

Examining Effects of Monetary Policy Rate on Micro Financial Institutions (MFI) Business Management, Case Study of Financial Institutions in Lusaka

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ARTICLE INFORMATION	ABSTRACT
Article history: Published: October 2026 Keywords: Monetary policy Micro financial institutions (MFI) Business management	Microfinance institutions (MFIs) play a crucial role in promoting financial inclusion and economic development in Zambia. However, the impact of monetary policy rates on MFIs' business management remains underexplored. This study investigates the effects of monetary policy rates on the business management of Financial Institution in Lusaka, Zambia. The study aims to provide insights into how changes in monetary policy rates influence MFIs' operations, financial performance, and sustainability. The objectives of this study are: To identify the impact of monetary policy rate on MFI lending rate. To assess the effect of monetary policy rate on MFI loan portfolio quality. To investigate the impact of monetary policy rate on MFI financial performance. Primary data will be collected through surveys and interviews with Financial Institution's management and staff, while secondary data will be obtained from financial reports and industry publications. In order to ensure reliability, the researcher tested the research instruments in a pilot study across several potential respondents to ensure that the understanding of the questionnaire was consistent across different respondents. The questionnaire was revised in order to address the issues in the questions that could not be easily understood or not similarly understood by the respondents in the pilot of the questionnaire. The study expects to contribute to the understanding of how monetary policy rates affect MFIs' business management in Zambia. The findings will inform policymakers, regulators, and MFI managers about the potential implications of monetary policy decisions on the microfinance sector's sustainability and outreach.

1. Introduction

1.1 Background

This chapter presents the background to the study and builds a case for the research problem. It reviews the concepts of customer satisfaction, service quality, service failure and customer communication, then introduces the development and challenges in the financial sector in Zambia. This section also entails the statement of the problem, hypotheses, objectives, justification and the conceptual framework.

Microfinance in Zambia can be traced as far back as 1970s and the government was the earliest provider of microfinance. In 1980, the Bank of Zambia put up a scheme as a means of encouraging financial institutions to extend credit to small-scale industries. It was after this that the earliest microfinance institutions sprung up and these were Lima Bank in 1987, Cooperative bank in 1989 and Zambia National Building Society (ZNBS) in 1970. Another vital institution established by the government at that time included the Small Industries Development Organization (SIDO) and the Small Enterprise Promotion Unit (SEPU). In 1990s, formal microfinance was dominated by the cooperative societies which were registered as credit unions under the Cooperative Society Act. Unfortunately, these cooperative societies depended on government and donors hence resulted in lots of inefficiency and lack of sustainability (Maimbo & Mavrotas, 2003).

In addition, there was lack of savings mobilization and emphasis on subsidized loans as borrowers considered government loans as fruits of independence (Ibid). Savings mobilization is an interesting topic among low-income individuals because savings increase considerations for development programs that enhance and boost productive income and employment among low-income groups. Moreover, the process of regular saving is often an empowering experience for people used to living at the subsistence level and can greatly contribute to improvement in the quality of their lives. It serves to capitalize on the productive activities, which sustain the household and consequently enhance income (Khan & Rahaman, 2007).

When Zambian government liberalised its economy in the early 1990s by opening the market to the development of various sectors, state-owned financial institutions were not left out. Today, the country has allowed many projects that seek to combat poverty through the provision of finances to citizens needed to expand their businesses or boost the wealth to thrive, which is one of the cornerstones in the vision 2030 which aims to create a Zambia that is a "strong and dynamic middle-income industrial nation that provides opportunities for improving the well-being of all and embodying values of socio-economic justice" (Ministry of National Development Planning, 2008).

The principles laid out in this policy document and others such as the Seventh National Plan (2017–2021) and National Financial Inclusion Strategy (2017–2022) have created an enabling space for financial institutions to exist within the market. According to Bank of Zambia (2022), there are currently 135 Microfinance branches operating in Lusaka that have sprung up seeking to address

the credit gaps that exist between larger commercial enterprises and the smaller business entities, to which marketers constitute. These MFIs offer services such as small loans and savings facilities as well as capacity building to these market traders which traditional banking sector does not offer to individuals with little collateral.

1.3 General Objective

The General objective of this study is to examine effects of monetary policy rate on micro financial institutions (MFI) business management, case study of Lusaka financial institution

1.3.1 Specific objectives

- To identify the impact of monetary policy rate on MFI lending rate.
- To assess the effect of monetary policy rate on MFI loan portfolio quality
- To investigate the impact of monetary policy rate on MFI financial performance.

1.4 Research questions

- How do change in monetary policy rate affect MFI lending rate?
- What is the impact of monetary policy rate influence MFI financial performance?
- How do change in monetary policy rate affect MFI financial loan portfolio quality?

1.5 Conceptual frame work

Concepts, variables and theories were pulled out from the reviewed literature and guided the development of the current conceptual framework. This conceptual framework includes four independent variables that is exchange rate, interest rate, inflation and foreign reserves while having only one dependent variable that is GDP. This study was guided by two main theories, the classical view of monetary policy and the Keynesian view of monetary policy. The classical economists' view of monetary policy is based on the quantity theory of money. The quantity theory of money is usually discussed in term of Fisherman equation of exchange, which is given by the expression $MV = PY$.

In the expression, M denotes the supply of money over which the central bank has some control; V denotes the velocity of circulation which is the average number of times a currency is spent on final goods and services over the course of a year; P denotes the price level GDP. Hence PY represents current nominal GDP. The equation of exchange is an identity which states that the current market value of all final goods and services (nominal GDP) must equal the supply of money multiplied by the average number of times a currency is used in transaction in a given year.

The classical economist believes that the economy is always at or near the natural level of real GDP. Thus, they assume that in the short run, the Y in the equation of exchange is fixed. They further argue that the velocity of circulation of money tends to remain constant. So that V can also be regarded as Fixed. Given that both Y and V are fixed, it follows that if the Bank of Zambia were to engage in expansionary (or contractionary) monetary policy, it will lead to an increase (or decrease) in money supply (M) and according to the IS-LM model, the increase or decrease in money supply will lead to a reduction or increase in interest rates and increase or decrease in national income or GDP. Keynesian theory did not buy the notion that the relationship between money and price is direct and proportional. They share the view that it is indirect through the rate of interest. Also, they reject the notion that the economy is always at or near the natural level of real GDP so that Y in the equation of exchange can be regarded as fixed. They also reject the proposition that the velocity of circulation of money is constant. Keynesians believe that expansionary monetary policy increases the supply of loanable funds available through banking system, causing interest rates to fall. With lower interest rate, aggregate expenditures on investment and interest-sensitive consumption goods usually increase, causing real GDP to rise. Hence, monetary policy can affect real GDP indirectly.



1.6 Significance of the study

The study on the main objective of this study is to examining effects of monetary policy rate on micro financial institutions (MFI) business management, case study of FINCA financial institution in Lusaka, is significant for various stakeholders, including entrepreneurs, policymakers, academic researchers, and the broader community. The following points detail the key areas of significance. Understanding effective monetary policy rate on micro financial institutions (MFI) business management can provide

indigenous micro financial institution with actionable insights into best practices that lead to improved performance. Research indicates that micro financial institution with structured business plans are more likely to achieve their financial goals and navigate market challenges successfully. By identifying methodologies that work well within the local context, firms can enhance operational efficiency, optimize resource allocation, and ultimately increase profitability. This empowerment enables local entrepreneurs to make informed decisions that contribute to their businesses' sustainability and growth. This study emphasizes the critical role of indigenous firms in Zambia's economy, particularly in the financial sector, which contributes significantly to GDP and job creation. By highlighting effective business planning practices, the research can inspire local entrepreneurs to adopt structured planning approaches, fostering a culture of entrepreneurship. Increased entrepreneurial activity can lead to more business creation, job opportunities, and diversification of the local economy, enhancing resilience against economic shocks. The findings of this study can provide valuable insights for policymakers and government agencies focused on economic development. Understanding the challenges and successes of indigenous financial firms in business planning can guide the development of targeted policies and support programs. For instance, initiatives aimed at improving access to finance, offering business training, and simplifying regulatory processes can be informed by the study's findings. Such supportive measures can strengthen the micro financial institution sector, encouraging investment and growth, contributing to Academic Knowledge.

1.7 Scope of the study

This study is done on Zambia quarterly data from fourth quarter of 2001 to the fourth quarter of 2013. The results do not suggest a generic picture of every economy but can give a guide to other economies with similar structure.

1.8 Operation definition of key terms

Monetary policy rate: like interest rates for housing loans, business loans and interest rates on savings accounts. Changes in interest rates influence people's decisions to invest or consume, which ultimately affects economic growth, employment and inflation

Monetary policy: Monetary policy refers to the measures or actions taken by the monetary authority of the country (the Bank of Zambia in this case) to alter the quantity, availability and cost of money or credit in the economy.

Micro financial institutions (MFI): Micro Finance Institutions (MFIs) are organizations that provide a range of financial services to various types of micro-companies, enterprises (SMEs), self-employed professionals and retail customers, or to social groups who otherwise would have no other access to financial services

Business management: is the process of planning, organizing, directing, and controlling the activities of a business or organization to achieve its goals and objectives. It involves overseeing all aspects of a business, from finance and operations to marketing and human resources.

2. Literature Review

2.1 The impact of monetary policy rate on MFI lending rate.

Goodwin et al. (2012) in a study conducted in Britain, states financial exclusion is clearly associated with poverty and deprivation and with a detachment from social activities and civic life. The study revealed that the greater the extent of financial exclusion, the greater the risk of having been in poverty at some time. Seventy percent of households missing none of the financial inclusion indicators said they have never been in poverty and just 4% have been in poverty often or most of the time. In comparison, of those households missing three or more of the indicators, 25% said they had never been in poverty and 29% said they were in poverty often or most of the time. Goodwin et al.(2012) find what they call 'unsurprising' clear link between financial exclusion and low income. Households more at risk from financial exclusion are also more likely to have an income below various proportions of the average. Further study in South Africa by Karlan and Zinman (2007, cited by Jansen and Stefan (2010) in highlighting the risk management benefits of financial inclusion. Overall, increased access to credit appears to improve welfare. The study does present evidence that short-term loans are an important cash flow management tool and that they have largely positive impacts on people's welfare, particularly in the area of employment and income. The study also found that loans to customers at (or slightly beyond) the margin were actually profitable. Another study done in India found that a 1% increase in the number of rural bank branches led to a drop in poverty of 0.34% and an increase in output of 0.55%, mainly because access to finance made it easier for poor people to diversify out of agriculture(Burgess and Pande, 2003). Another study also in India by the same authors two years later (2005) find a strong positive effect on rural poverty, using a 'natural experiment' of new branching regulations in India that incentivized banks to expand into underserved areas. However, the high cost of this expansion policy outweighed the aggregate benefits.

Independence of Central Banks: Many central banks operate independently from the government to avoid short-term political pressures. This independence allows them to focus on long-term economic stability. Effective monetary policy requires a delicate balance and a keen understanding of the economic environment (Asongu, 2018). Central banks continuously assess economic indicators, financial market conditions, and global trends to make informed policy decisions that support sustainable economic growth and stability.

The relationship between monetary policy and economic growth is complex, with central banks aiming to strike a balance between stimulating economic activity and controlling inflation (Success, et al, 2012). Here's a review of the key dynamics involved: Lowering interest rates is a common strategy to stimulate economic growth. Reduced borrowing costs encourage businesses to invest and consumers to spend, boosting overall demand in the economy. However, Kakar (2011) states that excessively low interest rates over an extended period can lead to excessive risk-taking, asset bubbles, and financial imbalances, which may pose long-term risks to economic stability.

Central banks often adopt inflation targeting to maintain price stability. While moderate inflation is considered conducive to economic growth, Asongu (2018) argues that high or unpredictable inflation can erode consumer purchasing power and disrupt business planning. Striking the right balance in setting inflation targets is crucial, as overly strict targets might result in overly contractionary policies, hindering growth. Monetary policy can influence exchange rates, impacting a country's export competitiveness. A weaker currency can make exports more competitive but might also lead to higher import costs (Kakar, 2011). A balance is required to support export-led growth without causing undue economic imbalances or relying too heavily on external

demand. Palakkeel (2007) stipulates that during economic crises, central banks may resort to unconventional measures such as quantitative easing (QE). While these tools can provide liquidity and support financial markets, their effectiveness in promoting sustainable economic growth is debated. Prolonged use of unconventional policies raises concerns about their potential side effects, including asset price bubbles and income inequality. The effectiveness of monetary policy depends on the transmission mechanism – how changes in interest rates and money supply impact the real economy. This mechanism can vary based on factors such as financial market conditions, consumer confidence, and banking sector health.

In an interconnected world, the impact of monetary policy extends beyond national borders. Central banks must consider global economic conditions, trade dynamics, and capital flows in their policy decisions.

2.2 The effect of monetary policy rate on MFI loan portfolio quality

When financial system is characterized by financial dualism that threatens financial liberalization, the control and efficiency of the monetary transmission channels must be perfectly apprehended and then integrated into the price stability policy frame. This question arises more with the development of the MFIs sector which carries out both micro financial intermediation and transformation. Theoretically and traditionally, four transmission channels should be distinguished: the interest rate channel, the asset price channel, the credit channel and the anticipation channel. And the effectiveness of each channel depend intrinsically on the economic structures, the dynamics of the financial architecture, the institutional constraints and the economic choices of agents in terms of consumption, savings and investment.

The importance of financial inclusion—easy access to useful and affordable financial products and services, has gained considerable attention among the policymakers and practitioners due to its proven effect on the improved wellbeing of the poor. However, we are still far away from the realization of the ‘financial inclusion for all’ goal by 2030, as 1.7 billion adults remain unbanked as of 2017 (World Bank, 2020). One of the reasons for a large number of unbanked adults and low level of financial inclusion in many parts of the world is owing to the reluctance of formal financial institutions to render financial services to the poor, as it is deemed to be non-profitmaking (Mia, Lee, et al., 2019). This is why the emergence of microfinance and its expansion to many countries is crucial to the upliftment of commercially excluded people (Haque et al., 2019). Consequently, MFIs are now being operated in a minimum of 120 countries globally and owing to its unique mechanism of rendering financial services to the poor, many people perceived the institution as a potential solution to the problems of financial inclusion of the world’s unbanked population (Brown et al., 2016; Chibba, C2009; Mader, 2018).

Although microfinance remains a lucrative option towards achieving financial inclusion, it is not uncomplicated. As an instance, most of the microfinance institutions (MFIs) were initially socially driven, with the provision of financial services to the poor and unbanked as a prime objective (Kang et al., 2019; Rambu Atahau et al., 2020). However, with the advent of time and remarkable changes in the industry; attaining financial sustainability became a theme among the policymakers, managers and practitioners (Mia & Lee, 2017; Serrano-Cinca et al., 2016). Since financial sustainability is comprehensive and relatively new in the context of microfinance, attaining it becomes challenging to many MFIs due to their unfamiliarity with the concept. However, studies exist which recommend attainment of efficiency via the utilization of scarce resources in MFIs; and could be one of the successful ways to achieve sustainability (Balkenhol, 2007).

It is also widely believed that efficient or financially sustainable MFIs can alleviate poverty, and reach out to the unbanked and economically-disadvantaged population faster than the inefficient ones via the spill-over effect (Shankar, 2007). Moreover, Gustafson (1994) reiterates that a sustainable institution: ‘...produces outputs that are sufficiently in demand for enough inputs to be supplied to continue production at a steady or growing rate’. Nonetheless, Singh et al. (2013) also highlighted that banks and MFIs are judged based on how efficiency is easily achieved in their operations. Evidently, efficient and productive MFIs will tend to provide better products and services to the poor at low costs, which will subsequently enhance their wellbeing (Mia & Ben Soltane, 2016). In view of this, MFIs need to achieve efficiency in their operations for an uninterrupted flow of financial services to the masses (Ullah et al., 2019). Nonetheless, attaining efficiency becomes crucial in the current context because donors, funders and investors now require MFIs to be self-sustainable, and operate without donations or concessionary funds as these sources have become insufficient. At this point, utilizing the scarce resources efficiently becomes a priority for the managers of MFIs, who require specific guidance on efficiency improvement. Moreover, ensuring resource efficiency will facilitate achievement of the intended dual objectives of MFIs—which is to achieve a wider coverage via financial inclusion (i.e., extend quality services to the poor) and attain self-sustainability (financial viability).

2.3 The impact of monetary policy rate on MFI financial performance

According to the monetary transmission mechanism theory, a change in the policy rate affects the economy through different channels. The main channels of monetary policy transmission include the interest rate, credit, asset price, and exchange rate (Chileshe, 2017). This study focuses on the interest rate channel. Based on the Keynesian assumption of sticky prices, the traditional interest channel implies that an increase in money supply translates into a decrease in the real interest rate⁴. This implies that the central bank is able to influence long-term interest rates by affecting short-term interest rates. The rational expectations hypothesis of the term structure states that the long-term interest rate is an average of expected future short-term interest rates (Chileshe, 2017).

The interest rate pass-through is a critical element in the monetary policy transmission mechanism as it explains how changes in the policy rate or interbank rates are transmitted to various bank rates, including lending rates, for corporations and consumers or bank

⁴ An increase in supply of money works in twofold: firstly, through lowering interest rates, which spurs investment, and secondly through putting more money in the hands of consumers, making them feel wealthier, and thus stimulating spending. Business firms may respond to increased demand by ordering more raw materials, increasing production and/or increasing prices. Thus, this may be inflationary. High inflation, while nominal interest rates remain unchanged, results in lower real interest rates. Real interest rate = nominal interest rate minus rate of inflation. 12 deposit rates (Mishkin, 1996). This pass-through mechanism represents the initial

stage of the interest rate channel. The speed and extent of the pass-through are key determinants of the impact of monetary policy decisions on bank lending rates, thereby affecting investment and consumption choices and ultimately inflation. According to Rousseas (1985), the pass-through from monetary policy changes to bank lending rates can be outlined as follows: $lr = g(mc) = \mu t + \beta * mc$ (markup) (pass-through coefficient) (marginal cost of funding) where lr is the bank lending rate, mc is conceptualized as a function of the bank's marginal cost of funding, which is estimated using the interbank rates. In its simplest form, this function exhibits linearity, where the lending rate is determined by an added margin or spread (μ), interbank rate and the multiplication of the pass-through factor (β) by the marginal cost. Changes in the monetary policy rate exert an impact on the marginal cost of funding, and consequently influence the lending rate through the pass-through coefficient (β). It is worth noting that the markup can vary over time and is susceptible to macrofinancial conditions, such as the structure and health of the banking sector. According to Aziakpono (2010), it is expected that the value of the pass-through coefficient would lie between 0 and 1 i.e. $0 \leq \beta \leq 1$. If β is less than 1, the degree of long-run passthrough is incomplete, while the value of 1 implies complete pass-through. The value of β is unlikely to be equal to 1 owing to monopolistic behavior of banks, collusive arrangements, high banking sector competition and high switching cost. There are also cases where β could be greater than 1, reflective of over pass-through. Over pass-through is associated with banks charging higher interest rates to counter higher risks due to asymmetric information rather than reducing the supply of loans (De Bondt, 2005; Aziakpono, 2010). Some of the theories explaining the size of pass-through factor (β) include: monopolistic behaviour of banks as explained in the Monti-Klein model. This model postulates that banks influence the pass-through factor (β) through restrictions to entry into the banking sector by regulatory agencies combined with monopoly power promoting bank concentration. This causes interest rates to be sticky and adjust asymmetrically to changes in the monetary policy rate (Bondt, 2002). Secondly, banks may influence pass-through factor (β) through collusive arrangements and so unlikely to reduce lending rates thereby resulting in rigid downward adjustments in lending rates and flexible upward adjustments in deposit rates in response to changes in the policy rate (Bondt, 2005; Aziakpono and Magdalene, 2013). In addition, commercial banks operating in highly competitive environments may avoid increasing lending rates for fear of negative customer reactions as postulated by the customer reaction hypothesis. This may affect the pass-through factor (β) as deposit rates could be adjusted rigidly downward in response to decreases in the policy rate while lending rates may be adjusted rigidly upward when the policy rate rises so as to retain customers (Aziakpono and Magdalene, 2013).

2.4 Personal critique of the literature

Only a few studies on monetary policy that have been conducted were reviewed. This limited the scope horizon.

2.5 Established research gaps

The review of the literature reveals the existence of many gaps of knowledge in respect of the factors affecting profitability of MFIs, particularly in the context of Ethiopia. Some of the existing literatures abroad (Muriu 2011, Jorgensen 2012, Dissanayake 2012) are also developed from the retail banking theories since there are no developed theories for the MFIs profitability. As per the review of the literature, most of the empirical studies have been conducted with the aim of measuring the performance of MFIs by using only internal factors. External factors are not integrated much into their models so that macroeconomic and industry related factors which possibly can affect profitability of the institutions are ignored the study made by Birhanu (2007) on performance of Ethiopian MFIs used few internal factors and didn't show determinants of profitability. Alemayehu (2008) on his part tried to see the performance of the institutions in case of six MFIs where he considered profitability and Journal of Economics and Sustainable Development www.iiste.org ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online) Vol.9, No.5, 2018 37 sustainability, asset and liability management and efficiency and productivity but ignored portfolio quality of the institutions and external factors also; which are of more importance. Letenah (2009) on his study compared the performance of Ethiopian MFIs with the micro banking bulletin bench marks; where he concluded that Ethiopian MFIs are poor performers. Melkamu (2012) studied about the determinants of operational and financial self-sufficiency of Ethiopian MFIs. His study considered only 12 MFIs in the country and his conclusion ended up by saying Ethiopian MFIs are performing good compared with their African peers but he failed to mention the bench mark used. Yonas (2012) tried to determine the determinants of financial sustainability of Ethiopian MFIs using 6 years data for 12 institutions these studies are limited in that; for one thing they haven't considered external factors like macroeconomic and industry factors. Secondly, the studies used observation for limited number of years than they should have considered; that's why there we find different contradicting results.

3. Introduction

This chapter basically presents the details of the way the study was designed. The information hereunder includes; the description of the study area, the study population, sample size and sampling procedures, data collection instruments and procedures, validation of the data collection instruments, data analysis and an account of the variables and their effects, if any.

3.1 Research Design

According to Greig (2018), research design refers to the overall strategy or plan that a researcher develops to guide their study, gather data, and answer their research questions or test hypotheses. It outlines the framework within which the research will be conducted, providing a roadmap for data collection, analysis, and interpretation. A well-designed research study aims to ensure that the collected data is valid, reliable, and relevant to the research objective. The study adopted a causal/correlational research design.

3.2 Target population

The main population of this study will consist of workers from financial institution in Lusaka. This population is finite, as the number of study participants is known, rather than infinite, where the number of participants would be unknown. The target population includes 50 workers from the financial institution within Lusaka.

3.3 Research design

This involved determining how participants or data sources were selected for the study. Sampling methods can be random, stratified, purposive, convenience-based, or a mix of these. This study adopted the Autoregressive distributed lag (ARDL) model for foreign developed by Sims (1980).

3.4 Sample size determination

The study did not consider the period before 1980 due to non-availability of data in some specific years because of the structural adjustment programs (SAP) and most of the data was not collected during that period on certain variables to be used in the study. The dataset to be used for the study variables over the period 1980-2021 were obtained from the World Bank indicators and UNCTAD stats

3.5 Data collection methods

In order to ensure reliability, the researcher tested the research instruments in a pilot study across several potential respondents to ensure that the understanding of the questionnaire was consistent across different respondents. The questionnaire was revised in order to address the issues in the questions that could not be easily understood or not similarly understood by the respondents in the pilot of the questionnaire. Thus, validity entails whether the study instruments/tools are able to measure what they ought to measure given the context in which they are applied. In order to minimize the issues in relation to the test validity, the questionnaire was designed as a close-ended questionnaire thereby limiting the responses of the respondents to a positive response, a negative response, or no response to the question posed. Given that the questions were close-ended questions; the validity of the questionnaire was accepted due to this approach which ensured that the responses reflected the respondents' unbiased perspectives

3.6 Data Analysis

The relationship between the dependent variable and independent variables was analyzed econometrically using a regression analysis. The study employed stata 14 and Microsoft Excel as the statistical packages.

3.7 Triangulation

To facilitate validation of the data, the collected data was cross-verified by comparing it to the data that will be obtained from a parallel source (pilot study) that involved respondents that were not part of the actual target population.

3.8 Limitations of the study

This study was conducted under the following constraints: the financial challenges hindered the production of better work as the study was not externally funded and all expenses will be met by the researcher. This fact contributed to the limiting of the study area, population as well as the sample size, which is likely to produce findings that might not be very representative hence limiting their generalization. There may also be alterations in the actual intent of the respondents in the process of interpreting and translating the information contained in the questionnaires as some of the respondents were not literate on the subject matter.

3.9 Ethical Consideration

Based on Oppenheim's (1992) five fundamental research ethics standards, this study accepted them. The study will make sure that the respondent do not suffer any negative effects as a result of their involvement. This is the main ethical rule guiding data collection, and it takes precedence over all other factors.

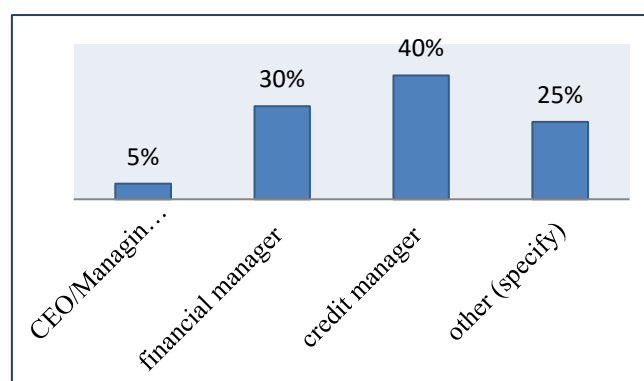
Additionally, the respondent's right to privacy will be upheld and not put under any undue pressure. The respondents will be within their rights to decline to respond to queries without providing a justification, and they will have the freedom to choose who would receive the information and under what circumstances. Additionally, no identifiers about people or organizations will be published without their consent.

4. Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. Descriptive and inferential statistics were used to discuss the findings of the study.

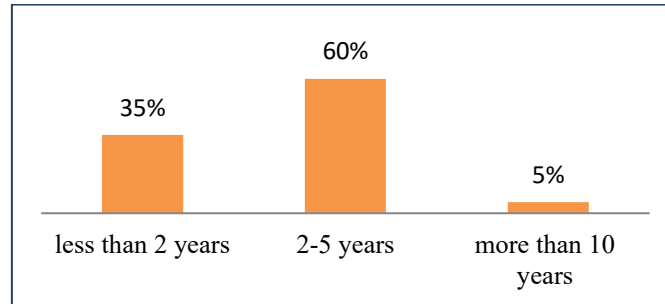
4.1 Background Information

Figure 4.1.1 What is your position microfinance institution?



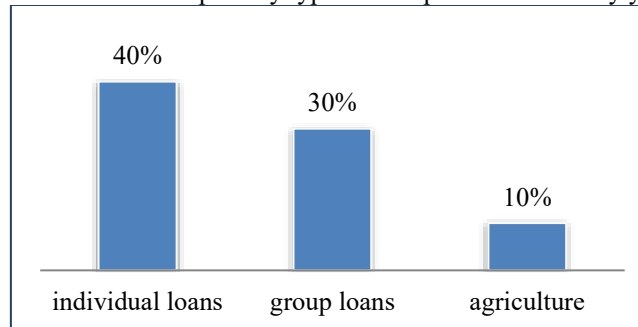
The study requested respondent to indicate, Figure 4.1.1 What is your position microfinance institution? The research revealed the following; CEO/managing director (5%), financial manager (30%), credit manager (40%), and others (25%).

Figure 4.1.2 How long has your MFI been in operation?



The study requested respondent to indicate, Figure 4.1.2 How long has your MFI been in operation? the research revealed the following; less than 2 years (40%), 2 to 5 years (60%), and more than 10 years (5%).

Figure 4.1.3 What is the primary type of loan product offered by your MFI?



The study requested respondent to indicate, Figure 4.1.3 What is the primary type of loan product offered by your MFI?, the research revealed the following; individual loans (40%), group loans (30%), and agriculture loans (10%).

Table 4.1.1 What is the current size of your MFIS loan portfolio?

	percent
Less than k1, 000	40%
k1, 000- k10000	20%
k10, 000-k50, 000	30%
k50, 000 and above	10%

The study requested respondent to indicate, Table 4.1.1 What is the current size of your MFIS loan portfolio? The research revealed the following; less than k1,000 (40%), k1,000 to k10,000 (20%), k10,000 to 50,000 (30%) and k50,000 and above (10%).

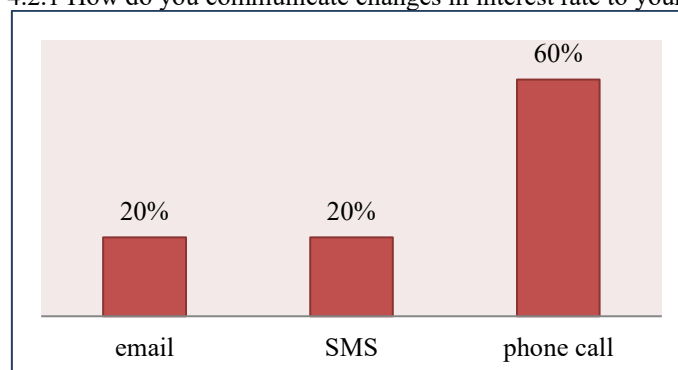
4.2 To Identify the Impact of Monetary Policy Rate on MFI Lending Rate

Table 4.2.1 How often do you review and adjust your MFI's interest rate in response to change in the monetary policy rate?

	percent
Monthly	30%
Quarterly	20%
Weekly	40%
Annually	10%

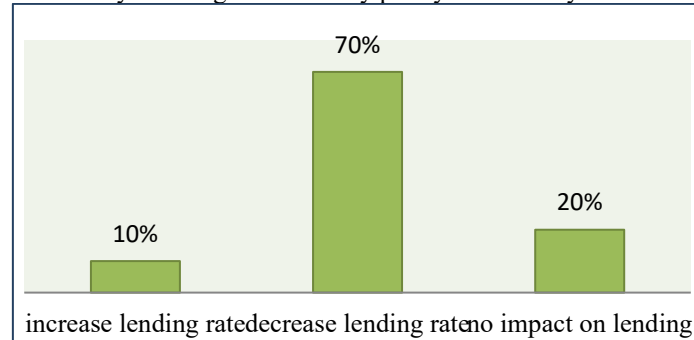
The study requested respondent to indicate, Table 4.2.1 How often do you review and adjust your MFI's interest rate in response to change in the monetary policy rate? the research revealed the following; monthly (30%), quarterly (20%), weekly (40%) and annually (10%).

Figure 4.2.1 How do you communicate changes in interest rate to your clients?



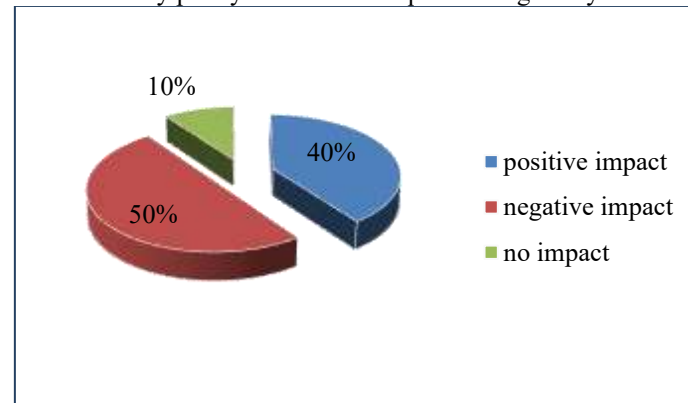
The study requested respondent to indicate, Figure 4.2.1 How do you communicate changes in interest rate to your clients? The research revealed the following; email (20%), SMS (50%), and phone call (10%).

Figure 4.2.2 How do you change in monetary policy rate affect your MFI's lending rate?



The study requested respondent to indicate, figure 4.2.2 How do you manage change the impact of changes in monetary policy rate on your MFIs operations? the research revealed the following; positive impact (40%), negative impact (50%), and no impact (10%).

Figure 4.2.3 How do changes in the monetary policy rate and subsequent changes in your MFI lending rates affect your client?



The study requested respondent to indicate, Figure 4.2.3 How do changes in the monetary policy rate and subsequent changes in your MFI lending rates affect your client? the research revealed the following; positive impact (40%), negative impact (50%), and no impact (10%).

Table 4.2.2 How do you manage change the impact of changes in monetary policy rate on your MFIs operations?

	Percent
By adjusting lending rates	40%
By adjusting loan terms	50%
By adjusting credit scoring models	10%
Others (specify)	0%

The study requested respondent to indicate, Table 4.2.2 How do you manage change the impact of changes in monetary policy rate on your MFIs operations? The research revealed the following; by adjusting lending rates (40%), by adjusting loan terms (50%), and by adjusting scoring models (10%).

4.3 To Assess the Effect of Monetary Policy Rate on MFI Loan Portfolio Quality

Table 4.3.1 How do changes in monetary policy rate affect the loan repayment behavior of your MFIs client

	Percent
Improve repayment behavior	20%
Worsen repayment behavior	70%
No impact on repayment behavior	10%
Others (specify)	0%

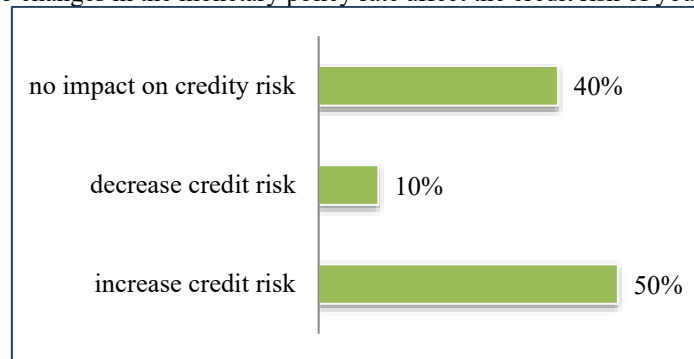
The study requested respondent to indicate, Table How do changes in the monetary policy rate affect the provisioning for loan losses of your MFIs? the research revealed the following; worsen the repayment behavior (20%), worsen repayment behavior (70%), and no impact on prepayment behavior (10%).

Table 4.3.2 How do changes in the monetary policy rate affect the provisioning for loan losses of your MFIs?

	Percent
Increase provisioning	30%
Decrease provisioning	50%
No impact on provisioning	20%
Others (specify)	0%

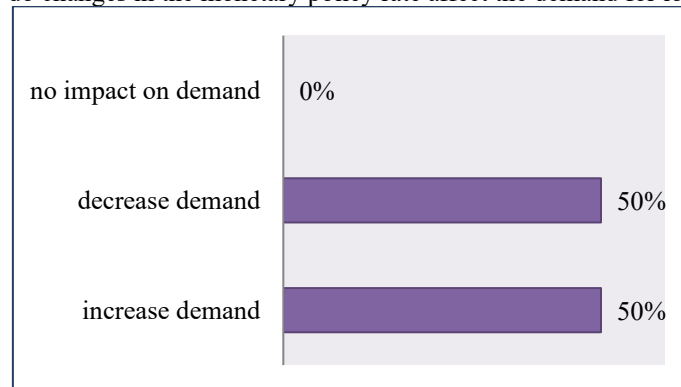
The study requested respondent to indicate, Table How do changes in the monetary policy rate affect the provisioning for loan losses of your MFIs? The research revealed the following; increase provisioning (30%), decrease provisioning (50%), and no impact on provisioning (20%).

Figure 4.3 .1 How do changes in the monetary policy rate affect the credit risk of your MFIs loan portfolio?



The study requested respondent to indicate, figure 4.2.1 How do changes in the monetary policy rate affect the credit risk of your MFIs loan portfolio? The research revealed the following; increase credit risk (50%), decrease credit risk (10%), and no impact on no impact on credit risk (40%).

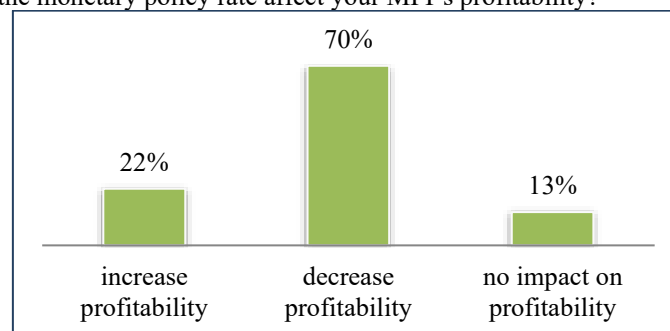
Figure 4.3.2 How do changes in the monetary policy rate affect the demand for loan from your MFI?



The study requested respondent to indicate, figure 4.3.2 How do changes in the monetary policy rate affect the demand for loan from your MFI? The research revealed the following; increase demana (50%), decrease demand (50%), and no impact on demand (0%).

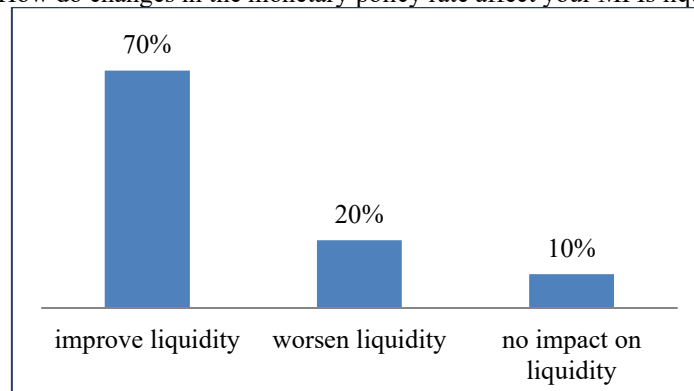
4.4 To Investigate the Impact of Monetary Policy Rate on MFI Financial Performance

Figure 4.4.1 How do changes in the monetary policy rate affect your MFI's profitability?



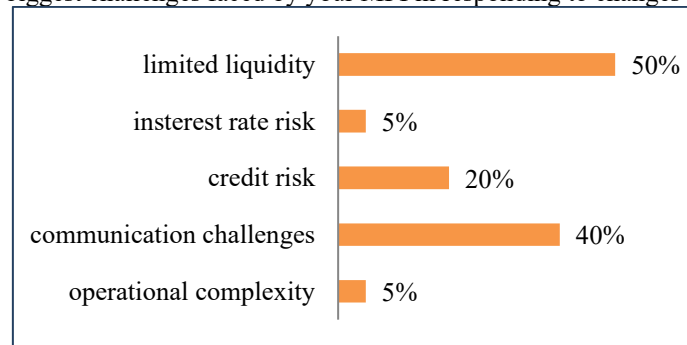
The study requested respondent to indicate, figure 4.4.1 How do changes in the monetary policy rate affect your MFI's profitability? The research revealed the following; increase profitability (22%), decrease profitability (70%), and no impact on profitability (13%).

Figure 4.4.2 How do changes in the monetary policy rate affect your MFIs liquidity position?



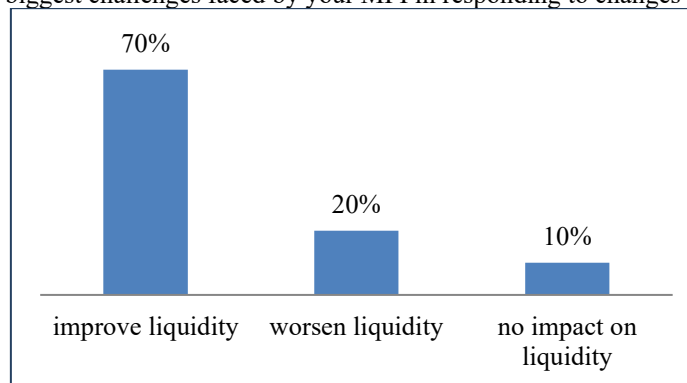
The study requested respondent to indicate, figure 4.4.2 What are the biggest challenges faced by your MFI in responding to changes in the monetary policy rate? The research revealed the following; improve liquidity (70%), worsen liquidity(20%), and no impact on liquidity (10%).

Figure 4.4.3 What are the biggest challenges faced by your MFI in responding to changes in the monetary policy rate?



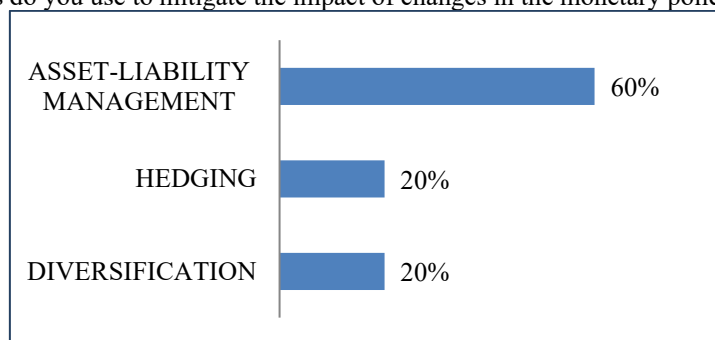
The study requested respondent to indicate, figure 4.4.3 What are the biggest challenges faced by your MFI in responding to changes in the monetary policy rate? The research revealed the following; limited liquidity (50%), interest rate risk (5%), credit risk(20%), communication challenges complexity (40%) % and operational complexity (5%).

Figure 4.4.4 What are the biggest challenges faced by your MFI in responding to changes in the monetary policy rate?



The study requested respondent to indicate, figure 4.4.4.What are the biggest challenges faced by your MFI in responding to changes in the monetary policy rate?? the research revealed the following; improve liquidity (70%), worsen liquidity (20%) and no impact of liquidity (10%).

Figure 4.4.5.What strategies do you use to mitigate the impact of changes in the monetary policy rate on your MFIs business?



The study requested respondent to indicate, figure 4.4.4What strategies do you use to mitigate the impact of changes in the monetary policy rate on your MFIs business? The research revealed the following; asset-liability management (60%), hedging (20%) and diversification (20%).

Table 4.4.1 What factors are likely to drive your MFI future growth?

	Percent
Increasing demand for financial services	30%
Technological advancements	30%
Government support and regulations	5%
Investments and funding	15%
Partnerships and collaborations	15%
Innovative products and services	2%
Others specific	3%

The study requested respondent to indicate, Table 4.4.1 What factors are likely to drive your MFI future worth? The research revealed the following; Increasing demand for financial services (30%), Technological advancements(30%) ,Government support and regulations (5%) ,Innovative products services (2%) ,Investments and funding (15%), Partnerships and collaborations (15%), and Others specific (3%) .

4.5 Discussions of the findings

The study requested respondent to indicate, figure 4.1.1 what is your position microfinance institution? The research revealed the following; CEO/managing director (5%), financial manager (30%), credit manager (40%), and others (25%). figure 4.1.2 how long

has your MFI been in operation? the study requested respondent to indicate, figure 4.1.2 how long has your MFI been in operation? the research revealed the following; less than 2 years (40%), 2 to 5 years (60%), and more than 10 years (5%). the study requested respondent to indicate, figure 4.1.3 what is the primary type of loan product offered by your MFI? The research revealed the following; individual loans (40%), group loans (30%), and agriculture loans (10%). table 4.1.1 what is the current size of your mfi's loan portfolio? Ultimately, knowing the valuation of your portfolio is a lot like knowing your bank account balance. When you know what your portfolio is worth, you know what you can do with it. You know if you can liquidate assets to afford that big purchase, or if it's not in the cards at the moment. But that's just the short-term upside. When you monitor portfolio value over time, you'll start seeing patterns and understanding growth rate. This is where meeting those big financial goals comes into play. Many investors will decide on a required rate of return — which is the return an asset must generate in order to stay in their portfolio. They do this because it creates more predictable growth when it comes to their portfolio value over time. Understanding the trajectory of your portfolio is key if you plan on using it to help you do something like retire from working in 15 years. When you know where your portfolio will be at any given time, because you've studied how its value grows, you can set financial goals with a lot more certainty. In addition, keeping an eye on portfolio value means you'll be quick to spot anything that isn't quite right. These could be small things, like how fees from services you hardly use add up, as well as big things, like instances of identity theft. The study requested respondent to indicate, table 4.1.1 what is the current size of your MFI's loan portfolio? the research revealed the following; less than k1,000 (40%), k1,000 to k10,000 (20%), k10,000 to 50,000 (30%) and k50,000 and above (10%). section b: to identify the impact of monetary policy rate on mfi lending rate. table 4.2.1 how often do you review and adjust your MFI's interest rate in response to change in the monetary policy rate? the study requested respondent to indicate, table 4.2.1 how often do you review and adjust your MFI's interest rate in response to change in the monetary policy rate? The research revealed the following; monthly (30%), quarterly (20%), weekly (40%) and annually (10%). The study requested respondent to indicate, figure 4.2.1 how do you communicate changes in interest rate to your clients? The research revealed the following; email (20%), SMS (50%), and phone call (10%). figure 4.2.2 how do you change in monetary policy rate affect your MFI's lending rate? Previous studies indicate that, portfolio performance of microfinance institution is influenced by various factors. Existence of attractive and customer-oriented credit collection strategies contributes to sound financial performance in microfinance institutions. Emran et al., (2006) and Papias, & Ganesan, (2009) in their study observed that, microfinance institutions that charges high interest rates are likely to affect quality of loan portfolio due to increasing default rates. Consequently, impact negatively on overall financial performance of MFIs. However, studies by Ayayi & Sene, (2010) added that individual-based microfinance lenders charging higher interest rates are likely to be more profitable up to a certain level. Beyond which the profitability of microfinance institution tends to be worse due to an increase in rates of delinquency from their clients. As such, microfinance need to learn that, charging high interest rates beyond a certain threshold is said to be unfavorable for the MFIs financial sustainability. On the other hand, Hooman (2009) revealed that interest rate has the most significant effects on repayment performances. In the same vein, Ledgerwood (2013) suggested that microfinance institutions should be concerned about loan pricing of its products since it is an important aspect of loan product design. It is argued that a balance has to be reached between what clients can afford and what the lending organization needs to earn, to cover all costs involved in lending for sustainable microfinance operation. The study requested respondent to indicate, figure 4.2.2 how do you manage change the impact of changes in monetary policy rate on your MFIs operations? the research revealed the following; positive impact (40%), negative impact (50%), and no impact (10%). the study requested respondent to indicate, figure 4.2.3 how do changes in the monetary policy rate and subsequent changes in your MFI lending rates affect your client? the research revealed the following; positive impact (40%), negative impact (50%), and no impact (10%). the study requested respondent to indicate, table 4.2.2 how do you manage change the impact of changes in monetary policy rate on your MFIs operations? the research revealed the following; by adjusting lending rates (40%), by adjusting loan terms (50%), and by adjusting scoring models (10%). Section c: to assess the effect of monetary policy rate on mfi loan portfolio quality, In order to continue serving their clients with microcredit facilities. The lending institutes need to effectively manage their loan portfolios. Microfinance portfolio management is the driving force to enable sustainable financial performance. Microfinance institutions that experience high risk of its loan portfolio, is an indication of high delinquency from customers. This may lead to underperformance of its loan portfolio thus threatening the ability to continue in operation in the long-term (Ledgerwood, 1999). Microfinance institution need to manage portfolio quality against delinquency and defaults, by establishing effective strategies in the lending and collection processes. Efficient credit collection policy within the institutional framework, helps credit management process be effective and hence timely collection of funds from clients. The study requested respondent to indicate, table how do changes in the monetary policy rate affect the provisioning for loan losses of your MFIs? The research revealed the following; worsen the repayment behavior (20%), worsen repayment behavior (70%), and no impact on prepayment behavior (10%). Several studies have been conducted on factors for effective credit collection in MFIs; but, the level of significance of factors varies with studies. Some of the determinants are found to be significant while others not. At the same time, some determinants are significant to only set of MFIs. Empirical evidences from the findings by Kar & Swain, (2014); Adongo and Stork, (2000); Nyamsogoro, (2010) and Zohair, (2013) reported that interest rates, loan sizes and loan duration influence financial sustainability and portfolio performance of microfinance institutions.

5. Conclusion and Recommendations

5.1 Conclusion

The association between monetary policies and firm performance has been examined over the last few years. However the limited study focused MFIs in Lusaka. This study will provide literature on the monetary aspects of MFI performance in the contextual setting of Zambia. This paper extend and contributes to impact of monetary policy by taking its dimension of interest rate over the MFI return on asset and return on equity by offering the empirical evidence on its impact on firm performance. The result of this study shows that the interest rate is negatively associated with MFI performance. Our empirical finding are similar to literature as studies by (Maddaloni & Peydro, 2011) and (Yourougou, 1990). The study also posits some limitation regarding the sample size as

it uses the only 20 MFIs for the period of five year for empirical analysis. This sample can be extended to the other sector of economy for generalization of results. The second limitation was that only the interest rate as measure of monetary policy was broadly analyzed, other measures can be incorporated for further investigation.

5.2 Recommendation

The findings of the paper imply that the government should formulate policies that compel MFIs to relax their restrictive regulations and operations which may discourage borrowing and offer more credit facilities for SMEs. The government should empower the SMEs to access and get credits from the MFIs through formal and informal entrepreneurship education for SMEs to develop their managerial capabilities, accounting skills and overall, be more credit worthy.

The study recommends that MFIs should put more emphasis on the internal factors to financial performance. These internal factors include capital adequacy, asset quality, management efficiency, earnings ability and liquidity management. Monetary policy tools effect will be handled by the management through risk management policies for the bank. The study further recommends that while MFI size was found to lead to better financial performance, it is important that banks understand the source of its funds and the costs associated with the funds. The study suggests that more studies be done in this area focusing on all MFIs in Zambia as well as other financial institutions such as microfinance that also give loans. Studies should also be conducted on the topic using fairly longer time periods (more than 5 years) and smaller time intervals (say quarterly) of data collection as such studies may be useful in showing the trends as well as the long terms relationship between monetary policy tools and financial performance of MFIs in Zambia. The study also recommends that further studies explore the relationship between monetary policy tools and financial performance of MFIs with categories of small, medium and big MFIs.

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