

An Investigation into The Effect of Credit Management Practice on Financial Performance of Microfinance Institutions in Kasama District

(Paper ID: CFP/1273/2019)

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Abstract—The study was aimed at assessing the effects of credit management practices on the financial performance of MFIs. The major objectives of the study were to identify various credit management practices implemented by MFIs in Kasama district, to assess the effect of credit risk control in designing and formulating policy or regulations on financial performance in Kasama district and to determine the effect of collection policy to the customers who do not pay the firms bills in time as well as on financial performance of MFIs. The microfinance concept started penetrating the Zambian space economy after independence in 1964 when Zambia was liberated from the chains of political slavery. During the UNIP regime, microfinance concept remained largely unexplored and poorly understood by most Zambian stakeholders. The establishment of microfinance sector or concept led to the proliferation or increase in the number of microfinance institutions currently operating in the Zambian financial sector. It is worth noting that, Microfinance Institutions (MFIs) emerged as a new approach to provide quality financial services to the poor or to feel the gap that had been made with respect to the provision of financial services to small and medium enterprises, small scale farmers and low-income households or generally the poor.

The study employed a descriptive research design because descriptive research designs are concerned with conditions or relationships that exist, opinions that are held, processes that are going on, effects or trends that are evident. This method was chosen to make references to phenomena as they existed in real life and it was relatively economical in terms of time and resources. The target population was 154

employees. For sampling, simple random sampling was used in selecting 113 employees. SPSS VERSION 25 was used in the analysis of data. The data shows that MFIs have developed appropriate credit policies to ensure that credit administration is done effectively and increasing the affect loan repayments and bad debts. Multiple regression analysis was used in testing the hypotheses of the study and establishing the strengths of the relationships. The results showed that all the three formulated null hypotheses were rejected resulting other adoption of the alternative hypotheses. In this regard, it can be said that credit risk management practices positively affect the financial performance of MFIs in Kasama district, credit risk control positively affect the financial performance of MFIs in Kasama district and that credit risk control positively affect the financial performance of MFIs in Kasama district.

The study concluded that sound credit management is a prerequisite for a financial institution stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. As with any other financial institution, the biggest risk in deposit taking microfinance institution is lending money and not getting it back. The researcher recommends that effective management of credit is essential to the long-term success of any microfinance institution. Deposit taking microfinance institutions should ensure to a very great extent on the adoption of credit standards, credit policy, credit terms and collection polices.

Keywords—credit management; financial performance; microfinancial management

I. 1.1 BACKGROUND

Credit is one of the many factors that can be used by a firm to influence demand for its products. According to Horne and Wachowicz (2008), firms can only benefit from credit if the profitability generated from increased sales exceeds the added costs of receivables. Myers and Brealey (2003) define credit as a process whereby possession of goods or services is allowed without spot payment upon a contractual agreement for later payment.

Micro-finance concept has operated for centuries in different parts of the world for example, “susus” in Ghana, “tandas” in Mexico, “tontines” in West Africa and “pasanaku” in Bolivia. One of the earliest and longest serving micro-credit organization providing small loans to rural poor dwellers with no collateral is the Irish loan Fund system initiated in the early 1700” s by Jonathan swift. His idea began slowly in 1840s and became a widespread institution of about 300 branches all over Ireland in less than one decade. The principal purpose was to advance small loans with interest for short periods. However, the pioneering of modern microfinance is often credited to Dr. Mohammad Yunus, who began experimenting with lending to poor women in the village of Jobra, Bangladesh during his tenure as a professor of economics at Chittagong University in the 1970s.

There has been a development of a range of terms for defining microfinance in the literature recently. Given the achievement of microfinance as a prominent tool in poverty alleviation, the literature has defined microfinance as follows:

Ledgerwood (2008) argued that microfinance is the provision of financial services to low income clients, including small traders, street vendors, small farmers, service providers (e.g.; hairdressers, rickshaw drivers), artisans and small producers. Similarly, Mersland and Strom (2008) state that microfinance provides financial services on a micro scale, such as microcredit, micro insurance, and micro savings for poor and low-income

people. Meanwhile, Robinson (2002) proposes a broad definition of microfinance, which refers to small scale financial services, primarily credit and savings, provided to people who farm or fish or herd; who operate small enterprises or small business enterprises where goods are produced, recycled, repaired, or sold; provide small services, who work for wages and commissions; gain income from renting agricultural machinery to other individuals and groups at the local level in both rural and urban areas.

Microfinance is the supply of loans, savings, and other basic financial services to the poor." As these financial services usually involve small amounts of money - small loans, small savings, the term "microfinance" helps to differentiate these services from those which formal banks provide. Microfinance institutions provide a reliable source of financial support and assistance compared to other sources for financing. Sources operating outside the microfinance industry typically form informal relationships with borrowers and have no real legal or substantial ties with their customers. As a result, loan terms tend to carry high costs with no guarantee that lenders will remain in one place for any length. In contrast, microfinance institutions typically work alongside government organizations and also have ties with larger global organizations.

As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is unsecured (i.e., traditional collateral is not often used to secure microloans Churchill and Coster (2011). The people covered are those who cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. Many banks do not extend credit to these kinds of people due to the high default risk for repayment of interest and in some cases the principle amount itself. Therefore, these institutions required to

design sound credit management that entails the identification of existing and potential risks inherent in lending activities.

Timely identification of potential credit default is important as high default rates lead to decreased cash flows, lower liquidity levels and financial distress. In contrast, lower credit exposure means an optimal debtor level with reduced chances of bad debts and therefore financial health. According to Scheufler (2002), in today's business environment risk management and improvement of cash flows are very challenging.

With the rise in bankruptcy rates, the probability of incurring losses has risen. Economic pressures and business practices are forcing organizations to slow payments while on the other hand resources for credit management are reduced despite the higher expectations. Therefore, it is a necessity for credit professionals to search for opportunities to implement proven best practices. By upgrading your practices five common pitfalls can be avoided. Scheufler (2002) summarizes these pitfalls as failure to recognize potential frauds, under-estimation of the contribution of current customers to bad debts, getting caught off guard by bankruptcies, failure to take full advantage of technology, and spending too much time and resources on credit evaluations that are not related to reduction of credit defaults. The microfinance concept started penetrating the Zambian space economy after independence in 1964 when Zambia was liberated from the chains of political slavery. During the UNIP regime, microfinance concept remained largely unexplored and poorly understood by most Zambian stakeholders (MOF, 2017). The majority of industries were state owned and Zambia was one of the most prosperous countries in the Sub-Saharan Africa thereby making it possible to meet the needs of a small population (Chiara, 2017). Note that Zambian modern microfinance institutions vibrantly came on the scene in the early 1990s due to economic reforms which subsumed the privatization and

liberalization of the financial sector (Agri-ProFocus, 2017). Apart from the drastic economic reforms in the financial sector, the failure of state-owned financial institutions also led to the establishment of the majority of Microfinance Institutions (MFIs) in Zambia (Maimbo and Mavrotas, 2017). The adoption of liberalization and privatization policies by MMD government and the failure of state-owned financial institutions due to over dependence on subsidies, massive defaults and bad debt management practices paved way for the creation of what can be termed the modern microfinance concept in Zambia.

The establishment of microfinance sector or concept led to the proliferation or increase in the number of microfinance institutions currently operating in the Zambian financial sector (Agri-ProFocus, 2017). It is worth noting that, Microfinance Institutions (MFIs) emerged as a new approach to provide quality financial services to the poor or to fill the gap that had been made with respect to the provision of financial services to small and medium enterprises, small scale farmers and low-income households or generally the poor (Maimbo and Mavrotas, 2017). Previous studies have contended that MFIs came into being from the recognition that low-income households and micro-entrepreneurs can be bankable (Kipngetch and Muturi, 2017). Proponents of the concept of MFIs argue that such facilities were established from the recognition that poor people or low-income households could also manage to repay back the loan on time with interest and could as well make savings provided financial services are tailored to meet their socio-economic needs (Maimbo and Mavrotas, 2017). In a nutshell, MFIs came on the scene as a powerful mechanism or tool in the struggle to combat or fight poverty and economic dependence. These institutions (MFIs) were viewed as a crucial engine to accelerate sustained economic growth and development, and to reduce income inequality by promoting social fairness and justice (Fan and Zhang, 2017).

According to Chiara (2017:7), a microfinance institution is a “person who, as part of their business, advances microcredit facilities or services”. On the other hand, microfinance service refers to the provision of services primarily to small or low-income households or micro enterprises (Ibid). Zambian MFIs are categorized into three types namely: Deposit Taking (DT) MFIs; Non-Deposit Taking (NDT) MFIs with a paid-up capital of greater than K25, 000 and Non-Deposit Taking (NDT) MFIs with a paid-up capital less than K25, 000 (Agri-ProFocus, 2017). Others report that MFIs come into two (2) main types such as Pay Roll Based Consumer Lenders (PRBCL) and Microenterprise Lenders (ML). As of 2014, it is reported that Zambia had about 25 registered or licensed MFIs by Bank of Zambia (Chiara, 2017). All these MFIs are regulated and supervised by the Bank of Zambia (BoZ) under the Bank of Zambia (BoZ) Act of 1996.

Reports have revealed that given the current Microfinance Regulations (MFRs), the financial performance of Zambian MFIs remains highly unstable and unfavorable due to high compliance costs, operational costs, high taxes, bad debt management practices and loan defaults (Maimbo and Mavrotas, 2017). However, the financial performance of MFIs has been affected by myriad factors which could be termed as internal and external factors thereby posing a great challenge with respect to the attainment of Sustainable Development Goals (SDGs) and vision 2030. Factors that could be leading to unhealthy financial performance of MFIs in Zambia may subsume poor credit analysis and credit rating by some MFIs, increased levels of credit risks, inflationary changes, unfavorable monetary policy and exchange rates, costs incurred during publication of prudential reports required by BoZ, costs incurred when preparing for inspections, annual audit and supervision, opening up of new branches and the general disruption caused to business (BoZ, 2017). It is assumed that some

Zambian MFIs’ financial profitability (Returns on the amount invested, Returns on assets and Returns on equity) has been adversely affected by the preceding costs. However, data on the effect of credit management practices on the financial performance of MFIs in Zambia remains largely erratic (sporadic) or non-existent in some instances. There is little evidence or literature on the relationship between credit management (client appraisal and credit risk control) and financial performance or financial profitability (returns on investments, assets and equity).

Previous studies have revealed that Zambian MFIs’ portfolio quality is vulnerable or exposed to a lot of risks because of high delinquency, and payments tend to be overdue sometimes (Mbanacele, 2002). High delinquency has negatively and rapidly impacted on the functioning and financial performance of some MFIs especially in Kasama district of Northern Province of Zambia. This scenario coupled with the issuance of low value loans, financial illiteracy, poor corporate governance practices and lack of participation in monetary policy formulation, has resulted into poor financial performance among MFIs (Maimbo, 2017). Zambian microfinance sector leaves much to be desired due to high inefficiencies (high costs) in their operations resulting into liquidations and poor market competitiveness with commercial banks. Due to such inefficiencies, MFIs find it so difficult to expand and provide quality financial services to small and medium enterprises, low-income households, small scale farmers and generally to the poor (Chiara, 2017) However, few studies in Zambia have attempted to analyse the effect of credit management practices on financial performance of MFIs. Therefore, it is against this background that the study intended to develop an insight into the influence or effect of credit management practices on financial performance of MFIs in Kasama district of Northern Province of Zambia.

According to Bank of Zambia there are currently 18 commercial banks, 33 MFIs and 74 other Non-Bank Financial Institutions (NBFIs) operating in Zambia. MFIs offer microfinance services such as, small loans and savings facilities as well as capacity building. Although expansion is much slower in rural areas, growth is evident along the line of rail and peri-urban areas of the country. The provision of financial services has been slow due to unsatisfactory infrastructure and absence of an appropriate regulatory and supervisory framework (BoZ, 2018). Major players that provide services on the rural market and or agricultural packages in terms of outreach and balance sheets include; Agora microfinance Zambia, Christian Enterprise Trust of Zambia, Entrepreneurs Financial Centre, Foundation for International Community Assistance, Micro-Bankers Trust and Vision Fund. Agora Microfinance Zambia (AMZ) AMZ was initiated by Agora Microfinance Partners LLP and Concern Worldwide as part of a joint initiative to provide access to finance for the poorest, through developing green field microfinance operations in selected African countries. AMZ was established in 2010 and received its license as a Non-Deposit Taking Microfinance Institution by the Bank of Zambia in April 2011. AMZ specifically targets low income rural households, currently with three branches in two provinces: Mongu and Kaoma district (Western Province) and Mumbwa district (Central Province). The combined outreach from the branches at the end of 2012 was 10,579 clients. Current products include an End of Term Loan (with monthly interest payments) and Flexi 1 and Flexi 2 loan products (monthly Principal + interest payments), using a solidarity lending methodology. Additionally, an Emergency Loan is available for existing clients and a credit line is being tested with a small group of clients.

Agoras target clients are low income households engaged in livelihood activities linked to subsistence agriculture, fishing, small scale processing as well as retail trade and services. In

general clients are located in rural districts with poor infrastructure facilities and utilities. (AGORA Annual Report 2012).

The second MFI is the Christian Enterprise Trust of Zambia (CETZAM), CETZAM financial services Pic is a deposit taking Microfinance institution licensed by the Bank of Zambia. It was founded in 1995 as an independent Microfinance institution (MFI) with the aim of providing sustainable services to the economically disadvantaged of Zambia. It is registered as a company Pic by shares and is affiliated to opportunity international, a global coalition of microfinance institutions.

CETZAM provides Trust Bank loans, Solidarity group loans, and salaried loans, individual and small to medium enterprise loans. Its addition, for small scale farmers growing cash crops or engaged in market gardening it funds inputs, irrigation technologies etc. CETZAM is running a small-scale farmers irrigation project. It partnered with Development Aid from People to People (DAPP) with the view of providing financial assistance to small scale farmers to enable them to purchase irrigation technology and water harvesting as well as training in agricultural and business skills conducted by DAPP. The specific objective of this irrigation project is the promotion and use of improved on-farm water resources management methods and low-cost irrigation technologies for food security and poverty reduction by 5000 small scale farmers in Mkushi, Kapiri-Mposhi, Masaiti and Chingola districts.

Entrepreneurs Financial Centre (EFC) is the third MFI, EFC was formerly known as Pulse Holdings Limited. It started as a CARE Zambia project in 1996 and later transformed into Entrepreneurs Financial Centre in 2011. EFC has branches in Lusaka, Kitwe, Ndola, and Chipata.

CETZAM has branches in Lusaka, Livingstone, Ndola, Kitwe, Chingoa, Chililabombwe, Kalulushi, Mufulira, Serenje, Kabwe, Mumbwa,

Mkushi, Kapiri-Mposhi, Masaiti, Chibombo, Solwezi, Choma, Monze and Chirundu.

FINCA- Zambia is the fourth MFI, FINCA stands for Foundation for International Community Assistance, and it is an international microfinance institution offering services and products to small scale businesses that have been turned down by traditional banks. FINCA pioneered the "village banking method" of credit delivery now used by hundreds of organizations worldwide. FINCA operates in 22 countries of Africa, Eurasia, the Middle East and South Asia and Latin America serving nearly 1.7 million clients. In the context of the Zambian microfinance market FINCA Zambia is a clear leader with the focus on the rural areas of the country. FINCA products and services include loans, savings, insurance, remittances and money transfers. FINCA does not simply extend to low-income families, it helps to create community run, and community focused credit and savings associations, particularly in areas untouched by the formal financial industry. FINCA provides basic training although it is not business training, it provides training that is focused on credit management and how to manage loans. FINCA does not train their clients themselves, but contracted out this service to ILO qualified local trainers.

FINCA Zambia started operations in 2001, with headquarters in Lusaka and branches in Lusaka, Central, Southern, Eastern and Copper belt provinces.

As a fifth MFI, Micro-Bankers Trust (MBT), MBT was established in 1996 as a joint venture between the Zambian government and the European Union through the Ministry of Community Development and Social Services. MBT is both a wholesale and retail institution. MBT offers six products most of which are agriculture related, these include TWENDE, Individual loans, Dairy, Small livestock, Agricultural Equipment.

Further, Vision Fund Zambia (VFZ) is also another MFI. Vision Fund Zambia is subsidiary of

Vision Fund International. It is a non-profit organization. It was established in 2003 and has been providing small business loans to entrepreneurs running micro businesses, which provides greatly needed working capital to increase their business volume and consequently increase the income for their families. By focusing on women who constitute above 70% of the client base, they are able to complement World Vision efforts of improving the lives of the most poverty-stricken communities in Zambia. Products provided by Vision Fund Zambia include Group loans, Individual loans and Savings.

VFZ operates in Lusaka, Chongwe, Chirundu, Choma, Chipata, Chingola, Sinazongwe, Monze, Kitwe, Solwezi, Mbala and Kasama.

1.1 Statement of the problem

It is obvious that the primary functionality of a financial institution is the provision of loan facilities to deserving clients located in their sphere of jurisdiction. Microfinance institutions are in business with the sole aim of making profits and so, they seek to generate profits through giving out loans and investment in other assets. Against this backdrop, loan supply and delivery are part of the core business activities of financial institutions because without giving out credit in the form of loans and advances to individuals and firms, their main objective for being in business would be defeated. It will be a challenge to enact the most favourable credit policy as the best amalgamation of the variables of credit policy is quite arduous to acquire.

As with any financial institution, the biggest risk in microfinance is lending money and not getting it back. Credit risk is a particular concern for MFIs because most micro lending is unsecured (i.e., traditional collateral is not often used to secure microloans Churchill and Coster (2011). Zambian microfinance sector leaves much to be desired due to high inefficiencies (high costs) in their operations resulting into liquidations and poor market competitiveness with commercial banks.

Due to such inefficiencies, MFIs find it so difficult to expand and provide quality financial services to small and medium enterprises, low-income households, small scale farmers and generally to the poor (Chiara, 2017). However, few studies in Zambia have attempted to analyse the effect of credit management practices on financial performance of MFIs. Therefore, it is against this background that the study intended to develop an insight into the influence or effect of credit management practices on financial performance of MFIs in Kasama district of Northern Province of Zambia.

Additionally, various studies have been done on the effects of credit management practices in other African countries especially Kenya, Nigeria and South Africa but few have been done in Zambia. In this regard, the research will tend to bridge the gap in the literature to provide the Zambia's context of credit management practices on the performance of MFIs.

II. 1.3 OBJECTIVES

1.3.1 Main Objectives

To explore the effects of credit management practices on financial performance of MFIs in Kasama district.

1.3.2 Specific Objectives

- To identify various credit management practices implemented by MFIs.
- To assess the effect of credit risk control in designing and formulating policy or regulations on financial performance in Kasama district.
- To determine the effect of collection policy to the customers who do not pay the firms bills in time as well as on financial performance of MFIs.

1.4 Research questions

- What credit management practices are implemented by MFIs?

- In what ways does credit risk control affect the designing and formulating policy or regulations on financial performance in Kasama district?
- What effect does collection policy have to the customers who do not pay the firms bills in time as well as on financial performance of MFIs?

1.5 Significance of the study

This study is very relevant in that its findings may be useful to improve the financial performance (profitability) of Zambian MFIs which ultimately could improve the livelihoods of the poor or micro-entrepreneurs like small scale farmers, low-income households etc. Findings of the study may further help monetary regulation or policy makers such as Bank of Zambia, Ministry of Finance, Commercial Banks and MFIs to design, formulate and implement such policies in a transparent, consultative and participatory manner. The generated information may be very useful in sensitizing MFIs regarding the impact of quality credit management policies on the financial performance of MFIs.

1.6 Limitations

The research was limited by finances as it could only cover few MFIs. Also, the research was limited by a time factor where the researcher had to divide time amid school, work and the family. For data collection, some respondents were not willing to be part of the study by helping in the answering of the questionnaires, others got questionnaires but not fully answer them.

1.7 Conceptual Framework

The conceptual framework tells a bigger picture of the study and directs research objectives. Orodho (2017) argued that a conceptual framework is a model of presentation that shows the interaction between independent and dependent variables in a diagrammatically manner. According to the

conceptual framework, financial performance is a response variant (dependent variable) while client appraisal, collection policy and credit risk control or management are explanatory variates (independent variables). Client appraisal, collection policy, client orientation and credit risk control are indicators of credit management practices (independent variables) that influence or explain the financial performance of MFIs.

The interplay among independent variables and dependent variable is very critical in explaining the extent to which a response variable is explained or affected by independent variables. The interaction among and between exogenous variables shows the proportion of the variation in the dependent variable explained by an independent variable.

1.8 Operational definition of concepts

Credit management: A function performed within a company to improve and control credit policies that will lead to increased revenues and lower risk including increasing collections, reducing credit costs, extending more credit to creditworthy customers, and developing competitive credit terms. Also called credit control.

Financial performance: the ability to survive, grow, operate efficiently, profitably, survive, and react to the threats of the environment and opportunities.

MFIs: organizations that provide financial services to low income communities, and include NGOs; member-based organisations such as village banks, CUs and savings and credit cooperatives (SACCOs); specialized government banks and private commercial banks.

Microfinance: the provision of financial services to low income households, including the self-employed. These financial services include savings, credit, payment facilities, remittances and insurance.

III. RESEARCH METHODOLOGY

According to Makalani (2016) research methodology is the systematic and logical layout outlining the way in which the researchers conduct their study.

3.1 Research Design

Research designs are features that a researcher uses to accumulate, analyse and interpret data utilizing quantitative and qualitative research. Eight research designs frequently utilized in scholastic research as espoused by Creswell (2014). The first three are quantitative the next three qualitative and the last two are a coalescence of quantitative and qualitative approaches.

3.1.1 Experimental Designs

It is the traditional approach to conducting quantitative research. In an experiment, you test a conception (or practice or procedure) to determine whether it influences an outcome or dependent variable. This design can be used when one wants to establish possible cause and effect between your independent and dependent variables. This denotes that you endeavour to control all variables (extraneous variables) that influence the outcome except for the independent variable.

3.1.2 Correlational Designs

This research design relates variables rather than manipulating them. It provides an opportunity for you to prognosticate scores and expound the relationship among variables. In correlation research design, investigators utilize the correlation statistical test to describe and quantify the degree of association (or relationship) between two or more variables or sets of scores.

3.1.3 Survey Designs

Survey research is a well-known outline in education. Survey research designs are strategies in quantitative research in which agents direct a review to a specimen or to the whole populace of individuals to portray the dispositions, feelings, practices, or attributes of the populace.

3.1.4 Grounded Theory Designs

This research design enables you to generate a brand theory about your qualitative central phenomenon “grounded” in the data. Grounded theories are used when a researcher needs a broad theory or explanation of a process.

3.1.5 Ethnographic designs

The word ethnographic means writing about groups of people. This research design is a qualitative research procedure for describing, analysing, and interpreting a culture-sharing group’s shared patterns of behaviour, beliefs, and language that develop overtime.

3.1.6 Narrative Research Designs

In this research design, researchers describe the lives of individuals, collect and tell stories about people’s lives, and write narratives of individual experiences.

3.1.7 Mixed methods Designs

This research design collects analyses and mixes both quantitative and qualitative methods in a single study or a series of studies to understand a research problem (Creswell and Plano Clark, 2011). An understanding on both qualitative and quantitative research designs is key when using this research design.

3.1.8 Action Research Designs

This research designs when compared to the others is the most applied practical design. Action researchers explore a practical problem with an aim toward developing a solution to a problem. Similar to mixed method research, action research uses data collection based on either quantitative or qualitative methods or both. However, it differs in that action research addresses a specific, practical issue to obtain solutions to a problem.

3.1.9 Selected Research Design and Justification

The study employed a descriptive research design which was quantitative in nature because descriptive research designs are concerned with conditions or relationships that exist, opinions that are held, processes that are going on, effects or trends that are evident as supported by Best and

Kahn (2018). A descriptive research design enabled a researcher to collect information or data by administering a questionnaire to selected individuals. This method was chosen to make references to phenomena as they existed in real life and it was relatively economical in terms of time and resources (Odhiambo, 2017).

3.2 Target population

The population of the study comprised all employees of the four MFIs in Kasama district i.e., Izwe Loans Zambia, Bayport Financial Services Ltd, Vision Fund and Microfin Zambia Ltd. The institutions comprise of 158 employees.

3.3 Sample size and sampling procedure

1) 3.3.1 Sample size

The sample size was determined using Taro Yemani’s (1964) statistical formula as follows:

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n = sample size to be determined

N = population of interest

e = error margin (0.05)

1 = constant value

$$n = \frac{158}{1+158(0.05^2)}=113.26$$

Therefore, the sample size was 113.

From the population, 113 respondents were selected across each categories of the defined population, through the application of simple random sampling with the aid of table of random numbers.

3.3.2 Sampling procedure

According to Kombo and Tromp (2003), sampling is a process used in statistical analysis in which a predetermined number of observations are taken from a larger population. The methodology used to sample from a larger population depends on the type of analysis being performed. Herein, simple random sampling was used in selecting the employees. De Vos *et. al.* (2002) argues that the

population and size of sample should be inversely related. Consequently, a large population would require a smaller percentage of that population. However, a relatively small population would need a reasonably large percentage of the population to draw representative and accurate conclusions and predictions.

Method of sampling: The 158 MFI employees were assigned numbers from 1 to 158.

1. Each MFI employee was assigned a number from 1 to 158.
2. Since the population size was a three-digit number, the researcher used the first three digits of the numbers listed in the table of random numbers (Appendix D).
3. Without looking, the researcher pointed to a starting spot in the table. For example, landing on a number 01674 (column 1, row 13) meant the 16th employee was selected.
4. The choice that gave numbers greater than 158 were repeated.
5. The selected numbers were cancelled off the table.
6. The selection was repeated until 113 respondents were selected.

Simple random sampling was used for the reason that the sampling technique gave each member of the population an equal chance of being chosen for the study. This means that it guaranteed that the sample chosen was representative of the population and that the sample was selected in an unbiased way. In turn, the statistical conclusions drawn from the analysis of the sample will be valid.

3.3.3 Validity and Reliability

To ensure validity, the questionnaire was given to the supervisor and other research experts to reveal and sort out ambiguities. Validity of the questionnaire was enhanced further through expert judgment. Reliability concerns was addressed or countered by ensuring that respondents gave consistent responses. To ensure reliability, the

researcher conducted a pretest or test-retest method. However, responses from the pretest were compared to the main study to see whether results were almost similar. Similar results denoted reliability.

3.4 Data collection methods and procedures

3.4.1 Data collection instruments

Data collection is described as the “process of gathering and measuring information on variables of interest, in an established systematic fashion that enables one to answer queries, stated research questions, test hypotheses, and evaluate outcomes.” A self-administered questionnaire was employed for primary data collection comprising questions with 5 points Likert scales. Selected managers and credit officers were given a questionnaire that consisted questions with 5 points Likert scales for assessing acquiescence. The Likert scale ranged from 1 to 5. Where 1 is strongly disagree, 2 is disagree, 3 is not sure, 4 is agree and 5 is strongly agree. The Likert scale method was preferred to make questions interesting to respondents and thereby enhance their cooperation, ultimately to ensure maximum response rate.

Self-administered questionnaires were employed in this study because they were flexible and gave the researcher an opportunity to ask as many questions as possible on one particular topic. Questionnaires also provided flexibility in the analysis of responses. In short, processing and analysis of data was usually cheaper (low cost) and simpler when using a questionnaire. On the contrary, questionnaires did not give room for probing and the answers (responses) given were accepted as final. Questionnaires are useful in describing the characteristics of both large and small population and they make any samples feasible to be studied (Odhiambo et al., 2018).

3.4.2 Data collection procedures

The field-work for collecting the primary data was conducted for about two months; from March to

April 2019. A total of 113 questionnaires were printed out and physically distributed to the respondents. The respondents were given one week to fill in the questionnaires and follow ups were made for collection of the questionnaires.

3.4.2 Secondary Data

Apart from using primary sources of data, reports, journal articles and relevant documents were reviewed as well to gather secondary information regarding the effect of credit management practices on financial performance of MFIs. Any available relevant document on credit management and financial performance of MFIs was collected from these MFIs and analyzed as well.

3.5 Data Analysis

The data collected was entered into MS-Access, only fully completed questionnaires were entered. The entered data was then exported to SPSS. Statistical analysis was conducted through the use of Statistical Package for Social Sciences (SPSS) (Version 25, IBM). Standardized questions were coded and fed (entered) into SPSS. Accuracy of entries was achieved by entering all the coded data into SPSS spread sheet. Statistical Package for Social Sciences (SPSS) was used to generate descriptive statistics such as means, standard deviation, kurtosis and skewness to validate research findings. Furthermore, regression analysis models (tables) were also be generated.

3.6 Ethical Considerations

According to Kombo and Tromp (2013), when doing research, the researcher will not treat people unfairly or badly. The researcher should not harm people, or use the information discovered in research to harm them, or allow it to be used to do harm. This may sound alarmist and should not be assumed that this research will be beset by such problems when doing research.

Nevertheless, it is sensible to anticipate whether any such difficulties might occur. Indeed, most universities now have research ethics codes and

research ethics committees and it may be that this research will have to apply for formal ethical approval for such a project, or sign up to a protocol to confirm that this research was conducted in accordance with the prescribed ethical standards, before commencement of the research.

The following rehearse some of the ethical issues and dilemmas the research came across at different stages of a research project. They are all aspects of a simple ethical principle: first of all, does no harm.

Right to privacy: There is no obligation on anyone to assist this research.

Confidentiality Agreements: A principle of all academic research, including that done by students like this one, is that the research is published, or otherwise made available to the public, so that others can learn from and criticise the work. This research might involve organisationally or commercially confidential information being made public as such the researcher will sign a confidentiality agreement.

Informed Consent, Freely Given: Informed consent is perhaps the key issue in research ethics. No one should be a participant or a source of information in a research project unless they have agreed to be so on the basis of a complete understanding of what their participation will involve and the purpose and use of the research. It should also be made clear that a respondent can withdraw from the research, or ask for the information they have provided to be withdrawn, at any time; at least up until the point when the data have been processed and written up.

Sometimes informed consent is implicit, as when someone takes the trouble to complete and return a questionnaire. However, even in these cases it is sensible to make consent explicit by including on the first page of the questionnaire. Thus, this research adhered to high ethical standards.

IV. RESEARCH FINDINGS

4.0 introduction

This chapter presents the analysis of the primary data collected from the questionnaires distributed. The research aimed at answering the following questions i.e.;

- i. What credit management practices are implemented by MFIs?
- ii. In what ways does credit risk control affect the designing and formulating policy or regulations on financial performance in Kasama district?
- iii. What effect does collection policy have to the customers who do not pay the firms bills in time as well as on financial performance of MFIs?

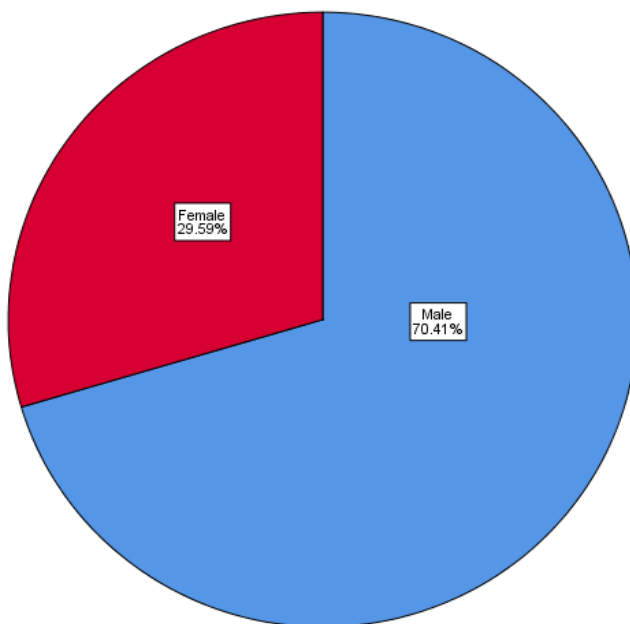
The explanation of results is assisted by the use of tables and graphs.

From the 113 questionnaires distributed, 98 were returned dully completed. In this regard, it can be said that the response rate was 86.73 percent.

4.1 Respondent's profile

The demographics characteristics were analyzed in order to have a clear profile of the characteristics of the respondents that was established to assess the representativeness of the samples to the population being studied had (Lawley and Perry, 2002). The demographic characteristics of the respondents are summarized in the following sections.

Pie Chart



According to figure 4.1, 69 (70.4 percent) were male while 29 (29.6 percent) were female. The male respondents had the highest frequency.

Figure 3.1 Gender. *Source: Field data*

4.2 Credit risk management practices

Table 3.1 The MFI uses client appraisal in Credit Management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very low	7	7.1	7.1	7.1
	Low	4	4.1	4.1	11.2
	Moderate	25	25.5	25.5	36.7
	High	30	30.6	30.6	67.3
	Very high	32	32.7	32.7	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 3.1 illustrates the responses in finding out if the extent to which MFI uses client appraisal in Credit Management. From the 98 respondents, 7 (7.1 percent) indicated that very low, 4 (4.1 percent) indicated low, 25 (25.5 percent) indicated moderate, 30 (30.6 percent) indicated high and 32 (32.7 percent) indicated very high. The respondents who indicated high had the highest frequency. This implies that MFIs use client appraisal in Credit Management to a high extent.

Table 3.2 Client appraisal is a viable strategy for credit management

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	4.1	4.1	4.1
	Disagree	7	7.1	7.1	11.2
	Not sure	6	6.1	6.1	17.3
	Agree	37	37.8	37.8	55.1
	Strongly agree	44	44.9	44.9	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 3.2 illustrates the responses in finding out if client appraisal is a viable strategy for credit management. From the 98 respondents, 4 (4.1 percent) strongly disagreed, 7 (7.1 percent) disagreed, 6 (6.1 percent) were not sure, 37 (37.8 percent) agreed and 44 (44.9 percent) strongly agreed. The respondents who strongly agreed had the highest frequency. This implies that Client appraisal is a viable strategy for credit management.

4.3 The MFI has competent personnel for carrying out client appraisal

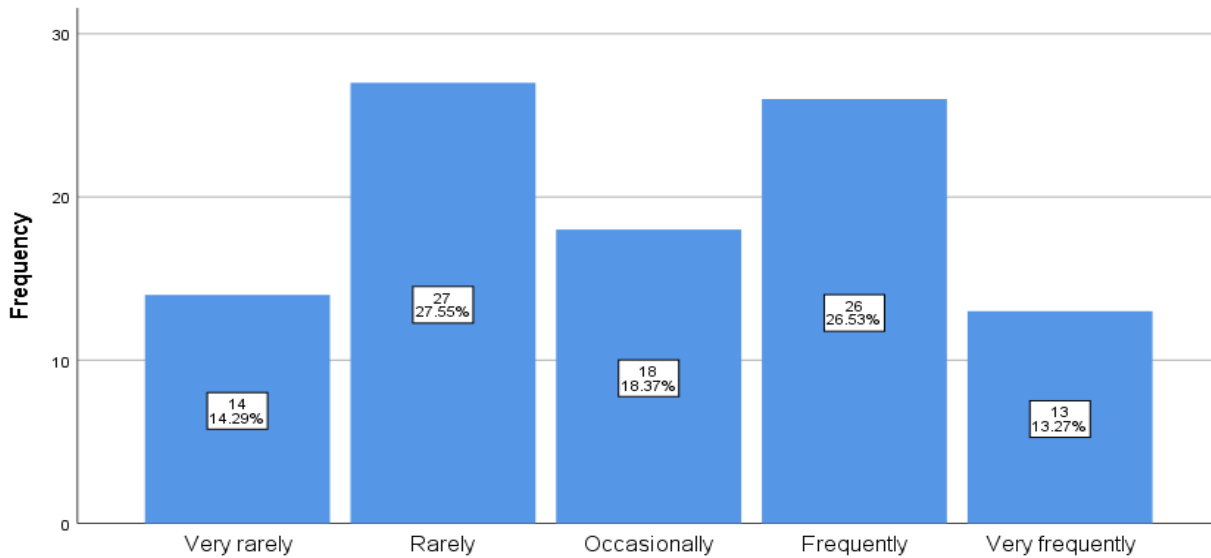
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	4	4.1	4.1	4.1
	Not sure	10	10.2	10.2	14.3
	Agree	46	46.9	46.9	61.2
	Strongly agree	38	38.8	38.8	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 4.3 illustrates the responses in finding out if the MFI has competent personnel for carrying out client appraisal. From the 98 respondents, 4 (4.1 percent) disagreed, 10 (10.2 percent) were not sure, 46 (46.9 percent) agreed and 38 (38.8 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that MFIs have competent personnel for carrying out client appraisal.

Graphs

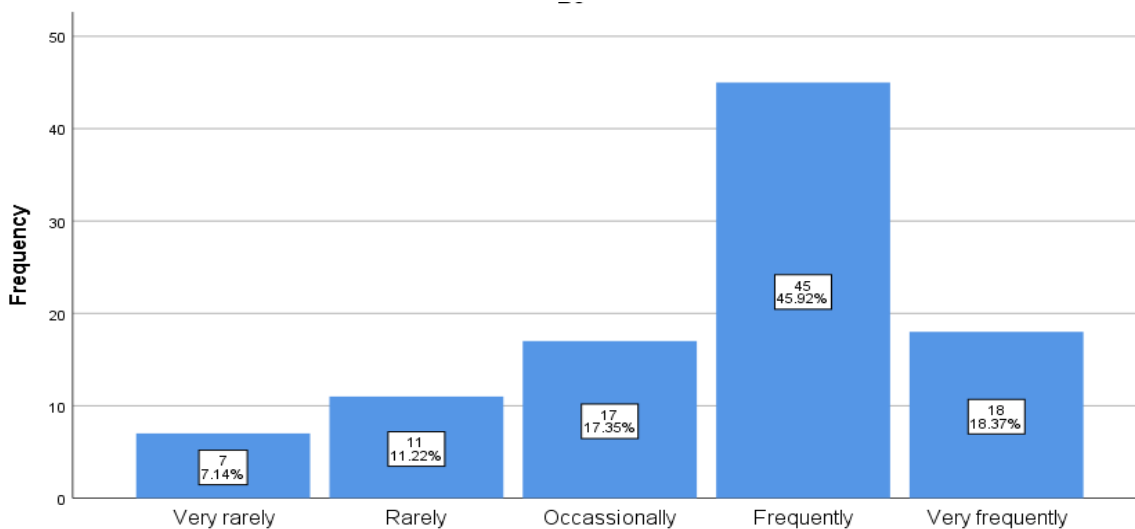
4.4 Client appraisal considers the character of the customers seeking credit facilities



Source: Field data

Figure 3.5 illustrates the responses in finding out how often client appraisal considers the character of the customers seeking credit facilities. From the 98 respondents, 14 (14.3 percent) indicated that it is very rarely considered, 27 (27.6 percent) indicated rarely, 18 (18.4 percent) indicated occasionally, 26 (26.5 percent) indicated frequently and 13 (13.3 percent) indicated very frequently. The respondents who indicated rarely had the highest frequency. This implies client appraisal is rarely considered the character of the customers seeking credit facilities.

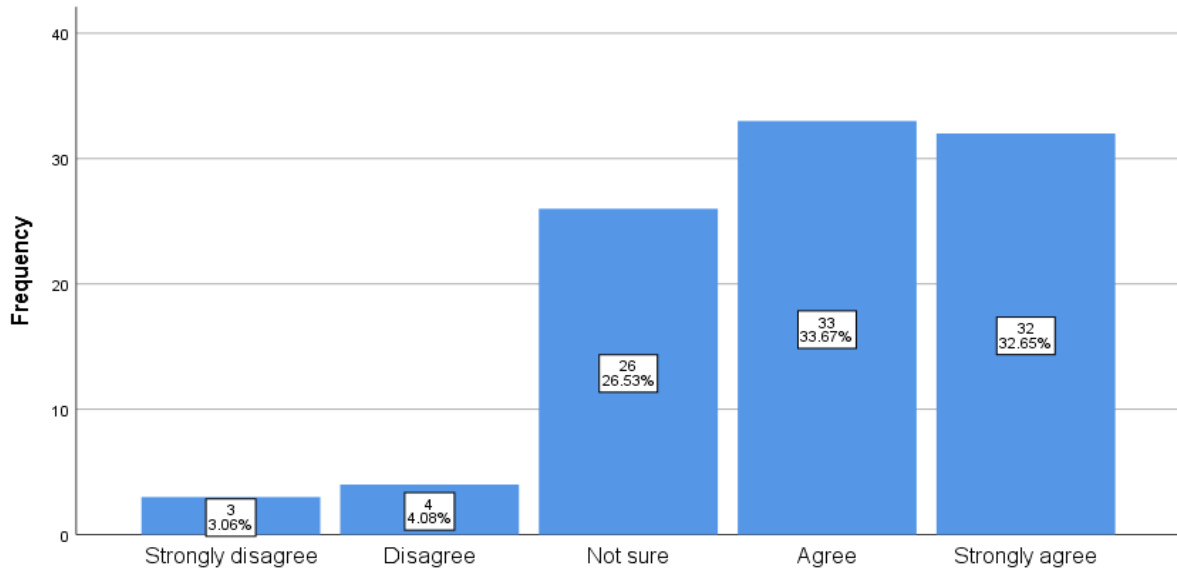
4.5 Aspects of collateral are considered while appraising clients



Source: Field data

Figure 4.6 illustrates the responses in finding out how often collateral is considered while appraising clients. From the 98 respondents, 7 (7.1 percent) indicated very rarely, 11 (11.2 percent) indicated rarely, 17 (17.3 percent) indicated occasionally, 45 (45.9 percent) indicated frequently and 18 (18.4 percent) indicated very frequently. The respondents who indicated frequently had the highest frequency. This implies that aspects of collateral are frequently considered while appraising clients.

4.6 Failure to assess customer's capacity to repay results in loan defaults

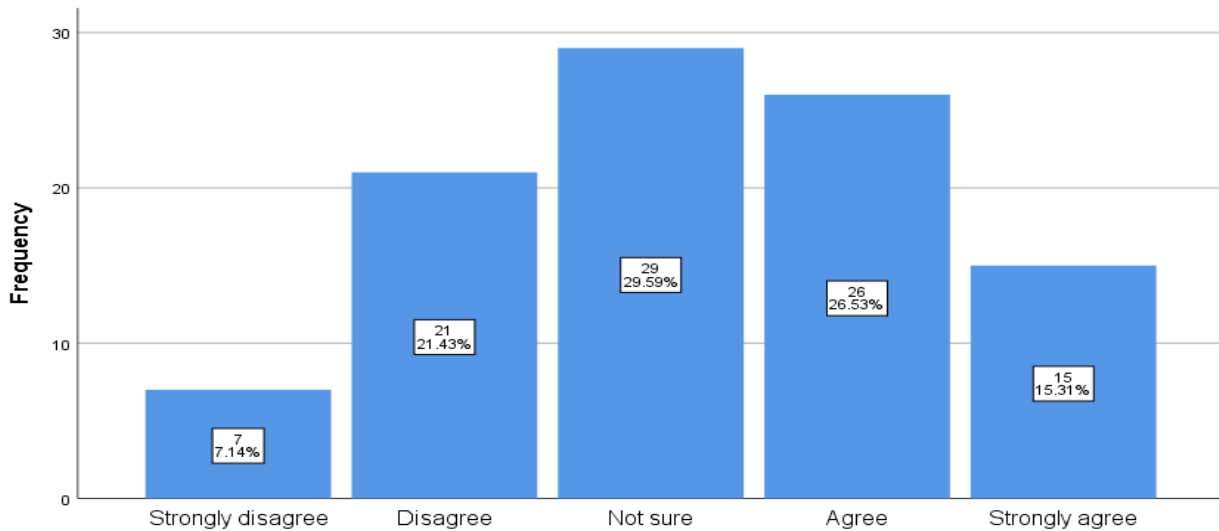


Source: Field data

Figure 3.7 illustrates the responses in finding out if failure to assess customer's capacity to repay results in loan defaults. From the 98 respondents, 3 (3.1 percent) strongly disagree, 4 (4.1 percent) disagree, 26 (26.5 percent) were not sure, 33 (33.7 percent) agree and 32 (32.7 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that customer's capacity to repay results in loan defaults.

4.8 Credit risk control

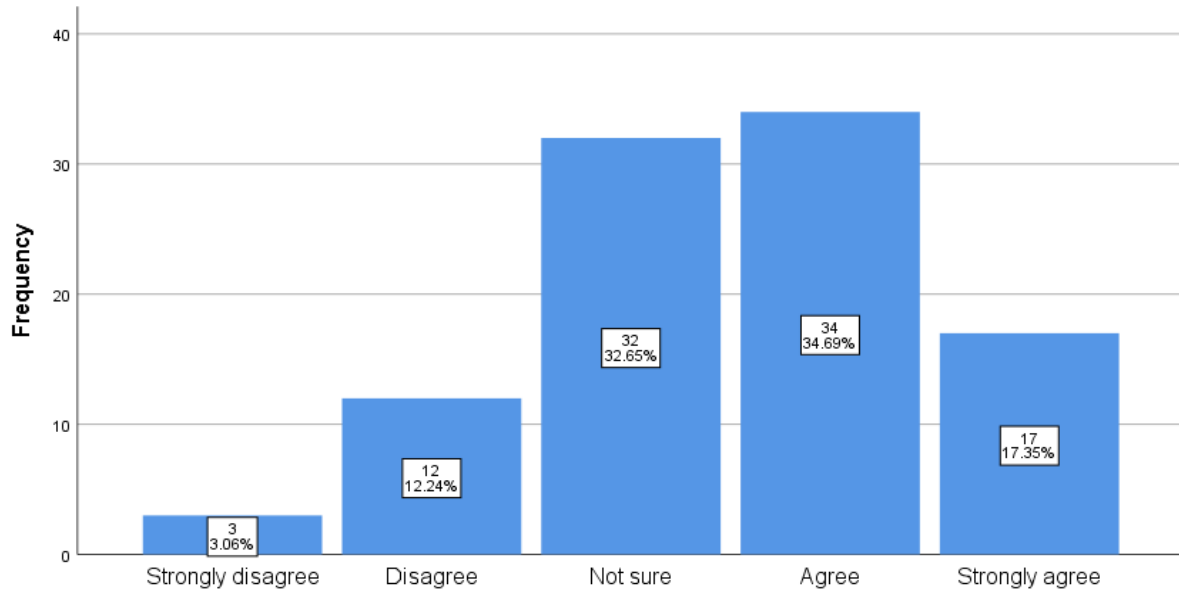
Figure 4.8 MFI uses credit risk control in Credit Management



Source: Field data

Figure 3.8 illustrates the responses in finding out if MFI uses credit risk control in Credit Management. From the 98 respondents, 7 (7.1 percent) strongly disagreed, 21 (21.4 percent) disagreed, 29 (29.6 percent) were not sure, 26 (26.5 percent) agreed and 15 (15.3 percent) strongly disagreed. The respondents who were not sure had the highest frequency. This implies that it was not clear as to whether MFI uses credit risk control in Credit Management or not.

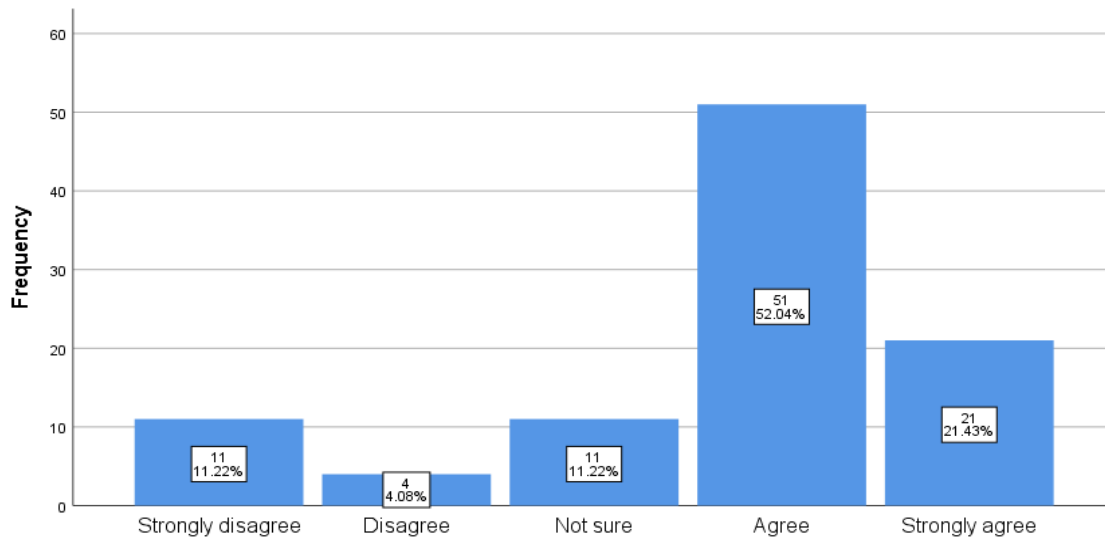
4.7 Imposing loan size limits is a viable strategy in credit management



Source: Field data

Figure 3.9 illustrates the responses in finding out if imposing loan size limits is a viable strategy in credit management. From the 98 respondents, 3 (3.1 percent) strongly disagreed, 12 (12.2 percent) disagreed, 32 (32.7 percent) were not sure, 34 (34.7 percent) agreed and 17 (17.3 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that imposing loan size limits is a viable strategy in credit management.

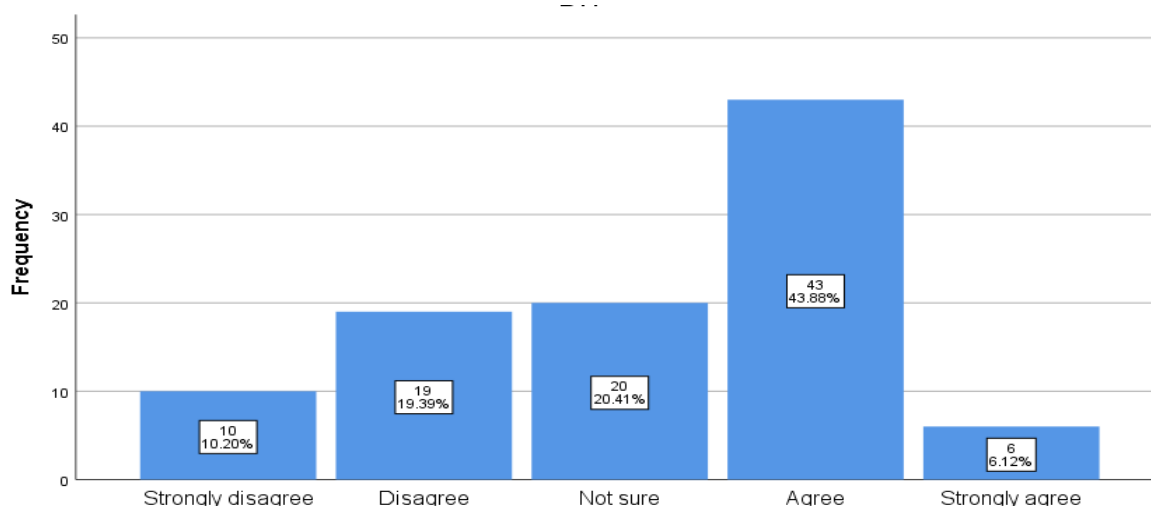
Figure 4.10 The use of credit checks on regular basis enhances credit management



Source: Field data

Figure 3.10 illustrates the responses in finding out if the use of credit checks on regular basis enhances credit management. From the 98 respondents, 11 (11.2 percent) strongly disagreed, 4 (4.1 percent) disagreed, 11 (11.2 percent) were not sure, 51 (52.0 percent) agreed, 21 (21.4 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that use of credit checks on regular basis enhances credit management.

Figure 3.11 Flexible repayment periods improve loan repayment



Source: Field data

Figure 3.11 illustrates the responses in finding out if flexible repayment periods improve loan repayment. From the 98 respondents, 10 (10.2 percent) strongly disagreed, 19 (19.4 percent) disagreed, 20 (20.4 percent) were not sure, 43 (43.9 percent) agreed and 6 (6.1 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that Flexible repayment periods improve loan repayment.

Table 3.4 Penalty for late payment enhances customer’s commitment to loan repayment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	3	3.1	3.1	3.1
	Disagree	19	19.4	19.4	22.4
	Not sure	7	7.1	7.1	29.6
	Agree	45	45.9	45.9	75.5
	Strongly agree	24	24.5	24.5	100.0
	Total	98	100.0	100.0	

Source: Field data

Figure 3.4 illustrates the responses in finding out if penalty for late payment enhances customer’s commitment to loan repayment. From the 98 respondents, 3 (3.1 percent) strongly disagreed, 19 (19.4 percent) disagreed, 7 (7.1 percent) were not sure, 45 (45.9 percent) agreed and 24 (24.5 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that penalty for late payment enhances customer’s commitment to loan repayment.

Table 3.5 The use of customer credit application forms improves monitoring and credit management as well

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	15	15.3	15.3	15.3
	Not sure	9	9.2	9.2	24.5
	Agree	54	55.1	55.1	79.6
	Strongly agree	20	20.4	20.4	100.0
	Total	98	100.0	100.0	

Source: field data

Table 3.5 illustrates the responses in finding out if the use of customer credit application forms improves monitoring and credit management as well. From the 98 respondents, 15 (15.3 percent) disagreed, 9 (9.2 percent) were not sure, 54 (55.1 percent) agreed and 20 (20.4 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that the use of customer credit application forms improves monitoring and credit management as well.

Table 3.6 Credit committee’s involvement in making decisions regarding loans are essential in reducing default/credit risk

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	7.1	7.1	7.1
	Disagree	19	19.4	19.4	26.5
	Not sure	25	25.5	25.5	52.0
	Agree	33	33.7	33.7	85.7
	Strongly agree	14	14.3	14.3	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 3.6 illustrates the responses in finding out if Credit committee’s involvements in making decisions regarding loans are essential in reducing default/credit risk. From the 98 respondents, 7 (7.1 percent) strongly disagreed, 19 (19.4 percent) disagreed, 25 (25.5 percent) were not sure, 33 (33.7 percent) agreed and 14 (14.3 percent) strongly agreed. This implies that credit committee’s involvement in making decisions regarding loans are essential in reducing default/credit risk.

Table 3.7 Interest rates charged affect performance of loans in the MFI

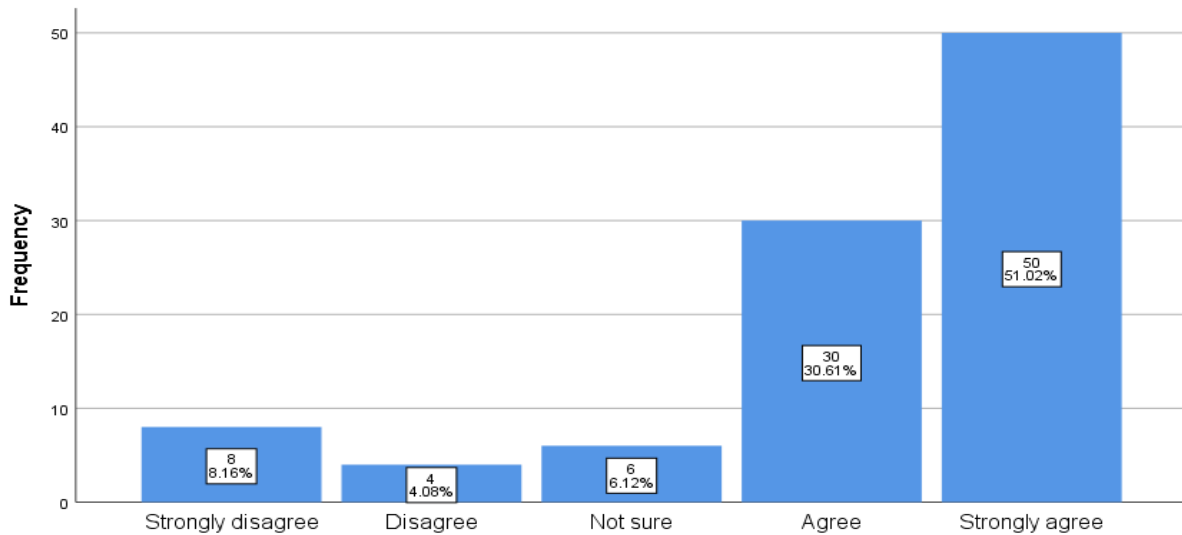
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	11	11.2	11.2	11.2
	Disagree	12	12.2	12.2	23.5
	Not sure	18	18.4	18.4	41.8
	Agree	30	30.6	30.6	72.4
	Strongly agree	27	27.6	27.6	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 4.7 illustrates the responses in finding out if interest rates charged affect performance of loans in the MFI. From the 98 respondents, 11 (11.2 percent) strongly disagreed, 12 (12.2 percent) disagreed, 18 (18.4 percent) were not sure, 30 (30.6 percent) agreed and 27 (27.6 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that interest rates charged affect performance of loans in the MFI.

4.9 Collection policy

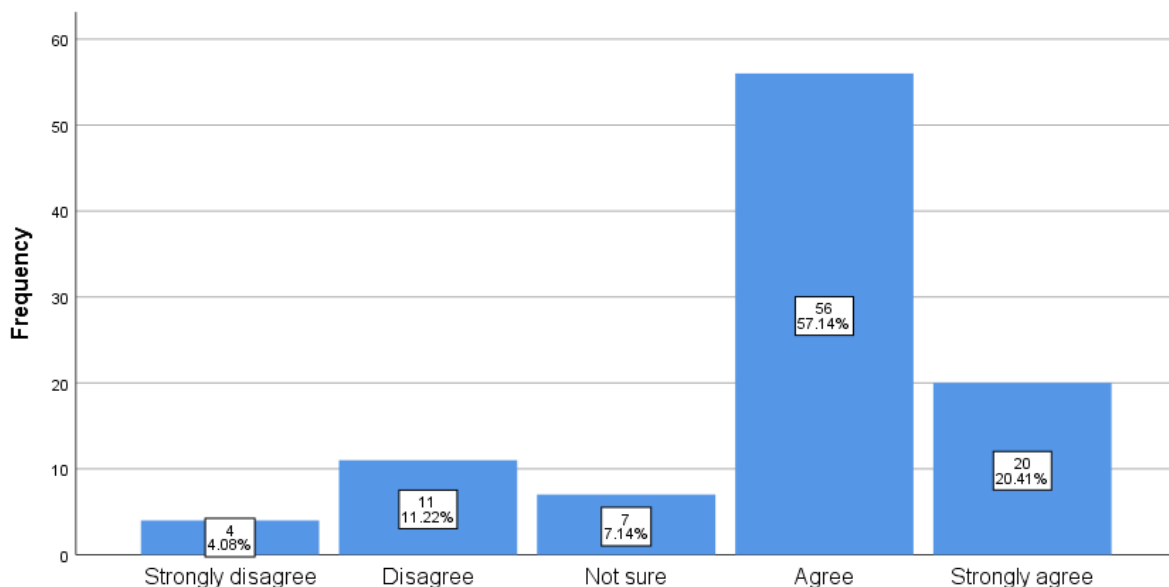
Figure 3.12 MFI use collection policy in Credit Management



Source: Field

Figure 3.12 illustrates the responses in finding out if MFI use collection policy in Credit Management. From the 98 respondents, 8 (8.2 percent) strongly disagreed, 4 (4.1 percent) disagreed, 6 (6.1 percent) were not sure, 30 (30.6 percent) agreed and 50 (51.0 percent) strongly agreed. The respondents who strongly agreed had the highest frequency. This implies that the MFIs use collection policy in Credit Management.

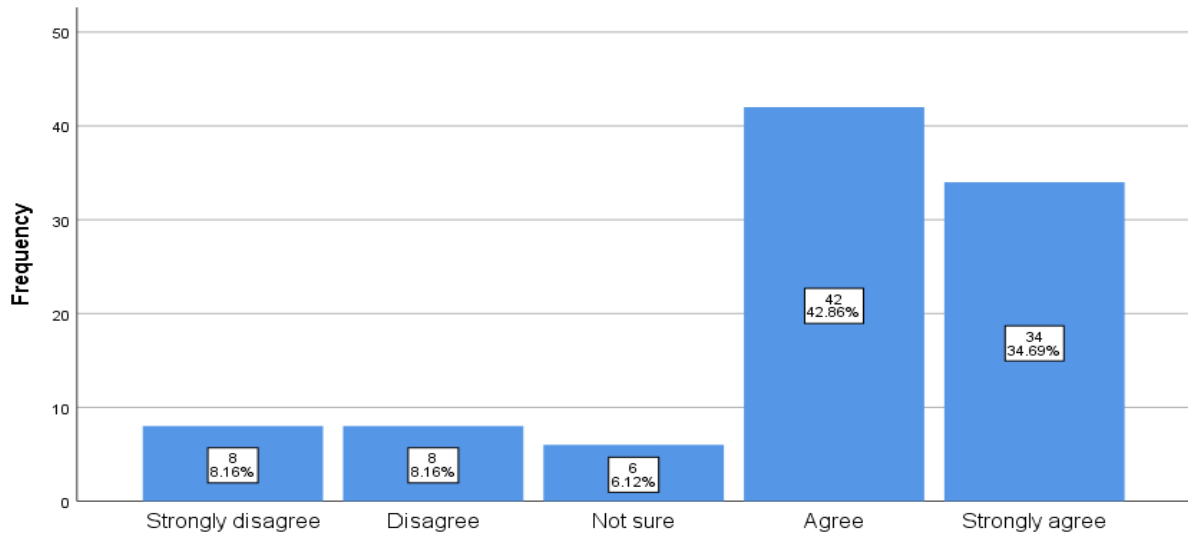
Figure 3.13 Available collection policies have assisted towards effective credit management



Source: Field data

Figure 3.13 illustrates the responses in finding out if available collection policies have assisted towards effective credit management. From the 98 respondents, 7 (7.1 percent) strongly disagreed, 8 (8.2 percent) disagreed, 13 (13.3 percent) were not sure, 38 (38.8 percent) agreed and 32 (32.7 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that available collection policies have assisted towards effective credit management.

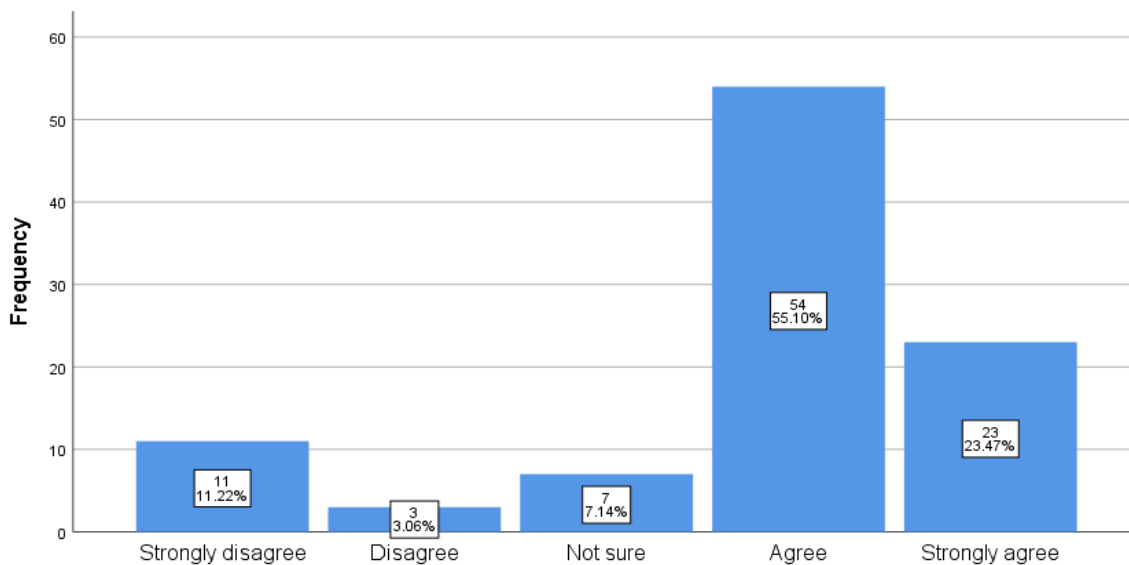
Figure 3.14 Formulation of collection policies have been a challenge in credit management



Source: Field data

Figure 3.14 illustrates the responses in finding out if formulations of collection policies have been a challenge in credit management. From the 98 respondents, 4 (4.1 percent) strongly disagreed, 7 (7.1 percent) disagreed, 7 (7.1 percent) were not sure, 30 (30.6 percent) agreed and 50 (51.0 percent) strongly agreed. The respondents who strongly agreed had the highest frequency. This implies that formulation of collection policies has been a challenge in credit management

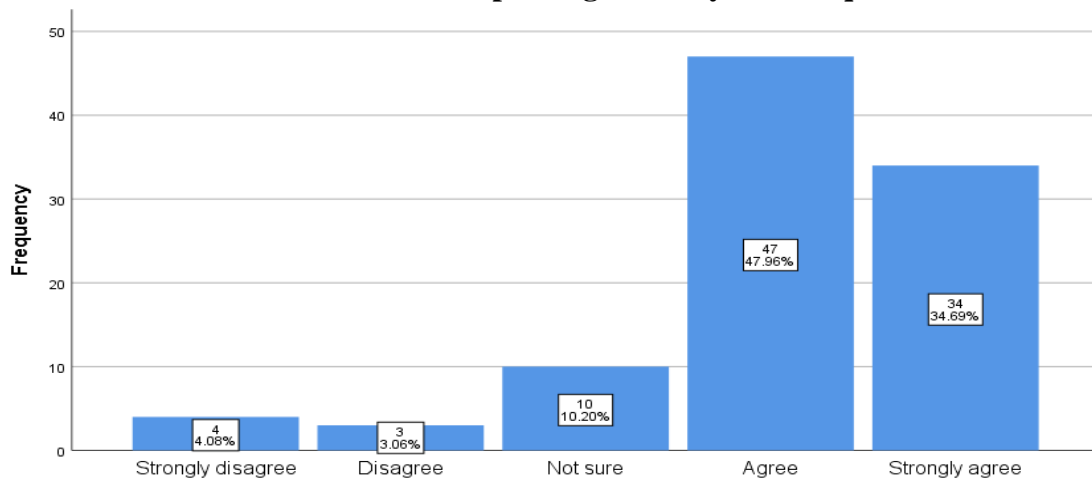
3.15 Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults



Source: Field data

Figure 3.16 illustrates the responses in finding out if enforcement of guarantee policies provides chances for loan recovery in case of loan defaults. From the 98 respondents, 11 (11.2 percent) strongly disagreed, 3 (3.1 percent) disagreed, 7 (7.1 percent) were not sure, 54 (55.1 percent) agreed and 23 (23.5 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that enforcement of guarantee policies provides chances for loan recovery in case of loan defaults.

Figure 3.16 Staff incentives are effective in improving recovery of delinquent loans



Source: Field data

Figure 3.16 illustrates the responses in finding out if staff incentives are effective in improving recovery of delinquent loans. From the 98 respondents, 4 (4.1 percent) strongly disagreed, 3 (3.1 percent) disagreed, 10 (10.2 percent) were not sure, 47 (48.0 percent) agreed and 34 (34.7 percent) strongly agreed. The respondents who agreed had the highest frequency. This implies that staff incentives are effective in improving recovery of delinquent loans.

Table 3.8 Regular reviews have been done on collection policies to improve state of credit management.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very rarely	1	1.0	1.0	1.0
	Rarely	2	2.0	2.0	3.1
	Occasionally	13	13.3	13.3	16.3
	Frequently	42	42.9	42.9	59.2
	Very frequently	40	40.8	40.8	100.0
	Total	98	100.0	100.0	

Source: Field data

Table 3.8 illustrates the responses in finding out how often regular reviews have been done on collection policies to improve state of credit management. From the 98 respondents, 1 (1.0 percent) indicated very rarely, 2 (2.0 percent) rarely, 13 (13.3 percent) indicated occasionally, 42 (42.9 percent) indicated frequently and 40 (40.8 percent) indicated very frequently. The respondents who agreed had the highest frequency. This implies that regular reviews have been done frequently on collection policies to improve state of credit management.

4.10 Regression Analysis

4.10.1 Credit Risk Management practices

Table 3.10 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.804 ^a	.646	.584	.0239

a. Predictors: (Constant), Credit Risk management practices

Source: Field data (2019)

Table 3.10 illustrates the model summary for the independent variable (credit risk management practices) and the dependent variable (MFI performance). The table shows that, 58.4% (R squared = 0.584) of variations in the dependent variable can be explained by changes in the independent variable. The correlation coefficient (R=0.804) indicates a strong positive correlation between these two variables. On the basis of correlation analysis, this result implies that credit risk management practices positively affect the financial performance of MFIs in Kasama district.

Table 3.11 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.213	3	20.738	25.230	.000 ^b
	Residual	89.592	109	.822		
	Total	151.805	112			
a. Dependent Variable: MFI performance						
b. Predictors: (Constant), Credit risk management practices						

Source: Field data (2019)

Table 4.11 illustrates the analysis of variance. Analysis of variance (Table 4.11) for this model revealed that the relationship that exists between credit risk management practices and MFI performance is statistically significant ($p=0.000 < 0.05$) and thus this model can be considered a sufficient tool to explain the MFI performance trend. As such the null hypothesis that:

H_{10} : Credit risk management practices negatively affect the financial performance of MFIs in Kasama district is there rejected at 5% level of significance.

4.11 Collection policy

Table 4.14 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.701 ^a	.491	.477	.842
a. Predictors: (Constant), Collection policy				

Source: Field data (2019)

The model summary (Table 4.14) shows that collection policy explains 49.1% (R square=0.491) of the collection policy observed in Kasama district. Further, there exists a very strong positive correlation (R=0.701) between the two.

Table 3.15 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	74.557	3	24.852	35.067	.000 ^b
	Residual	77.249	109	.709		
	Total	151.805	112			
a. Dependent Variable: MFI performance						
b. Predictors: (Constant), Collection policy						

Source: Field data (2019)

Significance test under the analysis of variance (Table 4.15) affirms that the effect of collection policy on MFI performance is statistically significant ($p=0.000 < 0.05$) at 5% level of significance. The hypothesis that: H_{30} : Credit risk controls negatively affect the financial performance of MFIs in Kasama district is rejected.

V. DISCUSSION, CONCLUSION AND RECOMMENDATIONS

A. 5.1 Discussion

The data shows that MFIs have developed appropriate credit policies to ensure that credit administration is done effectively and increasing the affect loan repayments and bad debts. This is in line with Batar et al (2008), who stated that credit policy provides the basis of all the credit management, it establishes objective standards and parameters to be followed by bank employees responsible for the provision and processing of loans and management. Client appraisal and collateral were one of the prominent credit management mechanisms. These findings are similar to the findings of Matovu & Okumu (2016). The authors stipulated that the process of managing credit determines which risk factors that pertain to the lending decision within the context of each borrower's situation and the loan product parameters, and then appropriately adjusts the factor weightings to produce the right outcome. The credit risk management practices are of significance in that they help determine the performance of the MFI. This view is support of Ddumba & Sentamu, (2013) who attributed that identifying the sources of the risk were ideal in regulating the performance of an MFI.

Also, the data clearly shows that credit control is a critical system of control as it prevents the institution from becoming illiquid due to improper issuance of credit to customers and therefore appropriate controls and responses must be put in place. This concurred with Weston (2012), who stated that credit policies consider credit limit which the firm will extend at a point in time. He further stated that banks should have keen awareness of the need to identify, measure monitor and control credit risks as well as have adequate capital against these risks.

Further, the findings reveled that credit collection efforts were an important practice in facilitating

loan repayment. This is in line with Padilla and Pagano (2000), who stated that collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.

From the study, it can be said that debt collection policy has an effect on financial performance of the MFIs. The result is consistent with Kariuki (2010), who said that for an organization to ensure that credit management is done various policies effectively should be put in place, one of these policies is a debt collection policy that is needed since all customers do not pay the firms bills in time.

The findings are in agreement with Horne and Wachowicz (2008) who contend that credit policies are the major influences on the firm's level of debt management. The study is also consistent with Ayodele, (2014) who carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place.

The study also found that internal control systems and legal framework have a significant effect on financial performance of selected MFIs. The findings are in line with Ali (2013) who studied the relationship between internal control and organizational financial performance of people's bank Zanzibar Ltd. The study found that the internal controls used in PBZ were efficient and satisfactory; the organizational level of performance was found to be adequate, and there was a significant positive relationship existing between internal controls and organizational financial performance to some extent. The study is also consistent with the studies of Robin (2000) who studied the legal frameworks and performance standards for Microfinance. The

study found out that it is also critical to recognize the differences between financial regulation and financial supervision considering legal-regulatory framework reforms.

For the measures financial institutions have put in place concerning employee's capacity to collect debt, the possession of the necessary skill was the most significant. Not every employee can be a debt collector but only those who pose the required skills can fill those positions. This was in order to reduce bad debts from slow payers. For example, Kariuki (2010) found that for an organization to ensure that credit management is done various policies should be put in place, one of these policies is a collection policy that is needed since all customers do not pay the firms bills in time. Some clients take long to make payments while some do not pay at all. The aim of collection effort should be to accelerate collections from slow payers and reducing bad debt losses. As such, the debt collectors have to be cautious so as not to lose clients. In this regard, the skills of emotional intelligence come into play and the communications skills.

Further, Ayodele, (2014) carried out a study on the impact of credit policy on the performance of Nigerian Commercial Banks using Zenith Bank as a case study. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound credit policy is put in place. In this regard, Training and Development was one of the policies put in place by MFI to inculcate the necessary skills in the selected employees responsible for debt collection.

Furthermore, Byusa and Nkusi (2012) studied effects of credit policy on bank performance in selected Rwandan Commercial banks. The study sought to determine the effects of credit policy on bank performance using data on selected Commercial Banks. The results obtained indicated that the Rwanda's commercial banks increased

their accounts, increased customer base, and improved their financial indices, thereby maximizing their profits. Usually, banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency. The customers base upsurge due to the way the employees handled debt collection. It does not necessarily imply that customers who in debt are bad customers but the debt collectors need to show the promised relation to customers so that even at the time they pay back they might feel to be part of the organization by the way they were treated when they defaulted in the payment.

The regression analysis results show that credit management practices, credit risk control and collection policy positively affect the performance of the MFI. The results are similar to the findings of Vittas (2016) who carried out a similar study and found similar results.

B. 5.2 Conclusion

The study concluded that credit management is one of the most important activities in any company and cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature.

Sound credit management is a prerequisite for a financial institution stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. As with any other financial institution, the biggest risk in deposit taking microfinance institution is lending money and not getting it back.

iii. Each company needs to have its own method of credit management and determining quality. Applying credit standards, evaluating client's credit history before giving out credit, objective standards and parameters to be followed by MFI employees responsible for the provision and processing of loans and management.

iv. Favorable credit terms formulated by the deposit taking microfinance institutions including interest rates, collateral, repayment periods, and the cost of loan maturity of loan and credit period affect loan performance.

v. Credit policy adopted by deposit taking microfinance institutions has an effect on loan performance, credit insurance, signing of covenants with customers, diversification of loans, credit rating of customers, reports on financial conditions, refrain from further borrowing had an effect on loan performance.

vi. Collection efforts are directed at accelerating recovery from slow payers and decreases bad debts losses increase profitability of the banking institutions.

vii. Collection policies adopted by deposit taking microfinance institution had an effect on loan performance, court litigation had a great impact on loan performance, collateral assets and enforce saving had an effect.

Recommendations

- Effective management of credit is essential to the long-term success of any microfinance institution. Deposit taking microfinance institutions should ensure to a very great extent on the adoption of credit standards, credit policy, credit terms and collection polices.
- Credit standards that a bank uses to determine whether to extend a loan or line of credit to an applicant, the study therefore recommended that there should be optimum credit standards indicating that before giving any loan, client's repaying capacity, status of business and cash flows must be assessed. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments.
- MFIs should develop and maintain a credit administration function that provide

guidance to anyone involved in the credit function of the institution and to ensure safeguards are in place to manage the loan portfolio. Credit approval decision is made using a purely judgmental approach by merely inspecting the application form details of the applicant.

- MFIs management should assess client capacity to repay the loan helps in taking loan decision whether a client should be a given a loan and about appropriate volume of loan.
- MFIs should enhance their collection policy by adapting a more court litigation, collateral assets and enforce saving. The collection policy should ensure prompt and regular collection for fast turnover of working capital keeping collection costs and bad debts within limits and hence maintaining collection efficiency.
- MFIs should develop appropriate credit policies to ensure that credit administration is done effectively and increasing the affect loan repayments and bad debts.

ACKNOWLEDGEMENTS

Immense thanks go to my supervisors Mr. Kabubi and Mr. Kaela Kamweneshe for their substantial support, constructive criticism, guidance and advice throughout my research, God really bless you.

To all my workmates and colleagues who in one way or the other have supported my education and this research project, I say thank you.

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