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Assessing the Effectiveness of Credit Risk Management Procedures on Financial Performance among Microfinance Institutions (MFIS) In Zambia: A Case of Vision Fund, Finca and Bayport in Chipata.

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Abstract
This study was carried out in 2018 with the general objective of determining the credit risk management procedures adopted on financial performance of microfinance institutions in Zambia with the target of Bayport and Finca Micro-Financial Institutions. The study employed a descriptive study design. The study targeted Credit mangers, Branch managers, Credit Assistance Officers and Credit Managing Directors from Bayport Financial Institution and Finca Micro-Financial Institution in 6 Branches in Lusaka. The study used a structured questionnaire on a drop and pick basis to collect data from the target population. Data analysis was informed by a descriptive statistics method using Statistical Package for Social Sciences (SPSS). Results were presented using figures and tables. The research results show that the target MFIs considered risk identification, risk assessment, risk monitoring as the major credit risk procedures in the process of credit risk management. It also established that these procedures were important as they ensured that the risk management function was established throughout the whole MFIs targeted. The study also found out that credit risks (30%), and liquidity risks (26.67%) are the major types of risks to ensure profitability in the organisation. Further, the research found that, credit risk management procedures adopted by the MFI affects the financial performance of the MFI. The study therefore concluded that risk identification is a key credit risk management procedure alongside, credit assessment and monitoring. The two MFIs are investing in credit risk management procedures to reduce credit risks and enhance their respective micro-financial performance. The study recommends that there is need to put in place strong and consistent measures in credit risk management. It also recommends that MFI need to establish the workable and viable credit risk management procedures which are up to date with new technologies. Further, MFIs can benefit from information sharing with local and international MFIs on the best credit risk management procedures which can be adopted for improved financial performance.

Key Words: Micro-Financial Institutions (MFI), Credit risk management, Financial Performance, Risk Identification, Risk Assessment, Risk Monitoring.

I. INTRODUCTION

1.1 Background

Credit risk management forms a key part of a company's overall risk management strategy. Weak credit risk management is a primary cause of many business failures. Many small businesses, for example, have neither the resources nor the expertise to operate a sound credit management system (Mc Menamin, 1999). When a company grants credit to its customers it incurs the risk of non-payment. Credit management, or more precisely credit risk management, refers to the systems, procedures and controls, which a company has in place to ensure the efficient collection of customer payments thereby minimizing the risk of non-payment (Mokogi, 2003).

1.2 Effect of Credit Management on Financial Performance

Credit management is the method by which a company collects and controls the payments from its customers. Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving

credit analysis, credit rating, credit classification and credit reporting.

A proper credit management will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. According to Edwards (1993), unless a seller has built into his selling price additional costs for late payment, or is successful in recovering those costs by way of interest charged, then any overdue account will affect his profit. In some competitive markets, companies can be tempted by the prospects of increased business if additional credit is given, but unless it can be certain that additional profits from increased sales will outweigh the increased costs of credit, or said costs can be recovered through higher prices, then the practice is fraught with danger. Most companies can readily see losses incurred by bad debts, customers going into liquidation, receivership or bankruptcy. The writing-off of bad debt losses visibly reduces the Profit and Loss Account. The interest cost of late payment is less visible and can go unnoticed as a cost effect. It is infrequently measured separately because it is mixed in with the total bank charges for all activities. The total bank interest is also reduced by the borrowing cost saved by paying bills late. Credit managers can measure this interest cost separately for debtors, and the results can be seen by many as startling because the cost of waiting for payment beyond terms is usually ten times the cost of bad debt losses.

Effective management of accounts receivables involves designing and documenting a credit policy. Many entities face liquidity and inadequate working capital problems due to lax credit standards and inappropriate credit policies. According to Pike and Neale (1999), a sound credit policy is the blueprint for how the company communicates with and treats its most valuable asset, the customers. Scheufler (2002) proposes that a credit policy creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization's strategies.

1.3 Micro-finance in Zambia

Loans and financial services in Zambia are for low-income individuals or those who do not have access to typical banking services. Micro-finance in Zambia can include savings, insurance, fund transfers as well as credit facilities. Micro-finance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. The two main mechanisms for the delivery of financial services to such clients are: relationship-based banking for individual entrepreneurs and small businesses; and group-based models, where several entrepreneurs come together to apply for loans and other services as a group. There is a multitude of micro-finance companies operating in Zambia. These include among others; Bayport Financial Services, Blue Financial servicesn, Izwe Loans (Zambia) Ltd, Getbucks Financial Services, Madison Finance, PSPF Microfinance, Finca Zambia, Micro Finance (Z) Ltd, New Unity Finance, EFC Finance, FMC Finance, Oryx Finance, Better Now Microfinace and GS Cash Advance and indeed many more that have not been listed here.

Microfinance in Zambia is relatively young and has operated without a distinct legal and regulatory framework until recently (Dixon, et al., forthcoming). The sector emerged in the 1990s (Maimbo and Mavrotas, 2003; Musona, 2004) and is largely donor driven, with an urban concentration. By September 1999, there were nearly thirty organisations engaged in MFI activities (Maimbo and Mavrotas, 2003). Currently, it is estimated that there are more than twenty established MFIs (AMIZ membership list, 2003), most of which are either inactive or quite localised and small compared to other MFIs in South Asia and East Africa. Despite their numbers outreach remains low in relation to the potential "market", and the scope of services is likewise limited, mostly to microcredit with little savings mobilisation. Like MFIs in Kenya (Johnson et al., 2003), Zambian MFIs face relatively high levels of delinquency and default, high operating costs, slow intake and high client exits which constrain their efforts to achieve the financial and organisational sustainability now considered so important. Indeed, most are now faced with challenges of good governance (given their NGO status) and often struggle to maintain high repayment rates.

II. LITERATURE REVIEW

2.1 Theoretical Framework

The conceptual base for this study is drawn from the theory of self-efficacy postulated by Bandura (1995). It refers to beliefs in one's capabilities to organize and execute the courses of action required to manage prospective situations. Self-efficacy affects people's thoughts, feelings, actions, motivations, efforts, and determinations to confront the obstacles faced in life. High self-efficacy means that people are more likely to participate in activities in which they believe they can succeed. It promotes the premise that individuals have the potential to mitigate and

improve their situations. Finally, the theory identifies factors that affect the success or failure of individuals, including their collective or group actions.

2.2 Empirical Review

World Bank defines Micro Finance Institutions (MFIs) as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services CBS (1999). Financial intermediation is of great importance in any economy. According to Zambia's Poverty Reduction Strategy Paper (PRSP) and vision 2030, the financial sector is expected to play a catalytic role in facilitating economic growth through SMEs. Access to formal credit by small-scale business persons has been quite poor particularly among the low-income category. This is largely as a result of the credit policies associated with loans provided by the formal sector (Ringeera, 2003).

According to Mokogi (2003), even if granting credit may accrue benefits of increasing sales to the institution, there are high default risks that may adversely affect its future. Financial institutions therefore have to come up with appropriate credit management policies that will yield the maximum benefits and reduce the risk of defaults. Credit policies vary from one institution to another; a firm's unique operating conditions dictate the kind of credit policy to adopt. Myer and Brealey (2003) noted that if services are offered on credit, the profit is not actually earned unless the account is collected.

Financial institutions take into consideration a number of factors before setting the credit standards. They include financial stability of the customer, the nature of credit risk on the basis of prior record of payment among others. In establishing credit terms, the institution should consider the use of cash discount. An increase in the average collection period of a institution may be the result of a predetermined plan to extend credit terms or the consequence of poor credit administration (Block and Hirt, 1992).

In recent years, a growing number of developing countries, including Zambia, have embarked on reforming and deregulating their financial systems, transforming their financial institutions into effective intermediaries and extending viable financial services on a sustainable basis to all segments of the population (Seibel, 1996). By gradually increasing the outreach of their financial institutions, some developing countries have substantially elevated poverty lending, institutional strategies and financial systems approaches. In the process, a new world of finance has emerged, which is demand-led and savings driven and conforms to sound criteria of effective financial intermediation. As a result of the successful integration of microfinance strategies into micro policies, this makes banking in the micro economy and the poor both viable and sustainable.

Throughout 1980s and 1990s, the financial institutions, which were mainly Non-Governmental Organizational-based credit programs, improved on the original methodologies and reviewed their policies about financing the poor. During this period it was demonstrated that poor people, especially women, re-paid their loans with near-perfect repayment rates, unheard of in the formal financial sectors of most developing countries, were common among the better credit programs. The poor were also willing and able to pay interest rates that allowed MFIs to cover their costs. As a result of these two features, i.e. high repayment and cost-covering interest rates, enabled some MFIs to achieve long-term sustainability while reaching large numbers of clients. The promise of microfinance as a strategy that combines massive outreach, far reaching impact and financial sustainability makes it unique among development interventions.

Various researches have analysed the linkage between credit risk management and financial performance, and how effective credit risk management contributes to reduction of defaults by counterparty as well as restricting uncertainty of achieving the required financial performance. Otieno *et al.* (2016) evaluated the relationship between credit risk management and financial performance of microfinance banks in Kenya using Pearson correlation coefficient. The population of the study comprised of 12 licensed microfinance Banks. Longitudinal research design utilising panel data covering the period from 2011 to 2015 was used. The results show that credit risk management with PAR and LLPCR parameters had a strong negative correlation with both ROAA and ROAE performance measure. Thus, the study concludes that credit risk management impacts performance of MFBs. The study recommends that credit managers should operate under a sound credit granting process with well-defined credit-granting criteria detailing the MFB's target market, a thorough understanding of the borrower's purpose and source of repayment.

Alshatti (2015) examined the effect of credit risk management on financial performance of

the Jordanian commercial banks during the period 2005 to 2013. Thirteen commercial banks were chosen to express on the whole Jordanian commercial banks. The research revealed that the credit risk management affects financial performance of the Jordanian commercial banks as measured by ROA and ROE. Based on findings, the researcher recommends amongst others that banks should improve their credit risk management to achieve more profits, banks should take into consideration the indicators of non-performing loans/gross loans, and that banks should establish adequate credit risk management policies by imposing strict credit estimation before granting loans to customers.

Justus *et al.* (2016) assessed the influence of credit risk management practices on loan delinquency in SACCOS in Meru County, Kenya. The study adopted a descriptive research design and the population consisted of all the 44 credit officers of SACCOs in Meru County. Questionnaire was used to collect data. Multiple linear regressions were used in data analysis. Analyzed data was presented in percentages and frequency tables. The study revealed that there exist a strong relationship between credit risk controls, collection policy and loan delinquency in SACCOs. Thus the study concludes that credit risk management practices significantly influenced loan delinquency in SACCOs in Meru County. The study recommends adoption of a more stringent policy on credit risk management practices in SACCOs for effective debt recovery Kimotho and Gekara (2016) conducted a study on the effect of credit risk management and financial performance of commercial banks in Kenya. The purpose of study was to examine effect of credit risk management practices on financial performance of commercial Bank in Kenya. The study adopted descriptive research design and target population consisted of credit risk managers, credit analyst and debt recovery managers. The study revealed that credit risk management procedures are used to influence profitability of the bank positively and also recommends the management of the banks to oversee facilitation of credit risk management as a substantial degree of standardisation of process and documentation. The study recommended that the bank should consider risk identification as a process in credit risk management and focus on interest risks and foreign exchange risks to great extent in the risk identification map. In addition the Royal Society Study Group (2002) in appreciating the importance credit risk management explained that risk estimation comprises identification of the outcomes and estimation of both the magnitude of the consequences and the probability of those outcomes; the addition of risk evaluation completes the process of risk assessment which is a vital stage in credit risk management.

Lagat *et al.* (2013) analysed the effect of credit risk management practices on lending portfolio among savings and credit cooperatives in Kenya using data on risk identification, risk analysis, risk monitoring, risk evaluation and risk mitigation obtained from 59 SACCOs in Nakuru County. The study applied regression models in the analysis, and the results indicate significant effect of all the risk management practices on loan portfolio except risk evaluation which did not register significant effect on the lending portfolio of the SACCOs. The findings further showed almost all (99%) the respondents who participated in the study noted that monitoring was part of their credit management activities and it was influencing their lending portfolio to a great extent. From the findings of the study it was concluded that majority of the SACCOs have adopted largely risk management practices as a means of managing their portfolio.

Moti *et al.* (2012) examined the effectiveness of credit management system on loan performance of microfinance institutions. Specifically it sought to establish the effect of credit terms, client appraisal, credit risk control measures and credit collection policies on loan performance. The researchers adopted a descriptive research design. The respondents were the credit officers of the MFIs in Ndola town Copperbelt. The results show that the credit management system variables have significant impact on loan performance of microfinance institutions. It also reports that collection policy has a higher effect on loan repayment at 5% significance level. The study recommends that microfinance institutions should consider credit insurance, signing of covenants, credit rating, reports on financial condition, and diversification in granting loans.

Mulondo (2011) investigated the relationship between credit risk management and loan performance of two development finance institutions in Uganda. The study found that loan appraisal showed a very strong significant relationship as compared to other risk management techniques such as risk transfer and risk diversification. The study recommends that considering that there is a significant positive relationship between loan appraisal and loan performance, it is important for the bank to formulate appraisal process/procedures, format that details ways of capturing all the credit risk. The appraisal process should identify and analyze all

loss exposures, and measure such loss exposures. The appraisal process should capture key issues like capital adequacy, capacity of applicant, value of collateral, and repayment history.

Mutangili (2011) analysed the relationship between credit risk management practices and the level of non-performing loans for commercial banks in Kenya. The study documented evidence of negative linkage between the level of non-performing loans and credit risk management practices in banks. He concludes that level of non-performing loans is inversely related to credit risk management practices. He therefore recommends that commercial banks should adopt various credit risk management practices to reduce the level of non-performing loans. In addition, he further recommends that sustainable and reliable credit database should be established for availability of credit information needed by banks.

Finally, Dixon et al, (2007) in their study on Managing Loan 'Delinquency' and Microfinance: Lessons from Zambia found out that loan officers faced powerful hierarchical accountability pressures and under intense pressure, used inappropriate methods to compel repayments. Second, because of their problematic relationships with clients, loan officers experienced job-related tensions through performing conflicting roles that called for a particular management of emotions. Third, the approach to borrower default is shown to be so detrimental for CETZAM's short and long-term survival that it could call other developments into question.

2.3 Summary of Literature review

From the studies reviewed it can be seen that risk management is very cardinal in the development and sustainability of micro-finance institutions. MFIs that do not have strong risk Management systems are on the peril of collapsing. The studies have helped to appreciate the existing knowledge on the topic at hand and more so in directing this study which shall seek to determine the credit risk management procedures adopted on financial performance of microfinance institutions in Zambia.

III. METHODOLOGY

According to Christensen *et al*, (2011) a methodology indicates how data will be collected, the population that will be studied, the design to be used to analyse data as well as how the data will be interpreted and the conclusions which will be drawn. In this study report issues of methodological approach were summarised under separate sub-headings of research design, study site/ population, sample size and sampling procedures, data collection instruments and data analysis.

The study adopted a descriptive design. Descriptive design method will provide quantitative data from the chosen population. The descriptive design is a method which enables the researcher to summarize and organize data in an effective and meaningful way.

They provide tools for describing collections of statistical observations and reducing information to an understandable form. The descriptive research design was deemed fit for this study since it provided a multifaceted approach for data collection and also provided statistics about an event while also illustrative of how people experienced that event. The population of interest consists of Microfinance officers in the risk management department and any other related departments in Finca, Vision Fund and Bayport. The study targeted the senior as well as junior credit officers at the mentioned Micro Financial Institutions. The sample size of the study was 10 officers from four of the micro-financial institution Branches. The study employed a "convenient sampling" to select study participants. This meant that any credit and risk management officer who were available and easily accessible at the time of data collection were requested to participate with consent sought.

The researcher collected both primary and secondary data. The secondary data included acknowledged literature sources about MFIs while a questionnaire was used to collect primary data. The questionnaire was divided into two sections. Section one was concerned with the general information about respondents, while section two addressed the study objectives. In each of the six MFI braches, the study targeted the branch manager, the head of the risk management department and the credit risk management officers who were required to fill in the questionnaires. The study used self-administration method to collect the data so respondents were able to complete questionnaires at their own discretional time given their busy work environment. Once data was collected it was be grouped into frequency distribution to indicate variable values and number of occurrences in terms of frequency. Frequency distribution tables and graphs were useful during the analysis. Tables and other graphical presentations as appropriate have been used to present the data analyzed for ease of understanding of the results.

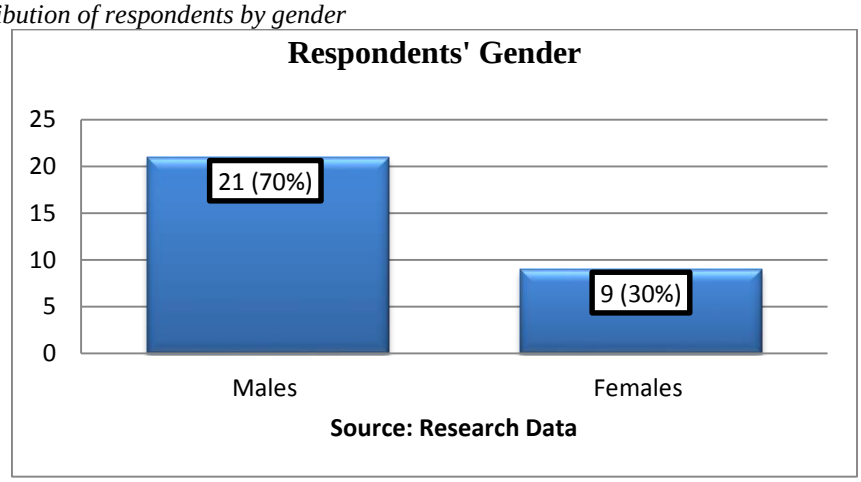
International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

IV. FINDINGS

This chapter presents the findings from the study in accordance with the objectives. The first part presents the background and/or demographic information of respondents and the second part presents results according to the objectives. The study had a sample of 30 respondents who took part in structured interviews from Bayport Financial Services, Vision Fund and Finca Microfinance Institution.

4.1 Background information

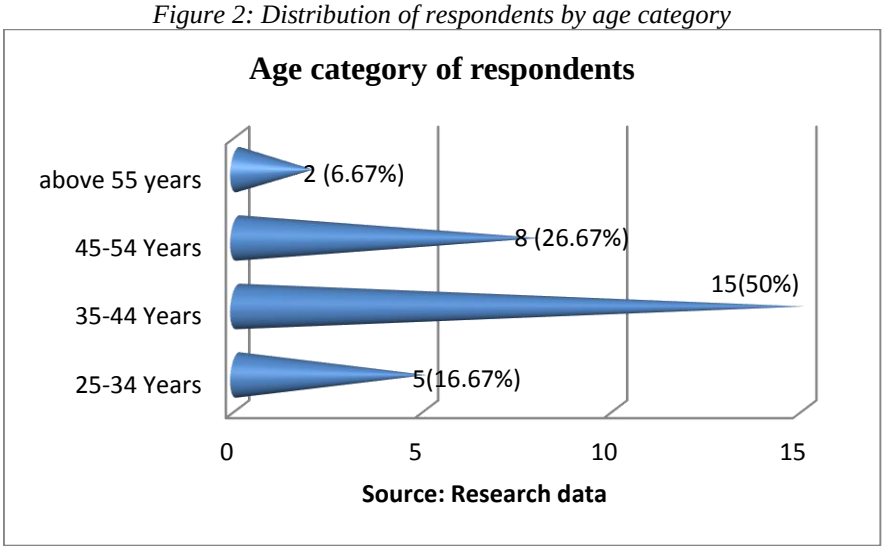
Figure 1: Distribution of respondents by gender



The study sought to determine the gender of the respondents; findings from the study as shown in figure 1 indicate that the majority 70% were males while females were 30%. This indicates that the study was not biased as it involved both genders.

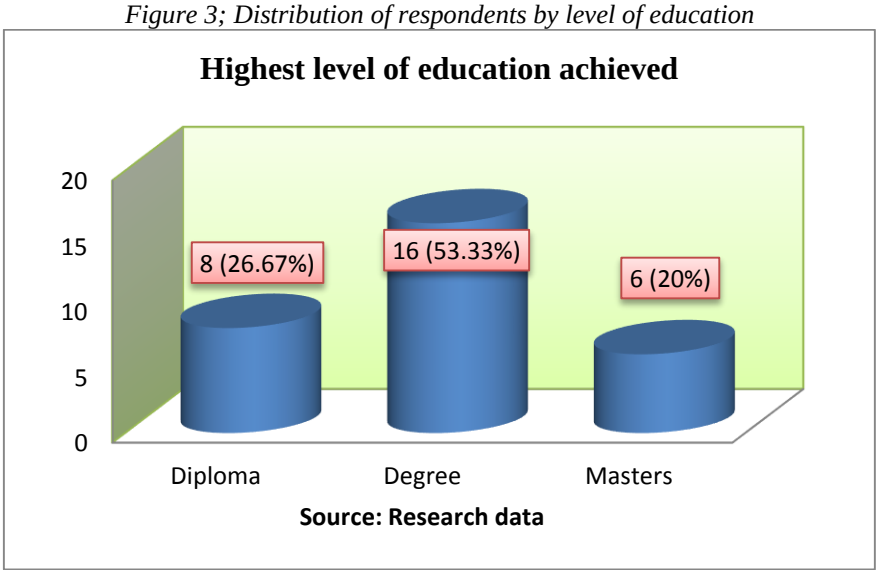
Apart from gender, the study requested the respondents to state their age. The study as shown below indicates that majority (50%) of the respondents were aged between 35 and 44 years, 26.67% were aged between 45 and 54 years, 16.67% were aged between 25 and 34 years while 2 out of the 30 respondents were aged above 55 years.

Figure 2: Distribution of respondents by age category



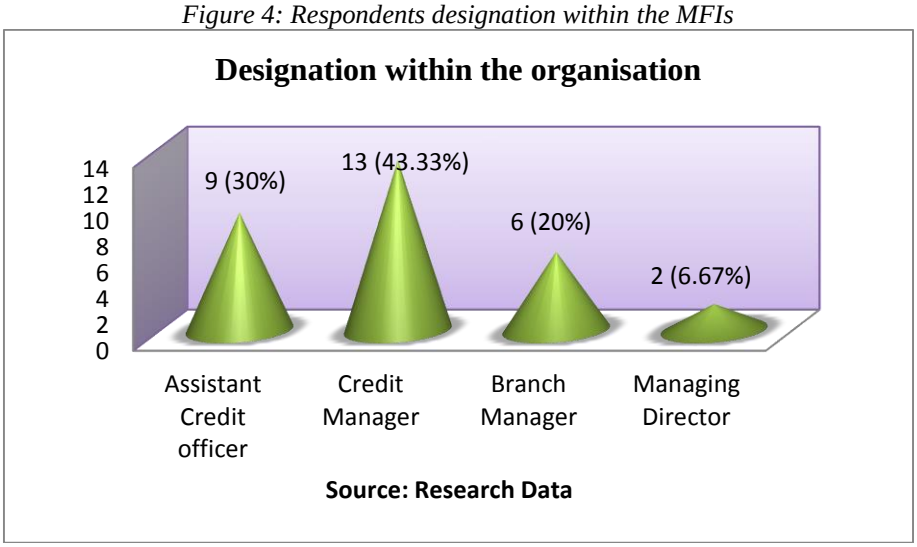
The study also sought to determine the highest level of respondent's education. Results in figure 3 show that 53.33% had highest level of education as Bachelors Degree, 26.6% had Diploma as highest level of education while 20% had masters Degree as highest level of education. This indicates that majority of the respondents in the study had Bachelors degree as highest level of education.

Figure 3; Distribution of respondents by level of education



The study also sought to establish the current designation of respondents in the Micro Financial Institutions (MFIs). Results (***in figure 4***) show that 30% indicated to be Assistant Credit Officers, 43.33% indicated to be Credit Managers, 20% were Branch mangers while 6.67% or 2 out of 30 respondents were Managing Directors.

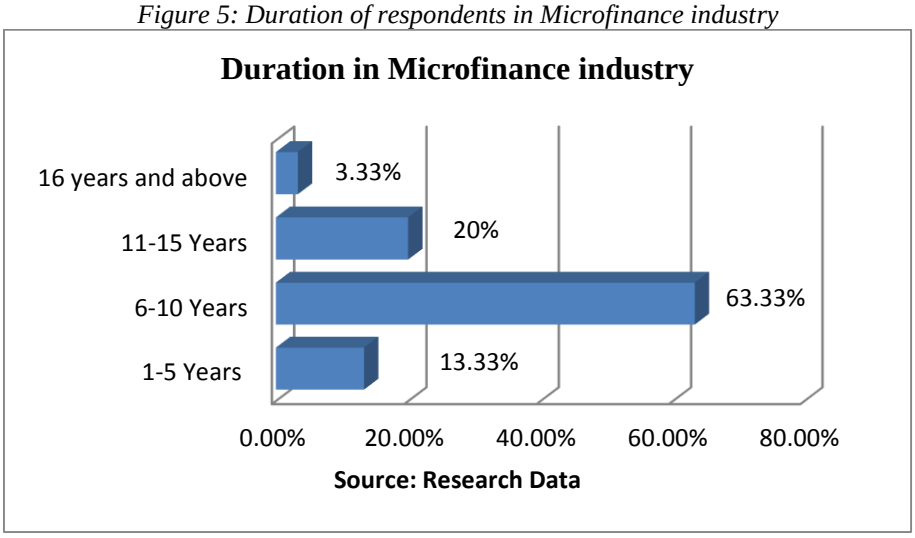
Figure 4: Respondents designation within the MFIs



The study also sought to establish the period of time respondents had served in the microfinance industry. Results show that 13.33% had served in the industry for a period of 1 to 5 years, 63.33% had served in the industry for a period of 6 to 10 years, 20% indicated having served in the industry for a period of 11 to 15 years while only 1 out of 30 respondents indicated serving in the industry for over 16 years as shown in figure 5 below.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

Figure 5: Duration of respondents in Microfinance industry

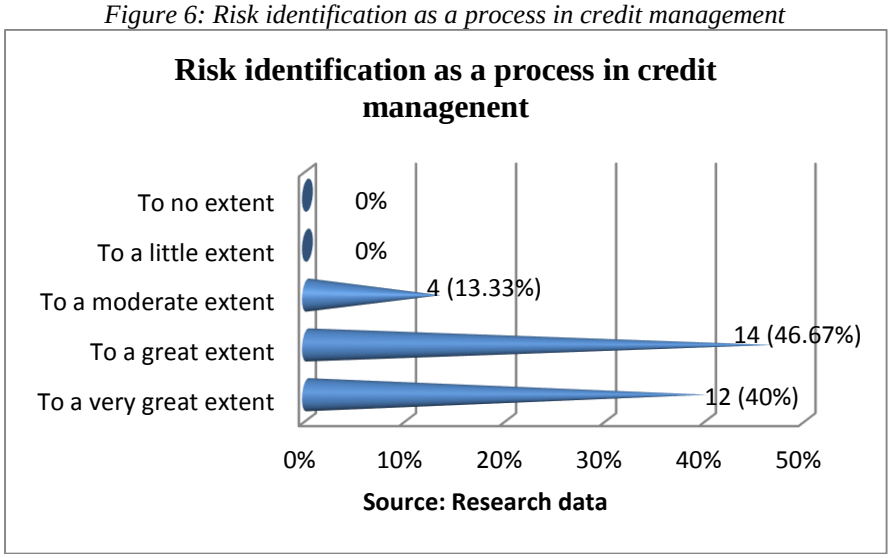


The figure above therefore indicates that the majority of the respondents had served in the Microfinance industry for a period of 6 to 10 years.

4.2 Risk Identification

The first objective of the study was aimed at establishing the extent to which risk identification is applied as a credit risk management procedure in microfinance institutions in Zambia.

Figure 6: Risk identification as a process in credit management



The research sought to establish the extent to which respondents' micro-financial institutions considered risk identification as a process in credit risk management. Results show that 46.67% of the respondents indicated to a great extent, 40% indicated to a very great extent, 4 out of 30 respondents indicated to a moderate extent while no respondent indicated 'to no extent' and to a little extent. This shows that all the respondents agreed that risk identification is a process in credit risk management.

The study also sought to establish the extent to which MFIs focuses on the types of risks in risk identification. Results show that 20 (66.67%) of the respondents agreed with interest rates, while 10 (33.33%) agreed with Foreign exchange risks.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

***Table 1**: Involvement of Auditors*

Involvement of Auditors	Freq (f)	Percent (%)
The auditor begins the inherent risk evaluation process by generating expectations of accounts balances	16	53.33
The auditor identifies changes that have occurred in the firm or its environment	6	20
The auditor determines how those changes should interact with historic trends to produce an expected balance in the account	8	26.67

Source: Research Data

The research further sought to determine the extent to which respondents agreed or disagreed with the above statement (in table 1) with regards to the involvement of auditors in risk identification. Findings show that 53.33% agreed that the auditor begins the inherent risk evaluation process by generating expectations of the accounts balances. Others agreed that the auditor determines how those changes should interact with historic trends to produce an expected balance in the account as shown by 26.67 %, while 20% of the respondents agreed that the auditor identifies changes that have occurred in the firm or its environment.

***Table 2:** Importance of risk identification*

Importance of risk identification in credit risk management	Freq (f)	Percent (%)
It is important as it ensures that the risk management function is established throughout the whole corporation	17	56.67
Risk identification helps to sort risk according to their importance	7	23.33
Risk identification assists the management to develop risk management strategy to allocate resources efficiently	6	20

Source: Research data

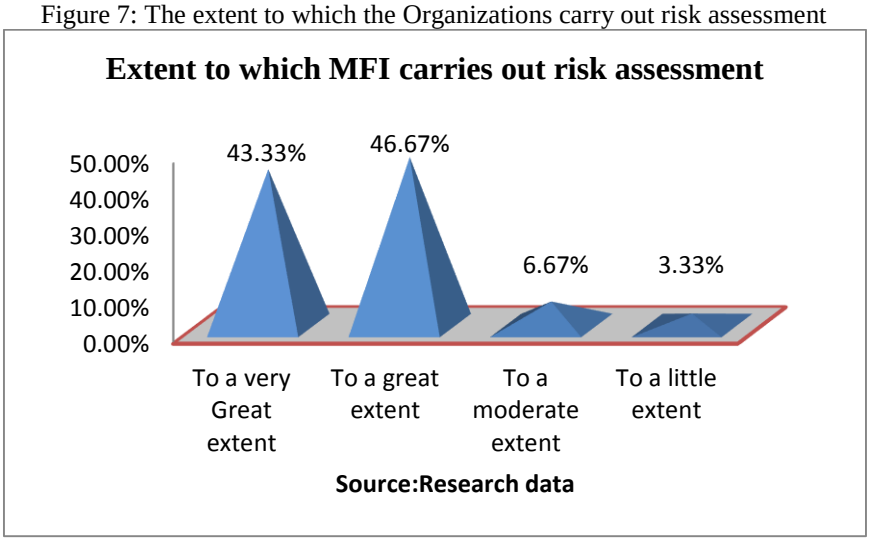
The study also sought to establish to which extent respondents in the two MFIs agreed and disagreed to the statements in table 1.Findings show that 56.67% agreed that it is risk identification is important in credit risk management as it ensures that the risk management function is established throughout the whole corporation. Others agreed that risk identification helps to sort risk according to their importance as shown by 23.33% while 23.33% agreed that risk identification assists the management to develop risk management strategy to allocate resources efficiently.

4.3 Risk Assessment

The other objective of the research was aimed at establishing the extent to which risk assessment procedures are applied as a credit risk management practice by microfinance institutions in Zambia This involved establishing the extent to which the institutions carried out risk assessment and the effects of risk assessment on credit risk management. Results pertaining to this objective are presented below.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

Figure 7: The extent to which the Organizations carry out risk assessment



The study sought to establish the extent to which Micro-financial institutions carry out risk assessment. Results indicate that 43.33% indicated to a very great extent, 46.67% indicated to a great extent, 6.67% indicated to a moderate extent while 1 (3.33%) out total respondents indicated to a little extent. This indicates that almost all the respondents agreed that their respective MFI carries out risk assessment and this is key in improving the performance of the Microfinance institution.

Table 3: Risk assessment and credit risk management

Extent to which respondents agree with the following statements		
	Freq (f)	**Percent (%)**
Our organisation identifies and evaluates the risk and decides on precautions	11	36.67
Controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods	5	16.67
The organisation record findings on the risks identified and implement the measures	6	20%
The management identifies and analyses departmental risks relating to circumstances such as changes in the operating environment	8	26.67

Source: Research Data

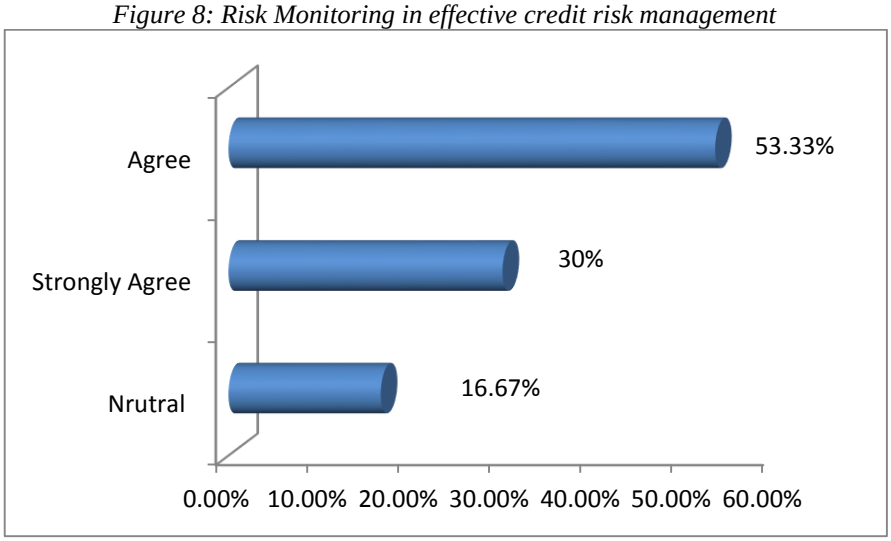
The study sought to determine the extent to which respondents agree or disagree with the above statements relating to risk assessment and credit risk management. Findings show that 36.67 agreed that their organisation identifies and evaluates the risks and decides on precautions. 26.67% agreed that management identifies and analyses departmental risks relating to circumstances such as changes in the operating environment. Others agreed that the organisation record the findings on the risks identified and implement the measures as indicated by 20%, while 16.67% of the respondents agreed that controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods.

4.4 Risk Monitoring

Another important objective of the study was aimed at establish the extent to which risk monitoring and evaluation procedures are applied as a credit risk management practice by microfinance institutions in Zambia.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

Figure 8: Risk Monitoring in effective credit risk management



Source: Research data

As shown in figure 8, majority of the respondents as shown by 53.33% from the MFIs agree that effective credit risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed. 30% of the respondents strongly agreed that effective credit risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed. 16.67% however indicated to be neutral. These results indicate that having a reporting and review structure is key in effective credit risk identification and management.

Table 4: Risk Monitoring and credit risk management

Risk Monitoring in credit risk management	**Freq (f)**	**Percent (%)**
Risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring	20	66.67
Risk monitoring helps the Institution Micro-financial Institution management to discover mistake at early stage	3	10
The Director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly	7	23.33

Source: Research Data

The study further sought to determine respondent's level of agreement and disagreement to the statements above regarding risk monitoring and credit risk management. findings show that 66.67% of the respondents agreed that risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring. 23.33% also agreed that the Director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly.

The study also requested respondents to state the main challenges of risk monitoring in their organisations. Majority of the respondents said that *"lack of risk decision making structure and lack of accountability for risk decisions in organisations"* were some of the challenges. Others said that: *"lack of consistency in risk monitoring process"*. Others did not indicate any challenges faced by the organisation in terms of risk monitoring.

The study went on further to establish the extent to which respondents agreed to the facts below in relation to types risks to ensure profitability of the MFI. The table below summarises the results.

International Journal of Humanities Social Science and Management (IJHSSM)
Volume 3, Issue 5, Sep.-Oct., 2023, pp: 519-535 www.ijhssm.org

Table 5: Types of risks in relation to MFI profitability

Risk monitoring and types of risks	Freq (f)	Percent (%)
Foreign Exchange Risk	3	10
Liquidity Risks	8	26.67
Technology risks	1	3.33
Interest rates	6	20
Market risks	3	10
Credit Risks	9	30

Source: Research data

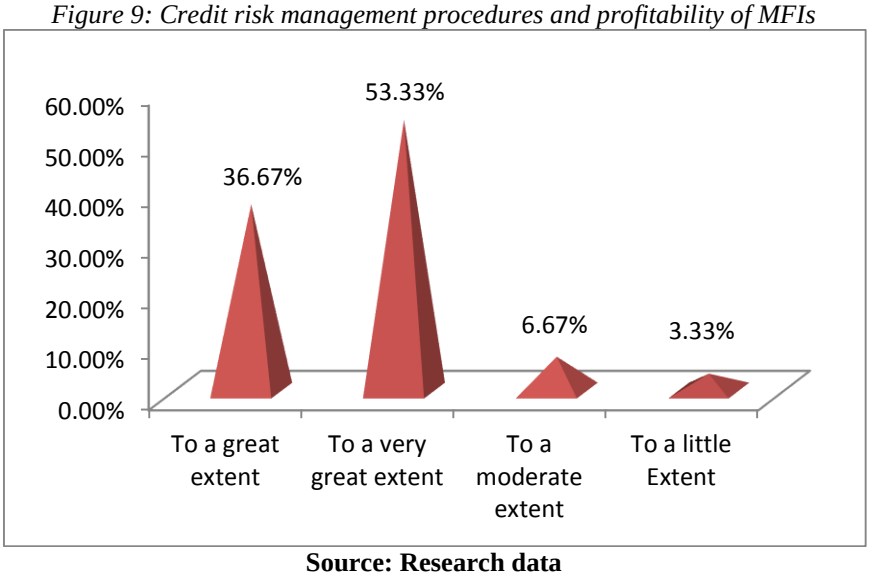
From the table above, majority of the respondents as represented by 30% strongly agreed that credit risks are the major types of risks to ensure profitability. Other respondents agreed with Liquidity risks as shown by 26.67, others agreed with interest rates as shown by 20%, others agreed with market risks as shown by 10%, yet others agreed with Foreign exchange rates risks as shown by 10% while 1 out of all respondents agreed with technology risks.

4.5 Credit risk management and financial performance

The final objective of the study was aimed at determining the effect of risk identification, risk assessment and risk monitoring and evaluation on the financial performance of the microfinance institutions in Zambia. The results are presented hereunder.

The study sought to determine the extent to which credit risk management procedures have affected the profitability of their particular MFIs. The figure below summarises the findings.

Figure 9: Credit risk management procedures and profitability of MFIs



Source: Research data

The figure above shows that majority of the respondents as shown by 53.33% indicated that to a very great extent, risk management procedures have affected organisational profitability. 36.67% also indicated that risk management procedures have affected organisational profitability to great extent. 6.67% (2 respondents) indicated that risk management procedures have affected organisational profitability to a moderate extent while 3.33% (1 respondent) indicated that risk management procedures have affected organisational profitability only to a little extent. Given the majority indicated 'to a very great extent' and to 'a great extent', this show that risk management procedures have affected MFIs profitability.

4.5.1 Credit risk management procedures

The study further intended to establish the extent to which respondents agreed and/or disagreed with

the statements below regarding credit risk management in their respective MFIs. Findings are presented below in table 6.

Table 6: Credit risk management procedures

Credit Risk management Procedures	Freq (f)	Percent (%)
To facilitate credit risk management, substantial degree of standardisation of process and documentation is required	10	33.33
Credit risk management leads to standardized ratings across borrowers and a credit portfolio report that presents meaningful information on the overall quality of the credit portfolio.	5	16.67
Through standardized procedures, the bank can report the quality of its loan portfolio at any time, along the lines of the report presented.	4	13.33
Credit management procedures ensure that total receivables, including loans, leases and commitments and derivatives, are reported in a single format.	3	10
Credit management procedures ensure that all credits must be monitored, and reviewed periodically.	2	6.67
Credit management procedures results in a periodic but timely report card on the quality of the credit portfolio and its change from month to month	6	20

Source: Research Data

The results in table 6 indicate that majority of the respondents as shown by 33.33% agreed that to facilitate credit risk management, a substantial degree of standardization of process and documentation is required. Others agreed that credit risk management leads to standardized ratings across borrowers and credit portfolio report that presents meaningful information on the overall quality of the credit portfolio as indicated by 16.67%. Others agreed that through standardised procedures the bank can report the quality of its loan portfolio at any time, along the lines of the report presented as indicated by 13.33%. Others also agreed credit management procedures ensure that total receivables, including loans, leases and commitments and derivatives are reported in a single format as indicated by 10%. Other respondents also agreed that credit management procedures ensure that all credits must be monitored and reviewed periodically as shown by 6.67%. 20% of the respondents also agreed that Credit management procedures results in a periodic but timely report card on the quality of the credit portfolio and its change from month to month.

4.5.2 Risk Monitoring and types

The study also went further to determine what measures of profitability respondents' organisations use in assessing the impact of credit risk management the table below summarises the results.

Table 7: Risk Monitoring and types of risks

Risk Monitoring and types of risks	Freq (f)	Percent (%)
Net profit	9	30
Gross profit	5	16.67
Interest income	3	10
Earnings before interest and taxes	1	3.33
Reduced defaults	12	40

Source: Research data

The table above shows that majority of the respondents agreed with reduced defaults as shown by 40%, others agreed with net profit as shown by 30%, others agreed with Gross profit as indicated by 16.67%, others agreed with interest income while others agreed with Earnings before interest and taxes as shown by 3.33%.

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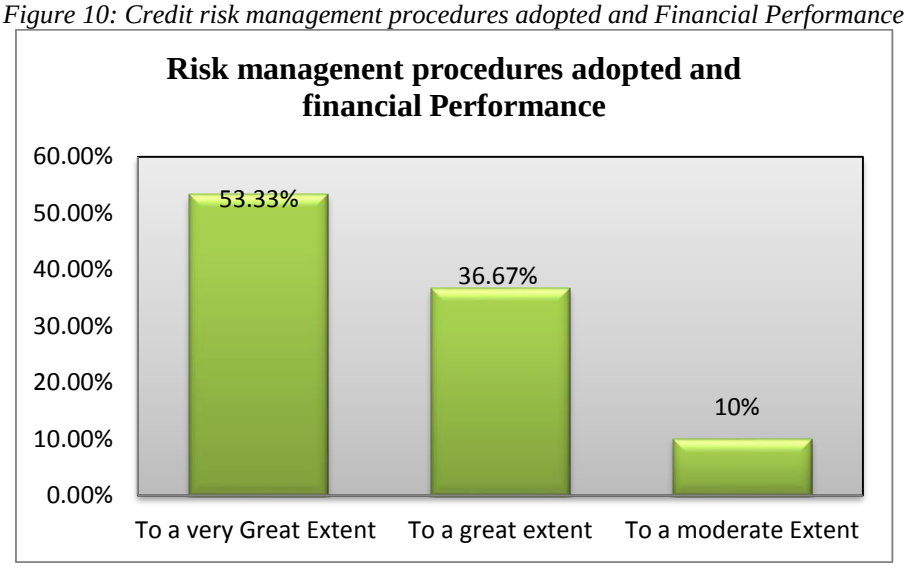
Figure 10: Credit risk management procedures adopted and Financial Performance



Source: Research Data

In the final analysis, the study sought to determine overall to what extent the credit risk management procedures adopted by their respective MFI influence Organisational financial performance. As shown in figure 10 above, results show that majority of the respondents indicated that credit risk management procedures adopted by their respective MFIs influence financial performance to a very great extent as shown by 53.33%. 36.67% of the respondents also indicated that credit risk management procedures adopted by their individual MFI influenced financial performance to great extent while 10% indicated that to a moderate extent, the credit risk management procedures adopted by their respective MFI influenced financial performance of their institutions. These findings indicate that credit risk management procedures adopted by an organisation influences MFI performance as all the respondents agreed affirmatively.

V. DISCUSSION OF FINDINGS

Risk Identification and financial performance

Findings reveal that majority (46.67%) of the respondents indicated to a great extent, 40% indicated to a very great extent that risk identification is a process in credit risk management. According to Kimotho and Gekara (2016), the bank should consider risk identification as a process in credit risk management. the study also established that the majority (66.67%) of respondents agreed with interest rates and 33.33% agreed with Foreign exchange risks as the major risks. This is in line with Kimotho and Gekara (2016) who argued in their study that banks should focus on interest risks and foreign exchange risks to great extent in the risk identification map. Thus risk identification is an important step in effective credit risk management.

The study also established that majority, 53.33% agreed that the auditor begins the inherent risk evaluation process by generating expectations of the accounts balances. Others agreed that the auditor determines how those changes should interact with historic trends to produce an expected balance in the account as shown by 26.67 %, while 20% of the respondents agreed that the auditor identifies changes that have occurred in the firm or its environment. Owing to these findings, auditors have an important role to play in continuous risk identification in MFIs.

Further, the study established that majority 56.67% agreed that risk identification is important in credit risk management as it ensures that the risk management function is established throughout the whole corporation. Others agreed that risk identification helps to sort risk according to their importance as shown by 23.33% while 23.33% agreed that risk identification assists the management to develop risk management strategy to allocate resources efficiently. It can therefore be stated that risk identification enables MFI to study activities and places where its resources are exposed to risks and find establish mitigation means as well as measures to reduce arising credit risks.

5.2 Risk Assessment and financial performance

The study established that majority as indicated by 43.33% indicated to a very great extent, 46.67% indicated to a great extent that their respective MFI carries out risk assessment. This is important for the organisations as it enables MFIs to perform positively. Conversely, majority as shown by 36.67 % agreed that their organisation identifies and evaluates the risks and decides on precautions. 26.67% agreed that management identifies and analyses departmental risks relating to circumstances such as changes in the operating environment. Others agreed that the organisation records the findings on the risks identified and implement the measures as indicated by 20%, while 16.67% of the respondents agreed that controls exist for approving decisions regarding financing alternatives and accounting principles, practices and methods. According to Royal Society Study Group (2002) risk estimation comprises identification of the outcomes and estimation of both the magnitude of the consequences and the probability of those outcomes; the addition of risk evaluation completes the process of risk assessment which is a vital stage in credit risk management. Therefore without credit risk assessment it would be difficult to establish how severe the credit risks are in the organisation.

5.3 Risk Monitoring and financial performance

Majority of the respondents as shown by 53.33% from the MFIs interviewed agreed that effective credit risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed. 30% of the respondents strongly agreed that effective credit risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed. 16.67% however indicated to be neutral. These results indicate that having a reporting and review structure is key in effective credit risk identification and management. These findings are in line with those of Al-Tamimi and Al-Mazrooei (2007) who agreed that risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring also helps bank management to discover mistake at early stage.

The study further established that the main challenges of risk monitoring in respondents MFIs include lack of risk decision making structure and lack of accountability for risk decisions in organisations. Other challenges include lack of consistency in risk monitoring process. In establishing the credit risks that influence organisational profitability majority of the respondents as shown by 30% strongly agreed that credit risks are the major types of risks to ensure profitability. Other respondents agreed with Liquidity risks as shown by 26.67, others agreed with interest rates as shown by 20%. Various risks exist and this means that Organisations need to adopt different measures to reduce credit risks. According to Mutangili (2011) banks should adopt various credit risk management practices to reduce the level of non-performing loans. In addition, he further recommends that sustainable and reliable credit database should be established for availability of credit information needed by banks.

5.4 Credit risk management and financial performance

Majority of the respondents as shown by 53.33% indicated that to a very great extent, risk management procedures have affected organisational profitability. 36.67% also indicated that risk management procedures have affected organisational profitability to great extent. 6.67% (2 respondents) indicated that risk management procedures have affected organisational profitability to a moderate extent. These findings are in line with Alshatti (2015) who also discovered that credit risk management affects financial performance. The researcher therefore recommended amongst others that banks should improve their credit risk management to achieve more profits, banks should take into consideration the indicators of non-performing loans/gross loans, and that banks should establish adequate credit risk management policies by imposing strict credit estimation before granting loans to customers.

Additionally, the study established that majority 53.33%. of the respondents indicated that credit risk management procedures adopted by their respective MFIs influence financial performance to a very great extent, 36.67% of the respondents also indicated that credit risk management procedures adopted by their individual MFI influenced financial performance to great extent while 10% indicated that to a moderate extent, the credit risk management procedures adopted by their respective MFI influenced financial performance of their institutions. These findings are in line with Kimotho and Gekara (2016) who revealed that credit risk management procedures are used to influence profitability of the bank positively.

VI. Conclusion

The study was generally aimed at determining the credit risk management procedures adopted on financial performance of microfinance

institutions in Zambia with the target of Bayport, Vision Fund, and Finca Micro-Financial Institutions. The following conclusions have been drawn after carrying out the study.

The study established that risk identification is one of the key procedures in credit risk management in the two institutions and this makes the MFI identify various risks and find means of reducing them. Specifically the study established that risk identification is important as it ensures that the risk management function is established throughout the whole corporation. Further, results indicate that all the assessed MFIs identify and evaluate the risks and decide on precautions as well as upholding controls for approving decisions regarding financing alternatives and accounting principles, practices and methods.

The study also established that risk monitoring is yet another important credit risk management procedure that is applied in MFI in Zambia for enhancing MFIs performance. It can therefore be concluded that risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring and that risk monitoring helps that MFI management to discover mistakes at early stage thereby leading to the growth of the organisation.

Lastly the study established that the credit risk management procedures adopted by the MFI has an influence on its financial performance of the organisations. This means that MFIs in Zambia need to employ standardized procedures in credit risk management. Thus, to facilitate effective credit risk management, a substantial degree of standardization of process and documentation is required in MFIs risk management.

6.2 Recommendations

The study established that the two target MFIs adopt various Credit risk management procedures it can therefore be recommended that there is need to put in place strong and consistent measures in credit risk management in order to make MFI more profitable.

Risk identification needs to be strengthened so that the organisations can be able to take note of harmful risks which have the potential to retard the growth of the organisation especially that which relates to loan defaults.

The other recommendation is that the credit risk management adopted by the MFI has an influence on the financial performance of these organisations. Therefore MFIs need to find the best credit risk management procedures and this can be achieved by information sharing with other MFIs within and outside the country. Further, this can be achieved by investing in new technologies in credit risk identification, analysis, appraisal, assessment and monitoring. These procedures must be carried out regularly in order to avoid risks escalating and affect the financial performance of the Organisation.

The study may also recommend that for further research, an assessment of credit risk management in other Commercial Banks in Zambia be undertaken in order to assess the Credit risk management procedures that are more viable and assure more profitability to the Banks.

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