Microfinance Institutions and Operational Risk Management in Zimbabwe: Insights from Masvingo Urban

Dr. Stephen Mago

University of Fort Hare, Private Bag X1314, Alice,5700, South Africa.
stepmago@gmail.com

Dr. Costa Hofisi

North-West University, Faculty of Commerce & Administration,
School of Management Sciences , Private BagX2046 Mmabatho,2735. South Africa.

Mrs. Shamiso Mago

Utility Resources, 4954 Shakashe Drive, Eastvale Masvingo, Zimbabwe.

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Abstract

This paper examines the challenges of Operational Risk Management (ORM) by microfinance institution (MFIs) in Zimbabwe with insights from Masvingo urban. The provision of financial resources to the poor is widely believed to increase the incomes and productivity of the poor. This strategy follows from the assertion that economically active poor people fail to access financial resources from the traditional financial institutions. MFIs are the suppliers of financial resources to the poor. About 90 percent of people in developing countries lack access to financial resources from formal institutions. These risks are life threatening to the existence and sustainability of microfinance institutions. Risk management is one of the crucial issues necessary for the growth and development of any entity. The ability to manage operational risk will put the organizations at competitive positions hence enabling them to survive in the business environment. A number of MFIs face collapse or near-collapse because they are not capacitated to detect operational risks beforehand. The paper adopts qualitative research methodology, following a case study research design. The Zimbabwean case was explored to gather information about the problem. Secondary data were collected from MFIs' reports, publications, journals and text books on operational risk management. The results show that ORM is scantly understood and poorly conceptualized and operationalized among MFIs.

Keywords: *Microfinance Institutions (MFIs), Operational Risk Management (ORM), risk management, sustainability.*

1. Background

The provision of financial resources to the poor is widely believed to increase the incomes and productivity of the poor (Zeller and Meyer, 2003; Quibria,2012; Akinlo and Oni,2012; Ayuub, 2013). This strategy follows from the assertion that economically active poor people fail to access financial resources from the traditional financial institutions (Khandker 1998, World Bank, 1998:2). Microfinance Institutions (MFIs) are the suppliers of financial resources to the poor. According to Robinson (2001:9) and Vincent (2004), about 90 percent of people in developing countries lack access to financial resources from formal institutions. Thus, microfinance has been held as a viable option in which the poor can access financial resources. Micro-financial services involve the offering of micro-credit, establishment of micro-savings, micro-insurance and village banking.

In the developing world, the microfinance sector is growing especially in areas that are not covered by the traditional financial system (Ledgerwood, 1999:3, Bossoutrot, 2005; Akinlo and Oni, 2012). For example, in Ghana and Tanzania, only 5 to 6 percent of the population has access to the formal banking sector (Basu, Blavy and Yulek, 2004:3; Hailu,2008). The other 94 to 95 percent relies heavily on micro-financial institutions (MFIs). Microfinance is found in both urban and rural areas. The greater populace in the rural areas lacks access to productive capital (Zeller and Sharma, 1998:1; Akinlo and Oni,2012). They often suffer from financial exclusion as traditional banks fail to offer them financial services. This has caused the majority of rural people to remain outside the mainstream of economic activity and often

trapped in poverty. Due to lack of access to banks, poor people have fallen prey to private informal money-lenders[1], who have tried to fill the gap created by the unavailable traditional banks (Zeller and Shama, 1998: 1, Armendariz de Aghion and Morduch 2005:27, Baumann, 2001:8; Quibria, 2012). Most of the private lenders charge extortionate interest rates and some insist on interlocked transactions such as tying the provision of loans to forward buying of crops when prices are typically at the lowest (Kandker, 1998). This practice is common in the rural areas. The poor rural population is often coerced into these interlocking agreements and consequently in the process, assets such as crops and other valuables are lost. Rural people are gradually stripped of their capital assets, thus reducing them to poverty.

Microfinance has recently gone under scrutiny after a series of suicidal cases in the "Andhra Pradesh province of Indian" (Kermeliotis, 2011:1). The crisis was connected to the failure by borrowers to honour their loan repayments. Teo Kermeliotis(2011), of the Cable news Network (CNN) wrote in a report titled *Experts warn: Africa must learn from India's microfinance problems*, that researchers have established mixed results on the impact of microfinance on poverty. The negative impacts could be a result of poor management of MFIs.

The greatest constraint to the growth and development of Microfinance Institutions (MFIs) the world over and Africa in particular is the lack of management capacity. A study carried out by Isern and Helms (1997) confirms this position (CGAP, 2009). The broad aim of the microfinance sector is to expand access by the poor people to financial services but this is hampered by operational risk, hence the need for effective operational risk management. Most MFIs have poor risk management processes. They fail because they do not have abilities to focus on problem detection (early warning systems) and prevention. They also lack early problem identification skills hence risk control remains a huge challenge. Risk management skills are an important ingredient for the growth and sustainability of MFIs. Such skills enhance detection and correction of problems early or actually preventing them from occurring.

Significance of the study

This study is deemed significant for microfinance institutions and the discipline of business management in general. Executive directors, Operations Managers, Finance Managers, Branch managers, Credit Managers and Board Members of MFIs desperately require solutions to the operational risk management challenge. It is anticipated that this study will benefit these groups of people in the effective management of microfinance institutions. The next section presents the problem statement.

Problem statement

The problem that this paper seeks to investigate is the prospects and challenges that exist in the management of risk in microfinance institutions. MFIs seem to be prone to a number of risks that include moral hazard, agency problem, and information asymmetry, financial, operational and marketing. These risks are life threatening to the existence and sustainability of microfinance institutions. Risk management is one of the crucial issues in the growth and development of any entity. This present article focuses on operational risk. The ability to manage operational risk will put the organizations at competitive positions hence enabling them to survive in the business environment. A number of MFIs face collapse or near-collapse because they are not capacitated to detect operational risks beforehand. These problems trouble the MFIs if they are not detected for the futuristic survival of the organizations. In Zimbabwe, most MFIs collapsed during the 2000-2009 period because of the difficult economic conditions. Operational risks weighed heavily on the organizations because they were not able to detect the risks in good time to avert such organizational life threatening conditions. Can MFIs manage operational risks? Are they capacitated enough to perform operational risk prevention activities? What are the challenges facing and prospects available for the MFIs? These questions beg some answers. The following section outlines the objectives of the study.

Objectives of the Study

The objectives of the paper are:

- To examine how microfinance institutions manage operational risks.
- To make policy recommendations to Zimbabwe, other countries and international organizations such as the IMF and the World Bank on how microfinance institutions can manage operational risks for sustainability.

[1] *Private informal money-lenders charge very high interest rates on loans. These have made borrowers poorer by making them to enter the borrowing cycle which they cannot break away from.*

Research Methodology

The research paper used qualitative methodology. A case study research design was used to relate operations of microfinance institutions to operational risk management. The Zimbabwean case was explored to gather information that will be used to enrich the findings of the research. Secondary data of MFI cases were collected from MFIs' reports, publications, journals and text books on operational risk management.

Delimitation of the Study

The study covered MFIs in Zimbabwe with some insights from Masvingo urban. Zimbabwe has experienced socio-economic and climatic challenges leading to food shortages. Erratic rainfalls and droughts have contributed to high poverty levels (Watkins, 1995: 12). Choice of the research area is based on the aforesaid premise. Identified microfinance institutions were visited to collect data on their operations. The study's focus is operational risk management by MFIs. The financial system in Zimbabwe does not cater much for the demand of financial services by the rural poor. This has seen the emergence of MFIs in both rural and urban areas.

Literature Review

Developing countries have large numbers of their populations living in poverty. The major problem is underdevelopment and marginalization of the poor and this is exacerbated by lack of access to capital (Zeller and Shama, 1998; Khandker, 1998; Baumann, 2001; Negash *et al*, 2002; Zeller and Meyer, 2003; Basu *et al* 2004; Quibria, 2012). Poverty is multi-dimensional and evasive, so there is no universal strategy for its alleviation. Microfinance has been used as a viable intervention in Bangladesh (Grameen Model), Benin, Brazil, Ghana, Malawi and Ethiopia. The success stories in those countries led to the emergence of microfinance institutions that aim to provide credit to the unbanked for socio-economic upliftment. The primary goal of microfinance is to reach the poor, especially the poorest of the poor, with credit (Robinson, 2001:22; Ayuub, 2013).

1.1 Conceptual Framework

1.1.1 Microfinance

"Microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income households and their microenterprises"(Asian Development Bank, 2007). At this juncture, it is important to note the difference between 'micro-credit' and 'micro-finance'. There are both functional and conceptual differences between "microcredit" and "microfinance" (Elahi and Rahman, 2006). Microfinance encompasses a number of financial services such as savings, insurance, money transfers, training, social engagements etcetera, over and above credit. Microfinance evolved and expanded from the narrow field of microcredit (Helms, 2006). Microcredit is a narrow view of giving small loans to poor people while microfinance is a more comprehensive concept that encompasses a wide range of both financial and non-financial services for poor people. Microcredit is based on the premise of a single "missing piece"-credit, in enterprise development (Ledgerwood, 1999:66).

The provision of financial resources to the poor is widely believed to increase the incomes and productivity (enterprise development) of the poor (Zeller and Meyer, 2003). This strategy follows from the assertion that the economical active poor fail to access financial resources from the traditional financial institutions (Khandker 1998, World Bank, 1998:2; Ledgerwood, 1999; Robinson, 2001; Helms, 2006; Quibria, 2012; Akinlo and Oni, 2012; OFID, 2012).

Microfinance attained recognition in the 1970s when Muhammad Yunus started (as a pilot project with his graduate students at Chittagong University) making small loans to the poor villagers in Bangladesh (Khandker, 1998; Zeller and Meyer, 2003; Robinson, 2001; Amendariz de Aghion and Morduch, 2005; OFID, 2012). Microfinance received worldwide attention when people started welcoming it as a poverty alleviation and employment creation strategy. Results from the popular Grameen model (started by Muhammed Yunus in 1976 in Bangladesh) were encouraging (Kandker, 1998, Robinson, 2001, Armendariz de Aghion, and Morduch, 2005; OFID, 2012; Ayuub, 2013).

Microfinance programmes gained momentum when Yunus managed to focus provision of microfinance resources towards poverty alleviation (Menon, 2005; OFID, 2012; Ayuub, 2013). The Grameen model used the group lending methodology as a way of delivering financial services to the poor people and their enterprises. Because the poor lack

physical collateral security, the model advocated for what it called "social collateral" which involved a peer pressure strategy among group members. The model is being replicated in a number of sub-Saharan African countries such as Kenya, Tanzania, Malawi, Ghana, Namibia, Lesotho, Swaziland, Mozambique, Zambia, and Zimbabwe just to mention a few. Debates and research activities have emerged on how microfinance should be delivered to benefit the poor to develop their enterprises, for poverty alleviation and employment. However, as indicated earlier, researchers have come up with mixed results on the impact of microfinance on poverty. On one hand, some have found evidence that it helps to reduce poverty (see for example Kandker, 1998, Nghiem *et al*, 2007; Kondo et al, 2008 and OFID, 2012). On the other hand, some have discovered cases where it has worsened poverty among the poor communities (see for example Woolock, 1999 and Rao, 2012). The latter could be attributed to poor operational risk management by MFIs.

1.1.2 Operations Management

Operations management is an area of management concerned with overseeing, designing, and redesigning business operations in the production of goods and/or services. It involves the responsibility of ensuring that business operations are efficient in terms of using as few resources as needed, and effective in terms of meeting customer requirements. It is concerned with managing the process that converts inputs (in the forms of materials, labor, and energy) into outputs (in the form of goods and/or services).

Sloan School of Management (2012), states that Operations Management deals with the design and management of products, processes, services and supply chains. It considers the acquisition, development, and utilization of resources that firms need to deliver the goods and services their clients want. What is operational risk management (ORM)?

1.1.3 Operational Risk Management (ORM)

The term Operational Risk Management (ORM) is defined as a continual cyclic process which includes risk assessment, risk decision making, and implementation of risk controls, which results in acceptance, mitigation, or avoidance of risk (Rifaut and Feltus, 2006). ORM is the oversight of operational risk, including the risk of loss resulting from inadequate or failed internal processes and systems; human factors; or external events (Federal Aviation Administration (FAA) System Safety Handbook, 2000).

For microfinance institutions (MFIs), they need to follow the process so as to realize survival and sustainability. Weak internal controls lead to fraud (World Council of Credit Unions, 2002) and other unethical activities. The function of operational risk management is to pre-empt such activities and also protect the integrity of the employees of the organization. ORM is organized into three levels.

1.1.4 Three levels of ORM

1.1.4.1 In Depth

In depth risk management is employed before project implementation. This is because it needs ample time for preparations and project planning. Usually, failure to plan contributes to a number of operational problems. Microfinance institutions need human capital development so as to be capacitated in the field of operational risk management. Examples of in depth methods include training, drafting instructions and requirements, and acquiring personal protective equipment (Consultative Group to Assist the Poor (CGAP), 2009).

1.1.4.2 Deliberate

During the implementation of projects or processes, there is need to do deliberate risk management routine periods. These include quality assurance, safety briefs, on-the-job training, performance reviews, and safety checks.

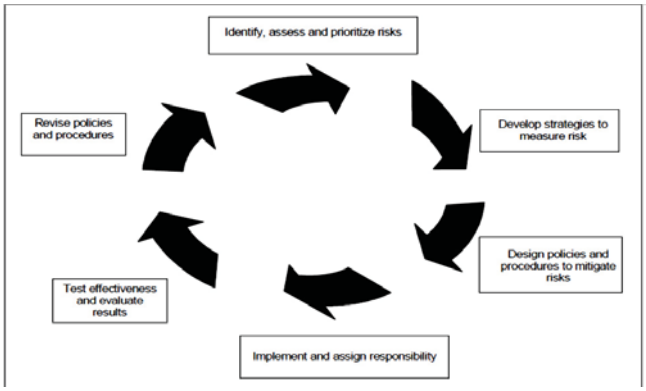
1.1.4.3 Time Critical

During operational exercises or execution of tasks, time critical risk management is used. It represents the effective use of all available resources by individuals, crews, and teams to safely and effectively accomplish the mission or task using risk management concepts when time and resources are limited. Execution check-lists and change management are

examples of tools that can be used. A higher degree of situational awareness is required by MFIs. Risk can also be managed using what Nocco and Stulz (2006) called Enterprise Risk management (ERM).

The risk management and feedback loop provides a guideline for the strengthening of operational risk management among MFIs. Figure 1 below illustrates the feedback loop.

Figure 1: Risk Management and the Feedback Loop



Source: GTZ (2000:34)

The loop shows six stages starting with risk identification and prioritization. This is followed by development of strategies to measure risks and then design policies and procedures to mitigate them. Implementation and assignment of responsibilities then follows to ensure that risk management is done and the policies and procedures are effectively implemented. The results are then tested and evaluated to ensure effectiveness. Such monitoring and evaluation will help the organization to close gaps (if any). This will then help in the revision of policies and procedures to ensure that they are watertight. The cycle is important for the effective management of risks by organisations.

1.2 Theoretical Framework

The paper employs the Operational Risk Management Maturity Model (ORMMM). The model asserts the need for institutions to grow to maturity in the management of operational risk. Growth stages should be realized so as to achieve maturity leading to effective operational risk management. Table 1 below summarises the stages in the ORMMM.

Table 1: The Operational Risk Management Maturity Model (ORMMM).

Maturity Level	Criteria
1. Initial	Management recognizes that Operational Risk Management needs to be addressed but there are no standardized processes in place and Operational Risk issues (such as major losses) are only addressed reactively.
2. Managed	Management is aware of Operational Risk Management issues, and selected processes have been identified and implemented, but standardized measurement has not been implemented across the organization.
3. Defined	Standardized Operational Risk Management processes are in place across the organization, performance is being monitored but root cause analysis of problems is only occasionally being applied.
4. Quantitatively Managed	Standardized processes are in place and responsibilities and process ownerships are clearly defined. Operational Risk Management processes are aligned with business strategy. Quantitative measurements, such as Key Risk Indicators (KRI), are in place for all processes and economic capital is being allocated against these measures. However, there are no continuous improvement programs in place to align Operational Risk with the organization's 'risk appetite'.
5. Optimized	'Best practice' Operational Risk Management processes are in place and are closely aligned with business strategies. Costs and benefits of Operational Risk Management are defined, are balanced against risks and are communicated and applied across the whole organization.

Source: McConnell (n.d: 10)

Research Findings and Analysis

Microfinance in Zimbabwe is not well developed. The sector is still adjusting to the realities of what has been dubbed "the lost decade". Economic meltdown characterized the Zimbabwean economy between 2000 and 2008. Currently, the MFIs are adjusting to the new socio-economic realities as the country emerges from the crisis. Before 2009, hyperinflationary conditions had seriously eroded the value of the Zimbabwean dollar. Table 1 below gives a snapshot of the inflationary conditions during the time.

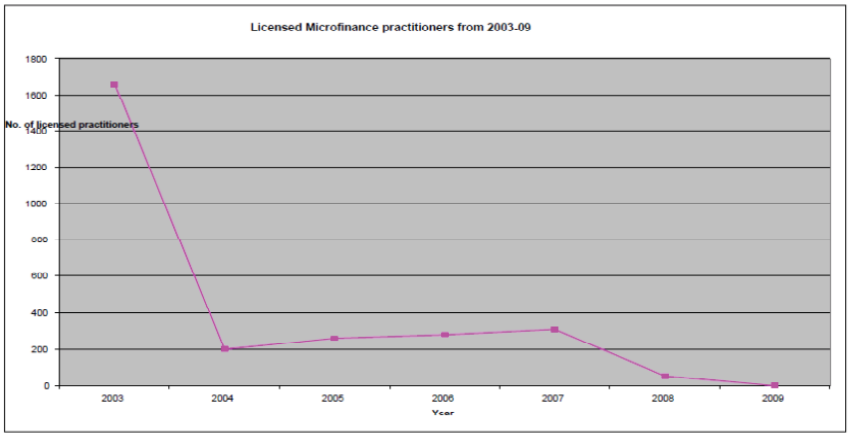
Table 1: Inflationary Conditions in Zimbabwe (2002-2008)

Year	2002	2003	2004	2005	2006	2007	2008
Inflation rate (consumer prices)	134.50 %	384.70 %	133.00 %	266.80 %	976.40 %	12,563.00 %	11,200,000.00 %

Source: http://en.wikipedia.org/wiki/Hyperinflation_in_Zimbabwe: Date accessed, 10 August 2009; Makina,2010 and IMF,2009).

According to the Reserve Bank of Zimbabwe (RBZ) (2012), there are about 172 MFIs in Zimbabwe. Recently, the RBZ in its *2012 Mid-Term Monetary Policy Statement* announced that "The governance malpractices that have also affected moneylending institutions, saw operating licenses for two institutions notably, McDowell's International and All Angels being cancelled"(RBZ, 2012:24). This is a clear sign that the sector seriously suffers from operational risks, hence the need for operational risk management. Historical developments show that the Zimbabwean microfinance sector used to be large but has since been shrinking. In general, there were 1600 microfinance providers in 2003 but they decreased to 200 in 2004 (87.5% fall). In 2007, probably due to the emergence of cross-border traders, providers increased to 309 (54.5% increase) but latter reduced to 150 (51.5% fall) and 27 (82% decline) in 2008. Recently, the number has climbed to 172 MFIs (84% increase) (RBZ, 2012). Refer to figure 2 below.

Figure 2: Licensed Microfinance Practitioners From 2003-09



Source: Klinthamer (2009:22)

1.3 Operational Risks

MFIs face a myriad of risks. GTZ (2000) identifies major risks to be financial (credit, liquidity and market); operational (transaction, integrity/fraud, legal/compliance) and strategic (governance, reputation and external business). "Operation risks arise from human or computer error within daily product delivery and services. It transcends all divisions and

products of a financial institution" (GTZ, 2000:17). Under the operational risks category lays transactions risks, integrity (or fraud) risk, and legal (or compliance). As indicated earlier, this paper focuses on operational risks.

1.3.1 Transaction risks

Transaction risks arise from daily business transactions. Daily financial transactions require cross-checking so as to avoid errors and/or fraud. Most MFIs are constrained in this area because their transactions are small, making them cost-ineffective in cross-checking. Further, most MFIs do not have the capacity to employ highly qualified personnel that are trained and/or experienced to handle such cross-checks and get rid of the errors. According to GTZ (2000:18), "for MFIs, cash transactions associated with lending are usually the main source of operational risk".

GTZ (2000) outlines common operational risks of MFIs in Box 1 as:

Box 1: Common Operational Risks of MFIs

- The MIS does not correctly reflect loan tracking, for example information disbursed, payments received, current status of outstanding balances
- Lack of effectiveness and insecurity of the portfolio management system, e.g. external environment is not safe, software does not have internal safety features (that is no backups), inaccurate MIS and untimely reports.
- Inconsistencies between the loan management system data and the accounting system data.
- Misrepresentation of loan payoffs, e.g. through refinancing, payoffs with inadequate collateral or postdated checks.
- Rescheduling disguises loan quality problems, e.g. rescheduled loans treated as on-time.
- Inconsistent implementation of the loan administration.
- Lack of portfolio related fraud controls, e.g. no client visits to verify loan balances
- Loan tracking information is not adequate, e.g. no aging of portfolio outstanding, inadequate credit histories.

Source: GTZ(2000:18)

Such risks can be reduced or eliminated through standardization of cash transactions, *ex-ante* (cross-checking) and *ex-post* (internal audits) controls. MFIs could also use computer systems to reduce human error. This calls for the development of a sound management information systems department.

1.3.2 Fraud or integrity risk

Fraud or integrity risk involves planned deception by either an employee or a client of the institution. Resultantly, the organization sustains a financial loss. Direct theft by loan officers or other staff members is common with MFIs. Bribes, phantom loans, misleading financial statements and 'kickbacks' are some of the fraudulent activities that are common among MFIs. Such activities are cancerous since they can be shared by the employees. If due care is not taken, a fraudulent culture may develop in an institution. What is then vital is to ensure internal controls. Effective checks and balances need to be in place. Procedures and policies have to be adhered to without any compromise. A case of M-CAP will help us to have an understanding of the scenario.

M-CAP is an MFI that helps the poor with loans for the execution of their projects. Policies and procedure of the institution were not very tight such that it incurred substantial losses in terms of cash leakages. Such irregularities were manifested by how cash was handled by field officers. The organization allows field officers to collect repayments from clients in the villages. In 2000, a loan officer would collect money but on return he would submit part of the collections. Due to poor checking mechanisms, it took long to detect the problem. Later, it was discovered that he was defrauding both the clients and the organization. In trying to correct the issue, the officer turned violent and shot the investigating officer, the branch manager and later turned the pistol on himself. Such circumstances are a result of poor operational risk management. With good checks and balances, such would not have happened.

In the same organization, one of the staff members organized a trip to meet donors in the United States. His itinerary was to allow him to pass through the United Kingdom to attend a workshop there. On arrival in the UK, he decided not to return and he is still in the UK since 2004. The MFI was defrauded of a lot of money that was used for the

whole unfruitful trip. We could learn from K-REP's Fraud Reduction Approach. K-REP is an MFI in Kenya that has developed into a microfinance bank.

Box 2: K-REP's Fraud Control Approach

To reduce its exposure to fraud risk, K-Rep employed the following mechanisms:

1. Introduced an education campaign to encourage clients to speak out against corrupt staff and group leaders.
2. Standardized all loan policies and procedures so that the staff cannot make any decision outside the regulations.
3. Emphasized management training to increase managers' capacity and to introduce strict supervision processes.
4. Established an inspection unit that performs random operational checks.
5. Enforces the following human resource policies:
   - fire staff involved in fraud immediately
   - maintain a profile of fraudulent staff and use it to refine recruitment
   - refrain from posting staff to home areas to reduce the opportunity andtemptation to collude
   - make loan products available to staff
   - pay staff well relative to other available job opportunities in the area
   - rotate staff regularly within a branch

Source: GTZ(2000:20)

1.3.3 Legal and Compliance Risk

This risk involves failure by the operating institution to comply with the rules and regulations of the land. In Zimbabwe, the microfinance sector is guide by unclear pieces of legislation. The Moneylending and Interest Rate Act (Chapter 14:14) of 1930 is used to supervise the MFIs but it is too old to be in line with the new realities of the sector. The Cooperative Societies Act (Chapter 24:05) of 1990 is used to control cooperative MFIs. Zimbabwe's National Microfinance Policy which is still at its draft stage (ironically) has been the long awaited piece of legislative document by the MFIs. They have also been under the guidance of the Banking Act. Recent efforts are being made to ensure that the MFIs are controlled by the Microfinance Act that is awaiting approval by the parliament. Mpofu (2012) reported that "According to a Bill gazetted last Friday[August,2012], microfinance institutions, which previously were regulated by the Banking Act, could soon be regulated by the Microfinance Act, should the Bill sail through Parliament and signed into law". Once the bill is turned into law, MFIs will have an act that is specific to their operations.

The legal uncertainties in the microfinance sector have plunged many MFIs into illegal operations due to non-compliance, partly due to ignorance of the law. Alas, common law states that *"ignorantia legis neminem excusat" (Latin)* meaning "ignorance of the law excuses no one." For compliance, the MFIs are required by the RBZ (their supervisor) to observe the rules pertaining to interest rates, deposit-taking, collateral security and loan disbursements. Many have been found on the wrong side of the law.

Referring to MFIs in Zimbabwe, the RBZ governor, in his *2012 Mid-Term Report* lamented that "As Monetary Authorities, we note with concern numerous malpractices by microfinance institutions ranging from engagement in non-permissible activities, inadequate disclosure of business conditions, usurious lending rates of as high as 50% per 27 months or 600% per annum simple interest (or 12,874.5% compounded) and abusive debt collection practices including disposal of pledged collateral without following due legal processes"(page 27).

The concern is an indication of what is going wrong with MFIs in Zimbabwe. Non-compliance is a serious risk that has disadvantaged many members of the public. Such fraudulent operations have tarnished the image of the sector in the country. Consequently, it impacts negatively on the sustainability of MFIs in the country. Examples of McDowell's International and All Angels are sad cases of non-compliance. The two organisations were not prudent enough to study the rules and regulations. On the other hand, it appears to be a flagrant disregard of the law. Another MFI, Paramount Holdings, is facing serious challenges due to poor management of funds (The Herald, 2012). An investor interviewed by the media was quoted saying "On July 1, when I visited Paramount to collect my monthly interest, I was told that the company had no money. After six days, I received a message from Paramount stating that they had been ordered by the

Reserve Bank of Zimbabwe to close their doors to the public." This is a clear sign that there is little or no operational risk management taking place within the MFIs. Masvingo Teachers Savings Credit and Cooperatives Society (MTSACCOS) is another institution that has experienced operational problems. The microfinance institution collects deposits from teachers, who are members of the society. MTSACOOS was formed by a group of teachers and they make their savings and then withdraw after some time. In 2007, the organization faced serious challenges as it experienced a 'bankrun'. Members lost confidence in the management of the institution and panic withdrawals were instigated leading to serious problems within the organization. Misuse of funds was not recorded but the staff employed by the organization were not trained to detect problems. The inefficiency was responsible for the problem, hence the need for capacity building along the lines of operational risk management.

Conclusion and Recommendations

The paper suggests an investigation into the challenges and prospects of microfinance institutions' (MFIs) operational risk management activities. It is generally argued that MFIs have limited capacities in the management of operational risk. A number of factors could be responsible for the poor capacity in ORM. These may include, untrained managers, poor resources, lack of political will, among other things. This paper attempted to investigate the ORM challenges of MFIs. Poor operational risk management by MFIs has led to the collapse of many. The arguments were supported by the review of literature and theoretical underpinnings. Using secondary sources, the challenges found include transaction risks, fraud (for example M-CAP) and legal risk (for example McDowells International, All Angels and Paramount Holdings). Their practices created a financial bubble that reached the bursting point. It is therefore recommended that the K-REP's control mechanism be replicated in Zimbabwe. Legal uncertainties should also be removed to allow an enabling legal environment for MFIs. The major recommendation is that MFIs must strengthen their operational risk management in order to survive. Further research needs to be carried out so as to finds ways of developing an ORM model for MFIs in the country.

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