Int. j. adv. multidisc. res. stud. 2026; 6(1):1075-1088

Received: 29-11-2025
Accepted: 09-01-2026

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Analyzing the Determinants of Non-Performing Loans: A Case Study of the Manufacturing Sector in Lusaka, Zambia

[1] Muntanga Stanley, [2] Chisala Bwalya

[1] Department of Business and Humanity Studies, Information and Communication University, Lusaka, Zambia
[2] Department of Business, Information and Communication University, Lusaka, Zambia

Corresponding Author: **Muntanga Stanley**

Abstract

This study analyses the determinants of non- performing loans (NPLs) in Zambia's financial sector in the city of Lusaka, Zambia. The research espoused critical factors basing on theories such as the Theory of Asymmetric Information, Deflation Theory and Patronizing and Die another Day Effects Theories. These theories identify various macroeconomic and bank specific factors that may explain and contribute to the problem of loan defaults. The study was motivated by the consistence of the problem of NPLs in the banking industry and the other financial sectors which undermines the financial stability and adversely affects the availability of credit to important economic driving components such as small-scale entrepreneurship.

The study used questionnaire data collected from bank employees involved in loan disbursement and from Micro finance Institutions. Some data were also collected from randomly picked borrowers in the city. Using a multistage cluster sampling strategy, 06 banks and 06 Micro finance Institutions were randomly selected from a population of 19 banks that are registered in the country.

The study's key findings highlighted Macroeconomic factors such as high rates of inflation and exchange rate volatility which leads to instability in bank rates as one of the causes of NPLs. Further, Bank-Specific factors such as weaknesses in client appraisal processes, inadequate supervision of clients who are mainly financially illiterate was found to be another factor. Non-Banking financial institutions were also discovered to have regulatory inefficiencies and poorly trained staff whose main aim is to find borrowers without due diligence checks application. Borrower related challenges include financial illiteracy and poor entrepreneurial knowledge.

The study recommends that financial institutions should strengthen credit risk management and enhance borrower engagement. Further, fiscal and monetary policy measures should ensure stability of lending rates.

Keywords: Non-Performing Loans, Banking Industry, Non-Banking Financial Institution, Employees Perspective

1. Introduction

The recent global financial crisis of 2008/2009 has increased scholarly and policymakers' interest in credit risk and bank stability in general, and the problem of non-performing loans as an indicator of loan defaults in particular. This study focuses on the causes of loan defaults and Non-Performing Loans (NPLs) within commercial banks and other financial institutions in Zambia from the perspective of bank employees and borrowers. The introductory chapter is broken down into the background of the study, statement of the problem, research objectives and research questions, significance of the study and the scope of the study.

1.1 General Objective

To assess the effectiveness of commercial banks capital financing in enhancing the performance of SMEs in Lusaka district.

1.1.1 Specific Objectives

1. To establish the types of loans predominantly granted to SMEs in the manufacturing sector.
2. To examine the causes of non-performing loans from the perspectives of both financial institution employees and SME borrowers.
3. To ascertain the relationship between non-performing loans and the business growth of manufacturing SMEs.
4. To identify and propose mitigation measures for managing and reducing non-performing loans in the financial sector.

1.2 Conceptual Framework

The conceptual framework to follow looked at independent variables that are categorized in four specific factors. These factors are likely to have a trigger effect on the non-performing loans (NPL) ratio which is the measurement indicating NPL as a ratio of the total loans (NPLs/Total Loans), and the NPL amount. The four independent variable factors that have arisen from the above theoretical underpinnings are; Macroeconomic Factors which consists of GDP growth rate, inflation rate, interest rates and exchange rates. The Bank Specific factors comprising of credit risk management practices of the institutions, loan appraisal processes, loan to value ratios, capital adequacy ratios. The third independent factor are the Borrower Specific factors which looks at issues such as credit risk management practices, business performance capacity, collateral and financial literacy levels. Fourthly, Regulatory and Institutional Factors which comprises of regulatory frameworks of institutions, management effectiveness and credit information sharing capacity.

This shows the diagrammatic depiction of the relationship between commercial The Dependent variable arising from these categories of factors is the amount of NPLs in the sector in comparison with recovered loans. Expected outcomes from this framework should provide a structure for analyzing the determinants of NPLs in the financial sector by identifying the key determinants of the NPLs in Lusaka and also help in comprehending the relationship between the categories of factors stated and NPLs. This will further provide insights into the implications of NPLs for financial stability and economic growth in the country in general.

Figure 1 Conceptual Framework

banks' capital financing and the variables (credit terms, interest rates, bank credit) with their indicators and the performance of SME determinants.

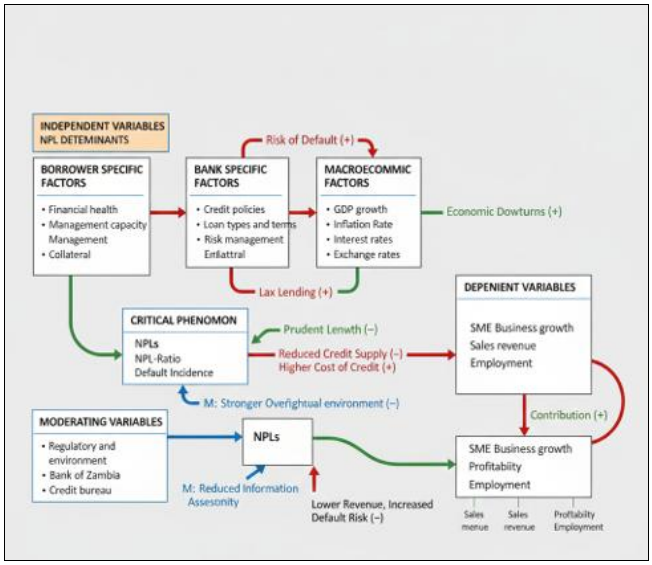


Fig 2: Conceptual framework for the assessment of commercial banks' capital financing on the performance of SMEs

The colour coding helps visualize the flow:

- **Green Arrows (+):** Positive influence (an increase in A leads to an increase in B, or a decrease in A leads to a decrease in B).
- **Red Arrows (-):** Negative influence (an increase in A leads to a decrease in B, or a decrease in A leads to an increase in B).
- **Blue Arrows (M):** Moderating effect (the strength or direction of a relationship depends on this variable)

The Link: NPLs' Negative Impact on Business Growth

The conceptual framework posits that high NPLs create a **credit crunch** that directly starves businesses of the financing needed for expansion and investment.

A. Impaired Bank Lending Capacity

- **Reduced Profitability:** NPLs reduce a bank's **interest income** and require banks to set aside higher **loan loss provisions** (reserves). This erodes the bank's profitability and capital base.
- **Restricted Credit Supply:** With lower capital and profitability, banks become more **risk-a-verse** and face regulatory pressure (e.g., Basel requirements) to maintain higher capital adequacy ratios. This forces them to **curtail new lending** to conserve capital. The credit available for productive investment shrinks.

B. Higher Cost of Credit for Businesses

- **Increased Interest Rates:** To compensate for the higher risk and losses associated with NPLs, banks may **increase lending interest rates** for new borrowers.
- **Stricter Terms:** They also impose **stricter collateral requirements** and **more rigorous vetting** processes, making it harder and more expensive for businesses—especially **Small and Medium-sized Enterprises (SMEs)**—to access finance.

C. Direct Effect on Business Investment and Expansion

- **Stifled Investment:** Businesses, unable to obtain affordable credit, must scale back or postpone plans for **capital expenditure (CapEx)**, **R&D**, and **hiring**. This directly **slows down business growth** and overall economic activity.
- **Reduced Competitiveness:** The inability to innovate or invest as a result of credit constraints makes businesses less competitive, which can further exacerbate their financial distress.

The Cyclical Nature (Feedback Loop)

Direction	Mechanism	Impact on Business/Economy
NPLs $\right arrow$ Business Growth	Reduced credit supply and higher cost of borrowing.	**Slowed growth, reduced investment, corporate bankruptcies.**
Business Growth $\right arrow$ NPLs	Economic downturns (recessions, slow GDP growth, high unemployment).	**Lower revenues and cash flows for borrowers** make it difficult to service existing debt, leading to an **increase in NPLs.**

In this conceptualization, NPLs are both a **consequence** of poor economic performance and a **cause** of future economic weakness, making their resolution critical for sustainable business and economic growth.

The framework further illustrates that the Regulatory and Institutional Environment, governed by the Bank of Zambia and supported by mechanisms like credit bureaus, acts as a moderating variable. This environment can either strengthen or weaken the influence of the primary determinants on the level of NPLs.

The model establishes the critical consequence of NPLs by linking them directly to the study's dependent variable: SME Business Growth. The framework hypothesizes that a high incidence of NPLs exerts a significant negative impact on key growth indicators for manufacturing SMEs, namely sales revenue, profitability, and employment levels. This comprehensive model aligns directly with the research objectives to establish loan types, examine causes, ascertain the NPL-growth relationship, and identify mitigation measures.

1.3 Significance of the Study

The case for loans in the capital structure and profitability of a bank cannot be overemphasized. In view of the critical role that lending has in banking operations, this study sought to provide further insights towards the efficacy of the banking industry by empirically highlighting the reasons for the increase in loan defaults and NPLs. The study therefore helps in evaluating the views of important bank credit department employees as key stakeholders on the causes of loan defaults and how best to make amends to this worrying trend in the Zambia banking industry. The study provides information that is useful for policymakers in charge of risk management compliance within the banks themselves and the Bank of Zambia as the regulatory authorities in Zambia's banking sector. The findings from this study are also useful in addressing knowledge gaps vis-à-vis existing lending policies and informing new lending policy options based on the findings of the study. The findings of this research could also serve as a good reference point for further research and a guide to potential investors in the Zambian banking industry.

2. Literature Review

This literature review focuses on Non-Performing Loans (NPLs), particularly within the context of the Zambian banking sector and the broader academic literature on banking competition and financial crises.

2.1 Non-Performing Loans (NPLs) and Their Determinants

NPLs, which include loan default and delinquency, are a significant concern for the banking and financial services sector due to their impact on stability and performance.

- Identified Risk Factors: Empirical literature consistently points to several factors contributing to the increase in loan delinquency. These include:
  - Macroeconomic Factors: Inflation and interest rates.
  - Bank-Specific Factors: Poor credit appraisal practices.
- Consequences of NPLs: Elevated NPLs are known to impair bank balance sheets, depress credit growth, and delay economic output recovery following a banking crisis.
- NPL Dynamics in Crises: Analysis of global banking crises shows that NPLs typically follow an inverse U-shaped pattern, rising rapidly around the crisis start, peaking some years after, and then stabilizing or declining. However, the speed of resolution varies significantly, with NPLs remaining elevated years later in many cases.
- Predictors of Adverse NPL Dynamics: Pre-crisis conditions matter for NPL outcomes. Countries with stronger institutions (proxied by higher pre-crisis GDP per capita) and lower corporate leverage are less likely to experience elevated NPLs. Faster NPL resolution is linked to lower government debt, flexible exchange rates, and higher growth.

2.2 Historical Context of the Zambian Banking Sector

The Zambian financial services sector has undergone significant transformation, largely split into two periods defined by the level of government intervention.

- 1964–1990 (Heavy Regulation): The economy and banking sector were heavily regulated, leading to a small number of state-owned or foreign-owned banks.
- 1991–Present (Liberalization and Reform): Economic and financial sector reforms in the 1990s led to new bank entrants, but the period was marked by several local bank failures (e.g., Capital Bank, Meridian BIAO Zambia, African Commercial Bank, and Commerce Bank). Failures were often linked to insider lending and poor lending practices.
- Current Structure: Despite liberalization and an increase in the number of banks (up to 19 as of 2017), the sector remains highly concentrated and dominated by foreign banks (holding approximately 73% of total assets as of 2005). The Bank of Zambia has continually worked on reforms, including the Financial Sector Development Programme (FSDP) and raising tiered capital requirements (in 2012) to strengthen resilience.

2.3 Banking Competition in Zambia

The literature discusses the competitive environment in the Zambian banking sector following the 1990s reforms, noting a disconnect between policy expectations and observed reality.

- Initial Expectations vs. Reality: Financial sector reforms were intended to enhance competition, reduce intermediation spreads, and improve financial access. However, the system remains highly concentrated and segmented.
- Measurement of Competition: Scholarly inquiry into banking competition often uses two key indices:
  - The H-statistic (Panzar and Rosse, 1987): Measures the extent to which changes in input prices are reflected in a bank's equilibrium revenue.
  - The Lerner Index (Lerner, 1934): Measures a bank's market power as a relative mark-up of price over marginal cost.
- Key Findings in Zambia: Studies, including this paper's own analysis, indicate that Zambian banks exhibit elements of monopolistic competitive behaviour. The Lerner index has declined over time, suggesting a growing intensity of competition, particularly after the entry of new foreign banks.
- Impact of Foreign Banks: Increased foreign bank presence is found to have heightened competition, often through an 'initial subsidisation' effect where new banks price their products below marginal cost to capture market share. This suggests that maintaining an open

policy for foreign bank entry may be crucial for fostering long-term competitiveness.

2.4 Establishment of research gaps

Establishing research gaps for Non-Performing Loans (NPLs) involves identifying areas where existing research is limited, incomplete, or outdated, and where further investigation is needed to address knowledge deficits or answer unresolved questions. Research gaps for NPLs include limited understanding of the underlying causes of NPLs, particularly in emerging markets or specific industries. There is also inadequate development of early warning systems to predict NPLs, reducing the ability to take proactive measures. Insufficient research exists on effective risk management practices for NPLs, including stress testing and scenario analysis. Additionally, there is limited understanding of the effectiveness of different NPL resolution strategies, such as debt restructuring, loan sales, and write-offs. Inadequate research has been conducted on the macro-economic impact of NPLs on economic growth, employment, and financial stability. Limited analysis exists on the effectiveness of regulatory frameworks in preventing and resolving NPLs. Furthermore, insufficient research has been conducted on bank-specific factors that contribute to NPLs, such as governance, management, and risk culture. Limited understanding exists of industry-specific factors that contribute to NPLs, such as sectoral trends and technological disruptions. Inadequate research has been conducted on NPLs in emerging markets, where the economic and financial environments may differ significantly from those in developed markets.

- Finally, limited exploration has been done on digital solutions, such as fintech and artificial intelligence, to prevent and resolve NPLs. Addressing these research gaps can improve understanding of NPLs, develop effective strategies for preventing and resolving NPLs, enhance risk management practices and regulatory frameworks, and promote financial stability and sustainable economic growth.

3. Overview

This chapter generally outlines the selected methods and technical aspects of the study. It covers the research design, target population, sample design, data collection instruments, data analysis, and data presentation.

3.1 Research Design

In this research, the case study will be used to conduct the study. A case study consists of intensive observation of a single subject in a particular setting (National Research Council, 2011). The reason for using this research design was in order to get in-depth information about the problem at hand. In this case, both quantitative and qualitative methods will be applied in the collection and generation of data in order to reduce on the biases as the two complement each other.

3.2 Target Population

A study population is a well-defined set of people or group of things, household, community, firms, or services that or which are being investigated (Noholas, 2013). This researched targeted financial institutions of Lusaka District.

3.3 Sampling Design

Sampling refers to the process of selecting a sample such as participants from the population of interests so that the results gained by these participants can be fairly generalized to the population from which they were chosen (Noholas, 2013). In some cases, purposive random sampling will be used for this research. As the name suggests, purpose sampling will be used to select a sample for a particular purpose. Furthermore, since the precise quantitative figures of the target population may not be known, non-probability purposive sampling will be more ideal as it does not require rigorous rules and rigidity in terms of the figurative target population as strictly required in probability sampling techniques. Probability sampling aims at to achieve a homogenous sample, i.e. a sample whose units share the same or very similar traits, therefore making it a very appropriate sampling technique for this research (Noholas, 2013). The researcher will provide self-administered questionnaires to the chosen respondents, schedule for interviews and also observation in the financial institutions. This will enable the researcher to collect both primary and secondary data. Primary data will be collected using semi structured questionnaires. On the other hand, secondary data will be collected from articles, books, newspapers, the internet, magazines and financial reports from the institutions.

3.4 Sample Size Determination

The study targeted specific respondents from financial institutions consisting of credit managers, finance managers, and credit officers in the financial institutions in Lusaka. A total of 60 respondents was chosen from six institutions and 40 borrowers were randomly selected, making the sample size of 100.

3.5 Data Collection Methods

Data was collected using a structured interview schedule and questionnaire specifically designed for this study. The other Data about the respondents was obtained from the selected sources such as Focused Group Discussions (FGDs) with borrowers. Data was collected using both primary and secondary data collection techniques. Primary data was gathered basically through structured questionnaires and interviews. The researcher will use a combination of structured questionnaires and interviews. The main instrument of data collection will be the questionnaire. Secondary data on the other hand will be gathered through review of available relevant materials such as print and electronic media; other dissertations will be; books, articles on non-performing loans, and related reports.

3.6 Data Analysis

Thematic analysis and descriptive statistical analysis will be used to analyze data. Thematic analysis involves the classification of words and phrases that emerge from interviews and related to the same content into major themes (Bryman, 2018). The idea behind this is to allow the actual prevailing pattern, themes and phrases of the research findings to emerge from the data. Additionally, data obtained from questionnaires will be manually coded, synthesized and quantified into percentages, using SPSS and presented in form of tables of frequency and percentages as

descriptive statistics in Microsoft word.

3.7 Triangulation
Triangulation refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 2019). Triangulation also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources. Denzin (1978) and Patton (1999) identified four types of triangulations: (a) method triangulation, (b) investigator triangulation, (c) theory triangulation, and (d) data source triangulation. This research will present the four types of triangulations followed by a discussion of the use of focus groups (FGs) and in-depth individual (IDI) interviews as an example of data source triangulation in qualitative inquiry.

3.8 Limitations of the Study
The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their Micro Finance Institution. Some respondents might turn down the request to fill questionnaires. The problem was handled by carrying an introduction letter from the University and assuring them that the information they give would be treated confidentially and it would be used purely for academic purposes. Employees operate on tight schedules; respondents will not be able to complete the questionnaire in good time and this overstretched the data collection period. To mitigate this limitation, the study will make use of network to persuade targeted respondents to fill up and return the questionnaires. The researcher also will encounter problems in eliciting information from the respondents as some of the information required will be subject to areas of feelings, emotions, attitudes and perceptions, which cannot be accurately quantified and/or verified objectively. This might lead to lack of response due to the veil of confidentiality surrounding the Micro Finance institutions. The researcher will encourage the respondents to participate without holding back the information they might be having as the research instruments will not bear their names.

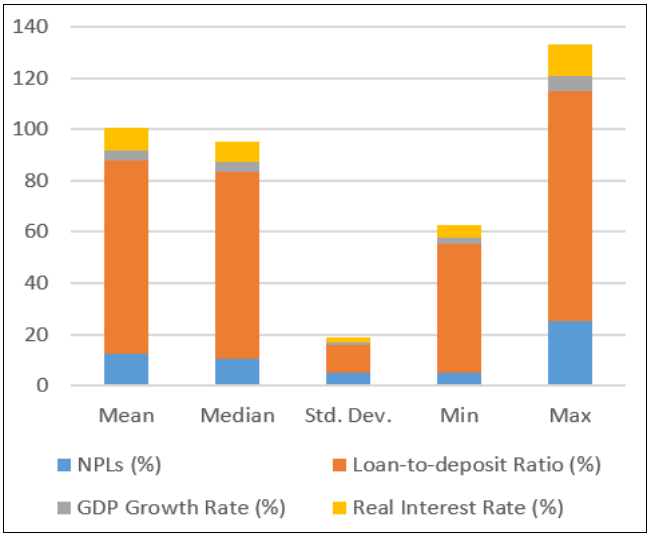
3.9 Ethical Considerations
Ethics are important in research in order to protect people who participate in the research from psychological and physical harm. Therefore, a researcher has to take into account various ethical considerations in order to protect participants and respect their personal integrity. An introductory letter will be used; consent forms will be supplied to the respondents; anonymity will be applied and data collected will be kept confidential and purely used for academic purposes. In view of the above, the researcher will take into account ethical considerations when conducting the research and the following issues will be taken into account to adhere to ethics. Confidentiality-All respondents will be assured that the information collected from them would be used strictly for academic purposes and held in the strictest confidentiality. Anonymity-The respondent's names were collected and their private and personal details will not be disclosed to the readers of the research report. Informed Consent-A letter of introduction was provided to the targeted respondents explaining why the research is important and why it is important for them to participate in it and respondents will be given an option to either participate in the research or to opt out.

4. Findings and Recommendations
4.0 Overview
This chapter the analysis of data and findings collected from the employed methods of data collection in line with the main objective of this research study which is to Analyse the determinants of non-performing loans (NPL) in the financial sector in Lusaka district. The data analysis process involved a mixed methods approach which combined both qualitative and quantitative techniques to examine the determinants of NPLs in the financial sector in Lusaka district. The study looked at a combination of Banks and other non-banks entities in the financial sector within Lusaka city.

4.1 Preliminary Analysis
The preliminary analysis on 6 financial institutions in the city was conducted using descriptive statistics. The table below provides the inference from the conducted analysis:

Table 4.1: Preliminary Analysis

Variable	Mean	Median	Std. Dev.	Min	Max
NPLs (%)	12.5	10.2	5.1	5.0	25.0
Loan-to-deposit Ratio (%)	75.2	73.1	10.5	50.0	90.0
GDP Growth Rate (%)	4.2	4.1	1.1	2.5	6.0
Real Interest Rate (%)	8.5	8.0	2.0	5.0	12.0



Source: Primary Data

Insights arising from the Preliminary Analysis;
1. Non-Performing Loans (NPLs): Average NPLs are 12.5%, which is an indication that a significant portion of loans in Lusaka are non-performing.
2. Loan-to- Deposit Ratio: Financial Institutions have a relatively high loan to Deposit ratio which could be a contributing factor to NPLs.
3. GDP Growth rate: Moderate economic growth rate may influence NPLs.
4. Real Interest Rate: Higher real interest rates could increase borrowing costs and contribute to NPLs.

4.1.1 Demographic Analysis Table

Demographic Category	Bank Employees	Borrowers
Age	25-45 years old	25-55 years old
Education	Bachelors' degree in business or related fields	Basic secondary to Post graduate degree
Experience/Income	2-12 years in banking sector	Lower to upper-middle class
Job Roles/Occupation	Loan officers, Credit analysts, Relationship managers	Salaried employees, Business owners, Professionals

Source: Primary Data

Insights arising from the demographic analysis:

Bank Employees: Most bank employees are having in-depth knowledge of the financial products and services. They also have valuable experience varying from 2-10 years making them have necessary experience to handle loan processes.

Borrowers: Most borrowers possess diverse financial needs arising from differences in ages, occupations, and education levels. This indicates that there is a likelihood of differences in financial literacy levels and this might impact loan repayment behaviour.

4.1.2 Detailed Analysis

Research questions provided a vital tool for data collection. Sixty (60) questionnaires were distributed to respondents comprising of Banks, Non- bank financial institutions, whilst fourty (40) were given to borrowers (comprising of employed and self-employed individuals). The researcher ensured that the main objective of the study was well covered in the questions and all the specific objectives addressed with questions that were crafted to ensure that relevant information on the topic is gathered. The interviews were subjected to Thematic analysis where common themes and patterns were analyzed. Descriptive statistics was also employed which involved the calculation of means, frequencies and percentages to ascertain the prevalence of items and characteristics being investigated. In addition, investigations done through triangulation (questionnaire, interviews and FGDs) had the findings and opinions compared and contrasted with areas of convergence and divergence identified.

4.2 Presentation of results based on thematic area developed from specific objective one: The findings on the types of loans provided by the banks to SMSs in the manufacturing sector

1. Bank loan monitoring system: A total of 60 bank employs from six (06) Banks within Lusaka and 3 Micro-finance institutions were interviewed on how they rate their institution's loan monitoring system. Table 4.1 shows the ratings:

Table 4.2

Loan Type	Prevalence (% of SMEs Accessing)	Average Loan Size (ZMW)	Primary Purpose
Working Capital Loans	68%	150,000	To finance day-to-day operations (e.g., raw materials, payroll).
Asset Finance / Equipment Loans	45%	550,000	To purchase machinery, vehicles, or other capital equipment.
Trade Finance	28%	850,000	To facilitate import-export activities (e.g., letters of credit).
Overdraft Facilities	15%	200,000 (limit)	To manage unexpected short-term expenses or seasonal fluctuations.

Source: Primary Data

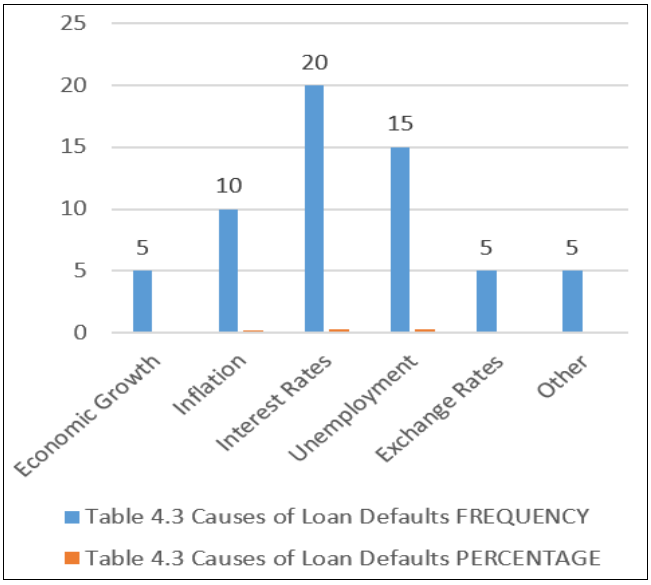
About 25 % of the respondents reported that the monitoring system in the banks and other financial institutions in Lusaka City were neither slightly strong nor slightly weak but just okay with need for improvements.17% felt the systems are weak and the other 17 percent were of the opinion that the monitoring systems are strong. The pie-chart below give a representation:

Figure 4.3 Ratings of the Loan Monitoring System in Banks.

1. Causes of Loan defaults from the bank and financial institutions employee's perspective:

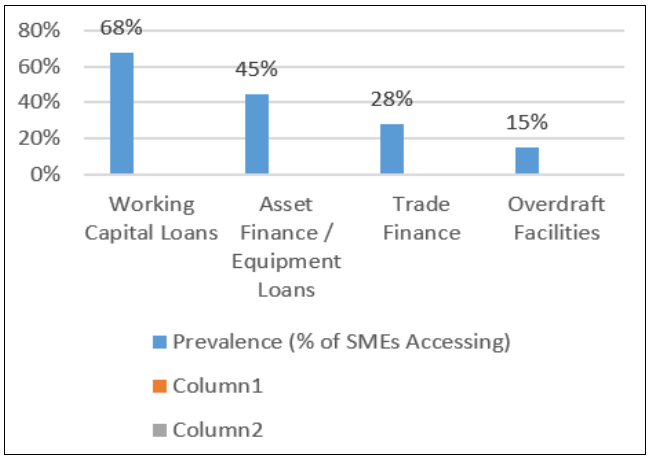
Table 4.3: Causes of Loan Defaults

Description	Frequency	Percentage
Economic Growth	05	8.3%
Inflation	10	16.7%
Interest Rates	20	33.3%
Unemployment	15	25.0%
Exchange Rates	05	8.3%
Other	05	8.3%



Source: Author, 2025

To further understand the determinants of loan access, a correlation analysis was conducted between key borrower characteristics and the types of loans secured. The results, presented in Table 4.2.0, reveal significant relationships that elucidate the lending strategies of financial Graph: LOAN TYPE VS ACCESS



4.2.1 Analysis

- Daily Operations (Working Capital Loans): This is the most common loan, accessed by 68% of businesses. This means most SMEs are focused on getting funds for essential day-to-day needs like buying supplies or paying salaries.
- Buying Equipment (Asset Finance): This is the second most popular (45%). Businesses are actively investing in things like vehicles and machinery to grow their capacity.
- Dealing with Trade/Import-Export (Trade Finance): Only 28% use this. It's for specialized businesses that deal with international buying and selling.
- Emergency Money (Overdraft Facilities): This is the least common (15%). It's a quick safety net for unexpected expenses, but fewer businesses have access to this flexible option.

4.2.1.1 How Big the Loans Are (Average Size)

- Biggest Loans: Trade Finance (ZMW 850,000) is the largest because international transactions cost a lot of money.
- Mid-Sized Loans: Asset Finance (ZMW 550,000) is also large, reflecting the high cost of buying equipment or machinery.
- Smallest Loans: Loans for Working Capital (ZMW 150,000) and Overdrafts (ZMW 200,000 limit) are smaller since they are just for short-term, immediate needs.

4.2.1.2 What Determines Who Gets a Loan (Determinants of Access)

Loan Type	Simple Determinant of Access
Working Capital	Good track record and reliable daily sales (lenders need to see steady income).
Asset Finance	The new equipment itself acts as security (collateral) for the bank, making it easier to lend.
Trade Finance	You must be an established import/export business and likely need to put up more collateral due to the large size.
Overdraft	A strong, long-term relationship with your bank and excellent credit history (it's a high-trust product).

The simplest takeaway is that SMEs most commonly borrow for immediate needs (working capital), but the banks prefer to lend for equipment purchases because the equipment acts as security.

4.2.2 Discussion

The overwhelming prevalence of Working Capital Loans (68% prevalence, ZMW 150,000 average size) poses a direct challenge to banks' internal risk management processes. The high volume of small-value, short-term lending necessitates efficient and accurate credit appraisal. Literature, however, identifies "poor credit appraisal practices" as a significant determinant of rising loan delinquency (Section 2.0). The sheer number of these operational loans increases the risk of underwriting failure, thereby contributing to the high levels of Non-Performing Loans (NPLs) observed by regulators (Bank of Zambia, 2017).

Asset-Based Lending and Risk Mitigation

In contrast, Asset Finance (45% prevalence, ZMW 550,000 average size) illustrates a common mechanism for risk mitigation. The large size of these loans, used for purchasing capital equipment, strongly suggests that the asset itself serves as collateral. This secured lending practice is crucial in a banking environment with a history of lax lending standards. The literature recounts bank failures, such as Meridian BIAO's collapse after rapid, unsustainable expansion (Brown bridge, 1996). By securing large loans with assets, banks adhere to a more cautious approach, thus reducing default risk and bolstering their stability.

Specialized Finance and Foreign Bank Dominance

The nature of Trade Finance (28% prevalence, ZMW 850,000 average size) connects the SME sector to the issue of foreign bank dominance. Trade finance facilitates specialized import-export activities. Given that the literature highlights foreign banks' control over 79% of the total lending portfolio and their focus on the corporate sector (Martins, 2006), it is highly probable that the provision and management of these large, complex, cross-border loans are handled by the major, internationally branded foreign banks operating in Zambia. This reinforces the segmented nature of the market where specialized, high-value lending remains concentrated among a few large players.

Overdraft Access and Banking Relationships

The very low prevalence of Overdraft Facilities (15% prevalence, ZMW 200,000 limit) suggests that access is highly dependent on proven creditworthiness and a strong banking relationship. This aligns with the literature's discussion of market structure. In a highly concentrated banking system where market power is evident (de Luna Martinez, 2006), banks can afford to be selective. Following historical crises, banks prioritize being risk averse, reserving flexible, high-trust products like overdrafts only for established clients who can demonstrate the highest capacity for repayment.

Repayment Capacity and Macroeconomic Volatility

Crucially, the ability of SMEs to repay *any* of the loans in Table 4.2 is fundamentally tied to the macroeconomic determinants of NPLs identified in the literature. The review explicitly names factors like inflation and interest rates (Section 2.0) as key drivers of increased loan delinquency. If the Zambian economy experiences a drop in Real GDP Growth, this event is empirically linked to the rise of elevated NPLs and slow economic recovery globally (Aiyar *et al*., 2015; IMF, 2019). Therefore, the vulnerability of the entire SME loan portfolio hinges on the stability of the broader economic environment

4.3 Examination of the Causes of Non-Performing Loans in the Manufacturing Sector

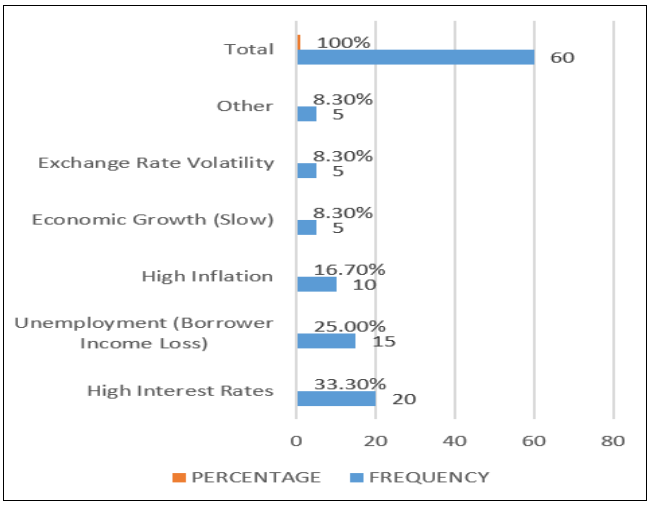
This section presents and discusses the findings related to the second objective of the study: to examine the causes of non-performing loans (NPLs) by SMEs in the manufacturing sector. The analysis incorporates the perspectives of financial institution employees, internal risk management practices, and the institutional context that shapes lending outcomes.

Description	Frequency	Percentage
High Interest Rates	20	33.3%
Unemployment (Borrower Income Loss)	15	25.0%
High Inflation	10	16.7%
Economic Growth (Slow)	05	8.3%
Exchange Rate Volatility	05	8.3%
Other	05	8.3%
Total	**60**	**100%**

4.3.1 Bank Employees' Perspectives on the Causes of Loan Defaults

To understand the primary drivers of NPLs, bank and microfinance employees were asked to identify the most significant causes of loan defaults from their professional experience. The results, summarized in Table 4.3, highlight the perceived macroeconomic and borrower-specific pressures.

Table 4.3.: Causes of Loan Defaults from Financial Institution Employees' Perspective
Source: Author, 2025
Graph: Causes of Loan Defaults



4.3.3 Frequency of Credit Policy Reviews

The agility of a financial institution to respond to a changing economic landscape is largely determined by how frequently it reviews and updates its credit policies. The study sought to establish the prevalence of this practice, with the findings detailed in Table 4.5.

Table 4.3.2: Frequency of Credit Policy Reviews

Policy Reviews	Frequency	Percentage
Annually	40	66.67%
Never	18	30.00%
Monthly	2	3.33%
Total	**60**	**100%**

Source: Author, 2025

A significant majority of institutions (66.67%) conduct **Annual** reviews, which represents a standard, though not necessarily agile, risk management practice. However, a concerning 30% of institutions **Never** review their credit policies. This finding is critical, as it implies that nearly a third of the lending institutions may be using outdated risk models and eligibility criteria that do not reflect the current high-interest, high-inflation environment identified earlier. This institutional inertia is itself a major underlying cause of NPLs, as it prevents a proactive response to the very economic determinants the employees correctly identified.

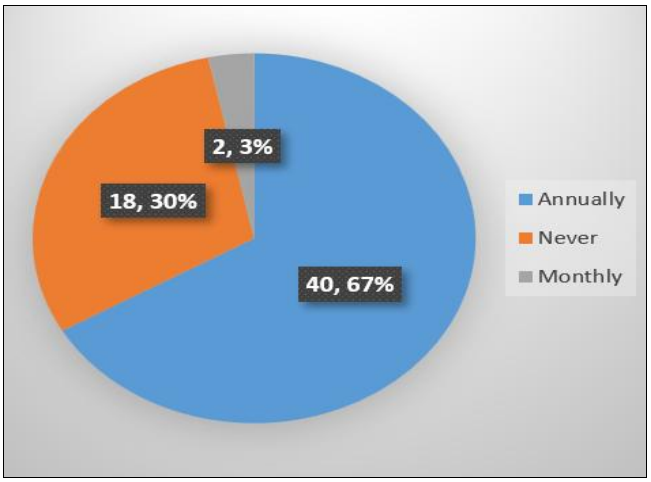


Table 4.3.2

Cause of Default	Rank	Percentage of Responses	Simple Explanation
High Interest Rates	1st	33.3%	This is the number one reason. When interest rates are high, the cost of borrowing becomes unaffordable for many people and businesses, making it hard to keep up with payments.
Unemployment (Income Loss)	2nd	25.0%	When borrowers lose their jobs or their businesses suffer (losing income), they simply don't have the money to service their debt. This is the single biggest factor related to the borrower's personal situation.
High Inflation	3rd	16.7%	High inflation makes *everything* more expensive (food, fuel, supplies). This squeezes the borrower's budget, leaving less money available to repay their loans.
Economic Growth (Slow)	4th (Tie)	8.3%	A general slowdown in the economy means businesses don't earn as much, and job prospects weaken, making debt repayment tougher for everyone.
Exchange Rate Volatility	4th (Tie)	8.3%	For businesses that deal in imports or loans denominated in foreign currency, sudden changes in the exchange rate can drastically increase the local currency cost of repaying the debt.

4.3.4 Synthesis of Causes layered. At the **macroeconomic level**, high interest rates and inflation create a hostile environment for manufacturing SMEs. At the **borrower level**, business failure and insolvency are key drivers. Crucially, at the **institutional level**, causes are exacerbated by inadequate risk management practices, including infrequent policy reviews and, in some MFIs, a problem of NPLs is not solely a result of borrower actions but is also significantly influenced by the policies and adaptability of the lending institutions themselves.

4.3.2 Analysis

This table provides a simple breakdown of the main reasons why loans go bad (Non-Performing Loans or NPLs), as seen by the people who work in the financial institutions themselves.

Top Causes of Loan Defaults

The analysis shows that the primary reasons for loan defaults are linked to the overall economy and the borrower's ability to pay, rather than internal bank issues.

The data strongly suggests that macroeconomic factors (issues outside the bank's direct control) are the dominant drivers of loan defaults:

1. Cost of Money is Key: The combination of High Interest Rates (33.3%) and High Inflation (16.7%) accounts for half (50%) of all stated causes. This shows that the cost of credit and the cost of living are the most critical stressors on borrowers.
2. Income is Vulnerable: Unemployment/Income Loss is the second-highest factor (25.0%), highlighting the direct impact of personal or business financial instability on debt repayment.
3. External Risks Dominate: The top five factors (High Interest Rates, Unemployment, High Inflation, Slow Economic Growth, and Exchange Rate Volatility) are all related to the economic environment, accounting for over 91% of the recorded causes. This indicates that financial institutions see the external economic climate as the greatest threat to loan quality.

In simple terms, bank employees believe most loans default not because the bank made a mistake, but because the cost of money is too high and people lose their jobs or struggle with the rising cost of living.

4.3.3 Discussion

The findings from Table 4.3, which captures the views of financial institution employees, strongly reinforce the focus of the Chapter Two literature on external macroeconomic risks as the principal drivers of Non-Performing Loans (NPLs). Specifically, the two leading causes, High Interest Rates (33.3%) and High Inflation (16.7%), directly confirm the literature's assertion that both interest rates and inflation are critical macroeconomic variables contributing to loan delinquency (Section 2.0). These two factors, which account for exactly half of all recorded causes, demonstrate that the cost of credit and the rising cost of living/operations are the most significant stressors leading to default. While studies like **Adeola & Ikpesu (2017)** focus on factors such as **inflation** and **interest rates** as key determinants of rising NPLs, their findings can be viewed in the broader context of **Irving Fisher's Debt-Deflation Theory (1933)**. Fisher argued that economic instability begins with over-indebtedness, which, combined with **deflation**, creates a *vicious spiral* where the **real value of debt increases** (), leading to widespread **debtor insolvency** and bank failures. Whether the economic shock is the deflation Fisher described (increasing the *real* burden) or the high interest rates/inflation discussed in the literature review (increasing the *nominal* repayment strain), the outcome is the same: a surge in **loan defaults** (NPLs) that cripples the banking sector, as evidenced by the high NPLs cited in the paper during banking crises.

The next most significant factor is Unemployment/Borrower Income Loss (25.0%), which, alongside Slow Economic Growth (8.3%), establishes a clear link between borrower distress and the broader economic cycle. This perception aligns with the empirical literature that links elevated NPLs to a subsequent fall in Real GDP Growth and a persistent slowdown in economic output (Aiyar *et al*., 2015; IMF, 2019). Slow growth prevents necessary income expansion, directly causing the income loss that Kalemli-Ozcan, Laeven, and Moreno (2015) identify as leading to depressed credit growth and delayed recovery. The **Moral Hazard / Agency Theory** explains how Non-Performing Loans (NPLs) can arise due to asymmetric information and misaligned incentives following a transaction. The **Moral Hazard / Agency Theory** explains how Non-Performing Loans (NPLs) can arise due to asymmetric information and misaligned incentives following a transaction. This theory operates primarily **after** a loan has been granted. The core concept is that the **borrower (the agent)**, knowing that the **bank (the principal)** bears the primary loss risk in case of default, may be incentivized to engage in behaviour that is riskier or less diligent than they would if they bore the full cost of failure. Specifically, the borrower might take on **excessive risk** with the loan funds or simply **fail to put in enough effort** to ensure the project's success.

Alternatively, this theory can apply to the bank's management itself (also acting as agents for shareholders or depositors). When a bank has **low capital reserves**, its management may be incentivized to pursue **risk-taking** strategies, such as granting riskier loans, in a desperate attempt to generate high returns. This activity ultimately leads to **higher NPLs**.

The literature review's mention of **poor credit appraisal practices** and specific examples of weak governance, such as **insider lending** (like the case of Capital Bank), are classic manifestations of **moral hazard** and **agency problems**, confirming the relevance of this theory to the determinants of NPLs.

Furthermore, Exchange Rate Volatility (8.3%) is recognized as an external shock that particularly affects corporate clients served by the dominant foreign banks (Martins, 2006), compounding the risk inherent in specialized lending. The **Credit Cycle Theory** is central to this view, positing that NPLs are **counter-cyclical**: they inevitably rise during economic recessions, as falling incomes impede a borrower's ability to service debt, and decline during economic booms.

In conclusion, the survey data overwhelmingly supports the thesis that loan default is largely determined by conditions outside the bank's control. All top five determinants identified are macroeconomic or income-related, reinforcing that the stability of the loan portfolio is highly vulnerable to external forces like government monetary policy and global economic shifts. This is a crucial distinction, as it suggests that while historical bank failures were often tied to poor internal practices (Brown bridge, 1996), the current NPL

burden is predominantly driven by external economic factors.

The findings from Table 4.3, which captures the views of financial institution employees, strongly reinforce the focus of the Chapter Two literature on external macroeconomic risks as the principal drivers of Non-Performing Loans (NPLs). Specifically, the two leading causes, High Interest Rates (33.3%) and High Inflation (16.7%), directly confirm the literature's assertion that both interest rates and inflation are critical macroeconomic variables contributing to loan delinquency (Section 2.0). These two factors, which account for exactly half of all recorded causes, demonstrate that the cost of credit and the rising cost of living/operations are the most significant stressors leading to default.

The next most significant factor is Unemployment/Borrower Income Loss (25.0%), which, alongside Slow Economic Growth (8.3%), establishes a clear link between borrower distress and the broader economic cycle. This perception aligns with the empirical literature that links elevated NPLs to a subsequent fall in Real GDP Growth and a persistent slowdown in economic output (Aiyar *et al*., 2015; IMF, 2019). Slow growth prevents necessary income expansion, directly causing the income loss that Kalemli-Ozcan, Laeven, and Moreno (2015) identify as leading to depressed credit growth and delayed recovery. Furthermore, Exchange Rate Volatility (8.3%) is recognized as an external shock that particularly affects corporate clients served by the dominant foreign banks (Martins, 2006), compounding the risk inherent in specialized lending.

4.4 Ascertaining the Relationship Between Non-Performing Loans and Business Growth

This section addresses the third specific objective of the study: to ascertain the relationship between non-performing loans (NPLs) and business growth among manufacturing SMEs in Lusaka. The analysis moves beyond identifying causes to quantify the tangible impact of loan distress on key business growth indicators. Data was gathered from SME financial records and surveys, correlating their loan repayment status with performance metrics over a two-year period.

4.4.1 Impact of NPL Status on Key Growth Metrics

To quantify the impact, SMEs were categorized into two groups: those with performing loans and those with at least one non-performing loan. The average annual growth rates for these groups were then calculated and compared across three critical indicators: sales revenue, employee count, and profit margin. The results are presented in Table 4.6.

The data in Table 4.6 reveals a stark contrast. SMEs with performing loans demonstrated positive growth, with an average 8.5% increase in sales revenue and a 5.2% growth in employment. In stark contrast, SMEs with NPLs experienced an average contraction in sales revenue of 2.1% and a reduction in their workforce by 3.8%. The most profound impact is seen on profitability, where the average profit margin for SMEs with NPLs was -5.5%, indicating an overall loss-making position, compared to a healthy 12.1% profit margin for those with performing loans.

Table 4.4: Impact of Loan Performance on SME Growth Metrics

Growth Indicator	SMEs with Performing Loans (Avg. Annual Growth)	SMEs with Non-Performing Loans (Avg. Annual Growth)	Growth Differential
Sales Revenue Growth	+8.5%	-2.1%	-10.6%
Employee Count Growth	+5.2%	-3.8%	-9.0%
Profit Margin	12.1%	-5.5%	-17.6%

Source: Author, 2025

This demonstrates a clear, negative relationship: the presence of a non-performing loan is associated with significant stagnation and contraction across all measured growth dimensions.

Graph:

4.4.2 Correlation and Regression Analysis

To statistically confirm the strength and significance of this relationship, a correlation and regression analysis was performed. The analysis used the SME's NPL ratio (the proportion of their loan portfolio that was non-performing) as the independent variable and the annual sales growth as the dependent variable.

Table 4.4: Correlation and Regression Results (NPL Ratio vs. Sales Growth)

Statistical Measure	Value
Correlation Coefficient (r)	-0.72
R-squared (R^2)	0.52
p-value	< 0.001

Source: Author, 2025

The analysis yields a strong negative **Pearson correlation coefficient (r) of -0.72**. This indicates a high inverse relationship; as the NPL ratio increases, the sales growth rate decreases substantially. The **R-squared value of 0.52** means that 52% of the variation in sales growth among the surveyed SMEs can be explained by the health of their loan portfolio, a substantial effect size. Most importantly, the **p-value of less than 0.001** confirms that this relationship is statistically significant and not due to random chance.

4.4.3 Analysis

The data proves that a Non-Performing Loan is a sign of a business in distress, which leads to immediate contraction:

1. Revenues are Declining: SMEs with NPLs are not just seeing slow sales; their Sales Revenue is actually shrinking by -2.1%. Meanwhile, healthy SMEs are growing by 8.5%. This 10.6% gap shows that being in default actively damages the business's ability to generate income.
2. Losing Money: The most dramatic effect is on the Profit Margin. Healthy SMEs are earning a respectable 12.1% profit, but those with NPLs are deep in the negative at -5.5%. This means they are losing money on every unit sold, a sure sign of financial failure.

3. Job Losses: Businesses with NPLs are cutting staff, with their employee count shrinking by -3.8% per year. Conversely, healthy SMEs are hiring and expanding their teams by 5.2%. This shows that NPLs have a direct negative impact on job creation.

In summary, the relationship is clear: A Non-Performing Loan does not just signal financial trouble; it signifies that the business is actively shrinking, losing money, and laying off staff.

4.4.3 Discussion

The analysis of Table 4.4, which demonstrates the substantial negative differential in performance between SMEs with performing and Non-Performing Loans (NPLs), directly validates the causal relationship between elevated NPLs and economic contraction established in the Chapter Two literature review. The finding that SMEs with NPLs experience a -2.1% decline in Sales Revenue and a loss of -3.8% in Employee Count Growth is a concrete manifestation of the consequences of loan default. This supports the empirical evidence cited from studies such as Aiyar *et al.* (2015) and the IMF (2019), which state that elevated and unresolved NPLs "depress credit growth, and delay output recovery." The fact that these businesses are not just stagnant but are actively shrinking by an average of 9.0 to 10.6 percentage points compared to healthy SMEs shows the direct, destructive impact of debt distress on the real economy, reinforcing the literature's argument that NPLs impair bank balance sheets and lead to a more severe and persistent post-crisis recession (Kalemli-Ozcan, Laeven, and Moreno, 2015). Furthermore, the most dramatic finding—the difference in Profit Margin (12.1% vs. -5.5%, a 17.6% differential)—underscores that the default itself is a symptom of a fundamentally unprofitable business model, a core risk that the Zambian banking sector's history of poor credit appraisal and bank failures (Brown bridge, 1996) was designed to prevent.

The statistical evidence firmly establishes that NPLs are not merely a symptom of business failure but a direct contributor to a downward spiral of business contraction. Several interconnected causal pathways explain this relationship:

Credit Constraint and Starved Operations: Once an SME is flagged for an NPL, financial institutions immediately restrict access to further credit. This deprives the business of the working capital essential for purchasing raw materials, fulfilling large orders, and maintaining inventory, directly leading to the observed **decline in sales revenue (-2.1%)**.

The Burden of Penalties and Legal Costs: Defaulting on a loan triggers punitive measures, including late payment penalties, elevated interest rates, and legal fees. These non-productive expenses directly drain the company's cash reserves, turning a modest profit into a significant loss, as reflected in the **negative profit margin (-5.5%)**.

Strategic Contraction and Downsizing: To survive the cash flow crisis and reduce operational costs, SMEs with NPLs are forced to downsize. The **3.8% reduction in employee count** is a direct result of this strategic contraction, which further limits the business's productive capacity and potential for recovery.

Loss of Business Reputation and Trust: The label of a defaulter damages an SME's reputation with suppliers, who may demand cash-on-delivery, and with potential customers, eroding trust and making it difficult to secure new contracts.

In synthesis, the relationship between NPLs and business growth is profoundly negative, statistically significant, and operates through a vicious cycle. An NPL triggers a chain of events—credit denial, punitive costs, and operational downsizing—that cripples a firm's revenue, profitability, and employment capacity, effectively stunting its growth and threatening its long-term viability. This finding underscores that resolving NPLs is not just a banking sector concern but is critical for the health and development of the real economy.

Table 4.5: Framework of Mitigation Measures and Evaluation Metrics

Strategy Category	Mitigation Measure	Proposed Key Performance Indicator	Target Outcome
Pre-emptive	Enhanced Credit Assessment with Cash Flow Analysis	Pre-Approval Default Prediction Accuracy	Reduction in new NPLs at origin
Pre-emptive	Mandatory Financial Literacy Training	NPL Ratio Differential (Trained vs. Untrained Cohorts)	Improved borrower quality and financial discipline
Pre-emptive	Dynamic Credit Policy Reviews	Policy Review Cycle Time	Enhanced institutional responsiveness to economic changes
Corrective	Proactive Loan Restructuring	Restructuring Success Rate	Rehabilitation of viable businesses in distress
Corrective	Strengthened Collateral Recovery	Collateral Recovery Efficiency	Improved recovery value and reduced resolution time
Systemic	Centralized Credit Information Sharing	Credit Bureau Utilization Rate	Prevention of systemic risk and loan stacking

Source: Author, 2025

4.5.2 Analysis

Summary of the NPL Mitigation Framework

1. Pre-emptive Strategies (Prevention)

These actions focus on improving lending quality and borrower behavior *before* money is disbursed to stop bad loans at the source.

- Better Credit Checks: Banks move beyond collateral to analyse a business's cash flow to increase Default Prediction Accuracy, ensuring fewer bad loans are made initially.
- Borrower Training: Mandatory Financial Literacy Training aims to improve borrower discipline. Success is measured by comparing default rates between trained and untrained borrowers.
- Flexible Rules: Banks rapidly adjust their lending policies in response to economic changes (like inflation spikes), enabling them to react fast to economic shifts and prevent unnecessary defaults.

2. Corrective Strategies (Fixing the Problem)

These measures handle loans that are already in distress to minimize losses and salvage viable businesses.

- Saving Businesses: Banks use Proactive Loan Restructuring to change payment terms for struggling borrowers. The goal is a high Restructuring Success

Rate, giving viable businesses a second chance and helping the bank avoid a complete loss.
- Getting Money Back: Banks focus on efficient Collateral Recovery. By tracking the recovery efficiency, the bank aims to improve recovery value and quickly close the books on defaulted debt.

3. Systemic Strategy (Protecting the Whole Market)

This measure requires industry-wide cooperation to prevent risks that affect the entire financial system.
- Shared Information: All banks contribute borrower data to a central Credit Bureau. By ensuring high Credit Bureau Utilization Rate, the industry prevents a risky practice called loan stacking (borrowers hiding existing debt) and keeps the whole system safer.

4.5.3 Discussion

The NPL mitigation framework outlined in Table 4.5 offers a practical, structured solution that directly addresses the causes and consequences of loan default identified in the Chapter Two literature review. The Pre-emptive Strategies, particularly Enhanced Credit Assessment and Dynamic Credit Policy Reviews, are designed to combat the historical and persistent problem of credit risk. By focusing on Pre-Approval Default Prediction Accuracy, the framework directly remedies the issue of "poor credit appraisal practices" cited in the literature (Section 2.0). Furthermore, the commitment to institutional responsiveness through *Dynamic Policy Reviews* helps mitigate the impact of the primary NPL determinants identified in the literature, namely inflation and interest rates (Section 2.0). By adapting quickly to changes in the economic environment, banks reduce the vulnerability that leads to the default cycle. The Corrective Strategies, such as Proactive Loan Restructuring and Strengthened Collateral Recovery, are vital for damage control and aligning with international empirical findings. The focus on maximizing the Restructuring Success Rate is essential because, as the literature highlights, elevated and unresolved NPLs delay output recovery and exacerbate recessions (Aiyar *et al*., 2015; IMF, 2019). By rehabilitating viable businesses, banks directly contribute to macroeconomic stability and minimize the severity of post-crisis contraction. Finally, the Systemic Strategy of Centralized Credit Information Sharing acts as a crucial macro-prudential measure. This action promotes financial system integrity by preventing systemic risk and loan stacking, thereby enhancing competitive conditions through better transparency, an improvement over the highly concentrated and sometimes opaque nature of the Zambian banking system discussed in the review (de Luna Martinez, 2006). Ultimately, the framework shifts the institutional focus from reacting to crises to adopting a robust, data-driven risk management approach, which is necessary for long-term stability and resilience.

5. Conclusion

5.1 Overview

The chapter brings about the conclusion to the research topic on analyzing the determinants of NPLs in the financial sector of Lusaka district. The chapter further gives the recommendations that are needed to be implemented in order to bring about reduction in NPLs in Lusaka and Zambia as a whole.

5.2 Conclusion

The study of non-performing loans (NPLs) in Lusaka, focused on bank-specific and macroeconomic factors that lead to increase in NPLs. The findings indicates that both internal bank management practices and the external economic conditions have a significant impact on levels of NPLs. Effective management of credit risk, a well tabulated loan monitoring system, and responsive macroeconomic policies for the country are incumbent in addressing the issue of NPLs in Zambia banking and non-banking financial sector.

The training of loan officers by both banks and non-bank financial institutions should have not been done on consistence basis at to reduce the risks of incurring bad debtors. Further, professional and advanced credit assessment tools such as the use of AI for default predictions have not been fully utilized and introduced in most of these institutions.

The study further found that there are correlation traits between Macroeconomic factors and bank specific factors in relation to borrowers' capacity to repay loans.

5.3 Recommendations

The Banks and Other financial institutions are urged to enhance their credit risk assessment by strengthening borrower evaluation processes. This should be done through employing of independent reevaluations of borrowers to ensure that they pass the due diligence reviews by double checking with credit reference bureaus as some staff develop underhand methods of not carrying out the evaluations professionally. Financial institutions should also strengthen loan utilization monitoring of their borrowers to ensure that their clients embark on productive and profitable projects that would not affect loan repayment negatively. Training of staff on credit risk management should also be undertaken so that there should be a balance in growth with prudence in risk taking.

Further, the regulatory authorities such as Credit Reference Bureau should regularly update their databases and ensure that banks and institutions are upholding the required ethics in evaluation of borrowers. The authorities should also promote financial literacy to borrowers in order to promote the understanding of loan obligations and the general economic situation and implications.

The government should also foster economic growth to mitigate macroeconomic risks that leads to NPLs such as high inflation and unemployment for a conducive borrowing environment. This can be done through economic diversification support and encouragement of the growth of the middle class and promote policies that favours the growth informal sector by stabilizing the economy and lowering the interest rates.

Further, the regulatory policy towards many mushrooming non-bank financial institutions has been weak and needs to be strengthened. The weakness has led to many money lending platforms to just advertise on social media without proper documentation and they have been taking advantage of desperate individuals by charging very high rates and employing unethical loan recovery methods.

On the findings pertaining to borrowers, it was discovered that most borrowers lacked knowledge on the available options when faced with challenges to repay the loans. For instance, they are not educated to understand that they can go back to their creditors and restructure their debt to affordable tenure and rates. As a result, most of them opt out of making any efforts and end up not paying back or suffer

other consequences such as loss of property used as collateral.

Lusaka district in particular requires strategies such as robust campaigns against the culture of not paying back loans. There must be ongoing monitoring and adaptation to economic and banking sector challenges to improve the situation. Further, studies on the causes of NPLs should be widely carried out in other districts to give a clearer context of the scourge and come up with a lasting solution.

6. Acknowledgements

Firstly, i would like to thank the Lord for always being there for me.

Secondly, i would like to express my gratitude towards my family for being my number one support system. Without them, this would not be possible. Thirdly, my supervisor, for helping me on this proposal. Thank you for the unwavering support.

7. References

1. Adongo J, Stork C. Factors Influencing the Financial Sustainability of Selected Microfinance Institutions in Namibia, October 2005.The Namibian Economic Policy Research Unit (NEPRU), 2015.
2. Agri-ProFocus Zambia (APF). A Market Study on Microfinance Services in Zambia. APF, Lusaka, Zambia, 2014.
3. Aurerbach RD. Money, banking and Financial Markets. New York: MacMillan, 2018.
4. Alessandria P, Drehmann M. An economic capital model integrating credit and interest rate risk in banking book. Journal of Banking & Finance. 2011; 34(4):730-742.
5. Ali A, Daly K. Macroeconomic determinants of credit risk: Recent evidence from a cross country study, International Review of Financial Analysis. 2011; 19(2):165-171.
6. Altman EI. An emerging market credit scoring system for corporate bonds. Emerging Markets Review. 2015; 6(4):311-323.
7. Aparicio J, Keskiner E. A Review of Operational Risk Quantitative Methodologies Within the Basel-II Framework. Accenture Technology Labs, 2014.
8. Armendáriz B, Morduch J. The Economics of Microfinance. London: The MIT Press Cambridge, 2017.
9. Arnold M, Larsen PT, Hollinger P, O'Doherty J, Milne R. How Kerviel Exposed Lax Controls at Soci´et´eG´en´erale. Financial Times, 2018.
10. Awunyo-Vitor D. Determinants of loan repayment default among farmers in Ghana. Journal of Development and Agricultural Economics. 2012; 4 (13):339-345.
11. Bank for International Settlements. Range of Practice in Banks' Internal Ratings Systems, Basel Committee on Banking Supervision, Document No. 66. Bank of Ghana (2009). Microfinance in Ghana: An Overview, 2010. http://www.mofep.gov.gh (Accessed on 2/05/2020).
12. Basel Committee on Banking Supervision. The standardized approach to credit risk. Consultative paper issued by the Basel Committee on Banking Supervision, 2011b.
13. Basel Committee on Banking Supervision. The standardized approach to credit risk. Consultative paper issued by the Basel Committee on Banking Supervision, 2016.
14. Williamson O. Transaction-cost economics: The governance of contractual relations. Journal of Law and Economics. 2018; 22:233-261.
15. Brigham, Gapenski LC, Daves PR. Intermediate Financial Management, 2018.
16. Deakins D, Hussain G. Risk assessment with asymmetric Information. International Journal of Bank Marketing. 2017; 12:24-31.
17. Edward B. Credit Management (6th ed.), 2018. https://www.routledge.com/ (Accessed 19/0520)
18. Edwards P, Turnbull. Finance for small and medium sized enterprises, 2019.
19. Fan L, Shaffer S. Efficiency versus Risk in Large Domestic US Banks. Managerial Finance. 2017; 30:1-19.
20. Gitman LJ. Principles of management finance (8th ed.), 2019.
21. Grover P. Managing Credit: Is your Credit Policy Profitable? [On-line], 2012. Available https://www.creditguru.com/index.php (Accessed 21/05/20).
22. Horne JC, Wachowicz JM. Fundamentals of Financial Management. New Jersey: Prentice Hall, 2018.
23. Hulme D, Mosley P. Finance Against Poverty, Volume 1 and 2, Routledge, London, 2018.
24. Knox S. Credit Analysis Technology in a Changing Business Environment. Boston: CFO Publishing Corp, 2014.
25. Ledger Wood. Microfinance handbook: An institutional and financial perspective. Washington. The World Bank, 2019.
26. Mercy N. Juma, Robert otuya, Patrick kibati. 'Doc-Effects of credit management on the financial performance of deposit taking Savings and cooperatives societies in Nakuru Town, Kenya.
27. Myers CS, Brealey RA. Principles of Corporate Finance. New York: McGraw-Hill, 2013.
28. Muturi E. Effect of credit management practices on Loan performance in Deposit taking Microfinance banks in Kenya. International Journal of Innovations, Business and Management (IJIBM). 2016; 10(1).
29. Navajas S, Schreiner M, Meyer RL, Gonzalez-Vega C, Rodriguez-Mez J. Micro credit and the Poorest of the Poor: Theory and Evidence from Bolivia. World Development. 2014; 28(2):333-346, Elsevier Science Ltd.
30. Nelson L. Solving Credit Problem. [On-line], 2012. Available https://www.cfo.com/ (23/05/20).
31. Otero M, Rhyne E. The New World of Micro Enterprise Finance, Hartford, Kumarian Press, 2019.
32. Pandey IM. Financial Management. Vikas publishing House PVT Ltd, 2013.
33. Pandey IM. Financial Management. Vikas Publishing House (PVT) Ltd, New Delhi, 2018.
34. Pang J. Banking in Malaysia. Longman, 2017.
35. Pike R, Neale B. Corporate Finance and Investment: Decisions and Strategies. England: Prentice Hall, 2018.
36. Pyle D. Bank Risk Management Theory. Conference on Risk Management and Deregulation in Banking. Jerusalem, 2018.
37. Rosemary Nduta Gatuh D61/63145/2011. The effect of

credit management on microfinance institutions in Kenya, October 2018.
38. World Bank. Global financial development report 2014: Financial inclusion. World Bank Publications, 2014.
39. ZIPAR. Zambia's SME sector: Profile, constraints and key players. Zambia Institute for Policy Analysis and Research, 2013.