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COMMERCIAL BANKS VENTURING INTO MICROFINANCE OPERATIONS: A CASE OF ZB BANK LIMITED

BY

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Abstract

The main objective of the study was to identify and explore on the reasons behind ZB Bank's venturing into Microfinancing and to establish the challenges being faced by ZB Bank in venturing into microfinancing business. The study adopted a descriptive case study design which used both qualitative and quantitative methods of data analysis. The target population for this study was 109 respondents which comprised of ZB Bank employees and customers. The sample size consisted of 86 respondents who were drawn from the target population through purposive sampling. The study used both primary and secondary data where the primary data was collected using questionnaires and interviews while the secondary data was obtained from newspapers, journals, magazines, internet and management reports. A correlation and regression analysis was performed to test the impact of the microfinance operations and revenue. The study found out that ZB Bank ventured into microfinance business because of the growing competition in the banking markets, because of its large capital base, because of the need to diversify loan portfolios, because of the need to make use of underutilised capacity and the need to tap into the informal sector to increase its revenue base and also because of the microfinance's business' compatibility with bank operations. In Zimbabwe, given that the economy has gone largely informal ZB Bank moved to microfinance business to be able to tap into that market as it is difficult for the informal sector business to access credit from banks because of collateral requirements which can be tailor made to suit them by microfinance activities. The study also found out that that a significant positive relationship exists between microfinance activities and the overall revenue of ZB bank. Interest on loans, fees charged on administration of customers' accounts, commission charged on third party products and micro insurance activities had a significant impact on the revenue of ZB Bank and were found to increase the total revenue for the bank. The study also found out that the most prevalent challenges in the bank venturing into microfinance business include factors such as high risk of micro finance business, vulnerability to economic shocks, competition with other MFIS, inability to exploit growth opportunities, lack of management know how and technical skills and high default rate. The study recommended that ZB bank should tailor make the loans to suit the informal sector upon downscaling to microfinance business. The study also recommended that commercial banks venturing into microfinance need to understand knowledge of microfinance best practices and how to serve micro-clients, develop infrastructure located conveniently for clients and put in place systems and procedures adapted to the microfinance operations to improve the collection efficiency and reduce default rate.

Key Words: Commercial Banks, Microfinance Institutions, Revenue

Declaration

I declare that this dissertation is my original work except where sources have been cited and acknowledged. The work has never been submitted, nor will it ever be submitted to another university for the award of a degree.

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Dedication

This Executive Master's in Business Administration is dedicated to my wife Silindiwe, my two sons Tanaka and Kupa and my mother who has inspired me whilst I was still at tender age. I would not be the person I am had it not been for these people. Lastly, I thank the Almighty for his unmerited favour for taking me this far.

List of acronyms and abbreviations

MFI	Micro Finance Institution
ZIMSTAT	Zimbabwe Statistical Agency
RBZ	Reserve Bank of Zimbabwe
MDG	Millennium Developmental Goals
ROSCAS	Rotating Savings And Credit Associations
NGOs	Non-Governmental Organisations
SFI	Specialised Financial Institution
CBZ	Commercial Bank of Zimbabwe
LGF	Loan Guarantee Fund
MCAZ	Medicines Authority of Zimbabwe

Definition of key terms

Commercial Bank: is a financial institution which performs the functions of accepting deposits from the public and giving loans for investment with the aim of earning profit (Bounoala et al., 2014).

Microfinance- RBZ (2015) defined microfinance as the provision of a wide range financial services to include small loans, short-term savings, money transfer services and insurance to SMEs and the groups of people marginalised and unable to have access to the same services from mainstream banking institutions

Downscaling-This refers to the process in which a bank or other formal financial institution expands its services to work with clients traditionally served by microfinance institutions.

Revenue is the income generated from normal business operations, usually from the sale of goods and services to customers. Revenue is also referred to as sales or turnover and may come from interest, royalties, or other fees.

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CHAPTER 1 INTRODUCTION

1.1 Introduction

The study presents an analysis on the reasons for banks venturing into Microfinancing in the case of ZB Bank establish the relationships or links between micro financing activities and revenue increase. The study has been motivated by the increase in the number of commercial banks who have ventured into Microfinance business and thus aims to identify the reasons behind such diversification and the challenges being faced by banks which have led to them venturing into Microfinance business. To this end, this chapter provides the background to the study, the problem statement, the study's objectives and research questions, the significance or rationale of the study, the study's delimitations as well as the limitations of the study.

1.2 Background to the Study

Zimbabwe's economy like any other developing country's economy is highly characterized by the informal sector. The contributions that the sector brings to the overall economy has been viewed to be generally significant thus the need for setting up effective and efficient support channels (Mago, 2013). Recent studies have shown that commercial banks have been venturing into microfinance realm, offering small loans that compete with the loans of microfinance institutions (Harris, 2015). Many restrictions, among them interest rate ceilings and high reserve requirements have largely prohibited banks from servicing a higher cost and riskier microfinance clientele (Harris, 2015). The group is considering setting up a microfinance operation for better interaction with the micro, small and medium enterprises sector as well as boost interest incomes (Mutandagayi, 2018).

The sustainability and even profitability of many MFI's have caught the attention of many large, commercial banks. Banks that are seeing the benefits of operating in microfinance are making adjustments to achieve success in this industry. An increasing number of large, commercial banks have implemented microfinance products, services, and procedures such as high, cost-covering interest rates, flexible short-term loans, frequent repayment schedules, minimal to no collateral, and quick disbursement practices (Harris, 2015).

The microfinance industry in Zimbabwe constitutes microfinance organizations, which are small (as compared to commercial banks) but registered lending institutions. Microfinance is a business undertaking that evolved and expanded from the narrow field of narrow micro credit (Helms, Elahi & Rahman, 2006). Micro credit involves just giving small loans to the poor while microfinance is a detailed concept that covers a wide range of financial solutions to the poor (Mago, 2013). The microfinance institutions are registered with the Reserve Bank of Zimbabwe, which is at the apex of the banking system in Zimbabwe. Zimbabwe is home to a population of 13.2 million, of which 70% of the population live in the rural areas which are mostly affected by poverty (Zimbabwe Statistical Agency 2012). The sector provides financial solutions mostly to poor people who are excluded from formal banking system due to lack of collateral security (Bashir *et al*., 2012). The microfinance sector is viewed as an essential sector in Zimbabwe in economic growth and development through building inclusive financial systems (Reserve Bank of Zimbabwe, 2014). Efforts by larger financial institutions, especially banks, to tap into the informal sector were largely futile due to the loss of public confidence in the financial system from the onset of rapid economic deterioration, after 2013 when a significant percentage of formal companies struggled to continue operating, giving rise to a rapid growth of the informal sector (Munyanyi, 2017). However, for microfinance institutions, being more flexible than commercial banks, have managed to tap into the informal sector better than commercial banks during the period of the rapid growth in the informal sector especially after 2013 (Zvareva, 2015). Munyanyi (2017) noted that the closure of businesses especially due to liquidity challenges after 2013 has led to a very high unemployment rate in Zimbabwe, leaving financial institutions in the country competing for a shrinking formal market, with the most attractive market segment being the civil service.

Microfinance institutions have been the first to identify the vast unserved demand for microcredit in developing countries, developing methodologies for delivering and recovering small loans, and begin credit programs for the poor. Bounoua and Rihane (2014) provides that the spectacular success of Microfinance industry has seen a growing number of commercial banks entering this new market, motivated on the one hand by the growing competition in the banking sector.

In another study, Delfiner and Peron (2007) mentions that the demand for microfinance services has rarely been met by the formal financial sector and this may be due to several reasons which include failure to perceive the households demand for financial services, belief that microfinance cannot be profitable for banking institutions, existence of public legal and regulatory policies that ignore microfinance services, high operating costs, lack of specific experience in the provision of microfinance services and lack of adequate platforms for the provision of microloans.

However, it has been proven that this demand can be met profitably and on a large scale and many commercial banks have already identified the business opportunities of Microfinance. Commercial banks have now ventured into microfinance in many countries, where microfinance is at different stages of development. However, in most developing countries, the formal financial sector still does not serve microfinance clients on a massive scale.

A research carried by Harper and Mandivenga (2002) provided that it is desirable and indeed essential that commercial banks should be involved in microfinance business. If they are not, any impact that microfinance can have on global poverty becomes negligible, for it is the privately owned commercial banks which dominate the financial markets in most countries. There are many reasons why privately owned commercial banks are put off entering the microfinance market, despite its apparent potential profitability, and why those banks that have taken the plunge have in many cases faced problems. Commercial banks are answerable to their shareholders, who live and die by the bottom line and demand maximum returns. Most do not feel that microfinances do not guarantee them this. Standards and regulatory requirements with which commercial banks have to comply, particularly regarding unsecured lending, and interest rates, are inappropriate for microfinance operations. The organizational structures, procedures, products and methodologies of commercial banks are not suited for microfinance, and changing them can be difficult, time consuming and expensive. There are significant cultural barriers to be overcome, staff and managers of commercial banks often still perceive the poor as unbankable, and the ways of working required to reach out to them as unbecoming for professional business people like themselves (Baydas, *et al*, 2007).

Nonetheless commercial banks also have a number of competitive advantages as compared to other players in microfinance. They have the necessary management expertise, systems and physical infrastructure in place, are able to accept deposits and have access to other sources of funds such as equity capital (Rhyne *et al*., 1999). The experiences of those relatively few private owned commercial banks that have successfully moved into microfinance show that with a high level of commitment, the right advice, and appropriate policies, it is possible to become successful.

1.3 Statement of the Problem

Zimbabwe's economy is now highly informal with statistics showing that more than 90% of Zimbabweans are informally employed (ILO, 2018). The informal sector was said to account for over $7 billion a decade ago, and its growth may mean it may now account for much more (Mhlanga, 2018). This growing informal sector is not banked and this tremendous growth of the informal sector has not been supported by formal banks despite the huge revenue the informal sector command in the economy of Zimbabwe. Because the economy has gone largely informal with a shrink in the formal market, ZB bank has seen a tremendous decline of its annual revenue streams with its income from banking activities falling significantly in 2016 and 2017 (RBZ, 2018). This has proved to be a wakeup call for the bank to explore the Micro finance industry which was previously an unfamiliar territory. This has therefore brought the need to conduct a study in order to examine how best ZB Bank, a commercial bank, can tap into this unbanked sector of the informal sector through the microfinance business. No study has been carried out in to examine ZB Bank's reasons for venturing into Microfinance and the impact of such initiatives on its revenue. Evolving from this backdrop, this study seeks to understand and establish the main reasons behind the bank's venturing into microfinance business as well as providing strategies and recommendations for ZB Bank and other commercial banks venturing into microfinance business.

1.4 Research Objectives

The primary aim of the study is to investigate on the reasons behind commercial banks' venturing into microfinance business taking a case of ZB Bank. The objectives of the study were to:

1.4.2 Identify and establish the reasons behind ZB Bank's venturing into Microfinancing.

1.4.3 Determine the impact of ZB Banks' venturing into Microfinance business on its revenue.

1.4.4 Establish the challenges being faced by ZB Bank in venturing into microfinancing business.

1.4.5 Proffer strategies and recommendations that ZB Bank and other commercial banks can implore to thrive in the Micro financing business.

1.5 Research Questions

The study is beckoned by the following questions:

1.5.1 What are the major reasons behind ZB Bank's venturing into Microfinancing business?

1.5.2 What is the impact of ZB Bank's venturing into microfinance business on its revenue?

1.5.3 Which challenges are being faced by ZB Bank in venturing into microfinancing business?

1.5.4 What strategies and recommendations can ZB Bank and other commercial banks implore to thrive in the Micro financing business?

1.6 Research Hypothesis

The hypothesis of the study is stated as follows:

(H0) There is a significant positive relationship between microfinance activities and revenue of ZB Bank.

(H1) There is no significant positive relationship between microfinance activities and revenue of ZB Bank.

1.7 Significance of the Study

The findings of this research can be used by ZB Bank Limited, Zimbabwean Commercial Banks, the Central Bank and other financial institutions in exploring the main aspects and future outlook in connection with commercial banks provision of Microfinance services. This study provides a review on the incentives and disincentives for financial institutions venturing into Microfinance business. The study is also important in filling the gaps in knowledge and contributes to previous empirical research on this particular subject. The research is also important in ironing out the risks associated with the informal sector which is believed to be the beneficiaries of Microfinance services. The research also comes up with recommendations to Zimbabwean Commercial Banks venturing into Microfinance services on best strategies to service the informal sector and (also grow revenue) boost interest incomes.

1.8 Delimitations of the study

The study is focused mainly on ZB Bank but also takes a consideration of other commercial banks in explaining the relationship between microfinance banks and commercial banks. The study is conducted at ZB Bank head office in Harare, which is the hub of main decision making and due to time and financial constraints the researcher focuses on a selected sample of respondents comprising of bankers and customers of ZB Bank.

1.9 Limitations of the study

The major limitations the researcher faced was reluctance by interviewees to provide information. Due to organisational policies, the company was withholding their information because of privacy concerns. The researcher however acquired permission to conduct the study from ZB Bank. Some respondents could not divulge all information due to fear of losing employment at the company. To avoid this, the researcher, however assured respondents of confidentiality of responses and that no participant would be followed up by anyone after the study.

1.10 Organization of the study

Chapter one of the study provides the introduction, background to the study, study objectives, research questions, research hypothesis, significance of the study, scope of the study and limitations of the study. Chapter two reviews the related literature and provides a theoretical, empirical review and provides a conceptual framework. Chapter three provides the methodology of the study including the adopted research design, study population, sampling method adopted, research instruments, validity and reliability as well as ethical issues. Chapter four provides an interpretation and presentation of the study's findings while chapter five provides the summary of the findings, conclusion and recommendation of the study.

CHAPTER 2 REVIEW OF RELATED LITERATURE

2.1 Introduction

This chapter provides a review of literature related and relevant to the study. The chapter presents the theoretical literature review, the conceptual framework and the empirical literature and provides an exploration of various concepts in line with the study objectives and research questions.

2.2 Theoretical framework

2.2.1 Commercial Bank

A commercial bank is a profit-seeking business firm, dealing in money and credit. It is a financial institution dealing in money in the sense that it accepts deposits of money from the public to keep them in its custody for safety. So also, it deals in credit, i.e., it creates credit by making advances out of the funds received as deposits to needy people (Bounoala & Rihane, 2014).

Moreover, commercial banks can also be explained as those financial institutions which accepts deposits and give our loans for those willing to make investments. As a function, the deposits are accepted from the general public. Another function is also to finance commerce and trade with loans that are short term. In terms of interest, commercial banks usually charge interest from the borrowers at a higher rate but pay to their depositors much less rate of interest. Thus they make profit from the resultant difference between the interest rates paid to depositors and the interest rate they charge to depositors.

There are seven main functions of a commercial bank which are accepting deposits, giving loans, over drafts, discounting of bills of exchange, investment funds, agency functions and miscellaneous functions. Deposits are accepted by commercial banks different sections of the society and this acceptance is usually based on certain financial conditions.

2.2.2 Microfinance Services

Microfinance has been noted for gaining the limelight at the global level as a viable institution for fighting against poverty and its existence is nothing new (Zeller, 2001; Cohen, 2003). According to Ledgerwood (2015), the scope of microfinance services spans from credit to savings and in recent times has incorporated insurance as well as payment services. Schreiner & Colombet (2017) opened that the focus of microfinance is to enhance the access of financial services to groups of people that mainstream banking marginalises and it was their argument that such marginalised groups include the poor and low income self-employed individuals and SMEs. In a nutshell, MFIs whose thrust is to offer microfinance services along the lines of provision of credit, insurance and savings services to the poor and low income groups domiciled in both rural and urban environments.

According to Prakash et al. (2017), a microfinance is a small-scale financial services for both credits and deposits that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas. Abor (2016) mentions that microfinance as the provision of a broad range of financial services such as deposits, loans, money transfers and insurance to small enterprise and households.

Delfiner and Peron (2007) mentions that the microfinances provides banking services to lower income people, especially the poor. These services include small loans for microenterprises and individuals, savings, money transfer services, means of payment and insurance (Banerjee *et al.*, 2009). Given their nature, micro entrepreneurs tend to operate on the margins of the formal economy, often without permits and commercial documentation and usually lacking fixed assets that could serve as collateral.

RBZ (2015) defined microfinance as the provision of a wide range financial services to include small loans, short-term savings, money transfer services and insurance to SMEs and the groups of people marginalised and unable to have access to the same services from mainstream banking institutions.

Similarly, Ghikas (2018) availed that microfinance entails the servicing of small businesses, start-ups and micro-entrepreneurs who lack access to mainstream banking for the same services and this lack of access is attributable to the high transaction costs as well as the manner of demands that the mainstream providers of financial services make to their client categories.

It was further argued by Tembo (2016) that the focus of modern MFIs is not essentially the poor and marginalised, but rather low income individuals that are either self-employed or formally employed. In line with this argument, the World Bank (2016) defined microfinance as referring to the provision of small loans to self-employed and low income client categories which is often buttressed by the collection of micro-savings. To this end, this study considers the definition by the World Bank (2016) as the most succinct definition that fully paints the scope of microfinancing as covering not only the poor, but also low income individuals that are not essentially marginalised from the mainstream banking services.

Associations- RESCAs, non-governmental organizations (NGOs), relatives and friends, and private money-lenders

2.2.3 The concept of microfinance

Microfinancing as a concept rose to prominence in the 1980s and this is not to say that it only became known in that period, rather it has been in existence for much longer prior the 1980s in such countries as Brazil and Bangladesh alongside few others (The Microfinance Gateway, 2018). The recent past has seen a growth in the interest attached to microfinancing over the world and it has synonymously became known as an effective tool to the addressing of poverty in the developing counties of the world (Carlton *et al*., 2017). The genesis of microcredit was in Europe in the late 19th century which saw the establishment of Raiffaisen in Germany and also the French mutual agricultural credit in France and the African case of protective sackings that became established in the 1980s. After the establishment of the Grameen Bank in 1976 in Bangladesh by Mohammed Yunus, the bank became the first to have shifted its focus from individual credit to group lending so as to accommodate small businesses as well as low income individuals. The bank has grown significantly in terms of clients and currently, it houses an excess of 2.4 million clients within and outside Bangladesh.

As submitted by Ahmed (2018) Africa stands a better chance of actualizing its goals of reducing the levels of poverty and attaining to its MDGs should it pay much attention to the integration and transformation of the microfinance industry. It is at the back of this that Ahmed (2018) proposed that there was an ardent need for

African nations to embrace microfinance and place it at the fore of economic transformation through availing funding to the small businesses and marginalised groups considered high-risk clients by commercial banking institutions.

Globally according to a report by Microfinance Barometer in 2018, it is estimated that nearly 140 million borrowers worldwide are receiving funding from microfinance institution. The global microfinance market is reported to be achieving a 9 % annual growth rate, which is significantly higher compared to other industries such as mining and agriculture. The breadth of outreach which refers to the number of people served by the credit only microfinance institutions indicates a total of 197 343 clients as at 31 December 2019.

According to a performance report as at 31 December 2019 by the Zimbabwe Association of Microfinance Institutions (ZAMFI) the downside risk weighing heavily against a significant increase in more people being served by microfinance sector are high inflation and unstable exchange currently prevailing in the country. These twin challenges have created an environment of uncertainty among individuals and companies leading to low capital investment across all sectors of the economy including microfinance. The current policy efforts by the monetary authorities to reduced volatility and wild swings in the exchange rate and inflation are at best expected to bear fruit in the next 12-18 months.

The microfinance business is increasingly becoming a lender of last resort to a lot of citizens in Zimbabwe. The realization of structural barriers to providing savings and credit service to the poor has motivated the emergence of microcredit programs. Structural barriers facing teachers and the poor people include information asymmetries, lack of collateral, high transaction costs, high risk and systematic market bias.

The latest statistics revealed by RBZ shows that as at 31 December 2018 there was a total 205 microfinance institutions' comprising of 199 credit only microfinance institutions and six (6) deposit-taking microfinance institutions. This establishes high competition in the industry as some of these are owned by highly capitalized financial institutions and banks.

Presented below in Figure 2.1 is an overview in diagrammatic form of microfinance

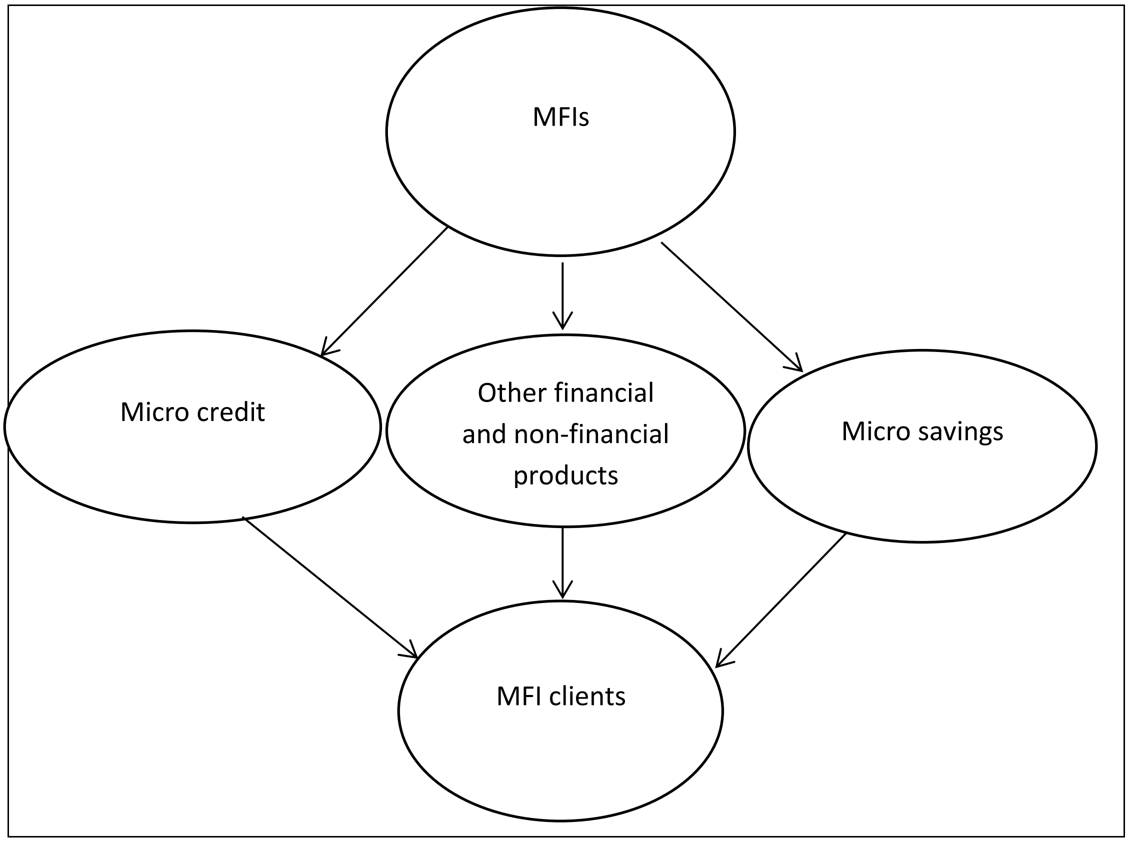


Figure 2.1: Diagrammatic overview of Microfinance (Muluga, 2016, p. 6)

As shown in Figure 2.1, the components of microfinance comprise of micro-savings, micro-credit as well as other financial and non-financial services. The focus of this group of services is on the low income and poor marginalised group of consumers of financial services that have been excluded from the mainstream financial services offered by commercial banking institutions.

2.2.4 Microfinance Institution Products and Services

Brau *et al*. (2004) posits that microfinances institutions provide similar products and services to their customers as formal sector financial institutions. The scale and method of delivery differ, but the fundamental services of savings, loans, and insurance are the same (Addai, 2017). Notwithstanding, to date most efforts to formalize microfinance have focused on enterprise lending (loans for enterprise formation and development) which remain by far today the dominant product offered by microfinance institutions (Njau, 2011).

This, however, has slowly begun to change. Increasingly today microfinance institutions have begun to offer additional products, such as savings, consumption or emergency loans, insurance, and business education. Nourse (2001) reviews the context and rise of microfinance products and argues there is a need for savings and insurance services for the poor and not just credit products (Ntiamoah, 2014). He goes on to argue that microfinance institutions need to provide tailored lending services for the poor instead of rigid loan products (Ntiamoah, 2014). Nourse (2001) develops a model of small construction management contractors and microfinance institutions in developing countries that provides a tailored lending structure for microenterprise contractors (Owusu *et al*., 2015). Similarly, Woller *et al*. (2002) argue that microfinance institutions need to be more client-focused, including offering a mix of financial products tailored to the varied needs and wants of poor consumers.

Microcredit is most often extended without traditional collateral. If physical collateral were a requirement for borrowing, most microfinance institutions clientele would be unable to participate due to their extreme poverty level (Brau *et al*., 2004). Because borrowers do not have physical capital, microfinance institutions focus on using social collateral, via group lending. Group lending encompasses a variety of methodologies, but all are based on the principal of joint liability (Protas, 2015). In essence, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Vaish, 2013).

Under joint liability each group member is made responsible for the loans of other group members (Kalra, 2015). If one member defaults, the other group members are required to cover the loan from their own resources, and if they do not, they lose access to future loans (Kalra, 2015). It is thus in each member's interest to ensure that the other members pay (Brau *et al*., 2004). Social collateral also works through reputational effects on group members in which repayment of loans is seen by group members as necessary to maintain their social standing in the community (Woolcock, 2001). Goldmark (2001) suggests methods that may help build social collateral, thereby making loans even more secure (Kalra, 2015).

Van Tassel (1999) constructs a model and one-period game to determine the optimal group lending contract under asymmetric information (Kalra, 2015). He concludes that agents will always form groups with agents of the same type and that agents' types can be distinguished according to the rate at which they are willing to trade increased joint liability commitments for lower interest rates. Ghatak (1999) concludes that group lending not only increases repayment rates and welfare via social collateral, but also due to peer selection by members of the lending group

(Kalra, 2015). Islam (2008) concludes that lenders using peer-monitoring systems can charge lower rates relative to conventional lenders and that at the same interest rate, the expected rate of repayment is higher with lower risk when using peer monitoring. Within the lending function of microfinance, it is useful to divide loans into enterprise loans and Consumption/emergency loans (Brau *et al.*, 2004).

As mentioned above, the loan programs typical of microfinance institutions almost entirely consist of enterprise loans. Nonetheless, significant unfulfilled market demand also exists for consumption and emergency loans (Gyabea, 2015). The demand for consumption/emergency loans is evident in developing countries by the thriving business of the local moneylenders.

Although stereotyped as a loan shark preying on the desperation of the poor by charging exorbitant interest rates and employing unsavoury collection methods, the traditional moneylender provides a valuable service for poor people who require quick and flexible infusions of cash to meet immediate and pressing consumption needs or to cope with emergencies (Wulandari, 2016). Like savings, consumption/emergency loans form an integral component of poor households' risk management and coping strategies (Brau *et al.*, 2004).

Those in the microfinance industry who assumed that formal microfinance institutions would drive the traditional money lenders out of business have been shocked to learn that the demand for moneylenders has remained robust, even among clients of microfinance programs. A good illustration is the case described by Perry (2002), in which women moneylenders in Senegal used loans from a local microfinance institution to finance their own money lending businesses. It turns out that just as the terms of the loans offered by moneylenders (rapid loan approval, flexible terms, repayment periods measured in days or weeks, and lump-sum payments at exorbitant interest rates) makes them generally ill-suited as a source of enterprise financing, the terms of enterprise loans offered by microfinance institutions (slow turnaround, inflexible terms, repayment periods measured in months or a year, and regular small payments at relatively low interest rates) are generally ill-suited for emergency/consumption purposes (Brau *et al.*, 2004).

Along with the lending function, a market for savings exists in poor areas around the world. Savings services offered by microfinance institutions can be divided into forced and voluntary savings, with forced savings far exceeding voluntary savings. In a forced savings program, microfinance participants are required to save a minimum amount each week (or other set period of time) (Brau *et al.*, 2004).

Forced savings ostensibly teaches financial discipline and provides the microfinances with additional information about clients. In practice, forced savings serve primarily as a form of cash collateral. Rules regulating when and how clients may withdraw forced savings are typically highly restrictive. The second form of savings is voluntary, flexible savings (Nourse, 2001) as also cited in Montgomery (2006). Millions from all strata of poor do not operate enterprises, but they do save, albeit often in very small amounts and at inconsistent intervals (Beverly *et al.*, 2003). Savings are integral to poor households' risk management strategies; they constitute the first line of defence to help poor households cope with the external shocks, emergencies, and life-cycle events to which they are so vulnerable; and they play a crucial role in allowing the poor to take advantage of productive investment opportunities (Grosh *et al.*, 2006).

A final issue meriting mention is provision of equity in lieu of credit for enterprise formation and start-up capital. Pretes & Seibel (2002) discuss several cases of this practice in East Africa. They refer to this service as providing enterprise equity; however, in finance vernacular, this service would most likely be considered a grant. They argue that those who invest (donate) the equity in such cases receive their returns intrinsically, as they do not receive a financial ownership position in the start-up firm (microenterprise) (Brau *et al*., 2004).

2.2.5 Models of microfinance

Tembo, (2014) postulates that financial service provision through MFIs assumes two main models which are individual lending and also group lending. Further to the above, Grameen bank (2016) identified other models of microfinance and these are; village banking models, the Grameen bank model, Rotating Savings and Credit Association (ROSCAS) and also individual lending model, all of which have been adopted and replicated across the African continent.

Rotating savings and credit associations (ROSCAS)

These are the result of the coming together of individuals to form a group that makes regular cyclical contributions to a mutual fund which is then advanced to a single member of the group in each cycle (Grameen bank, 2016). Harper (2017) argues that this is a common model of both savings and credit across the African continent. Harper (2017) further states that this model is often pursued through the coming together of individuals that are known to each other, mostly friends and neighbours and it provides an opportunity of social interaction. According to Fisher & Sriram (2017), ROSCAS are also referred to as self-help groups or merry-go rounds because of the fact that beneficence from the mutual funds is on a rotational basis.

The Grameen Solidarity Group Model

This model is found on the unveiling of advances to individuals in peer groups between four to seven on the pretext that peer pressure often informs the borrowing of individuals thus the facility lends to an entire peer group (Berenbach *et al*., 2018). Under this model, there is a collective undertaking by all group members to guarantee loan repayment and any other future borrowings by the peer group is based on the successful full repayment of the facilities by each member of the group and the loan repayments are often made on a weekly basis (Ledgerwood, 2015). This model has proved to be an effective tool in deterring delinquency amongst the borrowers and this is evidenced by the high repayment rates and successful loan rollovers after successful loan repayments (Berenbach *et al*., 2018). One of the conditions to the granting of the peer loan was that the group should make sizeable contributions to a mutual savings account one or two months' prior the granting of the loan facility and the savings and contributions by individual members continues during the entire loan. Regardless of the size of the peer group, the first loan facility is made to only two group members with the possibility of an expansion of the beneficiaries after the successful loan repayments by the entire peer group and as such the group becomes an instrumental building block to a much wider social network (Berenbach *et al*., 2018).

Village banking model

Village banks as put forward by Holt (2018) are savings and credit associations set up by NGOs within the confines of a community with the view to build community self-help groups, enhance access to financial services as well as assist members in the accumulation of savings. The groups are usually comprised of between 25 and

50 members of low income disposition and also of members who are seeking to enhance their livelihoods at the back of self-employment initiatives. In the context of the village banking model, the group members establish the bank, set up their own by-laws that govern the bank, they appoint their own officers, disburse loans and recover credit from borrowing individuals (Grameen Bank, 2016). The loans advanced under the village banking model are premised on moral collateral which is the promise that the solidarity group backs each loan disbursed (Global development research centre, 2018).

In the operations of the village bank, there has to be a sponsoring and supporting MFI which gives an advance to the village bank, which will in turn make loan disbursements to individual members of the group. This is followed by the signing of acknowledgement of debt by the borrowing individuals and each member of the solidarity group that they are guarantors to the loan and that the repayment of the loan is their collective responsibility and 20% of the loan received is held back as a savings within the village bank (Ledgerwood, 2015). The savings from the individuals who are affiliated to the village bank are kept within the stewardship of the village bank and they are used to finance new loan disbursements as well as other community income generating initiatives (Holt, 2018). It was further postulated by Holt (2018), that most village banks target the participation of women and this is premised on the notion that the participation of women enhance intra-household bargaining and also enhance the status of the village bank as a whole.

Individual lending model

As an addition to the traditional concepts of microfinancing which targeted groups within the marginalised market segments, the concept of individual lending has, in the recent past, gained prominence in the commercialisation of microfinancing. This has thus seen the evolving of microfinancing to targeting formally employed individuals of low income. The basis behind this form of lending is the understanding that formally employed individuals pose low credit risk and the individual's salary is held as collateral to the advances made (Holt, 2018). This means that once microcredit facility is disbursed to an individual as backed by their salary, loan repayments will be debited monthly from the individual's salary directly from their banking institution or direct from the source, that is, from the employer (CGAP, 2018; Lehner, 2017).

This model of microfinance has become quite prominent in the urban areas and it is much more preferred by MFIs to the group lending initiatives (Hot, 2018). It was the averment by Brandt *et al*. (2017) that the individual lending model is mostly characteristic of mainstream financial institutions. After a comprehensive due diligence is conducted with a view to ascertain the creditworthiness of an individual borrower, the loan will either be granted or declined depending on how the credit evaluation turns out. As postulated by Christen (2016), collateral security as well as co-signatories to the facility are required and the model thus works much better is offered to those earning sizeable revenue as opposed to the poorest in the community as these would still expose the lender to high credit risk.

2.3 Relationship between microfinances activities and revenue

One of the processes by which the commercialization of microfinance can happen is through the process of downscaling, in which a bank or other formal financial institution expands its services to work with clients traditionally served by microfinance institutions. Such expansion can mean serving microfinance clients in one or many financial areas (Chowdri, 2004). Downscaling as a way of doing microfinance allows the programme to take advantage of the funding and infrastructure advantages of a commercial bank while providing the microfinance programme with the necessary space to operate successfully (Perera, 2010) and (Chretien *et al*., 2014).

2.3.1 An increase in uptake of microfinance by commercial banks

Chretien *et al*. (2014), In order to remain profitable, and even more importantly, to continue to grow, mainstream commercial banks have increasingly tried to provide core financial services to those they previously considered unbankable. In short, banks have begun to "scale down" to microfinance in the search for new markets (Rosengard, 2004). Commercial banks that wish to take advantage of the opportunities in microfinance should carefully evaluate the considerations, specifically their own goals, the potential market size and competition, the regulatory environment, and their current infrastructure and systems (Isern *et al*., 2005). Microfinance involves diversified risks, high loan repayments and customers who are concerned more with service quality than interest rates. Many commercial banks are discovering that the returns from this market are high in spite of the higher transaction costs (Harper & Arora, 2005).

According to Rosengard (2004), banks bring several competitive advantages to microfinance, as they are experienced in managing a number of financial risks, including interest rate, liquidity, maturity, foreign exchange, and credit risks. Banks are used to raising their own funds via a combination of savings mobilization, capital market borrowing, and equity contributions. They also have extensive retail distribution networks of branch offices, sub-offices and electronic banking outlets

(Rosengard, 2004). They are able to offer a wide range of savings, credit, and payment services. Finally, they adhere to prudential norms for sound ownership, governance and management practices that foster a balance between maintenance of financial soundness and the pursuit of profits.

A study by Isern *et al*. (2005) mentions that in comparison with many existing providers of microfinance, in a number of areas, such as recognizable consumer brand names, existing infrastructure and systems, and access to capital commercial banks have potential competitive advantages (Chretien *et al*., 2014).

In several countries, the governments have been compelling commercial banks to provide financial services, especially credit, to sectors such as small or agricultural enterprises that are considered social priorities (Arvind, 2010). Using moral or legal compulsion generally has not led to sustainable models of service provision (Arvind, 2010). However, increasingly, commercial banks are investigating for themselves, and some are entering the microfinance market because they see sustainable profit and growth opportunities (Chretien *et al*., 2014).

Westley (2006) points out that some of the reasons why commercial banks enter into the microfinance business is the need to diversify through making loans to plenty of small borrowers where the micro lending portfolio itself achieves substantial diversification (Chretien *et al*., 2014). Westley (2006) opines by serving the poor, banks may tarnish their public image. Credit coefficients is another reason that banks may take into account, as governments of countries such as Brazil, Colombia, and Venezuela, encourage or force all banks to dedicate a certain percentage of their demand deposits, loan disbursements, or loan portfolio to microloans (Chretien *et al*., 2014). Westley (2006) further opines that banks have underutilized capacity, liquidity excess and underutilized branches and information systems and this encourages commercial banks to venture into micro lending (Chretien *et al*., 2014).

Delfiner *et al*., (2007) postulates that banks and financial institutions have been entering the microfinance market in increasing numbers over the past years. This phenomenon (known as downscaling), together with that of upgrading, is resulting in a growing number of formal regulated institutions partially or totally moving into Microfinances. Several factors have been identified to motivate commercial banks to venture into microfinancing business and these factors relates to both the bank's internal organization and to the market in which this bank operates (Delfiner *et al*., 2007). The main incentive however basically relates to the idea that profits obtained are in relationship with the risks attached to the microfinance. Growing competition in markets traditionally served by banks for example loans to big companies, small and medium-sized businesses and consumers along with the resulting fall in banks' returns has encouraged the search for new market niches. In countries with no experience in microfinances, there exists an unattended market segment which may be viewed by banks as a potential source of rapid growth and positive returns (Delfiner *et al*., 2007).

The first products generally developed by institutions entering microfinances are microloans. However, with the progression of businesses, commercial banks begin offering a wide range of products. The possibility of cross-selling is another positive aspect that commercial banks take into account when deciding to enter this sector (Arbaca, 2014). Commercial banks can offer their clients a range of products, including banking services, means of payment, money transfer services and insurance (Arbaca, 2014). Entering a new sector enables banks to diversify their loan portfolio, focusing on a population segment previously unattended by them and by making loans to thousands of small borrowers, the micro lending portfolio itself achieves substantial diversification in terms of number of clients served, although the level of diversification by activity and geographical area is usually low (Bounouala, 2019). Similarly, having a specialized MF sector can ensure commercial banks can have an improved public image, as caring for the most disadvantaged social sectors is welcomed by clients and society in general (Arbaca, 2014).

Regardless of the commercial reasons encouraging banks to enter microfinances, policies imposed by some governments, aimed at contributing to the development of the microfinances sector, have driven or even compelled the financial system to provide loans to low-income sectors (Delfiner, 2007). The decision of commercial banks to enter microfinances is also affected by external factors (Delfiner *et al*., 2007). In this sense, the most effective way for governments to encourage commercial banks to become involved in microfinance is to ensure an appropriate regulatory and prudential framework (Delfiner *et al*., 2007).

The elements of an optimal non-restrictive policy context identified by literature are:

- sound macroeconomic policies and basic infrastructure to ensure a growing economy;
- a growing range of financial products;
- minimal restrictions to profitable lending, particularly no interest rate caps.
- enhanced ability to establish a small commercial bank which can focus on this sector;

- appropriate prudential regulations for this market including capital adequacy ratios and asset quality indicators.

Bounouala *et al*., (2014) highlighted that commercial banks in developing and developed countries have begun to see microfinance as a potentially profitable business and starting to venture into this field. They also highlighted that there are many reasons that encourages banks to enter into the microfinance market and these are:

- Growing competition in markets traditionally served by banks along with the resulting fall in banks' returns has encouraged the search for new market niches (Nsabimana, 2004).
- Entering a new sector enables banks to diversify their loan portfolio, focusing on a population segment previously unattended by them.
- Opening of microfinance allows banks to improve their image in society.
- Regulations imposed by government.
- Profitability of microfinance activities

In addition, they also highlighted that commercial banks have several organisational and structural features that can lend themselves to successful microfinance operations; these include,

- Large commercial banks often have an extensive network of branches, frequently covering all major cities in a country.
- They have well established controls and administrative accounting systems to keep track of large number of transactions.

- Banks that have been in the market for a long time are well known to the public and have a recognised brand. In many cases the brand carries a high degree trust.

2.4 Challenges being faced by Commercial Banks in venturing into MFs

Matambo, *et al.*, (2016) mentions that the advantages of banking are mostly not well understood by the informal sector and thus, participation and saving through financial institutions is not much of a culture in the informal sector (Adisu, 2006). Absence of formal documentation of businesses and little motive to save limit the chances of access to financing of these informal businesses. Furthermore, proof of income for opening bank accounts could be difficult to obtain given that there are either no records or there exist just simple records which do not qualify from the normal regulatory template as proof of income (Kashuliza, 2003).

The informal sector comprises unregistered businesses whose operations are diverse and may be non-compliant with the expected standards (FinScope, 2012). The process of company registrations and the minimum requirements in opening a bank account in most countries are strict mostly, a result of policy pronouncements, which makes policy a hindrance to access to bank services by the informal sector players (Matambo *et al.*,2016). The associated costs for regularizing operations are resultantly high (FinScope, 2012). (Matambo *et al*., 2016) also show that informal business often does not make optimum use of their existing resources and argue that they are unlikely to do better even if they get enough loans. The argument is that they do not have strategic business plans and financial records which may guide the effective and efficient use of any available resources (Matambo *et al.*, 2016). In a survey of small scale business management deficiencies, it was found that small enterprises fail to keep books of accounts for their business operations, or if they do, they are inadequate (Matambo *et al*., 2016).

2.4.1 Obstacles.

The main reasons given by bankers in large commercial banks to not enter the market of microfinance are the risk of default, high costs, and socio-economic and cultural barriers (Bounouala, 2019). They also face some internal constraints such as (Matambo *et al*., 2016):

Market knowledge

Commercial banks lack an understanding of the microfinance market and its clientele, and often dismiss this segment as both too risky and too expensive (Kumar *et al.*, 2013). Even if a bank recognizes that microfinance can be profitable, the resulting portfolio size may be viewed as too small relative to the level of effort required to manage a microfinance operation (Bounouala, 2019).

Organizational structure

Commercial banks find it difficult to integrate microfinance within a larger bank culture and structure that is not geared toward a high volume, small loan size business (Bounouala, 2019).

Financial methodology

Most commercial banks lack the financial methodologies to reach and retain low-income clients who require small amounts of capital (Kumar *et al*., 2013).

Human resources

Microenterprise credit requires staff who are comfortable working in the Neighbourhoods where clients live and work, and who must be highly productive in order to succeed. Monetary incentive systems are often used to spark such productivity. These requirements of microfinance are often incompatible with the human resources profile and policies of commercial banks. Cost-effectiveness: traditional bank mechanisms and overhead structures make it difficult for banks to minimize processing costs, increase staff productivity, and rapidly expand microfinance loan portfolios (Matambo, *et al*., 2016).

The policy environment

In countries with interest rate ceilings and heavy government intervention, banks will be prevented from even contemplating microfinance (Bounouala, 2019).

2.5 Strategies implemented by commercial Banks thriving in Microfinances

According to Isern *et al*. (2005), and following a CGAP survey of banks in microfinance, it reveals that there is no single approach to entering the market for microfinance. For one thing, different banks will have different business goals, and the competitive and regulatory environment will vary (Thabit *et al.*, 2015). But, in general, approaches can be divided into two main categories; direct and indirect based on how the bank makes contact with the client. Isern *et al.*, (2005) have identified six different approaches that banks use to enter the microfinance market and these include those stated below:

Provide services directly through: Work through existing providers by:

- an internal microfinance unit, or outsourcing retail operations, or

- a specialized financial institution, or providing commercial loans to microfinance institutions, or
- a microfinance service company or providing infrastructure and systems.

Westley (2006) believes that possible structures through which a bank can do micro lending could be the internal unit, service company, lightly regulated subsidiary, and heavily regulated subsidiary, being the last two options both variants of a single model.

Delfiner *et al*., (2007) mentions that when taking advantage of the bank's branch infrastructure, costs are greatly reduced and it is easier to scale up operations, even though the extent of these cost savings depends on the nature and location of the branches. One effective strategy is to locate MF branches in the same (or adjacent) physical structure to bank branches. Customer care offices must be placed separately so that the staff specializing in microfinance can receive clients, thus avoiding mistaking the bank's traditional businesses with this new segment. To take full advantage of the bank's network of branches, these must be located in geographical areas with a high number of potential microcredit applicants.

Microfinance operations can use the existing bank technology for disbursement and deposit transactions (bank tellers, ATMs and systems), eliminating the need for duplicate staffing. Thus, it is very important to develop an effective transactions processing strategy that works for both the bank and Microfinance operations. (Delfiner *et al*., 2007).

Bank know-how in the areas of information technology, human resources, marketing, legal issues, internal audit and financial management can alleviate the need for the microfinance operation to develop full-fledged departments in these areas, substantially reducing costs. In areas where there are economies of scale in the service provision, it will always be profitable if the bank and the Microfinance unit use them together (regarding the internal unit model as well as the subsidiary or service company) (Delfiner *et al*., 2007).

Delfiner *et al*. (2007) further posits that depending on the development and profile of the commercial bank brand, it will be convenient to relate it to the microfinance unit, or otherwise it will be better if it has its own identity. An intermediate situation in which a new brand is developed, but still has some connection to the parent bank achieves three aims:

- to enhance the new entity credibility;
- to attract low-income clients who may be intimidated by a bank;
- to keep the main branding of the traditional bank undisturbed.

There is not one single way in which banks become engaged in microfinance market. All banks will have different business goals and the competitive and regulatory will vary from each bank and environment. Some banks enter the market directly by expanding their existing retail operations to reach micro clients. Others take an indirect way by working with existing microfinance providers.

2.5.1 The direct way downscaling

The word downscaling expresses the involvement of commercial banks in microfinance, which implies reducing the volume of the affairs by opening to a new even more risky market niche.

In literature there are three direct models; the internal microfinance unit, specialised financial institution and microfinance service company.

2.5.2 Internal microfinance unit

In this model, the bank can use two approaches, create in its existing structure an internal unit that provides microfinances services or introduce microfinance products into an existing unit (Nsabimana, 2009). In the latter case, a bank might treat micro credit simply as a new product, with a marketing and promotion campaign. The new product introduction strategy is probably the lowest cost way to start microfinance operations but it has rarely succeeded. The advantage of this model lies in the simplicity of its implementation. The microfinance unit is neither a separate legal entity nor regulated separately from the bank. The microfinance operations leverage existing staff and systems of the bank. An internal unit requires adaptations of the bank's systems and procedures to the specialised requirements of micro finance related operations. While creation of an internal unit can be successful, two major disadvantages must be overcome. First the bank must somehow differentiate the staff of the microfinance unit from staff of the mainstream bank in order to build a distinct corporate culture within the microfinance unit. This has been a source of tension to institutions like the then Afrasia Bank of Zimbabwe. More difficult to overcome is the lack of independent governance for the microfinance unit. Without separate governance, the microfinance unit comes under the governance of the mother bank. Critical decisions concerning microfinance operations are taken by groups of bankers with limited exposure to or concern for microfinance (Rhyne, 2003).

2.5.3 Specialised Financial Institutions

Rather than set up an internal unit, the bank can create a specialised financial institution (SFI) to support microfinance activities. The SFI licenced and regulated by the local banking. It may be wholly owned or joint venture with strategic partners and investors. The SFI maintains separate corporate identity, governance, management, staff and systems from those of the parent bank. The use of a financial subsidiary addresses the drawbacks of an internal unit. This is the case of Financial Bank in Benin who decided in November 1998 to expand operations and create an internal unit to manage its microfinance operations. Building on its growing success, the bank spun off its internal microfinance unit as Finadev, a specialised financial institution. The new institution began operating in 2001 with these shareholders; Financali Bank Benin (25%), the Financial Holding Company (15%), The SFI Group, The World Bank (25%), Dutch FMO (25%), Fayett Participations-Horus Bank and Finance (10%), (Nsabimana,2009). In creating a SFI the bank has an opportunity to reduce its risk of entry into microfinance by sharing risk with other shareholders, particularly if those shareholders bring experience and know how in microfinance. An example of this model is found at FBC Holdings were they have opened a different unit FBC Micro plan.

2.5.4 Microfinance Service Company

A microfinance service company is a nonfinancial company that provides microloan origination and portfolio management services to a bank (Barlet 2003; Nsabimana 2009). The service company does all the work of promoting, evaluating, approving, tracking and collecting loans. Loans and other financial services offered to service company clients are registered on the books of the parent bank and the company is paying for services rendered. The service company model seeks to draw on the best elements of each of the two methods of bank involvement discussed above, while further addressing their drawbacks. Unlike the financial institution, the service company does not require a separate banking licence, is not separately supervised by the banking authorities and does not require a large capital base. It is thus much easier and less costly to launch and operate than a financial institution. The service company mode addresses several of the shortcoming of the internal unit, it establishes a long lived structure with its own governance and staffing that gives the microfinance operation space to operate. The service company may be wholly or partly owned by the bank. However, the service company structure offers the bank the ability to involve technical service providers with expertise in the delivery of microfinance and other interested investors and as equity partners, which it cannot do with an internal unit (Bounouala *et al*., 2014).

2.6 Movement of Commercial Banks into Microfinance Business: World View

2.6.1 Commercial Banks of Zimbabwe

As part of its diversification strategy in the early 1990s, CBZ began to explore the possibility of developing a product for Zimbabwe urban and peri-urban informal sector microenterprises. Corporate clients were somewhat wary of the bank after the BCCI collapse, and microfinance was a market as yet untapped by the competitors. It was a growing market, as the informal sector was expanding due to increasing unemployment and inflation brought about by liberalization policies. At the same time, Care International, an International NGO with considerable experience in microfinance globally, was actively seeking to bring commercial banks into microfinance market in Zimbabwe. Most of the commercial banks approached by CARE were not interested, but when Care entered into discussions with CBZ, it became clear that this was an opportunity for the NGO and the bank to join forces in a mutually beneficial partnership (Bell *et al.*, 2002).

Given the considerable perceived riskiness of the venture, CBZ was not prepared to make the necessary initial investment itself. Although the Managing Director was fully committed, most of the management team and the shareholders of CBZ still had to be convinced of the profitability of microfinance. There were also considerable changes that needed to be made to CBZ's organisational structure, management systems and financial methodologies to make microfinance workable. The British Government's Department for International Development (DFID) agreed to provide funding for the project, seeing it as an opportunity to demonstrate to other banks, both in Africa and globally, that they could profitably move into microfinance (Bell *et al*., 2002).

In 1995, the 'Credit for the Informal Sector Project', or CRISP, was launched. DFID funding covered start-up costs, operational costs on a sliding scale, and provided a loan guarantee fund (LGF) to cover CBZ's initial possible losses from default - CBZ took on 20% of the risk of initial loans, 40% for second loans, and the full risk thereafter. Although establishing the legal and management framework for the LGF was fairly arduous3, without the LGF the project would not have got off the ground. It offered a degree of security to those in CBZ's management who doubted the viability of the CBU group lending methodology. It also allowed CBZ to satisfy the Reserve Bank of Zimbabwe (RBZ) loan security requirements, which allow for banks to lend up to 20% of their portfolio without security, but only provided that loan loss rates are not excessive. The RBZ wanted proof that this previously untested sector would be viable. DFID also paid for technical assistance, which was provided by CARE (Bell *et al*., 2002).

2.6.2 The Cooperative Bank of Kenya

The CBK's decision to increase its provision of financial services to the low income and microenterprise sectors of the economy was, like CBZ's, made in the light of increased competition due to liberalisation, and the need for diversification. Although CBK had been serving this market indirectly through the cooperative societies, the decision was made to provide services directly to individual borrowers, which would entail quite a different approach. In 1998 CBK prepared a new business plan for its existing Small and Micro Credit Unit that spelled out in detail the strategies that the bank intended to follow. While continuing to wholesale funds to financial intermediaries such as cooperatives, the Small and Micro Credit Unit would also start its own direct lending on a pilot basis (Bell *et al*., 2002).

While the CBK itself was prepared to meet most capital and recurrent expenditures and to provide the loan capital, it sought funding for the technical assistance that it needed to develop new products and methodologies, and to make the necessary institutional changes. DFID agreed to provide funding for this, and Bannock Consulting was contracted as the technical assistance provider.

While the CBK was in the process of preparing for the launch of the microfinance programme, it suffered a severe blow with the terrorist bombing of the American Embassy in Nairobi in August 1998, as the bank's headquarters were immediately adjacent to the embassy. In order to help the bank through this crisis, and to ensure that the microfinance programme could continue, USAID agreed to pay for study tours as well as cover some capital expenditure. The microfinance programme was launched on a pilot basis in two branches during the first quarter of 1999, (Bell, *et al*., 2002).

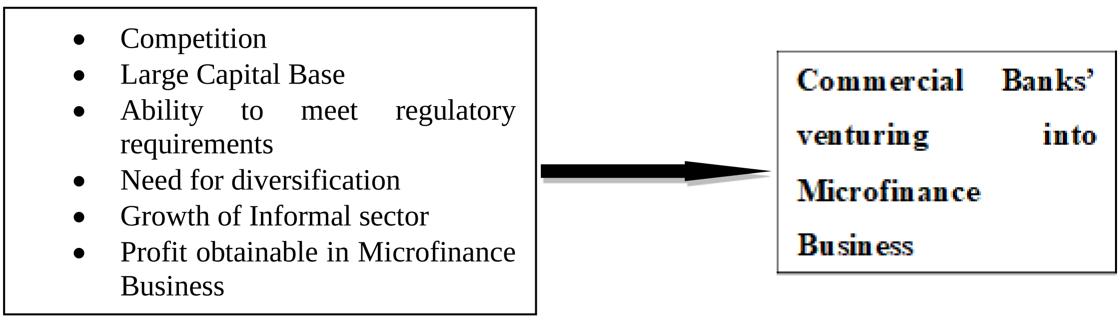
2.6.3 Grammen Bank, Bangladesh

Established formally in 1976, then in 1983 was recorded as a formal bank according to new regulations, and the government provided 60% of paid capital and 40% paid by the borrowers. Grameen bank does not ask its clients for any collateral or even signing on any liabilities other than the loan itself, the borrowers themselves collect a group of 5 in mutual social and economic background and they don't afford any liabilities of other group members (Thabit *et al*., 2015).

Grameen bank allocates $US40 million for loan each month, and in 2006, the borrowers' percentage in common equity reached 94% and 6% for the government. The borrowers reached 6.83 million, 97% of them were women with 2283 branches serving 73,609 villages by 20,223 employees. Grameen bank offered 5.89 billion us dollars with repayment percentages of 98.91% (Thabit *et al*., 2015).

2.7 Conceptual Framework

The conceptual framework shows the relationship between the independent and dependant variables. In this study, the dependent variable is commercial banks' venturing into microfinance business. Competition, availability of large capital base, ability to meet regulatory requirements, diversifying loan portfolios, growth of informal sector and profit are the independent variables in this study.



Independent Variables   Dependent Variable

Figure 2.2 Conceptual Framework

2.8 Empirical Literature Review

There has been a number of studies conducted world over by previous researchers in establishing the reasons for commercial banks' downscaling to microfinance business over the last decades. This has been motivated by the growing number of commercial banks who have ventured into microfinance business.

In a study by Bounouala & Rihane (2014) titled "Commercial banks in microfinance: entry strategies and keys of success" they revealed that Microfinance emerged in the 1990s to become a real industry around the world, composed of a wide variety of institutions that providing financial services to people who are excluded from the traditional banking system (Bounouala, 2019). With the spectacular success of microfinance, a growing number of commercial banks have entered this new market, motivated on the one hand by the growing competition in the banking sector and on the other hand, by the pressure of some governments (Bounouala, 2019). However, if some banks choose the direct way to enter in microfinance "downscaling", others prefer to play the card of prudence by building partnerships with microfinance institutions (MFIs) (Bounouala & Rihane, 2014). Microfinance activities can pose different risks from those related to traditional banking activities (Bounouala, 2019). The study concluded that the entrance of banks into microfinance market is significant for banks to diversify their activity portfolios, increase their revenues and improve their image in society as for microfinance as a whole, because given their physical, financial and human resources, banks are able to develop microfinance services relatively, at little cost (Bounouala *et al.*, 2014).

A study was carried by Mpho (2014) to investigate the problems or challenges faced by micro financial institutions after the global recession in Botswana. The purpose of this study was to investigate the problems or challenges faced by micro financial institutions after the global recession. The researcher made an examination of Micro Financial Institution and Micro Financial Data from primary and secondary data sources which related to the challenges and problems faced by Micro Financial Institutions in Botswana after the Global Recession (Mpho,2014). The researcher collected data from Micro Financial Institutions in Gaborone and Mochudi and found that MFIs showed good performance in the run up to the onslaught of the global financial crisis in the region (Mpho, 2014).

Chepkoech (2014) carried a study to determine the factors which influence downscaling of commercial banks to the microfinance market in Kenya. The study used a descriptive research design. The population of the study was the 74 employees of KCB who work in the micro finance department. Simple random sampling was used to select a sample size of 38 (Chepkoech, 2014). Data was collected using a structured questionnaire and statistical Packages for Social Science (SPSS) software was used to process the data (Chepkoech, 2014). The data was analysed using descriptive statistics like frequencies and percentages and found out that banking laws which has provided less regulatory environment, the banks desire to balance the three banks pillars of high volume operations, high quality client service and distribution of risk and banks' returns falling has greatly influenced the bank to extend their services to the micro finance industry (Chepkoech, 2014). The study concluded that study's conclusion that influence of competition from the domestic banking markets has become an entry factor for commercial banks to the micro finance market and this is due to the factors related both to the bank's internal organization and to the market in which the bank operates (Chepkoech, 2014). Commercial banks are venturing to micro finance market due to the intensified competition amongst them for the same corporate customer and as a result entry to micro finance market is an opportunity for growth (Chepkoech, 2014).

Delfiner *et al.* (2007) carried a study to explore the main aspects and future outlook in connection with commercial banks provision of MF services. The study found out that commercial banks have begun to see MF as a potentially profitable business and are starting to venture into this field.

A study conducted in Zimbabwe by Bell, Harper and Mandivenga (2002) titled "Can commercial banks do microfinance? Lessons from the Commercial Bank of Zimbabwe and the Co-operative Bank of Kenya" identified that during the last five years, two commercial banks in Zimbabwe and Kenya have made the decision to start microfinance operations, motivated in part by the increase in competition in the financial sector, which has encouraged them to seek new markets (Bell *et al.*, 2002). The study concluded that the most important reasons for banks entering the microfinance field is the effect of liberalising markets; as local banks face increasing competition from new, start-up local banks, and foreign banks entering the market, they are obliged to seek alternative markets to survive (Bell *et al.*,2002).

A study done by Baydas, Graham, and Valenzuela titled, "Commercial Banks in Microfinance: New Actors in the Microfinance World." Indicated that now commercial banks in developing countries have begun to see microfinance not only as a valuable public relations tool but a profitable venture and are beginning to examine the micro-finance market (Graham, 1998). The study concluded that

Bankers in large commercial banks typically mention the risk of default, high costs, and socio-economic and cultural barriers as the chief reasons that prevent their entry into microfinance.

An empirical study was also provided by Ugur (2006) on Commercial Banks and Microfinance and established that the integration of microfinance with commercial banks will provide the necessary scale and outreach in making microfinance a self-sufficient and thus long-term solution for the alleviation of poverty (Ugur, 2006). The goal of the research was to observe the role commercial banks play in microfinance and the challenges that these institutions encounter, having to operate in developing countries (Urgur, 2006). The study noted that the direct involvement of a commercial bank in microfinance without experience can be costly and in this respect, a partnership with a microfinance institution or an indirect participation might be preferable (Urgur, 2006).

Thabit and Mardini (2015) conducted a study to recognize the determinants of relationship between commercial banks and microfinance institutions and their role in sustainable development in Iraq (Thabit *et al.*, 2015). The study found out that the commercial banks will innovate their own risk hedging methods by diversifying their funds in new credit types with high interest rate which enters new returns, in addition to present a good image for corporate social responsibility of Iraqis' commercial banks (Thabit *et al.*, 2015).

Westley (2006) in a study on Strategies and Structures for Commercial Banks in Microfinance identified that banks have been entering microfinance at an impressive rate. They are drawn by the increasing competition many find in their traditional market niches, by the lure of high profits reported in the media and elsewhere from serving microenterprises and other major segments of the “bottom of the pyramid,” and by the presence of a large unserved market, which holds out the promise of rapid growth (Westley, 2006).

Dube and Matanda (2015) conducted a study also to establish the causes of the downfall of micro lending institutions and business in Zimbabwe and suggest remedies. The study used the descriptive survey design because it enabled the researcher to collect large amounts of data within a short time period by means of questionnaires and interviews and concluded that high levels of competition with bank owned microfinance institutions (MFIs), high levels of administrative costs, concentration on consumer credit exposures, diversion from the core business, high levels of non-performing loans and poor institutional capitalization were some of the major causes of MFIs collapse in Zimbabwe (Dube & Matanda, 2015).The study ended up by recommending that policy makers should come up with appropriate policies to help mitigate the collapse of the microfinance sector in the economy and recommended that the Zimbabwean microfinance sector should enact strategies that had the capacity to ensure the survival of MFIs which were known the world over as engines of growth and development of nations (Dube & Matanda, 2015).

From these empirical studies, it is clear that literature on the reasons for banks’ downscaling to microfinance in Zimbabwe is very scanty. Different studies conducted in different parts of the world regarding bank’s downscaling did not also focus on challenges faced by these banks when venturing into microfinance business and most studies did not establish the relationship between the variables such as competition, profit, and growth of the informal sector and commercial banks’ downscaling. Given such background, this study seeks to close this study gap by investigating the reasons, challenges and strategies for successful commercial banks' venturing into microfinance business.

2.9 Summary

This chapter has provided a discussion on related literature on banks' downscaling to microfinance business. The chapter has also provided a conceptual framework showing the dependant and independent variables. A review of previous empirical literature was also provided in an attempt to reveal the study gap. The next chapter looks at the study methodology.

CHAPTER 3 METHODOLOGY

3.1 Introduction

This chapter outlines the study methodology and presents the research design adopted, the population and its composition, the sources of data, the sample technique adopted, the research instrument, analysis and organisation of data, reliability and validity of the research instruments as well as ethical issues.

3.2 Research design

Saunders *et al*. (2009) defines a research design as a plan (a general plan) that the researcher adopts in answering the research questions of a study. In conducting this study, the researcher adopted a descriptive case study research design. According to Burns and Burns (2011), a descriptive research design is a research design where the researcher attempts to document what is actually occurring. This research design was adopted for use in this study because it allowed the researcher greater room to make inferences about some behaviours or attitudes of the population of the study. With this method it was also easy to collect data and the researcher was also able to make judgements and give justifications.

3.2.1 Research Approach

In this study there was use of qualitative and quantitative data and both primary and secondary data and thus a mixed approach was used. A mixed methods approach was used because of its strength in where one source of data would complement each other where one source falls short thus eliminating bias in data collection as well as strengthening the findings of the study.

3.3. Population

Population is defined by Creswell (2014) as all the elements used by a researcher in making some inferences during a study. According to Vonk (2016), target population refers to the total number of individuals that are relevant to a study. The population included the senior management and the board, credit managers, credit officers, I.T system administrators and customers who take microfinance banking service from ZB Bank Limited. The target population for this study is shown in table 3.1 below.

Table 3.1 Target Population

Respondent Class	**Population**
Senior Management and Board of Directors	12
Credit Managers and Supervisors	16
Credit Officers	38
Finance and Accounting Staff	12
Marketing Staff	9
IT-Systems Administrators	6
ZB customers	19
Total	**109**

3.4 Sampling and Sampling Design

According to Sharma (2017), sampling is as a procedure that the researcher employs in systematically selecting a relatively small number of representative items or individuals (subset) from a pre-defined population to serve as subjects (data source) for observation or experimentation according to the objectives of the study (Saunders *et al.*, 2009).

The researcher could not reach out to all the target population and thus a sample from the total population was selected as also advocated by Hall (2014) who mentions that it is usually not possible to get views from all respondents in a study and thus it is logical to use a sample.

3.4.1 Sampling Design

In this study purposive sampling was used to select the respondents from the total population. This technique selects respondents from the total population based on the knowledge, relationships and expertise of the respondents regarding a research area (Freedman *et al*., 2007). In using this technique, the researcher took a consideration of the respondent's knowledge about ZB Bank limited either by being employees or customers of the bank. Purposive sampling is a cost-effective method that saved the researcher's time and cost as the researcher avoided studying the whole population which was going to be time consuming.

3.4.2 Sample Size

Tomer (2012) defines sample size as the number of individual units of data that is collected in a survey which is also important in determining the reliability of the findings of any study. The sample size for this study was calculated using a formula by Yamani Taro where the sample size is determined as a function of the total population and the maximum acceptable margin of error (also known as the sampling error). The formula used to determine sample size is shown mathematically below:

$$n = \frac{N}{1 + N_e^2}$$

Where:

n= sample size

N = target population (109)

e = maximum acceptable margin of error (5%)

Sample size calculation

$$n = \frac{109}{1 + 109(0.05)^2}$$

$$\mathbf{n = 86}$$

The calculation of the sample size yielded 86 respondents who were then included for participation in the survey,

The total sample size represents a greater proportion on each class of respondents based on a 5% margin of error. Saunders and Thornhill (2009) posts that an 80% confidence level provides a possibility of a great study outcome since the target population provides a true representation of the total population.

3.5 Pilot testing

In (2017) defines a pilot study or a pre-test as a study conducted preliminary on a small scale to evaluate the feasibility, time, cost and any potential adverse events which may hinder the study with the view of having an improved research design before the performance of a full-scale research project (In, 2017). A pilot study was conducted to detect or identify potential flaws, errors or any ambiguity of the research instruments. A pilot study was also conducted to have a test before the full study thus detecting any flaws in the data collection procedure. By conducting a pre-test, it was possible to identify errors and ambiguous questions on the questionnaire and ambiguous instructions, determining the adequacy of the time limit on the research questionnaires as well as the measurability of the research variables.

3.6 Data Sources

Two main sources of data exist which were also used in this study and these are the primary data and secondary data.

3.6.1 Primary sources of data

Primary data is the data that is collected for a specific assignment, usually original in nature and directly related to the problem under study (shodhganga.inflibnet.ac). In collecting primary data researchers mainly use questionnaires, surveys, interviews, focus groups, experiments and observation (shodhganga.inflibnet.ac). In conducting this study, the researcher used questionnaires and interviews as the primary sources. The use of primary data was beneficial in this study because it provided more reliable information since it was captured from the original source.

3.6.2 Secondary sources of data

According to Wegner (2010), secondary sources are data sources in where the data that is collected and processed is not for the purpose of the existing need. Saunders (2012) further states that secondary data is data collected by another person other than the one who is going to make use of it. In conducting this study secondary data was obtained from academic journals, newspapers, magazines, published reports and internet.

3.7 Data Collection Instruments

According to Burns and Groove (2003), data collection instruments or research instruments are the tools used in data collection which is relevant in substantiating the research. This study used a combination of interviews and questionnaires as its research instruments.

3.7.1 Questionnaire

According to Monette *et al*. (2011), a questionnaire is a research instrument that contains recorded questions, guided or semi structured where participants respond directly on the questionnaire form itself with no interference of the interviewer. In this study the researcher distributed a total of 86 questionnaires to the selected sample of respondents who were given a maximum of seven days to fill the questionnaires. Follow up was done by the researcher to the respondents using telephone calls and emails.

This study made use of questionnaires because through questionnaires participants are given the liberty to be honest in their responses and in addition they are a good research instruments as they also remain anonymous and respondents are not held liable for their opinions and responses. Moreover, through the use of questionnaires participants are given adequate time to think through the questions and in some cases the participants can have their lines of thought guided by the researcher. In addition, they are a low cost research instrument and thus saved the researcher's costs.

3.7.2 Interviews

In addition to the use of questionnaires, the researcher also used interviews. Through the use of interviews there was room for the interviewer to clarify some facts or information to the participants. Each interview session conducted took at least fifteen (15) minutes. The researcher also opted for the use of interviews because interviews allowed the respondents' perceptions to be voiced out. Moreover, interviews provided a platform of clarification on ambiguous questions or answers therefore enabling the collection of relative and useful data. The researcher was also able to detect issues of concern through impromptu speeches by the interviewee as well as emotion or attitude towards certain questions. By continuously probing the respondents it was able to get information on intricate matters where such information could not be obtained through the use of questionnaires.

3.8 Analysis and Organisation of Data

3.8.1 Data analysis

In this study, descriptive statistics was used and the Statistical Package for Social Sciences (SPSS) was used to perform statistical analysis of the data from the questionnaires and presenting it into graphs. Descriptive statistics were useful in computing measures of variability and measures of central tendencies. Descriptive statistics of mean, frequency and percentages were used to analyse the data. In qualitative data analysis content analysis was also used.

3.8.2 Model Specification

Methodology for Objective 1, 3 and 4: To identify and establish the reasons behind ZB Bank's venturing into Microfinancing, to establish on the challenges being faced by ZB Bank in venturing into microfinancing business and to proffer strategies and recommendations that ZB Bank and other commercial banks can implore to thrive in the Micro financing business.

The researcher sought to answer these three objectives by using questionnaires and interviews. The semi-structured interviews were sent to the interviewees so that they could prepare the selected answers for the interview process to be done in an equitable manner. Ryan et al. (2002) postulates that interview must be recorded either by tape or through Skype- interviews and notes should be recorded. To authenticate, the interview process, a copy of the interview questions was sent to the interviewees for approval.

Methodology for Objective 2: To determine the impact of ZB Banks' venturing into Microfinance business on its revenue.

The study sought to achieve objective two by using quantitative techniques namely the Pearson correlation and Regression analysis.

3.8.2.1 Correlation

Correlation analysis examines the strength and direction of the variables under study. The study utilized Interest on loans (IOL), Fees charged (FC), Commission Charged (CC) and Micro Insurance (MI). The value of 0, denotes that there is no correlation amongst variables, a value of +1, denote that there is a strong positive correlation, which means that as the value approaches +1, it depicts that there is a stronger correlation and a value of -1 denotes that there is a negatively correlation amongst the variables, which depicts that, as the value approaches -1, there a weak correlation between the variables. Chizea (2012) argues that a value between 0 and 0.4 (0 and -0.4) indicates a weak positive (negative) linear correlation amongst the regressors. The author further posits that values between 0.4 and 0.7 (-0.4 and -0.7) represents a moderate positive (negative) linear correlation and values between 0.7 and 1 (-0.7 and -1) represents a very strong positive (negative) linear correlation amongst the variables. In this study, the researcher takes a look at the correlation between the independent variables on a two-tailed level to show the results of the correlation matrices of the microfinance activities and the pooled matrix (S compared). Pearson correlation provides an indication of the correlation between two variables and the Spearman's rho is used to indicate the correlation between the ranked variables.

3.8.2.2 Regression

The researcher crafted a model specification based on the description of the relationship between the dependent and independent variables of the study.

The Correlation and Regression analysis were based on the model specification below as adopted and used by Amir & Livne (2005) and Brommer (2011):

Y= f (Explanatory variables) + error term

Where Y = Dependent Variable "Revenue"

X = Independent Variables

Thus the regression equation for the hypothesis testing adopted in this study was as follows:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e}$$

Where: β_0=Constant
e = Error term

X1= Interest On Loan **(**IOL)

X2= Fees Chargeable (FC)

X3= Commission Chargeable (CC)

X4=Micro Insurance (MI)

3.8.3 Data presentation

According to Guilford (2013), for data from research to be meaningful it should be presented in formats that are usable and that gives room for better interpretation and analysis. This study used tables, bar graphs and pie charts in the presentation of the data. Bavdekar, (2015) points out that tables are good presentation tools which can present large amounts of data which if not presented well can be very confusing unwieldy to be described in the textual format and therefore graphs help readers understand and interpret the data in a more meaningful way (Bavdekar, 2015).

3.8.4 Validity Reliability of Findings

Reliability, according to Brynard & Hanekom (2006) is the consistency and correctness of measures taken in data collection and analysis. Eachus (2002), on the other hand maintains that reliability refers to the ability of an instrument to produce similar results if such phenomena is measured at different intervals using the same data. In this study to ensure reliability a test-retest was done where questionnaires were administered to a sample of the selected respondents.

Cronbach’s Alpha was applied to measure the co-efficient of internal consistency and therefore ensuring the reliability of the instrument. Cronbach’s alpha measures the average of measurable items and its correlation. SPSS software was used to verify the reliability of collected data. Overall scales’ reliability of the present situation and the desirable situation were tested by Cronbach's alpha, which should be above the acceptable level of 0.7 (Hair et al., 1998) to indicate that the research instruments were reliable.

Validity is also defined by Brynard and Hanekom (2006) as the ability of the instrument to measure what it is supposed to measure. Validity measures the soundness of the interpretation of scores from a test and in this study developing the questionnaire was based on the respective objectives. The researcher also avoided and eliminated long, technical and unambiguous questions to avoid confusing the participants.

3.8.5 Triangulation

In order to enhance validity and reliability the researcher used data triangulation which was defined by Robson (2002) as the use of multiple research techniques. The study also used methodological triangulation which was also defined by Robson (2002) as the use of both qualitative and quantitative research approaches (Robson, 2002). Both primary and secondary data was used in this study to gather much more reliable and relevant information.

3.9 Ethical considerations

In this study the main ethical issues that the researcher dealt with was mainly the issue of lack of informed consent and to avoid lack of informed consent the researcher sought approval through a written letter to conduct research from the University. In conducting a study, it is important to clearly state the purpose of the research and to this regard the researcher informed the participants and advised them that their participation to the study was voluntary and that the study was purely for academic purposes. The researcher also ensured confidentiality and anonymity of the participants was maintained as no participants' name or information that reveals their identity was shared.

3.10 Summary

This chapter has presented the study's methodology adopted in conducting the research and provided in detail the research design, the target population and its composition, sample design ad sample size, analysis and organisation of data, as well as reliability and validity of the research instruments. The next chapter provides for the data analysis and a discussion and interpretation of the research findings.

CHAPTER 4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the research findings and provides an analysis and interpretation of study findings. The chapter provides and presents the research findings in line with the objectives of the study which were to:

1.4.2 Identify and establish the reasons behind ZB Bank's venturing into Microfinancing.

1.4.3 Determine the impact of ZB Banks' venturing into Microfinance business on its revenue.

1.4.4 Establish the challenges being faced by ZB Bank in venturing into microfinancing business.

1.4.5 Proffer strategies and recommendations that ZB Bank and other commercial banks can implore to thrive in the Micro financing business.

4.2 Data Presentation and Analysis

4.2.1 Questionnaire Response Rate

Table 4.1 Questionnaire Response rate

Instrument	Sent	Returned	Success Rate %
Questionnaires	86	69	80

As detailed in table 4.1 a total of 86 questionnaires were distributed to the respondents and a total of 69 were returned completely filled and thus recorded an 80% success rate.

4.2.2 Interview response rate

Table 4.2 Interview Response rate

	Scheduled	Conducted	Success rate %
Interviews	10	6	66

A total of ten interviews were scheduled but only six were successfully conducted giving a 60% success rate.

4.2.3 Respondents' Gender

The study also reviewed the demographic information of the respondents and took a consideration of the gender of respondents and the results are presented in Table 4.3 below.

Table 4.3: Respondents' Gender

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	39	57	57	57
	Male	30	43	43	100.0
	Total	69	100.0	100.0	

Of the total respondents 57% represented female while 43% represented male respondents. While there was a gender imbalance, the results of the study would not be affected as the representation was reflective of the study population which consisted of more female than males.

4.2.4 Age of Respondents

The study also reviewed the age of respondents as part of the demographic and the results are shown in Table 4.4 below.

Table 4.4: Respondents' age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18<years≤25	15	22	22	22
	26<years≤34	17	25	25	47
	Above 35 years	37	56	56	100
	Total	69	100.0	100.0	

The results show that 22 % of the respondents were between 18-25 years of age, 25% were between the age of 26-34 while 56% were 35 years old and above. The results can be interpreted that there was all age groups' representation amongst the selected population and that all respondents were old enough to interpret the research objectives.

4.2.5 Respondents' Category

The study also reviewed the respondents' category to identify if they belonged to the employees' (bankers) or customers group. The survey findings are shown in table 4.5 below.

Table 4.5 Respondents' Category

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Employees	56	81	81	81
	Customers	13	19	19	100
	Total	69	100.0	100.0	

Fifty-six percent of the respondents were employees while 19% of the respondents were customers of ZB bank. The findings reveal that the researcher got a wide range of views from both employees and customers of ZB bank limited.

4.2.6 Respondents' Level of Education

As part of the demographic information the researcher took a consideration of the education level of the respondents which was deemed necessary to conclude on the respondents' ability to interpret research questions. The results are shown in table 4.6 below.

Table 4.6: Level of education of respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary level	7	10	10	10
	Secondary Level	6	9	9	19
	Diploma	31	45	45	64
	Degree and Above	25	36	36	100.0
Total		69	100.0	100.0	

From the findings presented in table 4.6 above diploma holders constituted the highest number of respondents (45%), followed by degree holders (36%) and primary and secondary level education holders constituted 10% and 9% respectively. The respondents had basic education and could be able to address the research requirements and the researcher could also draw meaningful conclusions and the data could be relied upon since it was being gathered from basic-education qualified respondents.

4.2.7 Period in Employment or as Customer of ZB Bank

This section focus on the respondents' experience with ZB Bank as either a customer or employee. The researcher felt that the time spent by the respondents under the employment of the company under study or as a customer was crucial. This is because it is logical to assume that the more years a person is employed by the company or the more the person has experience as a customer the more they are well versed with the organisation strategies. Figure 4.1 below shows the results.

Experience as a Customer or Employee of ZB Bank

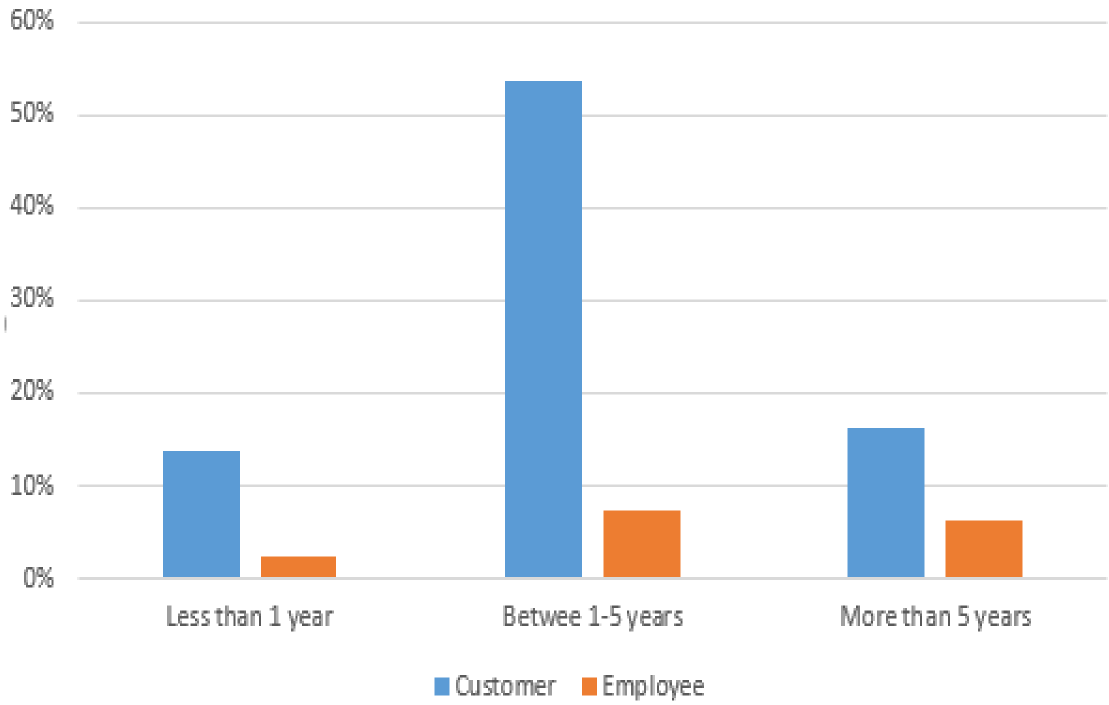


Figure 4.1: Experience as a Customer or Employee of ZB Bank

Therefore, the respondents had been customers or employees for a considerable period hence they were better placed to contribute meaningfully towards the subject under study.

4.2.8 Knowledge of Commercial Banks and Microfinance Services

The researcher also sought to establish respondents' understanding of the difference between commercial banks and microfinance services. The results are presented in table 4.7 below.

Table 4.7: Knowledge of Customer Relationship Management

Understanding of Commercial Banks and Microfinance services	Total	Y	N
Customers	13	9	4
ZB Bank employees	56	56	0
Total	69	65	4

The study notes that nine customers (69% of the customers and 13% of the total respondents in terms of percentage) understood the difference between commercial banks and microfinance services and all employees of ZB Bank (100%) have knowledge of commercial banks and microfinance services. Only 4 of the total customers were not fully aware of the difference between commercial banks and microfinance services (3% of the total customers and 6% of the total population in terms of percentage).

4.2.9 Reliability Statistics

The Reliability statistics of the data used in this study are presented in table 4.5 below:

Table 4.8 Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0.781	0.756	69

The respondents were given a scale of 1-5 indicating how they view a given variable of the research instruments. Reliability analysis was done on the 69 items of this study. An acceptable value is one that is above 0.7 which indicates that the respondents were indeed consistent with the information they provided. With this in mind the information analysed revealed a Cronbach alpha of 0.781 which is slightly above the acceptable mark thus indicating consistency in ratings. Muhunyo (2018) in support of this contends that a Cronbach Alpha of above 0.70 indicates that the research instruments employed by the study are reliable.

4.3 Discussion and Interpretation

4.3.1 Reasons behind ZB Bank's venturing into Microfinancing

The study sought to identify the reasons why ZB Bank ventured into the microfinancing business and table 4.9 below shows the results;

Table 4.9 Reasons behind ZB bank's venturing into Microfinance

Reasons behind Bank venturing into Microfinancing	N	Mean	Mode	Std. Dev
Growing competition in markets traditionally served by banks	69	1.23	2	0.53
Possibility of cross selling	69	1.61	2	0.35
Greater ability to meet Regulatory Requirements	69	1.32	2	0.93
Diversifying loan portfolios	69	1.47	2	0.63
To make use of underutilised capacity	69	1.58	1	0.33
To tap into the Informal sector	69	1.13	2	0.24
Large profits from MFIs	69	1.09	2	0.23
Compatibility with bank operations	69	1.65	1	0.82

The study findings as shown in table 4.9 above shows that most respondents agreed that like any other banks, ZB Bank has ventured into microfinance business because of the growing competition in the banking markets traditionally served by banks (mean=1.23) and because of the possibility of cross selling (mean=1.61) and the bank's greater ability to meet regulatory requirements (mean=1.32). Because banks have a large capital base they are able to meet regulatory requirements so easily and thus are able to venture into microfinance business with very little restrictions.

Respondents also cited the need by banks to diversify loan portfolios (mean=1.47), the need to make use of underutilised capacity (mean=1.58), and the need to tap into the informal sector (mean=1.13) is also the reason for banks downscaling to microfinance business. By entering a new sector banks are able to diversify their loan portfolio and focusing on a population segment previously unattended by them. By making loans to thousands of small borrowers, the micro lending portfolio itself achieves substantial diversification in terms of number of clients served, although the level of diversification by activity and geographical area is usually low. Commercial banks can overcome this obstacle thanks to their branch networks across the major cities in the country. In addition, the performance of the micro lending portfolio may have low correlations with traditional bank business lines due to the very different nature of the clients and activities.

In Zimbabwe, given that the economy has gone largely informal banks have moved to microfinance business to be able to tap into that market as it is difficult for the informal sector business to access credit from banks because of collateral requirements which can be tailor made to suit them by microfinance activities.

Respondents also agreed that banks venture into microfinance activities because of large profits from MFIs (mean=1.09) and also because of the microfinance's business' compatibility with bank operations (mean=1.65).

The findings from the study are also in line with the findings by Delfiner and Perón (2007) who mentions that the resulting fall in banks' returns has encouraged the search for new market niches by banks and in countries with no experience in MF, there exists an unattended market segment which may be viewed by banks as a potential source of rapid growth and positive returns.

Delfiner and Peron (2007) also mentions that the possibility of cross-selling is another positive aspect that commercial banks take into account when deciding to enter this sector. They further mentions that commercial banks can offer their clients a range of products, including banking services, means of payment, money transfer services and insurance and thus are able to cross sell.

According to Delfiner & Peron (2007), the existence of underutilized capacity in some banks as one of the reasons for them to enter MF: excess liquidity or underutilized branches or information systems can reduce costs and encourage banks to get into micro lending which is in line with the findings of this study.

Similarly, having a sector specialized in MF may help commercial banks improve their public image, as caring for the most disadvantaged social sectors is welcomed by clients and society in general.

In line with this study also, the USAID (2005) provided reasons for banks' entry into MF business and these are highlighted in table 4.10 below.

Table 4.10: Drivers for bank entry into microfinance

Internal Factors	External Factors
Profit	Large microenterprise or low-income market
Risk diversification	Competition
Excess liquidity	Trend or fad
Image	Regulations
Cross-selling opportunities	Government or donor initiative
Bank leadership	Market pressure on margins
Social responsibility	Desertion of traditional clients
Public relations	
Compatibility with bank strategy	

Source: USAID (2005).

Korir (2014) in her study also found out that banks venture into microfinance business because competition being a factor that has come with turbulence in the economic and financial market, it has greatly influenced some of the major decisions an organization makes. The growth in Competition has resulted to new banks entering the micro finance market under banking laws which have allowed more freedom of entry and a less repressed regulatory environment. The struggle to survive is forcing many of these banks to look at new markets, including the microfinance market.

The advantages and disadvantages of commercial banks entry into MF are directly connected with MF's unique features, which differ from those of traditional banking. Below is a summary of the characteristics that apply to banks in general.

Table 4.11: Competitive advantages for commercial banks entry into MF

Extensive network of branches.
Technology infrastructure: ATMs, MIS, among others.
People with skills in areas such as information technology, marketing and legal management who can support microfinance operations.
Market presence and brand recognition.
Access to low-cost funds through deposit-taking.

Source: Delfiner and Peron (2007).

This is further emphasised by Young and Drake (2005) by giving three pillars that bank should constantly balance to be sustainable in market. This include, high volume of operations, which is achieved by reaching thousands of clients, each with numerous, small and short-term transactions, high quality client service, which is delivered to meet the socio-economic needs of clients often living in the informal economy and traditionally marginalized from formal financial institutions and risk management systems managed by trained people and customized to the high volume of operations and informal nature of the clients. As a result, for banks to achieve these three pillars entry to micro finance market as a niche is an option.

Deborah and Young (2005) depends on the bank's overall strategy for example; a bank may enter traditionally marginal markets by mobilizing deposits and accepting utility payments from SMEs and farmers which is followed by lending working capital loans for business needs of microenterprise clients. Through this commercial banks have overcome the challenge of increased competition by entering this new sector of micro finance market in order to diversify their loan portfolio as they focus on a population segment that was previously unattended by them. Through this, the bank is able to lend to thousands of small borrowers as a way of achieving the substantial diversification in terms of number of clients' serve

4.3.2 Impact of ZB Bank's venturing into microfinance business on its revenue.

The study sought to establish the impact of ZB Banks venturing into microfinance business on its total revenue. The study reviewed the impact of microfinance activities such as charging interest, charging commission, charging fees and underwriting micro insurance and makes a comparison to total revenue figures for the bank which were obtained from the bank's management accounts.

Descriptive Statistics and Correlation Matrix

The researcher used descriptive statistics to analyse the data and test for the normality of the data used in the study. The findings show that Revenue was adequately explained by the predictor variables; Interest on Loans income, Fees income, Commission on third party products and Micro Insurance income. R square of 0.791 supported the findings. This implies that the predictor variables can explain 79.1% of the Total Revenue increase and implies that 20.9 % of Revenue increase can be explained by other factors not captured by this study. The descriptive statistics of the respective variables are shown below:

Table 4.12: Descriptive Statistics of the data used in the study: Model Summary:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.942a	0.791	0.945	3860600

a Predictors: (Constant), Interest on Loans , Fees Chargeable, Commission Chargeable and Micro Insurance Activities

Table 4.13: Correlation Matrix

		RV	IOL	FC	CC	MI
REVENUE		1				
Interest on Loans	Pearson Correlation Sig (2 tailed)	.820**	1			
		0.432	0.01			
Fees Chargeable	Pearson Correlation Sig (2 tailed)	.889**	.378**	1		
		0.004	0.716	0.1		
Commission Chargeable	Pearson Correlation Sig (2 tailed)	.876**	.532**	0.843**	1	
		0	0.064	0.014	0.014	
Micro Insurance	Pearson Correlation Sig (2 tailed)	.826**	.532**	0.813**	0.713**	1
		0.002	0.064	0.014	0.001	0.001

* Correlation is significant at the 0.05 level (2-tailed)
** Correlation is significant at the 0.01 level (2-tailed)

Source: Author's own Compilation from SPSS version 23

The results of the correlation matrix shown in Table 4.13 above, indicates that Interest on loans charged to customers has a positive correlation with Revenue Increase (0.820). The study findings as depicted in the above table also indicates that there is a strong correlation of Fees chargeable to customers with Revenue increase (0.889). The correlation matrix highlighted above shows that there is a very strong correlation between commission chargeable to customers and revenue (0.876). The correlation matrix results also indicate that there is strong relationship between micro insurance activities and revenue (0.826).

Regression Analysis

The study performed a regression analysis to test the relationship between Bank's venturing into microfinance and Revenue. The independent variables represented by microfinance activities which include charging interest on loans, charging fees on customer's accounts, charging commission to third party products and micro insurance activities were regressed against the dependent variable Revenue which was proxied by (Interest on loans, Fees income, commission received and micro insurance gross premiums written).

The results of the descriptive statistics and regression analysis are shown in table 4.14 below:

Table 4.14 Regression of Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.562	1.421		1.383	0.0710
	IOL	0.635	0.544	0.466	6.505	0
	FC	0.289	0.203	0.103	2.122	0.001
	CC	0.325	0.123	0.362	2.782	0.423
	MI	0.563	0.432	0.201	2.113	0.001

a Dependent Variable: Revenue

The resultant regression equation becomes;

Y= β0 + β1X1+β2X2 + β3X3+ β4X4 +e

Y = 2.562 + 0.635X1+0.289X2+0.325X3+0.563X4

Where Y is the Revenue and β0, β1, β2, β3 and β4 are the regression coefficients and X1, X2, X3 and X4 are the variables Interest on Loans **(IOL)**, fees chargeable

(FC), Commission Chargeable **(CC)** and Micro Insurance Activities **(MI)** respectively. This implies that:

Interest on loans influences significantly on ZB Bank's revenue as presented by t value of 6.505 with significance of 0,000 (0,000 < 0,005).

Fees chargeable to customers in microfinance activities at ZB Bank influences significantly on the bank's revenue as indicated by a t value of 2.122 with significance of 0,001 (0,001 <0,005).

Commission chargeable on third party products at ZB Bank influences significantly on the bank's revenue as indicated by a t value of 2.782 with significance of 0,423 (0,423 <0,005).

Micro Insurance Activities at ZB Bank influences significantly on ZB bank's revenue as indicated by a t value of 2.113 with significance of 0,001 (0,001 <0,005).

From the above regression analysis, the researcher interprets that interest on loans, fees charged on administration of customers' accounts, commission charged on third party products and micro insurance activities have a significant impact on the revenue of ZB Bank as these increase the total revenue for the group.

By charging interest on loans ZB Bank receives interest income (interest income received), by charging fees ZB Bank gets Fees income, by charging commission ZB Bank receives Commission Income (Commission received) and by undertaking micro insurance activities, ZB Banks receives insurance premium. Micro insurance activities are defined by Churchill (2006) as the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.

Dror (2014) in his study mentioned that Banks provide various loans and advances to industries, corporates and individuals and the interest received on these loans is their main source of income. Dror (2014) further mentions that banks charge fees for performing services like syndication of loans and these increase their overall revenue, as well as selling third party products where they earn commission income by distributing insurance and mutual fund products to their customer base.

Micro insurance activities, which targets people in the informal sector, as being conducted by ZB Bank has a significant impact on increasing its revenue. The bank is able to underwrite micro insurance business which increases its overall Gross Written Premiums (GPW), which is the major source of insurance income. An interview with the head of micro insurance business unit at ZB Bank revealed that in 2019, the bank was able to increase its insurance income by 13% as a result of the microfinance venture.

The results of this study are in line with results of a study by Bell *et al.* (2002) who mentions that banks revenues are positively influenced significantly from microfinances activities because of the interest income, commission income and fees income.

Documentary analysis and inspection of ZB Banks financials revealed that the Net revenue for the bank improved by 21%, from $69 million in 2017 to $83.5m in 2018. This was underpinned by improved performance in net income from lending activities, net insurance premium income as well as fair value credits on the investment portfolio (ZB Bank Annual Financials, 2018).

The financials also showed that Net income from lending and trading activities recorded a 29.1% improvement, from $14.8 million in 2017, to $19.1 million in

2018. This was on the back of a 23.2% rise in interest and related income from $24.8 million in 2017 to $30.6 million in 2018 (ZB Bank Annual Financials, 2018).

The results from the regression analysis reveals that a significant positive relationship exist between microfinance activities and bank's overall revenue. This means the null hypothesis **(H0)** which states that there is a significant positive relationship between microfinance activities and overall revenue of ZB Bank is accepted.

4.3.3 Challenges being faced by ZB Bank in venturing into microfinancing business.

The study sought to establish the challenges being faced by ZB Bank in venturing into microfinancing business. The results are shown in Figure 4.2 below.

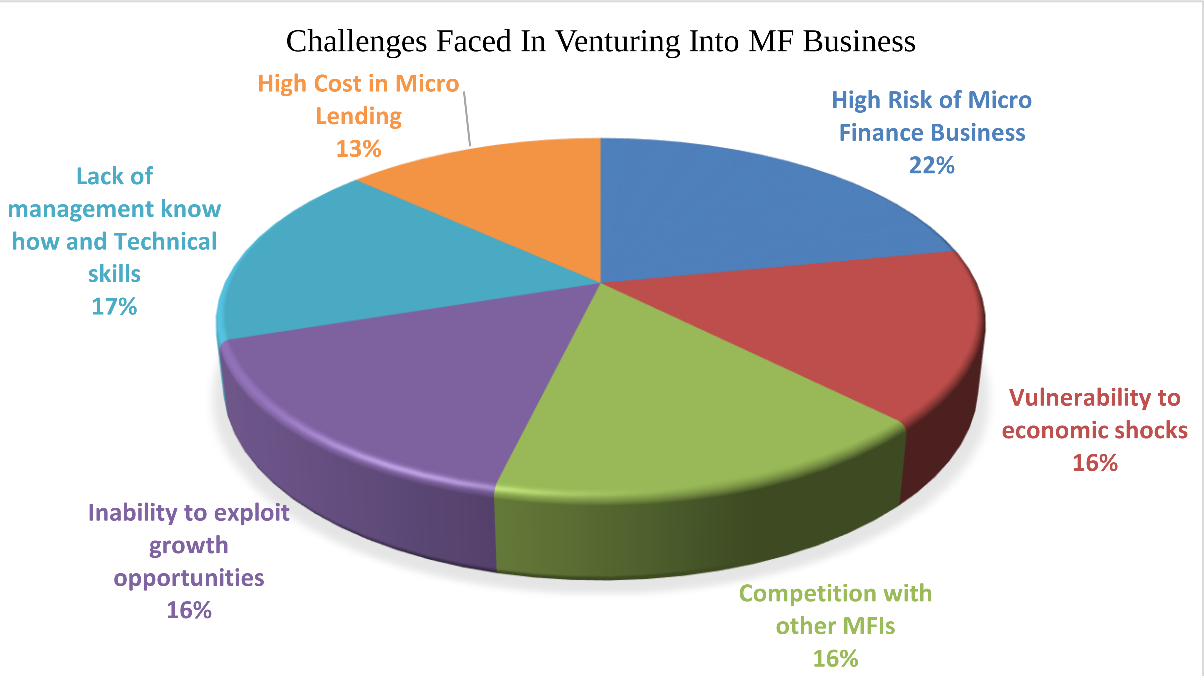


Figure 4.2: Challenges being faced by ZB Bank in venturing into microfinancing business.

The findings shown in Figure 4.2 above shows that most respondents cited that the most prevalent challenges in the bank venturing into microfinance business include factors such as high risk of micro finance business, vulnerability to economic shocks, competition with other MFIS, inability to exploit growth opportunities, lack of management know how and technical skills and high cost in micro lending.

The respondents pointed that there is high default risk in the microfinance business which banks venturing into this type of business also suffer from. The informal sector comprises unregistered businesses whose operations are diverse and may be non-compliant with the expected standards (FinScope, 2012). Because of the fact that microfinance business deals with mainly informal sector clients they always face location challenges in tracking loans and defaulters and suffer huge losses.

Like any other business operating in an unstable environment banks also suffer from economic shocks which also pushes clients to default because of liquidity challenges. For example, in Zimbabwe since, there has been changes in the currencies (currency conundrums) and the circus has also affected banks as clients have been affected of their operations. Dube (2014) also pointed out that in Zimbabwe there has also been liquidity crunch which has caused microfinance businesses to dwindle as the financial sector in Zimbabwe has been facing liquidity challenges since 2009. Liquidity challenges therefore also results in high risk of conducting the business.

Majority of respondents also pointed out that the associated costs for regularizing operations are resultantly high. A study by Matambo *et al*. (2016) also shows that there are high costs of operating a microfinance business.

Commercial banks lack an understanding of the microfinance market and its clientele, and often dismiss this segment as both too risky and too expensive. Even if a bank recognizes that microfinance can be profitable, the resulting portfolio size may be viewed as too small relative to the level of effort required to manage a microfinance operation (Matambo, *et al*., 2016).

Commercial banks find it difficult to integrate microfinance within a larger bank culture and structure that is not geared toward a high volume, small loan size business (Matambo, *et al*., 2016).

Microenterprise credit requires staff who are comfortable working in the neighbourhoods where clients live and work, and who must be highly productive in order to succeed. Monetary incentive systems are often used to spark such productivity. These requirements of microfinance are often incompatible with the human resources profile and policies of commercial banks. In terms of cost-effectiveness traditional bank mechanisms and overhead structures make it difficult for banks to minimize processing costs, increase staff productivity, and rapidly expand microfinance loan portfolios (Matambo, *et al*., 2016).

4.3.4 Strategies and recommendations that ZB Bank and other commercial banks can implore to thrive in the Micro financing business.

The fourth objective of the study was to proffer strategies and recommendations for adoption for success in microfinancing business by commercial banks. The results are shown in table 4.15 below.

Table 4.15: Strategies that ZB Bank and other commercial banks can implore to thrive in the Micro financing business

Strategies for success in MF business	N	Mean	Mode	Std. Dev
Sticking to Core Business Operations	69	2.73	4	0.56
Countering Competition	69	3.62	4	0.23
Efficient Credit Risk Management	69	1.85	4	0.33
Adequate Knowledge of Micro Lending Business	69	2.21	4	0.37
Adequate Capitalization	69	1.91	4	0.87
Internal Controls	69	2.17	4	0.62
Offering a wide products range	69	2.12	4	0.66

The study findings as shown in table 4.15 above shows that participants pointed that sticking to the core business is the main successful factor for banks striving in MF business (mean=2.73). Dube (2015) maintained that diversion into non-core business operations is one of the major causes of the downfall of some micro lending businesses. Banks venturing into MFIs may end up taking deposits thereby increasing the risk profile of the business as it requires effective management of liquidity and credit risk. The responses from the survey also unearthed that some of the deposits were not transformed into loans but were invested in some other ventures.

Respondents also suggested that for banks venturing into microfinance business they need to counter competition and take advantage of their large deposits (mean=3.62). Since many banks owned micro finance institutions competes with non-bank owned micro lending institutions, bank owned micro finance institutions have easier access to finance from their banks as compared to non-bank owned micro lending businesses. Moreover, preference to funding is always given to the bank owned microfinance businesses relative to MFIs. The non-bank owned micro lenders are considered less creditworthy than the bank owned micro lenders and thus bank owned microfinances should take advantage of their easy access to funding.

The study findings also revealed that banks venturing into microfinance business must have efficient credit risk knowledge (mean=1.85) and this factor was identified amongst the most important factors that can lead to success in microfinance business. A study by Dube (2015) titled "The Downfall of the Micro Lending Businesses in Zimbabwe: Causes and Remedies" revealed that poor or inefficient credit risk management strategies were the major cause of the downfall of micro lending businesses. Dube (2015) further mentions that most micro lenders did not make follow ups to establish if the loans were put into their intended uses and where creditors do not make a follow up borrowers end up diverting the uses of loans and the end result would be failure by the borrowers to repay back the loans.

It is always advisable that banks venturing into MF business should have relevant credit risk assessments and must be able to do all the necessary credit checks on their clients to assess credit worthiness and assess the value they may be putting at least. Thus respondents cited that there is need for adequate knowledge of micro lending business (mean=2.21). Microfinance and the lending business involves extension of micro loans which have risks attached to them such as credit risk, operational risk, interest rate risk and liquidity risk all of which must be managed efficiently for the survival of the business. Thus the business staff need to be knowledgeable in this area.

ZB Bank's annual financial report for 2018 revealed that a notable improvement in the quality of the Group's assets exposed to credit risk was observed with the non-performing loans ratio having improved to 4.6% at 31 December, 2018, compared to 10.7% reported at 31 December, 2017. This improvement is a result of collection efforts and credit expansion through tight credit selection processes in micro finance activities in an environment where credit absorption in the productive sector has remained low (ZB Annual Report, 2018). Thus assessment of credit risk is a critical success factor in microfinance business.

Adequate capitalization (mean=1.91) as a factor was also pointed by the respondents as a major contributor to successful microfinance business. For the success of a microfinance there is need for adequate capitalisation as a well-capitalised micro finance is in a better position to absorb losses. The prevailing economic environment in Zimbabwe has over the last five years been characterised by high volatility resulting in high levels of non-performing loans being experienced in the financial sector, as also explained by the incorporation of Zimbabwe Asset Management Corporation (ZAMCO), established by the Reserve Bank of Zimbabwe in July 2014 as part of holistic measures to deal with problem of rising non-performing loans (NPLs) in the banking sector (http://www.zamco.co.zw). Thus, a microfinance needs to be adequately capitalised to absorb the shocks of an unstable economic environment. The findings are consistent with the findings by Wesley (2006) who in his study also found out that there is need for sufficient portfolio funding from which to make loans.

Respondents also cited that there is need for adequate internal controls to ensure a trade-off between costs and returns (mean=2.17) and this factor was also identified as one of the most important internal success factors for microfinance business.

Respondents highlighted that the absence of internal controls contributes to collapse of microfinance business. When controls such as authorization are weak there can be wrong disbursements of loans or insider trading or lending or corrupt activities which affect the operations resulting in losses. When controls are weak, loans can be disbursed to people without performing due diligence and clients with high risk being allocated loans.

The findings also revealed that there is need for a variety of loan products tailor made to suit the incomes of the citizens of Zimbabwe (mean=2.12). For a microfinance to be successful there is need for availability of a wide range of products and a microfinance should continuously introduce new products (e.g., equipment loans, housing loans, small and medium-size enterprise loans, credit cards, and, for deposit mobilizing subsidiaries, deposit products), as well as modifying existing products to better fit microenterprise clients (e.g., savings ac-counts with low minimum balances).

The study findings are consistent with the findings of Delfiner *et al.* (2007), who posits that there is also need to have a wide branch network in areas best suited to offer micro loans and other microenterprise products, and utilize part-time or mobile branches where demand does not warrant a full-time, fixed branch. Westley (2006) further posits that there is need for flexible and competitive interest rates charged on the different loan products.

Westley (2006) also advocated for the adequacy of branch locations in all areas and mentions that when some of the bank branches are located in low-income neighbourhoods, near to markets with substantial concentrations of micro entrepreneurs, or in other areas suited to micro lending, it may be best for micro lenders to utilize these branches, as micro lending can potentially bring thousands of new clients into bank branches, and the bank needs a well thought out plan on how to accommodate this.

4.4 Summary

This chapter has presented the findings and provided an analysis and interpretation of results. The chapter has also provided a discussion and comparison of with other previous researchers' findings. The next chapter provides a summary of the study, conclusions, recommendations, and suggestions for areas that needs further study.

CHAPTER 5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the research, study's conclusions and recommendations as well as the implications and suggestions for further study.

5.2 Discussion

The main objective of the study was to present an analysis on the relationships or links between commercial banking and Micro financing and to identify or establish the reasons for banks venturing into Microfinancing in the case of ZB Bank. In conducting the study, the researcher used both primary and secondary data and qualitative and quantitative data analysis techniques. The main data collection instruments used in this study were questionnaires and interviews.

The study found out that ZB Bank has ventured into microfinance business because of the growing competition in the banking markets, because of the bank's large capital base and the need to diversify loan portfolios, the need to make use of underutilised capacity and the need to improve its revenue base by tapping revenue from the informal sector. The bank was also motivated to venture into microfinance operations because of large profits obtainable from MF operations and also because of the microfinance's business' compatibility with bank operations.

The study also found out that that a significant positive relationship exists between microfinance activities and the overall revenue of ZB bank. Interest on loans, fees charged on administration of customers' accounts, commission charged on third party products and micro insurance activities have a significant impact on the revenue of ZB Bank as these increase the total revenue for the group.

The study also found out that the most prevalent challenges in the bank venturing into microfinance business include factors such as high risk of micro finance business, vulnerability to economic shocks, competition with other MFIS, inability to exploit growth opportunities, lack of management know how and technical skills and high cost in micro lending.

The study also found out that sticking to core business operations, countering competition, efficient credit risk management, adequate knowledge of micro lending business, adequate capitalization, internal controls and offering a wide products range are the critical success factors for commercial banks venturing into microfinance business.

5.3 Conclusions

5.3.1 The study concludes that ZB bank ventured into microfinance business to tap revenue from the informal sector. In Zimbabwe, given that the economy has gone largely informal ZB bank have moved to microfinance business to be able to tap into that market as it is difficult for the informal sector business to access credit from banks because of collateral requirements which can be tailor made to suit them by microfinance activities.

5.3.2 The study concludes that a significant positive relationship exists between interest on loans, fees charged on administration of customers' accounts, commission charged on third party products and micro insurance activities. ZB bank's revenue is increase through interest from loans and through fees which it charges for performing services like syndication of loans and these increase their overall revenue, as well as selling third party products where they earn commission income by distributing insurance and mutual fund products to their customer base.The bank through its micro insurance unit underwrites micro insurance business which increases its Gross Written Premiums (GPW) and the overall revenue.

5.3.3 The study also concludes that there is high default risk in the microfinance business which banks venturing into this type of business also suffer from and like any other business operating in an unstable environment commercial banks venturing into microfinance business also suffer from economic shocks which also pushes clients to default because of liquidity challenges and also that the associated costs for regularizing microfinance operations are resultantly high.

5.3.4 The study also concludes that commercial banks venturing into microfinance business must not divert from the core intended business, must have a large capital base and must have proper internal controls and efficient credit risk management for them to be successful.

5.4 Implications for Policy Makers

The findings from this study are important in informing bank managers, the government, the RBZ and microfinance experts in understanding the major reasons why commercial banks venture into microfinance business. The study is therefore of the opinion that there is need for protection of non-bank owned microfinance institutions by the Central bank as commercial banks take advantage of their huge capital base, names and infrastructure to exploit the microfinance market. The study also advocates for banks venturing into microfinance business to tailor make their products and meet the requirements of the previously unbankable or the concerns of the growing informal business.

5.5 Recommendations

The study recommends the following:

5.5.1 There is need for ZB bank to tailor make the loans to suit the informal sector upon downscaling to microfinance business. Commercial banks, to achieve expected success must ensure high volume of operations, which is achieved by reaching thousands of clients especially in the informal sector, each with numerous, small and short-term transactions.

5.5.2 In order to tap into the informal sector the ZB bank must offer high quality client service, which is delivered to meet the socio-economic needs of clients often living in the informal economy and traditionally marginalized from formal financial institutions. This has an impact of increasing its revenue.

5.5.3 To reduce the risk involved in microfinance business ZB Bank must consistently conduct risk management systems managed by trained people and customized to the high volume of operations and informal nature of the clients.

5.5.4 Moreover, ZB bank and other commercial banks venturing into microfinance business need to align their operations with the bank's core commercial strategy and have a large capital base and must have proper internal controls and efficient credit risk management. They must also have appropriate staff training and incentives on new clients, products, and delivery systems.

5.6 Suggestions for further research

The study advocates for further research to be carried out to explore the role of the central bank in regulation of commercial banks' entry into the microfinance business as well as to identify the challenges faced from the customer's perspective on their experience when dealing with bank owned microfinance institutions. Future studies should also be conducted to assess the performance on a comparative basis between commercial banks owned microfinances and non-banked owned microfinances.

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APPENDICES

APPENDIX 1: INFORMED CONSENT GUIDE

My name is Tonderai Karumbidza, a final year (EMBA) student from Africa University. I am carrying out a study on Commercial Banks Venturing into Microfinances. I am kindly asking you to participate in this study by answering/filling in my questionnaire.

Purpose of the study:

The purpose of the study is to find best strategies commercial banks can implore in order to thrive well in the microfinance sector. You were selected for the study because of your experience and exposure of the organization.

Procedures and duration

If you decide to participate you will complete this paper and it is expected that this will take about 15 minutes of your time.

Risks and discomforts

There is risk for dissemination of confidential information of the organisation. Time for your work is disturbed as you are going to sacrifice time for your work. This will be used for academic purposes only and will remain confidential.

Benefits and/or compensation

You are not going to receive any form of cash/ kind for participating in this research. However, your voluntary participation will help for sound recommendations on how commercial banks can best interact with the informal sector.

Confidentiality

Any information that is obtained in the study that can be identified with the participant will not be disclosed without their permission. Names and any other identification will not be asked for in the questionnaires.

Voluntary participation

Participation in this study is voluntary. If participant decides not to participate in this study, their decision will not affect their future relationship with university, government and relevant authorities. If they chose to participate, they are free to withdraw their consent and to discontinue participation without penalty.

Offer to answer questions

Before you sign this form, please ask any questions on any aspect of this study that is unclear to you. You may take as much time as necessary to think it over.

Authorisation

If you have decided to participate in this study, please sign this form in the space provided below as an indication that you have read and understood the information provided above and have agreed to participate.

-- ------------------------------

Name of Research Participant (please print) Date

Signature of Research Participant or legally authorised representative

If you have any questions concerning this study or consent form beyond those answered by the researcher including questions about the research, your rights as a research participant, or if you feel that you have been treated unfairly and would like to talk to someone other than the researcher, please feel free to contact the Africa University Research Ethics Committee on telephone (020) 60075 or 60026 extension 1156 email *aurec@africau.edu*

Name of Researcher --

APPENDIX 2: FEEDBACK QUESTIONNAIRE

QUESTIONNAIRE TO CUSTOMERS

SECTION A: CUSTOMERS INFORMATION

Q1: What is your gender? *Please tick (□) appropriate answer.*

Male	
Female	

Q2: What is your current employment status? Please tick (□) appropriate answer.

Unemployed	
Employed	
Self employed	

Q3: What age range do you fall in? Please choose the age of your last birthday.

Please tick (□) appropriate answer.

18-25	
26-34	
35 and above	

Q4: what is the highest educational qualification you have attained? Please tick (□) appropriate answer.

Primary	
Secondary	
Diploma	
Degree and above	

SECTION B: IMPACT OF MICROFINANCE ACTIVITIES ON TOTAL REVENUE

Q5 (a): Do you think microfinance activities increases Revenue at ZB Bank?

Please tick (□) appropriate answer.

Yes	
No	

Q5 (b): If yes, to question 5(a), explain how?

....

....

Q6: Have you ever get any loan from the ZB bank or ZB microfinance?

Yes { }   No { } Please tick appropriate.

(b) Were the interest rates favorable?

(c) Were the fees chargeable favorable?

(d) In terms of borrowing, which institution are you comfortable to deal with, Bank or microfinance? State your reasons.

....

....

....

Q8: With the status of your employment, which institution are you comfortable to deal with? Why?

....

....

....

SECTION C: RECOMMENDATIONS TO ZB BANK ON HOW BEST THEY CAN TAP INTO INFORMAL SECTOR

Q12: What do you think is the best strategy ZB bank can employ in order to win all the informal business which are not banked?

....
....
....

(b) What model of banking/service would you expect from either the bank or the microfinance?

....
....
....

Any additional comments you would like to make?
……………………………………………………………………………………………
……………………………………………………………………………………………
……………………………………………………………………………………………

End of Questionnaire

Thank you for your co-operation

QUESTIONNAIRE FOR BANKERS

Q1: What is your gender? Please tick (□) appropriate answer.

Male	
Female	

Q2: What age range do you fall in? Please choose the age of your last birthday.

Please tick (□) appropriate answer.

18-25	
26-34	
35 and above	

Q3: What is your position at employment? Please tick (□) appropriate answer.

Manager	
Officer	
Clerk	

Q4: For how long have you been at that position? Please tick (□) appropriate answer.

1 years and less	
Between 1 and 5 years	
5 years and above	

Q5: What is the highest educational/professional qualification you have attained? Please tick (□) appropriate answer.

Secondary	
Diploma	
Degree and above	

SECTION B: REASONS BEHIND ZB BANK's VENTURING INTO MICROFINANCING

In the following subsections kindly rate your responses on a scale of 1 to 5 by putting an X in the appropriate box.

1=Strongly Disagree; 2=Disagree; 3=Neutral; 4= Agree; 5= Strongly Agree

Reasons behind Bank venturing into Microfinancing	**1**	**2**	**3**	**4**	**5**
Growing competition in markets traditionally served by banks					
Possibility of cross selling					
Greater ability to meet Regulatory Requirements					
Diversifying loan portfolios					
To make use of underutilised capacity					
To tap into the Informal sector					
Large profits from MFIs					
Compatibility with bank operations					

SECTION C: IMPACT OF MICROFINANCE ACTIVITIES ON TOTAL REVENUE

Q6 (a): Does the microfinance activities increase revenue at ZB Bank?

Please tick (□) appropriate answer.

Yes	
No	

Q6 (b): If yes, to question 5(a), how does it increase revenue?

…………………………………………………………………………………………

……………………………………………………………………………………...

SECTION D: CHALLENGES FACED BY BANKS IN VENTURING INTO MICROFINANCE OPERATIONS

In the following subsections kindly rate your responses on a scale of 1 to 5 by putting an X in the appropriate box.

1=Strongly Disagree; 2=Disagree; 3=Neutral; 4= Agree; 5= Strongly Agree

Challenges faced by Commercial Banks in MF business	**1**	**2**	**3**	**4**	**5**
High Cost in Micro Lending					
High Credit Risk					
Competition with other MFIs					
Vulnerability to Economic Shocks					
Lack of management know how and technical skills					
Inability to exploit growth opportunities					

SECTION E: RECOMMENDATIONS TO COMMERCIAL BANKS ON HOW BEST THEY CAN TAP INTO INFORMAL SECTOR

In the following subsections kindly rate your responses on a scale of 1 to 5 by putting an X in the appropriate box.

1=Strongly Disagree; 2=Disagree; 3=Neutral; 4= Agree; 5= Strongly Agree

Strategies for success in MF business	**1**	**2**	**3**	**4**	**5**
Sticking to Core Business Operations					
Countering Competition					
Efficient Credit Risk Management					
Adequate Knowledge of Micro Lending Business					
Adequate Capitalization					
Internal Controls					
Offering a wide products range					

End of Questionnaire

Thank you for your cooperation.

APPENDIX 3: INTERVIEW QUESTIONS

Q7: Is it a good idea that ZB bank should have microfinance units?

Yes { }   No { } Please tick appropriate.

(b) If yes, what do you think is the most appropriate model e.g. operating under one roof with the commercial bank/different buildings with different branding etc.?

....

....

(c) From your experience, is ZB bank serving all customers including the informal sector customers? Yes/No, Justify your answer.

....

....

(d) What is your suggestion that ZB bank should employ in order to tap into the informal sector?

……………………………………………………………………………………

……………………………………………………………………………………

(e) As a bank, do you have products that suit customers in the informal sector? Name just a few.

....

....

Q8: Does operating a microfinance improve the revenue of the bank? Yes/ No Explain your answer

....

....

Q9 Would you know and other reasons why most commercial banks are opening microfinance units?

……………………………………………………………………………………

……………………………………………………………………………………

Q10: What do you think is the best strategy ZB bank and other banks can employ in order to win all the informal business which are not banked?

....

....

Q11. What model of banking/service would you recommend to ZB bank or the microfinance for them to win the unbanked informal sector?

....

....

Q12 What other strategies can ZB bank employ in order successfully run a microfinance unit?

……………………………………………………………………………………

……………………………………………………………………………………

Any additional comments you would like to make? ………………………………………………………………………………………… ………………………………………………………………………………………… …………………………………………………………………………………………

APPENDIX 4: DATA FOR REGRESSION

Revenue from Microfinance Activities (2018)

Month	Interest from Microfinance activities	Fees Income from Microfinance Activities	Commission Income-Micro finance	Micro Insurance GWP	Total Revenue from Microfinance Activities
	USD	**USD**	**USD**	**USD**	**USD**
January	367,787.00	256,715.33	157,133.53	156,879.56	938,515.42
February	369,625.94	257,228.76	157,337.80	157,350.20	941,542.70
March	371,474.06	257,743.21	157,542.34	157,822.25	944,581.87
April	373,331.43	258,258.70	157,747.15	158,295.72	947,633.00
May	375,198.09	258,775.22	157,952.22	158,770.61	950,696.14
June	377,074.08	259,292.77	158,157.56	159,246.92	953,771.33
July	378,959.45	259,811.35	158,363.16	159,724.66	956,858.63
August	380,854.25	260,330.98	158,569.03	160,203.83	959,958.09
September	382,758.52	260,851.64	158,775.17	160,684.45	963,069.78
October	384,672.31	261,373.34	158,981.58	161,166.50	966,193.74
November	386,595.68	261,896.09	159,188.26	161,650.00	969,330.02
December	388,528.65	262,419.88	159,395.20	162,134.95	972,478.69
Total	**4,536,859.48**	**3,114,697.26**	**1,899,143.00**	**1,913,929.66**	**11,464,629.40**

Source (ZB Bank Management Reports, 2018)

ZB Bank Total Revenue (2018) Consolidated

ZB Bank Total Revenue	**USD**
Interest and Related Income	30,572,053.00
Gross insurance premium income	32,787,829.00
Commission and fees	39,955,894.00
Other Operating Income	5,282,412.00
Total Revenue (2018)	**108,598,188.00**

Source: ZB Bank Annual Report (2018) *Notes to the financial statements* (*Note 27.1-29)*

APPENDIX 5: AUREC APPROVAL

AFRICA UNIVERSITY

(A United Methodist-Related Institution)

INVESTING IN AFRICA'S FUTURE

AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE (AUREC)

P.O. Box 1320 Mutare, Zimbabwe, Off Nyanga Road, Old Mutare-Tel (+263-20) 60075/60026/61611 Fax: (+263 20) 61785 website: www.africau.edu

Ref: AU1206/19 16 December, 2019

Tonderai Karumbidza
C/O CBPLG
Africa University
Box 1320
Mutare

RE: COMMERCIAL BANKS VENTURING INTO MICROFINANCE OPERATIONS: A CASE OF ZB BANK LIMITED

Thank you for the above titled proposal that you submitted to the Africa University Research Ethics Committee for review. Please be advised that AUREC has reviewed and approved your application to conduct the above research.

AFRICA UNIVERSITY
RESEARCH ETHICS COMMITTEE (AUREC)
16 DEC 2019
APPROVED
P.O. BOX 1320, MUTARE, ZIMBABWE

The approval is based on the following.

a) Research proposal
b) Questionnaires
c) Informed consent form

- **APPROVAL NUMBER** AUREC1206/19

This number should be used on all correspondences, consent forms, and appropriate documents.

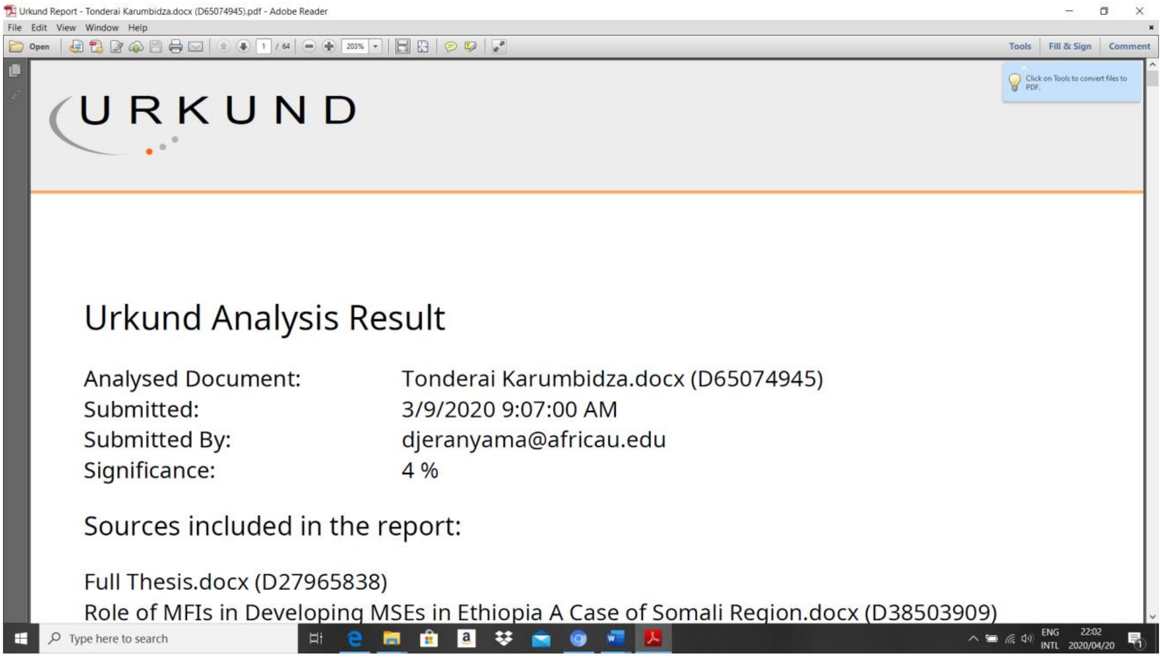
- **AUREC MEETING DATE** NA
- **APPROVAL DATE** December 16, 2019
- **EXPIRATION DATE** December 16, 2020
- **TYPE OF MEETING** Expedited

After the expiration date this research may only continue upon renewal. For purposes of renewal, a progress report on a standard AUREC form should be submitted a month before expiration date.

- **SERIOUS ADVERSE EVENTS** All serious problems having to do with subject safety must be reported to AUREC within 3 working days on standard AUREC form.
- **MODIFICATIONS** Prior AUREC approval is required before implementing any changes in the proposal (including changes in the consent documents)
- **TERMINATION OF STUDY** Upon termination of the study a report has to be submitted to AUREC.

Yours Faithfully

MARY CHINZOU – A/AUREC ADMINISTRATOR
FOR CHAIRPERSON, AFRICA UNIVERSITY RESEARCH ETHICS COMMITTEE



URKUND

Urkund Analysis Result

Analysed Document: Tonderai Karumbidza.docx (D65074945)
Submitted: 3/9/2020 9:07:00 AM
Submitted By: djeranyama@africau.edu
Significance: 4 %

Sources included in the report:

Full Thesis.docx (D27965838)
Role of MFIs in Developing MSEs in Ethiopia A Case of Somali Region.docx (D38503909)