Key Success Drivers for Microfinance Institutions in Zimbabwe: Developing Core Competences for Financial Inclusion

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Abstract

The microfinance sector has become a major conduit for the provision of financial services to the poor citizens and the informal business sector who are shunned by the conventional banking system on the basis of being high risk. Quite a significant number of microfinance institutions have been struggling for survival since the adoption of the multicurrency owing to the general meltdown of the economy. This study focuses on key drivers of success underpinning the performance of Microfinance Institutions (MFIs) in Zimbabwe. It adopts both inferential and descriptive methods to identify the antecedents of success in the microfinance business. The study identifies prudent risk management, regulatory framework, corporate governance, technology and innovations, and staff training and motivation as significant drivers of success for microfinance institutions in Zimbabwe. Other factors affecting the success of MFIs include management and leadership, access to resources as well as coverage, reach and marketing.

Keywords: Drivers of success, financial inclusion, prudent risk management, motivation, regulatory framework, corporate governance.

1. Introduction

The micro finance sector plays a progressively more fundamental role in the attainment of an all-inclusive financial service delivery in Zimbabwe where in excess of 23% of the populace is financially excluded and 37% relying solely on informal services (Finscope, 2014). With sustained rise in unemployment grappling the nation, many people find themselves unable to access the formal banking system whose services have mainly become salary based. This has seen a shift towards microfinance sector whose services are suitable and convenient to the poor and informal businesses that mostly are unbanked. Predictably there has been a significant increase in microfinance institutions from 135 in September 2014to 155 in September 2015(RBZ quarterly report on MFI sector, 2015) as the industry seeks to niche in on the gap left by the formal banking system.

Whilst many studies have focused on the challenges faced by microfinance institutions in Africa and the world over (Chan, S.H., 2010; Chowdhury, A.M., 2009;Fatimah-Salwa, A.H., Mohamad-Azahari, A. &Joni-Tamkin, A., 2013; Hulme, D. & Moore, K., 2006; Mokhtar, S.H., Nartea, G. &Gan, C., 2012)and key success factors in the emerging markets of Asia, little has been done to unpack key factors that drive the success of these institutions in economic environments such as is obtaining in Zimbabwe. More so, given the increasingly dominant role played by microfinance institutions in bringing about financial inclusivity, it is imperative to synthesize the key variables needed to grow the sector.

This study thus sought to identify the factors that drive the success of microfinance institutions in Zimbabwe so that the sector can leverage on the factors to foster own growth as well as ensure financial inclusivity in Zimbabwe.

2. Literature Review

Literature has shown that the success of microfinance in Asian nations has been largely hinged on a variety of factors ranging from information technology, innovation, staff training and motivation, management leadership, regulatory framework Information Technology & Innovation, prudent risk management, coverage, reach and marketing, resource access, corporate governance (Pinz and Helming, 2014; Kamukama et. al, 2010; Chirwa et al, 1999; Pinz & Helmont, 2014; Kaplan & Norton, 2009; Chowdhury, 2009).

2.1. Information Technology and innovation

Innovation has long been identified as the pillar stone of success for micro finance institutions. Chowdhury (2009) presents that the success of the MFI sector in Bangladesh has been greatly underpinned by a great investment by pioneer MFIs in product innovation and a continuous redesigning of products in line with the target of the MFI sector which mainly is the poor section of society. The RBZ report on the status of the microfinance sector (2015) notes that MFIs must invest in robust Management Information Systems (MIS) to ensure integrity, relevance and timeliness of financial information. Currently, the majority of MFIs in Zimbabwe are using rudimentary systems that have been found to hinder the preparation of financial statements that reflect the true and fair condition of the business (RBZ, 2015)

2.2. Staff Training and Motivation

The success of any institution requires high competency standards on the part of its staff. In Asia, staff training and retraining has been identified as the main force fostering the growth of the MFI sector (Chowdhury, 2009). Intellectual capital is widely reported as a strong driver of success for organizations (Pinz and Helming, 2014; Kamukama et. al, 2010). MFIs need to consider their recruitment process to attract best qualified staff and engage in retraining strategies so as to better achieve results (Chirwa et al, 1999; Pinz & Helmont, 2014).

Hartungi (2007) and Hulme & Moore (2006) present that employee incentives have a significant contribution to success in the micro lending business. The merit based promotion and bonus system are among the most commonly used incentive systems that contribute to success in the microfinance sector (Kaplan & Norton, 2009 and Mckin & Hughart, 2005 cited in Chowdhury 2009; Pinz & Helmont, 2014;Hartungi, 2007). Adequate remuneration of staff managerial and non- managerial is critical for better results.

2.3. Management and Leadership

Literature shows that the history and track record of management is critical for the growth and sustainability of microfinance institutions. Chan (2010) identifies leadership experience and commitment as fundamental determinants of MFI success. Management is essential for the establishment of the organizational structure of the MFI, establishment of key alliances and important networks. It is critical to have a diversity of technical experience in the oversight arm of the MFI.

Some researchers have found that the degree of autonomy granted by top management is critical for the success of MFIs (Pinz & Helmont, 2014). Leadership that is energetic, highly focused, resourceful and accountable enhance innovation, development, success and sustainability of the institution (Ledgerwood & White, 2006). A good institutional structure ensures the separation of control and management.

2.4. Regulatory Framework

Boating & Agyel (2013) present that effective financial intermediation from MFIs requires a favorable and effective regulatory framework. There is need for government to eliminate unfair competition so as to encourage the growth of MFIs (Hubka & Zaidi, 2015; Crabb, 2008) as well as ensuring sustainability and maturity in the sector (Kimando & Kihoro, 2012). The regulation of lending rates should consider the sustainability of the MFIs who in most cases cannot survive under a low interest rate regime because they cannot sustain their cost and business model in an environment where the regulators have put a rate cap. It must be the prime focus of regulators to put in place policies and regulations that ensure prudence in the operation of MFIs (Kimando & Kihoro, 2012; Servinet al., 2012; Ledgerwood & White, 2006).

Key policy issues should enhance depositor protection through maintaining the safety and soundness of financial institutions and borrower protection through ensuring affordable interest rates (Ledgerwood & White, 2006). The control of MFIs should thus be in a manner that does not shut out small and innovative forms of micro financing. Regulation should also enhance resource mobilization sources for micro credit institutions (Ledgerwood and White, 2006)

2.5. Prudent Risk Management

There is need for effective risk management measures given the high exposure of MFIs to risk especially default. Most MFIs lack in risk management from risk identification, measurement, control and monitoring (Bounoula & Rihane, 2014; Kimando & Kihori, 2012; RBZ, 2015). There is need for proper screening of loan applicants to reduce default. Subprime loans always result in unsustainable levels of non-performing loans hence the need to constantly reexamine the lending process (Caudil, 2012 as cited in Pinz& Helming, 2014). Selection is crucial since asset quality ultimately depends on the institution's selection criteria.

2.6. Coverage, Reach and Marketing

For sustainability, MFIs need to have a high financial coverage of the market, which is mostly the poor and Small to Medium Enterprises (SMEs) that are mostly financially excluded, as well as high coverage of products. MFIs need to provide a range of tailored financial packages to the market so as to reach the entire target (Kimando & Kihoro, 2012; RBZ, 2015) which will enable the MFIs to achieve those large numbers necessary to achieve sustainability. There is also need to focus on larger geographical coverage and reach as opposed to concentrating in specific small communities. The RBZ report on the status of the microfinance sector (2015) reports that only a few MFIs have branch networks countrywide in Zimbabwe which has resulted in a skewed market structure in which out of 120 MFIs that submitted returns to the RBZ, 19 hold a loan book exceeding a million which comprise 87.18% of the total market share. A wider geographical reach may enhance the revenue generation and sustainability for the institution.

Ngumbao (2012) presents that at the core of success of an MFI is a good marketing strategy. There is need to examine financial packages and the delivery system to better adopt to the ever dynamic client needs as well as enhance customer loyalty. Goal achievement for MFIs need proper marketing and competitive positioning (Ledgerwood & White, 2006) especially through branding and effectively presenting to consumers the core benefits or value proposition imbedded in securing a relationship with the MFI. Researchers stress the need to match the strength of the MFI with the identified market opportunities (Ledgerwood & White, 2006; Ngumbao, 2012).

2.7. Resource Access

Literature has often revealed that key to the success of MFIs is the ability to access resources at an affordable and sustainable cost relative to the average yield of the portfolio. Many MFIs have difficulties in accessing and structuring funding (Ledgerwood & White, 2006) which have restrained their growth. There are obvious benefits from transforming a non- deposit taking MFI into a deposit taking so as to enhance the diversification and augmentation of existing funding sources. MFIs may need to consider seeking patient capital since using too much debt impacts on their return on equity hence the need to consider adopting an optimal capital structure that maximizes return to equity and minimizes the cost of capital (Ledgerwood & White, 2006).

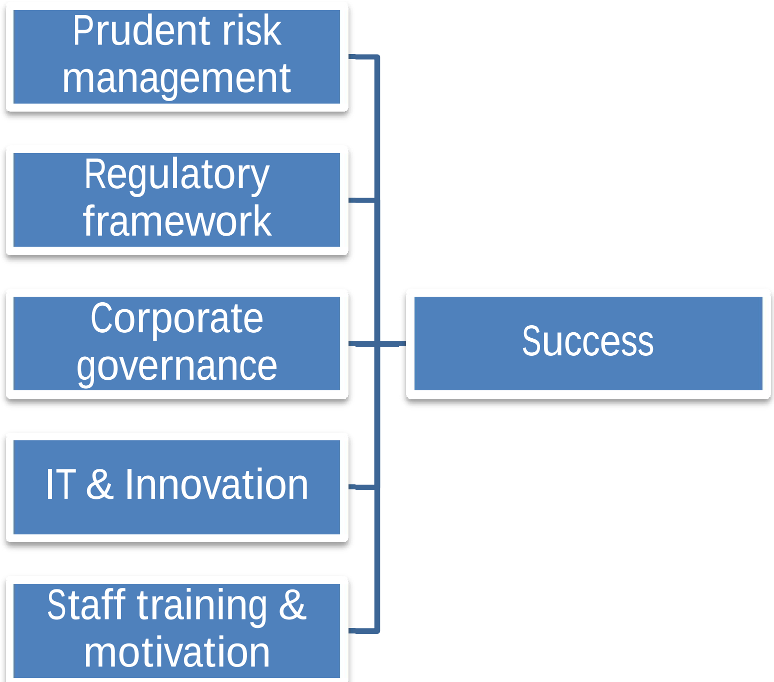
2.8. Corporate Governance

Consumer and business confidence in an organization is heavily influenced by corporate governance practices of the organization. The RBZ report on the status of the microfinance sector (2015) reports that transparency, accountability and honesty disclosure of operations are key ingredients for the success of MFIs in Zimbabwe. Sustainable development and growth of MFIs need strong leadership, vision and skills at corporate level (Ledgerwood & White, 2006) otherwise the public might lose confidence in the MFIs especially those that are accepting deposits from the public.

For many MFIs, ownership and management are not separated which hinders the practice of proper corporate governance practices. There has been consensus on the pivotal dependency of MFI performance on the ownership and governance structure which translates to what Ledgerwood and White (2006) refer to as ownership and governance risk especially for non-deposit taking institutions where there is no separation between ownership and control.

2.9. Conceptual model

Drawing from the above review of literature, we develop the following conceptual model for the study.



This model only considers the main drivers of success for microfinance institutions. Other factors that are incidental are explored on their own.

The following hypothesis are developed from the conceptual model

- H_1 Prudent risk management influences success
- H_2 Regulatory framework influences success
- H_3 Corporate governance influences success
- H_4 Technology and innovation has a direct positive relationship with success
- H_5 Staff training and motivation has a direct influence on success

3. *Methodology*

A survey was employed for data collection targeting employees from microfinance institutions in Matabeleland, Bulawayo, Masvingo and mid lands provinces of Zimbabwe. Sixty two questionnaires were distributed of which fifty responded resulting in a response rate of 80.6%. The study concentrated on the post dollarization period stretching from 2009 to date (2015). A questionnaire was used for data collection owing to the standardized nature of the data sought and the need for reference to records and considered response.

Borrowing from Gadenne (1998) and Fatimah-Salwa A.H. et.al. (2013), this study adopts sustained profitability, the antecedent of survival and growth, as of a measure of success for the Micro-finance institutions in Zimbabwe. The study uses a twin approach of data analysis focusing on both inferential and descriptive statistics to get a better understanding of the factors underlying the success or otherwise of microfinance institutions. Most of the data collected was categorical hence we use categorical regression to test the hypothesis. This approach has the ability to quantify categorical data through the assigning of numerical values to the categories, culminating in an optimal linear regression equation fitted for the transformed variables using optimal scaling methods (IBM, 2013). Through quantifying categories, optimal scaling techniques enable data with too few observations, too many variables and too many values per variable to be analyzed

The relationship between Sustained Profitability(S, representing success), as a dependent variable, and prudent risk management (PRM), regulatory framework (RF), corporate governance (CG), technology& innovations (TI), and staff training & motivation(STM)as antecedents, is modeled at a level of significance of 5% in the following model.

$$S = \beta_0 + \beta_1 PRM + \beta_2 RF + \beta_3 CG + \beta_4 TI + \beta_5 STM$$

4. Analysis And Results

A high level of predictive power is shown between determinants (prudent risk management, regulatory framework, corporate governance, IT &Innovation, staff training and motivation) and success with a coefficient of multiple determinations of 87%. This indicates that around 87% of the variability in success for Microfinance Institutions is explained by the antecedents under consideration as indicated in Table 1 below.

Table 1: Model Summary

Multiple R	R Square	Adjusted R Square
0.945	0.893	0.869

The model was a good fit for the predictors and valid with a whole model p-value of 0.000 hence substantiating the existence of predictive relationship between Prudent risk management, Regulatory framework, Corporate governance, IT & Innovation and Staff training & motivation as antecedents and success as the dependent variable as indicated by the ANOVA results in Table 2 below.

Table 2: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	44.637	9	4.960	36.992	0.000
Residual	5.363	40	0.134		
Total	50.000	49			

4.1 Specific factor contributions to success of MFIs.

There seem to be strong predictive power between the predictors and success across the predictors considered. All predictor variables have p – values less than 0.05 indicating a valid relationship with success across all predictors. Table 3 below shows the standardized coefficients for each predictor as well as the significance of the relationship.

Table 3: Coefficients.

	Standardized Coefficients		df	F	Sig.
	Beta	Std. Error			
Prudent risk management	0.316	0.088	1	12.895	0.001
Regulatory framework	0.163	0.068	2	5.707	0.007
Corporate governance	0.186	0.073	2	6.456	0.004
IT & Innovation	0.218	0.059	2	13.578	0.000
Staff training & motivation	0.303	0.086	2	12.513	0.000

Prudent risk management has the highest standardized coefficient of 0.316 pointing to a strong relationship between good risk management practices and the success of a Micro finance institution. Every 1 unity of standard deviation in prudent risk management results in 0.316 units of standard deviation in success as measured by sustained profitability. Microfinance institutions that fail to invest in risk management find themselves with excessively high Portfolio at Risk levels that lead to losses and erode the capital base of the institutions due to low recovery levels. Poor risk management has been the prime cause of rampant closures and bankruptcy of the vast of microfinance institutions that were struggling in Zimbabwe post 2000 (RBZ report on the status of microfinance sector, 2015).

The study results indicate the importance of the regulatory framework for the success of MFIs. With a standardized beta coefficient of 0.163, the regulatory framework proves to be significant for the success and development of microfinance institutions hence substantiating the necessity for government to put in place mechanisms that ensure fair competition in this financial sector which then will inspire the growth of MFIs and at the same time safeguarding the sustainability and maturity of MFIs. The government may need to consider the regulation of lending rates so as to ensure the sustainability of the MFIs bearing in mind this sector can hardly survive extremely low interest rate environments as their cost and business models are not suitable for interest rate caps.

Corporate governance is equally important for the success of MFIs. The results show a beta coefficient of 0.186 for corporate governance with a p- value of 0.04 pointing to a significant contribution of corporate governance to the success of MFIs. Like in any organization when transparency, accountability and honesty disclosure of operations are present there is most likely to be success in the business. This highlights the importance of separating ownership from control so as to reduce ownership and governance risk.

The study reveals quite a strong significant predictor power between IT & Innovation and success. There is a beta coefficient of 0.218 between these two aforementioned indicating that for every unity of standard deviation in IT & Innovation there are 0.218 units of standard deviation in success as measured by profitability. The results strengthen the calls for MFIs to consider investing as well in robust IT platforms and product innovation as well as continuous redesigning of financial products to match consumer dynamics.

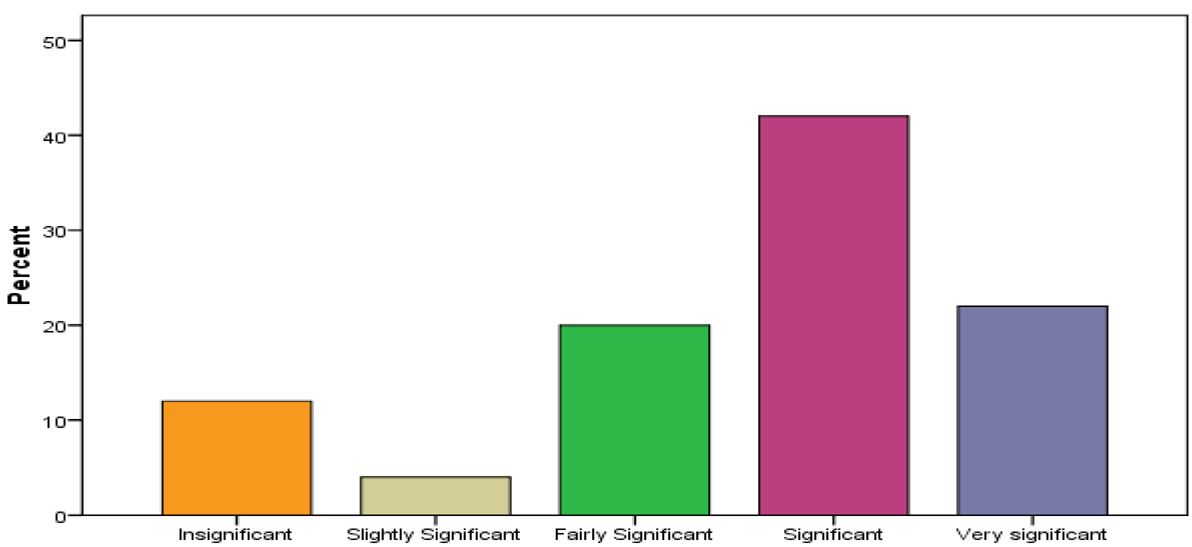
The study affirms findings of Pinz and Helming (2014); Kamukama et. al.(2010) among others pointing to a strong significant contribution of Staff training & motivation to the success of Microfinance institutions. Staff training and motivation has a beta coefficient of 0.303 indicating that on average, a unit of standard deviation change in staff training and motivation results in 0.303 units of standard deviation change in success for microfinance institution. This highlights the need for microfinance institutions to also invest in staff development programs and also put in place interventions that motivate their employees.

4.2. Complementary factors for the success of MFIs

4.2.1. Management and Leadership

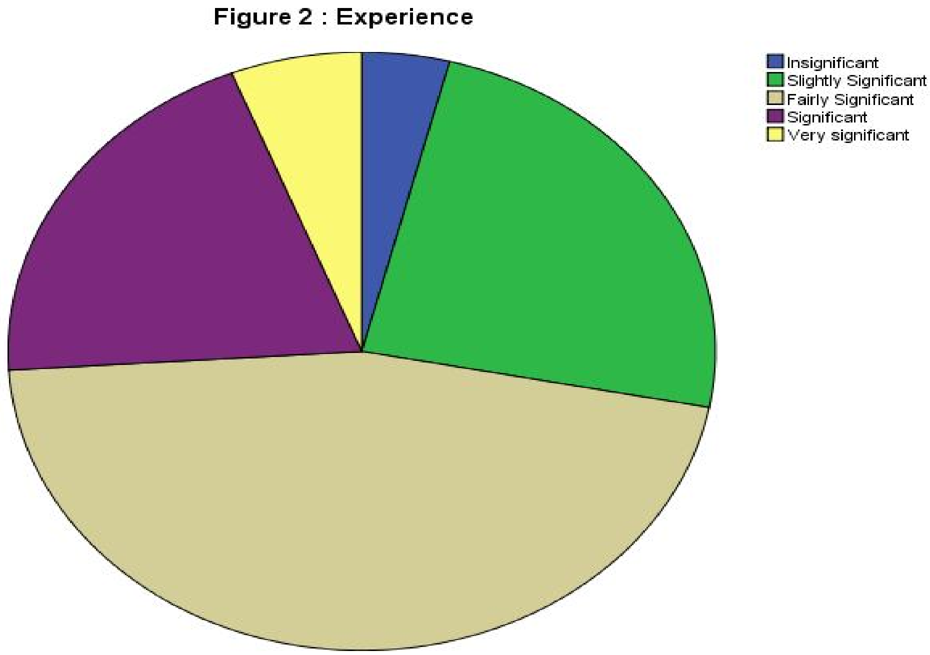
Related to the exercise of good corporate governance practices, just as in any organizations the facet of management and leadership as hypothesized by Chan (2010). Quite a majority of the respondent practitioners in the microfinance sector believe that management leadership is critical for the success of the micro finance sector. Leadership that is highly committed, energetic and focused tend to be associated with successful enterprises. Figure 1 below indicates respondents' views on leadership and management.

Figure 1: Management leadership



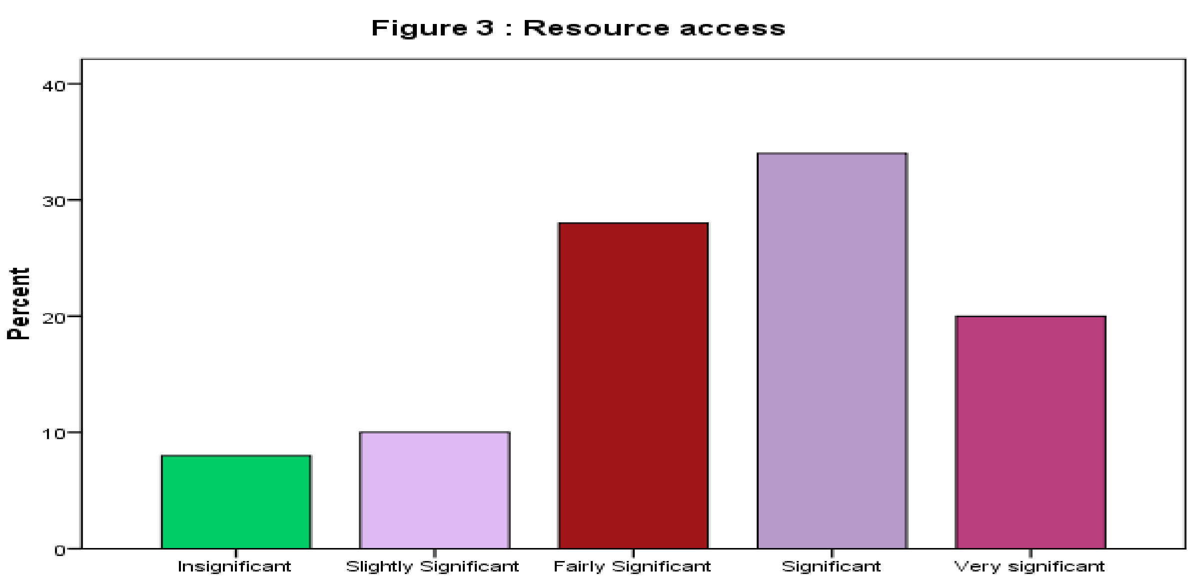
4.2.2. Experience

Respondents believe the success of the microfinance sector has not that much been hinged on experience. Quite a number of closures in the microfinance sector included institutions that had been in business for a considerably long period. Figure 2 below indicates that the general view is that experience is a fairly significant determinant of success for microfinance institutions.



4.2.3. Resource Access

The sustained success and survival of the microfinance sector is greatly hinged on the ability of the sector to mobilize resources at a reasonable cost from sustainable sources. Microfinance institutions need to be able to access financing at low rates of interest for them to be able to offer loans at rates affordable to the poor and the financially excluded sectors of the society. Respondents generally postulate that resource access is key for the success of any microfinance institution. Figure 3 below illustrates the views of the respondents on access to financial resources.

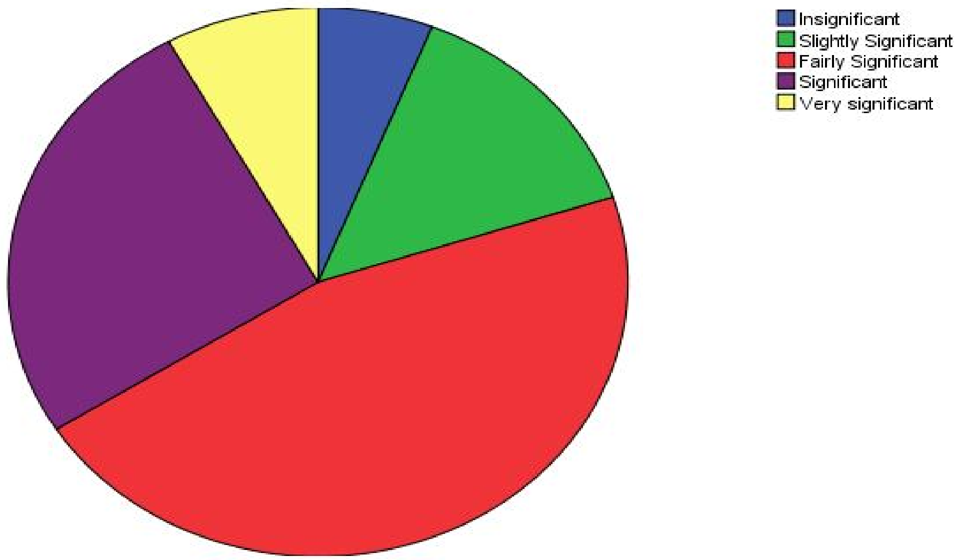


4.2.4. Coverage, Reach and Marketing

Respondents were generally in agreement with respect to the need for microfinance institutions to have high coverage and reach of the market. MFIs need to consider a wide coverage of the market in terms of the number of branches at the disposal of the customers as well as the geographical distribution of the branches so as to cash in on the law of numbers associated with doing business at a large scale.

There is also need to consider the range of the financial packages to be offered to the customers and tailor these to the market so as to capture a significant share of the market. Figure 4 below indicates the contributions of respondents with respect to coverage and reach.

Figure 4 : Coverage and reach



Conclusion

The microfinance sector has become indispensable with the provision of financial services to the financially excluded societies of modern Zimbabwe. They have increasingly become a crucial conduit for the reach of the poor and unbanked populace. Disturbingly, little attention has been given to the sector that contributes so much to the attainment of financial inclusion in a nation where the majority live below the poverty datum line. This study recognizes the importance of the microfinance sector for achievement of high levels of financial inclusion.

The study identifies prudent risk management, regulatory framework, corporate governance, technology& innovations, and staff training &motivation as significant determinants of success for microfinance institutions in Zimbabwe. In addition, there is also need for micro finance institutions to consider management leadership. Financial resource access and coverage and reach as strategic pinnacles in the sector. The implications of the study are that in order to be successful microfinance institutions have to consider and invest in a proper risk management system and robust information technology systems and innovation, adopt and adapt good corporate governance practices, engage in employee motivation and staff development programs.

To ensure sustainable growth of the sector the government on its part needs to ensure the regulatory environment and policies are favorable. Future research may be carried on all provinces of Zimbabwe and possibly look at strategies to support the sector in the current harsh economic environment so that the sector may provide financial services at affordable cost to the poor and the unbanked.

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