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DEPARTMENT OF ACCOUNTANCY

AN INVESTIGATION ON THE CAUSES AND CONSEQUENCES OF HIGH LOAN DEFAULT RATES AT ESHANDI FINANCIAL SERVICES.

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONORS DEGREE OF BINDURA UNIVERSITY OF SCIENCE EDUCATION. FACULTY OF COMMERCE.

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Approval form

I, the supervisor, the undersigned, certify that the researcher B223925B has completed the AC400 (Dissertation) course in partial fulfilment of the Bachelor of accountancy honors degree

Signature of Supervisor…… 

Signature of Chairperson…… 

Declaration

I, B223925B, declare that this dissertation entitled:

"Investigating the causes and consequences of high loan default rates at Eshandi Financial Services." is my original work and has not been submitted to any other university or institution for the award of any degree.

I further declare that all sources used in this study have been acknowledged through appropriate referencing.

I understand that plagiarism is a serious academic offence and that this work may be subjected to plagiarism detection procedures in accordance with the regulations of Bindura University of Science Education.

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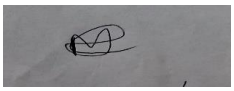
Signature: 

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Dedication

This paper is dedicated to my beloved parents, Mr and Mrs Mumbire, my aunt Ms F Chipanga and my siblings Brilliant and Praise for all the sacrifices they have made socially and financially until the completion of this project. A special thank you to one person whose unwavering presence meant more than words can express. May the Almighty God in heaven dearly bless you.

ABSTRACT

Increased levels of loan default have presented significant challenges impacting on the profitability and survival of microfinance institutions in Zimbabwe. In the case of Eshandi Financial Services (EFS), loan default levels have increased from 8% to 13%. This has impacted negatively on the institution's profitability, liquidity and ability to offer more credit to clients. The objectives of this study were to analyze the factors and impacts of increased levels of loan default in Eshandi Financial Services and suggest methods to reduce loan default. A quantitative research methodology and a descriptive research design were used in this study. Eshandi Financial Services clients and employees involved in credit administration and loan management were used as a target population and data were collected through the use of structured questionnaires and relevant Eshandi Financial Services secondary records. The data collected were analyzed by the use of descriptive statistics including frequencies, percentages and tables so as to determine the main factors of loan default and its impact on EFS. The results showed that the main factors influencing loan default were; borrower's instability of income, over-indebtedness and poor loan planning; institutional loan appraisal, inadequate supervision and lack of follow-up on borrowed funds; macroeconomic factors such as rising interest rates, and unemployment among others. The findings indicate that the overall level of loan default has impacted on Eshandi Financial Services' profitability, liquidity and lending capability. It can be concluded that loan default at EFS has been brought about by a blend of borrower related factors, institutional factors and macroeconomic factors. EFS should adopt and reinforce strict loan appraisal systems, refine loan monitoring mechanisms and educate clients on financial planning, refine loan monitoring procedures and a sound loan policy to minimize impact of loan default.

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CHAPTER I

INTRODUCTION

1.0 Introduction

The objective of this study will be to identify the causes and consequences of the high rate of default loans at Eshandi Financial Services (EFS), a microfinance institution in Zimbabwe. This chapter describes the problem background, the need and importance of the study, limitations of the study, definition and coverage of the terms and a summary.

1.1 Background to the study

Loan default is a global challenge that most financial institutions worldwide face today. According to the (Corporation., 2020.), increasing trend of loan defaults affect the institution's survival, the financial institution's liquidity and the achievement of financial inclusion. Risks of default globally are attributed to factors such as poor loan and credit appraisal, inadequate supervision, over indebtedness and economic instability (Bank, 2024.).

Income variability, low financial literacy and negative shocks that might affect loan repayment can lead to an increased prevalence of loan repayment defaults in Sub-Sahara Africa (Endris, 2022) . Hyperinflation, currency instability, high and rising cost of living and unemployment have affected Zimbabwe’s economy, hence its repayment ability (Zimbabwe., 2023.). Eshandi Financial Services (EFS) has been operating in the difficult and competitive financial industry targeting low and middle-income groups, civil servants, small and medium scale enterprises, small traders, all of which can experience high income variability affected by the economic environment.

EFS has an objective of loaning funds and recovering borrowed money plus interest. Profitability of EFS depends on the institution's capacity to collect loans and manage the risks arising from credit. There has been an increasing trend in non-performing loans in EFS which is also on the rise of recent from 8% to 13% which reflects the portfolio of the quality of loans and associated risks on credit. (Zimbabwe, 2022.)

The economic uncertainty might also be an explanation for non-repayment of the loans but the institution should consider factors such as loan selection methods, loan products, loan follow-up and customer service (Endris, 2022) . The escalating problem of loan default rates requires attention and it is the reason for conducting this study.

1.2 Statement of the problem

The loan default rate at Eshandi Financial Services (EFS) increased from 8% to 13%, and this indicates a worrying trend with regard to the repayment of the loans. The profitability and sustainability of EFS operations are directly threatened by the record high default rate of the clients' loans.

This suggests that more borrowers are failing to meet their loan repayment obligation, thereby putting pressure on the institution. If not addressed, the increase in loan defaults may reduce profitability, weaken liquidity and limit the institution's ability to extend new loans. Although this trend is of great significance, there is no systematic analysis of factors that lead to client defaults and their implications on the institution.

The aim of the proposed study is to determine the key drivers that contribute to the failure of servicing loans by borrowers. In the absence of comprehension of the borrower-specific issues such as over-indebtedness, misallocation of funds, institutional-specific issues such

as errors in credit rating, poor monitoring of loans, or macroeconomic environments such as inflation, unemployment, EFS cannot design appropriate and effective strategies to address the critical credit risk. This forms an important area of study for accounting researchers, as high default rates have a direct and material impact on the financial statements of a financial service provider, particularly through higher provisions for impairment and lower net interest income (Weygandt, 2019.).

1.3 Purpose of the study

This study seeks to investigate the causes and effects of high loan default rate at Eshandi Financial Services. It seeks to establish the borrower related, institutional and macro-economic factors that lead to loan defaults and the impact these loan defaults have on the financial institution's operations and sustainability. The study aims at providing possible recommendations which Eshandi Financial Services may adopt in a bid to strengthen its credit risk management systems and subsequently reduce the loan default rate.

1.3.1 Objectives of the study

1. To identify causes of high loan default rates at Eshandi Financial Services.
2. To identify the borrower related factors that lead to loan defaults at Eshandi Financial Services.
3. To identify the institutional factors leading to high loan default rates at EFS.
4. To determine the impacts of high loan default rates on the operations and financial sustainability of Eshandi Financial Services.
5. To provide recommendations that EFS can adopt in order to reduce the loan default rates.

1.3.2 Research questions

1. What causes high loan default rates at EFS?
2. What are the borrower related factors causing loan default at Eshandi Financial Services?
3. What institutional factors cause high loan default rates at Eshandi Financial Services?
4. What is the impact of high loan default rate on the operations and financial sustainability of EFS?
5. What strategies EFS can adopt to lower loan default rate?

1.4 Significance of the Study

1.4.1 The researcher

It allows the researcher to utilize theory gained during the Bachelor of Accountancy degree on a real-world problem. It further helps in enhancing the researcher's knowledge of credit risk management, loan performance, sustainability of the microfinance institution. The study also enhances research and analytical skills for the betterment of career and academic purposes.

1.4.2 Bindura University of Science Education (BUSE)

It also forms part of the knowledge base related to loan default and credit risk management in microfinance institutions in Zimbabwe. These results would be valuable reference material for students, lecturers, and other researchers dealing with studies on financial management, credit risk and microfinance institutions.

1.4.3 The institution (Eshandi Financial Services)

The findings of this study will aid Eshandi Financial Services in identifying the causes of high loan default rates and internal weaknesses in its credit management practices. The recommendations from the study would guide management to improve its credit assessment procedures, loan monitoring and recovery techniques which would ultimately lead to the enhancement of loan performance, profitability and overall sustainability.

1.4.4 The financial services sector

By dealing with only one institution the research gives fresh, reliable information of factors that lead to loan default within a microfinance sector in Zimbabwe as it serves as a basis for other MFIs under the same conditions (Corporation., 2020.). It provides useful information regarding causes and impacts of loan defaults in microfinance institutions operating in Zimbabwe. These results would assist financial institutions in tackling these problems and help in improving their credit risk management approaches and loan recovery performance.

1.4.5 The policy makers

The results would be useful to the policy makers and regulators with information on factors that are associated with high loan defaults in the microfinance sector. This enables the creation of effective policies that ensures responsible lending and protection of borrowers.

1.5 Assumptions

- It is limited to assessing the reasons why loans were defaulted and the consequences that followed with the rate increasing from 8% to 13%.
- It is strictly looking at loan defaults and their effects as the rate increased from 8% to 13%.
- The prevailing economic and regulatory conditions during the study period influenced the credit repayment behaviour of borrowers.
- The sample size is representative of the responses and experiences of the intended respondents.

1.6 Delimitations

The study concerns EFS in Harare, Zimbabwe. It is limited to examining the causes of loan defaults and its succeeding impact as the rate grew from 8 to 13%. Its respondents are limited to EFS personnel dealing in credit administration and loan management as well as selected EFS clients. Loan default will be explored only as far as it affects credit repayment behaviour. It does not cover other types of financial risk other than to the extent of their direct effect on loan repayment performance. The results of this study are specific to EFS and not all other micro-finance institutions.

1.7 Limitations

- Confidentiality concerns of respondents. As an approach to minimize this, respondents were assured of the confidentiality and exclusive academic use of the information they provided.
- Limited access to internal financial and operational records. The researcher worked within the institutional constraints of confidentiality by relying on approved documents and institution management input as well as the responses provided by the various parties interviewed.
- The study was also constrained by the limited period available for data collection and analysis because of the academic timetable. To minimise the effect of this limitation, the researcher followed a structured work plan covering questionnaire administration, data cleaning, analysis and report writing. The limitation may have restricted the opportunity to conduct a larger survey, but the defined scope and systematic procedures helped maintain consistency in the study.
- Changing economic variables such as inflation and cost of living affected the loan repayment performance throughout the period of the study. To cope up with this, the variable has been factored in during the interpretation of data so as to maintain a balanced analysis of the results.
- Some of the primary data were based on respondents' perceptions and therefore could have been affected by recall bias or subjective opinions. To minimise this limitation, questionnaire items were stated clearly and responses were analysed in aggregate rather than attributed to individual respondents. Where access was granted, responses were also considered alongside relevant institutional information. These measures reduced the likelihood that individual perceptions would unduly influence the interpretation of the findings

1.8 Definition of key terms

- **Loan Default:** Failure by the borrower to comply to the terms of the loan agreement, specifically on payment for more than ninety days. (Zimbabwe, 2022.)
- **Loan Default Rate:** The number of borrowers failing to meet the obligation for a certain loan in a specified period of time as a fraction of all the borrowers with active loans.
- **Non-Performing Loan (NPL):** A loan where repayment of the principal or interest has not been made for more than ninety days.
- **Credit risk:** The potential for loss to a financial institution that may arise from a borrower's failure to make payments according to the loan terms.
- **Arrears:** Loan repayments for both principal and interest that are unpaid past the due date.
- **Micro Financial Institution (MFI):** A type of institution that caters for the needs of low income individuals, small businesses and unbanked customers by providing credit, savings and other financial services.

1.9 Summary

This chapter covers the background to the study, statement of the problem, purpose of the study, research questions, the significance of the study, assumptions, delimitations, limitations, and definitions of key terms. This chapter also highlights the significance of studying the increase in loan default rates at Eshandi Financial Services. Chapter two review relevant literature related to this study.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter aims at reviewing the literature relating to high loan default rates in MFIs. It presents the theoretical framework used in this study, causes of loan default, implication of loan default, loan risk management and empirical reviews as well as research gap. It also provides the conceptual framework showing the relation between borrower-related variables, institutional variables, economic variables and loan default rates in Eshandi Financial Services.

2.1 Theoretical framework

A theoretical framework gives background knowledge on which the study is built discussing in detail the theories that helps in understanding the issue under investigation. Theories are useful in research as they guide the researcher in determining relations between variables and interpreting findings. This study is based on a theoretical framework that seeks to give insight into factors causing the increase of loan default rates in Eshandi Financial Services and effects of loan defaults. The study is supported by Credit Risk theory, Information Asymmetry theory and Behavioral Finance theory. These theories contribute to understanding behavior of the borrower, lending and outcome of loans.

2.1.1 Credit risk theory

The Credit Risk Theory is defined as the possibility of financial loss due to a borrower failing to comply with the agreed credit repayment obligations. According to (Supervision., 2025.) the credit risk is the greatest risk financial institutions are exposed to since the borrower may fail to make good payment of interest and principal. Credit Risk Theory requires lenders to take into consideration borrowers' ability to repay and their financial position as well as their overall risk exposure profile before lending.

Over the past few years, the concept is highly applied on loan default rates with most of the studies finding an increase in loan defaults by financial institutions (Corporation, 2024.) (Bank., 2024.). Financial institutions must effectively manage credit risks so that they identify bad borrowers and reduce losses.

This theory is important to this study because it is based on borrower characteristics, ability to repay, lending practices and their effects on loan default rate in Eshandi Financial Services.

2.1.2 Information asymmetry theory

Information asymmetry theory was given by (Akerlof, 1970.). The theory assumes that some individuals involved in a transaction will have better knowledge than others. For the sake of this research, it may be argued that borrowers will have better knowledge concerning their present financial situations and their repayment capabilities and other debts in comparison with financial institutions lending. As a result, poor lending decisions may be made resulting in a higher credit risk.

Information asymmetry remains one of the biggest challenges in credit markets, as confirmed by different reports from global organizations such as the (OECD, 2023.) and (Bank., 2024.). Particularly when lending in developing countries where borrowers' data may be not readily available. Lenders could grant loans to clients with higher probability of default if they do not access all information concerning their client.

This theory is relevant to the study because the borrower's personal attributes may not entirely reflect the information provided to Eshandi Financial Services when making loan approval decisions hence impacting on loan default rates.

2.1.3 Behavioral finance theory

Behavioral Finance theory states that many financial decisions are not necessarily based on purely rational judgments but instead influenced by emotions and mental factors. Akerlof and Tversky (Kahneman, 1979.) in their research showed that individuals do not always engage in decisions that would result in greater economic welfare.

It is revealed through recent literature that overconfidence, poor financial management skills, impulsive behavior on borrowing and lack of financial literacy significantly contribute to loan default (OECD, 2023.) (Corporation, 2024.). Borrowers may undervalue or overestimate their future capacity and financial standing for loan repayment purposes hence leading to financial stress.

This theory is important to this study because it helps in clarifying reasons behind why borrowers often fail to meet their repayment obligations even though they know their contract and obligations.

2.2 Factors leading to loan default

There is a combination of factors at individual, institutional and macroeconomic level leading to loan default. Research conducted in developing and developed economies indicates that loan defaults rarely have a single cause, and typically the cause is a mix of borrower-related behavior, the processes employed by lenders and current macroeconomic conditions. Identifying these factors is important for financial institutions aiming to improve loan performance and reduce credit risk.

2.2.1 Borrower-related factors

The primary reasons for loan default, are most commonly borrower related. The (OECD, 2023.) confirms low incomes, unpredictable incomes, financial management and literacy problems are major contributing factors leading to loan default. With inadequate budgetary skills, individuals may find themselves unable to honor the repayment obligations in addition to other expenses.

It is also a common problem that in many developing countries a larger and larger proportion of people live off the informal sector and seasonal incomes (Bank., 2024.). Unexpected risks, for example, business failure, losing your job or becoming sick may prevent people from repaying their loans. It is also a well-known cause of over-indebtedness that leads to default in loans.

The International Finance Corporation (Corporation, 2024.) confirms that borrowers with more outstanding loans tend to be under more financial stress, hence more likely to default on their repayment obligations. Individual traits and borrower behavior are consequently major contributing factors toward repayment performance.

2.2.2 Institutional specific factors

The performance of loans is most influenced by institutional factors. According to the Basel Committee on Banking Supervision (Supervision., 2000.)weak credit appraisal practices will result in an increase in loan defaults. This is because of the increased risk of lending to people who cannot meet loan repayment obligations. It is therefore essential for lending institutions to use strong credit appraisal methods.

Poor loan monitoring has been recognized as another contributing factor to the increasing loan defaults rate. According to Basel Committee (Supervision., 2000.)Institutions which fail to closely track their loans to customers and prompt repayments have a risk of loan loss problems as there can be late detection of default.

Poor loan policies and inadequate client screening processes can lead to an increase in loan default rate (Bank, 2024.). Where institutions do not screen properly and focus mainly on lending over effective analysis of potential client creditworthiness, the chances of loan default will be higher.

2.2.3 Economic and macroeconomic factors

Loan repayment is largely influenced by the economic and macroeconomic environment. Factors such as inflation rates, unemployment, currency fluctuations and the rising living costs will affect individuals' incomes and business operations, International Monetary

Fund (Corporation, 2024.). This then affects repayment capacity among the populace hence resulting to higher loan default rates.

In Zimbabwe, ongoing economic difficulties with inflation and currency instability have led to economic pressures on both individuals and businesses (Zimbabwe., 2023.). As a result, rising cost of living have made them prioritize needs such as food, travel, education and health over their debt obligations.

The African Development Bank (Bank., 2024.) confirm economic shocks tend to decrease individuals' repayment capacity by weakening their financial standing, thereby increasing credit risk for lenders. Consequently, macroeconomic variables are an important variable contributing to repayment performance and default rates.

2.2.4 Strategic default

A strategic default occurs when individuals choose not to pay back their loans while they have the financial capability to do so, likely as they feel there is a low risk that they would be punished or held accountable. The World Bank (Bank, 2024.) states that inadequate loan recovery mechanisms and enforcement procedures have led to increased default risk behavior among the borrowers.

In some cases where individuals witness other borrowers failing to repay loans without facing much consequences, there would be a reduced motivation to meet loan repayment obligations, The OECD (OECD, 2023.) confirms that borrower attitude and perception on repayment could be determined by loan performance as low credit discipline, will certainly affect this variable.

Though the main reason for loan default might be due to economic hardship, some defaults occur through calculated decisions made by borrowers. Examining strategic default is therefore critical when looking at high loan default rates experienced by EFS.

2.3 Negative impacts of high loan default rates

The negative impacts of a high rate of loan default can be serious for any financial institution. Loan default by borrowers reduces financial institution's cash inflow and hence enhances credit risk for financial institution. The impact is likely to spill over to the whole of financial institution operations as financial institution's profitability, lending, and the entire structure itself become threatened.

2.3.1 Liquidity challenges

High loan default rates lead to liquidity challenges for financial institutions. Financial institution's existence depends on steady cash inflow from loan repayments to honor its obligations with investors and other parties. When borrowers delay payments or default completely, the cash inflow reduces which means that the institution cannot fund its daily operation and offer new loans to the community. According to International Monetary Fund (Corporation, 2024.), high level of loan default poses risks to liquidity of financial institutions. The World Bank (Bank., 2024.) affirms that delayed payments strain cash flows of financial institutions. For an institution like Eshandi Financial Services, continuous loan default limits fund available to support lending and further growth.

2.3.2 Reduced profitability

Loans and interest on loans have been known as primary sources of revenue for financial institutions. When a large portion of loans are defaulted, there will be reduced revenues and the institution has to bear extra cost that might be incurred for debt recovery. International Monetary Fund (Corporation, 2024.) reports that "high level of nonperforming loans erodes earnings". Also, African Development Bank (Bank., 2024.) stated that increased loan defaults increase impairment provisions and consequently decrease net profit, resulting in EFS suffer from poor financial performance.

2.3.3 Limited lending capacity

A high default rate reduces a financial institution's ability to provide loans to clients. As financial institutions witness increases in default rates, they tend to become cautious with their lending policies by either limiting access to loans or tightening loan terms to new borrowers, thus limiting the opportunity for new loans to be issued. World Bank (Bank., 2024.) reports that a high default rate can constrain liquidity and decrease lending supply in financial market, which limits support for activities by the whole economy. IFC Annual Information Statement FY20 (Corporation, 2024.) further mentioned that decrease in loan supply negatively impacts on small businesses, and low-income individuals in developing countries. Hence, Eshandi Financial Services lending will continue to stagnate.

2.3.4 Loss of public confidence

Public confidence in financial institutions might be eroded through consistent high loan default rates. It would be reasonable for stakeholders to doubt whether a financial institution would be functioning optimally and managing its risks wisely. The African Development Bank (Bank., 2024.) argued that high growth of NPL ratio may hurt the confidence of investors, depositors, and even supervisors towards the institution.

World Bank (Bank, 2024.) emphasized that building and maintaining the trust of your customers is essential in a banking relationship and this must be built upon a strong reputation for dependability and service. Eshandi Financial Services will face reputation damage and stakeholders' confidence in its operational efficiency will diminish due to continuously increasing loan default rates.

From the literature assessed, it has been shown that high loan default rates are associated with multiple challenges facing financial institutions namely liquidity crisis, low profitability, limited lending capacity, loss of public confidence and overall institution's sustainability are at risk.

2.4 Credit risk management practices

Credit risk management is concerned with the processes and systems employed by financial institutions to identify, measure, monitor, and control the risk of borrower default. An appropriate system for the management of credit risk is important for maintenance of quality of a loan portfolio, protecting profitability and ensuring the long-term viability of lenders.

One of the fundamental credit risk management practices is the credit appraisal process. A study carried out by the Basel Committee on Banking Supervision (Supervision., 2025.) highlighted that before lending money, institutions should have an effective mechanism for assessing a loan recipient's ability to repay, his or her sources of income, his or her history of debt and financial stability. Through an effective credit appraisal, loans should be directed to less risky individuals.

Another key credit risk management practice is loan monitoring. World Bank (Bank., 2024.) indicated that continuously following borrowers, a financial institution can timely identify

potential problems of repayment, so that necessary corrective measures are taken before loans become non-performing. A proper follower-up process and consistent communication with loans recipients improve repayment performance and minimize loan losses.

Credit policies and risk assessment procedures is one of the central credit risk management practices that financial institutions use. International Finance Corporation (Corporation, 2024.) pointed that clear lending policies ensure consistency of credit decision making and eliminate lending with excessive risk. Strict credit policies further enhances accountabilities and improves loan portfolio performance.

Loan borrowers' financial literacy may also influence loan repayment. Those who are able to fully understand the terms of the loan, budget properly and repay on time may likely meet loan obligations (OECD, 2023.). Therefore, financial literacy can be regarded as an important factor that leads to loan default.

By using appropriate credit risk management practices, financial institutions can potentially reduce loans default and loan recover rates, thus eventually improving the overall performance of the institution. For Eshandi Financial Services, having comprehensive credit risk management practices would be of great help in the fight against the sharp rise trend of loan default.

2.5 Empirical review of related studies

Empirical studies are based on actual data gathered to answer questions related to the causes and effects of loan default at financial institutions. By reviewing empirical literature, the researcher is able to pinpoint studies that have been done and the knowledge that has

already been generated as well as the gaps that validate the current research. A selection of empirical studies related to loan default and credit risk management is reviewed below.

The International Monetary Fund (2023) examined the relationship between non-performing loans and financial-sector stability across developing economies. The evidence is useful because it links deterioration in loan quality with profitability, liquidity and credit-risk pressures. However, the analysis operates mainly at an aggregate financial-system level. Consequently, it does not fully capture institution-specific practices such as borrower screening, follow-up and recovery procedures at a single microfinance institution. The present study addresses this limitation by examining these issues at EFS and relating them directly to respondents' experiences and perceptions.

The World Bank (2024) identifies borrower characteristics such as income variability, excessive debt burdens and financial capability as important influences on repayment behaviour. The strength of this evidence lies in its broad developing-country perspective, which makes it useful for understanding common credit risks. Nevertheless, broad cross-country evidence may mask differences in regulatory environments, loan products and borrower circumstances. This study therefore narrows the analysis to EFS, allowing the general findings to be assessed within a Zimbabwean microfinance context.

International Finance Corporation (Corporation, 2024.) highlights the importance of sound credit appraisal, regular monitoring and effective credit-risk controls in maintaining loan portfolio quality. The literature is particularly relevant to the institutional dimension of this study because it indicates that default risk is not determined solely by borrower behaviour. However, sector-wide evidence cannot establish which specific institutional weaknesses are most prominent at EFS. The current study contributes by comparing the relative importance of appraisal, screening, monitoring and lending-policy factors within the selected institution.

The African Development Bank (Bank., 2024.) reports that inflation, unemployment and broader economic shocks can weaken borrowers' repayment capacity. This perspective is particularly relevant to Zimbabwe, where economic instability can affect both household incomes and business cash flows. However, macroeconomic explanations alone may overlook the interaction between economic pressure and internal credit-management practices. The present study therefore considers economic factors alongside borrower-related and institutional factors rather than treating them as independent explanations of default.

Taken together, the empirical literature suggests that loan default is multidimensional. Borrower capacity and behaviour influence repayment, institutional controls shape the quality of lending and monitoring, while economic shocks can reduce the capacity of otherwise willing borrowers to repay. A key weakness across the reviewed literature is the limited integration of these dimensions at the level of an individual Zimbabwean microfinance institution. The present study addresses this gap by examining the three dimensions simultaneously at EFS and by assessing the consequences of default for profitability, liquidity and lending capacity.

2.6 Research gap

A broad consideration of the available literature reveals that many studies have been dedicated to assessing factors that cause loan defaults, strategies for credit risk management and their effects on financial institutions. Studies from IMF (2023) (Fund, 2023.), World Bank (2024) (Bank., 2024.), International Finance Corporation (Corporation, 2024.) and ADB (2024) (Bank., 2024.) have provided substantial information regarding borrower specific, institutional and macro-economic aspects that influences loan repayment.

Most of these studies are broad and focus on a wider banking system or financial sectors and on several financial institutions or nations. However, limited studies have investigated

both the causes and impacts of high loan default rates at individual microfinance institution level, especially within Zimbabwe. Specifically, it is very rare for a researcher to come across any study that has undertaken the combined analysis of the causes and consequences of high loan default at Eshandi Financial Services, especially considering its present situation.

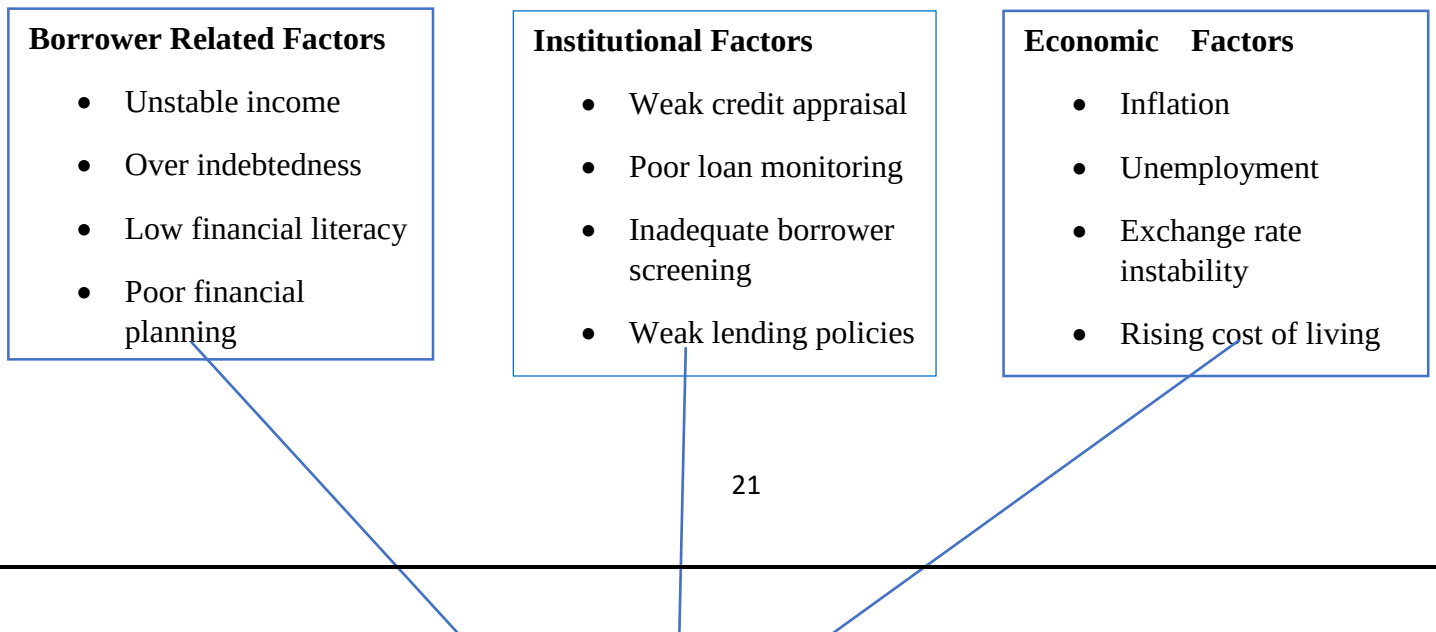
Thus, it is essential for the current study to address these issues by investigating both the causes and effects of loan default at EFS with the aim of making recommendations that will help in enhancing loan repayment and improving credit risk management system.

2.7 Conceptual framework

Below is a diagram showing the relationships between the independent variables (causes) and the dependent variable (loan default rate).

Independent variables: Borrower, Institutional, and Economic Factors

Dependent variable: 13% Loan Default Rate at Eshandi Financial Services.



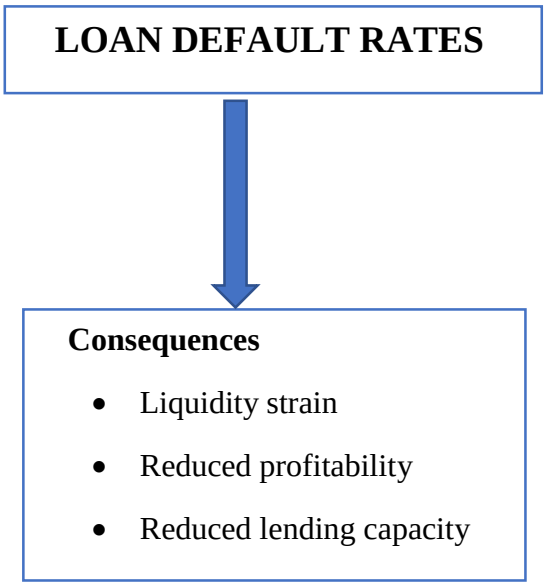


Figure 1 Conceptual framework

Figure 2.1 This diagram shows the link between causes of high loan default rates and effect of high loan default rates in Eshandi Financial services. From the diagram it shows that the independent variables that cause high loan default rates are the borrower-related, institutional-related and environmental factors. High loan default rate is the dependent variable and if loan default is continued then, it affects liquid ratio, profit ratio, lending ratio and public trust. These are the effects caused by high loan default rates and this has been developed from the literature to be a basis for investigating cause and effect of high loan default rate in Eshandi financial services.

2.8 Summary

The review covered various literature on high loan default rate. Literature on Credit Risk Theory, Information Asymmetry Theory and Behavioral Finance Theory were analyzed to formulate a strong theoretical basis for the study. Other related literature on causes and

effects of loan default, credit risk management and previous empirical study was also reviewed. The literature study was identified a research gap on the research concerning both the causes and effects of high loan default rate on Zimbabwean microfinance institutions such as Eshandi Financial Services. A conceptual framework has been constructed. The next chapter covers the research methodology of the study.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methodology applied to the research. It describes the research philosophy, research approach, research design, population under study, research sampling, research size, data source, research instruments and analysis procedures. It also presents validity and reliability, ethical issues and researcher's method for the credibility of the research results.

3.1 Research philosophy

This research adopted a positivist research philosophy. Positivism assumes that knowledge can be acquired through objective observation and measurement of phenomena. A positivist research philosophy seeks the scientific method to collect quantitative data and use statistical analysis to get reliable results (Saunders, 2023.).

A positivist research philosophy was suitable for this research because the study aimed at collecting measured information on the factors that cause and results in the high loan default rate at Eshandi Financial Services. The philosophy helped researcher in obtaining objective responses from the respondents through questionnaire and analyzing with statistical techniques.

3.2 Research approach

A deductive research approach was used for this research. In a deductive research approach, researcher has to generate a theory from available knowledge and examine the theory using data obtained from the field of research. A deductive research approach helps the researchers to make conclusion about the problem being researched from the knowledge developed through studies that have already been conducted (Saunders, 2023.).

A deductive research approach was suitable for this study since it was guided by theories of credit risk, information asymmetry and behavioral finance. These theories provided knowledge on possible causes and effects of the high loan default rate at Eshandi Financial Services and allowed the researcher to gain quantitative data from the respondents in order to see whether the result matches to existing theoretical explanations.

3.3 Research design

A research design refers to the general plan for the collection, analysis, and interpretation of data (Creswell, 2023.). The research adopted a descriptive research design. A descriptive research design aims at describing and analyzing phenomena as they occur in practice without manipulating any variable. It collects information about attitude, behaviors and characteristics of a population (Saunders, 2023.).

A descriptive research design was suitable for this research since the aim of the research was to gather information about factors that contribute and their impact on the high loan default rate at Eshandi Financial Services. This research design was suitable as it allowed the researcher to collect responses from respondents regarding borrower, institutional and economic factors affecting loan default rate and its impact on Eshandi Financial Services. Eshandi Financial Services was taken as a case study.

3.4 Target population

The target population is the entire group that a researcher wishes to study and obtain data from. According to Saunders, Lewis and Thornhill (Saunders, 2023.) a population refers to all elements containing attributes which are relevant to the research objectives.

The target population for this research is clients and employees of Eshandi Financial Services. Employee population included about 40 staff involved in credit administration, loan processing, finance and debt recovery departments while the client population includes about 370 active clients receiving services from the institution. Thus, the total target population for this research would be 410 respondents.

The selected population was appropriate because both employees and clients would have access to information relevant to the causes and effects of the high loan defaults of Eshandi Financial Services. The below population figure is based on institutional estimates.

CATEGORY	POPULATION
Employees	40
Active borrowing clients	370
Total Population	410

Table 1Target Population

3.5 Sampling technique

Sampling is the selection of a group of individuals within a specific population for the purpose of a study. Both Purposive and simple random sampling were used in the study.

Purposive sampling was used to identify employees at Eshandi Financial Services which were directly involved with the operations of credit administration, loan processing, finance and debt recovery so that the most knowledge of reasons why credit defaulted could be established.

Simple random sampling was used in selection of client samples from the database of active borrowers at the institution to reduce the bias in sampling. The random sampling allowed each member of the target population an equal chance of being included in the sample.

It was argued that using the two sampling techniques would ensure that all necessary parties with adequate information on the causes of loan defaults were surveyed and a representativeness of the samples obtained.

3.6 Sample size

A sample size gives the number of people that participate in a study from the target population. For the purpose of this study, 55 respondents from the target population of approximately 410 people were selected as samples size of the study. The 55 respondents were made up of 10 Eshandi Financial Services employees who are directly involved in credit administration, loan processing, finance and debt recovery and 45 Eshandi Financial Services clients who were selected from the active borrowers of the institution to represent the client's view of the causes of the loan default.

The size sample size selected for the study was seen to be appropriate in that enough relevant data to answer the research objectives were collected and this could also be managed well within the available resources.

3.7 Data Sources

Data source refers to the origin where all information required to answer the research questions is sought (Creswell, 2023.). Both secondary and primary data source were utilized in the study. Primary data was collected directly from employees and clients of Eshandi Financial Services with the use of structured questionnaires. Primary data was the most appropriate in the study as the data was obtained first hand from sources with detailed information on the reasons and effects of high loan default rates.

Secondary data were collected from official records of the institution such as credit management reports, loan performance reports, and other related files at Eshandi Financial Services to debate data collected from the respondents of the study. Using these two data sources made it possible to gain an overall comprehensive data.

3.8 Data collection instrument

A structured questionnaire was used as the instrument for data collection. A questionnaire is one of the commonly used research instruments especially in the field of quantitative research because data can be collected from the target population in a short time (Creswell, 2023.). Separate sections in the structured questionnaire were prepared for employees of Eshandi Financial Services, as well as for clients of Eshandi Financial Services. Closed-end and Likert-type questions were asked related to client's characteristics, institution's characteristics and economic factors.

A structured questionnaire was preferred because it is generally inexpensive and relatively easy to administer. Standardized response patterns, if properly constructed, provide precise information that may be analyzed quantitatively.

3.9 Pilot study

Pilot study is a pre-test carried out before the actual study. According to Creswell and Creswell (Creswell, 2023.), pilot test is performed on a small number of respondents before the actual study in order to identify any weakness of the instrument. Similarly, pilot test allows a researcher to assess the clarity, relevancy and efficiency of the questions on the questionnaire (Saunders, 2023.).

The questionnaire was pilot tested on 6 respondents who shares similar characteristics as those that fall within the sample frame and do not participate in the study. The study intended to verify the understanding, clarity and ability of the questions on the questionnaire to provide data necessary for the study. This also aimed at identifying weaknesses in wording of some questions so as to correct them for the real survey.

3.10 Validity and reliability

Validity and reliability were both taken into consideration as the process of generating findings in the study that are accurate and dependable is important. As stated by Creswell and Creswell (Creswell, 2023.), validity is concerned with whether a research instrument measures what it is supposed to measure while reliability is concerned with the consistency with which it does so.

The questionnaire was developed in line with the research objectives and research that had already been conducted which had been identified in Chapter Two so as to ensure validity. This, as well as conducting a pilot test to test the clarity and relevance of the questions as

well as see if the questions asked would enable data necessary for the research to be collected, assisted in improving the questionnaire for data collection.

The questionnaire was highly standardized and this was done by providing fixed questions for each respondent, as there is no need for standardization in an interview (Saunders, 2023.). This helps to ensure reliability as each respondent has exactly the same questions asked so the answers are comparable, and this also helped in eliminating weaknesses in the questionnaires through pilot testing.

3.11 Data analysis

Data analysis is the process of organizing and combining collected data so that the questions asked by the research can be answered. As Creswell and Creswell (Creswell, 2023.) stated, it is about "making sense out of the data". Quantitative data requires analysis as if the researcher was to use the raw data they have obtained this would be almost impossible for the reader and indeed the researcher to understand. As identified by Saunders Lewis and Thornhill (Saunders, 2023.) there are a variety of forms of descriptive statistics, frequencies and percentages can be shown by use of a table or chart.

The collected quantitative data through the use of the questionnaire was entered and analyzed using Statistical Package for Social Sciences (SPSS). This study primarily utilized descriptive statistics. The data that was analyzed was a result of the respondents' responses and included the use of frequencies and percentages in tables and charts to illustrate respondents’ views as to the reasons and outcomes of high loan default rates at Eshandi Financial Services.

The use of descriptive statistics ensured that relationships within the data are explored and this information can then be used to describe findings and support conclusions.

3.12 Ethical considerations

It is important to undertake ethical research. Creswell and Creswell (Creswell, 2023.) outline key factors that need to be ensured including respect for participants' rights, privacy, dignity and welfare.

Permission was obtained to undertake the research from Eshandi Financial Services, the source of primary data, prior to the collection of data. Participants were made aware of the research being undertaken prior to the completion of the questionnaires and that their participation was purely voluntary. It was explained that should they not want to take part in the research, that there would be no consequences as a result.

The information collected from participants will be treated with confidentiality. Data collected would be treated solely for the purpose of the research being undertaken. There would be no need to know an individuals' identity and therefore no details of the person are recorded and the questionnaires are confidential, stored safely until the research is completed and will then be disposed of in a suitable manner. The information was presented as accurately as possible, and no data were intentionally misrepresented.

3.13 Summary

The chapter presented and illustrated research methodology, which is the philosophical assumptions of the research, research approach, research design, population, sample, sources of data and method of data collection. Pilot test, validity and reliability of the questionnaire, data analysis and ethical considerations of research have also been addressed. Research methodology was set up to obtain reliability and relevant information

for this research. The following chapter details the analysis of findings from this research study.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter deals with the presentation, analysis and discussion of the findings of this study on the reasons and effects of a high rate of loan default at Eshandi Financial Services (EFS). The presentation follows the objectives and questionnaire items which are the demographical information of the respondent, borrowers' characteristics, institutional factors, economic factors and the effects of a high loan default rate. The frequency tables, percentages, charts and means are used in the analysis.

4.1 Response rate

In all, 55 respondents were approached for their involvement in the study, through a Google forms questionnaire which was sent to some of EFS clients and employees online. 50 completed questionnaires were successfully retrieved and could be used for analysis, from a total of 55 questionnaires distributed, hence achieving a response rate of 90.9%.

The response rate is considered to be satisfactory in relation to the study objectives, it provided enough data to enable useful analysis and interpretations. The response rate is high maybe because the questionnaire was done through an online application and could be completed at the convenience of the respondent and at his or her own time.

Table 4.1: Response rate

Questionnaires	Frequency	Percentage
Distributed	55	100.0
Returned and usable	50	90.9
Not returned	5	9.1

Table 2 Response rate

Figure 4.1: Questionnaire response rate

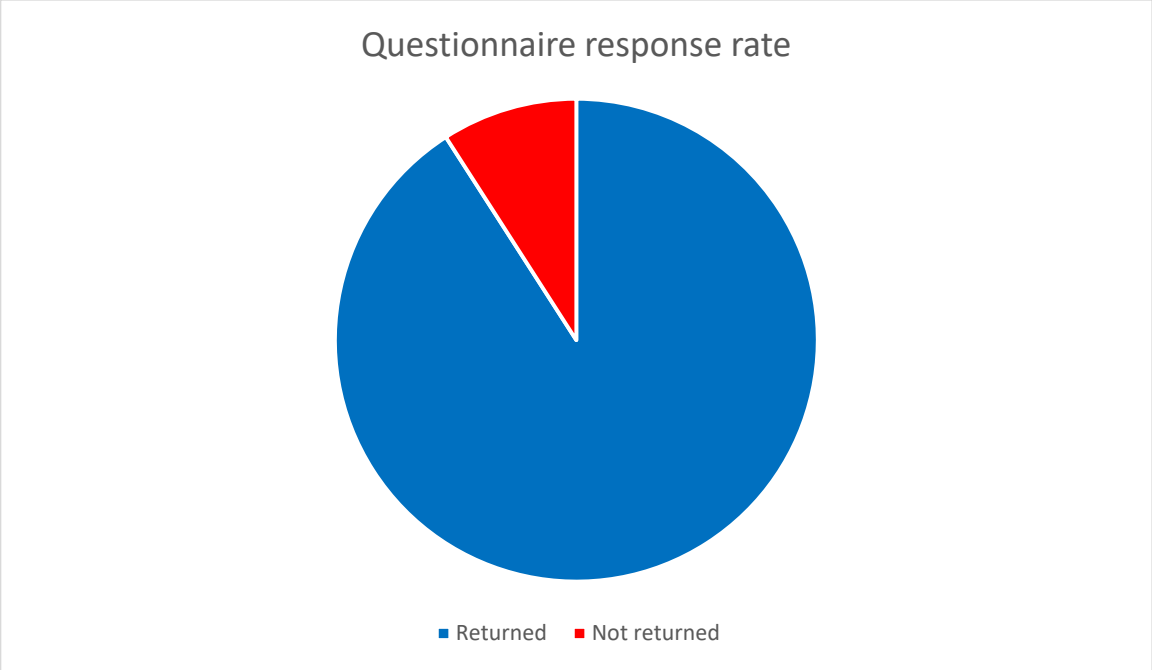


Figure 2 Questionnaire response rate

The high response rate provided sufficient usable responses for the descriptive analysis presented in this chapter. The questionnaire responses were analysed using frequencies, percentages and mean scores in line with quantitative descriptive design.

4.2 Demographic information of respondents.

Figure 4.2: Demographic information of respondents

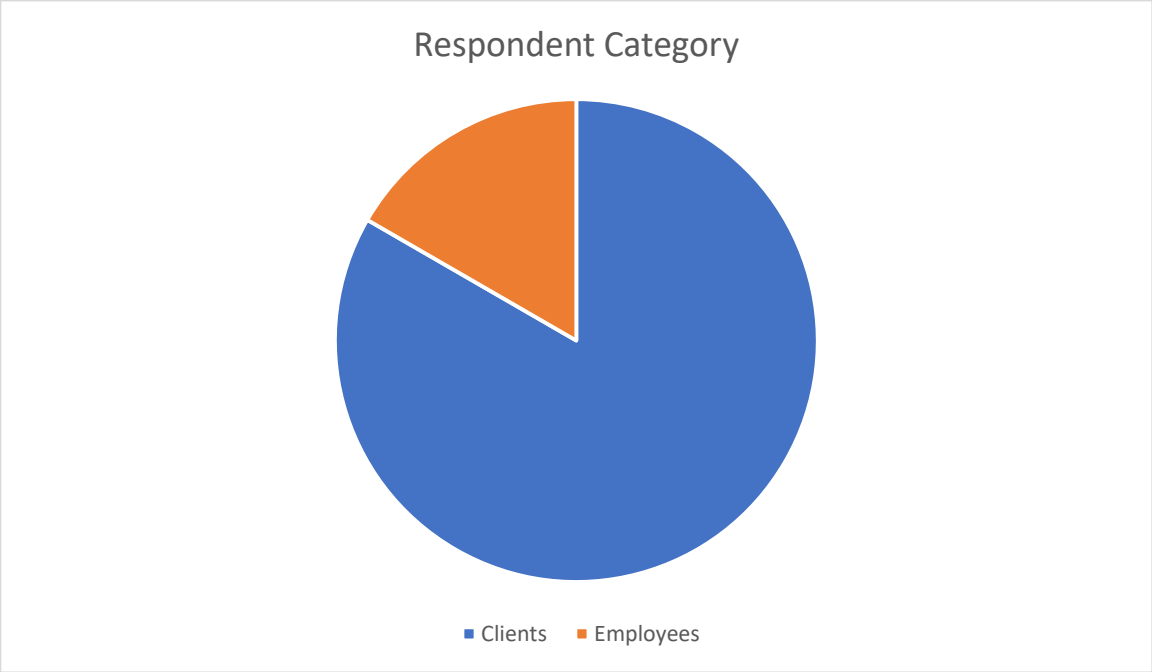


Figure 3 Demographic information of respondents

Out of the 50 respondents that took part in the study, 40 of them (80%) were clients of EFS, and 10 (20%) were employees. The client majority is due to the nature of this research as it was concerned with actual borrowers and their loan repaying behavior. Thus clients can give information relating to borrower factors causing default, while employees were able to give data relating to institutional factors for example credit appraisal, loan supervision and lending policies which are impacting the loan defaulting. As a result, this composition of sample group enable comprehensive findings on the high loan default rates at EFS from both client and institutional perspective.

Figure 4.3: Gender of respondents

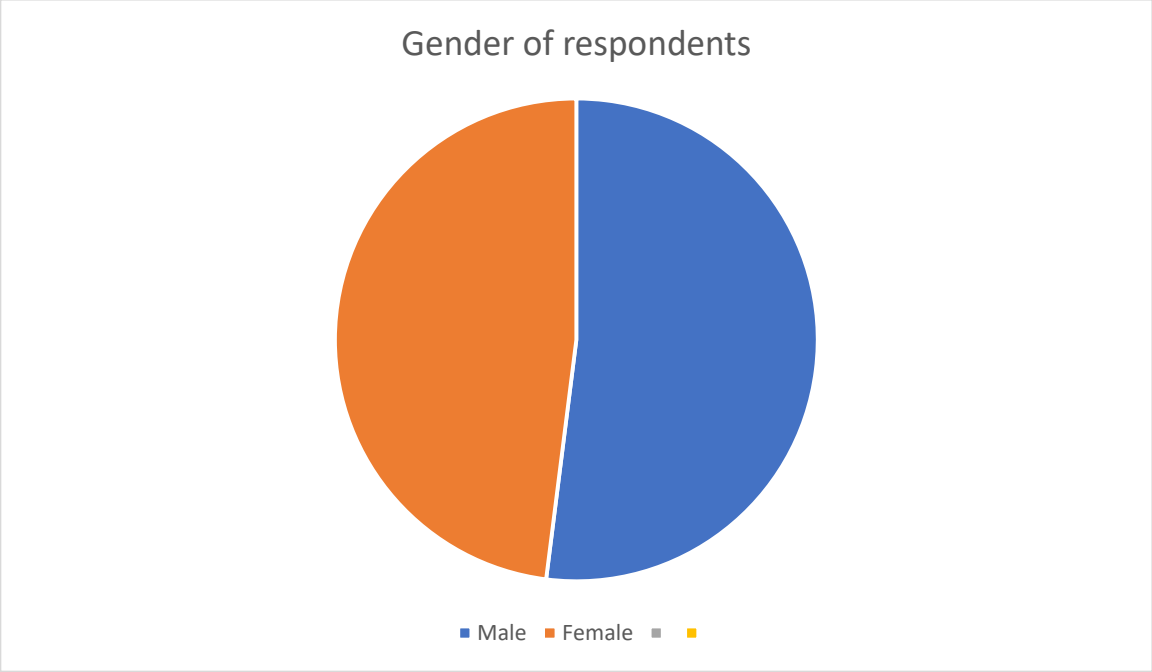


Figure 4 Gender of respondents

The results indicate that 26 respondents (52%) were male while 24 respondents (48%) were female. From this it can be seen that the gender of the respondents was quite balanced. The relatively balanced gender distribution reduces the risk that the descriptive results are dominated by one gender. However, the distribution should not be interpreted as evidence that loan acquisition or default occurs equally among males and females in the wider EFS population, it only describes the composition of the study sample.

Figure 4.4: Age group of respondents

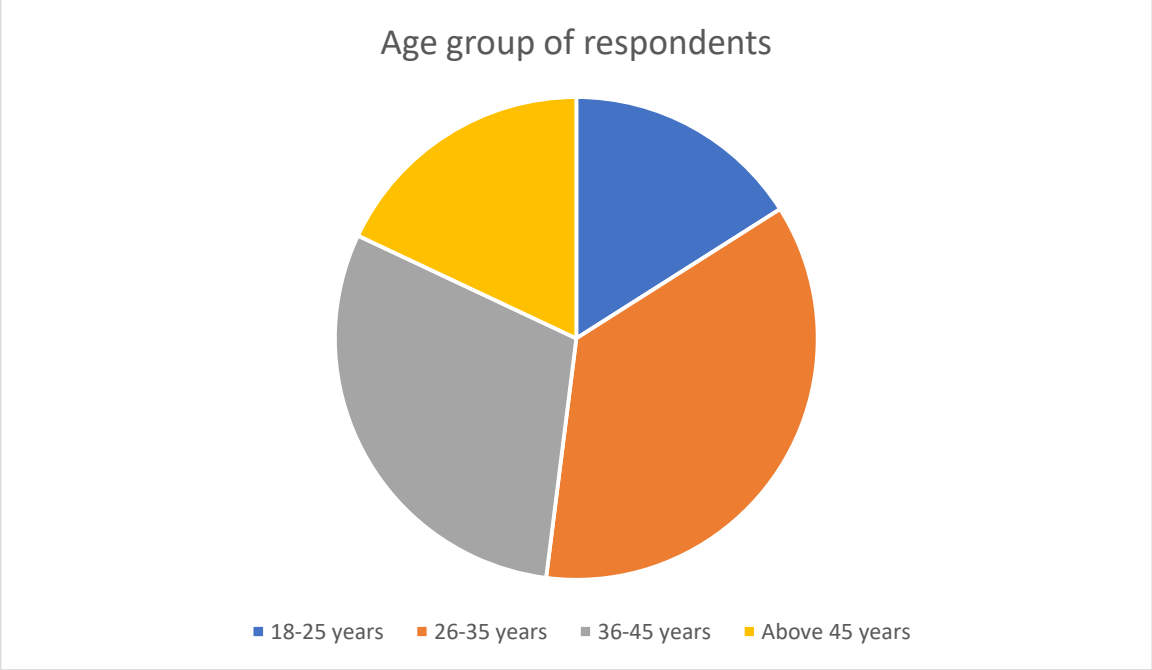


Figure 5 Age group of respondents

From figure the majority of respondents were between 26 and 35 years of age (36%) and also the majority between 36-45 years old (30%). Respondents above 45 years accounted for 18%, while those aged 18–25 years represented 16%. From this analysis it is clear that most of the respondents were in economically active age groups which were likely to access credit for their own, business or household use. These age groups are commonly economically active and may therefore have comparatively greater exposure to household, business and personal credit needs.

Majority of the respondents in age groups 26-45 represent those who was working, earning a living and capable to take financial decisions. So, it was expected that they could have experience about borrowing and their financial challenges or ability to repay. This will add value to the reliability of study.

Table 4.2: Type of loan accessed

Type of loan accessed	Frequency	Percentage
Personal loan	12	24.0
Business loan	13	26.0
Emergency loan	8	16.0
Salary-based loan	10	20.0
SME loan	7	14.0

Table 3 Type of loan accessed

From the figures in table 4.2, business loans accounted for 26% of respondents using this facility as compared to personal loans which accounted for 24% of the respondents. Salary based loans was 20% while emergency loans and SME loans account for 16% and 14% respectively. The findings have shown that respondents applied for and used the variety of loan products offered by Eshandi Financial Services for different purposes. The majority of business loans and personal loans would suggest that most respondents used credit for either the maintenance of an income generating activity or for a personal requirement. The variety of loan products represented in the sample is useful because repayment challenges may differ according to the purpose and structure of the facility. The distribution therefore provides perspectives from respondents with different borrowing needs and repayment circumstances, which supports a broader interpretation of the factors associated with default at EFS.

Figure 4.6: Experience of repayment difficulties

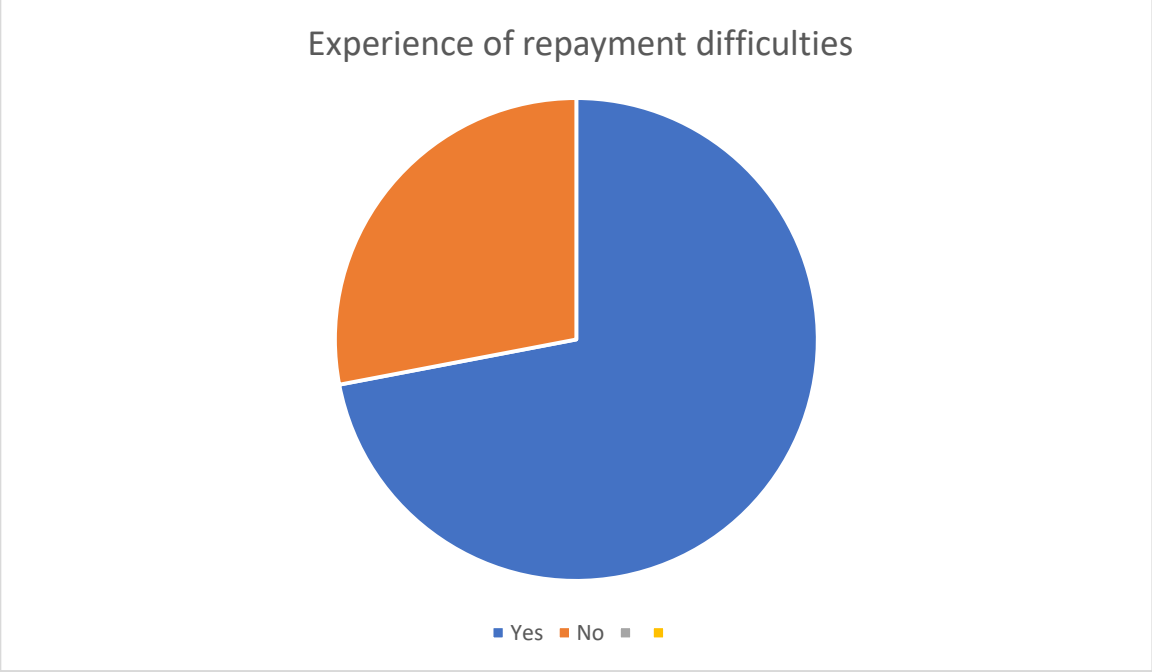


Figure 6 Experience of repayment difficulties

The results shown in Figure 4.6 indicates that out of the 50 respondents, 14 respondents (28%) indicated that they had not experienced repayment difficulties, while 36 respondents (72%) had experienced problems in meeting the loan repayment installments. The results indicate that loan repayment difficulties are frequent at EFS.

A relatively high number of respondents were faced with loan repayment difficulties indicating the significance of the study, in the sense that loan repayment difficulties exist in the sampled population and borrowers may experience economic or other constraints which make loan repayment installments difficult to honor. The issue of identifying and explaining reasons behind loan repayment difficulties therefore, becomes a critical issue.

Figure 4.7: Nature of repayment difficulty

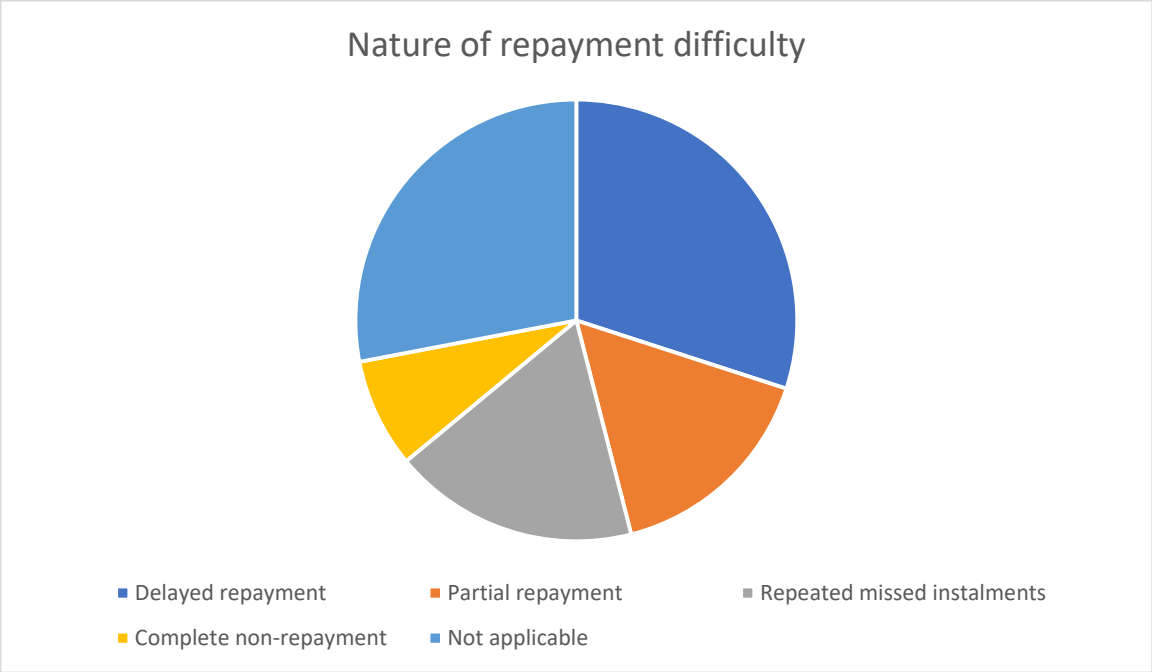


Figure 7 Nature of repayment difficulty

As can be observed from figure 4.7, the most frequently experienced repayment problem was delayed repayment, with 30% of the respondents having faced this problem. Serial missed instalments had the second largest share of the repayment problems with 18% of the respondents stating that they had faced such a problem. The percentage of respondents to have faced a partial payment difficulty was 16%. Only 8% of the respondents stated that they were in full non-payment, while 28% of respondents chose 'not applicable', as they had not faced any problems with repaying the loan.

The study showed that while a majority of the respondents had not fully defaulted their loan, the most common factor that was encountered by majority of the respondents were

the different types of repayment problems. The delayed repayment and missed installments could be explained by many reasons such as short-term liquidity problems, irregular cash flow or change in sudden economic conditions. While a small amount of the respondents is stated to have made a full non-payment (8%), most of them have reported to have met repayment problems at different stages of repayment.

4.3 Borrower-related factors contributing to loan default

Table 4.3: Borrower-related factors

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Agree %	Mean
Unstable income contributes to loan default rates.	22	16	5	5	2	76.0	4.02
Over-indebtedness contributes to loan default rates.	20	17	6	5	2	74.0	3.96
Poor financial planning contributes to loan default rates.	15	18	8	6	3	66.0	3.72
Low financial literacy contributes to	14	16	10	7	3	60.0	3.62

loan default rates.							

Table 4 Borrower related factors

From Table 4.3 it can be seen that unstable income and over-indebtedness was ranked by respondents as the most significant borrower-related causes of loan default at EFS. Unstable income had the highest percentage of agreement of 76% and a mean score of 4.02, followed by over-indebtedness, which recorded 74% agreement and a mean score of 3.96. The finding suggests that repayment capacity at EFS is closely linked to the stability and adequacy of borrowers' cash flows. Where income is irregular, even a borrower who intends to repay may experience difficulty meeting fixed instalments. Similarly, multiple debt obligations may reduce the portion of income available for servicing an EFS loan.

Poor financial planning also received substantial agreement (66%; mean = 3.72), while low financial literacy recorded the lowest, although still positive, agreement among the four borrower-related factors (60%; mean = 3.62). This pattern suggests that borrower capacity is not determined only by the level of income but also by how available income is managed. The lower score for financial literacy should not be interpreted as evidence that the factor is unimportant; rather, respondents ranked it below income instability and debt burden. Overall, the results support the view that borrower-related risks are interconnected: unstable income can create cash-flow pressure, over-indebtedness can intensify that pressure, and weak planning can make it more difficult to prioritize repayment

The implication for EFS is that credit assessment should consider affordability and existing debt obligations rather than relying only on the applicant's stated income. The findings are consistent with the literature reviewed in Chapter Two, which identifies income instability and excessive debt as important repayment risks. They also provide practical support for Behavioural Finance Theory because financial planning and financial capability can

influence how borrowers allocate limited resources between debt obligations and competing expenditures.

These results correspond to those reported by the World Bank (2024) which states that unstable income and high existing debt burdens were the main borrower-related risks in developing countries. These results also support the theory of Behavioral Finance, where an individual's ability to repay is directly linked to the nature of his or her decisions.

4.4 Institutional factors contributing to loan default

Table 4.4: Institutional factors

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Agree %	Mean
Weak credit appraisal contributes to loan default rates.	16	18	7	6	3	68.0	3.76
Poor loan monitoring practices contribute to	18	19	6	5	2	74.0	3.92

loan default rates.							
Inadequate borrower screening contributes to loan default rates.	17	17	7	6	3	68.0	3.78
Weak lending policies contribute to loan default rates.	15	18	8	6	3	66.0	3.72

Table 5 Institutional factors

Table 4.4 shows that poor loan monitoring recorded the highest institutional agreement of 74%, mean 3.92. This indicates that respondents regarded post-disbursement monitoring and follow-up as particularly important to loan performance. Monitoring is significant because problems can be detected after disbursement, when the borrower's financial circumstances or use of funds may change. Early identification can allow the institution to engage the borrower before arrears become severe.

Inadequate borrower screening and weak credit appraisal both recorded 68% agreement, with mean scores of 3.78 and 3.76 respectively, while weak lending policies recorded 66% agreement mean 3.72. The relatively close scores suggest that institutional weaknesses should be viewed as a system rather than as isolated failures. Weak appraisal may result in unsuitable borrowers being approved; weak screening may leave important information undiscovered; and poor monitoring may allow emerging repayment problems to persist. These findings are consistent with the Credit Risk Theory perspective that effective

assessment and monitoring are central to controlling credit exposure. They also relate to Information Asymmetry Theory because incomplete information about borrowers can increase the possibility of inappropriate credit decisions.

4.5 Economic factors contributing to loan default

Table 4.5: Economic factors

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Agree %	Mean
Inflation contributes to loan default rates.	24	17	4	3	2	82.0	4.16
Unemployment contributes to loan default rates.	18	18	7	5	2	72.0	3.90
Exchange rate instability contributes to loan default rates.	20	16	7	5	2	72.0	3.94

Table 6 Economic factors

Table 4.5 demonstrates that economic factors were strongly associated with loan default in the perceptions of respondents. Inflation recorded the highest agreement of 82%, mean 4.16, indicating that rising prices were viewed as the most influential economic factor. Inflation can weaken real household income and increase business operating costs, leaving borrowers with less disposable cash for scheduled loan payments. This is particularly relevant where loan instalments are fixed while borrowers' income or business margins do not adjust at the same pace.

Exchange-rate instability and unemployment both recorded 72% agreement, with mean scores of 3.94 and 3.90 respectively. These results indicate that economic shocks can affect repayment through different channels: exchange-rate movements may increase the cost of goods and business inputs, while unemployment directly reduces household earning capacity. The fact that all three economic indicators recorded means well above 3.00 suggests a consistent perception that the external economic environment contributed materially to repayment difficulties. However, because the study is descriptive, these results demonstrate perceived association rather than statistical causation.

Overall, it seems that loans defaults do not only result from customer or institution's actions, but from macroeconomic factors as well. It is therefore important to take into account economic variables when it comes to assessing credit risk and loan repayment capacity.

These results are in line with findings by the African Development Bank (Bank., 2024.) which found that high inflation, unemployment and economic instability had a negative impact on borrower's repayment capacity, and increased loan defaults. The results are also in line with the empirical findings reviewed in Chapter Two, which showed that unfavorable economic condition is a major contributor to difficulties in repayment in

financial institutions. This therefore implies that economic environment is important in shaping customer's repayment behavior and credit risk at Eshandi Financial Services.

4.6 Consequences of high loan default rates on EFS

Table 4.6: Consequences of high loan default rates

Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Agree %	Mean
High loan default rates reduce profitability, affect liquidity and reduce lending capacity at EFS.	21	18	6	3	2	78.0	4.06

Table 7 Consequences of high loan default rates

Table 4.6 shows that 78% of respondents agreed or strongly agreed that high loan default rates reduce profitability, affect liquidity and reduce lending capacity at EFS (mean = 4.06).

The result is important because the three consequences are operationally connected. Missed repayments reduce cash inflows; weaker cash inflows can constrain liquidity; and sustained impairment of loan recoveries can reduce the resources available for new lending. The finding therefore indicates that loan default is not only a borrower-level problem but also a threat to the institution’s financial sustainability.

It can be seen that high loan default rates lead to negative consequences on the institution's financial health. If a client default, cash inflows will be reduced, the company's revenue and interest will decrease thereby diminishing profitability and further extension of credit. The importance of adequate credit risk management thus cannot be understated.

These findings are in line with the conclusion by IMF (Fund, 2023.) that non-performing loans impact negatively on profitability and liquidity, and on the entire financial status of the institution. Reducing non-performing loan therefore should be high on the priorities of Eshandi Financial Services.

4.7 Ranking of major factors

Table 4.7: Ranking of major factors by mean score

Rank	Factor	Mean	Agree %
1	Inflation contributes to loan default rates.	4.16	82.0
2	High loan default rates reduce profitability, affect liquidity and reduce lending capacity at EFS.	4.06	78.0
3	Unstable income contributes to loan default rates.	4.02	76.0
4	Over-indebtedness contributes to loan default rates.	3.96	74.0
5	Exchange rate instability contributes to loan default rates.	3.94	72.0

6	Poor loan monitoring practices contribute to loan default rates.	3.92	74.0
7	Unemployment contributes to loan default rates.	3.90	72.0
8	Inadequate borrower screening contributes to loan default rates.	3.78	68.0
9	Weak credit appraisal contributes to loan default rates.	3.76	68.0
10	Poor financial planning contributes to loan default rates.	3.72	66.0
11	Weak lending policies contribute to loan default rates.	3.72	66.0
12	Low financial literacy contributes to loan default rates.	3.62	60.0

Table 8 Ranking major factors by mean score

Table 4.7 lists the factors contributing to loan default rates at Eshandi Financial Services in order of their mean score. Inflation was rated as the highest factor responsible for the high loan default rate (4.16). This was followed by the effects of loan default to the EFS (4.06), instability of income (4.02) and over-indebtedness (3.96). The ordering is analytically useful because it shows that economic and borrower-related pressures were perceived as more prominent than the institutional factors, although institutional controls still recorded relatively high scores. The close scores among several factors also suggest that default at EFS is unlikely to be explained by one isolated variable. Instead, external economic pressure may interact with borrower vulnerability and institutional weaknesses to increase repayment risk.

According to these results it can be concluded that economic factors (highest weighted by the mean scores) had a major impact on loan defaults; followed by borrower and institution

factors (third highest by mean score). This therefore implies that it is a combination of both the external factors affecting the loan repayments and borrower and institutional factors that were causing loan defaults at Eshandi Financial Services.

The ordering of factors reflects the previous section in the chapter where inflation and instability of income along with over-indebtedness were rated as the causes of loan default. The findings are therefore in line with various studies previously looked at in chapter two where economic factors, and borrower factors along with the institutional factors affect loan defaults.

4.8 Discussion of findings to research objectives

The first objective was to identify the causes of high loan default rates at EFS. The findings indicate that default was associated with three broad dimensions: economic factors, borrower-related factors and institutional factors. Inflation was the highest-rated individual cause, while unstable income and over-indebtedness were the leading borrower-related concerns. This supports the central argument in Chapter Two that loan default is multidimensional rather than attributable to a single source.

The second objective examined borrower-related factors. Unstable income and over-indebtedness recorded the highest mean scores, followed by poor financial planning and low financial literacy. The results imply that both repayment capacity and financialbehaviour matter. The finding is consistent with Behavioural Finance Theory, while also reinforcing the importance of affordability assessment before credit is approved.

The third objective examined institutional factors. Poor loan monitoring recorded the highest institutional mean, followed by inadequate borrower screening, weak credit appraisal and weak lending policies. These findings suggest that effective credit

management must continue after disbursement rather than ending at the approval stage. They are consistent with Credit Risk Theory and Information Asymmetry Theory, which emphasise appropriate assessment, information quality and continuing monitoring.

The fourth objective assessed the consequences of high loan default rates for EFS. Respondents generally agreed that default reduces profitability, constrains liquidity and limits lending capacity. These consequences are mutually reinforcing because weaker recoveries reduce available cash and may restrict the institution's ability to extend additional credit. The finding therefore has direct implications for the financial sustainability of EFS.

The fifth objective sought to identify strategies for reducing loan default. The findings point towards a combination of stronger affordability assessment, borrower screening, credit appraisal, continuous monitoring and financial-literacy support. Because the causes are multidimensional, a single intervention is unlikely to be sufficient. EFS would therefore benefit from an integrated credit-risk management approach that addresses both borrower vulnerability and institutional controls.

4.9 Summary

The findings, analyses and discussion of the high loan default rate at Eshandi Financial Services are presented in this chapter. Economic factors of which inflation is top, were established to cause loan default; while borrower and institutional factors were found to influence the loan repayment performance at EFS. Higher rate of loan defaults affects the profitability, liquidity and lending capacity of EFS. The next chapter will provide a summary of the findings as well as conclusion and recommendation of the study.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter is an outline of the findings, conclusions and recommendations from this study into the reasons for high loan defaults at Eshandi Financial Services and the subsequent impacts. The findings have been broken down according to the research objectives to provide insight into the most significant issues addressed by this study. From the findings drawn, conclusions have been made which leads into the recommendations. The recommendations are provided in order to improve on the lending policies at Eshandi Financial Services so as to minimize the high rates of loan defaults. Finally, directions for further study have been recommended.

5.1 Summary of findings

5.1.1 Causes of high loan default rates

The study found that loan defaults at EFS were associated with borrower-related, institutional and economic factors. Economic factors were particularly prominent, with inflation receiving the highest individual mean score. Borrower-related factors, especially unstable income and over-indebtedness, also recorded high levels of agreement, while institutional weaknesses such as poor monitoring and inadequate screening remained important. The overall finding is therefore that default arises from the interaction of external economic pressure, borrower capacity and the effectiveness of internal credit-management systems.

5.1.2 Borrower-related factors affecting loan defaults rate at EFS

Borrower-related factors were found to have a substantial influence on loan repayment. Unstable income and over-indebtedness were the most prominent, followed by poor financial planning and low financial literacy. These results suggest that EFS should assess

not only whether a borrower qualifies for credit, but also whether the proposed repayment obligation is sustainable relative to the borrower's income, existing debt and expenditure commitments.

5.1.3 Institutional factors affecting loan defaults rate at EFS.

Institutional factors also contributed to high loan default rates. Poor loan monitoring was the most prominent institutional factor, followed by borrower screening, credit appraisal and lending policies. The findings indicate that credit risk management should be treated as a continuous process covering pre-disbursement assessment, post-disbursement monitoring and recovery. Weakness at any one stage can increase the probability that repayment problems will remain undetected or unresolved.

5.1.4 Consequences of high loan defaults rate on Eshandi Financial Services

The study found that high loan default rates negatively affect EFS operations. Respondents associated default with reduced profitability, liquidity pressures and reduced lending capacity. These consequences may reinforce one another: lower recoveries reduce cash inflows, liquidity pressure constrains operations, and reduced lending capacity can affect future income generation. Continued deterioration in loan quality can therefore pose a broader threat to institutional sustainability

5.1.5 Strategies to reduce loan default rates

The findings indicate that reducing loan defaults requires coordinated borrower-focused and institution-focused interventions. The most important strategies are stronger affordability assessment, improved credit appraisal and screening, continuous monitoring and follow-up, financial-literacy support and appropriately structured repayment

arrangements for genuine hardship cases. The strategies should be implemented as an integrated credit-risk management framework rather than as isolated actions.

5.2 Conclusion

5.2.1 A global conclusion of the study

The study concludes that high loan default rates at Eshandi Financial Services are influenced by interconnected economic, borrower-related and institutional factors. Inflation emerged as the highest-rated individual factor, while unstable income and over-indebtedness were the leading borrower-related factors and poor monitoring was the leading institutional factor. The findings further show that high default rates are associated with reduced profitability, liquidity pressure and constrained lending capacity. Consequently, improving loan performance requires EFS to strengthen internal credit controls while recognizing the external economic conditions affecting borrowers.

5.2.2 A conclusion on borrower specific factors

The study concludes that borrower specific factors have an enormous influence on high loan default rates at Eshandi Financial Services. The most significant variables that determined the repayment ability of borrowers to make loan payments were identified to be income instability and over-indebtedness. The study further concludes that loan repayment difficulties can be attributed to poor financial planning among borrowers and low financial literacy, therefore borrower specific factors are vital in determining loan repayment performance.

5.2.3 A conclusion on institutional factors

The study concludes that institutional factors are quite crucial in affecting loan default rates at EFS. They were identified to be lack of adequate loan monitoring, weak borrower screening and weak credit appraisal as well as weak lending policies. The study therefore concludes that weakness in credit management procedures increase the risk of borrower default, therefore improving credit risk management is crucial in minimizing loan default rates.

5.2.4 A conclusion on impact of high loan default rates on EFS

The study concludes that high loan default rates impact negatively on the profitability, liquidity and credit lending capability of the institution, thereby reducing the potentiality to provide additional loans. The study concludes that the continuation of loan defaults poses a threat to the financial viability and stability of the institution.

5.2.5 A conclusion on strategies that could minimize loan default rates

The study concludes that, improvement of loan repayment performance at Eshandi Financial Services needs the combined efforts in effective credit management and borrowers' support. The study recommends strengthening of credit appraisal processes, effective loan monitoring and improving financial literacy amongst the borrowers. Early identification of repayment problems, through effective borrower screening and close monitoring will considerably reduce loan defaults.

5.3 Recommendations

5.3.1 Assessing borrower affordability

The study found that unstable income and over-indebtedness were major borrower-related risks. EFS should therefore strengthen affordability assessment before approving loans. This should include verification of income sources, assessment of existing debt obligations and consideration of the borrower's essential expenditure commitments. Where appropriate, affordability thresholds should be documented and applied consistently to reduce excessive lending.

5.3.2 Strengthening of loan monitoring and follow-up mechanisms

The study revealed that poor loan monitoring was the leading institutional factor. EFS should strengthen post-disbursement monitoring through scheduled follow-ups, repayment alerts, early-warning indicators and documented escalation procedures for emerging arrears. Monitoring should be risk-based so that borrowers showing early signs of distress receive attention before arrears become severe.

5.3.3 Educating borrowers about financial literacy

The study observed that poor financial planning and low financial literacy may contribute to repayment difficulties. EFS should provide short, practical financial-literacy sessions covering budgeting, debt management, understanding loan costs and repayment planning. Such education should be targeted particularly at new borrowers and clients with repeated repayment difficulties.

5.3.4 Borrower screening and credit appraisal

The study established that weak credit appraisal and inadequate borrower screening were associated with loan default. EFS should strengthen pre-disbursement controls by verifying borrower information, assessing repayment capacity, reviewing existing debt and documenting the basis for each credit decision. Periodic review of appraisal criteria should also be undertaken to ensure that lending standards remain appropriate to changing economic conditions.

5.3.5 Providing flexible repayment terms

Given the influence of inflation, unemployment and exchange-rate instability, EFS should consider appropriately structured repayment arrangements for borrowers experiencing genuine temporary hardship. Where institutionally and legally permissible, options may include revised payment schedules, short extensions or other restructuring measures based on documented affordability assessments. Flexibility should be applied selectively to avoid weakening repayment discipline or encouraging strategic default.

5.4 Areas for Future Research

This study focused on one microfinance institution and used a relatively small sample of clients and employees. Future research could examine several microfinance institutions across different provinces in Zimbabwe to determine whether the factors identified at EFS are consistent across institutions and locations. Larger samples could also permit inferential statistical techniques to test the strength of relationships between economic, borrower-related and institutional factors and loan default. Future studies could further combine questionnaire evidence with longitudinal institutional loan-performance data to assess changes in default rates over time and evaluate the effectiveness of specific credit-risk interventions.

5.5 Summary

This chapter summarized the major findings, conclusions and recommendations of the study. The evidence indicates that loan default at EFS is multidimensional, with inflation, unstable income, over-indebtedness and weaknesses in loan monitoring emerging as important concerns. The study concluded that high default rates have negative implications for profitability, liquidity and lending capacity. Recommendations were therefore directed towards affordability assessment, credit appraisal, borrower screening, continuous monitoring, financial-literacy support and appropriately structured repayment arrangements. Areas for future research were also identified.

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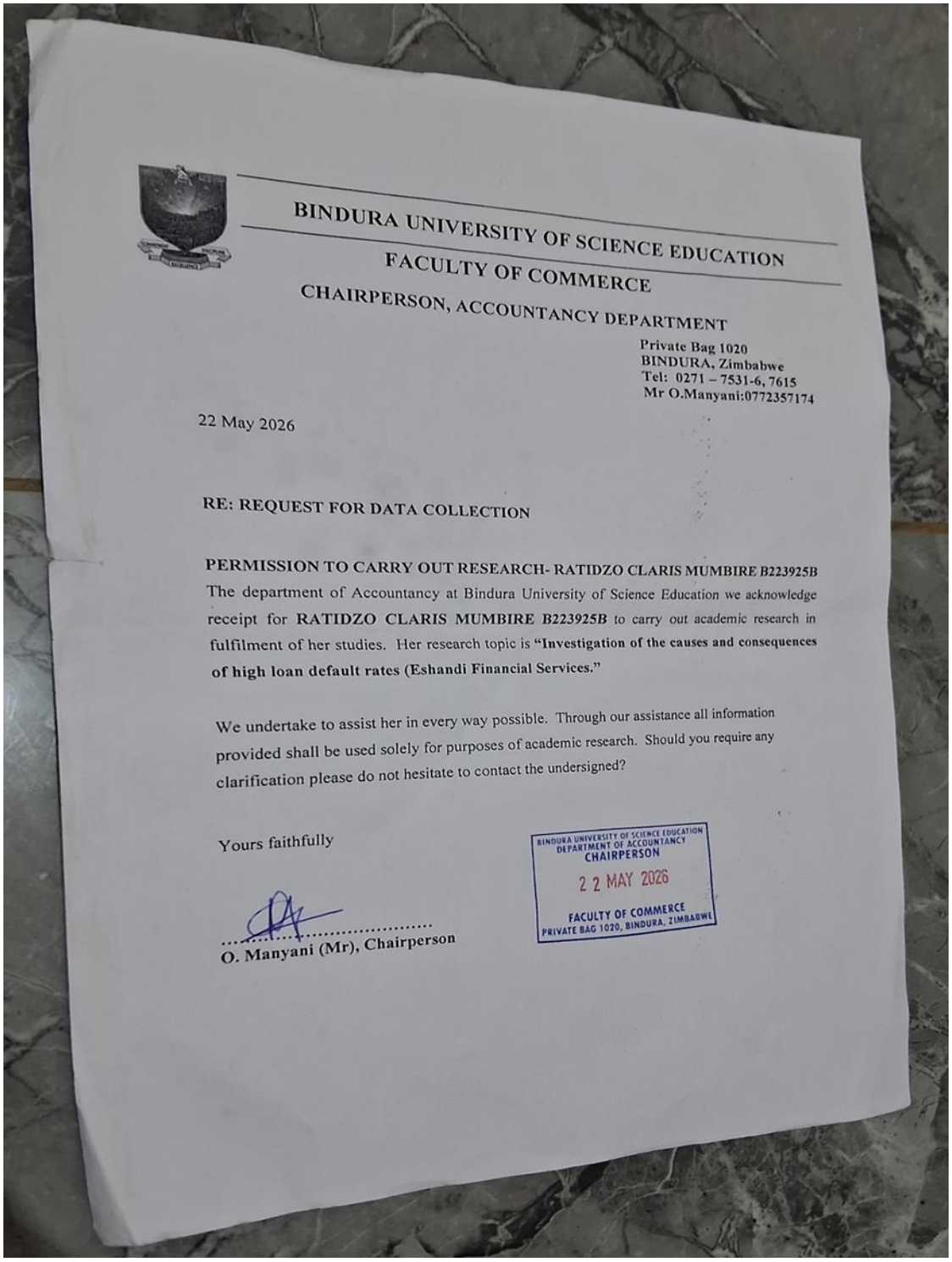
APPENDIX 1



BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

CHAIRPERSON, ACCOUNTANCY DEPARTMENT

Private Bag 1020
BINDURA, Zimbabwe
Tel: 0271 – 7531-6, 7615
Mr O.Manyani:0772357174

22 May 2026

RE: REQUEST FOR DATA COLLECTION

PERMISSION TO CARRY OUT RESEARCH- RATIDZO CLARIS MUMBIRE B223925B

The department of Accountancy at Bindura University of Science Education we acknowledge receipt for **RATIDZO CLARIS MUMBIRE *B223925B*** to carry out academic research in fulfilment of her studies. Her research topic is **"Investigation of the causes and consequences of high loan default rates (Eshandi Financial Services."**

We undertake to assist her in every way possible. Through our assistance all information provided shall be used solely for purposes of academic research. Should you require any clarification please do not hesitate to contact the undersigned?

Yours faithfully

BINDURA UNIVERSITY OF SCIENCE EDUCATION
DEPARTMENT OF ACCOUNTANCY
CHAIRPERSON
22 MAY 2026
FACULTY OF COMMERCE
PRIVATE BAG 1020, BINDURA, ZIMBABWE

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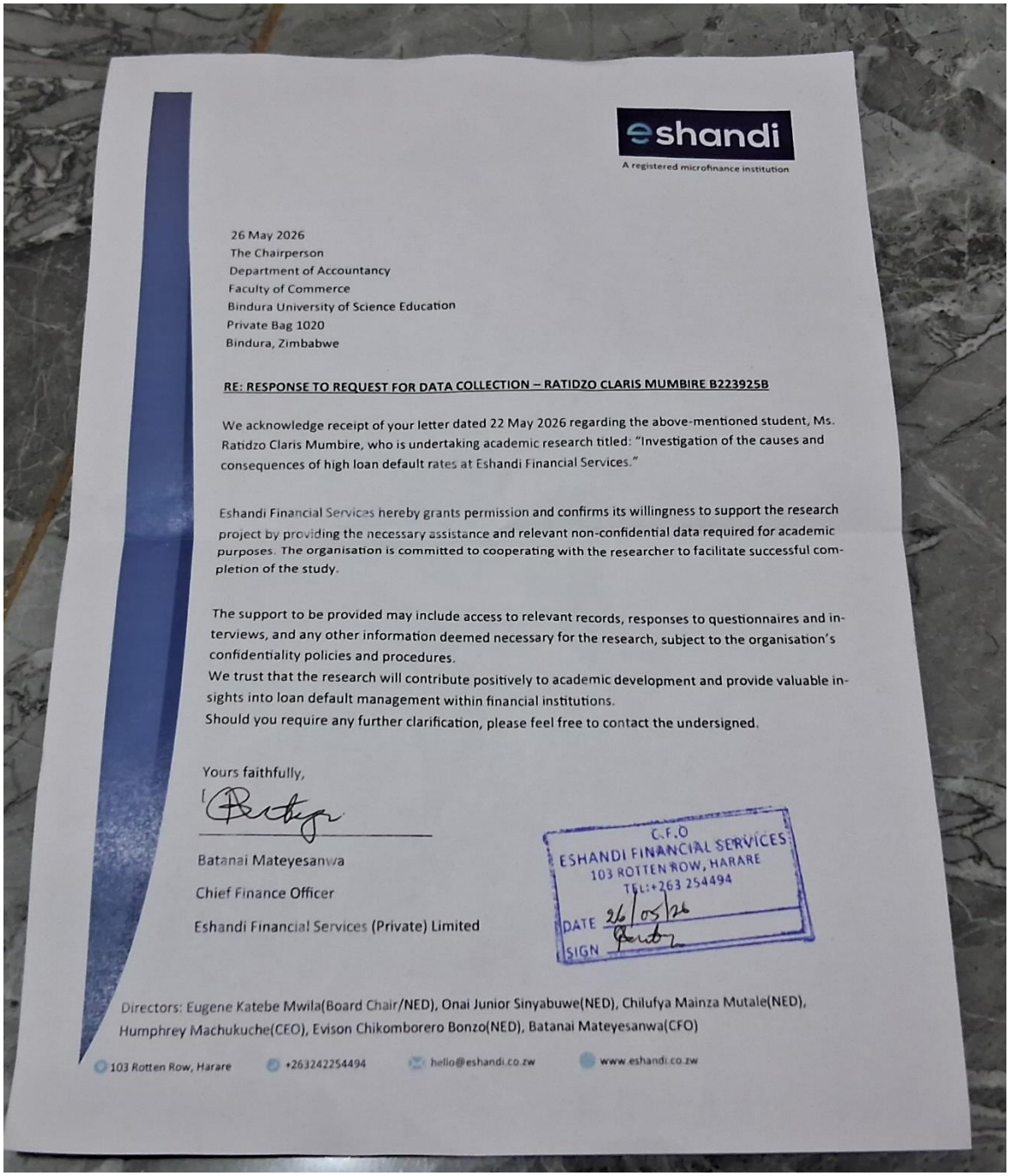
O. Manyani (Mr), Chairperson

APPENDIX 2



eshandi
A registered microfinance institution

26 May 2026
The Chairperson
Department of Accountancy
Faculty of Commerce
Bindura University of Science Education
Private Bag 1020
Bindura, Zimbabwe

RE: RESPONSE TO REQUEST FOR DATA COLLECTION – RATIDZO CLARIS MUMBIRE B223925B

We acknowledge receipt of your letter dated 22 May 2026 regarding the above-mentioned student, Ms. Ratidzo Claris Mumbire, who is undertaking academic research titled: "Investigation of the causes and consequences of high loan default rates at Eshandi Financial Services."

Eshandi Financial Services hereby grants permission and confirms its willingness to support the research project by providing the necessary assistance and relevant non-confidential data required for academic purposes. The organisation is committed to cooperating with the researcher to facilitate successful completion of the study.

The support to be provided may include access to relevant records, responses to questionnaires and interviews, and any other information deemed necessary for the research, subject to the organisation's confidentiality policies and procedures.
We trust that the research will contribute positively to academic development and provide valuable insights into loan default management within financial institutions.
Should you require any further clarification, please feel free to contact the undersigned.

Yours faithfully,

Batanai Mateyesanwa
Chief Finance Officer
Eshandi Financial Services (Private) Limited

C.F.O
ESHANDI FINANCIAL SERVICES
103 ROTTEN ROW, HARARE
TEL:+263 254494
DATE 26/05/26
SIGN

Directors: Eugene Katebe Mwila(Board Chair/NED), Onai Junior Sinyabuwe(NED), Chilufya Mainza Mutale(NED), Humphrey Machukuche(CEO), Evison Chikomborero Bonzo(NED), Batanai Mateyesanwa(CFO)

103 Rotten Row, Harare +263242254494 hello@eshandi.co.zw www.eshandi.co.zw

APPENDIX 3

QUESTIONNAIRE

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

Research Topic: "An Investigation of the Causes and Consequences of High Loan Default Rates at Eshandi Financial Services"

Dear Respondent.

I am a Bachelor of Accountancy student at Bindura University of Science Education conducting a study entitled "An Investigation on the Causes and Consequences of High Loan Default Rates: A Case Study of Eshandi Financial Services (EFS)." Your participation in this study is voluntary, and all responses will be treated with strict confidentiality and used strictly for academic purposes only. No names are required on this questionnaire, and responses will be presented in summary form only. Kindly answer the questions honestly and to the best of your knowledge.

Thank you for your cooperation.

SECTION A: DEMOGRAPHIC INFORMATION

(Please tick or select the appropriate answer)

1.Respondent category

- Employee
- Client

2.Gender

- Male
- Female

3.Age group

- 18-25 years
- 26-35 years

- 36-45 years
- Above 45 years

4.Type of loan accessed

- Personal loan
- Business loan
- Emergency loan
- Salary based loan
- SME loan
- Other_____

5.Have you ever experienced difficulties in repaying a loan?

- Yes
- No

6.If yes, please indicate the nature of the difficulty:

- Delayed repayment
- Partial repayment
- Repeated missed instalments
- Complete non-repayment

SECTION B: BORROWER-RELATED FACTORS

7.Please indicate your level of agreement with the following statements.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Unstable income contributes to loan default rates					
Over indebtedness contributes to loan default rates					
Poor financial planning contributes to loan default rates					
Low financial literacy contributes to loan default rates					

SECTION C: INSTITUTIONAL FACTORS

8.Please indicate your level of agreement with the following statements.

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
Weak credit appraisal contributes to loan default rates					
Poor loan monitoring practices contributes to loan default rates					
Inadequate borrower screening contributes to loan default rates					
Weak lending policies contributes to loan default rates					

SECTION D: ECONOMIC FACTORS

9.Please indicate your level of agreement with the following statements

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
Inflation contributes to loan default rates					
Unemployment contributes to loan default rates					
Exchange rates contributes to loan default rates					

SECTION E: CONSEQUENCES OF HIGH LOAN DEFAULT RATES

10.High loan default rates reduce profitability, affect liquidity and reduce lending capacity at EFS.

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly agree

11.Any comments or recommendations.

……
……
……
……