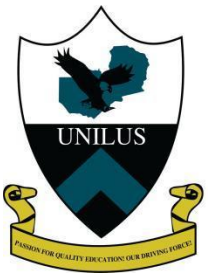

UNIVERSITY OF LUSAKA

SCHOOL OF POSTGRADUATE STUDIES

MASTER OF BUSINESS ADMINISTRATION IN FINANCE.

EFFECTS OF FINANCIAL REGULATION ON THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS (MFI) IN ZAMBIA: A CASE OF MICRO FINANCE ZAMBIA LIMITED.

A DISSERTATION FILED WITH THE SCHOOL OF POSTGRADATE STUDIES AT THE UNIVERSITY OF LUSAKA IN PARTIAL COMPLETION OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION IN FINANCE.

NGELA KAKUNGU

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DECLARATION

DECLARATION

I **NGELA KAKUNGU** declare that this is my original work and has not been presented for a master's degree at any other University and that all the sources I have used or quoted have been indicated and acknowledged by complete reference.

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APPROVAL

This Dissertation report has been submitted with the approval of the University Supervisor Mr Martin Ngonga (University of Lusaka)

Signature..... Date..20/01/2025.....

DEDICATION

This dissertation is dedicated to my lovely wife Chibeka Chiyaba and my Daughter Thapelo Ngela who have been a constant source of love and support. I am forever grateful for your support and encouragement.

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To my family I should always remain grateful for your patronage for me all along the years I have been in school. For my part special thanks goes to my wife and my parents.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOZ: Bank of Zambia

DTMs: Deposit-Taking Microfinance Institutions

KPMG: Klynveld Peat Marwick Goerdeler

LOLC: Lanka Orix Leasing Company

MFIs: Microfinance Institutions

RBI: Reserve Bank of India's

RBV: Resource-Based View

SCP: Structure-Conduct-Performance

SPSS: Statistical Packages for Social Sciences

ABSTRACT

The 2008 debacle in the global financial systems brought into focus the issues of proper regulation of the key players and sub-sectors in the financial markets, especially the MFIs. This research seeks to examine the effects that financial regulations have on MFIs, taking Micro Finance Zambia Limited as the subject of analysis. Basing the research on the tenets of micro- and macro-prudential regulation, the research demonstrates how regulation maintains the stability of the economy, protects the interests of stakeholders, and fosters sound financial practices, though at the cost of slowed financial activity. This paper also looked into other factors that define performance to assess their impact on the operations of MFIs, including market structure and liquidity.

Using a descriptive research design, this study sought to establish the level of engagement of students in the study of the chosen subjects, with a 102-participant response representing a 98% response rate from participants who were given questionnaires. It is established that financial regulations play a major role in determining the performance of Micro Finance Zambia Limited through the way governance is structured, risk controlled, and the fostering of stability. Other factors that were established to influence financial status included the market structure and microfinance liquidity, which are affected by environmental characteristics such as corruption, legal origin, and economic policy, among others, hence complicating the achievement of microfinance regulation goals.

The study concluded that Zambia's financial regulations act as both constraints and resource factors to MFIs. Although compliance may adversely affect financial performance in the short run, it is anticipated to bolster institutionalization and long-term performance. It is suggested that MFI operations should be adjusted to financial regulations, market structures should be used to improve performance, and liquidity should be effectively managed to support growth. These measures are important in promoting the stability and efficiency of the microfinance sub-sector in supporting the parliamentary economic development objectives for Zambia.

CHAPTER ONE

1.0 Introduction

The introduction of this chapter is based on the effects of financial regulation on the performance of Micro Finance Institutions, a case of Micro Finance Zambia Limited. This chapter will look at the study background, problem statement, research objectives and questions, significance of the study, its scope, and chapter summary. The chapter will outline everything with regards to the effects of financial regulations on the performance of Micro Finance Institutions, using Micro Finance Zambia Limited as a case study.

1.1 Background of the study

International, the financial crisis that hit the world in 2008 required stringent regulation in financial institutions such as Microfinance Institutions (MFIs) (Sherman, 2019). Chirwa (2023) opined that financial regulations have a bearing on the financial performance of firms. Hence, by 2007, the U.S. had begun to regulate its financial sector, seeking to improve the rapid growth in financial institutions (Chirwa, 2023). But this ought to have been gradual rather than explosive, adding that the rate of this growth caused a disastrous failure. After the start of the crisis, the US put stringent measures in place to stabilize its economy, which restricted the development of financial institutions, including MFIs (KPMG, 2014).

Caprio and Levine (2016) posit that the microfinance system is significant in the financial market structure. In the long run, MFIs assist in long-term financial profitability by professionally managing and disbursing funds to underserved communities. Three pillars underpin a robust microfinance system that results in financial performance: economic stability, practical risk-taking, and good governance. The guidelines of MFIs indicate two primary purposes: sheltering investors, creditors, and depositors and maintaining the reliability of shared financial markets (Shimko & Kotlyarova-Sitkevich, 2018). This has risen in place of the deregulation move that started in the 1980s up to the current years. These guidelines are relevant due to information asymmetry, which means that most of the time, clients lack more information than the MFI itself (Bain and Howells, 2019).

The overall capacity and profitability of institutions such as Micro Finance Zambia Limited for the previous decade have enhanced satisfying performance and thriving microfinance practices (George, 2022). But here again, let it be noted that this improvement has been dogged by some setbacks. Factors such as corruption, legal origins, and levels of democracy make it difficult to apply the best policies worldwide (Bank of Zambia, 2021).

Performance measurement ensures that means are used in the most reliable way to maximize profit (Terance, 2023). Financial performance measurement is crucial for MFI management to determine if institutions are performing well. The Bank of Zambia Report (2019) showed that the microfinance sector's balance sheet grew significantly between November 2014 and November 2024. According to Haron (2014), factors influencing MFI performance include internal determinants such as financial and non-financial variables and external determinants such as market share, money supply, inflation, competition, regulations, concentration, and size.

According to Kashyap and Stein (2021), there is a relationship between regulations and financial performance in financial institutions through micro-prudential and macro-prudential theories. These theories propose the application and execution of principles to achieve economic stability and protect taxpayer interests, even if it means reducing an MFI's assets or raising new capital from the market. This regulatory environment slows the financial performance of MFIs like Micro Finance Zambia Limited (Hanson, Kashyap, and Stein, 2011).

Moreover, Micro Finance Zambia Limited was established to enhance financial inclusion in Zambia by providing accessible financial services to underserved societies. Micro Finance Zambia Limited has expanded its footprint significantly in recent years, becoming a key player in the microfinance sector as it was supported by the government of Zambia to boost growth and stability (Chirwa, 2022). By 2021, the company had grown substantially, with its shares attracting interest from investors eager to tap into the robust microfinance market (Kabage, 2021). Micro Finance Zambia Limited reported a net

income of ZMW115 million (approximately US$5.2 million) as of December 31, 2021, reflecting its strong financial performance and strategic growth (Tembo, 2022).

Micro Finance Zambia Limited functions via a wide network that includes over 45 branches and agencies nationwide, with headquarters based in Lusaka (Faiza, 2023). This extensive delivery network ensures effective service delivery to both urban and rural communities, promoting financial inclusion across the country. Micro Finance Zambia Limited has developed a strong network of over 6,000 agents, known as Micro Finance Zambia Limited Agents, allowing customers to deposit and withdraw funds conveniently. Beyond financial services, Micro Finance Zambia Limited is actively involved in community development activities and sponsors local events and projects to contribute to Zambia's socio-economic development (Aisha, 2022).

1.2 Statement of the Problem

The implementation of financial regulations in Zambia has created significant challenges for microfinance institutions (MFIs), including high compliance costs, stringent capital requirements, and operational constraints like interest rate caps that hinder profitability. Smaller MFIs struggle with the complexity of regulations, non-compliance risks, and the need for advanced technological systems. These challenges deter expansion to underserved areas, limit competition with larger banks, and create barriers to scaling operations. Inconsistent enforcement and limited regulatory guidance further exacerbate these issues, ultimately affecting the affordability and accessibility of microfinance services and undermining financial inclusion efforts.

As illustrated by the experiences of Micro Finance Zambia Limited (Chipili, 2021). Despite these challenges, it is anticipated that these regulations will eventually fortify financial institutions by promoting stability and aligning with the nation’s developmental objectives, without compromising prudent regulatory frameworks or undermining the stability of the financial sector (Daniel, 2022). As noted, the financial crisis of 2008 highlighted the critical need for a stable financial system, one that positively influences equity and growth. Regulations are typically designed to improve efficiency and reduce the likelihood of

financial crises. While critics claim that such regulations hamper market efficiency, supporters argue that they actually foster it. Recently, Micro Finance Zambia Limited has concentrated on refining its cash management practices and introducing new services to attract additional capital (Bank of Zambia, 2023).

A study conducted by Gudmundsson, Kisinguh, and Odongo (2022) aimed to assess the impact of capital requirements on financial competition and stability, revealing a positive correlation between performance, capital regulations, and financial stability. Similarly, Mureithi (2021) examined the effect of financial regulations on the financial performance of Kenyan deposit-taking microfinance institutions (DTMs), finding that these regulations have contributed to improved financial performance. These findings indicate that while the regulatory challenges may present short-term difficulties, the long-term advantages in terms of enhanced stability and performance outweigh the initial hurdles faced during the adjustment phase.

1.3 Objectives of the study

1.3.1 General Objective

The general objective of the Study was the effect of financial regulations on the performance of microfinance institutions in Zambia, specifically focusing on Micro Finance Zambia Limited.

1.3.2 Specific Objectives

1. To determine how financial regulations, affect the performance of Micro Finance Zambia Limited.
2. To establish how market structure affects the performance of Micro Finance Zambia Limited.
3. To determine how micro finance liquidity affects the performance of Micro Finance Zambia Limited.

1.4 Research Questions

1. Do financial regulations affect the performance of Micro Finance Zambia Limited?
2. Does market structure affect the performance of Micro Finance Zambia Limited?

3. Does micro finance liquidity affect the performance of Micro Finance Zambia Limited?

1.5 Significance of the Study

The findings of this study will be useful for the management of Micro Finance Zambia Limited as this research will present the impacts of financial regulations on MFIs. By using the strategies derived from the study, managers are able to choose strategic moves that will lead to growth as well as high performance. The study will help managers who oversee prospective microfinance organizations that seek to enhance performance and deliver relevant information to existing organizations whose strategies are not delivering on expectations. (Chirwa, 2023).

This study will be useful in extending knowledge in the area and offering critical data to research corporations, particular researchers, and scholars who want to deeply investigate the effect of financial regulations on microfinance institutions. The proposed study will be useful in achieving this goal because it will also define the gaps in current knowledge and establish reference points for other research in the future.

1.6 Scope of the Study

The performance of microfinance institutions in Zambia shall be confined under the guidelines provided by the Bank of Zambia (BOZ). This research work covers only the analysis of Micro Finance Zambia Limited. In detail, the study will look at the manner in which regulation of the financial sector impacts the performance of Micro Finance Zambia Limited, the manner in which the structure of the market impacts its performance, and the manner in which liquidity impacts its performance. The study will take place in Lusaka, with Micro Finance Zambia Limited branches chosen for the study being within the city.

1.7 Definition of key terms

Financial regulations: Financial regulation can also be treated as one of the types of regulation or supervision that set up financial institutions to must meet some certain conditions or restrictions and guidelines, in an effort to prevent the financial crises. This may be performed by either government or non-government organization depending on the environment and/or country at hand (Winfred, 2021).

Market structure: is used to explain how various industries are categorized and redeployed depending on the intensity and type of rivalry for service and products. The four well-known classes of market structure are perfect competition, the oligopoly market, the monopoly market and monopolistic competition (Peter, 2020).

Bank liquidity: is a measure of the cash and other assets that are readily available to meet the current and other small working needs of business and finance. The common examples of family assets may be cash in the checking account or in saving account that may quickly and easily clear bills (Charles, 2019).

Performance: Industrial effectiveness of a firm is reduced by comparing the quality and manufacturing cycle times to costs of production, as well as Return on capital employed (Alfred, 2018).

1.8 Chapter Summary

This chapter provides background information of the research problem, has formulated the research problem, and has identified research questions. It also highlighted the meaning and extent of the study, as well definitions of terms and the importance of the study. Chapter two presented the theoretical framework which encompassed the previous literature on factors relating to the administrative influence to financial performance. Chapter three of this research focused on the research approach, research design, research type, research instruments, sampling techniques and sample size, data collection procedure and data analysis.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

The chapter has considered works which are related and consistent with the objectives of the study, explanations of the existing theories and analysis of the past established knowledge which will outline the organized understanding of the major issues, and past studies in the area under study. It further outlines empirical literature, research gaps to be filled, summary and the conceptual framework of the study.

2.1 Theoretical Literature Review

The theoretical literature review brings the theories that already exist, their relationship with study variables and help in the development of hypothesis or study questions to be asked and tested (Meyer and Rowan, 2019).

2.1.1 Theory of Financial Regulation

As stated by Campbell (2006), the theory of financial guidelines creates a consistent economic framework that boosts output and mitigates price fluctuations, lowering the likelihood of financial crises. This theory highlights the Central Bank's role as an autonomous institution tasked with controlling inflation and applying strategies to manage capital prices. By affecting market dynamics, these strategies promote the effective distribution of limited resources, thus preserving economic stability.

The theory also emphasized the importance of regulatory frameworks that encompass monitoring tools aimed at overseeing and shaping the risk-taking behaviors of both financial and non-financial institutions, along with market participants. These supervisory systems are designed to cater to the unique strengths and weaknesses of these entities, ensuring their actions are in line with broader economic stability objectives. This strategy fosters the growth of a well-regulated financial sector that can reduce risks and adapt to various challenges. (Chazya, 2021).

Furthermore, the theory of financial regulation offers insights into how changes in technology, societal values, and regulatory frameworks affect the decision-making processes of financial institutions. It establishes a framework for assessing the

interactions among these elements and the effectiveness of financial entities, rendering it an important resource for analyzing the dynamics within the financial sector. This theoretical viewpoint enhances the study by providing a thorough comprehension of how regulations influence the performance of institutions.

2.1.2 Conventional Economic Efficiency Theory

According to Aly, Grabowski, Pasurka, and Rangan (1990), the theory of economic efficiency asserts that organizations attain their ideal output at the lowest possible cost, with maximum production achievable through economies of scale. However, any added benefits are frequently counterbalanced by the heightened costs linked to existing systems. The principle of allocative efficiency indicates that financial institutions operating in fiercely competitive markets should be restricted from earning excessive profits by significantly increasing their prices above marginal costs. The optimum level of allocative efficiency is reached when commercial outputs reflect the best mix of goods and services that maximize societal welfare (Aly et al, 1990)

The traditional theory of economic efficiency also recognizes that organizational resources are limited and their use entails opportunity costs, restricting their use for alternative purposes (Said, 2012). Organizations are seen as more efficient when they continually produce greater output using the same measurable inputs than their rivals. This notion highlights the significance of effective resource allocation and utilization in improving organizational performance and sustaining competitiveness.

Moreover, differences in business efficiency often arise from variations in price efficiency, which directly affects operating expenses (Zerbe, 2001). This theory is essential for grasping the dynamics of financial institutions, as it underscores the necessity for optimal pricing of products and services to minimize unfair competition within the marketplace. By aligning their pricing strategies with efficiency principles, financial institutions can cultivate a structured and competitive financial landscape.

2.2. Empirical literature review

2.2.1 Financial regulations

A study by Smith, (2018) on the impact of Basel III Regulations on Financial Performance for some selected microfinance in Canada. The study used Quantitative analysis using Finance's financial data pre and post implementation of Basel III regulations. The study found that, Basel III regulations led to increased capital requirements for Finance, impacting its profitability and risk management practices.

The study concluded that, Finance adapted its strategies to comply with Basel III requirements but faced challenges in maintaining profitability amidst heightened regulatory constraints. The study recommended that, the further research to explore long-term implications of Basel III regulations on Finance performance and strategies to enhance regulatory compliance efficiency.

A study by Kumar, (2019) on the effect of Central Bank Policies on micro finance Performance in England. The study used a case study approach, qualitative analysis of Finance's response to Central Bank policies. The study found that microfinance performance was significantly influenced by Central Bank policies, particularly interest rate changes and liquidity requirements. The study concluded that Finance's ability to adapt to Central Bank policies varied, impacting its profitability and risk exposure. The study recommended that, microfinances should enhance its monitoring and management of interest rate and liquidity risks, and engage in proactive dialogue with regulators to mitigate adverse effects of policy changes.

Wong (2020) work titled: A research study on Regulatory Compliance and Financial Performance in some selected microfinances in Jamaica. The study work compared its performance before and after compliance with a set of regulatory requirement using financial data regression analysis. This research concluded that increased regulatory compliance had a positive correlation with the measured value of return on assets and return on equity. The study established that the act of microfinance compliance with regulatory standards enhanced microfinance financial stability and investors’ confidence.

The study concluded that micro finance should maintain efforts meant to ensure that it complies with the regulations needed to continue the financial performance and competitive advantage of the firm.

Johnson in a study done in 2021 look at how financial regulations affect microfinance institutions in South Africa. Data was collected through a quantitative survey of financial performance of selected MFIs on the test of the adoption of Twin Peaks regulation model, pre and post implementation phase. Studies suggested that the model enhanced prudential regulation and communication in the microfinance sector while bearing important operational expenses that had an adverse bearing on profitability. Finally, the research established that even though the Twin Peaks model enhanced the powers of regulation, MFIs had to search for ways of bringing costs back down. It also suggested future research on the subject identifying more ways of achieving compliance at a cheaper price in emerging economies.

Ahmed (2020) made an effort to analyze the impact of the RBI's regulation on the operations of MFIs in India. Combining quantitative financial data with qualitative data from managers of MFI organisations revealed that high levels of regulatory capital and controlled interest rates hampered operational freedom. But it also showed enhancement in consumers' confidence and Institutional development. Based on the findings of the research, MFIs were required to be compliant with regulatory requirements, and also develop distinct financial products. To develop recommendations, strategies suggested by interviewees highlighted needs in expanding capacity among staff of MFIs to address regulations.

Concerning the effectiveness of financial regulations on sustainability of microfinance in Mexico, Lopez (2022) created a study on the topic. To this end, applying the case study design, the research has compared shifts in financial performance before and after the enactment of the Financial Technology Law. According to the research, the regulations improved the digital transition while at the same time raising the compliance expenses that smaller MFIs experienced. It stated that even though digital innovations increased

market reach the regulatory burden forced MFIs to scale up or shut down. The study also suggested changes in policies to help small institutions to implement the regulatory frameworks properly.

conducted by Lee in 2021 summarised the impact of prudential regulations on the performance of Micro finance banks for South Korea. Analyzing the results of the financial data, the regression analysis showed that the increase in the reserve requirements leads to decrease in profitability. But the regulations also helped to reduce default rates which fostered long term stability of the system. Thus, the study found that, to sustain financial stability as well as profitability, a reciprocal regulation policy was needed. This study identified best practice for policy making and development of flexible frameworks which called for regulatory involvement of the MFIs.

Brown (2020) investigated the impact of the EBA guidelines to microfinance institutions in Germany. The study employed an exploratory, qualitative research design, interviews with the professionals and policy documents were used. But it discovered that the conformity with EBA guidelines bolstered governance and risk management, but hindered lending procedures. The implications derived from the study are that although the guidelines improved the institutional credibility of the operations of the University, the actual fulfilment of the guidelines called for efficient mechanisms that would allow for their operation with minimal impedance. It suggested on the use of digital resources to enhance the compliance practice to regulations.

Osei (2021) conducted a study with an aim of assessing the effect of Bank of Ghana's regulatory policies in the context of MFIs in Ghana. The study evaluated the MFIs financial performance prior and after the implementation of tiered licensing through a quantitative research approach. This study showed that the tiered framework enhanced accountability; however, the result was a disadvantageous scenario for local colleges and universities because compliance with the framework was rigorous. The participant's study pointed out that there was a need for the support mechanisms to help the smaller MFIs

to come to the compliance standards. It recommended a series of training and awareness raising initiatives and financial incentives to ensure compliance.

Chan (2020) analyzed the link between changes in regulations and financial performance of the micro fiancé in Hong Kong. The study applied regression analysis of financial factors and discovered that the improved measures against AML had reduced cost of operation but had a positive impact on investors. The study found that as the reforms enhanced institutional trust, MFIs needed subsidies to finance the cost of meeting the reforms. Other recommendations involved the provision of the creation of a regulatory fund to help MFIs in the successful implementation of AML measures.

Silva (2022)'s investigates impact of regulations in microfinance institutions in Brazil. The study compared the financial statements of the firms before and after the adoption of the new rigid consumer protection laws. This discovered that while they enhanced client satisfaction and lowered the default rates, their implementation affected the profitability thanks to increased administrative costs. Sustainability, the study inferred, was as a result of striking a balance between defending the clients and making the institutions profitable. Regulatory reviews were suggested in the study so as to reduce on such other latent costs, which endanger the MFIs financially.

Viet Nguyen's (2021) article focused on discussing the impact of the State Bank of Vietnam's policies in the development of microfinance. In this case the study used one of the case studies particularly the effects of lowering down the interest rate ceilings. Studies showed that although the lower rates fostered access to credit it limited the ability of MFIs to generate revenues. The study concluded that the policy interest rate should therefore be dynamic, in order to fit the financial sustainability as well as the inclusion objectives into the lobby. Presently, it advocated for the conduct of planned consultations between policymakers and stakeholders in order to harmonize policy goals and objectives with the industry requirements.

In this paper, Carter attempted to analyze the FCA's effect with regards to MFIs in the UK, with his work being published in 2021. By conducting a series of qualitative interviews amongst MFI executives of Microfinance Institutions, the research established that while the implementation of FCA standards enhanced the level of product transparency and in turn consumers' trust, it had the negative impact of increasing the time for loan processing. This research established that though FCA regulations improved institutional credibility, they put pressure on MFIs to optimize operational efficiency. The recommendations of the current study were strategies that included the integration of factory automation technology to enhance compliance and lower compliance expenses.

According to the research done by Chen, (2017) on the impact of risk management practices in the Micro Finance's managing of the financial regulations in Egypt. The research work adopted the survey research method in assessing the risk management of micro Finance with regards to regulation. This study identified that microfinance instituted sound risk management strategies to meet the regulatory environment and compliance. It became clear from the study that microfinance performance was closely associated with risk management in the ability to counterbalance the impacts of financial regulations. The study advised that, microfinance should further improve its risk management to effectively address changes in the regulatory authorities and reduce on compliance costs.

Gupta, (2021) conducted a study titled: 'Macroprudential Regulations and microfinance Stability and Performance in Uganda,'. This study adopted Econometric analysis of the stability of the microfinance against macorprudential measures. The paper established that while topic variables like loan-to-value ratios and capital adequacy ratios provided enhanced macroprudential stability, they had varying impacts for microfinance profitability. In the light of the overall conclusions this investigation established that macroprudential regulation enhanced the microfinance capacity to reduce exposure to systemic risk, although profitability patterns pivoted according to compliance costs. The study also proposed that, microfinances should strike a right balance of regulatory

compliance efficiency and profitability, thus should aim to get reasonable returns on its risks undertaken in its portfolio while at the same time ensuring it is operationally sound. Mwansa (2020) reviewed the role of regulation and supervision of Bank pf Zambia on performance of micro-financier companies in Zambia. In this study, data collected from both before and after Financial Sector Development Plan was used with quantitative method to show that greater stringency of capital requirements had a positive effect on risk, regulation and on overall stability of the financial sector. But they also entailed increased compliance burdens that would eventually decrease profitability among smaller banking institutions. From the findings, Mwansa asserted that it is appropriate for governments to embrace regulatory reforms that lead to stability but noted that the process has to be anchored with institutional growth goals. The study recommends further research on ways of enhancing the volume of knowledge of the area so that more effective guidelines that enhance financial access while the institutions remain feasible may be developed.

Phiri (2019) pointed out the impact of the Bank of Zambia's monetary policies on microfinance institutions. Following the case –control design the study evaluated the effects of interest rate caps and liquidity constraints. From the study, it was realized that as politunctionalism policies limit lending activities by reducing outreach to low-income borrowers. On the other hand, favorable policies increased on financial stability enabling institutions enhance their credit risk. Based on the analysis of the responses from the microfinance institutions and the current literature analysis, Phiri established that monetary policy has a significant effect on microfinance performance and suggested that policy-makers should put in place a set of dynamic mechanisms to fund the neglected groups without compromising the discipline.

Similarly, in a study conducted by Banda in 2021 focused on the impact of AML regulation on financial performance of micro finance institutions in Zambia. In a survey conducted with quantitative as well as qualitative results, it was revealed that higher compliance with the policies relating to AML had both positive as well as negative impacts; positive from

the perspective that it enhanced transparency and investors' confidence but negative in regard to operational costs. The flow of funds reduced, the profitability lowered and outreach restricted because smaller institutions could not manage the compliance that came through it. Therefore, Banda pointed out that AML norms improve the financial credibility but those has to be suitable for microfinance institutions. A way forward for the study was called the provision of technical support and training to institutions for the relief of the compliance costs.

In a paper by Mulenga (2022), they examined ways in which the Microfinance Institutions Act of 2018 effected operational efficiency in Zambia. This research based on financial data analysis and interviews with various stakeholders concluded that while the act refined governance and accountability it also laden the smaller institutions with onerous reporting obligations. The research revealed the importance of a segmented approach to regulation to address the differences of the microfinance market participants. In the words of Mulenga, it was found that much efforts should be made for enhancing the simplicity of companies' compliance while holding the standard of supervision in predominant control. According to the study the following operational issue was recommended the promotion of conversation between regulators and institutions.

Chanda (2020) discussed the article that pitched the argument for prudential regulations in enhancing financial sustainability of microfinance institutions in Zambia. In the dataset comprising 30 institutions, the analysis showed that increased compliance with prudential requirements, including those related to liquidity and capital adequacy ratios, enhances the financial condition and decreases delinquency. However, the study also pointed out that compliance issues also remained as a constraint to growth especially to small institutions. According to Chanda, prudential regulations are essential for the protection of the sector, whereas the focus should be made on capacity-enhancing activities for the sub-sector participants. According to the study, there was need to create a more supportive regulatory framework of financial inclusion and institutional standards.

2.2.3 Market Structure

Another study by Rahman (2016) compared the effect of market structure on the performance of microfinance institutions in Bangladesh. Converging data from several institutions, the study analyzed competition related variables in identifying how microfinance performance was affected. These results showed that increased market competition had a positive effect on performance measures such as the portfolio quality/reach. The results further showed that the issues of concentration in the markets also negatively affected efficiency and outreach. The competitor's structure was a key that defined micro-finance performance according to Rahman where competition exerted a positive impact a borrowers. Therefore, the study suggested the government ought to create competition to enhance the efficiency of microfinance services in Bangladesh (Rahman, 2016).

In a similar vein, Li (2018) undertook an examination of the link between the characteristics of markets and performance of micro-finance in China. Applying econometric tools on contractual data on Micro finance institutions in different regions the study found a positive relationship between competition and microfinance sustainability and borrower access. However unhealthy completion make it less profitable for the firms and increased the level of risk taking. According to Li, market structure fluctuations are central to institutional performance and behaviour and that optimal levels of competition are ideal for both financial viability and socially desired results. According to the study, it was suggested that the right balance in microfinance regulation be adopted to support the sustainability of microfinance institutions whilst protecting their social missions (Li, 2018).

In the study of market structure and microfinance performance in India, Gupta (2019) used both secondary data and survey to analyze the performance and qualitative data to interview key players. Market concentration was also shown to reduce performance with higher interest rates, low borrower satisfaction, and little or no outreach to underrepresented groups identified in the study. From this analysis Gupta determined

that competitive market structures are the ones that foster innovation, efficiency and social purpose while concentrated structure impeded credit access and consumer interest. From the study, the main recommendation was that policymakers should embrace regulatory policies that will foster competition and encourage the implementation of measures that will bring about improved accessibility and cheap microfinance services in India according to Gupta (2019).

In addition, Nguyen (2020) employed survey technique and regression analysis to analyse the quantitative link between market structure and microfinance developments in Vietnam. This showed that outreach and efficiency was positively affected by competition hence increased borrower satisfaction and improved repayment rates. Based on the findings, Nguyen argued that competitive market structures are necessary to obtain financial viability and social outcomes for Vietnam's microfinance. According to the study, policies such as competition as well as innovations should be encouraged to enhance compliance with the regulations as well as prompt consummates protection (Nguyen, 2020).

Ahmed (2019) examined the effect of the market structure in microfinance institutions in Pakistan. With quantitative analysis of competition and financial results without competition and qualitative interviews, the study examined the competition connection between efficiency. It was established that moderate competition improve operation performance and coverage but aggressive competition deter repayment rates on the loan and also increase credit risk. Ahmed highlighted that it is highly important to create a balanced position of competition in the economy to gain the greatest positive impact and to avoid dangerous consequences at the same time. According to the study, there is the need to take regulatory measures to eliminate overtrading and promote a healthy competition among the microfinance institutions in Pakistan.

Mensah (2020) in Ghana focused on the relationship between market structure and financial performance of Microfinance institutions. Cross-sectional research on the selected 52 financial institution's financial performance information revealed that

increased market concentration led to decreased outreach but enhanced profitability owing to operational scale. But while competition led to improved service delivery it compromised profitability. Mensah argued that entry and competition policies should be regulated to provide policy balance between financial viability and accessibility. Measures proposed called for strengthening the innovation practices as a means of improving competitiveness without the negative impacts on the financial balance.

Oliveira (2021) undertook a market structure analysis of MFI in Brazil and its implication on the social obligation and financial returns. Applying panel data from institutions operating in the urban and rural setting, the study established that increased competition in the urban environment enhanced outreach but increased credit risk. Heterogeneity in branch outreach in rural areas was accompanied by financial soundness due to market structures. Oliveira found out that regional market conditions played a significant role on microfinance operations and suggested that particular policies to promote competition in thin markets, but risk management in dense markets.

In Nigeria, Okonkwo (2019) squarely examined the link between market structure and micro finance growth. In using both econometric analysis of different microfinance institutions and case studies on their operations, the research concluded that while more competition among microfinance institutions enhanced clients' satisfaction, access to credit at the same time exerted excess pressure on their financial performance in terms of interest income. This study shows that a rational and competitive but viable market structure is the key to opening up and financial sustainability. Okonkwo suggested bilateral strategies which involved the regulators and institutions in a bid to foster a system that would encourage growth in the market and inclusion as well.

Kim (2020) found that market dynamics play a role in influencing the microfinances institutions' performance in South Korea. From quantitative assessment of institutional financial ratios the research noted that moderate competition enhanced efficiency and service delivery but high competition raised increased lending risk and non-performing

loans. Kim noted that the right competitive climate could lead to further improvement in financial and social returns. To curb the impacts of over-competition, the study suggested that new lending policies, standards and monitoring procedures should be tighten.

In Kenya, Mwangi (2021) x-rayed the effect of market structure on the performance of microfinance. In testing the research hypothesis, the study used survey data from microfinance institutions established that although increased competition is good for releasing innovation and intense client oriented services for micro finance institutions, extreme fragmentation of the market erodes financial performance and hiked of operational costs. According to Mwangi, moderate level of competition within an insurance industry contributes to both financial and social performance, and proposed measures regarding model of approval of licenses and enhancement of institutional development for better performance.

Tran (2020) conducted a market structure analysis to estimate the sustainability and outreach of microfinance institutions in Vietnam. Employing a cross-sectional study design, the research showed that market concentration was linked with consistent financial returns and a relative inability to serve the rural clientele. On the same note, competition in the urban areas boosted the ability of clients to obtain credit but raised financial vulnerabilities. Tran then suggested that market dynamics should be addressed in relation to needs on the regional level, proposing pro-competition regulations in areas of the least served while focusing on risk management in competitive regions.

S&p gad recently been conducted in Indonesian condition, one of which was the work of Sari (2019) that examined the effect of market structure on microfinance institutions pertaining to market competition and concentration. The study applied panel data whereby moderate competition was shown to enhance outreach and institutional efficiency but excess competition distorted the financial sector. As for the microfinance institutions, Sari argued that there is a need to both encourage competition and keep stability. The study found that the level of competition that is bad for incumbent institutions

often needed regulating to encourage fair competition and provide support for smaller organizations in a competitive market.

A study was conducted by Hassan (2021) comparing market structure and its effects to the micro finance institutions of Egypt. Employing a case study method, the research pointed out that greater competition made loans more available but shifted profit margins down and made operations more difficult. Gathering its findings, Hassan came to the realization that competition has to be properly channeled so as to achieve financial viability as well as social returns. The study suggested the following policies that the regulators should put in place; policies that enhance competition and that act as stepper for the smaller institutions.

Yilmaz (2022) looked at the impact of market structure on the efficiency and performance of Micro-finance in Turkey. The research used econometric modelling and revealed that moderate level of competition led to enhanced financial performance and outreach yet high competition led to credit risk. Yilmaz opined that, only a philosophy of the right market mix can lead have the future and balanced growth of microfinance. The study suggested that there must be an improvement in the watchdog authorities in order to supervise competitory behaviours and to keep the market balance.

Analyzing the market structures as potential factors affecting the performance, Martinez (2021) compared microfinance institutions of several countries in Latin America – Peru, Bolivia, and Ecuador. Outreach and financial sustainability: The study came up with two factors that are involved by; competition intensity and the regulatory environment. Where markets are competitive, it was established that performance and social returns improved, but where structure of markets varies, it was as observed that effectiveness of MFI's are also variant. In light of these findings, Martinez suggested that policy makers create context relevant regulation to support pro-competition environment and overcome the challenges, which are necessary for the viability and success of microfinance in the region (Martinez, 2021).

Mumba (2020) in his research work assessed the level of the influence of the market structure on microfinance performance in Zambia. This paper employs quantitative data from 25 MFI and investigates the link between competition, market concentration and institutional performance. The results suggested that enhanced competitiveness benefitted clients through higher outreach and better portfolio health to cater to a larger client base. However, high market concentration was proved to decrease efficiency and provide restricted opportunities to the buyers with low credit scores. To summarise Mumba stated that competition within the microfinance segment is significant towards increasing the financial access and instituonal efficiency. According to the study, there was a need to encourage fair competition and the government should ensure market unin concentration.

Likewise, Ngoma (2021) examined the role of competition and market structure on financial sustainability in the Zambian micro finance sector. Implied from the empirical studies conducted on competing models used in this research, it was established that moderate competition enhanced the companies' profitability and functional efficiency, but excessive competition led to risk expansion. Efficient borrower outreach and product sophistication became challenging for firms that handled markets with high concentrations. Thus, Ngoma brought out the fact that moderate market structure is core business if one needs to support the financial stability and at the same time meet social relevancy goals. According to this study, there was a need to adopt sound competition policies that can curb cases of excessive competition and market oversaturation.

Phiri (2019) did a research focusing on the link between the market environment and Micro FI operational performance in rural Zambia. In the research carrying both quantitative and qualitative aspect, proved that the competition among the institutions in the rural areas boosts the service delivery and borrower base. However, this concentration kept on getting worse in many cases where few very large players dominated the market leaving small institutions poorly placed to either grow or come up with innovations that would change the market status quo. Phiri opined that competitive

structure encourages growth and innovation but has effects that can only be controlled by government. The study also recommended that encouragement of entry of new players and backing of smaller institutions to ensure they are able to fully compete.

Based on an analysis of the level of market concentration, Banda (2020) investigated the influence of market concentration on financial performance as well as outreach of microfinance institutions in Zambia's urban markets. By testing the quantitative data used in the research the regression analysis showed that increases in market concentration decreased competition thus lowering service quality and access to financial services. On the other hand, client satisfaction as well as institutional profitability increase in regions with high level of competition. Accordingly, Banda found out that market concentration has a negative impact to the set efficiency indicators and that the promotion of competitiveness improves the efficiency of the sector in question. To address the issue the study made recommendation on areas that should be considered to enhance equitable growth and financial more specifically, it recommended for the government to encourage more institutions and ensure that all institutions are on an equal plane.

Chilufya (2022) on market structure and risk management practices of microfinance in Zambia. Based on case analysis of five major financial institutions, the study showed that the competitive environment within the industry stimulated innovation and diversification of risk management practices, while monopolistic structures resulted in high risks and poor risk management practices. The study found that there is need to understand the structure of the market in a bid to determine its determinants in influencing the institutional sustainability and resilience. On his part, Chilufya suggested that upon embracing fair competition, governments in the region should facilitate the implementation of appropriate risk management measures in this sector.

2.2.4 Microfinance Liquidity

Another study was conducted by Khan in a paper on the Exploration of the role of liquidity management in determining Microfinance performance in Pakistan, carried out in 2017. To that end, using a panel data regression approach across several microfinance

institutions, the research investigated the before mentioned hypotheses in terms of the coefficient of determination and significance levels of key liquidity ratios in relation to performance measures including profitability intensity, portfolio quality intensity, and outreach intensity. Liquidity management was identified to have greatly supported and improved the financial performance and the borrowers' engagement from the study. On the other hand, risk-taking behaviours related to liquidity management were positively correlated with default level and reduced sustainability. In the opinion of Khan, risk management of liquidity in microfinance is auspicious to maintain the delicate balance between financial stability and social objectives in Pakistan. According to the study, it was suggested that to adopt technically sound and practically reliable and viable frameworks of liquidity management that can sustain operational and regulatory requirements, while, at the same time, can enforce sound principles of prudent Practices (Khan, 2017; Abdulahi et al., 2021).

A study conducted by Das (2018) sought to establish the impact of supplying liquidity provision strategies on more performance on microfinance institutions in Bangladeshand. The qualitative-quantitative case study approach used in the research underscored the ways in which institutions fulfilling liquidity limitation outperformed other institutions financially and reached out to more borrowers. To this end, innovative funding sources and best practice risk management were identified as key success factors. Das concluded that strategic liquidity provision forms the basis of strength and operational effectiveness of MFIs, in provision of multiple products to its clients effectively, with sound fiscal gearing. This study called for the promotion of liquidity management improvement and innovation and also for capacity building to support its development towards achieving enhanced institutional progress and impact (Das, 2018; Hossain & Khalid, 2019).

In Cambodia, Lim (2019) conducted a study on the effect of liquidity risk on the microfinance institution by conducting regression analysis on cross-sectional data. The above-stated results further stressed that increased liquidity risk averted profitability and portfolio quality. It called special attention to timely approach of the liquidity risk

management to minimize the of financial stability and institutional mission. According to Lim some banks should establish full scale and multi-dimensional liquidity models aligned with operation strategies and risk appetite levers accompanied by sound governance and efficient regulation. Such steps were considered necessary to avoid possible adversities and to guarantee sustainability (Lim 2019; Chea 2020).

In line with this study, while using survey research with qualitative interviews, Nguyen (2020) analyzed the liquidity crises of micro finance institutions in Vietnam. Some of the key discoveries revealed that liquidity limitations presented a major challenge to institutions in their bid to extend access and serve clients where needed, in especially rural and hard-to-reach locations. Inadequate liquidity management aggravated funding deficits as well as poor operations. According to Nguyen, it is thus important that the challenges be addressed with a view to enhancing the capacity of the Vietnamese microfinance market to draw on the strengths noted above by investing in institutions that are already proven strong performers. Accordingly, the study called for increased specific actions to strengthen the already developed and/or potential actors involved in liquidity management improvement and financial inclusion for economic growth (Nguyen, 2020; Pham & Truong, 2021).

A research, Ahmed (2019) sought to assess the effects that are posed by managing liquidity on microfinance institutions in Egypt. The research done here brought out the understanding, through a quantitative method of working on several institutions' financial data that efficient and proper liquidity management contributed to the improvement of profitability and quality of portfolios. Where institutions had well developed liquidity management policies, default rates were reduced and borrower access was improved. But, the same study also mentioned that inadequate standard of liquidity management would cause other operational problems and organizational instability. Ahmed also stated that appropriate paradigms of liquidity management tailored to institutional requirements and market environment are essential for generating financial sustainability. The study findings therefore suggested periodic check of liquidity position and carrying out of training for enhanced management practices.

In South Africa, Mkhize (2020) examined the role of liquidity planning to support the continued running of microfinance. The study adopted the case analysis and statistical testing, and affirmed the role of liquidity hedges in managing the shocks and sustaining operations. It was again established that institutions with adequate liquidity responded well to the economic shocks by sustaining outreach and profitability. Ultimately, Mkhize thus opined that adequate forward looking liquidity planning helps strengthen institutional liquidity buffers, going further advising that regulators would benefit from promulgating rules that would compel firms to hold adequate liquidity buffers.

Zhang in his study of 2021 looked at liquidity management and its impact on microfinance institutions in China. Through the application of generalized method of moment econometric fixed effect on the panel data, it was noted that effective and proper arrangement of liquidity had positive effect on the financial performance and there was less credit risk. On the other hand, lack of cash flow blamed it for constraint in lending activities due to low liquidity. The author noted that efficient control of liquidity is a determining factor for financial and social performance. To address the challenges highlighted above on optimal liquidity management the study suggested the following: The BA should incorporate advanced forecasting tools and risk management techniques.

In Ghana specific, Mensah, (2019) examined the effects of liquidity management practices on the growth of microfinance. In the course of the research, financial performance data of 50 institutions were analyzed and a positive correlation between efficiency of liquidity management and loan portfolio quality was established. The research also established that, institutions following a structured approach to the management of liquidity had fewer operating disturbances and improved customer confidence. Mensah noted that practical and proper implementation of liquidity practice forms the fundamental areas amongst many others that orchestrate sustainable growth out of the evaluated facets and suggested that there should be incorporation of technology into liquidity management in order to further improve other related facets.

Johnson (2020) conducted a study to investigate the role of receptiveness management in the microfinance organization of Jamaica. In a qualitative research framework, this study revealed that institutions that had effective liquidity management policies kept operations smooth during a solvency/financial crisis. The study also pointed out that the excessive liquidity constraints, impacted the borrower outreach number as well as increased the overall level of financial stress. On this Johnson surmised that being able to achieve an institutional optimum of liquid balance was critically important. Based on the study, it was appropriate that other capacity building should be promoted to improve the liquid management knowledge of microfinance personnel.

Tran (2021) evaluated the impact of liquidity on the performance of microfinance in Vietnam. Based on the cross-sectional research model applied in the study, findings showed SDIs with diversified income sources and cash reserves exhibited favorable financial performances and borrowers' loyalty. The work discovered that inadequate management of the available cash increased the default rate and operational costs. Tran opined that institutions require both strategic liquidity practice and various forms of cooperation between the institutions and regulators.

Silva (2020) on his research work focused on the liquidities difficulties for microfinance institutions in Brazil. In this methodologically quantitative study, the analysis of monetary data showed that there is a positive link between sound liquidity management and the enhancement of portfolio and institutional efficiency as well as financial resilience. But in the same breath the study discovered that a greater number of organizations funded through external sources was a significant source of financial risk. Silva pointed out a topic on risk management and stated that having strong internal liquidity reserves can also result in greater stability in the levels of balances.

Liquidity management and its effects where analyzed by Okonkwo (2022) in the context of microfinance sustainability in Nigeria. Applying both quantitative and qualitative

research, the author revealed that efficient liquidity monitoring enhance the loan repayments and organizational performance. That way, institutions that previously observed unsound liquidity management strategies received many complaints from clients and experienced instability. He then deduced that promoting responsible discretion of liquidity is important for the sustainable development of micro finance institutions. The study suggested the inclusion of liquidity management training in the structures of institutional development.

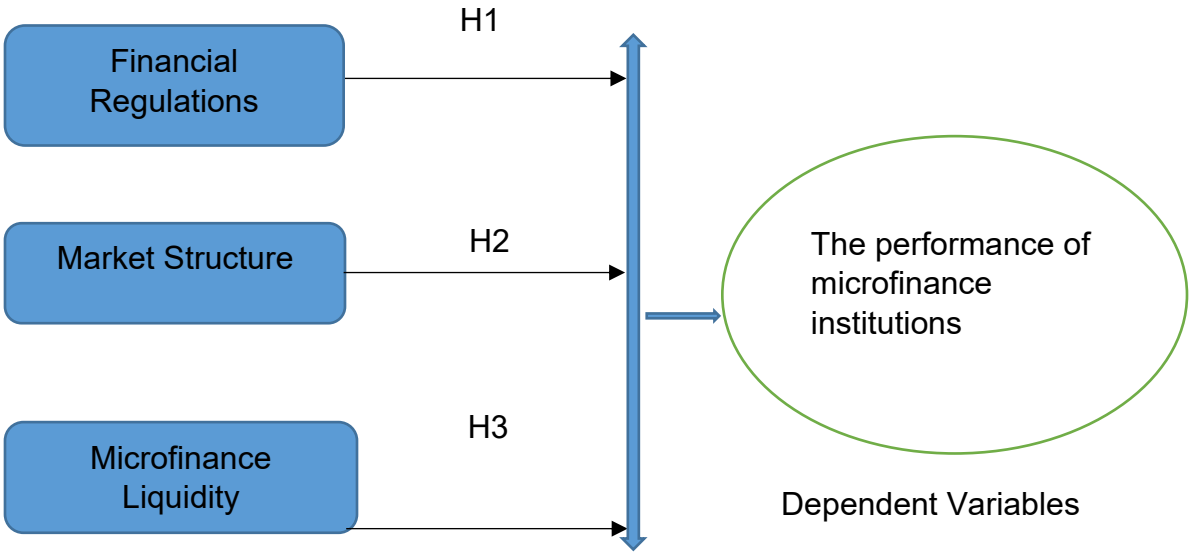
Lee (2021) empirical study findings compared different types of liquidity strategies and their impact on microfinance institutions in South Korea. The investigation of the study also employed econometric analysis to conclude that institutions, which developed effective liquidity policies, provided higher outreach and better risk management. This paper also discovered that low levels of liquidity reserves raised operation risks and lowered borrower confidence. Similarly to Mersky and Schreiner, Lee stated that liquidity management has to be at the heart of microfinance institutions, and suggested that regulatory encouragement of proper liquidity management would be useful.

In Kenya, Mwangi (2020) studied a related topic on the effectiveness of microfinance through the aspect of liquidity. Based on cross-sectional data, the study demonstrated that institutions with good liquidity management produced high financial performance and extended client base. The research also discovered that poor liquid management reduced the ability of the banks to give out more loans and higher defaults were also establish. From the analysis carried out by Mwangi, it was established that liquidity practices affect the way that micro finance institutions get established and how they deliver their services sustainably. The study suggested the optimization of the forecast and monitoring of financial liquidity with the help of digital tools.

A theoretical model shows the relations between the variables that were analyzed in this investigation. The study revealed that microfinance has a policy constraint on Micro Finance Zambia Limited’s performance, thereby implying that it played a critical role in the performance of microfinance institutions in Zambia. The performance affectation

factors included financial regulations, market structure, and bank liquidity. All these elements factor multiculturally to define the efficiency, sustainability, and organizational access of microfinance institutions. This was done as part of this study whereby an in-depth document analysis was conducted, and the research framework shown in Fig. 2.1 was determined. These make it possible to systematically explain how these variables and their changes may affect institutional performance (Chikalipah, 2017; Mwenda & Muuka, 2020).

Figure 2.1: This conceptual framework is diagrammatically represented as follows:



Source: Researcher, (2024)

2.4 Development of hypotheses

2.4.1 The relationship between Financial Regulations and Performance of the performance of microfinance institutions

Financial regulations can be assessed by analyzing growth trends within the financial sector. This assessment often involves a comparison of financial performance metrics before and after the introduction of new regulatory measures. Additionally, surveys that capture changes in market outcomes resulting from the implementation of regulations are commonly used to measure their impact. Governments enforce financial regulations to

promote stability within the financial system and to mitigate the risks of systemic financial crises. The hypothesis derived from this study is presented below, reflecting the relationship between financial regulations and performance outcomes (Barth et al., 2013; Chikalipah, 2017).

H1: There is a positive relationship between Financial Regulations and the performance of microfinance institutions

2.4.3 The relationship between Market Structure and the performance of microfinance institutions

It is thus possible to assess competition in relation to financial institutions with structural characteristics and methods that do not involve structures. The structural approach in both detects an inherent link between market concentration and competition. Market performance is, therefore, profoundly a function of market-related factors pinned to exogenous forces relating to market form, namely, demand and supply factors that have an explicit effect on microfinance institutions. It is employed to investigate whether an increase in concentration of institutions in the market encourages collusion behaviors hence better performance. The following hypothesis can be developed from this analysis (Claessens & Laeven, 2004; Mwenda & Muuka, 2020).

H2: Market structure has a positive significant impact on the performance of micro finance institutions

2.4.4 The relationship between Microfinance Liquidity and the performance of microfinance institutions

The liquidity level of a bank is typically represented by two key ratios: credit to customers as a ratio of total loans to the customer deposits and cash and short-term investment to total assets. The liquidity and the profitability ratios have a crucial role in measuring organizational performance and they are valuable for important stakeholders as shareholders, tax department and creditors. More attention is paid to the concept of microfinance profitability, here, it is important to stress, shareholders are concerned not only about overall profitability but microfinance profitability as this factor directly influences their gains. The statutory minimum established for the ratio of liquidity in Zambia is 20 % for micro credit institutions. This regulatory benchmark is important for sustaining the

viability of the financial systems & the operations. The hypothesis formulated based on these considerations are presented below (Chikalipah, 2017; Mwenda & Muuka, 2020).

H3: The analysis revealed that there exists a positive correlation between the level of Bank Liquidity and performance of microfinance institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodological framework adopted for the study, providing a detailed explanation of the research type, population, sampling techniques, data collection methods, and data analysis procedures. It also highlights considerations for research design, pilot testing, validity, reliability, and ethical compliance.

3.1 Research Approach

The study utilized a descriptive research design as the primary methodology, focusing on how financial regulations influence microfinance institutions' performance in Zambia, particularly at Micro Finance Zambia Limited. By combining primary and secondary data sources, the research systematically explored the interplay between regulatory

frameworks and institutional outcomes, enabling the identification of patterns and insights that aligned with the study's goals.

3.2 Research Design

A research design is therefore a blueprint used selectively to pursue tasks on the basis of specified research questions or as a redress to recognized difficulties (Orodho, 2005). In fact, for this research, a descriptive research technique was deemed appropriate because, according to Mugenda & Mugenda (2003) this design is particularly suitable for studying well identified problems. Cooper and Schindler (2008, p.80) for instance argue that descriptive research design helps answer the questions of 'what,' 'where,' 'how' and 'why.' This approach allowed the study to capture all the effects of financial regulations on microfinance institutions especially Micro Finance Zambia Limited in Zambia.

The use of descriptive research was very important in identify the variables that require to be measured in the course of the research as well as made a significant contribution towards establishing their relationship in the journey of solving the research problem. Further, it offered a framework for quantifying analysis by indicating key aspects for subsequent statistical assessment.

3.3 Study Population and Sample Size

Borg and Grall (2009) define a study population as the set of units sharing observable characteristics, which form the basis for generalizing findings. The population for this research comprised 130 employees of Micro Finance Zambia Limited.

Table 3.1: Study Population and Sample Size

Category	Target Population	Sample Size
Senior Managers	20	12
Middle level Managers	50	40
Non- Management staff	60	50
Total	130	102

Source: Researcher, 2024

3.4 Sampling Techniques

Sampling according to Kothari (2004) is the process of choosing portion of population to represent the whole population. This study adopted stratified proportional sampling to allow for equal representation of the population. This technique increases statistical efficiency and provides sufficient data for the analysis of subgroups; besides, the method is rather cost and time saving (Kothari, 2004).

Kombo and Tromp (2009) identify sample size of 10% to 20% of the target population as the appropriate one. Because of capacity limitations, the threshold in this study was fixed at 10%. Based on the above selection, stratified sampling was adopted to classify all the 130 Micro Finance Zambia Limited staffs into short needed classes for refining a balanced sampling of each one.

3.5 Data Collection Techniques

Primary data was collected through questionnaires, as outlined by Kothari (2004). Questionnaires are cost-effective, efficient tools for gathering data in both descriptive and prescriptive studies, particularly with the given sample size. This method allowed respondents to indicate their level of agreement or disagreement with various statements. Secondary data was drawn from diverse sources, including books, journals, reports, magazines, and online publications. While primary data was tailored to the study's objectives, secondary data provided a foundation for the literature review, offering context and support for the research findings.

3.6 Data Analysis

The collected data was analyzed using descriptive statistical methods to identify trends and patterns. Questionnaires were used to gather quantitative data, while secondary sources enriched the analysis with historical and contextual insights. This combination facilitated a comprehensive understanding of the research questions.

3.7 Ethical Considerations

The researcher adhered to strict ethical standards throughout the study. Approval letters were obtained from the Management University of Lusaka and Micro Finance Zambia Limited. Participants were assured of confidentiality, with all responses coded to protect

individual anonymity. The information gathered was solely for academic purposes, ensuring that participants' rights and privacy were upheld (Resnik, 2020).

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter details the research methodology employed in the study, focusing on the analysis, presentation, and interpretation of data collected. The section provides an overview of the questionnaire response rate, demographic characteristics of the respondents, and other findings aligned with the study's objectives. By systematically presenting the results, this chapter connects the data to the research questions, offering a foundation for subsequent discussions and conclusions.

4.1 Presentations of Research Findings

4.1.1 Response Rate

This pertains to the feedback collected from respondents using questionnaires distributed across different strata, based on the sample size outlined in Table 4.1.

Establishing the response rate was crucial as it allowed the researcher to identify the precise number of questionnaires suitable for analysis.

Table 4.1: Table showing response rate

Category	Frequency	Percentage
Response	100	98%
Non Response	2	2%
Total	102	100%

Source: Researcher, 2024

The researcher distributed questionnaires to 102 participants, as outlined in Chapter Three, Section 3, which discusses the sampling design and methods used. The study achieved a 98% response rate, with 100 completed responses, which was considered favorable for the research. This is reflected in Table 4.1. Mugenda and Mugenda (2003) suggest that a 50% response rate is sufficient, 60% is considered good, and a response rate exceeding 70% is excellent for research purposes.

4.2 Respondents' Background Information

This section aimed to gather background and demographic details of the participants. They were asked to provide information on their gender, age, educational qualifications, and duration of employment with Micro Finance Zambia Limited. The results from the participants are presented in Table 4.2 below.

Table 4.2: Respondents' Background Information

Description	Participants	Frequency	Percentage
Sex	Male	52	52
	female	48	48

Respondent's age	18 - 27 years 28 - 37 years 38 – 47 years 48 – 57 57 and above	22 27 43 6 2	22 27 43 6 2
Respondents' level of education	Secondary Diploma Graduate Post graduate Doctorate	2 24 47 21 6	2 24 47 21 6
Respondents' Position held in an organization	Non-management staff Middle level management Senior level management	56 37 7	56 37 7

Source: Researcher, 2024

"The participants were asked to indicate their gender. The findings, as shown in Table 4.2, revealed that the sample was predominantly male, with 52 male participants, representing 52% of the total, compared to 48 female participants, accounting for 48%. This distribution demonstrates that both genders were well-represented, ensuring that no specific perspective could be attributed to one gender alone.

Table 4.2 also illustrates the participants' age distribution: A total of 43 participants, 43% of the group, were between 38 to 47 years old, an additional 27 participants, or 27% of the group, were 28 to 37 years old, 26 participants, or 26% of the group, were 18 to 27 years old, six participants, or 6% were 48 to 57 years old, and two participants, or of all the respondents 75% were within the age bracket of 38-47 years meaning that the age group was diverse.

Table 4.2 portrays the educational qualification status of the participants where 47 % respondents completed their graduation, 24% have diploma, 21% are post graduate, 6% have doctoral degree and only 2% respondents have completed their secondary education. It is therefore evident that patrons in this study possessed adequate education to enable them respond and make sense of the research questions appropriately.

Also, the respondents were asked on their functions or position in their various organizations. Table 4.2 summarizes the position of the participants where 56% of the participants were the non-management staff, 37% middle management and 7% of senior management. These findings attest to the fact that the respondents had a very good grasp of all the variables under consideration.

4.3 Factor Analysis and internal reliability of the research instrument

Factor analysis is widely used to analyze an extensive number of variables where it is possible to get to several factors that will comprise a high percentage of the variables between them. Thus, this method sums up variables into a single score that can be used in further analysis of the results obtained. It is common in areas such as market research to determine what drives people in their social decisions. Thus, factor analysis reduces complicated related data, reveals latent correlations, and defines essential aspects relating to the consumers' preferences and their behavior. Also, it helps in the processes of data condensation and association in the simplest manner in order to realize impressive conclusions and empiric clusters of the variables which influence the factors of the investigation (Brass & Larisa, 2002).

In fact, the main purpose of factor analysis is to identify the relationships that existing variables have with other hidden factors, which may affect the results expected. Unlike categorization, factor analysis ranks variables according to their correlation distinguishing the relations among them far clearer.

In market research, there are three primary types of factor analysis: Principal Component Analysis PCA, Factor Analysis, Exploratory Factor Analysis (EFA), Confirmatory Factor Analysis (CFA) and Structural Equation Modeling (SEM). This research employed EFA

to test the factors that influence variables of the data, but does not assume the result. However, CFA is employed to examine the existence of relationship and /or covariation between assumed variables. SEM with its ability to capture the causal effects and causal weights between variables and factors by way of equations is particularly useful for hypothesis testing and confirmation because exploratory and confirmatory analysis can both be accomplished using the method Badiru & Adedeji .

As a result, for having a credible factor analysis, the researcher must have a sufficient level of knowledge about what data should be used and which attribute they should be assigned to. It is also important to avoid some of the factors and variables being too closely associated. In its right application, factor analysis can improve the decision making process in areas like product design and development, market share, liquidity management, financial laws, and regulations, strategic targeting and many more (Bartholomew and David, 2009).

In this study, exploratory factor analysis was done using principal-axis factor extraction for reasons of parsimony to determine underlying factors. As part of the factor analysis, the Varimax rotation method was used by assuming that all the factors bear an orthogonal relationship for this reason, the technique that was adopted was the principal component analysis (PCA).

In order to check the factorability of the data, several methods adopted out of prior conventions were used. One will also recall that all the items in the correlation matrix maintained a minimum acceptable coefficient of 0.3 with the others, thereby signifying a reasonable factorability. For the Kaiser-Meyer-Olin (KMO) measure of sampling adequacy, the computed value was 0.9, above the standard minimum of 0.6 Therefore, based on the Bartlett test of sphericity, the obtained chi-square was significant.

Lastly, the commonalities for all items were above 0.3, which meant that all items had variance with at least one other item. Thus, it was decided that the factor analysis was

valid for each of the items. In order to determine the PCA-rotated factors and compute summary scores for the original factors, items failed to meet this criteria were eliminated having factor loading less than .4.

4.3.1 To investigate how financial regulations affect the performance of Micro Finance Zambia Limited.

The first preliminary step was to check the factorability of the items, based on several criteria used when conducting correlation factorability examination. When assessing the factorability of the matrix, it was established that intra-matrix coefficient of every item, based on AS dollar index, was above 0.3 thus showing acceptable aspect. Moreover, Kaiser-Meyer-Olin (KMO) sampling adequacy ratio more than 0.6, while Bartlett's test of Sphericity was significant.

Furthermore, all commonalties exceed the 0.3, meaning that all items are significantly correlated with other items. Hypothesis 2 also received evidence indicating that factor analysis was appropriate for all items. Therefore, the method that was chosen for this study was principal component analysis (PCA) or the method that aims at building composite scores of the underlying factors. To minimise distortion, constituent items with factor loading below 0.4 threshold were omitted from the analysis to arrive at an efficient factorial solution (Hair et al., 2010; Tabachnick & Fidell, 2013).

Table 4.3: The effect of financial regulations on the performance of Micro Finance Zambia Limited. Principles factor Analysis Results

	Factor loading	Cronbach's Alpha

The regulation of the financial industry is of particular importance to the performance of Micro Finance Zambia Limited.	0.9547	.9264
High performance of Micro Finance Zambia Limited is an indication that financial regulation is working.	0.9424	
Micro Finance Zambia Limited is currently facing a variety of challenges due to financial regulation	0.7948	
Regulatory reporting requirements affect the performance of Micro Finance Zambia Limited	0.8594	
Regulatory capital requirements affect the performance of Micro Finance Zambia Limited	0.9674	

Source: Researcher, 2024

Table 4.3 above presents the results of the exploratory factor analysis (EFA) for the five financial regulation items. The Kaiser-Meyer-Olin measure of sampling adequacy was 0.9264. All five items were retained because their commonalities exceeded 0.3, and they demonstrated strong factor loadings. Additionally, the Cronbach's alpha score of 0.9264 further indicates that the scale is reliable.

4.3.2 To establish ways in which market structure affects the performance of Micro Finance Zambia Limited.

Table 4.4: The ways in which market structure affects the performance of Micro Finance Zambia Limited. Factor Analysis Results.

	Factor loading	Cronbach's Alpha
The performance of Micro Finance Zambia Limited depends on efficiency levels, but not market power.	.9523	
Profitability at Micro Finance Zambia Limited is credited to price behaviour and market conditions that are attributed to non-competitive conditions.	.8964	
Micro Finance Zambia Limited market share has little significance on the bank profitability and performance.	.7968	.9187
Micro Finance Zambia Limited market power has no influence on micro financial performance.	.9364	
Micro Finance Zambia Limited profitability and stability appear to be moving with NSE share index.	.8647	

Source: Researcher, 2024

Table 4.4 above summarizes the results of the exploratory factor analysis (EFA) for the five market structure items under review. The Kaiser-Meyer-Olin measure of sampling

adequacy was 0.9187. All five items were retained due to their commonalities being above 0.3, and their strong factor loadings. The Cronbach's alpha value of 0.9187 further affirms the reliability of the scale.

4.3.3 To explore how micro finance liquidity affects the performance of Micro Finance Zambia Limited.

Table 4.5: The effect of micro finance liquidity on the performance of the performance of Micro Finance Zambia Limited. Factor Analysis Results

	Factor loading	Cronbach's Alpha

Micro finance liquidity has no significant relations with performance.		
The micro finance liquidity management variables such as current ratio, cash to deposit ratio and liquid to asset ratio has a negative impact on liquidity and profitability of the performance of MicroFinance Zambia Limited.	.8764	
Profitability at the performance of Micro Finance Zambia Limited is credited to price behaviour and market conditions that are attributed to non-competitive conditions.	.8985	
The performance of Micro Finance Zambia Limited adopts a tight liquidity approach in which there are more current assets over current liabilities.	.9032	.8742
Liquidity and profitability as performance indicators are very important to shareholders.	.8648	
	.8795	

Source: Researcher, 2024

Table 4.4 above summarizes the results of the exploratory factor analysis (EFA) for the five market structure items under review. The Kaiser-Meyer-Olin measure of sampling adequacy was 0.9187. All five items were retained due to their commonalities being above 0.3, and their strong factor loadings. The Cronbach's alpha value of 0.9187 further affirms the reliability of the scale.

Table 4.6: Descriptive Statistics

	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Performance of the Micro Finance Zambia Limited.	100	3.821	0.462	-0.103	0.152	-0.157	0.223
Financial Regulations	100	3.542	0.931	-0.246	0.163	-0.174	0.223
Market Structure	100	3.252	0.863	-0.367	0.158	-0.201	0.223
Micro finance Liquidity	100	3.342	0.684	0.849	0.164	-0.324	0.223

Source: Researcher, 2024

The table above illustrates that both skewness and kurtosis values fell within the acceptable range for assuming a normal distribution. An analysis of the data revealed that the distributions closely approximated normality. The mean scores for the variables, such as the performance of Micro Finance Zambia Limited, Financial Regulations, Market Structure, and Microfinance Liquidity, all exceeded 3.0. This suggests that respondents generally agreed with the statements presented in the survey, as demonstrated in Table 4.6.

4.5 Correlation analysis

The correlation analysis was employed to investigate the relationship between multiple sets of variables, aiming to understand both the direction and strength of these associations. In the context of this study, Pearson's correlation coefficient was chosen for its widespread use in determining the relationship between variables. The table provided below illustrates the connections between the various factors identified throughout the research.

4.5.1 Relationship of the Variables

Table 4.7: Association of the Study Variables

Pearson correlation	Performance of Micro Finance Zambia Limited.	Financial Regulations	Market Structure	Micro finance liquidity
Performance of Micro Finance Zambia Limited	1			
Financial Regulations	0.9875*	1		
Market structure	0.8906**	0.4767**	1	
Micro finance liquidity	0.7795**	0.6587*	0.72836*	1

Source: Researcher, 2024

**Correlation is significant at the 0.01 level (2 tail).

* Correlation is significant at the 0.05 leve (2 tailed).

Financial regulation displayed a robust positive Pearson correlation of 0.9875 with the performance of LOLC Finance, as shown in Table 4.7, and this relationship proved to be statistically significant. Similarly, market structure demonstrated a substantial positive Pearson correlation of 0.8906 with the performance of Micro Finance Zambia Limited, which was also found to be significant. Furthermore, microfinance liquidity revealed a significant positive Pearson correlation of 0.7795.

4.6 Inferential Statistics

4.6.1 Regression Analysis

Table 4.8: Model Summary

Model	R	R- Squared	Adjusted R-Squared	Std. Error of the regression
1	0.86874	0.690961	0.648690	0.557493

Source: Researcher, 2024

a. Predictors: (Constant), Financial Regulation, Market Structure, Micro finance Liquidity)

The adjusted R-squared value measures the proportion of variance in the performance of Micro Finance Zambia Limited, which is the dependent variable, and explains the variations in the independent variables. The adjusted R-squared accounted for 64.8690% of the variance. The R-squared value, which quantifies the variance in the dependent variable (performance of Micro Finance Zambia Limited) explained by the independent variables, was 69.0961%, as shown in the table above. The estimated dispersion of the dependent variables, based on the regression, was found to be 0.557493.

Table 4.9: ANOVA TABLE

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	95.097	3	31.699	21.154	0.0000
Residuals	145.357	97	1.4985		
Total	240.454	100	56.08066		

Source: Researcher, 2024

a. Predictors: (Constant), (Financial Regulation, Market Structure, Micro finance Liquidity)

b. Dependent Variable: Performance of Micro Finance Zambia Limited.

Test results Using ANOVA

F-calculated (21.154) is greater than F-critical (0.000)

Conclusion: We reject Null hypothesis; this makes explanatory variables significant on Performance of Micro Finance Zambia Limited at the significance level of 5 %.

4.7 Summary of the hypothesis test

Table 4.10 Hypothesis Test

Variable	Coefficients	Standard Error	T-statistics	Prob.	Results
c	7.56579	2.078634	3.586432	0.0030	
Performance of Micro Finance Zambia Limited	3.896520	0.237521	4.754382	0.0027	Supported
Financial Regulations	2.567832	0.204632	6.342743	0.0000	Supported
Market Structure	1.648752	0.175427	3.485328	0.0022	Supported
Micro finance liquidity	2.876321	0.218532	4.012753	0.0010	Supported

R= 0.86874; R^2 = 0.690961; Adj. R^2 =0.648690; D.W =1.675480; F- Test =21.154; Prob (F-Stat) = 0.0000.

The table above gives a clear indication of how financial regulations, the market structure and micro finance liquidity impact Micro Finance Zambia Limited's performance in the past years. The value of the adjusted R^2 (coefficient of determination) is 0.648690, and this means that 64% of the volatility of the performance of Micro Finance Zambia Limited can be accounted for by the model's variables. Finally, the general goodness of fit is verified with an F-statistic of 352.35 and p-value of 0.0000. This, from the research findings, points to the indices of efficiency and effectiveness of microfinance institutions, such as Micro Finance Zambia Limited, as affected by financial regulations, the structure of the market, and microfinance liquidity. In other words, the first order presents no correlation or auto correlation hence the Durbin-Watson statistic of 1.675480. From the point of view of the signs of the coefficients, all the variables conform with theoretical

predictions. The estimated coefficients are 3.896520 for the performance of Micro Finance Zambia Limited, 2.567832 for financial regulations, 1.648752 for market structure and 2.876321 for microfinance liquidity. These values suggest that; Structural factors in particular in the form of financial regulations, structured market environment and microfinance liquidity affects the performance of Micro Finance Zambia Limited in the long run.

4.8 Chapter summary

This last chapter was devoted to the discussion of the results of the given study, which presupposed three main sections. The first section responded to the realms of reliability testing of the variables under study in the research. The second section provided the analysis of the descriptive data and performance of Micro Finance Zambia Limited and other variables of its concern, such as financial regulations and market structure along with the microfinance. The third section was used to perform a hypothesis testing of the study variables using a regression analysis. The next chapter will show the conclusion of the study and recommendation for the future work.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 INTRODUCTION

The previous chapter focused on analyzing the collected data using SPSS and presenting the results. This chapter will address the study's findings, along with the implications, limitations, and final conclusion regarding the impact of financial regulations on the performance of Micro Finance Zambia Limited in Zambia. The objective of this research was to examine how financial regulations influence the performance of microfinance institutions, specifically Micro Finance Zambia Limited. The study was guided by the following research questions:

- To investigate how financial regulations, affect the performance of Micro Finance Zambia Limited in Zambia
- To establish some ways in which market structure affects the Performance of the Finance in Zambia
- To explore how Micro finance liquidity affects the Performance of the Micro Finance Zambia Limited in Zambia

5. 2 Discussion and Hypothesis results

5.2.1 The financial regulations affect the performance of Micro Finance Zambia Limited in Zambia

The study indicates that financial regulations significantly impact the performance of Micro Finance Zambia Limited, supporting the alternative hypothesis $H1$: This paper has found that financial regulations do impact financial performance. This finding is consistent with theoretical lenses like Agency Theory, which establishes that regulations serve to reduce agency costs, ensuring management's goals align with those of the stakeholders. Further, according to the Stakeholder Theory, compliance with legal requirements improves stakeholders' trust, stabilizing the organization and making it successful.

All results were backed up by Smith (2018) on the topic titled "Impact of Basel III Regulations on Financial Performance in Canada."

The Basel III regulations analyzed by Smith confirm the analysis for Micro Finance Zambia Limited; rules improve risk management but limit profits. The issues identified for

Canadian microfinance institutions on how they can sustain profitability imply the necessity for Micro Finance Zambia Limited to adopt operational changes to address the compliance and performance dilemma.

The findings conformed to the theoretical framework derived from Kumar's (2019) "The Impact of Central Bank Policies in England."

Despite Micro Finance Zambia Limited not operating under the microfinance apex, the effect of central bank policies on microfinance performance was similar to Kumar's findings. The focus on interest rate and liquidity issues introduces the concept of constant adjustment to enhance performance in response to regulatory environment changes, which is also applicable to Micro Finance Zambia Limited.

The results were also backed up by Wong (2020) – "Regulatory Compliance and Financial Performance in Jamaica." Similar support comes from Wong's work, where increased regulatory compliance was positively linked to performance indicators. The enhanced financial position and investor appeal of Jamaica are commensurate with the benefits that Micro Finance Zambia Limited can reap from strict compliance with regulations.

The findings accord with Chen (2017), who analyzed "Risk Management Practices in Egypt."

According to Chen's study, proper risk management is an essential factor when dealing with various regulations. Micro Finance Zambia Limited may learn from this and maintain an adaptive approach to risk management to protect its performance from regulators' negative effects.

The results were supported by Gupta (2021) – "Macroprudential Regulations in Uganda." Macroprudential regulations generate dual impacts, which Gupta highlighted in his study: their positive impact on both financial stability and profitability, alongside the operational challenges that emanate from Micro Finance Zambia Limited. An important implication of rigorous regulation is that it enhances financial stability. However, the regulatory costs affect profitability dynamics, in which Micro Finance Zambia Limited should find a middle ground.

5.2.2 The market structure affects the performance of Micro Finance Zambia Limited in Zambia

This paper found that the market structure of Micro Finance Zambia Limited is stable. Hence, this proves that market structure influences the performance of Micro Finance Zambia Limited in the long run. From the regression analysis, there is a statistically significant relationship between market structure and the performance of Micro Finance Zambia Limited. Hence, the alternative hypothesis was accepted:

H2: Market structure impacts the performance of Micro Finance Zambia Limited significantly.

The study on the market structure of Micro Finance Zambia Limited in Zambia supports the general literature on the effect of market structure on the performance of financial institutions, including MFIs. From the regression analysis conducted, the finding of a strong, statistically significant relationship between market structure and the performance of Micro Finance Zambia Limited confirms the alternative hypothesis: Market structure is influential to performance. This finding aligns with earlier international studies, supplying useful information regarding the relationship between market characteristics and MFI performance.

The findings were consistent with Rahman (2016) in Bangladesh. Concentrated markets reduced KPIs according to Rahman's study, especially regarding portfolio quality and outreach. The same applies to Micro Finance Zambia Limited, implying that promoting competition in the microfinance sector will positively affect institutional efficiency, particularly efficiency indicators and borrower satisfaction.

Implications for Micro Finance Zambia Limited: Zambian policymakers can gain insights from Rahman's study on enabling competition within microfinance markets to enhance outreach and service delivery.

The findings were consistent with Li (2018) in China. Li's study showed that higher competition was beneficial to financial sustainability and borrower outreach but warned

that excessive competition could negatively affect profitability and risk exposure. Balancing competition and a sustainable business model is crucial for Micro Finance Zambia Limited. Zambia's microfinance sector might require regulatory interventions to maintain competition levels while preventing adverse effects on profitability.

The findings were further corroborated by Gupta (2019) in India. Studies indicate that increased bank branch concentration in a single region can raise interest rates and outreach. However, a competitive market fosters innovation and efficiency. Similar trends could appear in Zambia, where excessive market control hampers financial inclusion. Introducing competition into Zambia's microfinance sector, including Micro Finance Zambia Limited, could expand access to affordable financial services.

The results were similar to Nguyen (2020) in Vietnam, which highlighted the benefits of competition in reaching more clients, improving borrower satisfaction, and enhancing repayment performance. Just as in Vietnam, promoting competition in Zambia's microfinance sector could help Micro Finance Zambia Limited achieve financial viability while serving low-income borrowers.

The findings were supplemented by Martinez (2021) in Latin America, which highlighted the importance of competitive markets for financial sustainability and outreach. Context-specific policy interventions were suggested to address local regulatory issues. For Micro Finance Zambia Limited, Zambia's economic and regulatory environment should be considered to enhance long-term microfinance performance.

5.2.3 Microfinance liquidity affects the performance of Micro Finance Zambia Limited in Zambia

The study revealed that banks receiving finance from Micro Finance Zambia Limited have guaranteed liquidity. This supports the assertion that microfinance liquidity influences Micro Finance Zambia Limited's performance in the long run.

Regression analysis indicates a strong correlation between microfinance liquidity and Micro Finance Zambia Limited's performance. Hence, the alternative hypothesis was accepted:

H3: Microfinance liquidity impacts the performance of Micro Finance Zambia Limited significantly in the long run.

The study establishes that efficient liquidity management contributes positively to the sustainability of microfinance firms. This finding aligns with prior empirical studies and theoretical models emphasizing the importance of liquidity in financial intermediaries.

The results were in line with the results of Khan in a paper on the Exploration of the role of liquidity management in determining Microfinance performance in Pakistan, carried out in 2017. It was found that, Liquidity management was identified to have greatly supported and improved the financial performance and the borrowers' engagement from the study. On the other hand, risk-taking behaviours related to liquidity management were positively correlated with default level and reduced sustainability. In the opinion of Khan, risk management of liquidity in microfinance is auspicious to maintain the delicate balance between financial stability and social objectives in Pakistan. According to the study, it was suggested that to adopt technically sound and practically reliable and viable frameworks of liquidity management that can sustain operational and regulatory requirements, while, at the same time, can enforce sound principles of prudent Practices (Khan, 2017; Abdulahi et al., 2021).

The results also were in line with the results of Das (2018) who sought to establish the impact of supplying liquidity provision strategies on more performance on microfinance institutions in Bangladeshand. To this end, innovative funding sources and best practice risk management were identified as key success factors. Das concluded that strategic liquidity provision forms the basis of strength and operational effectiveness of MFIs, in provision of multiple products to its clients effectively, with sound fiscal gearing. This study called for the promotion of liquidity management improvement and innovation and also for capacity building to support its development towards achieving enhanced institutional progress and impact (Das, 2018; Hossain & Khalid, 2019).

The results were also in line with the results of Lim (2019) who conducted a study on the effect of liquidity risk on the microfinance institution by conducting regression analysis on cross-sectional data. The above-stated results further stressed that increased liquidity risk averted profitability and portfolio quality. It called special attention to timely approach of the liquidity risk management to minimize the financial stability and institutional mission (Lim 2019; Chea 2020).

The results were supported by the results of Ahmed (2019) sought to assess the effects that are posed by managing liquidity on microfinance institutions in Egypt. The research done here brought out the understanding, through a quantitative method of working on several institutions' financial data that efficient and proper liquidity management contributed to the improvement of profitability and quality of portfolios. Where institutions had well developed liquidity management policies, default rates were reduced and borrower access was improved. But, the same study also mentioned that inadequate standard of liquidity management would cause other operational problems and organizational instability. Ahmed also stated that appropriate paradigms of liquidity management tailored to institutional requirements and market environment are essential for generating financial sustainability. The study findings therefore suggested periodic check of liquidity position and carrying out of training for enhanced management practices.

The results were also supported by the results of, Mkhize (2020) who examined the role of liquidity planning to support the continued running of microfinance. The study adopted the case analysis and statistical testing, and affirmed the role of liquidity hedges in managing the shocks and sustaining operations. It was again established that institutions with adequate liquidity responded well to the economic shocks by sustaining outreach and profitability. Ultimately, Mkhize thus opined that adequate forward looking liquidity planning helps strengthen institutional liquidity buffers, going further advising that regulators would benefit from promulgating rules that would compel firms to hold adequate liquidity buffers.

The results were also supported by the results of Zhang (2021) who looked at liquidity management and its impact on microfinance institutions in China. Through the application of generalized method of moment econometric fixed effect on the panel data, it was noted that effective and proper arrangement of liquidity had positive effect on the financial performance and there was less credit risk. On the other hand, lack of cash flow blamed it for constraint in lending activities due to low liquidity. The author noted that efficient control of liquidity is a determining factor for financial and social performance. To address the challenges highlighted above on optimal liquidity management the study suggested the following: The BA should incorporate advanced forecasting tools and risk management techniques.

The results also were in line with the results of Mensah, (2019) who examined the effects of liquidity management practices on the growth of microfinance. The research also established that, institutions following a structured approach to the management of liquidity had fewer operating disturbances and improved customer confidence. Mensah noted that practical and proper implementation of liquidity practice forms the fundamental areas amongst many others that orchestrate sustainable growth out of the evaluated facets and suggested that there should be incorporation of technology into liquidity management in order to further improve other related facets.

The results also were in line with the results of Johnson (2020) who conducted a study to investigate the role of receptiveness management in the microfinance organization of Jamaica. In a qualitative research framework, this study revealed that institutions that had effective liquidity management policies kept operations smooth during a solvency/financial crisis. The study also pointed out that the excessive liquidity constraints, impacted the borrower outreach number as well as increased the overall level of financial stress. On this Johnson surmised that being able to achieve an institutional optimum of liquid balance was critically important. Based on the study, it was appropriate that other capacity building should be promoted to improve the liquid management knowledge of microfinance personnel.

The results were also in line with the results of Silva (2020) who studied on the liquidities difficulties for microfinance institutions in Brazil. In this methodologically quantitative study, the analysis of monetary data showed that there is a positive link between sound liquidity management and the enhancement of portfolio and institutional efficiency as well as financial resilience. But in the same breath the study discovered that a greater number of organizations funded through external sources was a significant source of financial risk. Silva pointed out a topic on risk management and stated that having strong internal liquidity reserves can also result in greater stability in the levels of balances.

The results were supported by the results of Lee (2021) whose empirical study findings compared different types of liquidity strategies and their impact on microfinance institutions in South Korea. The investigation of the study also employed econometric analysis to conclude that institutions, which developed effective liquidity policies, provided higher outreach and better risk management. This paper also discovered that low levels of liquidity reserves raised operation risks and lowered borrower confidence. Similarly to Mersky and Schreiner, Lee stated that liquidity management has to be at the heart of microfinance institutions, and suggested that regulatory encouragement of proper liquidity management would be useful.

The results were also in line with the results of Mwangi (2020) who studied a related topic on the effectiveness of microfinance through the aspect of liquidity. Based on cross-sectional data, the study demonstrated that institutions with good liquidity management produced high financial performance and extended client base. The research also discovered that poor liquid management reduced the ability of the banks to give out more loans and higher defaults were also establish. From the analysis carried out by Mwangi, it was established that liquidity practices affect the way that micro finance institutions get established and how they deliver their services sustainably. The study suggested the optimization of the forecast and monitoring of financial liquidity with the help of digital tools.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.0 Introduction

This section of the chapter presented the conclusion based on each objective of the study.

6.1 Conclusion

6.1.1 The financial regulations affect the performance of Micro Finance Zambia Limited in Zambia

The study indicates that financial regulations significantly impact the performance of Micro Finance Zambia Limited, supporting the alternative hypothesis $H1$: This paper has found that financial regulations do impact financial performance. This finding is consistent with theoretical lens like Agency Theory which establishes that regulations serve to reduce agency costs, a means of ensuring management's goals are synchronized with those of the stakeholders. Further, according to the Stakeholder Theory, compliance with the legal requirements improves stakeholders' trust, which stabilizes the organization and makes it successful.

6.1.2 The market structure affects the Performance of the Micro Finance Zambia Limited in Zambia

This paper found out that market structure under Micro Finance Zambia Limited is stable. Hence, this proves that market structure has an influence on the performance of Micro Finance Zambia Limited in the long run. From the regression analysis done, it is evidenced that there is perfect and statistically significant relationship between the market structure and the performance of Micro Finance Zambia Limited. Hence, the alternative hypothesis was accepted:

The study on the market structure of Micro Finance Zambia Limited in Zambia supports the general literature on the effect of market structure on the performance of FI, including MFIs. From the regression analysis conducted, the finding of a strong, statistically significant relationship between market structure and the performance of Micro Finance Zambia Limited confirms the alternative hypothesis: Market structure is influential to the performance of Micro Finance Zambia Limited. This finding is in line with some earlier international studies, which supply useful information regarding the relation between market characteristics and MFI performance in different circumstances.

6.1.3 Micro finance liquidity affects the Performance of the Micro Finance Zambia Limited in Zambia.

The study revealed that the liquidity of the banks that received finance from Micro Finance Zambia Limited is guaranteed. Thus, this supports the assertion that microfinance liquidity has influence on the performance of Micro Finance Zambia Limited in the long run.
By the regression analysis carried out, it is noted that there is highly significant correlation between microfinance liquidity and the performance of Micro Finance Zambia Limited. Hence, the following alternative hypothesis was accepted:
The paper presents significant, positive correlation of microfinance liquidity on the performance of Micro Finance Zambia Limited, suggesting that efficiency of microfinance liquidity in influencing its production and outreach contributes positively towards improved microfinance firm sustainability. This finding supports the alternative hypothesis, H3: Thus, this study established that microfinance has an implication on the performance of Micro Finance Zambia Limited in the long run. The findings are consistent with prior empiric studies and are related to the theoretical models underlining the importance of liquidity in financial intermediaries.

6.2 Recommendations

This study has suggested several directions for other researchers in their future research.

6.2.1 Embrace a larger sample size and cover broader area

According to the law of large numbers (Saunders et al., 2009), larger sample sizes tend to be more representative, and the sample mean is more likely to approximate the population mean. Therefore, future research should consider using a larger sample size to achieve more accurate and representative findings (Junaid et al., 2018). Additionally, the sample should include microfinance institutions from various regions, possibly from other countries, as the financial regulations influencing the performance of Micro Finance Zambia Limited may vary across different nations.

6.3.2 Adopt a longitudinal research

Future research could focus on a longitudinal study examining the impact of financial regulations on the performance of microfinance institutions in the country. This approach would allow researchers to gather valuable data and draw more robust conclusions regarding the influence of each factor on the performance of microfinance institutions.

6.2.3 Conduct alternative data collection methods

To minimize desirability bias, which can arise from self-reporting, future studies might benefit from validating participants' views using supplementary methods (Dangol & Maharjan, 2018). Researchers should consider utilizing alternative data collection techniques, such as field observations, instead of solely relying on self-administered questionnaires.

6.2.4 Recommendations for each Objective

- The study recommends that, for Micro Finance Zambia Limited to boost performance, it should incline to financial regulations.
- The study recommends that, in the long run, the market structure should be taken seriously as it helps to improve the performance of Micro Finance Zambia Limited.
- The study recommends that, for Micro Finance Zambia Limited to improve performance in the long run, it should embark on microfinance liquidity.

6.2.5 Suggestions for Further Research

Investigating the Impact of Financial Regulation, Market Structure, and Liquidity Management on the Long-Term Performance of Microfinance Institutions: A Case Study of Micro Finance Zambia Limited.

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APPENDEX 1

LETTER OF INTRODUCTION

Dear Respondent,

My names are Ngela Kakungu and as part of the requirements to graduate with Master of Business Administration in Finance, I am conducting a study titled: EFFECTS OF FINANCIAL REGULATION ON THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS (MFI) IN ZAMBIA: A CASE STUDY MICRO FINANCE ZAMBIA LIMITED. For this reason, I humbly request you to assist in filling the attached questionnaire to the best of your knowledge. The information that you will provide is strictly for academic purposes, shall not be used for any other way, and your names shall not appear in this study. Your input will go a long way in facilitating this research study.

Thank you.

Yours Faithfully,

Ngela Kakungu

APPENDIX II: QUESTIONNAIRE

Instructions

Tick the appropriate response. Where the question is opened, write in the space provided

SECTION A

1. Please indicate your gender ……

2. What is your age group?

18 years to 23 years { }, 24 years to 29 years { }, 30years to 35years { }, 36 years to 41 years

{ }, Above 42 years { }

3. What is your education level?

Primary { } Secondary { } College { } Graduate { } Post graduate { } Doctorate { }

4. Your current position in the organization

Senior Management ( ) Middle-Level Management { } None Management { }

SECTION B

Financial Regulations

3. Please give your view on the impact of financial regulations on the performance of MICRO FINANCE ZAMBIA LIMITED and use the scale provided for the best answer possible

		Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
1	The regulation of the Micro financial industry is of particular importance to the performance of MICRO FINANCE ZAMBIA LIMITED					
2	High performance of MICRO FINANCE ZAMBIA LIMITED is an indication that financial regulation is working.					
3	MICRO FINANCE ZAMBIA LIMITED is currently facing a variety of challenges due to financial regulation					
4	Regulatory reporting requirements affect the					

	performance of MICRO FINANCE ZAMBIA LIMITED					
5	Regulatory capital requirements affect the performance of MICRO FINANCEN ZAMBIA LIMITED					

Market Structure

3. Please give your views on the impact of market structure on performance of MICRO FINANCE ZAMBIA LIMITED and use the scale provided for the best answer possible.

		Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
1	The performance of MICRO FINANCE ZAMBIA LIMITED depends on efficiency levels, but not market power.					
2	Profitability at MICRO FINANCE ZAMBIA LIMITED is credited to price behaviour and market conditions that are attributed to non-competitive conditions.					
3	MICRO FINANCE ZAMBIA LIMITED market share has little significance on the bank profitability and performance					
4	MICRO FINANCE ZAMBIA LIMITED market power has no					

	influence on bank performance.					
5	MICRO FINANCE ZAMBIA LIMITED profitability and stability appear to be moving with NSE share index.					

Liquidity

3. Please give your views on the impact of liquidity on performance of MICRO FINANCE ZAMBIA LIMITED and use the scale provided for the best answer possible.

		Strongly Agree	Agree	Undecided	Disagree	Strongly disagree
1	Micro finance Liquidity has no significant relations with performance					
2	The liquidity management variables such as current ratio, cash to deposit ratio and liquid to asset ratio has a negative impact on liquidity and profitability of MICRO FINANCE ZAMBIA LIMITED					
3	MICRO FINANCE ZAMBIA LIMITED adopts a tight liquidity approach in which					

	there are more current assets over current liabilities.					
4	The liquidity-profitability trade-off is a major issue facing MICRO FINANCE ZAMBIA LIMITED					
5	Liquidity and profitability as performance indicators are very important to shareholders.					

Thank you for your participation.