

ASSESSING THE EFFECTIVENESS OF INTERNAL RISK MANAGEMENT PRACTICES ON PROJECT PERFORMANCE: INSIGHTS FROM MALAWI'S NATIONAL ECONOMIC EMPOWERMENT FUND

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ABSTRACT

Public microfinance institutions face high levels of operational risk, which is not always caused by borrower default. This study examines internal operational risk management practices and project performance at the National Economic Empowerment Fund (NEEF) in Malawi, which has incurred losses, with K206 billion still unrecovered in loans despite several reforms. A mixed-methods case study design, combined a nine-item risk management scale and a four-item performance scale with open-ended questions, was distributed to 66 NEEF employees. Both scales showed good reliability ($\alpha = 0.870$ and 0.819). Pearson correlation ($r = .626$, $p < .001$) and regression analysis ($R^2 = .392$, $F(1,64) = 41.196$, $p < .001$) shows a positive relationship. Explained variance 13.4-34.3% supported all six hypotheses. Thematic analysis identifies leading challenges, namely, weak credit appraisal (30.3%) and political interference (21.2%). Findings of the study indicate that the lack of performance at the institution comes from the inconsistent implementation rather than the lack of risk frameworks, extending ISO 31000:2018, ERM, and stakeholder theory to a public microfinance setting.

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1. INTRODUCTION

Public microfinance institutions play a big role across sub-Saharan Africa when it comes to development in the form of financial support, as they are expected to provide financial inclusion while maintaining repayment discipline and operational control (Remer & Kattilakoski, 2021). Public microfinance institutions are vulnerable to high levels of operational risk due to the dual mandate it serves, and most of the time, the blame falls on the borrowers' side or macroeconomic factors, ignoring

internal organisational systems (Xu et al., 2017, Rampini et al., 2020).

The National Economic Empowerment Fund of Malawi illustrates this image. Established to support neglected groups rejected by private institutions, youth, small and medium enterprises, and women, NEEF has undergone several institutional transitions, including the change of name and operating mandate from the Malawi Enterprise Development Fund in 2020, and continues to record substantial financial losses and unrecovered loan balances despite repeated reforms (Theinv, 2026). These developments raise an unresolved question about the

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adequacy of internal operational risk management practices in the institution.

In early 2026, the newly appointed board initiated a wide-scale loan recovery campaign with a 60-day ultimatum and proposed to rebrand its name back to MEDF, while the former chief executive officer was answering charges in connection with the mismanagement of funds (Theinv, 2026). These developments raise questions about the effectiveness of the internal operational risk management within the institution.

The study examined sub-Saharan Africa literature on credit risk and financial performance (Adhikari et al., 2024; Baltas et al., 2025; Dube et al., 2023; Moreno-Menéndez et al., 2025; Olweny, 2023), and local Malawian literature (Chirwa et al., 1999; Kayemb et al., 2021; Mwagomba & Nayagam, 2025; Phiri & Tony, 2024). Both indicated difficulties in microfinance institutions, and yet little is known about public microfinance institution internal operational risk management practices, such as risk identification, assessment, mitigation, monitoring, and reporting, which influence project performance. NEEF Malawi, as a public institution, faces governance pressures which is not the same to private owned institution (Basikolo & Kumwenda, 2024).

The study partially addresses the gap by examining the relationship between operational risk management practices and project performance at NEEF Malawi. Four objectives guide the study:

1. To assess the internal operational risk management practices currently used by NEEF Malawi.
2. To examine the relationship between internal operational risk management practices and project performance outcomes at NEEF Malawi.
3. To identify internal operational risk-related challenges affecting project performance at NEEF Malawi.
4. To assess areas for improving the internal operational risk management framework at NEEF Malawi.

The study was guided by ISO 31000:2018 risk management principles, Enterprise Risk Management (ERM) theory, and Stakeholder theory to interpret its findings.

The study contributes in two important ways. First, on the theoretical side, it provides direct evidence for the key claim in Enterprise Risk Management (ERM) theory that dimensions of risk work best when considered as one. The combined model explained more of the variation in performance ($R^2 = .392$) than any single dimension on its own ($R^2 = .343$, the strongest individual result). To our knowledge, no previous study has reported this kind of comparison in public microfinance sector risk management studies. The analysis also shows that stakeholder theory is very important when it comes to understanding performance weakness caused by political interference, which cannot be fully explained by ISO 31000:2018 and enterprise risk management (ERM) theory. Secondly, methodological side, the study introduces a clear mapping process that links each theory directly to questionnaire items (see Section 3.4). This

approach allows for triangulation between quantitative and qualitative evidence, but also creates the template for future researchers interested in public microfinance research in the region. The rest of the paper reviews the relevant literature and sets out hypotheses, explains the methodology, presents the findings, interprets them, and concludes with implications, recommendations, and limitations.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1 Credit Risk Management Practices

Credit risk management ensures organisational sustainability as it removes or minimises risks before they happen by putting in place guidelines that can be followed by employees whenever they face or identify risks during the loan process (Zamore et al., 2018).

Private financial institutions in Nepal have been examined in recent work (Adhikari et al., 2024). They highlighted the significance of formalised risk management strategies, yet failed to consider the critical distinctions related to public ownership and policy influence that differentiate public development finance institutions from private sector institutions, such as those in Malawi. The study used 25 microfinance institutions' data between 2016 and 2023, the general method of moment's estimator (GMM) and key variables on financial indicators. In the African context, especially in Malawi, assessed credit rating techniques at NEEF's Mangochi branch (Basikolo & Kumwenda, 2024). The study used a mixed method with 36 sample size and concluded that at NEEF, the effectiveness of the credit technique was moderate yet affected by macroeconomic factors.

Examining how the COVID-19 pandemic affects the microfinance industry globally, with emphasis on operational and financial sustainability. The author uses empirical analysis using secondary data. It focuses on comparing global microfinance institutions across the regions with key variables such as loan repayment rates, operational costs, digital adoption, and client vulnerability. The pandemic disrupted the repayment process and increased the default rate, operational costs increased due to health protocols and digital transitions, while microfinance institutions that rely on technology showed greater resilience (Lee et al., 2025). The study only focused on the start of the pandemic, which failed to capture other years for comparison on its adaptation and performance.

Examining strategic approaches to enhancing credit risk management in MFIs in Africa (Omowole et al., 2024). The study focused on credit risk management strategies by reviewing secondary data. Findings demonstrate that there is a need to segment risk analysis using demographic or behaviour data, predictive analytics and machine learning, to keep up with the fast-growing technology. Furthermore, the use of real-time monitoring with early warning indicators, institutional improvements such as

compliance and training, and portfolio diversification, which are very crucial in microfinance, such as NEEF, can help in forecasting repayment behaviour and improving risk assessment (Omowole et al., 2024). There is limited empirical testing, and strategies are proposed conceptually rather than validated with field data.

These findings were reinforced by examining Kenyan MFIs' liquidity, operational, credit, and market risk management practices, which influence financial performance positively (Olweny, 2023). Similarly, the Ethiopian MFI's study uses the Generalised Method of Moments (GMM) to find out that financial leverage and interest rate risk harm returns, while performance shows positive persistence (Molla & Kaur, 2025). While in Cameroon, the study shows that credit risk identification, assessment, and monitoring influence MFI financial performance (Ngwah et al., 2023).

2.2 Operational Risk Management

Operational risk management refers to a systematic process where an organisation identifies, assesses, and mitigates risks that arise or might arise within the organisation in its day-to-day operations to avoid any disruptions and minimise losses. When internal processes, people, systems, or external activities affect the institution's activities, is called operational risk (Xu et al., 2017). Risk sometimes arises from the negligence of the management or an external event such as COVID-19, which affected the supply chain line creating a bottleneck for organisations.

Analyses the internal audit functions of 1025 MFIs across 63 developing and transitional economies, which led to the conclusion that weak internal governance structures remain a major challenge for MFIs such as NEEF Malawi (Omidiji et al., 2023). A previous study found that the effective practices of operational risk management are positively linked to institutional performance. The study focuses on operational risk management in West African Economic and Monetary Union (WAEMU) banks, utilising the Pool Mean Group (PMG) estimator (Tape & N'dri, 2023). In Malawi, a similar study used doctrinal analysis to expose the legal and ownership conflict that existed in NEEF's shareholder structure. The author argues that the ownership of the Malawi government (Ministry of Finance) affect operational risk controls in the institution (Kampanje, 2023). The research focuses only on acts such as the Malawi Companies Act 2023, the Public Finance Management Act 2020, and the Securities Act, which were secondary sources, thereby limiting the empirical evidence.

Another study reviews that credit risk management had a significant negative impact on financial performance, while operational efficiency negatively impacted return on assets (ROA). It used panel data regression using the generalised method of moments (GMM) with key variables of lagged profitability, productivity, and MFI size. 44 MFIs in southern Africa were used by focusing on the period from 2012 to 2018 (Dube & Kwenda, 2023).

The study lacks the inclusion of public finance institutions, which are essential to this study.

A previous study conducted on operational risk management established that the microfinance institution failed due to a failure to pay attention to operational risk. The author tries to review the legality of government ministries that act as shareholders of NEEF. The study used doctrinal legal analysis by comparing the Malawi Companies Act 2023, Public Finance Management Act 2020, and Securities Act, and a case study approach targeting NEEF with the key variables such as shareholding structures, legal frameworks, governance practices, and accountability mechanisms. The findings of this research show that legal conflicts exist among Acts such as the Malawi Companies Act 2013 and the Public Finance Management Act 2022, where clarifications and governance of public organisations (state-owned enterprises) as some do not require capital as a requirement, but also there is a weak accountability and issue of governance (Kampanje, 2023). The research only focuses on acts and secondary sources, hence limiting empirical evidence.

2.3 Role of Monitoring and Analysis

The previous study on the title risk management practices and performance of projects in Kenya Power Limited, focused on risk planning, detection, analysis, and control, and it utilises descriptive statistics to analyse a selected sample size of 198 participants. The outcome of the study was that risk management procedures significantly enhanced project performance, followed by structured planning and identification, further improved outcomes, while projects performed better when risk analysis was prioritised at the beginning. The author recommended risk planning to strengthen systems, prioritising risk detection techniques, but also developing and strengthening risk management procedures (Nguru & Kinoti Kaburu, 2023). This study provides insightful knowledge; however, it lacks generalisation across the industries as it focuses only on private institutions.

2.4 Risk Management and Project Performance

The consistency from the findings of previous studies suggests that stronger risk management practices help to improve project performance or institutional performance. Recent studies evaluated risk identification, appraisal, control, and monitoring variables in Ghanaian MFIs, which confirm positive effects on financial performance. A similar link was also discovered in a study of Nigerian manufacturing institutions. Another study concluded that effective utilisation of funds and well-structured risk management practices across 1,326 MFIs globally influence operational efficiency and organisational sustainability (Akinleye & Olanipekun, 2021; Baltas & Liñares-Zegarra, 2025; Ewool & Quartey, 2021).

2.5 Research Gaps

Previous authors made significant contributions and progress to the literature, but there remain important gaps, as they focused on credit risk (Adhikari et al., 2024; Basikolo & Kumwenda, 2024; Olweny, 2023) and neglected to include the most crucial part of operational risk management in public MFIs such as NEEF Malawi. It is nearly impossible to find Malawi-specific research on operational risk management in public institutions, and the examination of sustainability factors in Malawi MFIs (Kayembe et al., 2021) and analysing the regulatory challenges in sub-Saharan Africa (SSA), the study failed to provide enough evidence on how internal operational risk practices can directly influence project performance (Nambie et al., 2024). The recent evidence emphasises the need for financial institutions to combine risk management and human talent development (Molla & Kaur, 2025; Moreno-Menéndez et al., 2025). Yet still lacks a Malawian context and a public institution focus. This study, therefore, tried to address these gaps by examining internal operational risk practices, how it is related to project performance, and challenges that affect NEEF Malawi.

2.6 Theoretical Framework

The study was guided by three theories. ISO 31000:2018, that help to set the standard for risk management and helps to review the NEEF risk management process (from identification, assessment, treatment, monitoring, and communication) across all departments, rather than focusing on a single area of the process (Hutchins, 2018; ISO, 2018). Enterprise Risk Management (ERM) theory continues by viewing risk governance as an interconnected process where an impact or change in one thing affects the whole process of risk management or the organisation's structure. That is, if NEEF face weakness in its identification process, then the rest of the process is affected, regardless of how good other processes have been followed (Jankensgård, 2019). The study highlights that the relationship between governance and performance is strengthened through the integration of ERM theory. Stakeholder theory focuses on stakeholders' interests, as they are the ones who provide resources, oversight, and legitimacy, and on aligning with the organisation's interests for better performance outcomes (Freeman et al., 2020; Mahajan et al., 2023). Public microfinance institutions like NEEF are composed of taxpayers, oversight bodies such as the Reserve Bank of Malawi (RBM), and borrowers themselves; hence, the failures in risk management cannot only affect the organisation's financial loss, but also loss of public trust and legitimacy (Danso et al., 2020).

2.7 Hypotheses Development

From this literature, six hypotheses were formulated linking specific risk management sub-dimensions

consistent with the ISO 31000:2018 risk cycle to corresponding project performance indicators:

- H1. Internal risk identification practices are significantly related to the quality of projects implemented by NEEF Malawi.
- H2. Risk assessment procedures are significantly related to loan repayment performance.
- H3. Internal control systems are significantly related to project cost management.
- H4. Risk monitoring frequency is significantly related to timely milestone completion.
- H5. Risk mitigation strategies are significantly related to overall project performance
- H6. The accuracy and timeliness of risk reporting are significantly related to the overall project performance.

As detailed in section 3.4, the questionnaire's four-item project performance scale (PP1-PP4) measures project quality, repayment performance, cost management, and timeliness. Stakeholder satisfaction or long-term sustainability did not have a corresponding item; therefore, H5 and H6 were tested against overall performance (PP_Total) rather than as separately measured hypotheses, and this measurement limit is disclosed here before the analysis rather than only in the results.

3. METHODOLOGY

3.1 Research Design

This study adopted pragmatism as its philosophy, allowing the researcher to apply flexible, practical solutions to the problem at hand rather than adhering strictly to a process such as positivist or interpretivist approaches. Using a mixed-methods research approach enabled the researcher to work with both qualitative and quantitative data sets in investigating NEEF issues (Elgeddawy & Abouraia, 2024). The researcher used a descriptive case study design for an in-depth investigation of NEEF microfinance institution issues, such as governance and operations.

The problem facing NEEF, Malawi, such as institutional culture, accountability, and pressure from stakeholders, needs both numerical measurement and qualitative explanation to identify the relationship between risk management and project performance, which, by using a single approach, could not have achieved (Schoonenboom, 2023). Simultaneous collection of data from the respondent using the same instrument ensured that a triangulation process was easy during data analysis (Schlunegger et al., 2024; Hossein et al., 2024). The National Economic Empowerment Fund (NEEF), Malawi, currently rebranded back to Malawi Development Fund (MEDF), was selected due to being a limited, identifiable public microfinance institution with known risk management challenges and publicly reported performance outcomes, making it a qualified case study

to be studied (Creswell, & Creswell, 2018; Yin & Mali, 2023).

To establish appropriate and accurate background-specific loss figures, restructuring, and rebranding dates, and ongoing legal proceedings, a small number of institutional and news media sources were cited in this paper (Nyasa Times, 2026; Mpinganjira, 2026; Piringu, 2026; Sambalikagwa, 2020; Viano, 2026). As no peer-reviewed academic source exists, there are recent (2020-2026) organisational developments rather than the subject of published research. The sources are not used as a basis for any analytical, theoretical or statistical claim in the paper.

3.2 Population and sampling

The target population by the time of this study was 107 NEEF employees, following the November 2025 organisation restructuring (SignalHire, 2026). Using Krejcie and Morgan's (1970) formula, an 84 sample size was calculated at 95% confidence level with a 5% margin of error, which is enough to proceed with the research according to the published social science guidance on research (Renthlei & Lallawmkima, 2025; Tajik et al., 2025).

To ensure that each group of the target population was represented, purposive sampling was used to select the participants from the departments directly involved in day-to-day risk operations, namely: Risk and Compliance, Finance and Accounts, Loan processing and credit, field officer, Recoveries and Collections, Monitoring and Evaluation, Information Technology, Internal Audit, Human Resources, and Senior Management (Tajik et al., 2025). The study also included inclusion and exclusion criteria to protect the integrity of the sample by selecting respondents who had worked for more than three months, had hands-on experience, and were directly involved in

risk-related activities. It also excludes ex-employees who were laid off (Patino, 2025; Willie, 2022).

3.3 Data Collection Methods

Using a self-administered online questionnaire distributed via internal communication channels with support from the human resource department, data were collected in March 2026. The instrument contains Likert-scale items measuring internal operational risk management practices (RM1-RM9) in line with ISO 31000:2018 standards, and four Likert-scale items measuring project performance (PP1-PP4). It also includes an open-ended qualitative section to gain a deeper understanding of institutional challenges and improvement priorities (Ajayi, 2025; Kelly et al., 2024). The preliminary reliability assessment, prior to full development of the questionnaire, was conducted using a pilot study with 10 employees outside the final sample (Lowe, 2019). Of 84 questionnaires distributed, 70 were returned, representing 83%. Incomplete and inconsistent responses were removed after data cleaning, leaving 66 valid cases, representing 78% of the targeted sample for analysis (Ericson et al., 2023; Liu et al., 2026). The researcher obtained ethical approval from the University of Malawi Research Ethics Committee (UNIMAREC). Written informed consent was shared with participants through the NEEF human resource office, and no names were collected during the study.

3.4 Concept Operationalisation

To clarify how the study's three theoretical frameworks were translated into measurable questionnaire items, Table 1 below summarises the correspondence between each theoretical construct, its ISO 31000:2018 risk cycle, where applicable and the specific items used to operationalise it.

Table 1. Theory to item mapping.

Theoretical Concept	ISO 31000:2018 stage	Operational definition	Item(s)
Risk identification	identification	Standardised tools, procedural loophole detection	RM1-RM3
Risk assessment/ internal control	Assessment, treatment	Credit assessment tools, approval procedure, and internal controls	RM4-RM6
Risk monitoring	Monitoring review	Post-disbursement site visits	RM7
Risk reporting	communication	Prompt internal risk reporting	RM8
ERM integration (technology)	ERM theory	Real-time high-risk account flagging	RM9
Project performance	Dependent variable	Quality, repayment, cost, timeliness	PP1-PP4
Stakeholder Theory		Not operationalised as a Likert subscale; evidenced through the qualitative theme of political interference	

As per Table 1, evidence shows that Stakeholder Theory was not used in Likert scale items in the original instrument. Its contribution to the findings is shown through qualitative (Section 4.4) rather than through a

dedicated scale. This discloses it as a design limitation rather than claiming the theory was fully used.

3.5 Data Analysis

Using the IBM SPSS Statistics, the researcher proceeded to do quantitative analysis, namely, descriptive statistics and frequency distributions for profiling and grouping scale-item responses, Cronbach's alpha to assess internal consistency reliability for both scales before conducting inferential testing, Pearson correlation was also used to assess the bivariate relationship, and OLS regression with separate models for each hypothesis to measure analytical strength and direction (Amirrudin et al., 2021; Field, 2024; Pallant, 2020). Using thematic analysis, the researcher examined qualitative responses by coding, identifying patterns, and combining themes, which were triangulated against the quantitative findings to ensure that statistical patterns were aligned with operational realities described by the respondents (Schlunegger et al., 2024). A Cronbach's alpha of 0.70 was adopted as the minimum for acceptable scale reliability (Edelsbrunner et al., 2025; Taber, 2018).

3.6 Qualitative Analysis and Trustworthiness

Thematic analysis of the 66 open-ended responses was carried out in three stages. The first were to fully read all responses, during which short descriptive labels were assigned to different ideas as they emerged. Secondly, grouping the codes into categories based on conceptual similarity, lastly, the selected group were narrowed down into six themes presented in Table 3 (section 4.4), each followed by a clear inclusion rule to keep classification consistent. To strengthen the credibility of this process, a research supervisor reviewed a sample of coded transcripts independently, and any disagreements were worked through and the codebook adjusted before coding was finalised. It is worth noting that a formal inter-rater agreement statistic, such as Cohen's Kappa, was not calculated across a full independent double coding of the dataset, and this gap is acknowledged as a limitation in section 6.1. The themes that emerged were cross-checked against the quantitative results, ensuring that statistical patterns were read in light of the operational realities respondents actually described.

3.7 Validity and Reliability

To ensure that the collected data were valid and reliable, the researcher coordinated with the supervisor to review the questionnaire and conducted a pilot phase to perfect the questions, keeping in mind the standards for ISO 31000:2018, the key informant interview guide. For consistency and reliability, the study first used Cronbach's alpha during the pilot phase to ensure that the questionnaire contained valuable, meaningful questions, and again in the final analytical dataset, which helped the research confirm the reliability of the risk management and project performance scales before inferential analysis. Cronbach's alpha is a statistical measure that helps researchers refine the questions by assessing the consistency among respondents, and it is measured on a

scale of 0 to 1. Any outcome above 0.70 is considered to be good and acceptable (Edelsbrunner et al., 2025).

4. FINDINGS

4.1 Respondent Profile

Of the 66 valid respondents after data cleaning, 72.7 per cent were male, and 25.8 per cent were female from all departments within NEEF that took part, and the largest representation was from Recoveries/loan collections (16.7 per cent), IT (15.2 per cent), and 13.6 per cent from finance. Purposive sampling helped prioritise departments directly connected to operational risk management; hence, all genders were given a chance to take part in the chosen departments, which is also similar to other documented microfinance literature (Hossain, 2024). From the population of the respondents, about 60.6 per cent had three years of service or fewer, giving the study a better understanding on effective of restructuring and its impact, while 39.4 per cent of respondents had four or more years of service at NEEF, providing the study with a lot of experience and a better comparison of the institutional perspective after several restructurings. 68 per cent of respondents reported having received formal risk management training upon their recruitment.

In terms of educational background, 63.7% of the respondents held bachelor's degrees or higher, pointing to a group well placed to make sense of the questionnaire's technical risk management items and to offer thoughtful qualitative responses. By primary role, 42% were mainly involved in loan approval or monitoring, 24% in risk identification or assessment, 18% in reporting or internal controls, and 16% in other functions supporting risk management. The respondents were therefore drawn from staff genuinely involved in NEEF's day-to-day risk management work, rather than from any roles not associated with risk management.

4.2 Risk Management Practices and Project Performance: Descriptive Statistics and Reliability

Table 2 presents descriptive statistics for the nine risk management items. All items were recorded with the mean scores above the scale midpoint, ranging from 3.83 to 3.95 (overall $M = 3.95$), with internal consistency of $\alpha = 0.870$. credit assessment tools scored the highest (RM6, $M=3.95$), and internal risk reporting also scored the highest (RM8, $M = 3.95$), while the lowest scores were recorded by standardised risk identification (RM1, $M = 3.83$), and monitoring through site visits (RM7, $M=3.83$). The project performance (four-item) provides good reliability also ($\alpha = 0.819$).

The Table 2 highlights NEEF's risk management Credit assessment (RM6) tools and internal risk reports produced and shared promptly (RM8) to both provide clear, documentable outputs that are easy to verify on paper, while RM1 and RM7 require continuous staff effort and

resources, rather than a single discrete output. This table supports the idea discussed further in section 5, that NEEF's risk management is stronger on paperwork-

driven activities than in its more demanding, resource operations.

Table 2. Descriptive statistics for internal operational risk management practices (N=66).

Item	Description	N	Mean	SD
RM1	Standardised tools for identifying operational risks	66	3.83	.670
RM2	Staff identify procedural loopholes before disbursement	66	3.91	.696
RM3	Updated risk register accessible and used	66	3.92	.640
RM4	Internal controls are followed consistently	66	3.91	.547
RM5	Approval procedures reduce operational risk	66	3.89	.682
RM6	Credit assessment tools predict repayment ability	66	3.95	.643
RM7	Risk Monitoring (Site visits)	66	3.83	.622
RM8	Internal risk reports produced & shared promptly	66	3.95	.593
RM9	Technology flags high-risk accounts in real time	66	3.91	.601
	Overall ($\alpha = 0.870$)	66	3.89	

4.3 Relationship between Risk Management Practices and Project Performance

A Pearson correlation between the merged risk management score (RM_Total) and the project performance score (PP_Total) yielded $r = .626$ ($N = 66$, $p < .001$), indicating a large effect size by conventional benchmarks. An OLS regression with PP_Total as the dependent variable confirmed that RM_Total significantly predicted project performance: $R^2 = .392$, Adjusted $R^2 = .382$, $F(1, 64) = 41.196$, $p < .001$, $B = 0.812$ ($SE = .127$, $\beta = .626$, $t = 6.418$, $p < .001$, 95% CI [.559, 1.065]), expressed as:

$$PP_Total = 0.546 + 0.812 (RM_Total) \quad (1)$$

Diagnostic checks were performed to assess the validity of the regression model above. standardised residuals ranged between -2.061 and 1.846 ($M = .000$, $SD = .992$, $N = 66$), with no case exceeding the conventional ± 3 threshold, indicating the absence of problematic outliers in the dependent variable. Cook's Distance values ranged

from .000 to .097 ($M = .013$, $SD = .016$), with the maximum value below the benchmark of 1.0, confirming that no single case exerted undue influence on regression coefficients. A scatterplot of standardised residuals against predicted values revealed no funnel-shaped or curvilinear trends, supporting the assumption of homoscedasticity. Likewise, the histogram and normal probability plot of residuals approximated a normal distribution, consistent with descriptive statistics showing a mean near zero and a standard deviation close to one. Since all regression models in this study, including the six hypothesis tests, were simple (single predictor) regressions, variance inflation factors were not applicable in the conventional multiple regression sense. Instead, the internal consistency of the composite indices was verified through reliability analysis (Section 4.2), yielding Cronbach's $\alpha = 0.819$

Figure 1 presents the scatter plot of individual scores with the OLS regression line.

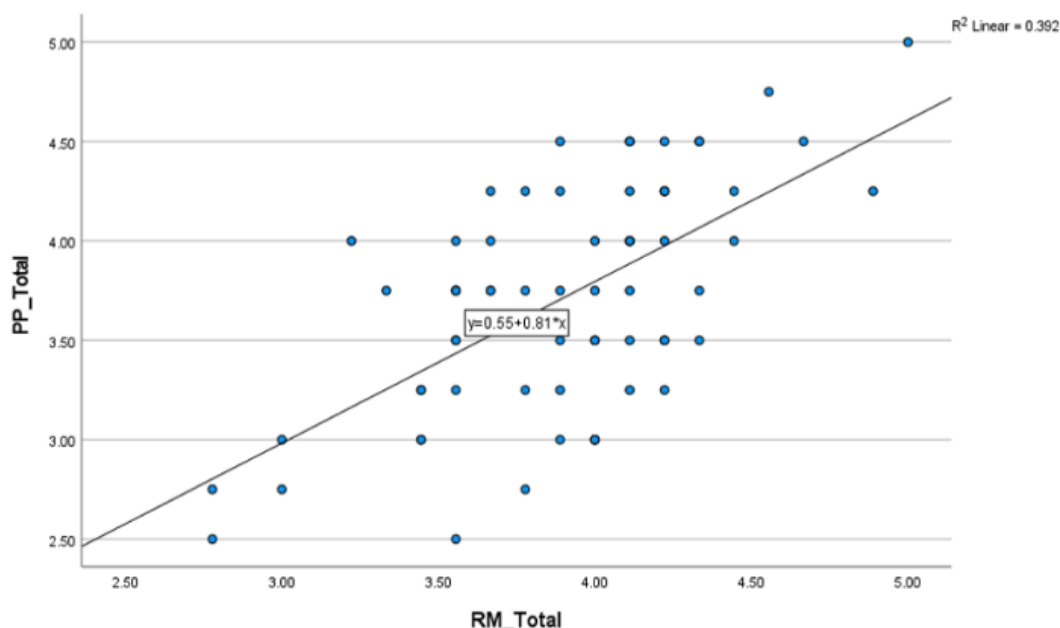


Figure 1. Scatter plot of RM_Total and PP_Total with OLS regression line and 95% confidence interval band (N=66).

Table 3. Summary of hypothesis results.

H	Relationship Tested	r	R ²	p	Decision
H1	Risk identification → Project quality	.406	.261	< .001	Supported
H2	Risk assessment → Loan repayment	.480	.343	< .001	Supported
H3	Internal controls → Cost management	.549	.343	< .001	Supported
H4	Risk monitoring → Timeliness	.366	.134	.003	Supported
H5	Risk mitigation → Stakeholder satisfaction		.229	< .001	Partially supported
H6	Risk reporting → Sustainability		.233	< .001	Partially supported

4.4 Power Analysis

The adequacy of the sample size was evaluated following the recommendation (Halpin, 2024). A post-hoc power analysis, based on the non-central F-distribution, was carried out using the regression statistics already reported. With N = 66 and a single predictor, the observed effect ($R^2 = .392$, corresponding to a large Cohen's f^2 of 0.645) produced a post-hoc power exceeding .999 evidence that the sample size was more than sufficient to pick up an effect of this size. Looking at it from another angle, the smallest effect this sample could reliably detect at the conventional 80% power threshold works out to $f^2=0.123$ (roughly $R^2 = .109$), comfortably below even the weakest individual effect found in the study (H4, $R^2 = .134$). Taken together, these figures support the adequacy of N=66 for the single predictor models used throughout Section 4. The results of the six hypothesis tests have been summarised in Table 3 below. H1-H4 were tested through direct regression models using the relevant sub-dimension items, while H5 and H6 could not be tested through fully independent models, as the four-item performance scale did not contain items designed to isolate stakeholder satisfaction and operational sustainability as individual hypotheses and were therefore tested through substitution sub-analyses against the combined project performance score. All hypotheses' relationships were statistically

significant, with H2 and H3 showing the strongest explanatory power.

Table 3 shows the analysis of individual hypotheses, where appraisal and control quality (H2, H3) demonstrate the strongest drivers of performance within NEEF's risk management structure ($R^2 = .343$ each). H1 produced a moderate fit ($R^2 = .261$), while H4 (monitoring) is the weakest yet still statistically important ($R^2 = .134$). H5 and H6 were tested through a proxy analysis, given the measurement limit, explaining the variance ($R^2 = .229$ and $.233$, respectively). The combined framework or variables outperformed all individual measurements ($R^2 = .392$). This explains that NEEF's risk management works best as an integrated system rather than separate, confirming with the Enterprise Risk Management (ERM) theory that emphasises integration for the organisation to produce fruitful results (Jankensgård, 2019).

4.5 Operational Challenges Affecting Project Performance

The results from open-ended responses identify six themes, and among these, three main challenges stand out: weak credit appraisal was identified as the most common issue (30.3%), with respondents perceiving that borrower screening does not happen most of the time, making the repayment process difficult (Table 4, Figure 2).

Table 4. Thematic distribution of operational challenges (N=66).

Theme	Frequency	Percentage (%)
Weak Credit Appraisal and Screening	20	30.3
Political or Government interference	14	21.2
Weak Monitoring & Follow-Up	13	19.7
Delayed disbursement and workflow bottlenecks	9	13.6
Weak Data Systems and delayed risk reporting	5	7.6
Inconsistent adherence to risk procedures & controls	5	7.6

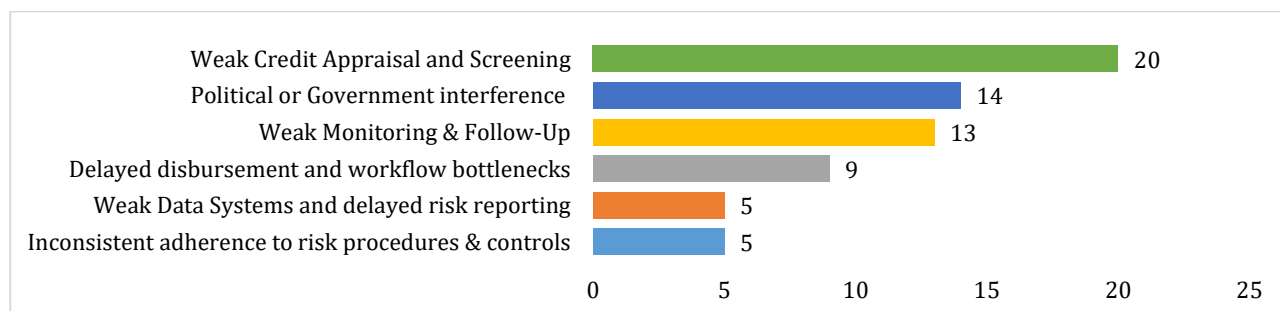


Figure 2. Distribution of internal operational risk-related challenges identified through thematic analysis (N = 66).

Political interference was the second recurring theme at 21.2%, indicating that NEEF's political pressure affects

the repayment process or the implementation of enforcement measures for borrowers to repay the loan.

Inadequate monitoring was reported by 19.7% of respondents, linking early identification of repayment problems and project setbacks. Together, these three themes account for 71.6% of coded responses, closely matching the earlier quantitative findings (under-resourced field monitoring).

Disbursement delays were reported by 13.6% of respondents, reflecting workflow issues that slow the repayment processes. Weak data systems were the fourth theme at 7.6%, delaying reporting and distribution of risk information in real-time and limiting practical decision-making. Inconsistent procedure adherence, also at 7.6%, indicates that formal risk management processes exist at NEEF but are not applied uniformly. The lack of capacity-building training and resources appears to contribute to this inconsistency, which may partly explain the 28.8% gap in risk management training status identified in section 4.1.

4.6 Priority Improvement Areas

Respondents provided six empirical recommendations believed to address existing challenges affecting NEEF's risk management, and these solutions directly address identified operational challenges: improving post-disbursement monitoring protocols to ensure credit compliance; institutionalising continuous professional development in risk management and credit appraisal; deploying advanced analytical dashboards and predictive early warning systems; minimising political interference by establishing strong legal protections for asset recovery functions; and optimising workflow planning to facilitate the timely disbursement of funds. Both qualitative and quantitative datasets independently identified systematic issues in appraisal and monitoring as the primary weak point within the institutional structure, which strengthens these conclusions.

5. DISCUSSION

The finding that internal operational risk management accounts for 39.2% of the variation in project performance ($R^2 = .392$) places this relationship among the stronger single predictors documented in Sub-Saharan African microfinance research. Typically, similar studies across African microfinance institutions report R^2 values ranging from .15 to .35 (Chirwa et al., 1999; Hutchins, 2018; Phiri & Tony, 2024). This finding is significant because it was derived from a public microfinance institution, unlike most existing studies, which focus on private microfinance institutions (Mwagomba & Nayagam, 2025; Xu et al., 2017)., where governance pressures and political influence differ (Dube & Kwenda, 2023; Ngwah et al., 2023). Consequently, this result broadens the current understanding by demonstrating that risk management quality remains a significant performance predictor even in environments where political exposure adds sources of variance that private institutions might not face.

Three main insights follow from the pattern of results. First, respondents scored higher on formal risk assessment and reporting activities (RM6 and RM8, $M = 3.95$ each) than on day-to-day identification and monitoring tasks (RM1 and RM7, 3.83 each). The observed gap is reasonable; Assessment and reporting yield discrete, auditable outcomes, completed appraisals or submitted reports that can be verified after the fact with minimal effort. In contrast, identification and monitoring require continuous field visits and staff time, directly competing with disbursement targets. As a result, NEEF's risk management framework shows stronger performance on paper than in daily operational practice. Enterprise Risk Management (ERM) theory anticipates exactly this pattern (Jankensgård, 2019; Naseem, et al., 2024). It emphasises that having policies is not enough to guarantee performance; integrating them into daily work is what matters. Secondly, H2 and H3 (the strongest individual models, $R^2 = .343$) addressed risk assessment and the quality of internal controls. These hypotheses align with the biggest challenge identified in qualitative data, which was weaknesses in credit appraisal (30.3%), as well as NEEF's documented loan recovery challenges (Mpinganjira, 2026; Nyasa Times, 2026). Third, the weakest individual model (H4, $R^2 = .134$) related to monitoring and follow-up aligns well with qualitative findings of under-resourced field operations and reinforces other studies across the globe that state monitoring is often the most resource-intensive and vulnerable part of the risk management cycle in most of the microfinance institutions (Omidiji et al., 2023; Omowole et al., 2024).

The finding that Political interference undermines loan repayment enforcement (21.2%) sits outside the scope of the ISO 31000:2018 risk management framework and Enterprise Risk Management (ERM) theory, both of which describe risk management primarily as a technical and organisational function. Stakeholder theory offers a more interpretive lens in this instance. As a public microfinance institution, NEEF Malawi is characteristically subject to the influence of political stakeholders, whose interests may take priority over established internal procedures, a form of exposure that private microfinance institutions, by benefit of their independence from direct political oversight, encounter to a lesser extent (Jankensgård, 2019; Mahajan et al., 2023; Munthali, 2026). This suggests that strengthening internal operational risk management at NEEF, while necessary, is not on its own sufficient. In the absence of parallel reform that addresses governance structure, accountability, and legal frameworks aimed at limiting political influence over institutional operations, technical enhancements to appraisal, monitoring, and reporting processes risk being partially compromised by this external factor (Kampanje, 2023; Pratiwi & Kusumawati, 2024).

Beyond the institutional benefits of these findings, this will also advance Malawi's wider development goals, such as the Malawi 2063 Vision, which highlights financial inclusion and effective public institutions as

foundations for inclusive economic growth. Public resources are meant to help everyone and improve broader development outcomes, and when a public microfinance institution such as NEEF fails to recover loans from borrowers, it affects every citizen in one way or another. Maintaining public trust in public organisations is the only tool for national economic policy that helps to strengthen operational risk management.

6. CONCLUSION, IMPLICATIONS AND RECOMMENDATIONS

Building on the discussion in section 5, this study contributes to the internal operational risk management literature in public microfinance in two specific areas. First, it shows that a combined, integrated measure of risk management practice accounts for considerably more variance in performance than any individual sub-dimension does alone, offering empirical support for Enterprise Risk Management (ERM) theory's interdependence claim within a public microfinance institutional context. Second, it establishes that stakeholder theory, rather than ISO 31000:2018 or ERM theory in isolation, is necessary to account for a specific, measurable performance vulnerability, namely, political interference in recovery enforcement, which falls outside what technical risk frameworks are designed to anticipate. Both contributions rest on the same evidentiary foundation: a statistically significant and practically meaningful positive relationship between internal operational risk management practices and project performance at NEEF ($R^2 = .392$), combined with qualitative evidence indicating that observed performance difficulties arise from inconsistent implementation rather than the absence of a formal framework.

Three main key recommendations emerge for NEEF and other public microfinance institution can learn from such as prioritising continuous training in credit appraisal and risk management, a lot of respondents mentioned operational challenges, and also the strongest individual predictor of performance (H2), so targeting ongoing training would bring quick and visible improvements to the institution. The second one was to strengthen post-disbursement monitoring, which was identified as the weakest part of the risk management cycle. Providing enough support in terms of staff, transport, tools, and time for field visits would help to bridge the gap between formal policies and actual practice. Lastly, governance and legal reforms. Following balanced governance and legal reforms in public institutions can help to deal with political interference in loan recovery and enforcement that emerged as a significant issue that cannot be fully

addressed by the current risk management framework. Reforms that isolate recovery processes from political power will have a long-lasting impact on the NEEF microfinance institution.

The theoretical contribution outlined above, empirical confirmation of Enterprise Risk Management (ERM) interdependence, and the necessity of Stakeholder theory to account for political interference carry implications for how future studies in public sector risk management should be conceptualised as an integrated system rather than a set of independent predictors, and model specifications should incorporate a governance or political exposure variable whenever the institutional setting is state-owned. From a practical point of view, the study confirms that strengthening internal operational risk management, while necessary, is not enough on its own, as noted in section 5; sustained performance improvement at a public microfinance institution such as NEEF depends on both operational quality and stronger governance arrangements. These findings carry significance not only for NEEF's own long-term sustainability but also more broadly, for the credibility of public financial institutions operating within national development frameworks such as the Malawi 2063 Vision.

6.1 Limitations and Future Research

This study has several limitations that should be acknowledged. A single institution's focus limits the generalizability of the findings to other public microfinance institutions even within Malawi. Additionally, two hypotheses (H5 and H6) were examined against overall project performance rather than against dedicated scale items for stakeholder satisfaction and long-term sustainability, a measurement boundary disclosed in Section 2.7 and arising from limitations in the original instrument design.

The trustworthiness of the qualitative coding process was established through supervisor review of a sample of coded data, rather than through a formal inter-rater reliability statistic derived from independent double coding of the complete dataset. Future studies should address this limitation. Future research would also benefit from the development of multi-item scales purpose-built to measure stakeholder satisfaction and long-term sustainability as separate concepts, thereby strengthening the empirical validation of the H5 and H6 relationships. Additional value could be gained from a longitudinal study assessing whether NEEF's ongoing institutional reforms produce measurable results in the risk management dimensions identified as weakest in this research (RM1, RM7), as well as from replicating this study across other public microfinance institutions within the region.

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