THE IMPACT OF NON PERFORMING LOANS ON ACTIVITIES OF MICROFINANCE INSTITUTIONS: A CASE OF FMC 2009-2013

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The purpose of this research was to analyze the impact of non-performing loans on activities of microfinance institutions using FMC Headquarters as a case study for the period 2009 to 2013. The research was in form of a case study, thus it allowed the connection of both quantitative and qualitative data. The major objective of the study was to identify the causes of non-performing loans. The other objectives were to evaluate the effects of credit collections policies on loan performance and to recommend measures that can be taken to ensure adequate controls over non-performing loans. The population of the study was eighteen credit officers, that is, three credit risk managers, five credit controllers and ten loan officers. A sample of twelve credit officers was used and stratified random sampling was used to come up with the sample. Face to face interviews and questionnaires were used as data collection tools. Data presentation was done through the use of graphs, tables and figures. The results indicated that non-performing loans were caused by unemployment, high interest rates, non-adherence to credit policy, over-borrowing and business failure. The results also showed that non-performing loans reduce company’s profits, company’s liquidity as well as funds available for loans. The study concluded that non-performing loans negatively affect the activities of the microfinance in terms of liquidity and profitability. The study recommended that management should monitor the disbursed loans until they are fully paid. The study also recommended that microfinance institutions may need to begin to demand some form of security, even if it cannot be adequate but at least it can recover part of indebtedness in the event of default. Use of credit reference bureau was recommended as a referencing solution when processing applicants’ forms to sieve serial bad debtors.