation and analysis of the findings.it presents findings from the research, analyses and interprets them in relation to answering the research question and objectives of the study. Pictorial methods of presenting data will also be utilised for a clear presentation and analysis of the collected data.

The main thrust of this study was to analyse the Credit risk reduction strategies adopted by the informal rural village banks of masendu Bulilima district. The findings of this study will be analysed and equated to literature and to other scholar's research results. The process of data collection was a success since almost all the data needed for this research was obtained as scheduled. The findings presented in this chapter are based on views of 6 key informants reached through face to face interviews of which three quarters were from the village banks chairperson, FGDs with 18village bank members and 30 questionionnaires. Quantitative information in this chapter was analysed from questionnaires that were orally administered structured questionnaires.

#### 4.2 Data Presentation and Analysis

This is an exercise which requires a careful review of all data collected from the study. Watson in Mwanje (2001: 111) argues that analysing qualitative data is a language oriented approach which provides thorough descriptions and interpretations of social phenomena including its meaning to those who experience it.

Below is a tabulated summary of the research sample which highlights the total corporation of the research respondents.

**Table 2 : Summary of the research sample** 

<b>Category</b> Of	Total Population	Sample Size	Response Rate
Respondents			
IRT Staff	6	3	100%
Loan officer	4	4	100%
VB members	30	24	80%
VB chairperson	8	4	60%
VB administrator	1	1	100%
executive FGD's	18	18	100%
TOTAL	67	52	

# 4.3 Age and Sex of Respondents

Age is an essential demographic variable in the sense that it's a basis of demographic classification in dynamic statistics, censuses and surveys (URT, 2005b). Age structure of a population is a reflection of population dynamics in the past, thereby in this light interpreting and presenting data on village bank members as stated by (URT, 2006), age affects the future growth of the population and its structure changes in the future affecting development.

The results from the study indicate that 30% of the respondents were aged below 45 years, thus ranging from 26 to 45 years and 70% were above the 45 years age range. Women were interviewed more than men, this was because of the fact that the village banks members are mostly comprised of women with less men. There are more female participants than male participants in the banking scheme in Bulilima district and this also contributed to having more female participants being interviewed. Figure 3 below clear disaggregates the study population by age group and sex.

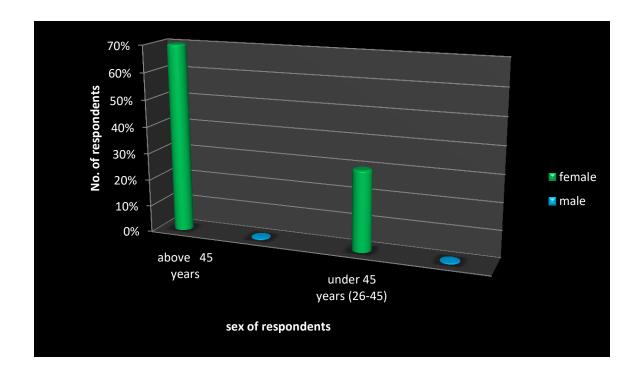


Figure 4: Distribution of respondents by age group and sex

# **4.4 Level of Education of respondents**

As stated by Owen et al. (2005) being knowledgeable of something increases the ability to control ones livelihood, and education has a significant influence on a households income strategies, land management and labour (Nkonya et al. 2004). Therefore the qualification of the respondents helps to access the human capital skills contained by the village banks at juxtaposition. Of course, it will be difficult for a person who does not even have ordinary level results to fully understand credit risk. It is strongly pivoted upon the qualifications that give the floor and ceiling of one's potential and capacity. Hence having (Nkurunzinza ,2006) pin pointing that education is viewed as an avenue for opportunities like access to information, employment, access to services that promotes self-sustainable actions with regard to survival.

The way people view similar things, also may differ depending on the level of education. It is in this respect that a provision for revealing the qualifications was done. Through an equal opportunity for all levels to be presented, some levels did not return the questionnaires. The results from the study as indicated that 66% of the respondents reached primary level as their highest level of qualification, and, 10% had reached secondary level (O level) while 1% had attained a diploma, and there were some who had no educational background accounting to 23%. Though statistical significance was weak, further analysis done through interviews with the village bank chairpersons and the loan officers revealed that 7% of those at secondary level had written their O levels and didn't pass with five O level subjects and above. Also further analysis through interviews revealed that 50% of the participants who had reached primary level were not very illiterate since they could understand and answer the questions despite that some answered in Ndebele and kalanga. No village bank member or chairperson reported that he or she was attending any tertiary education.

Ndlovu (2011) states that Education is an essential capacity indicator for dealing with stressors in life, it is considered to represent enhanced capacity because it enables people to make logical decisions about life, it facilitates access to information and technology and it makes people able to easily understand new knowledge and skills to improve their livelihoods. As such, with the high literacy level that was noted in this study, village banks have the capacity to deal with money and accounts and handle credit risk challenges. However having such capacity doesn't automatically translate into good credit risk management practices, since education is vital and essential for one to adapt with business skills and strategies which in the long run promote improved household prospects.

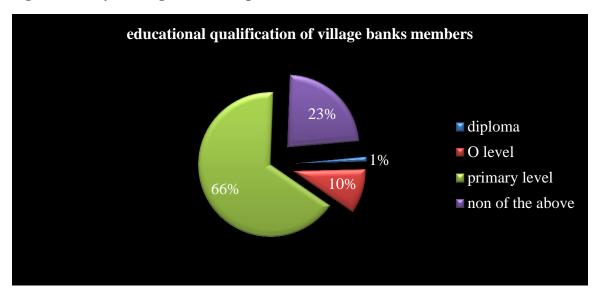


Figure 5: analysis of highest level of qualification

#### 4.5 Village Banks acquaintance With Credit Risk

The study revealed that 65% of the respondents were able to define and emphasis their understanding on credit risk but only 20% of those managed to accurately define credit risk. While 15% are moderately acquainted with the term credit risk. 11% didn't have an idea of what credit risk is and 7% didn't respond to the question. Therefore an observation made was that most respondents had basic information on credit risk, which was noble but however couldn't clearly distinguish the difference between the two and that they believed it only existed for to the big commercial banks.

Respondents who were able to identify at least three methods and strategies of controlling credit risk and/or three avenues leading to credit risk were considered to possess comprehensive knowledge of either or both while those who identified two methods possessed "moderate" knowledge, and those who mentioned one method were considered to have "limited" knowledge. While respondents who failed to identify at least one credit risk prevention strategy or cause were said to have no knowledge and familiarity.

the data finding present that 42,5% of the respondents were able to identify at least three correct strategies of controlling credit risk, while 25,5% identified only two correct methods credit risk prevention, 20.5% identified only one and 11,5% did not know any correct credit risk reduction method. Disaggregated by age, the young members aged 26 to 45 as expected demonstrated better knowledge than the other group with those aged above 45 demonstrating the least

knowledge thus showing a significant statistical relationship between age and knowledge level.

# 4.6 Presentation of the Mostly Used Reduction Strategy.

On the onset of the informal rural village banks in Masendu, in 2001 Datose bank as the mother bank adopted three reduction strategies which were later adopted too by the other 7 banks, these strategies are:

- 1) use of collateral
- 2) increase in interest rates
- 3) use of traditional courts

The findings of data information present that most of the banks make collateral a major priority over the other reduction strategies, since with collateral they can auction the lenders entitlements and return their money. Unlike with the use of increase in interest rates the defaulter will take longer to fulfill the debt and with the current unstable foreign exchange rate due to the use of multi –currency the money would lose value, thereby causing risk to the banks financial standing.

# 4.7Institutional Support for Village banks

The study indicated that there were quite players in the rural development sector including NGOs and he private sector. NGOs were found to be doing a lot of work on rural development and most specifically on village banks. Interviews with the staff from URT including the projector coordinator and financial director indicated that there were other NGOs operating in Bulilima district and aiding the people, but they had little to do with village banks credit risk management. However through networking and coordination those NGOs would work together in order to promote the growth and sustainability of village banks. Below is a table 5 highlights the trainings conducted by IRT for the village banks:

**Table 3: Trainings received** 

Type of Training	Number of banks that benefited
Business management	3
Book keeping	2
Entrepreneurship	1
Customer care	1
Microfinance	1
No training received	1

# 4.8 Chapter Summary

To sum up, the chapter has presented interpreted and analysed findings from the research. The findings of this study have been discussed and evaluated vis-à-vis scholarly views and other relevant literature on credit risk reduction strategies. The chapter has thus shade more light on the effectiveness of credit risk strategies and has also analysed the role of NGO's and the private sector in addressing the challenges of credit risk ,and in proving the reduction strategies.

# **CHAPTER 5:** CONCLUSION AND RECOMMENDATIONS

#### 5.0 Introduction

The purpose of this chapter is to present the hypothesis of this study. It is also the intention of this chapter to make practical recommendations for addressing the credit risk reduction strategies and on building village bank capacities. These recommendations made are based on the findings and interpretation of the credit risk reduction strategies adopted by the informal rural village banks of Masendu in Bulilima district.

# **5.1** Conclusion of the study

In summing up, the study discovered that it is proven beyond reasonable doubt that credit risk impacted negatively on the village banks. Credit risk created an array of challenges which ranges from individual, community level, individual banks and affecting Datose the mother bank. These challenges emanated from clients, banks, the community and the unstable economic conditions. Key challenges encountered by village banks in this study were as follows:

- Little capital base
- ♣ Foreign exchange cross rates
- **♣** Lack of infrastructure
- ♣ High levels of defaulters
- Lack of training
- Lack of stationery and competent employees

#### **5.2 Recommendations**

Recommendations are drawn from responses made by the village bank members and the executive committee who participated in this study and from field observations and interpretations of credit risk in financial institutions.

- . The following are the recommendations made from this study.
- a. The study recommends the formulation and implementation of sustainable interventions targeted at building the capacity of village banks to deal with credit risk issues.
- b. Advocacy and lobbying on issues of credit risk, effective private sector support and state accountability on the informal micro finance institutions (**VB's**) discourse should be carried out through extensive training, dialogues with other microfinance institutions.
- c. Establishment village bank infrastructure/center's that are easily accessible should be prioritised by the state in partnership with the NG's .this will attract more customers (loan borrowers) and also promote membership growth, thereby enforcing sustainability for the banks.
- d. The study also recommends the establishments of support groups for village banks .Support groups are a platform for the banks to share their problems and support one another ,more so for them to be accounted for and recognized by the big commercial banks.

# 5.3 Practical Approach to Deter Loan Credit Risk for Village Banks

Oguntoyinbo (2011) proposes a pragmatic microfinance approach for handling challenges encountered. He proposes that in order to overcome credit risk there is need of engaging in group lending, have character referencing and the continuous building up of customers credit history in order to establish genuine and feasible loan agreements in this regard.

# a) engagement in group lending

Group lending is proposed as a method of reducing bad debt from loan non-payments which emanate from external customers .village banks are therefore supposed to issue out loans and credit facilities amongst its inside members .this reduces stress on follow ups ,since there are trusted members to make timely payments.

#### b) verification of the borrower

When applying for loans, the information provided by village bank customers must be verified, and has to be done by loan officers. The aspects to be verified include the client's business location, the capacity of the prospective borrower of loan repayment, the place of residence and the assessment of the clients business or sources of income.

### c) building a relationship with clients

According to the experience of other microfinance institutions over the years, it was indicated that a lending institution can recover loans by through the building of strong ties with clients, this strategy is more influential than collateral. Therefore village banks should emphasise the need of building and maintenance of strong and affable relationships with its customers. This can be achieved when loan officers from the 8 banks visit their clients regularly, not only when collecting installments and following up on loan repayments, but must also to relate closely with them in order to understand the challenges in their businesses and assist them with their most pressing matters.

# d) rotation of loan accounts

rotating the clients' accounts within the same bank among loan officers every 3 months is essential to ensure transparency as a particular officer has no domination over the information of the clients accounts.in addition such rotation helps to ensure accuracy in record—keeping as well as compiling 3 months review of accounts, helping with the detection of error and cutting down on the possibility of fraud.

#### e) periodic review of loan applications

Chairpersons from the banks should check clients loan applications quarterly to ensure that the records of transaction in the application forms tally with the records in the financial books which are held in the bank. This ensures transparency and stands out as good credit risk management.

#### f) collections in group meetings

The system requires that all savings and loan installments are to be collected during bank meetings, and in full view of member's concerned in terms of such an agreement, the clients are able to witness all financial transactions and thereby increase the level of confidence in the organization .the possibility of fraud and credit risk is also minimised

# **5.4** Area(s) for further study

The researcher recommends the following areas to be studied:

- An analysis on the merits and demerits of the village banks as credit providers for the rural poor in Zimbabwe.
- An analysis on the role of village banks in the fight against hunger and famine in Bulilima district.

# **5.5 Chapter Summary**

In a nutshell, this chapter clearly expounded the conclusion that was drawn from the study. The supposition elucidated the credit risk strategies. The chapter also laid down some recommendations which are aimed at reducing the vulnerability of village banks. The recommendations are mainly focused on enhancing village banks to be sustainable financial service providers in Zimbabwe. In view of the conclusions that have been drawn from the study and the corresponding recommendations, it is imperious that responsible authorities, Civil Society Organizations, NGOs, the corporate world and all community members combine their efforts in promoting the sustainability and profitability of village banks.

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#### **APPENDICES**

# **APPENDIX A**

# QUESTIONNAIRE FOR VILLAGE BANK MEMBERS

Research topic: Credit risk reduction strategies adopted by the informal rural village banks

My name is Rudo Valery Mavunga an Honours student in Development Studies at the Midlands State University (MSU). I am conducting a research in Masendu Bulilima district as part of my study requirements. The study focuses on the credit risk reduction strategies adopted by the informal rural village bank. Participation is voluntary and no personal information will be revealed. All the information gathered will be used for academic purposes only and data gathered will be treated as confidential. This questionnaire will take at most 10 - 15 minutes to complete. Please complete the questionnaire as honestly as possible and if you are not willing to take part in the research, you are free to withdraw or not even participate. Please put an  $\mathbf{X}$  in the box provided and complete in your own words in the spaces provided.

# **QUESTIONNAIRE GUIDE**

1. Gender	Male	Female	
2. Age of Respo	ndent		
Below 25	5 years 26	5-45 years abo	ove 45 years
3. Qualification	of the respondent	t	
Primary	level OL	evel Diploma	None of the above
4. Position held	in the village ban	ık	

5. To what extend are village banks acquainted (familiar) with the tern "CREDIT RISK"?

Lungisani	Datose	Masendu o		qondo
Musitisiye	Muzwimuse	Sedzalan	Tjokula	
When did you join	the group?			
ist the strategies u	used by your village ban	k for reducing credit	risk	
a)			•	
b)				
c)				
d)			•••	
e)				
f)				
g)				
h)				
,				
Vhich credit risk re	eduction strategy is used	1?		
Collateral	increase in interest ra		of traditional court	
	increase in interest is		or traditional court	
What has IDT dar	na ta promota aradit risk	raduation places en	oify	
	ne to promote credit risk			
•••••		•••••	•••••	
	• • • • • • • • • • • • • • • • • • • •	•••••		
•••••				

		•••••		
12. Ho	ow has the Institute for r	ural technologies (	IRT) been usefu	l in the operations of the bank,
and in	promoting credit risk red	duction?		
Y	Yes	NO	I don't k	now
Please	e explain why.			
	s a village bank member gies is necessary.	and recipient of l	oans, do you thi	nk having credit risk reduction
Y	Yes	NO	I don't k	now
Please	e give a reason why.			
•••••			• • • • • • • • • • • • • • • • • • • •	
14. W	hat would you suggest as	a practicable cred	it risk reduction	framework?
1)			• • • • • • • • • • • • • • • • • • • •	
2)				
3)				
4)				
5)				
6)				

7)	
8)	
15. As members and participants are you	willing to accept new strategies that will be proposed
to reduce credit risk in line with the charact	teristics of the village banks?
Yes NO	I don't know
Give reasons for your response.	
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# **APPENDIX B**

#### INTERVIEW GUIDE FOR VILLAGE BANK CHAIRPERSON

Research topic: Credit risk reduction strategies adopted by the informal rural village banks

My name is Rudo Valery Mavunga an Honours student in Development Studies at the Midlands State University (MSU). I am conducting a research in masendu ward 7 of Bulilima district as part of my study requirements. The study focuses on the credit risk reduction strategies adopted by the informal rural based village banks. Participation is voluntary and no personal information will be revealed. All the information gathered will be used for academic purposes only and data gathered will be treated as confidential. This interview will take at most 15 minutes to complete. Please feel free to respond to the interview questions as honestly as possible and if you do not feel comfortable taking part in the research, you are free to withdraw or not even participate.

- 1. What do you understand by the term CREDIT RISK?
- 2. If you are familiar with the term, when were the reduction strategies adopted into the banking system?
- 3. Have you ever arranged any course/ training management development in line with credit risk reduction?
- 4. What measures and strategies in your banking schemes are in place to ensure success of credit risk reduction?
- 5. Can you please describe how the process of credit risk reduction is being done in your Bank.
- 6. Who is responsible for credit risk reduction and management in your bank?
- 7. Credit risk reduction requires a lot of attention and monitoring. Do you think the benefits it brings are worth the effort it is associated with?
- 8. Can you say the credit risk reduction strategies are being managed well in your bank?

# APPENDIX C

# INTERVIEW GUIDE FOR THE VILLAGE BANKS LOAN MONITORS

Research topic: Credit risk reduction strategies adopted by the informal rural village banks

- 1. Are you acquainted (familiar) with the term Credit risk?
- 2. Do you hold any loan recovery seminars in your bank?
- 3. What causes delay in loan payment and default in the bank?
- 4. What measures have you put in place to ensure that you retain the capital loaned?
- 5. How do you choose candidates who access loans in the bank?
- 6. what strategies are place to ensure the reduction of credit risk, and when were they adopted'
- 7. How effective are the adopted credit risk reduction strategies.
- 8. Also, to be honest with your researcher and yourself, do you see yourself staying longer in the bank, and do you foresee its growth and success in operations?

#### APPENDIX D

# INTERVIWE GUIDE FOR THE INSTITUTE FOR RURAL TECHNOLOGY'S STAFF

Research topic: Credit risk reduction strategies adopted by the informal rural village banks

My name is Rudo Valery Mavunga an Honours student in Development Studies at the Midlands State University (MSU). I am conducting a research in masendu Bulilima district as part of my study requirements. The study focuses on the credit risk reduction strategies adopted by the informal rural village bank. Participation is voluntary and no personal information will be revealed. All the information gathered will be used for academic purposes only and data gathered will be treated as confidential. This session will take at most 30 minutes to complete. Please complete the questionnaire as honestly as possible and if you are not willing to take part in the research, you are free to withdraw or not even participate. Please fill in and complete in your own words in the spaces provided.

# **QUESTION GUIDE**

- 1. What is the name of your organization?
- 2. What is your role in village bank operations?
- 3. When did you start to assist village banks?
- 4. How have you been assisting these village banks?
- 5. As an organization, how do you understand and relate to the term credit risk.
- 6. What strategies and arrangements have you put in place for controlling credit risk encountered by village banks?
- 7. How has your organization handled village bank defaulters?
- 8. Are there any challenges IRT has encountered lately due to village banks and credit r

#### APPENDIX E

# FOCUS GROUP DISCUSSION GUIDE

Research topic: credit risk reduction strategies adopted by rural village banks

# This tool will be administered with the executive committee for village banks

My name is Rudo .V Mavunga an Honours student in Development Studies at the Midlands State University (MSU). I am conducting a research in Masendu ward 7 of Bulilima district as part of my study requirements. The study focuses on the credit risk strategies adopted by village banks. Participation is voluntary moreover, no personal information will be revealed. All the information gathered will be used for academic purposes only and data gathered will be treated as confidential. This focus group discussion will take at most 20 minutes to complete. Please feel free to contribute to the discussion as honestly as possible and if you do not feel comfortable taking part in the research, you are free to withdraw or not even participate.

Objectives	Key Questions
Assess the credit risk	What is your understanding of credit risk?
knowledge levels,	How is credit risk caused?
practices and the	How is it prevented?
adopted strategies	• What's your perspective towards defaulters and credit risk reduction strategies?
Assessing the impact	How does it feel to be too associated with credit risk?
of credit risk on	• Do we have in our community lending scheme village banks that affected by
village banks	credit risk?
	• What challenges do these village banks face? (individually and Community,
	financial market )
Unearthing the	• Are there any key players (Government, NGOs, or community members) working
opportunities and	with village banks in your area?
solutions.	<ul><li>If yes who are they and what are they doing?</li></ul>
	• Does their work seem to be yielding positive results in improving credit risk reduction
	for village banks?
	• Are there any available opportunities that can be exploited by village banks to enhance
	their operations?

- What can be done to or address the challenges of credit risk in village banks?
- What services are available to increase knowledge of credit risk for village banks?
- What are the gaps in village bank services and how do you suggest these should be filled?
- What benefits would your village bank acquire from credit risk strateg

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