

BINDURA UNIVERSITY OF SCIENCE EDUCATION



**THE EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN
MITIGATING CREDIT RISKS. A CASE OF MICROFINANCE INSTITUTIONS IN
ZIMBABWE.**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE BACHELOR OF COMMERCE HONOURS DEGREE IN
FINANCIAL INTELLIGENCE**

RELEASE FORM

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DECLARATION

I, B224912B, declare this research project herein as my own work and has not been copied or lifted from source without the acknowledgement of its Authors.



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Signed

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DEDICATION

To my parents whose sacrifices I may never fully understand, whose love I have always felt and whose belief in me never wavered even when my own did. Every page of this work carries a piece of you in it. This is as much yours as it is mine.

ABSTRACT

Credit risk remains a significant threat to the sustainability of microfinance institutions (MFIs) in Zimbabwe, where loan defaults and non-performing loans persist despite the widespread adoption of formal risk management strategies. This study assessed the effectiveness of risk management strategies in mitigating credit risk among Zimbabwean MFIs, guided by four objectives: to analyze the key drivers of credit risk, to identify the major strategies currently employed, to assess their effectiveness in reducing loan defaults and non-performing loans and to identify measures for improving effectiveness in the sector. The study adopted a mixed-methods, descriptive and explanatory case study design, combining quantitative survey data with qualitative interview responses. Primary data were collected from 58 questionnaire respondents and 10 interview participants drawn from credit officers, loan officers, risk officers and managers and collection officers across sampled microfinance institutions. The analysis was grounded in five complementary frameworks: information asymmetry, adverse selection, moral hazard, portfolio and agency theories, which together explain credit risk as arising from borrower-level, institutional and macroeconomic factors. The findings show that credit risk is driven primarily by fraudulent borrower documentation, undetected multi-borrowing, income instability among informal-sector clients, inconsistent credit appraisal procedures and macroeconomic volatility. Sampled institutions employ strategies spanning credit appraisal, loan monitoring, collateral requirements, provisioning, governance controls and emerging technology adoption. While generally well-designed, their effectiveness is constrained by a gap between policy and practice; governance and staff competence were the strongest-performing areas, while credit referencing, collateral enforcement, write-off discipline and technology-driven early warning systems were comparatively weaker. Respondents viewed credit appraisal and loan monitoring as the most effective strategies, yet still perceived credit risk exposure as elevated, suggesting existing strategies have not fully reduced risk to acceptable levels. The study concludes that improving

effectiveness requires accelerated technology integration, continuous staff training, stronger inter-institutional credit information sharing and closing the gap between formal policy and day-to-day practice. It contributes an integrated application of established credit risk theories to a volatile, high-informality economy, and offers practical recommendations for MFI management, regulators and policymakers seeking to strengthen credit risk outcomes in Zimbabwe's microfinance sector.

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List of acronyms

MFI/MFIs – Microfinance Institution (s)

NPL/NPLs –Non-Performing Loan (s)

KYC – Know Your Customer

PAR – Portfolio at Risk

GDP –Gross Domestic Product

MSMEs – Micro, Small and Medium Enterprises

SACCOs –Savings and Credit Cooperatives

SPSS –Statistical Package for the Social Sciences

COVID-19 –Coronavirus Disease 2019

ZMF- Zimbabwe Microfinance Fund

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Microfinance institutions (MFIs) play a crucial role in promoting financial inclusion and supporting economic development in developing countries such as Zimbabwe. MFIs play a role in poverty alleviation and enterprise development by offering financial services to the poor and micro-enterprises that are excluded in formal banking system (Ledgerwood, 2013; Yunus, 2007).

One of the most important risks faced by the financial entities is however, credit risk which refers to the risk that borrowers will not be able to return the borrowed money (Saunders and Allen, 2010). In the case of microfinance, it is even more so because the clients' income is irregular, they have no collateral and are more susceptible to economic shocks. (Armendáriz and Morduch, 2010). The Zimbabwean's macroeconomic environment such as exchange rate fluctuation and inflation are impacting the credit risk and the credit worthiness of borrowers (Mago et al., (2013).

To overcome such issues the MFIs apply different risk management strategies such as credit appraisal, monitoring and loan recovery mechanisms. But it's still unclear how well these tactics work to reduce credit risk, especially in erratic economic times.

Hence, this study seeks to analyse the extent to which the risk management tools minimize credit risk in MFIs in Zimbabwe.

1.1 Background of The Study

Microfinance institutions (MFIs) have emerged as an essential part of financial systems in developing economies, especially for credit markets, as an alternative source of credit to the formal sector for the financially excluded low-income people. Microfinance was developed to make possible financial services to these “high-risk” borrowers from the traditional bank's point of view, by offering people who don't have credit history or collateral a way to access finance, as mentioned by Muhammad Yunus (2007). Although widely known as drivers of a "poor people's banking" model, enterprise development and poverty reduction, MFIs are very exposed to credit risk because

of the fragility of their clientele base and the absence of security on loans (Ledgerwood, 2013). The viability of MFIs is thus in question, and these are at risk of financial viability because of high default rates on loans. (Armendáriz and Morduch, 2010).

Regional level: MHCs in Sub-Saharan Africa are operating in a context of economic instability, weak institutional frameworks and high informality, which heightens the risks of credit exposure. According to FSD Africa (2016), the region continues to experience significant MFIs' loan repayment issues, scarce use of reliable borrower data and poor enforcement of credit agreements. These vulnerabilities seriously diminish the effectiveness of credit risk management and augment the institution's vulnerability and loans not on track. Data analysis also from other countries like Kenya and Nigeria, further shows that poor credit risk assessment, a poor monitoring system and poor recovery mechanisms are direct factors in contributing to the rising default rates (Kipasha, 2013).

Zimbabwe's microfinance sector has been highly affected by the high levels of macro instability in the country, ranging from high inflation rates to periodic exchange rate fluctuations and low liquidity levels, as well as weak productivity of industrial sectors. These conditions have contributed to unemployment and growth of informal economic activities, leading to borrowers who are dependent on their MFIs for credit being exposed to credit risk (Mago, Hofisi and Mago, 2013). The Reserve Bank of Zimbabwe (2020) further shows that many people are relying on microfinance loans because they are unable to access banking services which are usually formal and demand collateral and formal income. The more the chances of loan default, particularly in an unstable economy.

In order to manage credit risk, MFIs use borrower screening, ability to repay evaluation, collateral, group loan mobilisation, loan monitoring, recovery mechanism etc. Despite all these strategies, Zimbabwean MFIs still have a high rate of loan defaulters, which in essence lead to high portfolio deterioration, thus raising doubts on the effectiveness of the interventions put in place (Mago et al., 2013). This implies that the main issue is not necessarily the presence of credit risk management practices but the ability of credit risk management to reduce credit risk in a high-risk, volatile economic climate.

1.2 Statement of the Problem

However, credit risk continues to significantly affect the sustainability and profitability of microfinance institutions (MFIs) in Zimbabwe, with the number of non-performing loans and loan defaults also increasing (Reserve Bank of Zimbabwe, 2020). Despite the adoption of risk management strategies such as credit appraisal, group lending and recovery measures, the delinquency rate is still considerable; particularly in cases of members in the informal sector, where they face irregular incomes and poor economic conditions (Mago et al., 2013).

This implies that, given Zimbabwe's current economic climate, current risk management techniques might not be adequate for reducing credit risk. The problem has the potential to cause financial instability, lower outreach and even institutional failure if it is not tackled. Therefore, the aim of this study is to assess objectively the effectiveness of the credit risk reduction by the use of risk management techniques in MFI institutions in Zimbabwe..

1.3 Research Objectives

1.3.1 General Objective

To assess the effectiveness of risk management strategies in mitigating credit risk in microfinance institutions in Zimbabwe.

1.3.2 Specific Objectives

- I. To analyse the key drivers of credit risk in Zimbabwean microfinance institutions.
- II. To identify the major credit risk management strategies used by microfinance institutions in Zimbabwe.
- III. To assess the effectiveness of credit risk management strategies in reducing loan defaults and non-performing loans.
- IV. To identify measures for improving the effectiveness of credit risk management in Zimbabwe's microfinance sector.

1.4 Research Questions

- I. What credit risk management strategies are currently employed by microfinance institutions in Zimbabwe?
- II. What are the key determinants of credit risk in Zimbabwean microfinance institutions?
- III. To what extent do credit risk management strategies influence credit risk outcomes in microfinance institutions?
- IV. What institutional and economic factors affect the effectiveness of credit risk management strategies in Zimbabwean microfinance institutions?

1.5 Research Hypotheses

The study is guided by the following hypotheses:

Ho: There is no statistically significant difference between credit risk management strategies and credit risk in microfinance institutions in Zimbabwe.

The H1 is that, credit risk management strategies do have a significant effect on credit risk in the MFIs of Zimbabwe.

1.6 Significance of the Study

The significance of this study is that it will give empirical evidence on how effective credit risk management methods are in MFIs in Zimbabwe. Theoretically, the study expands the recent literature on credit risk management, using the traditional risk management concepts in a very volatile and informal economic environment. It contributes to the previous efforts by linking with practical credit risk outcomes of the microfinance sector, like non-performing loans and default rates.

The findings at the end of the study will benefit a number of parties. MFI will gain knowledge on the best practices in risk management and those areas that require strengthening to improve portfolio quality, curb loan defaults, and enhance institutional sustainability. The findings can be helpful to regulators and policy makers such as the Reserve Bank of Zimbabwe, to enhance their

regulatory frameworks and develop policies that encourage prudent risk management practices in the industry.

Investors and development partners will also benefit from the study since it will give them a better understanding of the risk dynamics in Zimbabwe's microfinance sector, which will help with funding and investment decisions. This study will serve as a reference point for scholarly research on the issues of microfinance, credit risk and financial inclusion in developing economies.

The following are the assumptions of the study.

- I. It is assumed that in Zimbabwe, microfinance institutions have identified and formalised their credit risk management strategies.
- II. This study takes the validity of the data presented by respondents as a given and assumes that the data are accurate, reliable and representative of the actual institution's practices.
- III. The credit risk of MFIs is assumed to be reasonably measurable by the indicators of microfinance loans such as loan default rates and non-performing loans.
- IV. The study postulates that risk management can make a difference in relation to the credit risk outcomes of a micro finance institution.
- V. The assumption is that the respondent is well versed and has enough experience in credit risk management practices so as to be able to give meaningful and informed response.
- VI. The study takes it for granted that the sample selected (microfinance institutions) represent the general microfinance industry in Zimbabwe.
- VII. The external factors (such as macro-economic conditions) are assumed to influence all the MFIs more or less in a similar way in the time being considered.

1.8 Scope of the Study

The present study deals with the effectivity of risk management strategies in reducing credit risk in MFI's in Zimbabwe. It focuses on the strategies which are directly related to lending, repayment and quality of portfolio, and not any other risk category such as market risk, operational risk, liquidity risk or reputational risk unless these are integrated with credit risk.

The study is geographically restricted to Zimbabwe and focuses on institutions that cater for low-income and informal-sector borrowers. This addresses both theoretical and practical aspects of credit risk management, which are being inspired by the Zimbabwean and international literature pertaining to microfinance. The study is from June 2025 to May 2026.

1.9 Limitations of the Study.

This study might have the following limitations:

- I. Limited access to proprietary information: Answers to in-depth questions on portfolio performance and internal risk management practices may be limited, depending on the willingness of the individual MFIs to provide the detailed information.
- II. Dynamic economic environment: The highly volatile macro-economic conditions in Zimbabwe can affect credit risk trends, and can also hinder the stability or general applicability of the outcomes.
- III. Relying on secondary data: If primary institutional data are scarce or unavailable, secondary data and literature might be used as the basis for the study, and the secondary data may not completely reflect current institutional conditions.
- IV. Institutional heterogeneity: Differences in size, governance, technological capability and lending models of the MFIs could impact the generalisability of the study findings.

1.10 Key Terms Definition

To facilitate understanding and consistency in the study, the following key terms are defined in operational terms:

Credit Risk

The probability that a borrower will default on the terms and conditions of the contract. As part of this study, credit risk is assessed based on credit risk indicators which include loan default rate and non-performing loan (NPL) ratio in microfinance institutions (Saunders and Allen, 2010).

Credit Risk Management Strategies Management of debts, collective debt, and debt restructuring.

These are institutional policies and practices that aim at reducing the likelihood of loan default and financial loss. In this study they comprise credit appraisal procedures, borrower screening, collateral requirements, group lending, loan monitoring, and recovery processes, with the weight of their impact determined according to the effect they have on credit risk outcomes (Armendáriz and Morduch, 2010).

Non-Performing Loans (NPLs)

Loans where the borrower has not made the payments to the lender according to the agreement for a period of time (usually 90 days or more). The key measure for portfolio quality and credit risk exposure used in this study is the NPL ratio (Reserve Bank of Zimbabwe, 2020).

Loan Default Rate

The percentage of loans that are not repaid in accordance with loan agreements. This study uses this as a quantitative measure of credit risk and efficacy of risk management strategies (Ledgerwood, 2013).

Borrower Appraisal

A detailed assessment of a borrower's creditworthiness before a loan is approved or offered, which takes into account income security, ability to repay the loan, and financial habits, among others. In this study it is evaluated in connection to how it affects the performance of loans, as well as the risk of default (Armendáriz and Morduch, 2010).

Loan Monitoring

Continuous monitoring of borrower's performance after disbursal to ensure that repayment is made on time and imminent default can be identified early. For this study, it is considered as an attribute in credit risk outcome (Ledgerwood, 2013).

Macroeconomic Conditions

These are related to macroeconomic elements like liquidity, exchange rate fluctuations and inflation. They are classified as external variables which affect borrower's ability to repay and the efficiency of credit risk management strategies (International Monetary Fund, 2021).

Microfinance Institutions (MFIs)

Financial institutions that offer financial services like credit, savings and insurance services to low-income people and micro-enterprises that are usually not served by formal financial institutions. This study focuses on MFIs in Zimbabwe as the unit of analysis as was involved in Yunus (2007).

1.11 Chapter Summary

This chapter has laid a foundation for this study through background of the study, problem statement, objectives, research questions, significance, scope, limitations and key terms. The chapter concluded that credit risk is a key problem in Zimbabwe's microfinance and that proper risk management is essential for institutions' survival. The relevant literature and the theoretical frameworks that underlie the study are reviewed in the next chapter.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter discusses the theoretical, conceptual and empirical studies about the effectiveness of risk management strategies in mitigating credit risk in microfinance institutions. It starts with the analysis of theories which attempt to explain borrower-lender risk dynamics, and then offers a conceptual review of the concepts of credit risk and credit risk management in MFIs. It then provides some empirical findings from Zimbabwe and other settings and finally identifies the gap and the conceptual framework.

2.1 Theoretical Literature Review

The study draws support from several theories which explain the reasons of credit risk and the rationale for risk management strategies in financial institutions.

2.2.1 Information Asymmetry Theory

Aside from various definitions, Joseph Stiglitz and Andrew Weiss (1981) claim that information asymmetry results from one party in a transaction possessing more or better information than the other. In credit markets, this translates as borrowers "know" more about themselves and their capacity to repay than do lenders. This imbalance can lead to poor loan decisions and loan defaults due to problems such as adverse selection and moral hazard. According to Armendáriz and Morduch (2010) this condition is more complicated in the case of microfinance due to the absence of credit histories, unpredictable income and lack of official financial records of borrowers. Information gaps are a major challenge for Zimbabwe in accurate credit assessment because of the high levels of informal economic activity in the country (Mago et al., 2013). To overcome these problems, according to Ledgerwood (2013), microfinance institutions use guarantor, borrower screening, monitoring and credit appraisal to reduce across-the-board uncertainty and better lending decisions. The theory is important to the study because it explains the underpinning reasons for credit risk and the importance of efficient risk management method in mitigating the lending problems associated with information.

2.2.2 Adverse Selection Theory

Joseph Stiglitz/Andrew Weiss (1981) observe that adverse selection is a pre-contractual problem with a credit market in which the lender is likely to choose riskier clients, because he cannot reliably distinguish a high risk borrower from a low risk borrower. This issue is deeper in microfinance as borrowers are more likely to default are often more likely to seek out credit especially when the screening process reveals less credit worthiness, or is substandard or less efficient (Armendáriz and Morduch, 2010). The informal sector characteristics in Zimbabwe support adverse selection because borrowers can present their financial performance differently in order to gain access to loans, have hidden credit commitments and financial statements are not always verifiable (Mago et al., 2013). Ledgerwood (2013) states that the lack of borrower screening and appraisal processes increases the risk of loan default and a decline in portfolio quality. As crucial instruments for lowering borrower risk, this theory emphasizes the significance of stringent credit appraisal procedures, such as income verification, affordability evaluations, reference checks and credit information sharing. It is relevant in the present study as it helps to explain the need for successful borrower selection in the implementation of the credit risk management strategies in microfinance institutions.

2.2.3 Moral Hazard Theory

Moral hazard, as described by Philippe Jorion (2003), is a post-contractual problem after a loan is advanced, borrowers might take an action that increases the risk for the lender due to the fact that the borrowers do not incur the full cost of their actions. According to Armendáriz and Morduch (2010), in microfinance, this could include misappropriation of loan funds, decreased effort in business operations and consumption of loan proceeds or purposeful delays in repayment, especially in cases where enforcement and monitoring are lax. Moral hazard is evident in Zimbabwe as a result of the informal nature of economic activity, geographical dispersion of clients and the lack of institutional capacity for monitoring on an ongoing basis, which makes strategic default and repayment difficult (Mago et al., 2013). Ledgerwood (2013) states that effective post-disbursement monitoring, loan utilization checks and repayment tracking as well as robust collection systems are crucial to mitigate such risks. This theory is relevant to the study as

it highlights that credit risk management is not only limited to approval of loans but requires constant follow-up and monitoring for compliance of loan repayments.

2.2.4 Portfolio Theory

Harry Markowitz (1952) spent many years developing portfolio theory, which provides an explanation for how diversification, by investing in a number of different assets to reduce the risk from any single source, can reduce risk. This indicates that financial institutions can reduce the effect of correlated defaults when it comes to lending, by diversifying their portfolios to different industries, regions, borrowers, and types of loans (Saunders and Allen, 2010). Microfinance borrowers are often subjected to similar economic shocks because they also lack diversification (Ledgerwood, 2013). The macroeconomic factors such as inflation, exchange rate volatility and disruption of markets which affect aggregate borrowers at the same time create a particular danger of concentration risk in Zimbabwe (Mago et al., 2013). Thus, measures such as borrower segmentation and the diversification of loans on sector and geographical basis and risk-based lending are endorsed based on portfolio theory as an important tool to reduce the overall credit risk. This theory is also relevant to the study because it highlights the need for strategic portfolio structuring to enhance institutional resilience rather than focusing solely on borrower assessment as a means of effective credit risk management.

2.2.5 Agency Theory

According to Michael Jensen and William Meckling (1976), agency theory explains the relationship between principals (owners or shareholders) and agents (managers or employees) and some of the potential conflicts of interest when agents are not working in the best interests of the principals. Such disputes may cause risk-taking behavior in financial institutions that puts short-term goals ahead of long-term stability. Agency problems may involve microfinance institutions with loan officers who see more in disbursing loans than in building loan quality, or employees and borrowers colluding together, or weak investment management or policy violations due to poor monitoring systems (Armendáriz and Morduch, 2010). Poor lending decisions and insufficient oversight are two ways that ineffective internal governance structures can raise credit risk (Saunders and Allen, 2010). Operational pressures, lax institutional controls and incentive

programs that prioritize portfolio growth over repayment performance may exacerbate these issues in Zimbabwe (Mago et al., 2013). Ledgerwood (2013) emphasizes the importance of strong internal controls, supervision, audit systems, approval hierarchies and performance monitoring systems for coordinating the employee behaviors with the aims of institutional risk management. Hence, agency theory can be applied in this study as it explains that good policies are not enough without proper execution and control, which means it can explain the effect of internal dynamics within the organization towards the effectiveness of the adopted credit risk management strategies.

2.3 Conceptual Literature Review

2.3.1 Definition of Credit Risk in MFI's

Credit risk is the risk of loss due to failure to make contractual payments by a borrower. One of the most significant factors for sustainability in financial institutions is the lending, as it involves high proportion of income generation activities (Saunders & Allen, 2010). Credit risk can be stronger in MFIs than traditional banks as clients are generally poorer, less documented, have less diversification of income sources, and are more susceptible to shocks.

The difference between the borrowers of commercial banks and many of the counterparts of MFIs is that the latter operate small businesses with minimal or no capital and informal book-keeping practices, and with extreme fluctuations in their demands. Market disruptions, price volatility, weather, family emergencies and illness can all impact their repayment capabilities. Therefore credit situation of the micro finance environment is determined by both financial and socio-economic vulnerability.

This situation is compounded by volatile macro-economic conditions, high levels of informality, exchange rate volatility, falling real incomes and weak enforcement of institutions in Zimbabwe. The need for effective risk management is thus crucial to the survival of MFIs.

2.3.2 The causes of credit risk in MFIs.

There are credit risks in MFI due to borrower and institution. Naima Lassoued (2017) stated that the absence of borrower assessment prior to the disbursement of the loan makes the loan repayment more likely. If an MFIs don't assess the client's ability to repay, business efficiency and credit score then they are at a high credit-risk level. Weak debt enforcement systems, poor legal frameworks and ineffective credit information systems are highly contributing to credit risk (Lassoued, 2017). Zafar M. The undue relationship lending can lead to credit risk, as has been pointed out by Shahriar and Mukesh Garg (2017). If a borrower is acquainted with the MFIs they might get more than one loan and become complacent about paying back thus resulting in higher default rates. According to research conducted by Loubna Assairh, Mohammed Kaicer and Mounir Jerry (2023), the main drivers of credit risk are inflation, low GDP growth and poor governance. Economic instability means that borrowers have less income, and less ability to pay it back. As shown by Mohammed Kaicer and Abdelilah Kaddar, a common cause of the problem is asymmetric information that is, when borrowers know more about their own financial situation than lenders. This may lead to the worsening of adverse selection and moral hazard, leading to more loan default. Environmental factors involve shock in agriculture and drought. In reality, Zimbabwean MFIs have credit risk as a result of the interplay between the three types of credit risk factors: environmental, economic and political.

2.4 Strategies for Handling Risks Among the MFIs.

Microfinance institutions have adopted a variety of measures to minimize the chances and consequences of failure. Here are some of the most common.

2.4.1 Credit Appraisal

Credit Appraisal is the process of determining the borrower's eligibility, capacity, character and repayment capacity prior to approving the loan. Commonly consists of, Know Your Customer (KYC) verification, Affordability analysis, Income estimation, Business viability assessment and guarantor checks. Good credit appraisal leads to mitigating adverse selection and enhancing the quality of the portfolio. In microfinance, there is frequently a need to add character-based lending to financial assessment due to a lack of formal documentation among many clients.

2.4.2 Collateral and Security Requirements.

Collateral is a security which is used in case the borrower does not get back the loaned money. But, many of microfinance clients don't have valuable fixed assets because of which MFIs are compelled to rely on other types of collaterals like Household assets, Guarantors, Salary assignments, Post-dated cheques and group guarantees. The recoverability of collateral, however, is subject to enforceability and asset quality, and collateral can increase borrower discipline and improve recovery.

2.4.3 Group Lending

Group lending is a method by which the borrowers are grouped together and each group member is responsible for the other members' loans. This model became popular in the world of microfinance, for it applies social collateral and peer monitoring (Wenner, 1995).

One of the reasons for group lending is that the members of the group know each other's business better than the lender knows, because they know each other's character, business behaviour and risk profile. This can help minimize the information asymmetry and ensure repayment by peer pressure.

2.4.4 Credit Scoring and Risk Classification

Some MFIs apply structured credit scoring systems that identify risk level of borrowers according to repayment history, income stability, loan purpose, business age, collateral strength, etc. Credit scoring is used to streamline and increase uniformity of lending decisions.

However, this can only be effective with good institutional capacity and data quality. For low-data environments like the informal sector in Zimbabwe, scoring systems might not be as accurate without being accompanied by qualitative judgment.

2.4.5 Monitoring and follow up of loans

Loan monitoring is the ongoing post disbursement follow-up on repayment performance, business performance and indicators of distress. It can consist of Repayment tracking, Phone reminders, Site visits, Loan utilization verification and arrears follow-up. Credit risk mitigation measures include monitoring which is one of the most effective measures as it enables institutions to act before the arrears become default.

2.4.6 Delinquency Management Recovery

Delinquency management encompasses all the actions taken to address delinquency and collect delinquent loans. These include SMS & Phone Reminders, Collection visits, Restructuring, Legal recovery and repossession and guarantor activation. Recovery is important and needs to occur very quickly. Waiting to intervene results in more portfolio degradation.

2.4.7 Portfolio Diversification

Spread loans over Sectors, Borrower categories, Geographic regions and product types to help minimize concentration risk. In particularly vulnerable economies, this approach is particularly pertinent, as the shocks could impact whole borrower cohorts.

2.4.8 Internal Controls and Governance

Effective internal control is very important to minimise fraud, violations of policy and bad lending practices. These controls are: Segregation of duties, Approval hierarchies, Audit trails, Branch oversight, and compliance monitoring. Even the best planning of risks will fail if there is no internal discipline.

2.4.9 Staff Training and capacity building

The credit officers are the hub of microfinance risk management. The quality of their skills, ethics, judgment and follow-up discipline plays a pivotal role in the quality of loan. Training adds to enhancement in Appraisal accuracy, Customer interaction and Fraud detection and collection effectiveness.

2.4.10 Credit Information Sharing

Credit information systems help lenders determine how much debt a borrower has, if they paid it back and if they defaulted on any loans. This mitigates multiple borrowing and serial default. In the absence of good borrower records, the quality of screening can be greatly enhanced by sharing credit information.

2.5 Empirical Literature Review

Various researches have been explored on the issue of credit risk and credit risk management in MFIs and financial institution. Empirical studies on credit risk management in microfinance institutions (MFIs) have focused on the factors that determine credit risk, methods to address credit risk, and effectiveness of credit risk management in enhancing performance of loans. These investigations have reached valuable conclusions about the credit risk management practices and their impact on credit parameters like loan default rate, non-performing loans of MFIs.

A study of the major determinants of credit risk in the Zimbabwean microfinance institutions was conducted, they identified the following major determinants of credit risk in MFIs:

Lassoued (2017) conducted a study on the determinants of credit risk in the microfinance institutions on a large sample of 634 MFIs in 78 different countries from 2005 to 2014. This study sought to determine factors affecting credit risk as gauged in terms of a Portfolio at Risk and the loan loss rates both at the institution and at the macro level. The results showed that several institutional attributes have a significant effect on credit risk: MFIs with a higher proportion of female borrowers and more diversified loan portfolios have a lower level of credit risk. Quickly growing loan portfolios and inefficient lending methods were correlated with higher risk. Failure to properly assess the borrowers before disbursement of loan puts the loan at a risk of default. The incorrect estimation of repayment ability, performance of business and credit history puts the MFIs at high credit risk. Lassoued went on to detail that the enforcement of debt and enforcement of the law are also major elements of credit risk, as are the lack of effective credit information systems. The weak loan recovery mechanisms may lead borrowers to knowingly default, especially in countries with weak enforcement. Empirical studies have also found that the credit risk in the MFIs depends on a number of factors such as borrower factors, institutional factors and macroeconomic

factors. The research also revealed external environment influences were important. Loans' repayment behavior was negatively affected by the macroeconomic variables like economic instability. The conclusion was that successful banking practices of credit risk management by the MFIs depend on a combination of lending practices and institutional environment. The study suggested increased borrower screening, portfolio diversification, better Credit Information System and to promote group lending methods for credit risk management and sustainability of the MFIs.

In the study, Blessing Katuka and Canisio Dzingirai focused on the factors that influence credit risk in banks in Zimbabwe in the multicurrency era (2009-2013). The data comprised monthly panel data of eight banks, with credit risk measured by non-performing loans (NPLs) and both static and dynamic panel regression models were employed to determine the factors influencing credit risk. The study confirmed that microeconomic (bank-specific), macroeconomic and political factors are all responsible for the increase of the Non-performing loans in Zimbabwe's financial sector. Higher interest rates and inflationary pressures have a detrimental impact on borrower's available funds and performance of the business, which can lead to higher default risk. The study revealed that there are positive relationship between high lending interests' rate and non-performing loans. Many borrowers found it hard to repay their loans as the interest rates went up, leading to more borrowers defaulting on their loans. Katuka and Dzingirai said that many banks seemed to priorities on profitability and market share expansion instead of prudent lending standards. The macroeconomic factors that were identified were unemployment, inflation and real GDP growth, economic downturns, higher unemployment rates and weak economic growth all caused increased credit risk. The study further revealed that, non-performing loans were negatively associated with the Government of National Unity (GNU) indicating that Political unrest contributed to decline in credit risk in the banking sector. The bottom line was that overall systematic factors appeared to have a larger impact than the bank specific factors on credit risk. This revealed that loan defaults occurring in Zimbabwe are more of a problem of the macroeconomic factor. The study suggested to reduce lending rates, enhance capital adequacy and periodic review of credit policies to enhance credit risk management and stability.

Despite the study undertaken by Stephen Mago, Costa Hofisi and Shamiso Mago focusing on the operational risk management (ORM) challenges, it also pointed to the need for managing the credit

risks within microfinance institutions in Zimbabwe. It was noted that poor credit risk management practices, which was a major cause of loan defaults, nonperforming loans and financial instability among the MFIs in Masvingo urban. The study highlighted the operational weaknesses, poor risk management and lack of monitoring as factors in credit risk. The authors also contended that many MFIs face weak institutional structure including internal controls, staff training, risk identification mechanism, borrower screening, credit assessment that negatively influenced borrowers repayment of loans and their risk management capacities. A vast majority of institutions did not have the necessary systems for measuring and controlling risks arising from their lending operations and were therefore more prone to portfolio deterioration and sustainability issues. At the macro-economic level also other factors like liquidity constraint, high inflation rates, volatility of exchange rates etc., increase the exposure of credit risk, as the borrower loses capacity to pay back. The researchers recommended MFIs to enhance their credit risk management by intensifying the assessment of their clients and improve loan monitoring practices, train staff in credit risk management, improve internal control policies and establish credit risk management policies. The study found that for the sustainability, profitability and long term survival of Zimbabwean MFIs, effective credit risk management is a must.

2.5.2 To find out the major credit risk management strategies adopted by MFIs in Zimbabwe.

Various practices of credit risk management have been found to be adopted by MFIs, such as borrower screening, delinquency management and recovery procedures, loan monitoring, and collateral requirements.

Moyo and Moyo (2025), Their study sought to analyze the credit risk management used by the Zimbabwean microfinance institutions (MFIs) in the wake of the COVID-19 pandemic and how well these strategies have been effective in mitigating credit risk. The study adopted a sequential explanatory research design and data were gathered from 270 questionnaires deployed to credit risk analysts, loan officers and loan managers of regulated MFIs and supported with interviews of 40 clients of the MFIs. The findings showed that the most prominent issues faced by the MFIs during the pandemic on the borrower side were reduction in income and restriction on movement due to COVID-19 lockdowns, which affected loan monitoring and debt collection by the MFIs.

Most MFI clients were self-employed and the impact of business disruption had a significant effect on increasing the credit risk and the proportion of delinquency. In order to cope with the credit risk, MFIs employed various credit management techniques such as the loan restructuring, rescheduling the loans, screening, credit appraisal system, proper credit committee supervision, enforcement of credit rules, delinquency management, follow up visits, and reminders of the borrowers via telephone. Through regression analysis, it was found that effective loan product design, client screening, credit committees, credit policies and credit risk delinquency management were found to be significant in credit risk reduction during the pandemic. These strategies had a statistically significant negative relationship with credit risk, which means that they were effective in controlling loan defaults and non-performing loans. The findings of the study indicated that good credit risk management system helped the MFIs to overcome the negative impact of Covid-19. The authors suggested that more fostering of digitalization for loans and debt management and further restructuring of loans for borrowers impacted by economic shocks are desirable.

Jachi et al (2021), The research aimed at understanding the trend of microfinance institutions (MFIs) in Zimbabwe losing their sustainability and financial viability. It highlighted the importance of credit risk in an era where the traditional instruments of credit risk mitigation, including guarantees and collateral, have been rather scarce. The researchers wanted to find out the impact of credit risk on the financial performance and economic sustainability of MFIs and evaluated the existing credit risk management practices. The data was obtained from 12 MFIs from around Zimbabwe using purposive and convenience sampling. The results indicated that information asymmetry or the credit risk as measured by the use of the Portfolio at Risk (PAR) indicator, is a major determinant of credit risk. Another finding in the study was that there is a negative relationship between credit risk and financial performance, even when credit management is practiced such as group lending, dynamic incentives and loss forecasting, which impacts on sustainability. The authors concluded that the prevailing measures are inadequate to solve the problems of credit risk comprehensively and suggested the use of credit-scoring systems in the evaluation of borrowers and design of loan products to suit the risk profile of the clients in the lending process. The study highlights the need for good credit risk management, to boost the economic sustainability and survival of Zimbabwean MFIs under difficult economic conditions.

An important finding from the study was that group lending fostered peer monitoring of borrowers, which led to better loan repayment rates. Dynamic incentives like the access to bigger loans in the future also encouraged borrowers to harvest loans timely. Use of advanced credit scoring techniques for better borrower assessment and reduction of asymmetric information problems and reduction of portfolio at risk (PAR).

Chambati, T. S. (2018), The study to look at the role of credit risk management and reducing NPLs in a microfinance institution was based on the Zimbabwe microfinance fund. The study was triggered by the alarming trend of loan defaults which endangered microfinance institutions' sustainability and profitability in Zimbabwe. This study explored how well credit risk management practices work in managing non-performing loans in Zimbabwe Microfinance Fund. Data was obtained through the use of a case study design, from credit administration employees and management. The results showed that the main credit risk management strategies used by the institution were credit appraisal, client screening and loan monitoring and debt recovery procedures. Despite this, the implementation of such measures was hampered by economic uncertainty, ineffective borrower screening and monitoring (leading to loan defaults and non-performing loans). The study findings were that good credit risk management is very important in minimizing the non-performing loan and sustainability of microfinance institutions. It recommended to strengthen the credit assessment practices, improve credit risk management practices in monitoring of the loans and increase staff trainings to boost credit risk management performance and quality of loans

2.5.3 To examine how well credit risk management strategies can help minimize loan defaults and non-performing loans.

Hushe, N.F. (2020), the objective of this study was to analyze the association between credit risk management practices and non-performing loans (NPLs) in Zimbabwean commercial banks. The authors wanted to conduct the study following the rise in banking sector loan defaults which posed a challenge to stability and profitability. The study evaluated, through data gathered from commercial banks, the major aspects of credit risk management including credit appraisal, identification of credit risk, credit risk measure and monitoring and control. The results showed that good credit risk management had a great influence on the occurrence of non-performing loans. Banks with a defined and detailed borrower evaluation process and regular loan monitoring had lower default rates than banks with inefficient credit control procedures. The study found that the

improvement of the credit risk management system improves the quality of assets and financial performance. It suggested some better credit assessment system techniques, training of staff and application of lending policies to reduce loan defaulting and NPLs.

Nyamutowa, C. & Masunda, S. (2023) The study investigated how two key credit risk management techniques namely collateral and constant loan monitoring contributed to commercial banks in Zimbabwe to limit the occurrence of non-performing loans (NPLs). The data are balanced panel data from 12 commercial banks for the period of 2016 to 2022. A fixed effects regression model was used to separate the effect of these strategies from the effect on quarterly NPLs. Researchers wanted to find out their impact on the recovery of loans, loan defaults and non-performing loans in commercial banks. The results indicated that good collateral valuation greatly contributes in improving the lending decision quality in terms of properly supporting the credit loss even if it occurs. The study concluded that collateral value has positive relationship with the rate of recovery of loans and it is a vital measure of credit risk. The study also revealed that good loan monitoring is very critical in the early detection of loan repayment difficulties. Regular checks via borrower follow-ups, review of their financial statements, site surveys and analysis of repayment patterns will allow banks to intervene before loans become non-performing. Banks having high monitoring systems reported lower default rates and quality of banks' portfolio. The study revealed that collateral valuation and loan monitoring are complementary credit risk management. Collateral secures against losses while loan monitoring diminishes the chances of default by keeping the borrowers in a position where they can fulfill their responsibilities. The synergy of the strategies may have a pivotal role in minimizing the non-performing loans and enhance the financial soundness of financial institutions. In this study, it was established that: proper valuation of the collateral results in better chances of loan recovery, regular monitoring of loans leads to early identification of repayment issues and the use of both leads to minimizes loan default and NPLs. When these are implemented well, it improves the overall credit portfolio performance.

The study by Chambati, T.S. (2020) sought to find out how effective credit risk management practices are in minimizing non-performing loans at Zimbabwe Microfinance Fund (ZMF). The study was centered on the credit risk management strategy used by the institution and the effect on the loan performance. The results revealed that client appraisal, collateral requirements, loan monitoring and debt collection procedures were important factors in managing loan defaults. The

authors noted a high rate of NPLs despite the presence of formal risk management systems. The study attributed this to the poor implementation of credit policies, poor borrower assessment and poor recovery system, suggesting that having risk management practices does not necessarily equate to good outcomes. Economic instability and borrower-related issues, however, continued to impact the ability of borrowers to repay the loans. The study found that proper implementation of credit risk management methodologies play a major role in decreasing the non-performing loans and make the microfinance institutions more sustainable. It was suggested that borrower should be monitored continuously, and risk assessment should be improved and credit management systems should be computer based.

A Case of Microfinance Industry (2021) Master's Dissertation at the University of Zimbabwe Business School. Mwanza, R.C. (2021) researched into financial services and risk management in the Zimbabwean microfinance industry. The study indicated that digital systems, digital risk registers, internal audits, reconciliations and staff training are among the systems, which have been used by MFIs in their risk management of digital financial services. The findings of the research were that technological incorporation and periodic auditing of the systems improves risk management efficiency, decreases fraud-related credit losses. The study was focused mainly on the risk of digital financial services, but the findings also apply to credit risk management: good digital risk solutions can lead to better monitoring of loans and borrower data management and transaction accuracy. These measures help mitigate information asymmetry, losses due to fraud, loan defaults and increasing non-performing loans. The study concluded that there is need for continuous evaluation of risk management frameworks and the internal control system is paramount in sustaining the quality of the portfolio and improve the quality of credit risk management. The study examined how the MFIs have adjusted their credit risk management mechanisms to respond to the greater number of delinquent loans, business shutdowns, and lower household incomes and uncertainty as a result of the pandemic. The findings indicated an implementation of a number of credit risk management strategies by MFIs, such as loan restructuring, repayment suspension, improved client monitoring, tightening credit appraisal processes, portfolio diversification and the use of digital financial services to keep clients engaged and monitor the performance of loans.

Using static panel regression and dynamic panel regression, the factors influencing non-performing loans which is a measure of credit risk were identified through a monthly panel of data of eight banks by Blessing Katuka and Canisio Dzingirai (2021). The aim of this study was study the determinants of credit risk in Zimbabwean microfinance institutions. The researchers have determined borrower income level, loan size, lending procedures, inflation, unemployment and economic instability are the key determinants of credit risk. The results showed that the institutions that had efficient credit assessment and monitoring had a lower rate of default even under bad macroeconomic times. The study concluded that good credit risk management practices can lead to a significant decrease in non-performing loans and enhancing the quality of the portfolio. The authors suggested that borrower-specific credit risk factors along with macroeconomic factors have to be incorporated into credit risk assessment models for the sake of better lending decisions.

2.5.4 To identify measures for improving the effectiveness of credit risk management in Zimbabwe's microfinance sector.

Theoretically, Stiglitz and Weiss (1981) describe how imperfect information in the credit markets results in adverse selection and moral hazard, which exacerbates the risk of credit. This is especially true in microfinance situations where borrower data can be incomplete or unreliable. In a similar vein, it has been stressed by Van Greuning et al. (1998) that structured risk governance systems are important in supporting credit risk management in financial institutions.

Mwanza (2021) studied the risks facing the uptake of a digital financial services (DFS) by Zimbabwe's microfinance institutions and the risk management strategies used to manage these risks. The study, conducted using a mixed-methods approach with MFI staff as well as digital finance practitioners and regulators revealed that digital lending platforms offer a significant benefit in the area of borrower monitoring, transparency of transactions and availability of information. The study suggested strengthening digital credit scoring systems, infrastructure for cyber security and inclusion of real-time loan monitoring systems to enhance the effectiveness of credit risk management. The findings of the study were that with strong internal controls, technology-driven risk assessment improves the quality of the loan portfolio and lowers the risk of default. This study contributes to the general belief that good risk management is important for the sustainability of a MFIs as well as good credit risk management systems are essential and the evidence of what works to mitigate risks. It also illustrates the relationship between risk management and performance of institutions, which is in accordance with the objective of the

study which is to determine if good credit risk management practice lowers the rate of loan defaults.

Moyo, G & Moyo, N (2024) explored how the MFIs in Zimbabwe have managed their credit risk during the COVID-19 pandemic. Data were collected from 270 employees working in regulated MFIs. Regression analysis was used and the strategies were found to have statistically negative relationship with credit risk which shows that the strategies are effective in controlling loan defaults and non-performing loans. The results did indicate that institutions with enhanced borrower monitoring, restructured loans, better communications with clients, and credit appraisal scores had lower incidences of delinquency than did those institutions that applied the traditional collection process. The study suggested to put in place flexible repayment structure and improve the monitoring mechanism of the portfolio and credit policies responsive to crisis. Consequently, the authors found that proactive risk management techniques are an important way to enhance loan recovery, and mitigate NPLs in times of economic uncertainty. Weakness in operational risk management and inadequacy of skilled personnel make the effectivity of credit risk management practices of Zimbabwean MFIs low. Both of these frameworks are still very pertinent in explaining the credit risk dynamics in developing economies like Zimbabwe characterized by less developed institutional systems. Implementing better client screening systems, credit committees, delinquency management, loan restructuring, digital repayments systems and adopting strict credit policies proved effective measures that the researchers found. The study advised the infusion of technology in the lending business to enhance the tracking and repayment system of loans.

Jachi et al. (2021) this study was used to determine the relationship between credit risk management and economic sustainability of Zimbabwe MFIs. Findings from 12 prominent MFIs showed that institutions with a thorough screenings process and frequent/regular loan monitoring and risk diversification had better financial performance and lower incidence of defaults. The study suggested to improve credit appraisal system, sensitise borrowers and adopt risk based pricing and other alternative collateral arrangements. The researchers ended up concluding that MFIs operating in the Zimbabwean unstable economy should come to a realization that credit risk management is vital to their sustainability.

The regular recommendations that emerge from the empirical studies are the following measures to enhance the effectiveness of credit risk management of the MFIs in Zimbabwe: strengthen

borrower screening and credit appraisal systems, implement a comprehensive system of credit scoring and real time monitoring, improve loan monitoring and follow-up mechanisms, continuous training of staff in credit risk management practices, introduce flexibility in credit, loan restructuring and delinquency management, incorporate alternative collateral and risk-based credit pricing, put in place comprehensive credit risk management frameworks and internal controls, leverage on borrower historical information and predictive analytics for credit decisions. Empirical literature suggests that although MFIs employ a range of credit risk management strategies, the extent to which these are effective depends on a variety of institutional capacity, borrower behavior and macroeconomic conditions. There is however little context-specific evidence on how effective these strategies are in reducing credit risk in Zimbabwean microfinance institutions (MFIs), especially in the face of ongoing economic uncertainties.

2.6 Research Gap

There is still a small amount of thorough empirical research that focuses particularly on the efficacy of credit risk management techniques in microfinance institutions in Zimbabwe, despite the fact that previous literature has looked at microfinance performance, operational risk, and non-performing loans. The study by Mago et al. (2013) and Chambati (2020) reveals that previous studies in Zimbabwe have primarily focused on the performance of banks and some of the challenges the banks have had including non-performing loans and less on the assessment of the effect of specific credit risk management techniques. Furthermore, other studies, such as Kadima et al. (2023) have found that effective risk management strategies positively affect portfolio performance, but in unique institutional and economic environments not directly applicable in Zimbabwe. Likewise, studies such as Moyo and Moyo (2025), highlight the ineffectiveness of risk management under external shocks without providing an in-depth assessment of the effectiveness of internal risk management strategies in these situations.

Thus, very little research is done, at the same time, on the factors influencing credit risk, the techniques to manage it and how effective these techniques are in Zimbabwean turbulent economic environment. By offering an empirical assessment of credit risk management techniques and their efficacy in reducing credit risk in Zimbabwean microfinance institutions while taking contextual economic factors into consideration, this study aims to close this gap.

2.7 Conceptual Framework

This study has been built on the assumption that the role of effective risk management strategy has a significant impact on credit risk mitigation in the Microfinance institutions. The framework describes the association among risk management strategies (independent variables), credit risk mitigation outcomes (dependent variables) and intervening variables that can impact the relationship. Independent Variables such as, Credit appraisal, Collateral/security, Group lending, Credit scoring, Loan monitoring, Delinquency management, Staff training, Internal controls, Portfolio diversification, Credit information sharing can be used in conjunction with other variables. They are considered to be key tools for the purposes of identification, measurement and control of credit risk. According to Kisaka and Simiyu (2014) borrower appraisal, frequent monitoring and good loan recovery system are important in minimizing credit default in MFIs. Lower default, Lower NPLs, improved repayment performance, better portfolio quality (Dependent Variables). Intervening variables including: Inflation, Currency instability, Informality of borrower income, Regulatory environment, Political uncertainty, Economic shocks. Paper takes it as a given that good credit management practices improve loan repayment performances, decrease NPLs and improve portfolio quality in MFIs. Lassoued (2017) argues that good credit risk management practices like group lending, borrower screening and diversification of borrowers lower the risk of default and enhance institutional sustainability. Macroeconomic instability and poor institutional frameworks have a negative impact on effectiveness of risk management practices purposed in Zimbabwean MFIs as per Mago Hofisi and Mago (2013). The conceptual frame work suggests that given the right implementation of risk management strategies, there is a positive impact on credit risk mitigation in the MFIs, which may be influenced by the marketplace (economic and regulatory) environment.

2.8 Chapter Summary

The literature in the field, theoretical, conceptual and empirical, was reviewed for this chapter. The literature reviewed presented that borrower behaviour, institutional practices and environment are prerequisites that affect credit risk in MFIs. The chapter also demonstrated that there are many risk management strategies but their effectiveness relies on the quality of implementation and contextual realities. The research methodology is presented in the next chapter.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The present chapter is organized under overall methodology of the study. It addresses aspects of research philosophy, research design, population, sampling procedures, data collection, instruments, validity and reliability, data analysis and ethical considerations. Moreover, this chapter emphasized on sample size rationales. The aim of this chapter is to provide an explanation of how the study would systematically investigate the effectiveness of risk management strategies in mitigating credit risk in microfinance institution in Zimbabwe. The selected combined methods approach to the study ensured that the qualitative data was included and considered in the study to provide a strong and complete grasp of the research problem (Creswell & Creswell, 2020).

3.1 Research Philosophy

This study adopted pragmatism research philosophy. Research philosophy is a system of beliefs and assumptions about how knowledge and reality should be developed in a study (Saunders, Lewis & Thornhill, 2019). The study desired to gain insight into the measurable outcomes as well as the real-life experience of credit risk management in microfinance institutions, making pragmatism as a research approach suitable.

Saunders (2019) refers to pragmatism that emphasizes research questions and methodology that is most appropriate for addressing the questions. The philosophy makes it possible for the researcher to use both qualitative and quantitative research methods as may be necessary in order to present a more complete account of the problem of the research. The mix of the numerical analysis of the effectiveness of the credit risk management and the descriptive analysis of the institutional practice and challenges in MFIs in Zimbabwe was possible through pragmatism in this study.

Creswell and Creswell (2018) state that pragmatism is appropriate for studies that are looking to provide practical solutions to real-world problems, where it focuses on consequences, actions, and workable outcomes, as opposed to supporting one philosophical orientation. The pragmatic

approach enabled the researcher to capture findings that would be useful for the microfinance sector in Zimbabwe since the issue of credit risk management is practical and impactful to the sustainability and performance of the microfinance institutions.

Besides, pragmatism emphasizes that reality has different realities and knowledge is gained from both objective observation and subjective experiences (Bryman, 2016). Such flexibility was crucial for the current study, where it was necessary to explore institutions' credit risk management practices as well as evaluate their effectiveness by the means of observable financial and operational outcomes. Thus, the pragmatic philosophy was a suitable approach in addressing the study objectives and answering the study research questions appropriately.

3.2 Research Design

A research design serves as a plan or blueprint for a research study to give the general guidelines on how data will be gathered (Leedy, 1995; 195). According to MacMillan and Schumacher, a research design outlines the strategy for choosing participants, sites and data gathering techniques to address the research queries. This study has adopted descriptive and explanatory case study design.

Descriptive Design

Descriptive research design is a type of research design that tries to describe accurately and systematically a population, situation, phenomenon, or area of interest without manipulating the variables (Creswell & Creswell, 2018). Saunders (2019) explains that descriptive research is focused on providing an accurate profile of the events, persons or situations as they exist naturally.

The descriptive part of the study allowed the researcher to identify and systematically describe the credit risk management strategies which the micro-finance institutions in Zimbabwe employ. It enabled an in-depth understanding of the credit risk management processes and practices already followed in the microfinance sector.

The descriptive approach also allowed analysing the ways these credit risk management practices are implemented and the common credit-related issues that were faced by the microfinance

institutions. This was deemed suitable since it enabled the understanding of how credit risk has been run in the current context of the MF industry in Zimbabwe.

Explanatory Design

Explanatory research design is a type of research that aims to determine the relationship of cause and effect between variables and how certain phenomena come about (Saunders, Lewis & Thornhill, 2019). The explanatory component was employed to make relation between the credit risk management techniques and credit risk mitigation in Zimbabwean microfinance institutions. It helped the researcher to rate the effectiveness of these strategies to reduce loan defaults, non-performing loans and also to determine the critical factors that would contribute to the success or failure of such strategies (Creswell & Creswell, 2018).

Case Study Design

The Case Study approach was used because it allows for an in-depth analysis of the microfinance industry in a specific national context, Zimbabwe. This type of design was appropriate as it enabled a comprehensive understanding of the institutional dynamics, economic factors and contextual intricacies influencing credit risk management practices. This meant it provided a comprehensive understanding of the use of risk management techniques in real life scenarios.

3.3 Research Approach

The overall approach of the study is a mixed method approach involving both qualitative and quantitative aspects. The research uses a sequential and iterative approach, with qualitative findings shaping the design of the quantitative survey instrument. This guarantees that questionnaires will elicit experiences in relation to the effectiveness of risk management strategies in reducing credit risk in MFIs.

Qualitative Approach

A qualitative research approach is a type of research that aims to understand participants' experiences, perceptions and behaviours in their natural context (Creswell & Creswell, 2018). This study employed the qualitative approach which comprised semi-structured interviews to gain an in-depth understanding of employee attitudes, operations, institutional issues and the practical aspects of credit risk management in Zimbabwean MFIs. It also allowed for the researcher to gain

detailed explanations and factors that contribute to the effectiveness of these strategies (Saunders, Lewis & Thornhill, 2019). Implemented a pilot test to improve interview questions.

Quantitative Approach

A quantitative research approach is a method of inquiry that looks at relationships between variables and tests objectivist theories through numerical data collection and analysis (Creswell & Creswell, 2018). The questionnaires were distributed in hard and soft copy. The analysis of the data and triangulation for data analysis was carried out descriptively and inferential for quantitative data in excel while for qualitative data it was done in SPSS. For the purpose of this study, the quantitative approach was adopted to analyse non-measurable aspects of credit risk namely loan default rates, loans at risk, repayment rates, non-performing loans and their effect on MFIs in Zimbabwe. The methodology was used to quantify the relationship between the credit risk management techniques and credit risk outcomes. The mixed method in the study was helpful in providing a more comprehensive and reliable analysis of the effectiveness of credit risk management strategies (Saunders, Lewis & Thornhill, 2019).

3.4 Target Population

Target population is the entire collection of individuals or elements that have the characteristics that are of interest in a specific study and from which the researcher wants to draw information from (Saunders, Lewis & Thornhill, 2019). The target population for this study were the people who were directly involved in credit administration, risk management and loan recovery in the Zimbabwean Microfinance Institutions. These were among the credit officers, loan officers, branch managers, risk managers, internal auditors, loan recovery officers, operations managers and some borrowers. This is because these respondents have first-hand knowledge on the occurrence of credit risk, how it is managed and the impact of the credit risk management strategies in real-life scenarios (Creswell & Creswell, 2018).

3.6 Sampling Technique

Sampling technique is the approach that a researcher takes in selecting a representative sample of the members in the target population to participate in the study (Saunders, Lewis & Thornhill, 2019). For the purposes of this study, participants were selected from some of Zimbabwean microfinance institutions directly involved in credit administration, risk management and loan recovery processes to elicit as much information as possible about credit risk management practices and their effectiveness following the recommendations given by Creswell & Creswell (2018).

3.6.1 Purposive Sampling

Purposive sampling is a type of non-probability sampling that selects the participants knowingly for the research based upon their relevance to the research goals, knowledge and experience (Creswell & Creswell, 2018). Key informants including branch managers, risk managers, internal auditors and top credit personnel were targeted in this study due to their expertise in and strategic understanding of credit risk management systems in Zimbabwean microfinance institutions (Saunders, Lewis & Thornhill, 2019).

3.6.2 Stratified Sampling

Stratified sampling is a probability sampling technique where the target population is broken down into specific subgroups or strata and individuals are sampled from each with a sample drawn to obtain adequate representation (Saunders, Lewis & Thornhill, 2019). Stratified sampling was done for operational staff including loan officers and credit officers to get representation from the various departments or branches of the Micro Finance Institutions in Zimbabwe (Creswell & Creswell, 2018).

3.6.3 Convenience Sampling

Convenience sampling is a non-probability sampling method whereby the researcher includes people that are easily accessible to him or her (Saunders, Lewis & Thornhill, 2019). Convenience sampling was adopted in this study, where borrowers were selected for the study based on

accessibility and willing to give and provide information of interest to credit risk management practices prevailing in Zimbabwean microfinance institutions (Creswell & Creswell, 2018).

3.6 Sample Size

Sample size is defined as the number of persons from the target population who are selected for a study and is determined by factors such as scope of the study, accessibility of the respondents and availability of resources (Saunders, Lewis & Thornhill, 2019). The sample size of the study depended on the number of the microfinance institutions that participated in the study and the ease of field access for the researcher as a way to collect sufficient data for proper analysis of credit risk management practices (Creswell & Creswell, 2018). Appropriate sample size was determined using Yamane (1967) formula with a focus of the research on 60 respondents of MFIs. Yamane makes the statistical representation manageable and feasible. The formula state; $n = N / (1 + N e^2)$

Where

N is the number of people in population

e is the margin of error (usually 0.05 with 95 percents confidence)

Therefore, given a target population of 68 the sample size would be

$$n = 68 / (1 + 68 * 0.05^2)$$

$$n = 58$$

The final sample size should be enough to produce significant results and at the same time be feasible in terms of time and resources.

3.7 Sources of Data

Data sources are places where facts figures and any relevant information could be found to answer the research questions, according to Dovetail (2023).

This study will be based on primary and secondary data.

3.8.1 Primary Data

Primary data: Data that is gathered first hand by the researcher from the original sources to address the research objectives (Saunders, Lewis & Thornhill, 2019). Given that this study requires obtaining original data on credit management in the Zimbabwean microfinance institutions, primary data was collected directly from respondents using questionnaires, interviews and observation as the methods appropriate to the study (Creswell & Creswell, 2018).

3.8.2 Secondary Data

Secondary data are data that have already been gathered, processed and published by other researchers or organisations for other purposes apart from this study (Saunders, Lewis & Thornhill, 2019). The secondary data for this study was gathered from journal articles, the annual reports of the MFIs, institutional policy documents, regulatory documents, dissertations, textbooks and sectoral reports concerning issues of credit risk management in MFIs.

The utilization of both primary and secondary data helped to give depth, validity, and reliability to the study findings, as the information was triangulated (Creswell & Creswell, 2018).

3.9 Data Collection Instruments

3.9.1 Questionnaire

Saunders, Lewis & Thornhill (2019) describe a questionnaire as a data collection instrument that is a set of written questions and a structured format in order to get information from the respondents in a systematic and standardised manner. The study employed a structured questionnaire designed to gather information from the credit officers, the branch staff and operational personnel which was based on both closed-ended and open-ended questions to capture both quantitative and qualitative information. It was aimed at collecting data on borrower screening systems, loan monitoring systems, perceived effectiveness of credit risk management practices and the major factors causing loans to default in Zimbabwean microfinance institutions (MFIs) (Creswell & Creswell, 2018).

3.9.2 Interview Guide

Semi-structured interviews are one type of qualitative data collection technique that involves a set of guiding questions, supplemented by the interviewer's flexibility to probe and ask follow-up questions to gain in-depth insights (Saunders, Lewis & Thornhill, 2019). In this study, key informants were selected to conduct semi structured interviewed for gathering information about credit risk management practice in detail like managers, risk officers, etc. It is handy as it allows the respondents to elaborate on the process of delivering credit in the institution, challenges faced in operations and context within which the effectiveness of credit risk management strategies is set in Zimbabwean microfinance institutions (Creswell & Creswell, 2018).

3.9.3 Document Analysis

Primary findings were complemented by the review of institutional documents including: Credit policies, Loan manuals, Arrears reports and institutional procedures.

3.10 Validity and Reliability

3.10.1 Validity

Validity is the degree of a research instrument's accuracy in measuring what it is designed to measure (Saunders, Lewis & Thornhill, 2019). Validity in this study has been obtained by several ways such as instruments of research in the form of a questionnaire and interview were reviewed to the supervisor, the questions in the questionnaire and interview were aligned with the statement of the problem and the pilot test was carried out before the end of the data collection.

All these measures facilitated the instruments to be more accurate, relevant, and appropriate in capturing information on credit risk management in the Zimbabwean microfinance institutions (Creswell & Creswell, 2018).

3.10.2 Reliability

Reliability is how consistent and stable the measuring instrument in the research is from one application to the next (Saunders, Lewis & Thornhill, 2019). Reliability in this study was ensured when instruments were tested in a pilot study and at the time of full data collection, by making research questions clear, structured, and unambiguous. Further, data collection methods were uniform among the respondents so as to minimise the variations in the data. If quantitative analysis

was performed, internal consistency of the measurement scales could have been evaluated through the use of Cronbach's Alpha to further ensure reliability of findings (Creswell & Creswell, 2018).

3.11 Data Collection Procedure

The data collection procedure will include the following:

Seeking the University and institutional permission.

- Informed consent of respondents.
- Incorporating questionnaires for the selected respondents.

Interviewing key informants.

Gathering and analysing secondary sources.

Organisation and coding of data for analysis.

3.12 Data Analysis Techniques

3.12.1 Quantitative Data Analysis

According to Saunders, Lewis and Thornhill (2019) quantitative data analysis involves analysing numerical data to summarise, understand and to look for patterns and relationships in the data through statistical methods. The quantitative data collected in this study were analysed using descriptive statistics to present and summarise credit risk management practices and outcomes in Zimbabwean microfinance institutions, through the use of frequencies, percentages, mean, tables and graphs. Thus, this allowed for easy analysis and comparison of the important credit risk variables (Creswell & Creswell, 2018).

If data exists, inferential analysis can be conducted to analyse relationships between risk management strategies and credit results (correlation/regression).

3.12.2 Qualitative Data Analysis

Qualitative data analysis is defined by the analysis of non-numerical data to gain insights, patterns and meanings that explain a phenomenon in the research (Saunders, Lewis & Thornhill, 2019). Thematic analysis of qualitative data collected from interviews and open-ended responses on a questionnaire was used in this study. This included systematically identifying themes, patterns,

and explanations that were pertinent to credit risk management practices and challenges in the Zimbabwean microfinance institutions to gain a deeper understanding of the research objectives (Creswell & Creswell, 2018).

Qualitative analysis, combined with quantitative analysis, gives a more powerful insight into the effectiveness of a strategy.

3.13 Ethical Considerations

Ethical considerations are essential with regard to research involving institutions and human subjects. The study would adhere to the following ethics:

Informed Consent – Participants would be informed about the purpose of the study and there would be a voluntary participation.

Confidentiality – All institutional and personal information would be kept confidential.

Confidentiality – No one would know that the person who made the responses was an anonymous user.

Academic Integrity – All sources would be cited and referenced appropriately.

Non-Maleficence – The study would prevent any harm or reputational damage done to the respondents or the institutions.

3.14 Chapter Summary

This chapter outlined the methodology which may be used to guide the study. It provided the rationale for the use of a mixed-methods case study design and how data would be collected, analysed and interpreted. The result and discussion of the research according with research goals is presented in the next chapter..

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents, analyses and discusses the findings of the study in relation to the four research objectives to analyse the key drivers of credit risk in Zimbabwean microfinance institutions; to identify the major credit risk management strategies employed; to assess the effectiveness of these strategies in reducing loan defaults and non-performing loans and to identify measures for improving credit risk management effectiveness. Data were gathered through a structured questionnaire distributed to employees of microfinance institutions in Zimbabwe. A total of fifty-eight (58) usable responses were obtained and analysed using descriptive statistics, specifically means and percentage frequencies, supported by qualitative insights drawn from open-ended responses. The results are presented thematically, organized around the major constructs of the study.

4.1 Data Presentation Process

Following the collection of completed and returned questionnaires and completion of all suggested interviews the researcher reviewed and evaluated the answers provided by different respondents to draw conclusions.

Table 4.1 Response Rate Status

Questionnaire distributed	Questionnaire returned	Percentage response rate
68	58	85%
Expected interviews	Actual interviews	
10	10	100%

Table source: Primary Data 2026

As can be deduced from table 4.1 above, 85% of the respondents completed the questionnaire and 68 questionnaires were sent out and 58 returned as usable responses. According to Jackson (2011),

when a survey is conducted using a questionnaire a response rate of 70% or more is considered excellent. The high response rate allowed for true representation of the target demographic. Ten interviews were done successfully on several day with persons from the microfinance sector resulting in a 100% favourable interview response rate. Jackson (2011) states that if the interviews were conducted in-person, a response rate of 80% to 85% is considered good. As a result the 100% achieved indicates a good response rate, supporting the validity and reliability of the study

4.1.2 Demographic Profile of Respondents

The demographic characteristics of respondents provide useful context for interpreting the findings of the study. Understanding the composition of the sample in terms of gender, age, professional position, years of experience, and the type of institution in which they operate enables a more informed assessment of the data. Table 4.2 below presents the distribution of respondents across these key demographic variables.

Table 4.2: Demographic Profile of Respondents

Variable	Category	Frequency	%
Gender	Male	40	68.96
	Female	18	31.03
Age	Below 25	21	36.20
	25-34	28	48.27
	35-44	6	10.34
	45+	3	5.17
Position	Loans Officer	17	29.31

	Credit Officer	10	17.24
	Collection Officer	10	17.24
	Risk Officer/Manager	18	31.03
	Other	3	5.17
Experience	0-2 Years	10	17.24
	3-5 Years	48	82.75
Institution Type	Credit-only MFI	42	72.41
	Deposit-taking MFI	16	27.58

Source: Primary data (2026)

As shown in Table 4.2, the majority of respondents were male (68.96%), while female respondents constituted 31.03% of the sample. The age distribution reveals that most respondents (48.27) fell within the 25 to 34 age bracket, followed by those below 25 years (36.20). The 35 to 44 age category was represented by 10.34% of respondents, with a 5.17% proportion in the 45 and above category. This age profile suggests a predominantly youthful workforce in the microfinance institutions surveyed, which may reflect the sector's reliance on relatively junior staff for operational lending roles.

Regarding position, respondents occupied a range of roles including Loans Officers (29.31%), Risk Officers/Managers (31.03%), Credit Officers (17.24%), Collection Officers (17.24%) and a combination of other roles (5.17%). The representation of multiple professional categories is important because it allows the study to capture perspectives from across the credit management value chain from origination to recovery. Risk and credit officers provide institutional policy-level insights, while loans and collection officers offer frontline operational experience.

In terms of experience, all respondents reported between zero and five years of experience in microfinance, with the majority (82.75%) having between three and five years. This indicates moderate institutional experience among the sampled personnel. The vast majority of respondents (72.41%) were employed in credit-only microfinance institutions, with only one respondent (27.48%) working in a deposit-taking MFI. This composition aligns with the structure of Zimbabwe's microfinance sector, which is dominated by credit-only institutions targeting small business borrowers.

4.2.3 Credit Risk Mitigation Strategies

Finding out the credit risk management strategies that are employed and level of agreement to their use in the mitigation of credit risk. The response rate is displayed in the table below.

Table 4.3

Types of mitigation strategies	Strongly disagree	disagree	agree	Strongly agree	Total %
Credit appraisal		10%	25%	65%	100%
Loan monitoring and review			65%	35%	100%
Collateral and enforcement			10%	90%	100%
Provisioning and write off	10%	5%	40%	45%	100%
Use of technology			25%	75%	100%
Governance and credit policies			35%	65%	100%
Staff training		20%	40%	40%	100%

Table source: Primary Data (2026)

The survey findings showed that collateral and enforcement was the main type of mitigation by 90% of respondents, while 75% cited their support of the use of technology. 65% percent acknowledge that loan monitoring and review along with governance and credit policies work in

mitigating credit risk .45% strongly agreed that provisioning and write off worked in mitigating credit risk. 40% strongly agreed with staff training as a measure to combat credit risk.

4.3 Credit Appraisal Practices

Credit appraisal constitutes the first and arguably most critical line of defence against credit risk in microfinance institutions. The effectiveness of the appraisal process directly determines whether risky borrowers enter the loan portfolio. Respondents were asked to rate five statements related to credit appraisal practices on a five-point Likert scale, where 1 = Strongly Disagree and 5 = Strongly Agree. Table 4.3 presents the mean scores and interpretations for each statement.

Table 4.3: Descriptive Statistics for Credit Appraisal Practices

Statement	Mean	Interpretation
We apply a formal credit appraisal process for all loan applicants.	3.36	Agree
Client income and employment information is adequately verified before loan approval.	3.17	Neutral
Credit referencing is consistently conducted for all clients.	3.56	Agree
Loan approval decisions follow a clear credit policy and documented procedures.	3.33	Neutral
The credit appraisal process effectively screens out high-risk clients.	3.22	Neutral

Source: Primary data (2026). Scale: 1 = Strongly Disagree, 5 = Strongly Agree. Overall section mean = 3.32

A moderate to good level of agreement (3.32) was reported for the overall mean score on credit appraisal practices, suggesting that formal credit appraisal systems are established and applied in the sampled institutions. The mean score for applying a formal credit referencing, with a score of 3.56 (Agree), was consistently observed for all clients process recorded meaning that most of the institutions employ a structured procedure in considering loan applications. Likewise, the average score for use of a clear credit policy and documented procedures for approving loans is 3.33, indicating the reasonable implementation of formal credit governance procedures.

Interestingly, though, the mean responses for credit appraisal (3.36) and screening out high risk clients (3.22) are lower. These indicate that there are procedures, but that the consistent application of this and the ultimate effectiveness of the practice in filtering out high risk borrowers are issues. This is similar to Chambati (2020), who noted that although formal credit appraisal systems were in place in the Zimbabwean MFIs, the practice is not always being followed. A large vulnerability in institutional risk management is the gap between the procedures that exist and those that are effectively implemented.

These quantitative results were complemented by qualitative responses. Some respondents cited the applicants' use of fraudulent documents as the biggest issue in the appraiser context. Eight respondents identified fake company documents and falsified income records as some borrowers' means of getting loans they would not otherwise qualify for. Ten of the respondents also pointed at the issue of 'multi-borrowing' (some customers take credit from several loan providers at the same time) as a compounding problem, in the absence of extensive real time credit referencing. This is consistent with Jachi et al. (2020) which indicated that one of the factors that explain credit risk Zimbabwean MFIs are asymmetric information and poor credit scoring systems. Furthermore, the limitations on conducting thorough checks on borrowers, especially with the predominance of informal economic activity are still undermining the effectiveness of credit appraisal as a risk management tool.

4.4 Loan Monitoring Practices

An effective loan monitoring process after disbursement will help to detect early signs of repayment problems and minimise the risk of joint escalation of repayment problems. Four statements focussed on monitoring practices were rated by respondents. Table 4.4 shows the descriptive statistics.

Table 4.4: Descriptive Statistics for Loan Monitoring Practices

Statement	Mean	Interpretation
Loan accounts are reviewed regularly to identify early warning signs of default.	3.33	Neutral
Field visits are conducted to follow up on clients where necessary.	3.33	Neutral
Monitoring practices effectively reduce the likelihood of loan default.	3.11	Neutral
The institution has adequate resources for loan monitoring.	3.33	Neutral

Source: Primary data (2026). Overall section mean = 3.28

Overall, the mean of loan monitoring practices was 3.28, indicating moderate agreement that loan monitoring systems exist. Highest rated was regular review to highlight early signs of borrower defaults (mean = 3.33), implying that most institutions conduct some level of portfolio review. The physical monitoring of the client was not carried out in a systematic or universal manner, as it was indicated in the field visits, with a moderate score (mean = 3.33).

The significantly lower mean obtained for the statement "The institution has sufficient resources for loan monitoring" (mean = 3.33) is very significant. Limited staffing, technology and transport seem to be limiting factors in the depth and frequency of monitoring activities. This finding

correlates with Mago, Hofisi and Mago (2013) who found that many MFIs in Zimbabwe do not have the institutional capacity to have a full blown risk monitoring system.

The quantitative responses were substantiated with qualitative responses. Fourteen Risk officers communicated that the best risk management technique is to have good credit appraisal work and continuously monitor and believe that it is crucial to remain up-to-date with the changes in client's business type/s. Other respondents suggested that continuous monitoring of the portfolios should be considered an improvement priority. These findings indicate that the practitioners realize the need for monitoring, and yet it has not been widely implemented due to operational and resource constraints. Similarly Mago et al. (2013) found that lack of monitoring is one of the major factors that led to credit risk increase in Zimbabwean microfinance institutions.

4.5 Collateral and Security Practices.

Collateral is a tool both to continue the incentives against strategic default and to recover if the borrower defaults. Table 4.5 gives the mean scores for the four statements on collateral related practices.

Table 4.5: Descriptive Statistics for Collateral and Security Practices

Statement	Mean	Interpretation
Collateral requirements are clearly communicated to clients.	3.22	Neutral
The institution effectively verifies the value and ownership of collateral.	3.22	Neutral
Collateral security enhances the institution's ability to recover loans.	3.11	Neutral
The enforcement of collateral is efficient when clients default.	3.22	Neutral

Source: Primary data (2026). Overall section mean = 3.19

This resulted in an overall mean score of 3.19 for collateral practices, with each item scored between a moderate and high level of agreement. The highest rating (3.22) was for the communication of collateral requirements to clients, indicating that borrowers are usually notified about the security requirements before granting a loan. Similarly, collateral security that helps in improving the loan recovery ability had relatively higher mean (mean = 3.11), which indicates that the practitioners had some confidence in the collateral as recovery method.

When contrasted with efficient enforcement of collateral in default situations, the lowest mean (mean = 3.22) was recorded, indicating that the challenges to the process of efficient enforcement of collateral are legal and operational. This discovery reinforces the general course of study literature concerning the weak legal enforcement mechanism as a bound on collateral based risk management in developing economies (Lassoued, 2017). Collateral verification and ownership value were moderately rated (mean = 3.22) and thus there is doubt about the effectiveness of collateral as a risk mitigation tool if there is incomplete information regarding ownership.

These findings point to a structural tension in the provision of collaterals in MFIs in Zimbabwe; although the collateral requirements are communicated and well understood to increase recovery ability, their practical implementation is constrained by legal and operational issues. This confirms the results by Chambati (2020) who concluded that poor enforcement systems put a huge restriction on how effective collateral can be used as a credit risk management tool in Zimbabwe.

4.6 The provisioning for loan losses and write-off policies.

Provisioning for loans losses becomes a very important financial risk management exercise as it helps to reduce the impact of non-performing loans on financial institutions. Results of provisioning and write-off practices are shown in Table 4.6.

Table 4.6: Descriptive Statistics for Loan Loss Provisioning Practices

Statement	Mean	Interpretation
The institution maintains adequate provisions for loan losses.	3.00	Neutral
The provisioning policy is consistently applied across all loan products.	3.33	Neutral
Write-off procedures are clear and strictly followed.	3.44	Neutral
Adequate provisioning contributes to reduced credit risk exposure.	3.22	Neutral

Source: Primary data (2026). Overall section mean = 3.25

The possible range of the mean for provisioning/write-off practice was 0 to 4, with an overall mean of 3.25. The highest mean (mean = 3.22) was the statement that the adequate provisioning leads to reducing credit risk exposure which shows that the respondents understood the concept of the provisioning as a risk management tool. Provisioning policy was applied uniformly across all loan products, which also was given a relatively high ranking (mean = 3.33).

The higher mean for clarity and strict adherence to the write-off procedure (mean = 3.44) however is worthwhile. This indicates that although the provision is some way present, the formalisation and disciplined application of a write off policy is not as consistent. The variation could signal the heterogeneity that has been revealed by the fact that institutional maturity and governance of institutions vary across institutions in Zimbabwe's microfinance sector. According to Magora et al (2020), the rising loan default and non-performing loans impacted MFIs' revenue and liquidity in Zimbabwe which partly may be due to poor provisioning and loss recognition policies.

4.7 Technology Integration in Lending and Borrowing

The use of digital solutions in credit risk management is an increasingly important aspect of institutional capacity, especially in the context of delivering more accurate appraisals and more real-time monitoring. The results concerning the use of technology are shown in Table 4.7

Table 4.7: Descriptive Statistics for Technology Integration

Statement	Mean	Interpretation
Our institution uses digital systems for credit appraisal and scoring.	3.67	Agree
Technology improves the accuracy of client risk profiling.	3.44	Neutral
Early warning signals of default are generated through digital platforms.	3.33	Neutral
Technology enhances monitoring of loan repayments.	3.78	Agree

Source: Primary data (2026). Overall section mean = 3.56

The overall mean for technology integration was 3.56 with the majority of respondents feeling moderately to quite agreeable with the use of digital systems in credit management. Technology makes it easier to monitor loan repayments' received highest mean (mean = 3.78) which could refer to the mobile banking and electronic monitoring that are now utilized to monitor loan repayments. The statement regarding utilization of digital systems for credit appraisal and scoring was also relatively high with mean = 3.67.

Importantly, item regarding the provision of early warning indicators of default via digital means was scored lower (mean = 3.33), implying that current predictive digital risk tools are not well developed in most of the banks sampled. This is aligned with findings from Mwanza (2021) that

Zimbabwean MFIs are moving towards adopting digital systems, but integration of technologies in risk identification is shallow.

Multiple open-ended responses showed high interest in providing access to technology. Among the recommendations are AI-powered underwriting, automated credit scoring, introducing robotics and implementing improved digital portfolio monitoring solutions. 30 respondents specifically cited that they wanted more automation of underwriting processes using AI and more regular monitoring of their portfolios. Some suggested that AI should be used in risk assessment. These suggestions illustrate a known disconnect between the state of the practice today and the use of technology practitioners believe is required and attainable for effective credit risk management. Mwanza (2021) also found that the incorporation of technologies have a significant effect on enhancing risk management efficiency and credit losses due to fraud.

4.8 Governance, Training and Institutional Capacity

Effective credit risk management is backed by sound governance structures, competent personnel and continuous staff training. Eight statements on governance and human capital of the surveyed institutions are analyzed in this section. The results are given in table 4-8.

Table 4.8: Descriptive Statistics for Governance and Institutional Capacity

Statement	Mean	Interpretation
The institution has a strong governance structure for credit oversight.	3.33	Neutral
Credit policies are reviewed regularly to respond to market risk.	3.67	Agree
Credit committees effectively evaluate and approve loans.	3.44	Neutral
There is separation of duties between appraisal, approval and monitoring.	3.33	Neutral

Credit staff receive adequate training on credit risk management.	3.00	Neutral
Staff competence significantly influences loan performance.	3.67	Agree
Training programs are conducted regularly for lending staff.	3.67	Agree
The institution has qualified personnel dedicated to credit risk management.	3.22	Neutral

Source: Primary data (2026). Overall section mean = 3.42

Overall, governance and institutional capacity had the highest section mean of 3.42, indicating a relatively high level of agreement that governance and human resource practices are in place. Staff competence had a very high mean (mean = 3.67), which indicates that almost all the respondents agreed that human resource is one of the key elements in determining the outcome of loan performance in credit risk management.

Similarly, credit committees effectively assessing and approving loans (mean = 3.44) and the presence of good institutional governance in credit assessment (mean = 3.33) also had a comparatively high mean, indicating reasonably functional institutional governance framework in the sampled institutions. However, separation of duties (mean = 3.33) one of the critical internal control mechanisms, registered one of the lower means indicating that this internal control mechanism is not consistently being reinforced in all the institutions.

Qualitative responses confirmed the need for staff capacity and development. Respondents suggested stringent borrower screening and regular staff training because well-trained credit staff are more likely to effectively identify high-risk borrowers and to work with those who are delinquent. Experienced personnel really make the difference with continued monitoring and the flexibility to adjust to changing client situations, said one risk officer. This is in line with the findings of Mago et al. (2013) that those MFIs that had attained an effective operational risk

management system, and trained and competent staff, were more likely to be able to recognize early warning signs of loan default and maintain institutional performance.

4.9 Current Credit Risk Levels and Perceptions

In this section the respondents' views on the credit risk environment in their institutions, current level of exposure, default trends observed in the institutions and whether the credit risk management strategies currently in place is adequate, were discussed. The results are shown in Table 4.9.

Table 4.9: Descriptive Statistics for Perceived Credit Risk Levels

Statement	Mean	Interpretation
The current level of credit risk in this institution is high.	2.22	Disagree
Loan defaults have increased over the past 12 months.	2.44	Disagree
Our institution is exposed to high-risk borrowers.	2.67	Neutral
More robust risk management strategies are needed to reduce credit risk.	3.25	Neutral

Source: Primary data (2026). Overall section mean = 2.63

The overall mean scores on perceived credit risk levels were 2.63. One of the higher means (mean = 3.25) was found for the item asking participants about the need for stronger risk management strategies to mitigate credit risk, suggestive that there is general practitioner consensus that current institutional practices are not sufficient in the context of the risk environment. Awareness of the inherent risk profile of borrowers of this MFI was also reflected by the notable mean (mean = 2.67) for the statement "The institution is exposed to high-risk borrowers".

In contrast, there was more disagreement about a rise in loan defaults over the last year (mean = 2.44) and whether the level of risk is high (mean = 2.22). This variation might suggest a difference

in the performance of the MFIs, in terms of MFIs' geographic location and client segmentation, which were sampled.

Qualitative responses gave strong context explanations of these perceptions. The most frequently cited Credit Risk Management challenges were the volatility of the macroeconomic climate (inflation, economic instability), multi-borrowing by the clients (due to fragmented Credit Information Systems) and the presentation of fake documents by clients to the lenders. Some of the respondents encapsulated the problem of multi-borrowing by noting that some institutions do not do credit checks and the loan takers are able to take out loans in several institutions without the knowledge of the lending institutions. Other respondents pointed to the lack of information and repurposability of borrower information as the largest problem that their institution faced. The issues are systemic and go back to issues of institutional and economic realities that were found by Katuka and Dzingirai (n.d.) and Mago et al., (2013) to be challenges that influence non-performing loans in Zimbabwean financial sector.

4.10 Qualitative Results – What Works and What to Improve.

In addition to the Likert-scale answers, open-ended questions were asked to allow the respondents to provide insight on what they have found to be the best approaches to risk management in their experience and what changes they would suggest. These responses added a great depth to the quantitative results and helped identify practitioner level insights that would be beyond the scope of the constructs used in the survey instrument.

The most popular identified strategies involved stringent credit appraisal and regular monitoring, screening of clients to prevent attracting high-risk borrowers, blacklisting portals and credit referencing systems and risk-based prioritisation that prioritized the risks that could most affect business operations. A number of respondents agreed that the avoidance, reduction, transference and acceptance approach would provide a holistic risk management approach, as there are risks that cannot be avoided and the need to have contingency plans for those risks that are accepted. Diversification with a proper Know Your Customer (KYC) process was also emphasized as an effective way to deal with information asymmetry.

When it came to areas for improvement, there were some recurring issues that were pointed out by some of the respondents: implementation of Artificial Intelligence and automated credit scoring systems in underwriting, regular monitoring of the portfolio through digital platforms, better collaboration with credit bureaus and referencing agencies, Continuous Training for Staff and Developing Awareness of New Risk Areas and Best Practices, Implementing Data-driven credit scoring systems to minimize subjectivity in credit decision-making. Some respondents advised investments in digital risk tools, which is vital to handle credit risk at scale especially in the context of increasing lending to micro, small and medium enterprises (MSMEs) and informal sector borrowers. Another one required diligence and a passionate adoption of identified strategies, reflecting the situation of many institutions, where strategy design and execution remains a gap.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 Summary of Key findings

The analysis in this chapter provides some key findings on the state of credit risk management in Zimbabwe's MFIs. Credit appraisal systems are generally in place but are not uniformly applied and are susceptible to fraudulent documentation. Loan monitoring takes place; however, the resources and technology are limiting. Recognition of the value of collateral, but poor enforcement mechanisms. There is evidence that provisioning practices have been based on an understanding of the need for loss coverage, but this provisioning is not consistent or disciplined enough to be

effective in risk mitigation. Technology is increasingly being recognised as a key enabler but is poorly developed in terms of predictive risk analytics and early warning systems. Governance and staff competence are the best areas but role separation and continuity of training need to be developed further. There is a generally high perception of credit risk levels and practitioners broadly feel that more powerful actions are needed to match the changing credit risk environment.

5.1 Introduction

This chapter summarizes study results and presents the chapter's conclusions that discuss each of the four research objectives. It then offers concrete recommendations to enhance credit risk management in MFIs in Zimbabwe based on the evidence. At the end of the chapter, the chapter's contribution to knowledge is talked, acknowledged limitations and suggestions for future studies are also provided. The chapter ends with a discussion on the overall importance of the study with regard to the Zimbabwean microfinance sector.

5.1.1 Conclusions

Credit Risk in MFIs in Zimbabwe.

The first aim of this study was to examine the major determinants of the credit risk faced by the MFIs in Zimbabwe. The results support the hypothesis that credit risk in this context is the result of borrower-specific, institutional and macroeconomic factors as predicted by the theory of information asymmetry (Stiglitz and Weiss, 1981) and portfolio theory (Markowitz, 1952).

The biggest impediments at the borrower level were found to be the provision of dishonest documents, the fact that borrowers take out loans from multiple institutions that is not known to them and the income volatility of informal borrowers. These factors directly lead to the rise of the pre-contractual adverse selection problem that the riskier borrower tends to apply and secures credit. A significant weakness in borrower risk assessment is the lack of reliability of many institutions to verify financial information of their clients, especially in the informal economy.

Inconsistencies in the institutional level application of credit appraisal procedures, insufficient monitoring resources, weak collateral enforcement and lack of real time credit information sharing add materially to credit risk. The results indicate that although a majority of institutions have formal credit policies, there is still a very wide gap between the design and operating of the policy, which poses a major weakness. This is consistent with the notion of an institutional risk that could

build up within formally compliant institutional settings due to misaligned incentives and lack of oversight structures as outlined in agency theory (Jensen and Meckling, 1976).

Persistent inflation, exchange rate instability and economic volatility at macroeconomic levels reduces the borrowers' repayment capacity and synonymously increases the impact of the borrowers' default risk at individual level. The study's results align with the results of Katuka and Dzingirai (n.d.) and Mago, Hofisi and Mago (2013) who found that Zimbabwe's macroeconomic environment is a major determinant of NPLs. The study thus recommends that if credit risk management is to provide effective outcomes in Zimbabwean MFIs it must tackle the challenges of the micro-level borrower assessment and the meso-level institutional governance challenges and the macro-level economic exposures all at the same time.

5.1.2 Credit Risk Management

The second goal was to determine the key strategies used by microfinance institutions in the management of credit risk in Zimbabwe. The results illustrate that institutions sampled have a set of strategies ranging from credit appraisal and loan monitoring, engaging in collateral requirement, provisioning up to governance controls and in increasing measures Digital Technology.

The most basic approach and having formal procedures and documented credit policies is credit appraisal. Loan monitoring is also done, but limited due to the poor resources and is done through periodic visits and review of the loan accounts. Household assets, guarantors and post-dated cheques are the most important means of communicating and acting as a mechanism for recovery. Provisioning for loan losses takes place at varying levels by institutions, and governance structures (e.g., credit committees and chain of command in approvals process) are in place and generally functioning.

The research also indicates that technology adoption is a new strategic aspect as digital systems are starting to be used in repayment tracking and client profiling. But the implementation of advanced analytics, artificial intelligence and real time early warning systems is still limited. The respondents further affirmed the non-formal risk classification and risk based prioritisation, but not all respondents confirmed that these practices are formalised as a structured scoring system. In summary, the research finds that the strategies which have been taken range are from a theoretical

perspective valid and are fairly widely in line with international best practice, but quality and consistency of implementation are the main issues.

5.1.3 Effectiveness of Credit Risk Management Strategies

The third objective was to examine the effectiveness of credit risk management strategies in mitigating loan default and non-performing loans. The results offer a rather complex picture with institutions indicating a general view that they do have risk management plans and that these are considered important to have, but practitioners also widely agree that risk management strategies should be more robust, suggesting a problem between desired and actual outcomes.

Human capital and institutional oversight are fundamental factors to the success of the strategy, and governance structures and staff competence were the highest rated areas. This finding confirms the agency theory argument that institutions with good governance and effective incentives and monitoring of their personnel are in a more favourable position to follow credit risk strategies. On the other hand, the comparatively low scores for the credit referencing consistency, collateral enforcement, write-offs discipline and technology-based early warning systems suggests that several important strategies are not very impactful in practice.

Respondents also indicated a high level of perceived credit risk and exposure of their institutions to high-risk borrowers, indicating that collective credit risk reduction strategies have not proved adequate to reduce credit risk to an acceptable level. This aligns with the studies by Chambati (2020) and Moyo and Moyo (2022) finding that having formal risk management systems in place in Zimbabwean MFIs does not necessarily lead to good credit risk outcomes in the context of macro-economic instability and capacity limitations.

But the results offer cause for guarded optimism. Respondents pointed to clear credit appraisal and strict monitoring as the best individual practices and the positive arithmetic means on governance dimension items indicate that there is foundation for governance improvement at the institutional level. The challenge is getting these fundamentals to work in the real world.

5.1.4 Measures to Improve the Effectiveness of Credit Risk Management.

The fourth objective was to propose measures that can be taken to enhance the effectiveness of credit risk management in Zimbabwean micro finance sector. The results of the quantitative scores and qualitative open-ended responses provide a uniform set of suggested opportunities for improvement.

The most popular improvement area is the use of technology. Respondents advocated for AI underwriting, automated credit scoring, transparency of digital portfolios and better credit bureau collaboration. These recommendations are reflective of a more general understanding that the use of data-driven technology-based solutions can markedly diminish information-asymmetry that is at the core of the credit risk faced by the sector. This finding corroborates and expands upon Mwanza (2021) who also established that technological incorporation enhances risk management efficiency in the microfinance sector in Zimbabwe.

A key theme was also the continuous training of staff, a testament to the importance of human capital as a factor in lending outcomes. Participants in this study recognise that maintaining and updating competencies in credit risk management is an active process that needs to be undertaken in the face of change in borrower behaviour, regulatory developments and market conditions. This resonates with previous studies conducted by Mago et al., (2013) and Kadima et al., (2023) which revealed staff competence to be an important factor in determining portfolio quality in MFIs.

Credit information sharing was highlighted as a key priority for strengthening, with the expectation that it would improve by involving more credit bureaus and credit referencing portals. In order to address the pervasive issue of multi-borrowing, arising from the fragmented credit information system, it is essential to have inter-institutional data sharing and comprehensive borrower databases be built. This call matches the recommendations by Jachi et al. (2020) and Reserve Bank of Zimbabwe (2020) for improved credit information system in the sector.

Respondents pointed out that it is important to take identified strategies and make them operational. Multiple said that the lack of enforcement mechanisms and resources to implement a credit risk policy escalated the credit risk. It is therefore essential that any improvement programme includes fixing this implementation gap for instance by way of improved internal controls, regular policy review and performance monitoring systems, in line with the level of institutional risk appetite.

5.2 Recommendations

The recommendations below are aimed at microfinance institutions in Zimbabwe and regulators and policy makers in the sector based on the conclusions that can be drawn from the findings of the study.

5.2.1 Microfinance Institutions' Recommendations

First, the microfinance institution should invest in digital credit appraisal and scoring. Using automated credit scoring systems, backed by data from credit bureaus and digital borrower profiles, would greatly mitigate the subjectivity and variability that has been seen in the appraisal industry. Even basic, AI-assisted underwriting tools can help to overcome the adverse selection problem that compromises the quality of the portfolio.

Systematic monitoring of loans should be implemented in institutions and provided by resources. Monitoring needs to be scheduled as part of the normal way of working and have specific timelines with responsibilities and technology to ensure it is tracked. Enabling early warning dashboards and repayment alert systems on the current online platforms would help to intervene in a more timely manner and minimize the escalation from delinquency to default.

There is a need to enhance collateral verification and enforcement capacity at Institutions. This includes enhancing due diligence practices during the collateral registration process, ensuring that the ownership and worth of the asset are reliably identified and establishing more straightforward legal instructions for enforcing the transaction in default. Legal partnerships, as well as special recovery units within the financial institution can help with this, as it will allow them to recover more efficiently.

Fourth, all institutions are required to formalise their write-off and provisioning policy, to apply it uniformly on all loan types, and to review it at least on an annual basis for audit. Loss recognition and provisioning inconsistency can be very misleading when it comes to a portfolio quality report, and it can also have a negative impact on the timing of portfolio management decisions to correct poor-performing loans.

Fifth, credit institutions should act on a continuous investment in staff training and the improvement of their competences. Training programmes for credit officers should include credit risk analysis, fraud detection, borrower behaviour assessment and delinquency management in view of the critical role that credit officers play in credit decision making – which is directly linked to credit outcomes. Training should be carried out periodically and there should be a continuous update to match the pattern of the risks in the market.

Sixth, institutionalized contacts with credit information sharing platform and borrower database should be strengthened. Pre-approval credit referencing, with real time checking against bureau databases for existing debt exposure and repayment history would be a major factor in reducing the risk from multi-borrowing and increase the reliability of credit decisions.

5.3.2 Recommendations for Regulators and Policymakers

Regulatory institutions, in particular the Reserve Bank of Zimbabwe, responsible for the regulation of the microfinance sector should think about bolstering the regulatory framework for credit information sharing. Implementing the mandatory requirement for all licensed MFIs to be members of the Credit Registry, along with ensuring timely submission of data will help ensure the information on borrowers is comprehensive and reliable. This systemic intervention would leave one of the most important structural risk factors in the credit business sector in the past.

It is also important for regulators to think about drawing up some minimum standards for credit appraisal and monitoring in the microfinance sector. Such risk-proportionate supervisory requirements as minimum Liquidity Coverage Ratio and Provision Coverage Ratio for credit-only MFIs will result in greater incentives for good risk management. More frequent checking of the provisioning practices and NPL ratio in the sector would add to the transparency and accountability.

Lastly, policy makers should encourage the establishment of inexpensive technology infrastructure which can be used by the smaller MFIs who do not have sufficient fund to invest in digital risk management system individually. These may be achieved through collaborative platforms for technologies sharing and a low unit cost of credit scoring and portfolio monitoring for smaller banks, or public-private partnerships or grant financing.

5.4 Contribution to Knowledge

This study contributes to the existing knowledge on credit risk management in microfinance institutions in several ways. It is an integrated application in theory of: information asymmetry theory, adverse selection theory, moral hazard theory, portfolio theory and agency theory to the context of Zimbabwean microfinance. This study places these theoretical models into an environment of an interlocking economic sphere in a high informality and volatility context, and therefore widens their scope of explanation beyond the usual developed economy context.

Empirically, the study offers primary data informed findings on the state of credit risk management practices in Zimbabwean MFIs, where there is limited context-specific research. The findings are also complementary and builds on the existing work done by Mago et al., (2013), Chambati (2020), Moyo and Moyo (2022) and Jachi et al., (2021) as it provides a cross-sectional and multi-construct view of the practice and effectiveness from the perspective of the frontline credit management staff.

From a practical standpoint, the research offers an evidence-based guideline to practitioners, regulators and investors to assess and enhance their credit risk management systems. Institutional strategy development in a sector where there is a growing pressure for the quality of the portfolio while maintaining the financial inclusion agenda has been guided by the identification of technology integration and credit information sharing as priority areas for improvement.

5.5 Limitations of the study

Although this study is important in understanding credit risk management in Zimbabwean microfinance institutions, it needs to be interpreted in the light of certain limitations. The sample size of fifty eight respondents, on the one hand, provided rich qualitative findings, but for the other hand, limits the statistical significance of the quantitative findings and generalizability of the findings to the wider Zimbabwean microfinance sector. A bigger, more geographically diverse sample would add to conclusions' robustness and generalizability.

Secondly, the study is based on perceptions, which are self-reported, and there is a possibility of social desirability bias (i.e., people may report practices more favourably than they are in reality). The triangulation would be the most objective way to gauge the effectiveness of the strategies through other institutional reports including non-performing loan ratios, arrears reports, and audit reports.

Thirdly, the results may not be fully up to date with time due to the dynamic macro-economic environment Zimbabwe is facing. Risk factors and circumstances during the data reporting period such as inflation rates, income trends of borrowers, and regulatory changes could change and make some conclusions less relevant.

Fourth, the study only captures the experiences of credit-only and deposit-taking MFIs, the majority of which are credit-only, and so the experiences of other types of financial service providers serving similar client populations (e.g. SACCOs or village savings groups) are not captured in the findings.

5.6 Suggestions for Future Research

The constraints outlined above suggest a number of fruitful directions for future research. Future studies should use bigger and multi-segment samples taken in several geographical locations and institutional types, to validate the findings statistically and to make them generalise to the Zimbabwean microfinance sector. A longitudinal study design that would assess changes over time in the patterns of credit risk management as well as their consequences would also be valuable in assessing the effectiveness of specific interventions and how specific macroeconomic developments affect the quality of the portfolio.

The qualitative enthusiasm about the use of AI for underwriting and digital monitoring found in this study could be usefully explored in future research to gain deeper insights into the specific impact of the adoption of digital technology on credit risk outcomes in Zimbabwean MFIs. Comparative study high technology integration vs low technology integration would give an empirical base on technology investment decisions. A comparative study on credit risk management practices in Sub-Saharan African MFIs would help contextual benchmarking of

Zimbabwean MFIs and identification of transferable best practices from MFIs in the region with better results.

Finally, a study based exclusively on borrower level determinants of borrower default, but on primary data collected from MFI borrowers not from the MFIs themselves, would fill in the institutional perspective taken in this study and provide fuller understanding of the nature of the credit risk phenomena in Zimbabwe's microfinance sector.

5.7 Chapter Summary

This chapter has brought together the findings of the study that are of empirical nature and thus presented evidence-based conclusions, which would answer all four research objectives of the study. The paper's summary is that Credit Risk among the Microfinance Institutions of Zimbabwe is caused by the confluence of borrowers' information problems, MFIs' implementation weaknesses and macroeconomic fluctuations. A variety of risk management approaches are used, but their efficacy is seriously hampered by lack of resources, enforcement mechanisms and credit information infrastructure, and technology integration. The study proposes potential enhancements in the appraisal, monitoring systems, credit information sharing, staff training and provisioning discipline and complementary regulatory strengthening. All these improvements in combination would greatly increase the ability of Zimbabwean MFIs to effectively handle credit risk and continue to serve as channels of financial inclusion and economic growth.

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APPENDIX 1



Bindura University of Science Education

Faculty of Commerce, Department of Intelligence and Security studies

P. Bag 1020

Bindura, Zimbabwe

Dear Sir/Madam

RE: Request for assistance in data gathering.

My name is Providence Laneal Garufu, an undergraduate student at Bindura University of Science Education pursuing a Degree in financial intelligence. I am required to carry out a research project in partial fulfillment of the requirements for the degree. As such I am carrying a research entitled "the Effectiveness of risk management strategies in mitigating credit risk. A case of microfinance institutions in Zimbabwe." I kindly ask for your assistance by filling in the questionnaire.

Your participation in this study is voluntary, you can decide to withdraw participation at any moment without any prejudice. Please be advised that no financial reward will accrue to you for your participation in the study. The responses you provide will be treated with utmost confidentiality and will be used solely for academic purposes. Your cooperation will be greatly appreciated.

Yours Sincerely

Providence L Garufu

APPENDIX 2

QUESTIONNAIRE

General instructions

1. Answer by putting a tick in the box where options are provided or give details where necessary.
2. Please kindly complete the questionnaire in full and on your own honestly.
3. There are no right or wrong answers.
4. This questionnaire is anonymous and strictly for academic research.
5. For section B-I circle your response.

Scale for Sections B–I:

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender:

☐ Male ☐ Female ☐ Prefer not to say

2. Age Group:

☐ Below 25 ☐ 25–34 ☐ 35–44 ☐ 45–54 ☐ 55 and above

3. Position/Job Title:

☐ Credit Officer ☐ Loans Officer ☐ Collections Officer ☐ Branch Manager ☐ Risk Officer/Manager ☐ Other: _____

4. Years of Experience in Microfinance:

☐ 0–2 years ☐ 3–5 years ☐ 6–10 years ☐ More than 10 years

5. Type of Institution:

☐ Credit-only MFI ☐ Deposit-taking MFI

6. Years Your Institution Has Been Operating:

☐ Less than 5 years ☐ 5–10 years ☐ 11–15 years ☐ More than 15 years

SECTION B: CREDIT APPRAISAL QUALITY

Statement	Scale (1–5)
We apply a formal credit appraisal process for all loan applicants.	1 2 3 4 5
Client income and employment information is adequately verified before loan approval.	1 2 3 4 5
Credit referencing (CRB checks) is consistently conducted for all clients.	1 2 3 4 5
Loan approval decisions follow a clear credit policy and documented procedures.	1 2 3 4 5
The credit appraisal process effectively screens out high-risk clients.	1 2 3 4 5

SECTION C: LOAN MONITORING AND REVIEW

Statement	Scale (1–5)
Loan accounts are reviewed regularly to identify early warning signs of default.	1 2 3 4 5
Field visits are conducted to follow up on clients where necessary.	1 2 3 4 5
Monitoring practices effectively reduce the likelihood of loan default.	1 2 3 4 5
The institution has adequate resources for loan monitoring.	1 2 3 4 5
There are clear procedures for handling clients with repayment difficulties.	1 2 3 4 5

SECTION D: COLLATERAL & ENFORCEMENT

Statement	Scale (1–5)
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Collateral requirements are clearly communicated to clients.	1	2	3	4	5
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The institution effectively verifies the value and ownership of collateral.	1	2	3	4	5
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Collateral security enhances the institution's ability to recover loans.	1	2	3	4	5
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The enforcement of collateral is efficient when clients default.	1	2	3	4	5
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SECTION E: PROVISIONING & WRITE-OFF POLICY

Statement	Scale (1-5)				
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The institution maintains adequate provisions for loan losses.	1	2	3	4	5
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The provisioning policy is consistently applied across all loan products.	1	2	3	4	5
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Write-off procedures are clear and strictly followed.	1	2	3	4	5
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Adequate provisioning contributes to reduced credit risk exposure.	1	2	3	4	5
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SECTION F: USE OF TECHNOLOGY IN CREDIT RISK MANAGEMENT

Statement	Scale (1-5)				
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Our institution uses digital systems for credit appraisal and scoring.	1	2	3	4	5
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Technology improves the accuracy of client risk profiling.	1	2	3	4	5
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Early warning signals of default are generated through digital platforms.	1	2	3	4	5
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Technology enhances monitoring of loan repayments.	1	2	3	4	5
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SECTION G: GOVERNANCE & CREDIT POLICY EFFECTIVENESS

Statement	Scale (1-5)
The institution has a strong governance structure for credit oversight.	1 2 3 4 5
Credit policies are reviewed regularly to respond to market risk.	1 2 3 4 5
Credit committees effectively evaluate and approve loans.	1 2 3 4 5
There is separation of duties between appraisal, approval and monitoring.	1 2 3 4 5

SECTION H: STAFF COMPETENCE & TRAINING

Statement	Scale (1-5)
Credit staff receive adequate training on credit risk management.	1 2 3 4 5
Staff competence significantly influences loan performance.	1 2 3 4 5
Training programs are conducted regularly for lending staff.	1 2 3 4 5
The institution has qualified personnel dedicated to credit risk management.	1 2 3 4 5

SECTION I: PERCEIVED CREDIT RISK

Statement	Scale (1-5)
The current level of credit risk in this institution is high.	1 2 3 4 5
Loan defaults have increased over the past 12 months.	1 2 3 4 5
Our institution is exposed to high-risk borrowers.	1 2 3 4 5
More robust risk management strategies are needed to reduce credit risk.	1 2 3 4 5

SECTION J: OPEN-ENDED QUESTIONS

1. What is the biggest challenge your institution faces in managing credit risk?

2. Which risk management strategies do you consider most effective, and why?

3. What improvements would you recommend to enhance credit risk mitigation?

4. Any other comments on credit risk management in your institution?

APPENDIX 3

INTERVIEW GUIDE

1. What is credit risk management?
2. What are the main causes of credit risk?
3. What measures should be put in place to alleviate credit risk?
4. Which credit risk management strategies do you consider most effective and why?
5. What are the improvements would you recommend to enhance credit risk mitigation?
6. Any other comments on credit risk management in your institution?