The Effect of Early Partial Pension Withdrawals on the Performance of Microfinance Zambia Limited

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ABSTRACT

Micro financial institutions are vital in providing consumer credit and mainly to those in formal employment in Zambia. In April 2023, the public pensions law was amended permitting early partial access to pension. This study investigates the effect of the amended law on the performance of Micro Finance Zambia Limited, by examining four key performance indicators: loans applications, disbursements, repayments, and interest rates.

Primary and secondary data sets for the period 2020 to 2023 were collected from the Micro Finance Zambia Limited and the Bank of Zambia official website, respectively. The study applied the qualitative research method approach. The purposive sampling method was employed in selecting the thirty participants. The mixed methods technique was applied in data collection, with the questionnaire and internet as data collection tools. The Dummy Variable Regression Model and Tabulation data analysis method were employed in analysing the data.

The findings show that post April 2023, a reduction was experienced in loans applications, interest rates, disbursements, while repayments increased. The findings reveal that the change in policy affected the performance of Micro Finance Zambia Limited. The weakness and limitations of this study arose from very small data set. Future studies covering longer periods are recommended. The small data set and the short study period from this novel study may pause for its findings to be generalised, and further research in this area is required.

Keywords: Partial pension withdrawal; Micro-financial institutions; Debt settlement; Salaries-backed loans; Loan interest; Financial performance; Key performance indicators; Loans disbursements.

INTRODUCTION

Prior to the global financial meltdown of 2008, the Zambia's economy was buoyant with gross domestic product (GDP) growing from 6.4% to 8% between 2000 and 2008, with commercial banks' lending rates dropping to 18% from over 40% in the same period (Ndulo et al., 2009). The reduction in lending rates saw a quantum leap in cheap and easily accessible loans offered by the commercial banks, which were spent on consumer goods. The loans were unsecured with the main qualification being in formal employment. These loans were only backed by salaries.

The 2008 world financial crises saw interest rates on loans climb from 18.50% to 20.5% in the last two quarters of 2008 (Ndulo, et al., 2009), and this led to commercial banks discontinuing with the uncollateralized loans products. The gap left in the market by commercial banks created a market for micro financial institutions (MFIs) (Ndulo, et al., 2009). MFIs made the salaries-backed loans application processes simpler, with time from application to access of the applied loans reduced to an average of seven days. The easy access to loans, coupled with increased competition among the many MFIs, culminated to individuals borrowing from multiple MFIs, using the same salary.

In 2019, Zambia's economic challenges exacerbated by the onset of Covid-19 pandemic, led to loanees failing to settle their monthly loans repayments to MFIs due to being highly indebted, and in some cases their employers

could not remit to the MFIs the deducted repayments (Cheleka, 2020). The failure to settle the loans repayments as and when they fell due, resulted in MFIs facing severe liquidity challenges. This was worsened in 2021, when the Zambian government, which is the largest employer, failed to remit to the MFIs loans repayments deducted from its employees (Cheleka, 2020).

To avert industrial unrest due to employees failing to access consumer credit from MFIs, a result of employers' inability to settle outstanding loans on one hand, and to resuscitate an ailing and contracting economy through increased liquidity on the other hand. To cure this problem, on the 17th April 2023 the newly elected Zambian government of the United National Party for Development (UPND), enacted the National Pensions Scheme (Amendment) Act No. 1 of 2023. The amended law permits contributors to the National Pension Scheme (NPS), who have made a minimum of sixty contributions and/or are above the age of 45, to access 20% of their total pension inclusive of accrued interest. The amended law created a new and cheap source of finance for the pension members to spend on consumption, paying off debts, as well as for savings. It is from the above, that this study seeks to investigate the effect of partial access to pension on the performance of Micro Finance Zambia Limited (MFZL).

This study has eight sections. Section two is the purpose of the study, and this is followed by research questions. Literature review is section four. Sections five and six are methodology and results, respectively. Section seven is discussions, and conclusion is section eight.

Purpose Of the Study

The study sets to find out the performance of MFZL, one of the leading MFIs in Zambia, with over 15 branches nationwide. In measuring MFZL's performance, three key performance indicators (KPIs) were selected, and these are: loans disbursements, annual loans interest rates, and applications for new loans.

Research Questions

The research attempts to answer the following questions:

1. What has been the repayment trend pre and post the inception of the early access to pension on the salaries-backed loan scheme?
2. What has been the impact on the new applications for salaries-backed loans, post the implementation of the early access to partial pension?
3. What has been the effect on the interest rates on the salaries backed loans, post the early access to pension?

LITERATURE REVIEW

Micro financial institutions performance indicators

Performance of any organism including a business organisation is measured through and/or by the use of set measurements. These measurements are mostly set and adopted internationally, and applied by those charged with decision-making processes. Performance measurements may be undertaken by the use of financial and/or non-financial indicators. Financial performance indicators are well development and standardised and may be deployed with ease. In contrast, non-financial analysis is mostly subjective in nature. MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and Medium Enterprise Division (2003), asserts that, management and governance are the two areas that have had long suffered from a lack of performance indicators. The microfinance sector face challenges in measuring organisational structure, performance measurement, enforcement practices, information flows, among others (MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and Medium Enterprise Division, 2003).

MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and Medium Enterprise Division argue that there are four main performance indicators that may be adopted by an MFI, which are: portfolio quality, is an important area of analysis as it is the largest source of risk in any financial institution, and in the context of MFIs that provide salaries-backed loans, the quality of this loan portfolio may be influenced by the early access to partial pension; efficiency and productivity show how well the MFI is streamlining its operations, and studies have shown that commercial banks have a better efficiency indices than MFIs; financial management informs management as to the liquidity position of an MFI, as well as its capacity to meet its obligations as and when they fall due, and disburse loans to borrowers; and profitability summarises performance from a wholistic standpoint of the organisation. If portfolio quality and financial management are poor, and efficiency and productivity rates are adverse, will all reflect in the profitability index. Apart from the four main performance indicators submitted by MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and Medium Enterprise Division, there are many other performance measurements an organisation can employ.

Masawe (2013) submits that the cost per borrower, borrowers per loan office and number of borrowers, influence the microfinance efficiency of MFIs in Tanzania. A positive relationship exists between microfinance efficiency, as measured by number of borrowers and borrowers per loan officer, and the sustainability of MFIs (Masawe,2013). Masawe further argues that on the other hand, negative correlation appears to exist between write off ratio, risk coverage ratio, cost per borrower and loan size with the financial sustainability. Masawe's findings do point to the cost of borrowing, which is loan interest rate, being the foundation or driver of efficiency.

According to Nasrin, Rasiah, Baskaran, and Masud (2017), the two different measures of financial performance, portfolio yield and profit margin, give results that suggest the depth and breadth of social outreach, and financial performance of MFIs, which can be improved by targeting women borrowers, increasing the average loan per borrower, and increasing the number of active borrowers. This position by Nasrin et al (2017) relates in the context of providing affordable credit to low-income earners, affordable interest rates, and can also be interpreted to creating a friendly application process.

Ahlin, Lin, and Maio (2011), in their study of the relationship between MFIs and economic development, found that MFIs' performance is dependent on the financial depth of an economy, and the financially deeper the economies are the lower the default and operating costs, and interest rates charged. Ahlin et al (2011) argue that performance of MFIs is premised on lower default rates, which may be related to lower interest rates and operational costs.

In Ethiopia, MFIs provide credit to a large number of people, and for them to operate successfully, they have to ensure that disbursed loans are repaid (Kiros, 2023). Further, Kiros found that loan repayment period, grace period, and timeliness of loan release have a statistically significant effect on the loan repayment performances of borrowers, and the size of loans had an insignificant effect on the loan repayment performance of borrowers. Kiros' findings do point to the fact that loan repayments are one among other measures of MFIs' performance.

While there have been no studies undertaken in Zambia on the performance indicators used by MFIs in general, and MFZL in particular, the above discussed KPIs are broadly applicable. The Bank of Zambia (BOZ) being a supervisory body of MFIs does issue quarterly bulletin on interest and finance charges for all registered MFIs in Zambia. However, the BOZ bulletins do not cover the detailed KPIs employed by MFIs as contended by Masawe, Nasrin et al., Ahlin et al., and Kiros, above.

Impact of pension funds on an economy

The developing world, especially the global south, in the provision of credit has seen an exponential growth of the micro finance sector (MFS). In 1997, India had 618 micro financial institutions servicing over 13 million people (Shankar & Asher, 2011), which by 2007 had increased to 3,552 MFIs with over 154 million clients (Daley-Harris, 2009 cited in Shankar & Asher, 2011). The growth trend of MFIs in India is similar to that of Zambia.

Churchill, Bonizzi, and Kaltenbrunner (2021) in their presentation argued that due to their longer time-horizon, pension funds do positively contribute to the development of large and deep domestic local currency bonds markets, and hence ease financial and external constraints in developing markets. This position by Churchill et al. is in line with Sinyangwe (2023) who contends that Zambia uses pension funds to shore-up its domestic bond market. While there are positives in using pension funds in local debt markets, it was also argued that in the case of foreign pensions investing in local markets, the funds embeddedness in a hierarchic and structured international financial and monetary system carries with them the external vulnerability and financial market instability (Churchill et al., 2021).

Bonizzi and Kaltenbrunner (2019) cited in Churchill et al (2021) submit that even with the advantage of longer-time horizon, international investors have not proven to be the key to financial stability, and behaviour of foreign pension funds is determined by the nature of their liabilities, which are embedded in the conditions of their home economy. Domestic pension funds, as the case is in Zambia, have been used to minimize vulnerability from external pension funds, however, as observed by Bonizzi, Churchill and Guevara (2020) cited in Churchill et al (2021), behaviour of domestic pension funds is also more complex due to pension reforms. These reforms may come in the form of allowing early access of pension funds to members, and pension fund holdings structure (Bonizzi, Churchill and Guevara, 2020, cited in Churchill et al., 2021).

During the Covid-19 pandemic period, it was found that pension funds were used as a captive audience to provide capital at below market rates to governments in countries which had limited expansion of fiscal space, and burdened with sovereign debt (World Bank, 2021). The World Bank found that the benefits arising from this model of financial repression, were found to be; the easing of sovereign debt, lower interest rates, and increased liquidity in the economies. However, the implementing countries were encouraged to take into account financial depth and size of the economy, income level, demographic factors and the maturity profile of pension obligations, as well as the structure and governance of the pension system, as well as the consequences from a grown and aging population (World Bank, 2021).

Effect of early access to pension on micro financial institutions

Fuentes. Mitchell, and Villatoro (2023) contend that the allowed three-year access to pension from the Chilean national pension fund managers, improved the pensioners' welfare, as the funds went towards consumption, repayment of debts, and a large portion of it into current and savings accounts. According to the World Bank (2019), Singapore, Canada, Switzerland, and Australia, where early access was permitted, the partial pension withdrawals helped in improving the welfare of members and it incentivized people to subscribe to the pension scheme.

In the United States of America, payments from public pension funds were found to have positive effects on the local and state economies, and their contributions far exceeded incomes from farming, fishing, logging, and hotel or lodging industries, combined (NASRA, n.d.). Further, the director general of the National Pension Scheme Authority (NAPSA), stated that the anticipated early access to pension of ZMW 11 billion injection was expected to spur economic growth in Zambia by way of easing up liquidity challenges the country was facing due to delayed debt restructuring (Sinyangwe, 2023).

However, the HM Treasury (2011) could not approve the amendment to its pension law to allow for early partial access as there was inconclusive evidence that early access would have a positive impact on pension savings. Studies have also shown that partial pension withdrawals do bring about the adverse effects, such as beneficiaries becoming asset rich and cash poor (World Bank, 2019). Chiwele (2023), and Shankar and Asher (2011) also contend that partial withdrawals lead to reduction in individual members' pension savings, which may result in elevated longevity risk derived from a long lived-life with reduced and/or no pension savings.

The World Bank (2017) found that more than 75% of pension funds are held in equity portfolios in 18 of the 27 Organisation for Economic Co-operation and Development (OECD) countries, while the remaining 9 countries had 50% of their funds in equities with short term investments in bonds and government bills accounting for the

remaining balance. Investments in long term assets (equities) are on the premise that surplus contributions would only be tapped in the event that benefit payments exceed contributions (World Bank, 2017).

Direct partial withdrawals were also found to have, unless amounts withdrawn are repaid with interest, led to lower replacement rates at retirement (World Bank, 2019). The World Bank argued against diversion from the primary objective of a pension, to enable it provide adequate, affordable, sustainable and robust retirement income, and that pensions should have a single objective of adequate provision of pensions to individuals. The national pension scheme (NPS), managed by the NAPSA is a DC pension scheme, and therefore the observations by the World Bank, in the face of the subsisting partial pension withdrawals, may face a possible liquidity challenge in settling pension payments, and also members may not be able to make sufficient saving for use in their retirement age.

METHODOLOGY

Research design

According to the New York University Publication (2016), a research design is a structure required before data collection or analysis, which enables the collection of evidence used in answering the questions in a study. A research design deals with a logical problem (Yin, 1989 cited in New York University, 2016). A good research design is justifiable in terms of the research question, and an investigator should offer an argument that the adopted design is an effective one (Vogt, Gardner and Haeffele, 2012).

Vogt et al. (2012), contend that a research design arises from a formulated theory which identifies a problem, and this leads to the construction of research question(s) to be answered through evidence collection and analysis. Patel and Patel (2019) assert that a research design facilitates an efficient and maximal yield of information, and it provides for the collection of relevant evidence with minimal cost, time and effort. Durrheim (2004) cited in the University of Pretoria (n.d.), states that a research design is a strategic framework that serves as a bridge between research questions and the execution of the research strategy. A research design may be in the form of an exploratory study, descriptive study, and casual study (Smith, 2012).

This study adopted the exploratory research approach. The selected research approach was the appropriate design as the study investigated a novel occurrence in Zambia. The use of the exploratory approach in this investigation was envisaged to provide findings on the impact of the amended public pensions law on the performance of MFZL.

Research strategies

The adopted research philosophy determined the investigator's selected and adopted research methodologies. Creswell (2007) cited in Warfield (2010), argued that research methodologies start with philosophical assumptions. Having selected a research philosophy, an investigator proceeded to select a suitable research method.

Quantitative research method

According to Goundar (2012), quantitative research method involves the generation of data in quantitative form which can be subjected to a rigorous quantitative analysis in a formal and rigid fashion. Further, Goundar describes quantitative method, as a measurement of quantity or amount, and is applicable to phenomena that can be expressed in terms of quantity. When using quantitative approach, Terrell (2012) citing Johnson and Onwuegbuzie, 2004), contends that for researchers to justify their stated hypotheses, they are required to eliminate their biases, and remain emotionally detached and uninvolved with the objects of study and tests. Apart from collecting mathematical data, quantitative research method can also be used to collect non-numerical data in numerical form using specifically designed instruments (Taherdoost, 2022a).

Qualitative research method

In contrast to quantitative research method, qualitative purists support a constructivist or interpretivist paradigm, and contend that multiple constructed realities abound, and that it is impossible to differentiate fully causes and effects (Johnson and Onwuegbuzie, 2004, cited in Terrell, 2012). Qualitative research methods were developed in the social sciences to enable researchers' study social and cultural phenomena (Goundar, 2012). Qualitative research methods are designed to assist researchers understand people, and the social and cultural context within which they live (Goundar, 2012).

Mixed methods research

According to Terrell (2012), mixed methods research is a widely used mode of inquiry, and emerged from the wars between qualitative and quantitative research approaches. Mixed methods approach can provide an investigator with a range of sequential and concurrent choices (Terrell, 2012). Mixed methods approach may be employed based on the purpose of the study and the nature of the research question, so as to provide a better understanding of the subject, and the focus can be on both qualitative and quantitative methods, equally or one, taking into account the selected integration process (Taherdoost, 2022a). Taherdoost agrees with Terrell's position, that the mixed methods approach is widely used in different fields and disciplines ranging from psychology to health and education, however, it is in most cases not recognized as mixed methods approach.

The Qualitative research approach was employed in this study as it was found to be the most suitable relative to the research question. Further, a limitation of time and cost would not allow the use of quantitative or mixed research methods.

Target population

According to the University of Central Arkansas (2013b), a population is composed of members that meet a set criterion. In this study, the population from which a sample of participants was selected comprised of all the managers and senior members of staff of MFZ, who were based at the Lusaka office. The purposeful selection of this population led to less time spent and minimum costs incurred when selecting the 30 participants.

Sampling design and procedures

A sample is comprised of selected elements from a specified population (University of Central Arkansas, 2013b). Walle (2015) contend that a sample is a representative of a population, which is selected from a population using probability or non-probability sampling methods. Jawale (2012) argues that the main objective of drawing a sample is to make inference about the larger population, and the researcher in selecting a sample should avoid the bias.

Jawale's position is in consent with Taherdoost (2016) who contends that due to a researcher not having the time nor the resources to study the entire population, a sample will be drawn from that population to answer the research questions. A sampling technique can be chosen from the two sampling methods; probability sampling method, and non-probability sampling method (Taherdoost, 2016), and the two are the major sampling techniques employed by researchers (University of Central Arkansas, 2013b).

Purposive sampling method, a non-probability sampling method, was employed in the selection of participants. The selected sampling method ensured that the population from which the sample was drawn was representative, heterogeneous, and sampling errors would be minimized.

Sample size

Using the purposive method, 30 participants all based at MFZL's Lusaka office were selected. The selected sample was segregated into two categories; 6 managers and 24 senior members of staff. The composition of managers and senior members of staff in the sample was intended to obtain data that would encompass both

strategic and operational perspectives on the research question. The selected sample constituted 60% of the targeted total population consisting of middle and senior management of the MFZL.

Data collection

According to Kabir (2016) cited in Taherdoost (2022b), before selecting a data collection instrument, the type of data to be collected should be determined for the researcher to be able to answer the research question or resolve the research problem. Before constructing the questionnaire, which was the tool used in the collection of data in this study, the variables and procedures that were required in answering the question as to whether the early access to partial pension withdrawals have had an effect on the performance of MFZL, were determined.

In this study, both qualitative and quantitative data were collected. Qualitative data collected was in the form of perceptions of the respondents on whether the reformed public pension law is beneficial or not to the organisation, in the short to long term. Further, opinions from respondents were obtained as to whether they were in support of, or opposed to the reforms of the public pensions law. Quantitative data were collected in the form of interest rates for prescribed periods, loans recovery rates, and new loans applications.

Source of the data

Data may be obtained from primary and/or secondary sources. Primary data can be obtained through responses from participants, observation, experiments, among others (Patel & Patel, 2019). In this research, data were collected from both primary and secondary sources. The primary source were respondents in the employment of MFZL and the secondary source was the Bank of Zambia (BOZ) official website. The BOZ is the supervisory body for both financial and non-financial institutions in Zambia, and MFIs are financial institutions. The BOZ on its official website publishes quarterly financial and non-financial information for all commercial banks, MFIs, and lease finance institutions.

Procedures in the collection of data

The questionnaire was administered in the collection of primary data, upon being granted permission from MFZL management. This was subsequent to obtaining a clearance letter and certificate of registration as a researcher from the University of Zambia Biomedical Research Ethics Committee (UNZABREC), and the National Health Research Authority, respectively.

Data were collected using a mixed data collection method. Primary data were collected using a questionnaire and secondary data were obtained from the BOZ's official website. Thirty questionnaires were distributed to the selected participants. The distribution process was accompanied with an explanation on the process of answering the questionnaire, and of the total thirty distributed questionnaires, only twenty were answered. Data collected from the BOZ official website pertained to the MFZL's annual effective interest rates covering the years - 2020, 2021, 2022, and 2023.

Data collection tools

In the selection of a data collection tool, Maxwell (2012) argues that triangulation is recommended in a study, as the selected multiple data collection methods check on each other as to validity of the collected data and provision of information about different aspects of the phenomenon being investigated. The questionnaire was used to collect primary data and secondary data were collected from the BOZ website.

Questionnaire

A questionnaire is a form or instrument composed of a set of questions and secure answers through the filled-in data an investigator needs for the study (Taherdoost, 2022c). According to Kabir (2016) cited in Taherdoost (2022c), though it is commonly used to gather statistical data, a questionnaire is also designed for measuring separate variables such as behaviours, preferences, and facts. Walle (2015) submits that a questionnaire can be composed of: structured questions, requiring specific responses that are predetermined and with very little need

to think; and unstructured questions, requiring more freedom to respond to respond in a thoughtful and unique way. Questionnaires are credited with being easy for participants to fill in, less time spent in answering questions, responses can easily be coded, and statistically manipulated (Walle, 2015).

The questionnaire was in two parts. Part I, contained information of the respondent. Part II, required responses on the performance of MFZL. Further, Part II required respondents to provide their opinions on the amended public pensions law and the regulatory environment of the MFIs.

Internet

According to Taherdoost (2022b), secondary data sources which include; books, journals, research articles, and internet articles, are mostly not more valid than primary data sources, but equally as important. Secondary data collection methods include published printing sources, journals, books, and general websites, among many others (Taherdoost, 2022b). The BOZ official website was the source of the secondary data from which MFZL's annual interest rates for first three quarters of each of the years: 2020, 2021, 2022, and 2023 were obtained.

Data Analysis

The collected data using questionnaires was analysed using categorization and tabulation data analysis and the Dummy Variable Regression (DVR) Analysis methods. The answered questionnaires received from respondents were analysed in respect of their employment positions in MFZL, categorizing them under "senior staff" or "manager". Quantitative data relating to performance of MFZL, collected from both the questionnaire and the BOZ website, were analysed by tabulating the performance rates under each of the three years.

The tabulation data analysis method was also employed in analysis participants' responses to questions that required a "yes" or "no" answer. The tabulation process involved the placing of the data into tables, grouping participants based on shared responses, analysing the data for insights, and reporting on the results derived from the analysis. Editing was done during the data collection period.

Further, for a robust data analysis, the DVR Analysis model was also employed. In the DVR model, the period when early access to pension was permitted (April 2023) was treated as a policy intervention (dummy variable).

The KPIs (loan disbursements, repayments, and interest rates) were Dependent variable (Y), and the Independent variable (X) was the Pension law dummy (0 = pre-policy years 2020-2021, 1 = post policy year 2023).

The DVR equation is:

[Y_t = \beta_0 + \beta_1 \cdot PolicyDummy t + \epsilon_t]

Where:

(Y_t): Loan disbursement rate in year (t).

(PolicyDummy_t): A binary variable (0 before policy, 1 after policy).

(\beta_0): Baseline average rate (before policy).

(\beta_1): Change in average rate attributable to the policy.

(\epsilon_t): Error term.

Validity and reliability

The pre and post primary data validation process included the construction of a questionnaire with questions that were not ambiguous nor unclear. Further, the constructed questionnaire underwent a peer review. A piloted study

involving five respondents was undertaken, and no proposed changes to the questionnaire were advanced. The BOZ internet security and data management systems were relied on for the validation and reliability of secondary data.

Research limitations

Limitation of the study arose from lack of sufficient time and the very small data set of less than a year post the amendment of the public pensions law. The lack of previous research works on the selected topic was also another limiting factor.

RESULTS

The data analysis results using the two data analysis methods – categorisation and tabulation data analysis method and the DVR econometric model are discussed below.

Characteristics of respondents

The sample size was 30, comprising of Lusaka based managers and senior members of staff of MFZL. However, from the 30 distributed questionnaires, only twenty answered questionnaires were received. The characteristics of the twenty participants is tabulated in Table 1 below.

Table 1: Characteristics of the respondents

Respondents	**Number**	**Percentage (%)**
Managers	6	30
Senior members of staff	14	70
Total	**20**	**100**

Source: Field research data (2024)

The BOZ being a regulator of both financial and non-financial institutions publishes on a quarterly basis financial statistics for all the financial institutions. The collected data from the BOZ's official website was MFZL's interest rates for the first and third quarters of 2020, 2021, and 2022. For 2023, the year early access to pension was effected, data was collected for the first three quarters.

Research Questions

A questionnaire was employed in collecting primary data. The constructed questions were in two parts, (A) and (B).

Part A

What have been the loans disbursement performance rates comparable to your set targets for each of the four years – 2020, 2021, 2022 and 2023?

Table 2: Performance of loans disbursements

Year	**2020**	**2021**	**2022**	**2023**
Rates (%)	85	86	71	53

Source: Field research data (2024*)*

The percentage rates represent the MFZL's annual average loans recovery rates for each of the four years. The results in Table 2 above show a sharp decline in loans disbursements in 2023.

What have been the average interest rates for each year between 2020 and 2023?

Table 3: MFZL's annual interest rates

Year	2020	2021	2022	2023
Rates (%)	30	30	30	30

Source: Field research data (2024)

Table 4: MFZL's annual effective interest rates

	2020(%)	2021(%)	2022(%)	2023(%)
Quarter: 1	63.90	63.90	54.90	48.53
2	63.90	63.90	54.60	48.53
3	63.90	63.90	55.60	49.74
Annual average	63.90	63.90	55.03	48.93

Source: Bank of Zambia official website (2024)

Data for the average interest rates was collected from two sources; primary data source – MFZL (Table 3), and secondary data source (BOZ) (Table 4). Secondary data which was collected was for the first three quarters of each of the years, 2020, 2021, 2022, and 2023. The decision to only collected data for the first three quarters was ensure that data comparisons between the selected years was not distorted.

What have been the loans recovery rates for each of the four years – 2020, 2021, 2022, and 2023?

Table 5: Loans recovery rates

Year	2020	2021	2022	2023
Rates (%)	84	90.5	95	99

Source: Field research data (2024)

The loans recoveries in Table 5 above, are in percentage form for each of the selected four years. The loans recoveries performance demonstrates an ascending trajectory, from a low of 84% in 2020 to a high of close to 100% recoveries in 2023.

Part B

The questions under Part B required answers either in the affirmative (Yes) or a negative (No).

Since the inception of the early access to pension, has MFZL had an increase in loan settlements?

Table 6: Loans recoveries - post early access to pension

	Increase in loans settlement	Non-increase in loans settlement
Response	Yes	No
Percentage movement	Not provided	N/A
Impact of early pension withdrawals	Not significant	N/A

Source: Field research data (2024)

An affirmative response to loans recoveries increase post the amendment to the public pensions law is in consent with direction of the loans recoveries rates shown in Table 5, above.

Has MFZL experienced a reduction in new loans applications post the coming into effect of the early access to pension?

Table 7: Reduction of applications for new loans

	Reduction in new loans applications	Non-reduction in new loans applications
Response	Yes	No
Percentage movement	Not provided	N/A
Impact of early pension withdrawals	Not significant	N/A

Source: Field research data (2024)

The results in Table 7 reveal that there was a reduction in new loans applications, post the amendment of the public pensions law.

Has your organisation effected a reduction in interest rates on existing and/or new loans, post the coming into effect of the early access to pension?

The responses from the collected primary data shows that no reduction in interest rates was effected, post the allowing of early access to partial pension.

In order to obtain an understanding of MFZL's position on the change in the law, and their recommendations thereof, two questions below were asked:

Are you in support of the amendment to the public pensions law?

It was observed from the responses to the above question that majority (55%) of the participants, were in support of the amendment, and the remaining 45% opposed the change in the law.

A further dissection of the responses into two categories; managers and senior members of staff, reveals that majority of the managers were opposed to the change in the law together with a minority of senior managers.

What changes do you recommend to ensuring stability, by way of regulations of the micro finance sector?

The recommendations for the changes in the law regulating the micro finance sector in Zambia had 60% of the participants were in support of legal reform. The remaining 40% of the respondents were proponents of the current micro finance legal framework.

Results from the Dummy Variable Regression Analysis Model (DVR)

A summary of results from the econometric analysis using the DVR model are tabulated under Table 8 below.

Loans disbursements

The collected data under Table 2 indicates, as observed under 6.2.1 above, the rates of disbursed loans between 2020 and 2023, and that there was a drastic decline in the disbursements post early access to pension.

Using the DVR econometric model:

The pre-policy mean for the years; 2020 – 2022 = 80.67%.

The post-policy mean for 2023 = 53%.

Therefore, the regression estimate: [\beta_1 = 53 - 80.67 = -27.67]

The results from the econometric model indicate a drop in the loan disbursements by ~27.7%.

Interest rates

Table 4 effective average interest rates for the MFZL obtained from the Bank of Zambia were analysed using the DVR econometric analysis model. The results from this analysis were:

[\beta_1 = 43.93 – 60.94 = -17.01]

Interest rates on loans reduced by ~17.01%.

Loans repayments

The DVR econometric analysis results of the data under Table 5 above, were:

The repayments rates rose from 90% (pre-policy average) to 99% (post-policy), the econometric estimate:

[\beta_1 = 99 - 90 = +9]

Repayments improved by ~15 percentage points.

The summary of the econometric data analysis results is shown under Table 8 below.

Table 8: Regression summary results

Key Performance Indicator (KPI)	β_0 (Pre-Policy Mean) %	β_1 (Policy Effect) %	Inference
Loans disbursements	80.67	-27.67	Significant decline
Interest rates	60.94	-17.01	Significant decline
Loans repayments	90.00	15.00	Significant improvement

Source: Author's calculations (2025)

DISCUSSION

Performance of the loan's disbursements

The growth of MFZL's loan portfolio is a function of the number of loans disbursed in a specified period. The efficiency and lack thereof, in the application-to-disbursement process of the loans to borrowers has an impact, on both the liquidity and ultimately the profitability of the organisation. Apart from internal constraints that may arise from inefficiencies and/or inadequate liquidity, loans disbursements may also be affected by macro economic factors, such as an alternative sources of finance, an in this context, early access to partial pension is one of attractive sources for funds as it has no cost in the form of interest that comes with it.

The research data under Table 2, showed that the highest performance in loans disbursements, with rates of 85% and 86% of budgeted figures were achieved in 2020 and 2021, respectively. In the subsequent years; 2022 and 2023, loans disbursements relative to expected results were 71% and 53%, respectively. The reduction in disbursed loans in 2023 of 18% on the 2022 performance is attributed to the early access to pension which came into effect in April 2023, as potential loanees may have opted to access their pension contributions which had no associated costs, in lieu of debt from MFZL. The stated results are in tandem with those obtained using the DVR model which indicated that disbursed loans post the policy change had a significant reduction in excess of 27%.

The reduction in MFZL performance in 2023 relative to loans disbursements is attributed to a low appetite for loans by individuals who were able to access their partial pension contributions. The improved welfare of individuals who accessed partial pension, in the context of having excess available cash for personal consumption among others, is in consent with the research findings of the effect of early access to pension on

the pensioners in Chile (Fuentes. Mitchell, and Villatoro, 2023). However, the above position is countered by the research data (Table 7) which shows that there was a reduction in new applications for loans, but this negative performance was not a result of the early access to partial pension. The outlier findings for 2022, which shows a reduction of 15% on 2021 performance results, can be argued to have been a pre-early access effect which led to loans demand slowing down due to anticipated amendment to the pensions law. However, this is an area that may need further studies.

Interest rates

Revenue generated by a financial institution is mainly interest on loans, which is a function of interest rates and the loaned principal amount. The MFZL's interest income is generated from disbursed loans to borrowers levied by floating interest rates, which are not fixed for the duration of the loan. The application of floating interest rates exposures the lender to risks of reduction interest rates, arising from reduced appetite for debt, changes in economic activities and/or laws.

The collected primary data under Table 3, shows a constant interest rate of 30% for each of the four years. Secondary (Table 4) has varying interest rates for each of the years with average annual rates of; 63.90 for the years 2020 and 2021, 55.03% for 2022, and 48.93% in 2023. In this study, it is argued, using the primary data (Table 3), that in the first year of its implementation, early access to partial pension did not affect the performance of MFZL, as chargeable loans interest rates of 30% per annum remained unchanged, from the previous years (2020 and 2021).

However, the above argument is challenged by secondary data, which indicates that the annualized average interest rates for 2022 and 2023, dropped by 8.87% and 6.1%, respectively, on each of the previous years' annualized interest rates. The reduction of interest rates to 48.93% in 2023 from 55.03% of 2022 is attributed to reduced demand for MFZL's loans products, driven by an alternate source of zero cost funds – partial pension. As forecasted by the Director General of NAPSA (Sinyangwe, 2023), early access to partial pension contributions did inject liquidity in the Zambian economy, and with cash at their disposal, most potential clients for MFZL, opted to not borrow and/or for those who did, might have negotiated the chargeable interest rates. The low demand for loans, may have also persuaded MFZL management to lower the interest rates, as a way to attract customers. The econometric results under Table 8 showed that interest rates in the post-policy period reduced by a significant 17.01%. These results are in consent with the earlier observations.

While an annualized review of the 2023 data shows a perspective submitted above, a further scrutiny of the MFZL interest for the third quarter of 2023 reveals an elevated annual interest rate of 49.74, an upward movement of 1.21% on the preceding second quarter's annual interest rate of 48.53%. This increase in the interest rate gives credence to the findings from the primary data (Table 7) which shows that the early access to partial pension did not have any significant impact on the performance of MFZL, in the context of a reduction and/or increase in interest rates. Due to limitation of time, interest rates for the further periods could not be obtained, and therefore, this leaves room for further studies on the effect of early access to pension on interest rates levied by MFZL.

Loans recoveries

The quality of a loan portfolio is dependent on the recovery rate of disbursed loans. According to MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and

Medium Enterprise Division (2003), the quality of the portfolio is dependent on the level of Portfolio at Risk ratio (PaR), which is the mostly accepted measure as it shows the portion of the loan that is at risk of not being repaid. The PaR is calculated by dividing the outstanding balance of all loans with arrears over 30 days, plus all refinanced (restructured) loans, by the outstanding gross portfolio as of a certain date, and the ratio is used to measure loans affected by arrears of more than 60, 90, 120, and 180 days (MicroRate & Inter-American Development Bank Sustainable Development Department Micro, Small and Medium Enterprise Division, 2003).

MFZL's performance relative to loans recoveries ensures that the organisation has adequate working capital for onward loans disbursements. The research data (Table 5) shows a positive increase in the subsequent years, after 2020 of; 7.7% in 2021, 4.97% (2022) and 4.21% in 2023. In 2023, which is the year early access to partial pension was effected, loans recoveries were at 99%, and this is attributed to increased liquidity in the economy. This increased liquidity in the economy was brought about by early access to early partial pension, and those individuals were able to access their pension contributions utilized part of the funds, as the case was in Chile (Fuentes. Mitchell, and Villatoro, 2023) used part of it to repay their debts owed to MFZL, among other creditors. The econometric results of a positive change of 15% post the coming into effect of early access to pension under Table 8 does support the assertion that the improvement in loans recoveries was a result of the early access to pension by contributors.

An opposing argument is contended using the research's primary data (Table 6), which shows that there was no positive impact, particularly in the context of debt repayments to MFZL, which arose as a result of early access to partial pensions. However, no data were obtained to buttress this opposing argument. Further, lack of detailed data in support of the alternative sources of funds used to liquidate MFZL's loans and time constraints, does not give credence to the opposing argument. The lack of data in this context provides a window for future studies on this subject.

Change to public pension law

Governments enact laws, especially those laws that go to enhancing the welfare of its citizens. In period of economic hardships occasioned by natural disasters, pandemics among others, governments have, in alleviating economic challenges faced by their citizens, have amended pension laws to allow their citizens to have early access to pension. During the Covid-19 pandemic, and immediate years post the pandemic up to around 2022, countries including Chile, Peru, Australia, the United States of America, and Malaysia amended their respective pensions laws, permitting their citizens to have early access of their pension contributions (Fuentes, et al., 2023). In the same vein, as the above-mentioned countries, Zambia amended its pension law in 2023; to ease the hardships its citizens faced post the Covid-19 pandemic.

In responding to the question on whether there is need to amend the public pensions law, aggregated data (Table 9) in this study shows that 55% of the respondents were in support of the effected change. There were no reasons advanced in support of the either response This limitation provides an avenue for further studies from the perspective of: whether the law in its current form would continue to spur MFZL's performance in the context of improved loans recoveries by way of settlements of outstanding loans and payments of debt instalments on time using the accessed partial pensions (Fuentes. Mitchell, & Villatoro, 2023); and to inquire on its impact on the local and national economic growth, and compare with the results of studies such as one undertaken in the United States of America (NASRA, n.d.).

A further analysis of the collected data dissected into two categories; managers and senior members of staff, shows that 66.67% (Table 10) of the managers were against the amendments, whilst 64.29% (Table 11) of the senior managers were in support. Though the reasons for opposing the effected amendment of the pensions law were not provided, this is an area that requires further research, due to the fact that the amended public pensions law has allowed early access to partial pension in perpetuity.

Changes to micro finance regulations

This study also obtained data relating to the micro finance sector in which MFZL operates in, from the context of how the sector is regulated. The obtained data (Table 12) shows that; 40% of the respondents stated that the sector was well regulated, with the remaining 60% indicating that the sector needed legal reforms, and was beset with unregulated lenders. The provision of information of all MFIs registered with the BOZ (BOZ, 2024) does point to a fact that there is regulation, however, a future study may be undertaken to investigate the effectiveness of the subsisting regulations, and also the reason(s) why other MFIs go against the law by opting not to be regulated.

CONCLUSION

This study's findings show that the performance of MFZL relative to the selected four KPIs; loans disbursements, loans interest rates, loans recoveries, and new applications for loans. The research has shown that rates at which loans were being disbursed in the first nine months, post coming into effect of the early access to partial pensions, were lower than before the amended law come into effect. MFZL's interest rates on loans also climbed down in 2023, though a slight increase was witnessed in the last quarter of 2023. Contrary to the negative performance of the loans disbursements and interest rates indices, the loans recoveries increased its performance to a position where MFZL had achieved almost achieved a 100% recovery, in 2023. MFZL's new loans applications in 2023, suffered the same fate as the loans disbursements and interest rates, in that new applications in 2023 were less than the periods before the coming into force of the amended public pensions law.

The reviewed literature on the effect of early access to pension has revealed that the local and national economies improved, in those countries early access to pension was effected. Previous studies on this subject have also demonstrated that early access to pension is a catalyst to increased pension contributions. On the downside, studies have also shown that at individual level, persons who access their pensions early become asset rich and cash poor and their longevity risk is elevated. Studies have also shown that liquidity of pension fund managers is affected by early access to pensions. However, due to small data set and the short research period, the research results from this study may not be generalised. Further, the study had limitations in the form of; the collected data being devoid of a wholistic perspective as only four KPIs were selected, and the selected sample was only comprised of management and thus, elevating potential biasness from the respondents.

Ethical Considerations

This study involved human subjects, and to ensure that the study was in conformity with ethical considerations, an approval letter under reference number 4580-2023, was obtained from the University of Zambia Biomedical and Research Ethics Committee (UNZABREC). Further, the corresponding author registered as a health researcher, with the National Health Research Authority (NHRA), and was granted a certificate of registration number NHRAR-R-1504/18/04/2024. Before conducting the research, respondents were informed that the information that were to be obtained during the study, would not be used for personal gain or disclosed to a third party without their written consent.

The authors, declare that they have no financial or personal relationships that may have inappropriately influenced them in writing this article.

Data Availability

The primary data used in the study are available with the corresponding author, and can be availed upon request. Secondary data used in this study was obtained from Bank of Zambia and can be accessed through the Bank's official website (https://www.boz.zm/).

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