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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

ANALYSIS OF PERFORMANCE DETERMINANTS OF MICROFINANCE INSTITUTIONS AND FACTORS AFFECTING THEIR PERFORMANCE: A CASE OF HARARE MICROFINANCE INSTITUTIONS

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Gokwe.

DEDICATION

This dissertation is dedicated to my mom and dad, my brothers and sisters who played an essential role in assisting me to achieve my goals through their support both financially and socially.

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l thank the almighty God for guidance and who has made it possible to complete the research. I would also want to extend my heartfelt gratitude to my supervisor, Mr Mugozhi for the assistance, encouragement and constructive critics. I would also like to express my gratitude to ZAMFI and RBZ for providing the relevant information to ensure the relevant progress in my research study. I am also grateful to my friends, and special thanks to all the members of my family especially my mum who provided the necessary assistance all the way.

ABSTRACT

Microfinance main objective is to reduce poverty, to achieve this amazing objective microfinance institutions have to become strong in financial performance because donor dependency is uncertain. The research aim was to analyse the performance determinants of microfinance institutions and factors affecting their performance. This study was conducted focusing microfinance institutions in Harare. The main objective is to determine performance of microfinance institutions in Zimbabwe. The issue of sustainability so as to outreach to the marginally poor and those in rural areas has brought in two aspects which need to be balanced thus the social performance and financial performance. Microfinance institution must be able to cover up all operating costs at the same time reaching to the poor thus the determinants of financial performance is crucial as it enhance decision making by management. A descriptive research design was adopted as it enables to gather both qualitative data. Total population constitute of 40 operations managers and 10 accountants giving a total of 50. The sample size has 37 operations managers and 8 accountants. Judgemental sampling was employed as it allows getting information from those who have knowledge in performance of institutions. Mode was applied on questionnaires and thematic approach was used on interviews as data analysis approach. The information was gathered in the form of primary data. Structured questionnaires in the form of likert scale and interview questions were used to collect data from the respondents. The research findings were presented in the form of graphs and tables. It was established that to achieve sustainability and profitability, managers and policy makers must know the major elements which affect the financial performance namely: portfolio quality, capital asset ratio, gearing ratio, operational efficiency, size of MFIs, age of MFIs, market concentration and real GDP and factors affecting microfinance institution which are policy factors, geographic variables and institutional variables. It was recommended that since inefficiency is a major challenge of microfinance institution in Zimbabwe, management should come up with good cost management policy in the form of reducing operating expenses and credit risk management through information communication technology and mobile banking. Microfinance institutions should follow retail banking practices by implementing a robust financial management system and good managerial governance so as to preserve profitability as well as sustainability.

List of acronyms

FSS- Financial self sufficient

GDP- Gross Domestic Product

OSS- Operational self sufficient

ROA- Return on asset

ROAA- Return on average assets

ROE- Return on equity

NGOs- Nongovernmental organisations

ZAMFI- Zimbabwe Association of Microfinance Institutions

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Microfinance sustainability and profitability is a major concern in most developing countries as it ensures healthiness of the sector which positively affects the level of financial inclusion. Microfinance offers financial services/products to the economically poor adult population which is shunned by banks because of its lack of collateral security and credit worthiness. The study seeks to analyse the performance determinants of microfinance industry in Zimbabwe and factors affecting their performance. The chapter introduce the background of the study, the statement of the problem, research objectives, research questions, assumption of the study, limitations of the study and delimitations of the study.

1.1 Background of the study

Around the world, any economy's financial environment comprise of five elements which are; financial instruments, money, rules and regulations, financial markets and financial institutions (Rashed and Tamima, 2013). Dhanabhakyam and Kavitha, (2012) highlighted that the most rated fundamental component in financial institutions is the bank and it is also regarded as the most participatory in the financial system. Banks are recognised as financial agents which directs capital from those who have got excess funds (investors or depositors), to those who are in need of funds (borrowers). Despite banks' financial assistance, accessibility to credit facilities is not easy especially in Africa and Asia and it obstruct growth, majority of the adult population lack sufficient collateral security required by banks to immunise a loan (Demirguc-Kunt et al 2007 as cited in Muriu, 2011) and therefore poverty remains one of the biggest policy concerns. Amongst several measures to eradicate poverty, microfinance of late, has provided a ray of hope (Pankaj and Prbal, 2009), creating capacity to reach out to those who are financially excluded by banks which in turn improves the economic as well as social life.

Kar and Deb (2017) noted that micro financing is considered to be an essential tool in developing countries so as to attain sustainable economic growth. Initially microfinance institutions began as a social mission which empower the low income section by extending microcredit facilities to boost their economic activities, but has developed over the past decades from being social oriented to commercialisation (Sriram, 2010), therefore microfinance has dual objectives of outreaching to poor customers (social performance), while absorbing their costs and being financially sustainable (financial performance) (Hermes and Lensink, 2011). This give rise to requisite by management to know performance determinants that will translate the microfinance objective to be achievable.

In developing and transitional economies, financial authorities have given more attention on bringing formal microcredit facilities to the large numbers of the world's poor that are excluded from formal financial service (CGAP, 2012 as cited in Yenesew, 2014). Microfinance serves more than 200 million clients worldwide (Maes and Reed 2012) whereas in Zimbabwe more than two thirds of the adult population are financially excluded by formal financial providers thus performance of the financial sector has the need to be determined so as to improve decision making process.

The major objective of microfinance institutions is to provide microcredit facilities to the economically active poor, referred in the society as the unbanked or who do not have collateral required by the banks or have risk of information asymmetry (Brau and Woller, 2004). Microfinance has attained recognisable success in uplifting livelihoods of the economically active poor through offering microcredit facilities (Muriu, 2011). Moreover, microfinance institutions are viewed not only as a financial solution, but it brings in also a social element leading to women empowerment, poverty reduction, employment creation and economic development (Lezza, 2010), making social performance being one of the main areas to be focused on.

By easing financial constraints, micro financing is capable of market creation for small and medium enterprises for opportunities not yet realised meanwhile enjoying the positive returnsfrom their investment (Hartarska and Nadolnyyak, 2008). The degree of success however differs across microfinance institutions because of some specific variables; some fail and discontinue operations at the other hand some expand outreaching to more borrowers (Muriu, 2011). This shows us that microfinance's sustainability is essential as it enhances outreach to the poor supporting their economic activities and reducing financial constraints.

According to Yenesew (2014), Ethiopia translated the global MDGs targets into national action by the introduction of poverty reduction strategy set as the operational framework. It has been argued that microfinance services’ existence in Ethiopia is considered as one of the policy instrument of the government to elevate rural and urban poor so as to reduce poverty and increase output and productivity. Wolday (2000) as cited by Alemayehu (2008) states that sustainability of microfinance institutions that cover a significant population of the economically active poor who are not attended by other financial providers like banks, has been a fundamental element in Ethiopia for the new development strategy.

Another study by Tucker and Miles (2014) was carried out for the sake of performance comparison between microfinance institutions and commercial banks trading in four continents namely Asia, Africa, Eastern Europe and Latin America, the outcome reviewed that the relationship between liquidity, credit risk management, outreach and performance were positive whereas operational risk management showed a negative correlation with performance. They concluded that when liquidity and credit risk management are sounding, this will impact positively on outreach as well as sustainability and profitability of the entity.

This research study analyses the performance of microfinance institutions in Zimbabwe and factors affecting their performance. There were 189 registered microfinance institutions and branch network of 681 branches as at 30 September 2017 (RBZ Microfinance quarterly industry report, 2017). Microfinance institution’s branches are not well geographically distributed thus not complying to the objective of social performance where the outreach to the poor customers especially in rural areas and women has largely remained subdued. According to RBZ Microfinance quarterly industry report (2017), 80.46% of microfinance branches are located in urban setup while 19.54% are located in rural set up whereas 65% of the adult population in Zimbabwe live in rural areas (Fin scope consumer survey Zimbabwe, 2011).

Still on the social performance, number of female clients as at 30 September 2017 was 97470 against 254094 of the total number of all clients. Therefore loans to the women accounts for 38.36% of the total loan book (RBZ Microfinance quarterly industry report, 2017) which is not in support of the gender equality campaign given that the women adult population constitutes 60% of the total population (Fin scope consumer survey Zimbabwe, 2011).

Moreover Fin scope consumer survey Zimbabwe (2011) asserts that the level of financial inclusion in Zimbabwe is 60% and is lower as compared to other regional African countries like Lesotho with 81%, South Africa 73% among others (Fin scope consumer survey Zimbabwe, 2011). Microfinance institutions should bridge the gap by extending their facilities to those who are financially excluded. The operating expense ratio as at December 2016 was $44 per $100 disbursed whilst Africa average ratio was pegged at $23 per $100 disbursed unlike in other regions operating expense ratio is: Asia $11 per $100, Europe $13 per $100, Latin America $15 per $100 and Middle East $19 per $100 (ZAMFI, 2016). This research's main idea is to surface out the determinants of the performance of MFIs and factors affecting their performance.

It is important for microfinance institutions to understand better the changing customer requirements and adapt to latest information technology system so that they can have a wide product offering to different segment/sector and observing the objective of financial performance of reducing cost of delivery so as to gain a competitive advantage among other global organisations (Lau et al, 2013).This result in better institutional cost efficiencies that lead to profitability as well as sustainability of microfinance institutions.

According to Yenesew (2014) profitability is essential for attaining normal growth and development and long term sustainability of the microfinance sector. Competitive microfinance institutions view profitability as a precondition and as an inexpensive source of capital. Microfinance profits if they are reinvested, they can be regarded as equity and this may boost financial stability. Moreover microfinance institutions that record profit are easily accessible to financial market. Profitability reduces the chances of financial crisis and capacitates the microfinance to absorb negative shocks. Profitability mirror how microfinance institutions are managed in the environment they operate, which should give more attention to operating efficiency, credit risk management, competitive market strategies, levels of capitalisation and quality of the management (Muriu, 2011).

In Zimbabwe to strike long term sustainability, microfinance should be profitable and below is performance statistics for microfinance industry in Zimbabwe covering period from March 2016 up to March 2017.

Table 1.1. Key performance highlights for the period 31 December 2015 up to 31 March 2017

Performance Indicator	31 December 2015	31 March 2016	31 December 2016	31 March 2017	Movement
OUTREACH					
Total loan portfolio	$75.1M	$71.3 M	$83.3 M	$96.2 M	Improved
Total loans disbursed	$131.4 M	$34.9 M	$166.0 M	$44.2 M	Improved
PROFITABILITY					
Net Profit		$1.7 M	$13.2 M	$5.5 M	Improved
Operational Self sufficient	141.9%	115.2%	156.7%	137.7%	Improved
Cost to Income ratio	70.4%	86,7%	63,9%	72.6%	Improved
Return on Equity	35.2%		49.6%		Improved
PORTFOLIO QUALITY					
Portfolio at risk	16.7%	21,7%	10.3%	9.5%	Improved
Credit risk coverage ratio	67.0%	49.9%	65.0%	46.6%	Deteriorated

SOURCE: Z AMFI 2017

From the above table shows performance indicators such as outreach represented by total loan portfolio and total loan disbursed which have signs of improvements thus representing growth on the outreach. The profitability determined by net profit, operational self sufficient, cost to income ratio and return on equity is improving. Lastly the portfolio quality represented by portfolio at risk shows an improvement whilst credit risk coverage ratio is deteriorating.

As evidenced from the performance table above, the more the portfolio at risk, cost to income ratio and operational self sufficient improve, the better the profitability it becomes, therefore factors affecting these ratios are important. Study by Roman and Tomuleasa (2012), Alie et al. (2011) and Kosmidou et al (2005) as cited by Tamimi, (2010) noted that institution financial performance is determined by several factors which can be categorised into external and internal factors. External factors affect across the specific industry of which financial institutions have no capacity to control them therefore can have positive or negative impact on profitability of the whole sector. The internal factors are institution based factors and have their own characteristics depending on the financial institution (Magweva and Marime, 2016) and plays a significant role in influencing financial institution performance. This was supported by Mazadzi and Maseya (2015) who highlighted that bank specific factors such as bank size, asset quality, liquidity management, risk management strategies and efficiency chiefly determine the bank performance.

Mambondiani et al (2009) carried a study on corporate governance framework especially on the era of global financial crisis in 2008, which is an internal factor and concluded that corporate governance substantially affects bank performance. Hermalin and Weisbach (1991) as cited in Neema and Donath (2012) carried a study on the effects of board composition on the financial performance of stock exchange listed companies in the United States and the outcomes showed that board composition and companies' financial performance have weak relationship.

In their study, Goldfajn and Rigobon (2010) found out that factors affecting financial performance include macro-economic environment, regulatory framework, existence of microfinance market, growth of informal sector, geographical framework, management skills, and product innovation. If these factors are not well performing they will cause profit reduction thus threatening the sustainability of the institution. Another study by Rosenberg (2009) on factors affecting performance of microfinance institutions in Malaysia, results showed that between outreach and repayment rate and microfinance institutions' performance there is a negative correlation. They concluded that repayment rate affect directly portfolio quality as well as profitability.

Jorgeson (2011) highlighted that microfinance can be viewed either from business point of view where profitability is the main objective or as a solution to poverty alleviation by way of outreaching to the economically active poor. The objective for this research is to analyse the microfinance from a business point of view as well as the extent of outreaching to the rural areas, women and the marginally poor. Microfinance institutions which focus on financial profitability are usually financially sustainable enabling them to attain wide outreach necessary to cater for the population required (Yonas, 2012). Therefore this research study was meant to surface out the determinants of financial performance and factors affecting performance.

1.2 Statement of the problem

Despite banks' financial assistance, economically active poor are founding it difficult to access credit facilities and it is hindering growth in Africa and Asia, therefore analysing and monitoring microfinance institutions performance is fundamental in microfinance sector. The way they perform assures sustainability to shareholders and stakeholders, therefore it is of greater importance to identify determinants of both social and financial performance. These determinants of performance are of pivotal role as they assist decision making process whereby areas of poor performance are surfaced and corrective measure being implemented (James, 2013).This study focuses on the determinants of performance of MFIs and factors affecting their performance using techniques such as ratio analysis, trend analysis and cross sectional analysis. Moreover it focuses on key ratios and trends with respect to profitability and operational sustainability, outreach, financial structure, efficiency and portfolio quality.

1.3 Research objectives

i) To determine performance of microfinance institutions in Zimbabwe.
ii) To establish factors affecting performance of microfinance institutions.
iii) To establish appropriate strategies to improve performance of microfinance institutions.

1.4 Research questions

i) What are the determinants of microfinance institutions' performance in Zimbabwe?
ii) What are the factors affecting performance of microfinance institutions?
iii) What appropriate strategies should put in place to improve performance in microfinance sector?

1.5 Significance of the study

The research study will provide an insight of how performance in microfinance industry is determined and factors affecting their performance. The outcomes of the research study will be of greater significance and usefulness to other students to use it as a springboard for further studies in the discipline of the performance determinants of microfinance industry. To the student, it was acquired in partial fulfilment of the Master in Accounting Degree at Midlands State University. It also allows the student to have a better understanding of performance determination on microfinance industry’s operations. These performance determinants will add value to the management as they will know where to focus if they need to achieve a certain objective.

1.6 Assumptions of the study

It will be assumed that the respondents have better understanding on the variables under study and were providing information which guarantees reliability and appropriateness. It is also assumed that sample size chosen represent the entire targeted population.

1.7 Delimitation of the study

The research concentrates on performance determinants of microfinance institutions in Harare CBD which have got loan book value of $500 000 and above, mainly targeting period from January 2015 up to September 2017.

1.8 Limitations of the study

Gathering of information was a bit complex because of institutions’ confidentiality, they were afraid that will pass over their internal information to competitors but assurance was granted on confidentiality and the study was only meant for academic purposes. The approach used to do the study was a case study. The technique for data collection strategy used was both semi structured and structured approach.

1.9 Definition of terms

- Microfinance is defined as the provision of microcredit facilities to the economically active poor, those who are shunned by banks because of inadequate security to cover a loan.

- Sustainability is described as microfinance institution's ability to cover all its operating and other costs and provide profit through interest and other income received from its clients not mainly depending on the external subsidies from government and donors.
- Profitability is defined as the capability to realise profit from operating activities of financial institution

1.10 Summary

The chapter focused at the background of the study giving the research gap on the determinants of microfinance performance, statement of the problem, research objectives and research questions, significance of the study, assumption of the study, delimitations and limitations. Literature review of the research problem shall be conducted on next chapter.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter will focus on the existing theoretical evidence and empirical evidence of microfinance institutions' performance determinants as well as factors affecting their performance. The researcher will focus on the performance measurement of microfinance institutions looking on the welfarist and institutionist approach that are more concentrated on the sustainability and profitability of microfinance institutions, financial ratios determining performance such as portfolio quality, capital asset, gearing ratio, operational efficiency, size of MFIs, age of MFIs, market concentration and real GDP as well as factors affecting performance. The structure of this chapter is guided by the research objectives.

2.1Performance Measurement of Microfinance

In the literature of microfinance there are two schools of thought seems to be contradicting each other concerning microfinance performance measurement namely welfarist approach and institutionist approach but they have the same goal of eradicating poverty. These two approaches were originated from different versions on what should be done by microfinance institutions to provide financial products/services with best conditions to the unbanked adult population and low income earners (Ofeh and Jeanne, 2017). Microfinance instititutions must achieve their social, organisational and financial performance so as to guarantee sustainability and to continue their operations (Magweva and Marime, 2016)**.**

Many countries including Zimbabwe determine microfinance performance using both welfarist approach and institutionist approach (Wale, 2009). In Zimbabwe suppliers of microfinance services/products are microfinance institutions, banks, Post Office Saving Bank (POSB), savings and Credit Cooperatives, associations (ROSCAs), donor sponsored microfinance and also government assistance by providing agriculture programs such as command agriculture, command livestock etc as well as offering financial support seasonally in form of loans (RBZ Annual Microfinance report, 2015).

2.1.1 Welfarist approach

Welfarist indicates that microfinance can attain sustainability without attaining financial sustainability (Alemayehu and Lemma, 2014). The Approach regards donations as their source of capital and therefore they see donors as investors in their society since these donors don't expect to receive monetary returns instead a social return is realised. Welfarist approach focuses on the poverty reduction mainly centred on the depth of outreach relative to the breath of outreach and considering social impacts to determine institutional success (Alemayehu and Lemma, 2014). This approach objective is to eradicate poverty through targeting poor customers mainly those in rural areas and women. Profitability is a secondary issue.

In Zimbabwe the poverty line fall below USD $1.25 per day thus representing the majority of the adult population need formal financial inclusion. According to the World Bank as cited in Mersland and Reidar (2016) indicates that 75% of adult population living on less than USD $2 per day do not have access to bank account. Fin scope consumer survey Zimbabwe (2011) used the financial access strand to determine the financial inclusion. About 40% of the adult population in Zimbabwe do not use financial products to manage their financial lives thus are financially excluded and 22% mainly depend on informal financial products/services. This shows that the objective of client outreach is not met in Zimbabwe opposing the welfarist approach.

According to welfarist approach, performance determination of microfinance institutions is centred on outreach to those referred as economically active poor and effects on the livelihoods of the population (Adair and Berguiga, 2010). In Bangladesh some microfinance institution transformed into a bank called Grameen Bank through subsidies from donors to carry on their operations so as to reduce poverty through outreaching focusing on the depth and breadth of outreach (Ofeh and Jeanne, 2017). The welfarist approach has got its challenges of viability as well as sustainability which is caused by donations, low repayment rates and high cost of operation.

2.1.2 Institutionist approach

Institutionist approach is against the idea of reliability on donor funds and microfinance must have the capacity to cover its operating costs at the same time making profits so as to reach marginally poor people in the future (Alemayehu and Lemma, 2014). This approach focuses on attaining financial self sufficient by targeting the marginally poor (Almas and Mukhtar, 2013). To attain the promise of microfinance of eradicating world poverty, institutionist asserts that building sustainable microfinance that is capable of operating independent from subsidies is essential since it will enable to expand outreach and reach more poor people (Ejigu, 2009).

According to Murdoch (1999) and Hollis (1998) as cited in Alemayehu and Lemma (2014) argues that according to institutionist subsidised microfinance institutions are inherently inefficient. Their interest rates are higher and they focus on creating an efficiently viable microfinance to realise profit and serve customers who are excluded from the financial inclusion and those who are receiving poor banking services (Gutierrez-Nieto etal, 2009).

Performance is determined by the institution’s achievement in attaining financial self sufficient (Adair and Berguiga, 2010). The emphasis is on the breath of the outreach such as the number of clients reached other than the depth of outreach. If the microfinance is able to increase number of marginally poor customers reached then it will be said that the target of poverty alleviation was met (Yenesew, 2014). The institutionist approach has shown to be successful within the microfinance community (Elia, 2006).

2.2.1 Sustainability of Microfinance

Sustainability of microfinance is one of the approaches used to evaluate performance. According to RBZ annual microfinance report (2015), sustainability is described as microfinance institution’s ability to cover all its operating and other costs and provide profit through interest and other income received from its clients not mainly depending on the external subsidies from government and donors.

As cited in Yenesew (2014), Guntz (2010) states that institutional sustainability is defined as continuous long period of micro financing programs when the activities of the project are over. This implies that correct systems and procedures were implemented to help the microcredit facilities to be in existence such that customers will continuously benefit from the facility on day to day activities. Additionally, this resembles that source of capital as to finance their customers and operations would be funded through resources from the share holders or from sources externally (Ofeh1and Jeanne, 2017).

When the idea of microfinance imaged, the argument that subsidies supplied by donors and government are primarily important considerably in a long continuation as well as the matter of sustainability on those institutions surfaced also. The sustainability of microfinance institutions is less important as compared to the provision of funds and start support to micro entrepreneurs. The objective of microfinance is to attain the possible maximum population in the long term so as to achieve their target of poverty reduction. Therefore it becomes visible that we can only achieve the targeted outreach if they are only sustainability as well as efficiency. However, according to Guntz (2011), sustainability is impossible by in-depth outreaching to the global population in poverty.

2.2.2 Financial Sustainability

According to Muriu (2011) argues that for microfinance to attain their main objective of poverty reduction they must become financially sustainable.Ofeh1and Jeanne (2017) defined financial sustainability of microfinance as the ability to survive in the long run and having capacity to cover all admistration and other cost by means of its revenue from their activities to create a margin to fund its growth and outreaching to the poor without any subsidies from donors.

Muriu (2011) views financial sustainability as financial self sustenance (FSS) and operational self sustenance (OSS).However, Morduch (2005) argues that sustainability and profitability has got a negative correlation. Yenesew (2014) highlighted that in microfinance sustainability is a necessity to reach more customers. Ofeh and Jeanne (2017) also supported that financial sustainability is of great importance and the only way to reach out significant poor population.

There are two sets of ratio developed to analyse sustainability of microfinance and these are operational self sufficient (OSS) and financial self sufficient (FSS). OSS is operating income over operating expenses therefore was designed to measure the extend of the coverage of operating income over operating expenses. ZAMFI (2017) noted that the international benchmark for operational self sufficient is 120% whereas in Zimbabwe OSS ratio as at March 2016 was 115.2% meaning it is below the benchmark thus efficiency need to be prioritised.

FSS determines the level to which adjusted operating income covers adjusted operating expenses whereby funds are treated like have been raised commercially and expenses have been accounted for at market value and not recognised as donation (Elia, 2006 cited by Yenesew, 2014).

2.3.1 Profitability theory

According to Yenesew (2014) argued that sustainability doesn't mean able to return a profit thus not all microfinance institutions that are sustainable can have the capacity to return a profit or to break even and therefore still rely on the help of subsidies from donors. According to Joergeson (2011) states that the rapid growth in the microfinance industry is not attributable directly to the profitability since there are still big variances between the microfinance institutions and their operations. This section explains the theory of banking practices that may lead to the profitability of microfinance institutions.

2.3.2 Profitability of retail banking

Banks, financial institutions or intermediaries have large difference between them especially in terms of the clients they serve. The closest banking practise to microfinance institutions is retail banking and is therefore necessary to look into when it comes to profitability. Those who have the surplus of money invest/deposit it to conventional retail banks expecting to receive an interest and the conventional retail banks lend to those people who are in deficit(borrower) charging an interest. The bank thereby makes a profit on the difference between interests received and paid therefore called the net interest income.

About half or three-quarters of the revenue generated in retail bank comes from the intermediation role (Muriu, 2011). The other income which is termed non-interest income is generated from different services such as advisory services, money transmission, insurance, investment and taxation services, card and factoring services etc. One of the major concerns attributing to the success of conventional retail banking is getting enough customers. Therefore is likewise recognised as key factor for microfinance institutions but it differs with the scope of the individual microfinance whether it has social or economical goals (Jorgensen (2011).The objective of conventional retail bank is profit maximisation. A conventional retail bank that has got a big market share as compared to competitors will expect to make big profits as well.

According to Abbas-Kheder and Maisarah (2013) bank has higher rate of efficiency meaning the cost of transaction is low. Therefore profits are in proportion to the efficient of the bank. Since the efficiency of the microfinance industry is not as of the conventional banking industry, the profits are reduced by high operational cost.

According to Yenesew (2014) retail banking sector receives capital from investors to enable it to commence operations and to keep operational and in return investors receive equity on the investment, thus owning a part of the company. The investor's return on equity (ROE) and company's profits have a positive correlation. Retail banks should however take on some risk which has chances of creating non performing loans. If the recorded loss is too little they will have no outreach to the population they could provide financial services but exposing to too much nonperforming loans, which will lead the bank to go bankrupt .Microfinance institutions operate under a very different approach, where there is a bigger risks they introduce ways to mitigate this risk like charging of higher interest rate to the client, requisition of a guarantor acting as a co-principal borrower upon default and using moral suasion on repayments.

2.3.3 The concept of profitability

Profitability means ability to realise profit from all related business activities of an institution, firm or company. Efficiency of management on organising all the resources available in the market creates profit. Profitability is regarded as the ability of a given investment to realise a return from it. The meaning of profitability is not the same as efficiency but profitability is regarded as a measure of efficiency and management capabilities. However the degree of profitability in isolation cannot be regarded as final proof or indicator of efficiency. The improvement in operational efficiency influences the profitability of an institution. However there are other factors besides efficiency which affect the profitability.

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2.3.4 Profit and profitability

Profit and profitability are sometimes used interchangeably by people. In real fact, profit and profitability have a difference. Profit is an absolute term whilst profitability is a relative concept or meaning. Moreover, profit and profitability have distinct roles in business but are closely related and mutually interdependent. Profit is the total revenue realised by the firm from its operating activities during the specified period of time whereas profitability is the degree of operating efficiency of the firm. According to Harward and Upton (1961) cited by Yenesew (2014) states that profit it is the ability of the firm to earn sufficient return on the capital and employees used in the business operation.

Muriu (2011) cited Weston and Brigham (1972) as they noted that profit is the test of efficiency and measure of control in financial management perspective, to the shareholder's perspective is a measure of the worth of the investment, to the creditors perspective is the margin of safety and to the government perspective is the determinant of taxable capacity. Profit is also used as the basis of legislative action and recognised as the index of economic progress by the country resulting in the rise of the standards of leaving whereas profitability is an outcome of profit.

According to Ali-Shami (2008) profitability is measured in different ways such as return on asset (ROA) and return on equity (ROE). Return on asset gives us the degree of management efficient in using its assets to generate profits and shows how profitable a company is relative to its total assets. Return on equity indicates how much profit a firm realised with the capital shareholders have invested and it measures a firm's profitability.

2.4 Market power theory

Market power theory when applied in banking postulates that the performance of bank is determined by the market structure of the industry. There are two different approaches within the market power theory named the structure conduct performance (SCP) and the relative market power theory (RMP). According to Njerl (2012) structure conduct performance approach ascertain that the level of concentration in the banking market promote a rise to potential market power by banks which may result in raising their profitability. In more concentrated markets banks are more likely to realise abnormal profits by their ability to lower deposits rates and to effect high loan rates caused by monopolistic reasons.

However the relative market power theory postulates that market share influence the profitability of the bank. According to the theory only large banks with a range of differentiated products can influence prices resulting in increased profits. According to the relative market power theory bank profitability is a combination of external market factors (Njerl, 2012).

2.5 Efficient structure theory

Efficient structure theory postulates that banks realise high profits through being more efficient than others. According to Athanasoglou et al (2006) cited in Njerl (2012) there are two different approaches within the efficiency structure theory named the X efficiency and scale efficiency theory. X efficiency approach posit that profitable banks are those who are more efficience in lowering their costs. Such banks have a tendency of gaining larger market share which may be demonstrated in higher levels on market concentration.

The scale approach concentrates more on economies of scale rather than differences in production technology or management. Njerl (2012) noted that larger firms can enjoy economies of scale through lower unit cost resulting in higher profits. This can result in larger firms acquire more market shares of which can be demonstrated in higher market concentration and then profitability. Moreover the efficiency structure theory assumes that internal efficiencies and managerial decisions influence the performance of bank.

2.6 Portfolio theory

The portfolio theory approach is important and has got a great role in bank performance studies. According to Njerl (2012) stated that basing on the portfolio balance model of asset diversification, the appropriate holding of each asset in a wealth's portfolio is a combination of policy decisions determined by a number of factors such as the vector of rate of return on all assets held in the portfolio, vector of risks associated with the ownership of each financial assets and the size of portfolio.

The portfolio theory further described as portfolio diversification and the desired portfolio composition of commercial banks are results of decisions taken by the bank management. Moreover, the ability to obtain maximum profits depends on the feasible set of assets and liabilities determined by the management and the unit costs incurred by the bank for producing each component of assets. Njerl (2012) noted that according to portfolio theory internal efficiencies and managerial decisions influence the bank performance

2.7 Financial performance indicators for microfinance institutions: Empirical evidence

Microfinance institutions financial performance could be measured by several determining factors. In most literatures microfinance institutions profitability generally is expressed as a combination of internal and external determinants. Moreover Muriu (2011) indicated that the profitability determinants of microfinance institutions can be separated into two main divisions namely the internal determinants which are affected by internal decisions of management and board and the external determinants which are sector wide or country wide that are beyond the control of the company.

Empirical literatures in conjunction to determinants of financial performance of microfinance institutions are scant. Most of the previous studies carried out in this area highly depended up on the theory of retail banking financial performance applying the assumption that microfinance also provides banking services/products to the poor. The paragraphs below elaborate the empirical studies in connection with determinants of microfinance institutions financial performance.

2.7.1 Portfolio quality

Portfolio indicates total funds available for the microfinance institution to disburse to its potential clients. According to Nelson (2011) portfolio quality is a measure of the degree of the institution's ability to protect its portfolio against all forms of risk and loan portfolio is the largest asset of microfinance institutions. The quality of the portfolio and therefore the risk it poses to the firm can be quite complicated to determine. Financial institutions' largest source of risk is its loan portfolio and therefore portfolio quality is an important area of performance analysis. According to RBZ microfinance quarterly report (2017) highlighted that in microfinance institutions the quality of the loan portfolio is absolutely crucial especially to those whose loans are not backed by bankable collateral.

Microfinance institutions must put more attention on the maintenance of its portfolio quality since it is a crucial area of analysis and also is the largest source of risk. For the purpose of this study, portfolio quality is determined as portfolio at risk over 30 days (PAR >30 days).

Muriu, (2011) conducted an empirical study on profitability indicators of African microfinance institutions, under the study "what explains the low profitability of microfinance institutions in Africa" tried to surface out the factors affecting profitability of microfinance institutions. He used Generalised Method of moments (GMM) system employing an unbalanced panel dataset comprising of 210 microfinance institutions across 32 countries operating from 1977 to 2008. The indicators for profitability were return on Assets (ROA) and return on Equity (ROE). Credit risk determined by the total of loans past due 30 days or more (PAR>30) and still accruing interest is negatively and significantly related to microfinance profitability. Therefore this study surfaced evidence to support the speculation that increased vulnerability to credit risk is negatively related to microfinance institution profitability.

Lafourcade et al, (2006) undertake the other study on the overview of the outreach and financial performance of microfinance institutions in Africa by taking 163 microfinance institutions from 25 countries obtain that microfinance around the world continue to demonstrate low PAR> 30 days, with a global average of 5.2% but Africa microfinance institutions maintain relatively high portfolio quality, with an average PAR>30 days of 4.0%, performing better than their counter parts in South Asia with PAR> 30 days 5.1% and East Asia with PAR> 30 days 5.9%. When microfinance institutions are experiencing poor portfolio quality, they may write off the loans from their books or re-loan by engaging new terms and conditions. The conclusion is that loan at risk is negatively correlated with microfinance institution financial performance.

According to study by Ayayi (2010) in determining the factors which have relationships with financial performance of the microfinance institutions, they analysed a sample of 217 microfinance institutions of various legal form and from 101 countries of the various parts of the world. They used the financial self sufficiency as independent variable and the outcomes showed that the quality of loan portfolio, interest rate and productivity have positive impacts on the financial viability of microfinance institutions.

2.7.2 Capital asset ratio

The measure of solvency of microfinance institutions is capital asset ratio. Capital assets ratio assists microfinance institutions to assess its ability to cover all its obligations and absorb unexpected loss. The measure of recommendable capital to asset ratio level is generally based on the microfinance institutions assessment of its expected losses as well as its financial strength and ability to absorb such losses. Microfinance institutions must have accounting policies which accommodate the provision for expected losses, which removes expected profit from both asset and equity. Therefore, the ratio measures the required capital to meet additional unexpected losses so as to be well capitalised for potential shocks.

Dietrich and Wanzried, (2009) did a research on what determines the profitability of commercial banks in Switzerland , they explained the determinants of bank profitability by grouping them into three classes namely bank specific, macroeconomic and institutionalised factors. They used unbalanced panel data from 1999 to 2006 from 453 banks using linear regression method to obtain results that capital ratio has a positive correlation on bank profitability in Switzerland applying the return on average assets (ROAA).

Moreover a similar study on the determinants of bank profitability in Macacao was carried out by Vong and Chan, (2010), using data covering 15 years period from 1993 to 2007. Estimation techniques such as panel regression and generalised least squares (GLS) were employed to analyse the internal as well as the external determinants of bank profitability. They concluded that capital asset ratio had significant impact on bank profitability therefore has positive coefficient estimate for the ratio of equity to total assets (ETA) referred as an efficient management of banks' capital structure.

According to Muriu (2011) on the research study of determinants of profitability on microfinance institutions, using a panel data set of 210 microfinance institutions showed that capital adequacy had a positive and significant relationship with microfinance profitability. This was highlighted by relatively high coefficient of the equity to asset ratios across the specifications. Even after the inclusion of external factors the effect remained the same. Moreover it was indicated that well capitalised microfinance institutions are more flexible in dealing with challenges arising from unexpected losses and experienced a reduction in cost of funding or lower external funding.

2.7.3 Gearing ratio/ Debt to equity ratio

The gearing ratio is calculated by dividing total liability by total equity. Everything that microfinance owes to others, comprising of deposits, borrowings, and account payable and other liability accounts are referred as total debt. According to RBZ microfinance quarterly report (2017) cited that gearing ratio measures the overall leverage of the microfinance institutions and is the easiest and best known measure of capital adequacy. Moreover Lislevand, (2012) noted that debt to equity ratio is a determinant of assessing the institution's leverage or used to measure the extent to which it depend on debt financing.

According to Muriu, (2011) microfinance institutions that have higher debt in their capital structure are more profitable and highly leveraged microfinance institutions are more profitable. Muriu, (2011) added that despite a higher debt ratio can enhance the rate of return on equity capital during good economic times. Generally NGO type of microfinance institutions depend more on debt financing as compared to other type of microfinance institutions maybe it's caused by them not regulated to mobilise deposits. Moreover Muriu (2011) went on to say that the significant correlation between performance and gearing ratio is an indication that maybe more debt relative to equity is used to finance microfinance activities and that long term borrowings impacts positively on profitability by fast tracking microfinance institutions growth than it would have been without debt financing.

Nelson, (2011) carried out a study performance assessment of microfinance institution in the Ashaiman municipality; they concluded that the rural bank recorded debt to equity ratio of 50.89% in 2008 but increased to 54.05% in 2008. In 2009 it further increased to 61.65% and in 2010 increased to 77.35% giving an average ratio of 60.99% thus depicting that most of its operations are financed by debt instruments and should probably be regulated. The savings and loans recorded a rapid increase from 0.30% in 2007 to 0.8% in 2008. In 2009 it increased sharply to 2.97% and to 4.89% in 2010 with an average of 2.24%. The sharp increment may imply that savings and loans were approaching the borrowing limit leading to curtailment of growth. The credit union, debt to equity decreased throughout the study period from 0.89 in 2007 to 0.61 in 2008 to 0.45 in 2009 and 0.77 in 2010 thus implying that more equity is used to finance business than debt.

The proportion of debt and equity being used by the company to finance its assets is indicated and this is much connected to where the microfinance institution is located in its life cycle. Traditionally, the funding structure follows a certain pattern over the life cycle of a microfinance institution. Newly born microfinance institutions are characterised by a larger dependency on donations, usually in the form of equity grants, whilst the more mature microfinance institutions tend to display higher debt leverage through borrowing and even evolve into a formal institution or a regulated microfinance bank. According to Jorgensen (2011) some microfinance institutions even access capital markets by issuing bonds or by going public. Debt/equity is a statistically insignificant predictor variable for the model at 5% level of significance.

2.7.4 Operational efficiency

Operational efficiency is one of the indicators of performance that indicate how well microfinance institution is streamlining its operations at the same time take in to account the cost of the input and the price of output. Efficiency in expense management should ensure a more effective use of microfinance institutions loanable resources, which may enhance profitability. Higher ratios of operating expenses to gross loan portfolio show a less efficiency management. Operational efficiency in managing the operating expenses is another dimension for management quality.

According to Ongore and Gemechu, (2013) the performance of management is often expressed qualitatively through subjective evaluation of organisational discipline, management systems, control systems, quality of staff and others. Sanderatne, (2003) cited by Dissanayake (2012) conducted a study on the determinants of financial viability, expressed that operational efficiency and low administration costs are worth to be given more attention as they have an important bearing on the financial performance of microfinance institutions. Moreover according to Dissanayake (2012), operational efficiency is represented by operating expense ratio which is adjusted operating expense divided by adjusted average gross loan portfolio. The results showed that operating expense ratio, are statistically significant predictor variables in determining return on asset ratio. In support of the idea Muriu (2011) concluded that inefficiency in the management of operating expenses significantly reduce microfinance institution profitability.

2.7.5 Size of microfinance (Total assets)

Size of the microfinance institutions is one of the factors affecting financial performance. According to Hermes et al (2008) cited by Muriu (2011) highlighted that the value of the assets is used as a measurement of the size of microfinance institution. Moreover Cull et al (2007) cited by Muriu (2011) the size of microfinance institution has a positive correlation with financial performance. There is consensus in academic literature that economies of scale and synergies arise up to a certain level of size, therefore beyond that level financial institution become uneasy to manage and diseconomies of scale arise.

According to Muriu (2011) noted that failure to become profitable in microfinance sector is partially due to lack of economies of scale however profitable microfinance in Africa have a greater control of the domestic market and therefore lending rates may remain high while deposit rates remain lower since larger firms may be perceived to be safer. Thus the high interest rate spread translated to and sustainable higher profit margins.

Cull et al (2007) cited by Muriu (2011) argued that the size of the microfinance institutions and financial performance are positively related but loan size is negatively correlated to financial performance thus microfinance institutions that grant relatively smaller loans are not necessarily less profitable. In fact larger loan sizes are associated with lower average costs for both individual loan and group loan.

2.7.6 Age of microfinance institution

The maturity of microfinance institution translates the experience acquired in their sector and their likelihood of attaining financial sustainability will increase. This can be elaborated by the fact that microfinance institutions gradually improve their control over all operations related to granting of a loan. Moreover Ayayi (2010) supported that microfinance institutions that have maturity in the microfinance sector have diligently applied credit risk management and efficient management techniques to achieve financial sustainability. Sustainability could relate to the age of microfinance institution. The age refers to the period that microfinance institution has been in operation since its initial inception. Other literatures highlighted that the microfinance institutions age is associated to the financial performance.

According to Jorgensen (2011) highlighted that age is grouped into new 1 to 4 years, young 5 to 8 years or mature which is more than 8 years. The number of years is calculated as the difference between the years started their microfinance operations and the year of data submitted by the institutions. Therefore the result shows that age (new) this dummy variable is significant with positive sign. Implies that if a microfinance institution is new its ROA is 0.03642 higher than the ROA of mature microfinance institutions, it is no longer maturity and experience that provides profitability as in many industries. This indicates that new microfinance institutions entering the industry have different set of goals and operational set of skills leading to profitability.

The study by Dietich and Wanzenried (2009) as cited by Yenesew (2014) said that in the banking industry, the profitability of commercial banks showed that larger banks are slightly less profitable as compared to medium sized banks, with the coefficients being significant at the 10% level. This shows that larger banks cannot benefit from higher product loan diversification possibilities and even face scale inefficiencies.

2.7.7 Market concentration

Market concentration is defined as the number, size and distribution of banks in a particular segment, market or country. As highlighted in other empirical studies, market concentration is measured by the Herfindahl-Hirschman (H-H) index which is the sum of the square of market share of the sample banks included in a particular study (Birhanu, 2012). According to Gajure and Pradhan (2012) the market share of each bank is indicated by the ratio of the bank's total asset to total assets of all banks.

Since highly concentrated market lacks proper competition as to setting the price of the banking services, it makes the existing more profitable. When the concentration of the market is reduced and the size and distribution of banks become more dispersed, the banking sector profitability is expected to reduce. Flamini (2009) as cited by Ofeh and Jeanne (2014) did a research on the determinants of profitability of commercial bank in Sub-Saharan Africa, his results showed that market concentration has no direct effect on bank profitability. According to Athanasoglou et al (2005) cited by Ofeh and Jeanne (2014) carried a study and the results were that market concentration affects bank profitability negatively.

2.7.8 Real GDP

The real GDP is a measure of macroeconomic environment and it is the most informative single indicator of progress in economic development. Poor economic conditions can deteriorate the quality of the loan portfolio, leading to reduction on profitability. Muriu (2011) argued that economic conditions that are improving have positive effect on the profitability of microfinance institutions. Thus the real GDP is expected to have positive relationship with microfinance institutions profitability.

According to study carried out by Imai et al (2012) on the financial performance of microfinance institutions focusing on the macroeconomic and institutional perspective drawing up on the microfinance information exchange data and cross country data on macro economy, finance and institutions. The author used hausman-taylor to take account of the real GDP and found that it has got a positive impact on microfinance institutions financial performance.

2:8 Factors Affecting Performance in Microfinance institutions

Huang (2005) cited in Alemayehu and Lemma (2014) highlighted that there are 3 groups of factors affecting performance in microfinance namely policy, geography and institutional factors.

2.8.1 Policy factors

There are several different macro economic factors attributed to performance of microfinance institutions. The first factor is economic instability of the country. Countries that have got macroeconomic stability determined by real interest rates and stable inflation evidenced that microfinance is more developed and has got better performance (Goldfajn and Rigobon, 2000 cited by Alemayehu and Lemma, 2014). In support, Rhyne (2001) added that countries with more stable economy and lower inflation rates draw in more potential microfinance providers. Historically the international donor community has attributed significantly in subsidising the outgrowth and promote development of microfinance. As most microfinance emerged as non-governmental organisation Imboden (2005) cited in Alemayehu and Lemma (2014) asserts that external financial intervention was of greater important.

The other factor is the income level. According to Vanroose (2008) argued that countries with higher levels of income have less developed microfinance institutions because micro-entrepreneurs with high income levels have greater chances to self-finance through savings and the probability is high for them to borrow from friends and friends as well as from formal finances. In support Schreiner and Colombet (2001) cited by Alemayehu and Lemma (2014) states that microfinance institutions in Argentina have not developed because of the higher wages they earn. Traditionally the main objective of microfinance is to provide financial services to the poor.

2.8.2 Geographic variables

According to Stieglitrz and Weiss (1981) cited in Alemayehu and Lemma (2014) argued that transaction and information costs influence financial development. In some cases they have the tendency of leading to market failures. Better interconnectivity between regions, communications, sanitation and availability of electricity lower transaction and information cost.

Moreover population density also affects the financial development. Sriram and Kumar (2005) cited by Alemayehu and Lemma (2014) noted that there are to contradicting arguments which states that in regions with high population density and good regional connectivity, formal financial institutions may be more developed therefore the need for specific microfinance institutions may not be present. The other one states that if the development of the two sectors is complementary, these factors could eventually also stimulate the development of the microfinance sector. Microfinance develops faster in densely populated areas (Alemayehu and Lemma, 2014).

2.8.3 Institutional variables

In the development process of a country, institutions play an important role. Educational system is one of the institutions mentioned in the microfinance literature. According to Alemayehu and Lemma (2014) the role of human capital in financial sector development is widely recognised. Regions with higher levels of education have more developed financial systems (Alemayehu and Lemma, 2014) and there are positive effects of social capital in financial sectors.

2.9 Strategies to improve performance of microfinance

The performance of microfinance is one of the important areas to be considered as it assures healthiness of the sector. Strategies to improve the performance are very crucial to the sector as it enable microfinance institutions to remain profitability as well as sustainable.

2.9.1 Credit risk management

Credit risk management is one of the most recognisable tool to ensure viability of microfinance industry through employing measures to minimise chances of loans not being repaid and this will lower the rate of non-performing loans. Microfinance institutions' survival is entirely depended on the quality of the lending program which involves outflow of funds through grants and inflow through repayments by the clients (Sindani, 2012), therefore the implementation of tight credit control system should be prioritised so that better profits are realised.

2.9.2 Management competences

According to Silva, (2013), inefficient management has caused closure of many financial institutions around the world. Management has greater control of the institution and it has power to direct all resources towards achieving profitability as well as sustainability. Management efficiencies help in achieving better financial performance.

2.9.3 Liquidity management

Liquidity is the lifeblood of any microfinance institution as it enables to conduct business of granting loans since there will be funds to do as so. Management of funds will promote the business through channelling most of the funds to microcredit loans. If an institution is financially health they will not disappoint their potential customers as they will be able to meet their demand and will also enable to outreaching to the greater portion of the poor population..

2.9.4 Cost control management

Microfinance institutions for them to make profits and ensuring sustainability they have to minimise their operational costs. By doing so, they will be creating value to the institution which in turn improves the profitability as well as the sustainability. Operational cost efficiencies are vital for an institution to realise more profits therefore, unnecessary costs must be avoided

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This research study's scope is limited to the microfinance industry in Zimbabwe specifically in Harare province. This chapter sets to explain a detailed methodological framework applied to gather data. Data is collected in qualitative and quantitative form to satisfy the analysis of the financial performance determinants of micro financiers in Harare CBD as well as factors affecting their performance. The following are the factors we focus on this chapter and this include descriptive research design , research population, sampling techniques, sampling size, data collection methods, research instruments, data presentation and data analysis procedures.

3.1 Descriptive research design

Using the descriptive research helps to depict a situation as it happens usually naturally. Its purpose is for the justification of current practice as well coming up with judgement and developing relevant theories. The researcher applied descriptive research since it shows its effectiveness as well as efficiency in gathering data pertaining to the microfinance industry. Moreover a descriptive research is used to capture all important aspects or to come up with correct representation of the situation, person or event (Saunders et , 2012) .The major reason to apply descriptive research design is because it helps to gather views as well as perceptions of the targeted respondents on the financial performance determinants of micro financiers as well as the factors affecting their performance. It also allows the attainment of research objectives through interviews and questionnaires. Additionally, results in providing detailed information which helps to attain broader views on the topic under research. Mugenda and Mugenda, (2003) cited in Mabonga and Maina, (2017) asserted that descriptive studies are easy and simple to conduct.

3.2 Primary Data

The source of data is primary data and is defined as the data collected for the investigation or specific purpose in the present study. Data is collected using questionnaires and interviews which is the original data from some of the micro financiers in Harare CBD. Various micro financiers are interviewed on the determinants of financial performance and factors affecting performance. Primary data is a provision of relevant data and this makes it useful for the purpose of this research as well as permitting addressing issues focusing on the research and bearing a major control of the information collection process. Moreover, the reliability of data collected is credible since the data is directly obtained from the targeted population and issues related to the quality of data are monitored. However it consumes relatively more time and is expensive to conduct.

3.3 Research population

Population is referred to as a group of items and individuals that have got same characteristics from which data can be collected and analysed. The research sample is obtained from operation managers and accountants in micro financiers in Harare CBD and is purposively selected. Diagram below shows the research sample.

Table 3.1 Research sample

	Operation Managers	Accountants	Total
Target Population	40	10	50
Sample	37	8	45

The research target population comprise of fifty representatives with forty operations managers, ten accountants and a total of forty five target sample selected and has thirty seven operations managers and eight accountants representative. The criteria for choosing representatives is based on the understandability and knowledge of financial performance and factors that affect their performance. Research population and their respective sub groups are significantly constituted, thus enhancing reliability of the research. Referencing to Walliman (2011), sampling is done anytime, information is obtainable solely from a part of the researcher's population which is intended to be studied and as well as the number of participants which yields better results from a qualitative research point of view ranges from 20 to 30 research participants regarded as minimum.

3.4Sampling techniques

This research study applied non probability sampling, which is viewed as a sampling technique which is process that does not give equal opportunities or chances to the population being selected as samples (O'Leary, 2010). Since time, money and workforce is limited, it is impossible to randomly sample the entire micro financiers in Zimbabwe thus use of non probability sampling was necessary. The sample size is selected on the basis of purposive personal judgement.

3.5 Judgemental sampling

Judgemental sampling is also referred to as purposive sampling, or defined as the non random or probability sampling where the bases for selection is knowledge and professional judgement. In general the research has got some of the elements which fit better than other individuals, so there is need to obtain information from a very specific group of people. The research sample constitute of operations managers and accountants who are believed to have in depth knowledge of performance of micro financiers.

3.6 Research instruments

There are two research tools applied namely are questionnaires and personal interviews.

3.6.1 Questionnaires

Questionnaires are regarded as lists of written questions of which the respondent will be responsible for volunteering information asked for. It is one of the useful instruments mostly for gathering research information by distributing it to the targeted sample without the presents of the researcher. The questionnaires comprise of structured questions administered to several expects who are able to provide response with better comprehensive knowledge on what is happening. The use of structured questions enables maximisation of data gathering and is easy to analyse or to draw a conclusion. Questionnaires enable respondents to understand what is being asked as they read and interpret the questions then respond through writing down the answers. They are suitable for research to conduct on a large scale and when time is limited.

3.6.2 Closed ended questions

Closed ended questionnaires are used for the research. Study by Saunders et al (2012) defined closed ended questions as questions that provide a multiple difference answers where the respondent select the correct answer according to his/her understanding. Close ended questions bring about uniformity in the way questions are asked and the way they are answered making it possible for comparability purpose and making it simple arrange the answers. They are able to gather data from a bigger component of the population. The closed ended questions is presented in a likert scale form and results show degree of disagreement and agreement made by respondents

Table 3.2 Likert scale

Determinant	Strongly agree	Agree	Uncertain	Strongly disagree	Disagree

Respondents' opinions are presented on a likert scale by a tick where they think its correct. Likert scale is used by the study and it enables collected data to be interpreted easily, time consumed is less and is mostly suitable on large population.

3.6.3 Interviews

According to Walliman, (2011), interview is referred as a skill of asking and listening. Personal interviews give instant responses. Interviews are used on the research as it enhances to get better explanations and those facts that support the idea. Interviews are meant for accountants because they have a better know how on the performance determinants. Thematic approach is used as a method of analysis of study and it is recognised and widely used as qualitative approach to analyse interviews, through the use of this approach a process of identifying, analysing and reporting patterns within the data collected.

3.7 Validation of the research

Validity is defined as an attempt to come up with research results which have better quality (Saunders et al, 2012). Validation of data is guaranteed when the operations managers as well as accountants of the micro financiers are questioned and interviewed on the financial performance indicators and variables affecting financial performance. The research objectives are used to establish questions of the research and it was pretested for the sake of validation.

Interviews questions and questionnaires were revised and scrutinised, to verify mistakes and grammar.

3.8 Ethical considerations

Ethical consideration is referred as the accepted behaviour or practice that is considered to be correct on a given profession or group (Kumar, 2012). Confidentiality and ensuring them that no name was to be acknowledged were granted to the numerous operations managers and accountants who contributed in the research. The purpose of the research data is only meant for academic research. The respondents are educated about the study on the importance, usefulness and how it will contribute in improvement of performance of microfinance industry for them not to see the study as a waste of time. The use of biased information to draw any misleading conclusions was avoided as well as the use of an invalid instrument.

3.9 Data analysis and presentation

Realistic conclusions from the findings are obtained through the use of measures of central tendency. Data is presented qualitatively in the next chapter. Data gathered is verified for completeness, accuracy, relevance and consistency to the research questions. The use of tables and graphs for data presentation made it simple to show the data collected that can be understood by an average person. Every data collected was interpreted and examined.

3.10 Summary

The methodology used in conducting research about financial performance indicators as well as factors affecting performance of Harare CBD micro financiers is disclosed. The sample size, sample used, sampling method, sources of data collection, research tools and research design is presented by the researcher. Data presentation, analysis and discussion on data collected is presented in the next chapter.

CHAPTER 4

DATA PRESENTATION ANALYSIS AND DISCUSSION

4.0Introduction

This chapter provides an insight on the determinants of financial performance of the micro financiers and factors affecting their performances. The chapter shows how the research problem attribute to the portfolio quality, capital asset ratio, gearing ratio, operational efficiency, size of the MFIs, age of MFIs, market concentration and real GDP as well as policy factors, geographical variables and institutional variables. Graphs and tables were used in presentation of data collected.

4.1Response rate

Response rate shows the questionnaires responded against questionnaires administered. There were forty operations managers and ten accountants and this represented our sample population. Table 4.1 below presents that the response rate was high.

4.1.1 Questionnaire response rate

Questionnaires were used by the researcher to collect primary data. Firfty questionnaires were administered to forty operations managers and ten accountants. Total questionnaires administered were fifty to the targeted respondents which comprise of forty operations managers and a total of ten accountants. The response rate on questionnaires that were distributed to operations managers and accountants are shown below by table 4.1.Bar graphs were used for the purpose of presenting data to be understandable and observe a certain pattern or uniformity.

Table 4.1 Analysis of questionnaire respond rate

	Questionnaires distributed	Questionnaires respondents	Response rate
Operations manager	40	37	92.5 %
Accounting	10	8	80 %
Total	50	45	90%

Above table shows that a total of fifty questionnaires were distributed to operations managers and accountants and forty five out of fifty responded thus representing a response rate of 90% The administering of questionnaires were as follows, forty were distributed to operations managers of which thirty seven out of forty responded giving a response rate of 92.5% as the other three operations managers did not respond due to long channels to get approval to carry on with the research and absenteeism and the other ten were distributed to the accountants and eight responded giving a response rate of 80% as other two accountants were not cooperative and time was a limited factor. Cohen et al (2007) asserted that at least 60% of the distribution response rate is of relevance. Therefore collected data can be trusted to be used for the research study on presentation, analysis and conclusions, as the response rate of 90% is regarded as appropriate and sufficient. Moreover, Saunders et al (2009), highlighted that when it comes to business statistics, 52% is acceptable as valid. Furthermore according to Walliman, (2011), noted that twenty to thirty people is the minimum population that is regarded as number that can provide statistically significant results thus can give satisfaction in qualitative data research. The research can be proved that it has forty five respondents which validate reliable results.

4.2 Presentation of data

4.2.1 Financial performance determinants of micro financiers

The aim of the study is to figure out the financial performance determinants of micro financiers and the results highlighted that there are a number of measurements of financial performance. The researcher asked the respondents in their view on the financial performance determinants of micro financiers in Harare CBD. Below is figure 4.1 presenting the responses gathered.

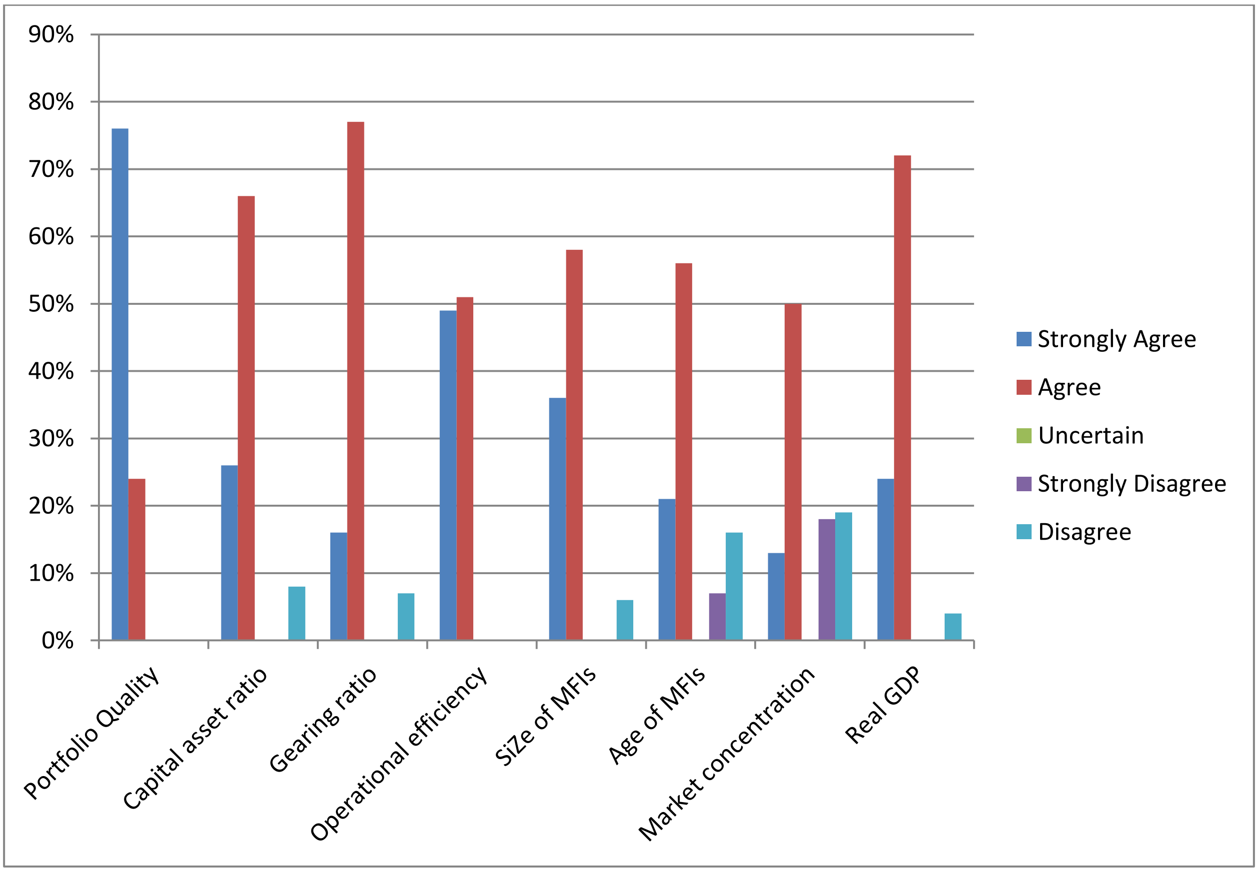

Figure 4.1. Financial performance determinants of micro financiers

The above graph shows the financial performance determinants of micro financiers' response rate. The results of the determinants are explained below:

4.2.1.1 Portfolio quality

In obtaining whether the portfolio quality is the determinant of performance, 34 out of 45 respondents strongly agree representing 76% of the total respondents and 11 out of 45 respondents agree representing 24% of the total respondents, that portfolio quality determines performance of the micro financiers. All the respondents supported that portfolio quality is a measure of performance in micro financiers. Therefore management should concentrate and make effective decisions concerning the achievement of better portfolio quality.

From all the interview respondents they believe that portfolio quality is one of the major determinants of performance arguing that portfolio quality determines the capacity to disburse new or repeat loan thus affecting the main purpose of the business. They went on to say portfolio quality shows PAR over 30 days which are referred to as non-performing loans, those not generating income but holding up capital and directly affect the sustainability and profitability of the institution. 4 of the interview respondents bring in the issue of interest rate caps effected in 2017 by RBZ gazetted that interest per month must not be above 10% which means that if the portfolio quality is poor microfinance institutions will not be able to cover up for its operating costs threatening sustainability of institutions.

This was also supported by Muriu, (2011) highlighted that portfolio quality show the degree of credit risk which positively and significantly affect the profitability of the institution as profit will cover up the losses from bad debts threatening sustainability. Increased vulnerability to credit risk has negative impact on the micro financiers’ profitability. Portfolio quality is the degree of the institution‘s ability to minimise risk of its portfolio. Lafourcade et al (2006) added that if micro financiers can write off non performing loans in their balance sheet thus negatively impact on the institution’ profit as well as the sustainability.

4.2.1.2 Capital Asset Ratio

In ascertaining the significance of capital asset ratio to performance of micro financiers, 12 out of 45 respondents strongly agree thus 26% of the total sample and 30 out of 45 thus 66% of the respondents agree that capital asset ratio determine the performance of micro financiers. A total of 42 out of 45 respondents supported that capital asset ratio is one of the determinants of performance as it measure the solvency of the micro financiers which affect the sustainability if unexpected loss rise.

A total of 5 interview respondents mentioned that capital asset ratio determine performance of micro financiers basing on the ability to cover all its liabilities and obligations and suck in unexpected losses. They argued that capital asset ratio give assurance of sustainability when unexpected losses experienced. In support Dietrich and Wanzried, (2009) highlighted that financial institution's profitability is affected by capital asset ratio. In addition Muriu, (2011), supported that a well capitalised micro financiers are more flexible in absorbing potential shocks reducing cost of funding. However 3 out of 45, constitute 8% of the respondents disagree that capital asset ratio determine performance and a total of 3 interview respondents did not mention about capital asset ratio.

4.2.1.3 Gearing ratio

In assessing the significance of gearing ratio on the performance of financial institution, 7 out of 45 thus 16% of the respondents strongly agree and 34 out of 45 thus 77% of the respondents agree that gearing ratio is a determinant of financial performance in microfinance institutions. A total of 41 out of 45 respondents which is 93% support that gearing ratio is viewed as micro financier's financial performance determinants. All of the 8 interview respondents highlighted that gearing ratio is referred to as the determinant of financial performance as it show the overall leverage of the microfinance institution thus showing the degree of financial sustainability. In support Nelson, (2011) noted that gearing ratio measure the capital adequacy which enhance the capacity to fund business operations, therefore gearing ratio is the determinant of financial performance. 4 out of 45 respondents disagree representing 7%, that gearing ratio is a determinant of financial performance.

4.2.1.4 Operational efficiency

In ascertaining whether the operational efficiency is a determinant of financial performance, 22 out of 45 respondents constitute 49% strongly agree and 23 out of 45 respondents constitute 51% agree that the operational efficiency is of significance value in determining the financial performance. A total of 45 respondents thus 100% support that operational efficiency is financial performance determinant as it concentrate on streamlining the operations at the same time outreaching to the economically active poor and this will positively affect the profitability as well as the sustainability.

All of the 8 interview respondents highlighted that operational efficiency is referred as one of the major micro financier's financial performance determinants. They noted that efficiency in expense management enhance profit thus leading to profitability and sustainability. According to Ongore and Gemechu (2013) highlighted that low administration cost as well as operational efficiency are worth to be given more attention as they have significant influence on the micro financiers' financial performance.

4.2.1.5 Size of the firm

In obtaining whether size of the firm determine financial performance, 16 out of 45 respondents thus 36% strongly agree and 26 out of 45 respondents thus 58% agree that size of the firm determine financial performance. A total of 42 out of 45 respondents thus 94% supported that size of the firm determines financial performance. 6 of the interview respondents indicated that size of the firm indicate the financial performance. This was supported by Cull et al (2007) argued that micro financier's size and financial performance are positively related through economies of scale. 3 out of 45 thus 6% of the respondents disagree and 2 interview respondents did not mention size of the firm as the determinant of financial performance. Muriu (2011) cited that big firms have economies of scale but there is a certain level where the financial institution becomes uneasy to manage and diseconomies of scale arise.

4.2.1.6 Age of the firm

In ascertaining whether age of the firm is one of the indicators of financial performance, 10 out of 45 representing 21% strongly agree and 25 out of 45 representing 56% agree that the age of the firm determine the financial performance. A total of 35 out of 45 respondents which is 77% supported that age of the firm indicate the performance of the financial institutions. 4 of the interview respondents noted that age of the firm determine the financial performance of the firm. They argued that maturity of microfinance institution translates the experience acquired in the sector thus likely to attain financial sustainability. Ayayi (2010 supported that microfinance institutions that have maturity in the microfinance sector have diligently applied credit risk management and efficient management techniques to achieve financial sustainability. A total of 3 out of 45 respondents which is 7% strongly disagree and 7 out of 45 respondents which is 16% disagree that the age of the firm is a major micro financier's indicator of financial performance. 2 of the interview respondents did not mention age of the micro financier as an indicator of financial performance. Dietich and Wansenried (2009), supported that the aged and large commercial banks showed that they are slightly less profitable as compared to medium sized banks.

4.2.1.7 Market concentration

In obtaining market concentration as a determinant of financial performance, 5 out of 45 respondents representing 13% strongly agree and 23 out of 45 respondents representing 50% agree that market concentration determine the financial performance. A total of 28 respondents which is 63% highlighted that market concentration is a micro financier's financial performance determinant. 5 out of 8 interview respondents strongly supported that market concentration is a major determinant of performance of microfinance institutions. Gajure and Pradham (2012) argued that highly concentrated market do not have proper competition on banking services price setting, it makes those in existence more profitable. 8 out of 45 respondents thus 18% strongly agree and 9 out of 45 respondents thus 19% disagree that market concentration determine financial performance. 3 interview respondents highlighted that market concentration is not determinant of financial performance. This was supported by Flamini (2009) who highlighted that there is no direct impact between market concentration and profitability as well as sustainability.

4.2.1.8 Real GDP

In ascertaining whether GDP determines the financial performance, 11 out of 45 respondents representing 24% strongly agree and 32 out of 45 respondents representing 72% agree that real GDP is among the determinants variables of micro financier's financial performance. A total of 43 out of 45 respondents constitute 96% supported that real GDP determines micro financier's financial performance. Of the entire 8 interview respondents mentioned that real GDP determines predicts the micro financier's financial performance. Imai et al (2012) found that real GDP influence significantly the micro financier's financial performance financial thus referred as financial performance determinant. 2 out of 45 respondents thus 4% disagree on GDP being financial performance determinant.

4.2.2 Factors affecting micro financier's financial performance

The research study seeks to find out factors affecting micro financier's financial performance. There are 3 categories of factors affecting financial performance of micro financiers. The questionnaires and interviews were administered to respondents so that they can figure out factors affecting financial performance of micro financiers in Zimbabwe. Figure 4.2 below represent respondents's views.

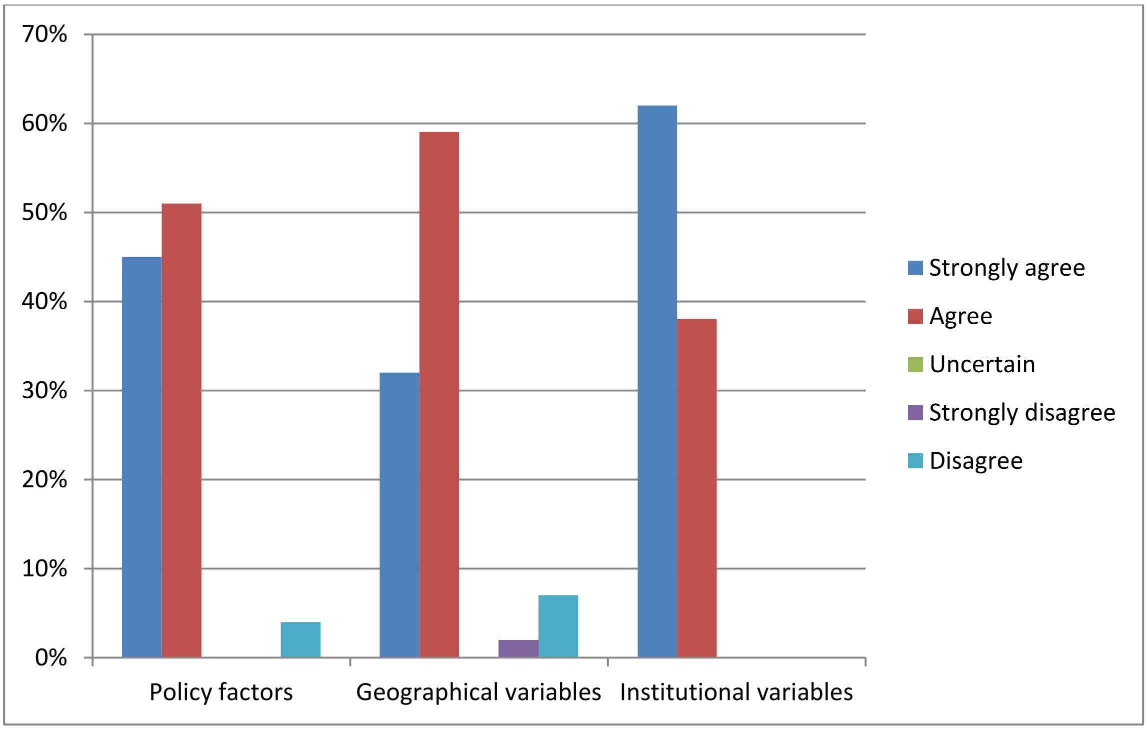

Figure 4.2 Factors affecting micro financiers' financial performance

The above graph shows the response rate from respondents on factors affecting micro financier's financial performance. The results obtained are explained below:

4.2.2.1 Policy factors

In assessing whether policy factors affect financial performance of micro financiers, 20 out of 45 respondents thus 45% strongly agree and 23 out of 45 respondents thus 51% agree that policy factors affect the micro financier's financial performance. Results show that a total of 43 respondents constitute 96% supported that policy factors affect financial performance.

All of the 8 interview respondents agreed that policy factors affect financial performance. Vanroose, (2008), argued that countries that have macroeconomic stability determined by real interest rate and stable inflation evidenced that micro financiers are more developed and has got better performance. 2 out of 45 respondents disagree that policy factors affect the financial performance.

4.2.2.2 Geographic variables

In ascertaining whether geographic variables affect the financial performance of micro financiers, 14 out of 45 respondents thus 32% strongly agree and 27 out of 45 respondents thus 59% agree that geographic variables affect the micro financier's financial performance. The results showed that a total of 41 respondents thus 92% supported that geographic factors affect micro financier's financial performance. All of the 8 interview respondents supported that geographic variables affect financial performance of an institution. Sriram and Kumar, (2005), argued that in densely populated areas, microfinance develops faster. Alemayehu and Lemma (2014), supported that areas with high population density as well as good area connectivity promotes microfinance institutions to do well on financial performance.1 out of 45 respondents thus 2% strongly disagree and 3 out of 45 disagree thus 7% that geographic variables affect financial performance.

4.2.2.3 Institutional variables

In ascertaining whether institutional variables affect the performance of microfinance institutions, 28 out of 45 respondents constitute 62% strongly agree and 17 out of 45 respondents constitute 38% agree that institutional variables have an impact on the micro financier's financial performance. The results showed that a total of 45 out of 45 respondents representing 100% supported that the institutional variables largely affect the performance of an institution. All of the interview respondents view institutional variables as major factor affecting the performance of microfinance institutions. Alemayehu and Lemma, (2014) noted that human capital's role in micro financiers growth and development is mostly recognised and areas which have got high educational levels tend to have robust micro financiers system.

4.2.3 Strategies to improve financial performance of management

In finding out the strategies to improve financial performance of micro financiers, interviews were carried out to 8 respondents which are accountants. They all mentioned that credit risk management is a necessity for an institution offering credits so as to control the quality of the loan portfolio. They highlighted that credit risk management is a tool for controlling non performing loans and is essential on the viability of micro financiers. This was supported by Sindani, (2012), who highlighted that credit risk management strategies are measures employed by microfinance to avoid or minimize the adverse effect of credit risk thus helping the microfinance to avoid high rates of nonperforming loans when if it is fully implemented. Then other 3 respondents went on to say, survival of most micro financiers depends entirely on successful lending program that revolves on funds and loan repayments made to them by the clients so this requires a restrictive credit control system to be put in place so as to restrain from unnecessary lending thus, improving on profitability of micro financiers as well as sustainability.

All of the respondents also mentioned that liquidity management is one of the strategies used to improve financial performance as it ensures that there will be sufficient funds to sustain the main objective of microfinance which is providing micro credits. They went on to say liquidity management will indirectly satisfy the customers as it will enable to fund clients at any time when the need arises without any delays because of funds available by being liquid. They also recommended that management should give more attention on liquidity levels required by an institution so as not to disappoint funding wing. By being liquid this will promote sales growth leading to better profitability as well as sustainability.

Moreover they all highlighted that cost control management is of greater importance as it will directly impact on the ratio of operational efficiency. Streamlining of operational activities lower the cumulative cost thus boosting the profits of an institution and eventually improves profitability as well as sustainability. They argued that excessive expenses may collapse the micro financier, thus those avoidable costs must be eliminated to create profit.5 of the respondents surfaced out that management competences and skill also improves the financial performance through implementing correct prescription when a crisis arise.

4.3 Summary

The presentation of the research study findings on the financial performance determinants and factors affecting their performance that were analysed and discussed was through the use of tables and graphs. Executive summary, research findings and recommendation of the study is presented in the next chapter.

CHAPTER FIVE

SUMMARIES, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter give summaries of all previous chapters, conclusions, recommendation and further studies on the subject under study.

5.1 Executive summary

- Chapter 1

Chapter one of this research study provides a general background on the determinants of performance as well as the factors affecting micro financiers whereby microfinance has been referred as a social and financial mean to the poor population which is financially excluded by banking sector. The microfinance has tried to reduce the level of financial inclusion and bringing in the social aspect through women empowerment, creation of employment, economic development as well as poverty reduction. It highlighted the management and policy makers to indicate the major financial performance determinants of micro financiers in order to maintain a good financial stability which will enable to absorb unpredicted negative shocks. The chapter also focused on the problem statement, research objective which is to determine micro financier's financial performance in Zimbabwe as well as the research questions, significance of the study, assumptions of the study, delimitation as well as the limitation of the study, definition of terms and summary.

- **Chapter two**

It focused on reviewing a detailed outline of literature by other authors like (Ofeh and Jeanne, (2017), Alemayehu and lemma, (2014), Yenesew, (2014), Muriu, (2011), Njerl, (2012)) to have an in-depth knowledge on the determinants of financial performance and factors affecting performance. Welfarist approach, institutionist approach, sustainability theory, profitability theory, market power theory, efficient structure theory and portfolio theory were identified as the major theories in support of the determinants of performance of microfinance institutions and factors affecting performance.

- **Chapter three**

It describes the approach employed to develop and validate research study and qualitative survey was used for the purpose of the research study. It discussed the research design, research population, sampling techniques, research sample as well as data collection methods, research instrument, data analysis and presentation and summary.

- **Chapter 4**

The chapter was concentrating on the presentation, analysis and discussion of the findings surfaced by the research, which was obtained through collection of data using questionnaires and interviews. The use of tables, graphs as sell as explanatory notes as an aid helped to present and analyse data.

5.2 Research findings

- It was found that the major micro financier's financial performance determinants are portfolio quality, capital asset ratio as well as gearing ratio, operational efficiency, size of microfinance institution, age of microfinance institution, market concentration and GDP.
- Factors affecting the performance of microfinance institution are policy factors, geographic variables and institutional variables.
- To achieve sustainability and profitability, managers and policy maker must know the major elements attributing to financial performance so as to come out with correct policies and strategies.
- Strategies to improve financial performance of micro financiers are credit risk management, liquidity management and cost control management.

5.3. Recommendations

- Operational efficiency, portfolio quality, capital asset ratio as well as gearing ratio and growth domestic product are significant microfinance financial performance determinants in Zimbabwe. Since inefficiency is a major challenge of micro financiers, management should come up with good cost management policy encompassing operating expenses reduction strategies and credit risk management through information communication technology and mobile banking.
- Management and policy makers should balance between two approaches namely welfarist and institutionist approach when making decisions and designing products as well as considering financial self sufficiency and poverty reduction.

- Microfinance institutions should follow retail banking practices through highly prioritising financial management system as well as good managerial governance so as to remain profitable and financially sustainable.

5.4 Further study

The research study highlighted micro financier's financial performance determinants which are of greater importance in decision making by management to ensure profitability as well as sustainability. Future studies may be conducted on the strategies to improve financial performance of micro financiers.

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Appendix 1: Cover letter

Midlands State University

Department of Accounting

Private Bag

Harare

April 2018

Dear respondent

RE: Research project assistance

I am doing my final year at Midlands State University. I am currently doing a research on the analysis of the determinants of performance of microfinance institutions and factors affecting their performance in partial fulfilment of Master of Commerce in Accounting Degree.

May you kindly assist me by completing the questions attached to this letter. Confidentiality will be ensured since the research finding are for academic purposes.

If you need any assistance or clarification on questionnaires feel free to contact me at 0778429451.

Thank you for your cooperation

Yours

Edson D Matare

Appendix 2: Questionnaire to Borrowers and loan officers

Section A

Instructions

1) Do not write your name on the questionnaire
2) Show responses by ticking the respective answer

1. Determinants of financial performance of microfinance institutions

The following are the determinants of financial performance; you are required to show the level of understanding on their impacts whether positive or negative to the performance.

DETERMINANT	STRONGLY AGREE	AGREE	UNCERTAIN	STRONGLY DISAGREE	DISAGREE
Portfolio quality					
Capital Asset ratio					
Gearing ratio					
Operational efficiency					
Size of MFIs					
Age of MFIs					
Market concentration					
Real GDP					

2. Please indicate your level of agreement on the following factors affecting financial performance.

FACTOR	STRONGLY AGREE	AGREE	UNCERTAIN	STRONGLY DISAGREE	DISAGREE
Policy factors: a) Interest rate caps b) Inflation rate c)Income levels					
Geographical variables a) Rural branches b) Population density					
Institutional variables a)Management capabilities b)level of education by management c)cost efficiencies d) ICT					

Appendix 3: Interview schedule for Management

1) What are the determinants of financial performance of your institution?..
....
....

2) What are the factors affecting financial performance of your institution?..
....
....

3) What appropriate strategies or measures that can be observed so as to improve the the financial performance as well as the outreach?..
....
....