EFFECTS OF CORPORATE GOVERNANCE AND CREDIT POLICIES ON DELINQUENCY MANAGEMENT OF MICROFINANCE BANKS IN NIGERIA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 24th April 2020

Published: 6th May 2020

Full Length Research

Available Online at: http://www.iajournals.org/articles/iajef_v3_i5_166_190.pdf

Citation: Abdulai, R. A., Ogunsanwo, O. F., Adeleke, K. O. & Olowo, S. O. (2020). Effects of corporate governance and credit policies on delinquency management of microfinance banks in Nigeria. *International Academic Journal of Economics and Finance, 3*(5), 166-190

ABSTRACT

This study examined the effect of corporate governance and credit policy on delinquency management of microfinance banks in Southwest Nigeria. Specifically, the study evaluated the extent to which board size, board composition, credit standard policy and credit term affect delinquency management of microfinance banks. Static panel regression estimate which involved pooled regression, fixed effect estimate, random effect estimate, Hausman test were employed as the analytical techniques. Data on corporate governance (proxied by board size and board composition); credit policy (proxied by credit standard and credit terms and conditions) and delinquency management (proxied by loan portfolio at risk and default rate) were obtained from Annual Financial Statement of respective microfinance banks over a period of seven (7) years from 2012 to 2018). The result revealed that board size has negative and significant effect on loan portfolio at risk and default rate by (t =-0.723004, -15.96851; p < 0.05); board composition has a negative and an insignificant effect on loan portfolio at risk and default rate by (t =-2.455182, -0.500404; p> 0.05); credit standard has positive and significant effect on loan portfolio at risk and default rate by (t =1.694070, 3.752766; p< 0.05); credit terms has positive with a significant effect on loan portfolio at risk and default rate by (t =1.694070, 3.482707; p< 0.05). The result, therefore, implies that credit policy is very instrumental to delinquency management of microfinance banks in Nigeria based on their significant influences unlike corporate governance which has a negative impact on delinquency management. Thus, bank managers should increase their board size with more management skills and professionalism, making it very difficult for the CEO to manipulate the board. The study concluded that corporate governance has negative effect on delinquency management while credit policy has positive and significant effect on delinquency management of microfinance banks in Nigeria. The study recommended that microfinance banks should engage in the development and implementation of strategic training for board members and senior bank managers. This should be carried out with special emphasis on corporate governance, corporate governance disclosure and banking ethics.

Key Words: *corporate governance, credit policies, delinquency management, microfinance bank*

INTRODUCTION

Corporate governance is described as the structures and processes for the direction and control of companies; corporate governance concerns the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders (Norlia, Mohammad & Ibrahim, 2011). Mayer (1999) describes corporate governance as the sum of the processes, structures and information used for directing and overseeing the administration of a firm. It is a system by which corporations are governed and controlled with a view to increasing shareholder's value and meeting the expectations of

the other stakeholders. In other words, corporate governance is the system by which business corporations are directed and controlled to enhance performance and long-term shareholder value (Angahar & Mejabi, 2014). Igbekoyi and Agbaje (2018) opine that corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation.

Credit plays an important role in the lives of human beings and almost all industries involve monetary investment in some form. Microfinance mainly grants credit facility to SMEs owners or operators, mobilise savings, insurance and play an advisory role to its customers. When credit is allocated poorly, it raises costs to successful borrowers, erodes the fund, and reduces banks' flexibility in redirecting towards alternative activities (Mirach, 2010). The more the credit, the higher is the risk associated with it. The problem of loan delinquency or default which is as a result of poor credit policies reduces the lending capacity of microfinance bank (Ndumai, 2013).

In Nigeria, there are one hundred and twenty eight microfinance institutions with different credit policies and characteristics which affect their performances (CBN, 2018). These policies are different because of the different lending terms and conditions with their various products. Aside these credit policies, there are industry standards on what a good credit policy is and what it is not (Nyawera, 2013). A microfinance banks may be forced to adjust its credit policy in line with other microfinance banks in the market where a certain behaviour is practiced. In the Nigerian financial sector, for instance, while market risk is a great business concern for all institutions, credit risk is cited as a major concern by 95 per cent of the financial institutions (CBN, 2011).

The primary goal of Microfinance Bank (MFB) is to operate profitably in order to maintain its stability and improve performance and sustainability which can be well facilitated with good credit policy (Aliu & Gakure, 2014). Credit policy is to maximise the value of a firm (Puxty & Dodds, 1991). An optimum credit policy is achieved through proper adjustment of credit standards, credit terms and collection efforts. These are the controllable decision variables that should be considered in the extension of credit to optimise investment in accounts receivable (Nyawera, 2013). Kitaka (2001) discloses that credit policies must have objectives of maximising profits to the benefit of the shareholders as well as low loan delinquency of about 3%. It may be difficult to establish an optimal credit policy as the best combination of the variables of credit policy is quite difficult to obtain, hence, a firm will change one or two variables at a time and observe the effect.

The loan portfolios of the Microfinance banks are major assets that generate a significant amount of interest income; it plays a critical role in determining the financial performance of the MFBs and it can therefore be said that the healthier the loan of the MFBs, the better its financial performance will be (Microfinance Certification Programme (MCP), 2010). Microfinance Institutions must develop credit standard policy and terms to govern their credit management operations (Pandey, 2008). Since microfinance banks generate a large percentage of their revenue from credit extended to low income individuals in the form of interest charged on the funds granted, the loan repayments may be uncertain (Central Bank of

Nigeria Annual Report, 2010). However, the extent to which microfinance banks can impact on the poor through financial services and collect its principal plus interest will depend on sound corporate governance practices (Ndumai, 2013).

Poor corporate governance was recognised as one of the key factors in almost all identified cases of financial institutions' distress in Nigeria (Abdullahi, 2011). Several factors are responsible for poor corporate governance among Nigerian banks. The factors among others include inadequate internal control procedures, incompetent board of directors and management, inefficient audit committee, non-disclosure of information, inadequate management capacity and poor relationship between management and staff. These weaknesses in corporate governance accounted for high level of loan delinquency in banks (Abdullahi, 2011). Angahar and Mejabi (2014) state that Microfinance banks faced situations of delinquency management which often have been as a result of poor corporate governance, however, empirical studies have not established the corporate governance indices that are responsible for the delinquency in Microfinance banks and this is one of the problems that this research has set out to solve. In the day-to-day transactions of microfinance banks, loan facilities are made available to customers with the expectation of repayment of both the principal and interest at the end of a specified time based on mutual agreement. However, sometimes such credits remain delayed; these delayed credit constitutes what is referred to as loan delinquency. When the delay becomes severe such that it may not be retrieved, it enters loan default (Angahar & Mejabi, 2014). Thus, the study seeks to establish whether corporate governance level and quality of credit policy influence loan repayment by the beneficiaries of microfinance bank loans.

Nworji, Adebayo and Adeyanju (2011) opine that the consistent increase rate of loan delinquency in Nigerian banks in recent time has raised questions on the consistency of the corporate governance practices in the banking sector. Over the past decades, the Nigerian microfinance institution had not been able to trigger the desired level of socio–economic growth and development in the country, which may be as a result of factors such as poor corporate governance vis-a-viz poor credit policies, excessive loan administration, poor quality of risk assets, weak internal audit and high incidence of violation of shareholders' right (Oyewole, Olusanmi & Owolabi, 2015). Similarly, Olayiwola (2010) discloses that the financial crisis rocking Nigeria microfinance banks is caused mainly by the monumental figure of non-performing loans reported in their financial statement. This underscores the need by microfinance banks to take stock of its corporate governance practices.

Based on empirical evidence in Nigeria, while there are handful numbers of literature (Oyewole et al, 2015; Emeka & Alem, 2016; Obasi & Nkwagu, 2017; Ogunlade & Oseni, 2018) to mention but a few on corporate governance and financial performance of Nigerian Deposit money banks, there is sparse of literature on corporate governance and delinquency management of Microfinance banks. Specifically, Eyo, Nwaogu and Asuquo (2013) analyse the effectiveness of loan delinquency management strategies used on farmers in Akwa Ibom State, Nigeria; Aliu and Gakure (2014) evaluate the effects of corporate governance and sustainability of microfinance banks (MFBs) on Entrepreneurs and SMEs in Northern

Nigeria; Gadi (2015) studies the impact of corporate governance on financial performance of microfinance in North Central Nigeria; Okoye, Erin, Ado and Areghan (2016) investigate the impact of corporate governance on financial sustainability of Microfinance institutions in Nigeria.

To the best of the researchers' knowledge, there is sparse of literature on impact of corporate governance and credit policies on delinquency management of Microfinance banks in Nigeria and where it exists, no empirical study has addressed credit policy indices using secondary data against the use of questionnaire which this study examines empirically by using a different corporate governance mechanism and secondary measurement of credit policies with recent data. Existing studies on corporate governance in banking sector (Akingunola, Adeleke & Adedipe, 2013; Ijeh, Adesanmi & Njogo, 2014) to mention but a few focus on a single aspect of governance, such as the role of directors or that of shareholders while omitting other factors such as code of ethics, effective hierarchical structure etc., and interactions that may be important within the governance framework.

This study attempts to bridge these gaps by extending the study beyond the framework of corporate business oriented organisations, which is based primarily on shareholders sovereignty. The study, therefore, analyses the level of compliance of code of corporate governance in Nigerian microfinance banks with the Central Bank of Nigeria code of corporate governance. Furthermore, while studies on corporate governance use non-performing loan, return on asset and return on equity proxies as delinquency management/financial sustainability, this study employs percentage of loan portfolio at risk and default rate variables as proxies for delinquency management to investigate the effects of corporate governance and credit policies on delinquency management of Microfinance banks in Southwest, Nigeria.

RESEARCH QUESTIONS

1. Do trend of corporate governance and credit policies affect delinquency management of microfinance banks?
2. To what extent does corporate governance (board size and composition) affect delinquency management of microfinance banks?
3. What effect do credit policies (credit standard policy and credit terms) have on delinquency management of microfinance banks?

CONCEPTUAL REVIEW

Board Size

Board size is considered as a crucial characteristic of the board structure. This is premised on the view that larger boards are better for corporate performance because they have a range of expertise to help make better decisions, and are harder for a powerful chief executive officer (CEO) to dominate (Angahar & Mejabi, 2014). However, recent thinking has leaned towards smaller boards. Jensen (1993) argue that large boards are less effective and are easier for the CEO to control. When a board gets too big, it becomes difficult to co-ordinate and creates

problems. Their argument is consistent with the view in the organisational behaviour theory that worker's productivity declines in larger work groups.

Board Composition

Board composition refers to the number of independent non-executive directors on the board relative to the total number of directors. An independent non executive director is defined as an independent director who has no affiliation with the firm except for their directorship (Gugong, 2011). There is an apparent presumption that boards with significant outside directors will make different and perhaps better decisions than boards dominated by insiders. Fama and Jensen cited in Angahar and Mejabi (2014) suggest that non-executive directors can play an important role in the effective resolution of agency problems and their presence on the board can lead to more effective decision making.

Credit Standards

Mehta (1972) writes that in advancing loans, credit standards must be emphasised such that the credit supplier gains an acceptable level of confidence to attain the maximum amount of credit at the lowest as possible cost. Credit standards can be tight or loose (Van-Horne, 1994). Tight credit standards make a firm lose a big number of customers and when credit are loose the firm gets an increased number of clients but at a risk of loss through bad debts. A loose credit policy may not necessarily mean an increase in profitability because the increased number of customers may lead to increased costs in terms of loan administration and bad debts recovery. In agreement with other scholars Van Horne (1994) advocates for an optimum credit policy, which would help to cut through weaknesses of both tight and loose credit standards so, the firm can make profits. This is a criteria used to decide the type of client to whom loans should be extended. Kakuru (2003) notes that it is important that credit standards be based on the individual credit application by considering character assessment, capacity, condition, collateral and security capital.

Character refers to the willingness of a customer to settle his/her obligations (Kakuru, 2003). It mainly involves assessment of the moral factors. Social collateral group members can guarantee that the loan members know the character of each client; if they doubt the character, then the client is likely to default. Saving habit involves analysing how consistent the client is in realising own funds, saving promotes loan sustainability of the enterprise once the loan is paid. Other source should be identified so as to enable him serve the loan in time. This helps micro finance institutions not to limit loans to short term projects. Such qualities have an impact on the repayment commitment of the borrowers. It should be noted that there should be a firm evidence of this information that points to the borrowers' character (Katende, 1998).

According to Campsey and Brigham (1995) the evaluation of an individual should involve; gathering of relevant information on the applicant, analysing the information to determine credit worthiness and making the decision to extend credit and to what tune. They suggested the use of the 5Cs of lending. The 5Cs of lending are Capacity, Character, Collateral,

Condition and Capital. Capacity refers to the customer's ability to fulfill his/her financial obligations. It is a subjective judgement of a customer's ability to pay. It may be assessed using a customer's ability to pay. It may be assessed using the customer's past records, which may be supplemented by physical observation.

Collateral is the property, fixed assets, chattels, pledged as security by clients. Collateral security is what customers offer as saving so that failure to honour his/her obligation the creditor can sell it to recover the loan. It is also a form of security which the client offers as a form of guarantee to acquire loans and surrender in case of failure to pay; if borrowers do not fulfill their obligations the creditor may seize their asset (Girma, 1996). Capital portends the financial strength, more so in respect of net worth and working capital. Evaluation of capital may be by way of analysing the balance sheet using the financial ratios. Condition, is the impact of the present economic trends on the business conditions which affects the firm's ability to recover its money. It includes the assessment of prevailing economic and other factors which may affect the client's ability to pay (Nyawera, 2013).

Credit Terms

A Credit term is a contractual stipulation under which a firm grants credit to customers (Wamasembe, 2002); furthermore these terms give the credit period and the credit limit. The firm should make terms more attractive to act as an incentive to clients without incurring unnecessary high levels of bad debts and increasing organisations risk. Credit terms normally stipulate the credit period, interest rate, method of calculating interest and frequency of loan installments. Kakuru (2003) explains the significance of discounts in credit terms. Discounts are offered to induce clients to pay up within the stipulated period or before the end of the credit period .This discount is normally expressed as a percentage of the loan. Discounts are meant to accelerate timely collection to cut back on the amount of doubtful debts and associated costs.

Ringtho (1998) observes that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit. Credit terms may include; Length of time to approve loans, this is the time taken from applicants to the loan disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position. Maturity of a loan; this is the time period it takes loan to mature with the interest there on. Cost of loan: this is interest charged on loans different micro finance institutions charge differently based on what their competitors are charging. The chartered institute of bankers and lending text (1993) advises lending institutions to consider amount given to borrowers. Robinson (2001) points out that the maximum loan amount per cycle is determined based on the purpose of the loan and the ability of the client to repay (including guarantee).

Delinquent Management

Delinquency is a serious issue in Microfinance institution management. It is a question of survival and sustainability for MFIs. Microfinance institutions (MFIs) provide financial

services to low-income, economically active, borrowers who seek relatively small amounts to finance their businesses, manage emergencies, acquire assets, or smooth consumption (CGAP, 2002), delinquency is a risk that MFIs across the world are confronted with on a daily basis.

According to Lillian (2013), a delinquent loan is defined as any loan in which the full payment has not been received per the loan contract. Delinquency is also defined as a state when loans are not repaid by clients at the scheduled time (Lakshmypriya, 2013). The most serious risk for an MFI is credit risk which results in poor loan portfolio quality and high delinquency. One microloan does not pose a significant credit risk but from a few delinquent ones it can spread to an entire portfolio. In MFI, delinquency may occur in credit, savings and insurance (Lillian, 2013).

In the case of credit, delinquency occurs in the case of delayed loan repayments of principal and interest; in the case of savings, delinquency occurs in the case of delayed savings deposits; in the case of insurance, delinquency occurs in the case of delayed payment of premium. Delinquency is defined as something that has to be paid but is overdue and unpaid. According to Lakshmypriya (2013), a delinquent loan is a loan on which payments are past due or as arrears or late payments. According to CGAP (1999), a late payment is referred to as loan delinquent. A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal (Addae -Korankye, 2014). Delinquent loans are loans that have a sum of the funds due for payment by the customers but not received by the financial institutions or entity (Mohammed & Farouq, 2018). A delinquent loan is said to become default when the chances of retrieval of the money that was given to clients are minimal (Ledgerwood, 2000), that is loans are in arrears, past schedule time, and overdue time and have not seen paid by customers of the financial institutions.

Delinquency is often confused with default, though the dictionary meaning is almost the same there is a slight difference between the two. Delinquency refers to payments not made on due date. The MFIs start following up with the client when repayment is not made on due date i.e when the loan becomes delinquent. Ameyaw-Amankwah (2011) opines that default occurs when a debtor has not met his or her legal obligations according to the debt contract. In the words of Murray (2011), a loan default occurs when the borrower does not make required payments or in some other way does not comply with the terms of a loan. Balogun and Alimi (1990) also define loan default as the inability of a borrower to fulfil his or her loan obligation as at when he or she falls due. Default occurs when the loan repayment will not be made at all. In case the customer does not make the repayment in spite of the efforts made by the financial institution and is no longer expected to make a repayment, the loan is said to be in default. Amount in default is the outstanding loan amount when customer stops making repayment. But, the same amount cannot essentially be counted as write off as it depends upon the organisation policy for collection of security pledged by the customer while taking loan (CGAP, 2007). But this is not the case of MFIs as collateral security or hypothecation is not done on the same basis as other banks here hence recovery becomes difficult. It is

important to recognise the early signals of delinquency else it would affect the entire portfolio.

Conceptual Framework

Figure 1 presents the conceptual framework of the study which emanates from the synopsis of the objectives. Figure 1 shows the relationship among the corporate governance (board size and board composition), credit policies (credit terms and credit standards) and delinquency management (loan portfolio at risk and default rate).

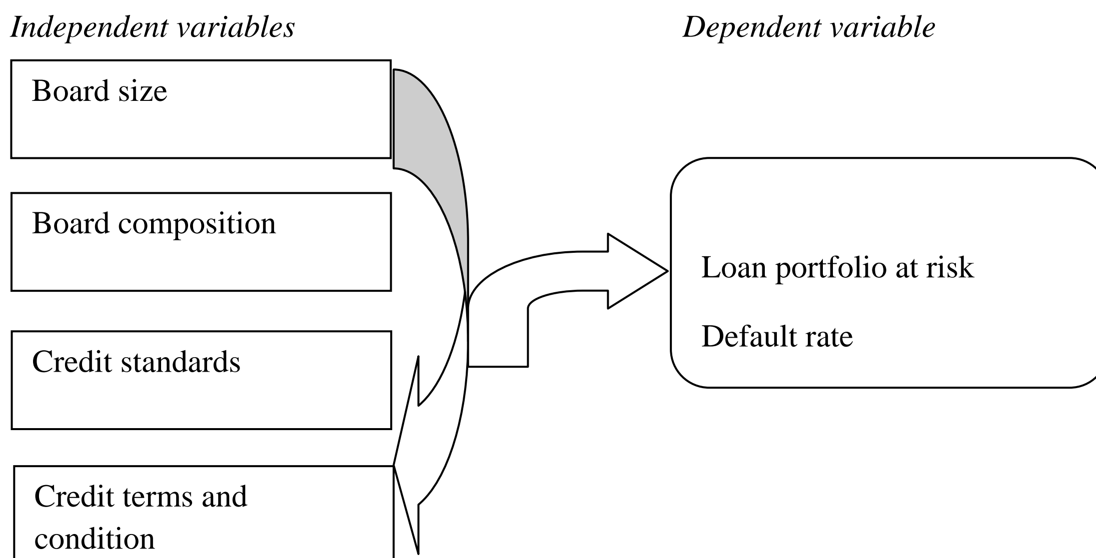

Figure 1: Conceptual Framework

Figure 1 shows the existing relationship of corporate governance and credit policies on delinquency management of Microfinance banks in Nigeria. The essence is to ascertain the contributions of corporate governance and credit policies towards the management of default loan in Microfinance banks. It is, also, to inform the microfinance banks on the strategies and techniques applicable in reducing default loan especially at the onset. It is believed that well structured and fashioned corporate governance and credit policies will assist delinquency management of loans in Microfinance banks.

THEORETICAL FRAMEWORK

The study is underpinned by Agency and Information Asymmetry Theories. The Agency theory was propounded by Jensen and Meckling (1976), it assumes that both the principal and the agent are motivated by self-interest. This assumption of self-interest dooms agency theory to inevitable inherent conflicts. Thus, if both parties are motivated by self-interest, agents are likely to pursue self-interested objectives that deviate and even conflict with the goals of the principal. Yet, agents are supposed to act in the sole interest of their principals. On the other hand, information asymmetry theory which was first introduced by Akerlofs (1970) is relevant to this study because it elucidates the basic information to be known by both lenders and business owners in terms of potential risks and returns associated with

investment projects for which the funds are earmarked. The justification for the use of these theories is based on the fact that better performance of Nigerian microfinance banks in terms of delinquency management can only be attained when agents (managers) of the banks have vivid information of the business owner in an attempt to avoid or minimise risks thereby making the lender efficient and effective in their duties.

EMPIRICAL STUDIES

Okougbo (2011) determine whether CEO duality, board size, audit committees independence, and ownership concentration have any effect on firm's performance surrogated by return on assets (ROA); return on equity (ROE), profit margin (PM). The results reveal that board size, audit committees independence, ownership concentration had a significant relationship with return on equity and profit margin. The study also observes that CEO duality had no impact on firm performance. Akpan and Riman (2012) use correlation analysis to explore the relationship between corporate governance and banks' profitability in Nigeria for the period of 2005 and 2008. The study used return on assets (ROA), return on equity (ROE) and non performing loans (NPL) as the variables that measure bank performance. The number/size of board of directors (SBOD) and the number of shareholders (CBOD) measures the corporate governance index, while total assets and total equity served as control variables. The study concludes from its findings, that, good corporate governance and net assets value determine the profitability of banks in Nigeria. Arguably, a study of this nature has cross-sectional data which should be best analysed through panel data regression. Using non-performing loan to measure bank performance is not a good performance measurement.

Odera (2012) discusses the corporate governance problems of Savings, Credit and Cooperative Societies (SACCOs). The study concludes through theories and review of past literature that several measures against the SACCO governance problems such as having clear rules in the SACCO bylaws and identifying who are the stakeholders dominating the SACCO should help to ensure good governance. The study is purely based on concept and theories which are not too good for conclusion. Statistical analysis is preferred for this type of study. Akingunola, Adekunle and Adedipe (2013) examine corporate governance and banks' performance in Nigeria (post–bank's consolidation). The study analysed the data through regression analysis and found an insignificant positive relationship between bank total credit and bank performance; positive and insignificant relationship was found between bank deposit and bank performance and lastly, loan to deposit ratio was found to be insignificant and positively related to the performance of bank. Notably, the study fails to consider corporate governance variables on banks' performance. The failure of these indices will be the attention of this study.

Nyawera (2013) studies the effects of credit policies on the financial performance of Microfinance institutions. The study employs regression analysis which indicated that credit standard policy, credit terms and collection effort significantly affect financial performance. The observation noted is that one leg of the present study which is credit policy was practically examined whereas corporate governance will equally be concerned in this study. However, the study has been able to prove that credit policy can also be measured using

secondary data against other studies which measured credit policy using primary data, it thereby established that credit standard policy, credit terms and collection are measurements of credit policy which have significant influence on financial performance of microfinance banks in Kenya. This will serve as an eye opener to this study in Nigeria by using the measurement as used in the study with large scope of data unlike the scope of 2010-2012 considered in this study. In another empirical study, conducted in Spain by Valentín Azofra-Palenzuela, López-Iturriaga and Tejerina-Gaite (2014), it was noted that the researchers use sample of 142 non-financial firms between 1999 and 2002 to show the outstanding role which banks play in the corporate governance of the Spanish firms. Using analysis of tables, the study found that banks have a dual and very relevant influence on the performance of the firms. For bank-controlled firms, bank shareholdings can enable colluding interactions among banks and, thus, reduce the performance of the firm. On the contrary, for non-bank controlled firms, bank shareholdings improve the corporate governance and increase the performance of the firm. This effect is particularly significant for the firms in which bank scrutiny is more crucial: when the largest shareholder has voting rights in excess of his/her cash flow rights, and when the control of the largest shareholder can be more contested.

Gadi (2015) directs a study on corporate administration effects on 23 Nigerian microfinance bank's financial performance. Generated study data was analysed utilising ordinary least squares method, and Pearson relationship coefficient. Pearson correlation demonstrates noteworthy relationship that occurs amongst EPS and corporate governance (Composition of the board and Board Committees composition) whereas the regression analysis demonstrates that no critical relationship occurs amongst corporate governance and banks' financial performance. The focus of the study was on financial performance whereas this study focuses on delinquency management. Emeka and Alem (2016) investigate the effect of corporate governance on financial performance of banks in Nigeria. In the study financial performance is proxied as return on asset whereas corporate governance was proxied as board size and board composition a sample of 10 selected banks for the years 2004-2013. The panel regression technique was employed in estimating the relationship between the selected variables. The study revealed that the relationship between corporate governance and bank performance in Nigeria is quite significant as a unit change in the board size and the relative size of non-executive directors increases the return on assets. Abdulazeez, Ndibe and Mercy (2016) directs a study on financial performance and corporate governance of Nigerian recorded Deposit Money Banks. The study utilised ex-post facto research design utilising panel data for period (2006- 2012). Regression analysis used for analysis of information findings indicated bigger board size which adds decidedly and fundamentally to the Nigerian deposit money banks financial performance.

Aliija and Muhangi (2017) employ both qualitative and quantitative research approaches which involved the use of questionnaires on 44 loan officers and Credit Managers to examine effect of loan appraisal process management on credit performance in microfinance institutions (MFIs): A case of MFIs in Uganda. Using descriptive and linear regression analyses, the study established that there was a strong relationship between credit performance of MFIs and client appraisal. Regression result reveals that client appraisal

significantly influence credit performance of MFIs in Uganda. Thus, the study concludes that client appraisal have significant positive effect on credit performance in Uganda. Ahmodu, Areo and Adeniyi (2017) assess corporate governance failure using the ongoing financial crisis in Nigerian economy as a case study and to investigate the factor causes and extract lessons from the current financial crisis in Nigerian via content analysis. The study reveals that the Nigerian economy is plagued by a high level of corporate governance failure as well as weak corporate governance components such as the board of governance, regulatory market and shareholders. Lestari (2018) analyses the effect of corporate governance, bank capital reserve, and non performing loan on bank risk taking listed in Indonesia Stock Exchange from 2009 to 2016. Using regression analysis, the study found that ownership concentration, the big four audit committee, and non-performing loan have negative effects on bank's risk taking behaviour while capital reserve is not statistically significant on bank risk taking.

RESEARCH METHODOLOGY

Research Design, Population, Sample and Sampling Technique

This study adopted ex-post-factor research design which provides historical facts about corporate governance, credit policies and delinquency management of microfinance banks. The population of this study consisted of 337 microfinance banks in Southwest, Nigeria which comprises 5 National, 34 State and 298 unit microfinance banks (CBN, 2017). The study applied convenient sampling technique to select thirty microfinance banks from the population in Southwest. Hence, the microfinance Banks considered for the study include: (AB Microfinance Bank; Accion microfinance Bank; NPF microfinance Bank; B. C. KASH microfinance Bank and FBN microfinance Bank for Lagos State; Covenant microfinance Bank; Ajose microfinance Bank; Babcock microfinance Bank; Ilaro Polytechnic microfinance Bank and MAPOLY microfinance Bank for Ogun State; Caretaker Microfinance Bank; Excel microfinance Bank; FCMB microfinance Bank; Ifedapo microfinance Bank and UniIbadan microfinance Bank for Oyo state; First access microfinance Bank; Ikire microfinance Bank; OSCT microfinance Bank; Pathfinder microfinance Bank and Olofin-Owena microfinance Bank for Osun State; Ekimogun microfinance Bank; Fasidapo microfinance Bank; Lavelu microfinance Bank; New age microfinance Bank and Shield microfinance Bank for Ondo State; Consistent Trust microfinance Bank; Harvest microfinance Bank; Transwealth microfinance Bank; Ulayin microfinance Bank and Omiye microfinance Bank for Ekiti State).

Model Specification and Estimation Technique

The study examines the effects of corporate governance and credit policies on delinquency management of microfinance banks in Southwest, Nigeria. From review of literatures, Emeka and Alem's (2016) on corporate governance and financial performance of banks and Nyawera's (2013) research on credit policy and financial performance of microfinance banks are identified as the bases for this study.

Emeka and Alem's (2016) model is stated as;

ROA = f (BSIZE, BCOM)

Nyawera's (2013) model is stated as;

ROA = f (CS, CT, CE)

Where: ROA = Return on asset; BSIZE = Board size; BCOM = board composition; CS = Credit standard; CT = Credit terms and conditions; CE = Collection efforts; *f* = Functional notation

This study adapts the models by dropping the collection efforts. The reason for dropping the collection effort is that it is considered as a tool for retrieving funds from bank's customers which may widen the study beyond its scope. More so, the study replaces return on asset variable with delinquency management (DM) proxied by percentage of loan portfolio at risk (LPR) and default rate (DR) as evidence on page 241 and 242 of Microfinance Certification Programme (MCP) (2010). The justification for inclusion of percentage of loan portfolio at risk and default rate in the model is that the proxies directly measure delinquency management as introduced by MCP (2010) while return on asset measures firm's performance. Hence, the main model for the study is stated as:

LPR = *f (BS, BC, CS, CT)*

DR = *f (BS, BC, CS, CT)*

Where: LPR = Loan portfolio at risk; DR = Default rate; BS = Board size; BC = board composition; CS = Credit standard; CT = Credit terms and conditions; *f* = Functional notation

The econometric technique used in this study is static panel regression analysis. However, descriptive statistics which involves the use of mean, median, maximum and minimum, standard deviation and variance was also employed to see the degree of variability of these estimates. The static panel regression estimation took the form of the Pooled Ordinary Least Square (OLS) model, the Fixed Effects Model and Random Effects Model. In order to establish the most appropriate regression with the highest explanatory power, that is better suited to the data set employed in the study, i.e. a balanced panel, Hausman test was employed (Salawu, 2007). The regression test is stated as:

$$LPR = \alpha_0 + \alpha_1 BS + \alpha_2 BC + \alpha_3 CS + \alpha_4 C + \mu_t$$

$$DR = \alpha_0 + \alpha_1 BS + \alpha_2 BC + \alpha_3 CS + \alpha_4 CT + \mu_t$$

Where: $\alpha_0 = constant\ term$; $\alpha_1 - \alpha_4$ = Coefficient of the parameter; μ_t = error ter; t = time series

Other variables remained as earlier defined.

Description and Measurement of Variables and Sources of Data

Table 1: Description of Variables and Source of Data

Variable	Formulae	Measurement/Description	Source
Delinquency management	Loan portfolio at risk Default rate	Outstanding balance of all loans with arrears over thirty days + all refinanced loans divided by outstanding gross loan portfolio. Default rate (DR) is the term for a practice in the financial services industry for a particular lender to change the terms of a loan from the normal terms, to the default terms that is, the terms and rates given to those who have missed payments on loan. Default rate ratio = Non Performing Loans/ Total loan	Annual statement of account
Corporate governance	Board Size	Board size is measured as the number of people on the board of the firm.	Annual statement of account
Corporate governance	Board Composition	Board composition is measured by the proportion of non-executive directors on board, and is calculated as the number of non-executive directors divided by total number of directors.	Annual statement of account
Credit policy	Credit Standards = Bad debts costs	Bad Debt Cost is created when a bank agrees to lend a sum of assets to a debtor and granted with expected repayment; in many cases, however the debtor is unable to repay the debt at the fixed period of time by a certain date. In addition, changes in the valuation of debt currency change the effective size of the debt due to inflation or deflation, even though the borrower and the lender are using the same currency. Consequently, this can lead to bad debt cost. BDC Ratio= Bad debt cost/ Total cost.	Annual statement of account
Credit policy	Credit terms and conditions = Cost per credit asset	Cost per loan asset (CLA) is the average cost per loan advanced to customer in monetary term. The purpose of this is to indicate efficiency in distributing loans to customers. i.e CLA Ratio= Total Cost/ Total amount of loans.	Annual statement of account

Apriori Expectation

It is expected that at the end of the analysis, board size (BS), board composition (BC), credit standard (CS), and credit terms and condition (CT) may have positive or negative relationship with the dependent variable delinquency management (DM) depending on composition of board members and size. In other words, an increase in BS, BC, CS, and CT by one unit

should lead to a corresponding increase or decrease in the dependent variable DM in the same direction. From the above explanation, it can be summarised thus;

$$\frac{\partial DM}{\partial BS} > 0; \frac{\partial DM}{\partial BC} > 0; \frac{\partial DM}{\partial CS} > 0; \frac{\partial DM}{\partial CT} > 0$$

RESULTS AND DISCUSSION

Descriptive Statistics

Table 2: Descriptive Statistics of Variables

	LPR	DR	BS	BC	CS	CT
Mean	3.163940	0.399186	8.080952	0.555100	0.359310	0.688271
Maximum	26.84400	0.987000	11.00000	0.977000	0.893000	2.890000
Minimum	0.015000	0.134000	5.000000	0.046000	0.103000	0.153000
Skewness	2.316091	0.872080	-0.171979	0.110014	0.816761	2.583351
Kurtosis	8.760065	3.610747	1.855098	2.352844	4.797645	14.12825
Jarque-Bera	478.0602	29.88220	12.50468	14.088201	51.62433	1317.161
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

Note*: LPR =Loan portfolio at risk, DR = Default rate, BS = Board size, BC = Board composition, CS = Credit standard, CT = Credit terms*

Table 2 shows the descriptive analysis results of all the variables involved in the analysis of corporate governance and credit policies on delinquency management of microfinance banks in Nigeria for the period of 2012 to 2018. The result reveals that on average, the coefficient of LPR, DR, BS, BC, CS and CT varies from 3.16, 0.399, 8.08, 0.55, 0.35 and 0.68 respectively to minimum of 0.01, 0.13, 5.00, 0.04, 0.10 and 0.15 to maximum of 26.84, 0.98, 11.00, 0.97, 0.89 and 2.89 with standard deviation of 4.66, 0.17, 1.95, 0.21, 0.13 and 0.37. More so, it was discovered that LPR, DR, BC, CS and CT are positively skewed with skewness coefficient of 2.31, 0.87, 0.11, 0.81 and 2.58 respectively thus implying that the distribution of the LPR, DR, BC, CS and CT under consideration have long tail to the right while the coefficient of BS is -0.17 which implies that the variable had a long tail to the left. However, the kurtosis of the LPR, DR, CS and CT with kurtosis coefficient indexes of 8.76, 3.61, 4.79 and 14.12 respectively were mesokurtic in nature while the kurtosis of BS and BC with kurtosis coefficient indexes of 1.85 and 2.35 respectively are platykurtic in nature. The Jarque-Bera and probability values reveals that all the variables are statistically significant in examining the relationship between corporate governance and credit policies on delinquency management of microfinance banks in Nigeria.

Inferential Statistics

The inferential statistics are presented in this section and used to test the stated hypotheses. Correlation result presented in Table 3 revealed that there is positive correlation between loan portfolio at risk, default rate, credit standard and credit terms which implies that predominantly over the period covered in the study across sampled microfinance banks, loan portfolio at risk moves in the same direction with default rate, credit standard and credit

terms. On the other hand, the result shows that there is negative correlation between loan portfolio at risk and corporate governance measured by board size and board composition which implies that loan portfolio at risk tends to move predominantly in opposite direction with board size and board composition.

Table 3: Correlation statistics

	LPR	DR	BS	BC	CS	CT
LPR	1.000000					
DR	0.090768	1.000000				
BS	-0.052574	0.064215	1.000000			
BC	-0.166153	0.151333	-0.002477	1.000000		
CS	0.116357	0.000552	-0.023676	0.016214	1.000000	
CT	0.084466	-0.060153	-0.013207	-0.012904	0.032005	1.000000

Specifically, correlation coefficient reported in Table 3 stands at 0.0907, -0.0525, -0.1661, 0.1163, 0.0844, 0.0642, 0.1513, 0.0005, -0.06015, -0.0024, -0.0236, -0.0132, 0.0162, -0.0129 and 0.0320 for LPR and DR, LPR and BS, LPR and BC, LPR and CS, LPR and CT, DR and BS, BS and BC, BC and CS, CS and CT respectively.

Trend Analysis of Corporate governance and Credit policy on Delinquency Management

Fig 2, Fig. 3, Fig. 4, Fig. 5, Fig. 6 and Fig 7 show an upward and downward trend in loan portfolio at risk, default rate, board size, board composition, credit standard and credit terms respectively during the period under consideration (i.e. 2012-2018).

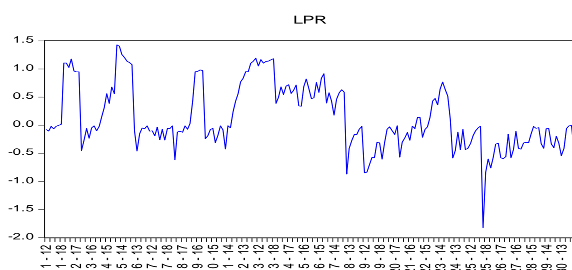

Figure 2: Loan portfolio at risk

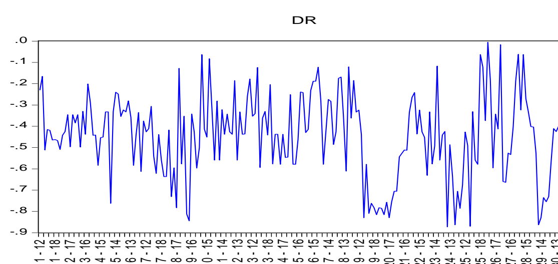

Figure 3: Default rate

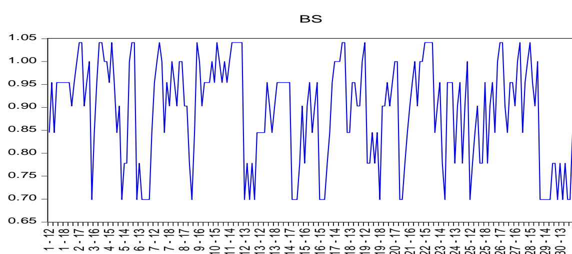

Figure 4: Board size

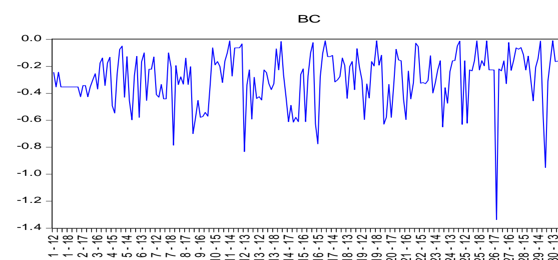

Figure 5: Board composition

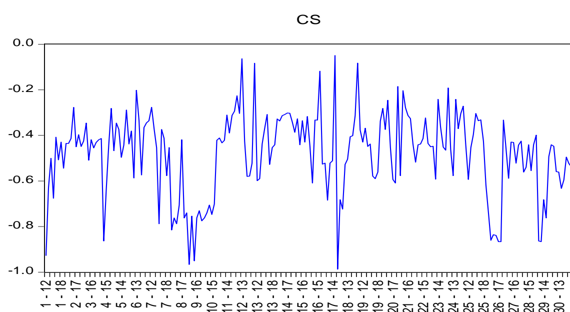

Figure 6: Credit standard policy

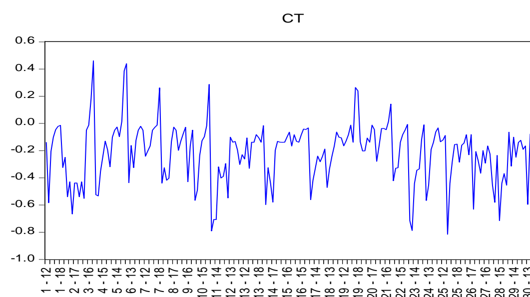

Figure 7: Credit terms

Analysis of the Effect of Corporate governance and Credit policy on Delinquency Management measured by Loan Portfolio at Risk

Random effect estimation result presented in Table 4 revealed that when heterogeneity effect across microfinance banks and over time is incorporated into the model via the error term, both board size and board composition have negative effect on loan portfolio at risk, however, board size has significant effect while board composition has an insignificant effect respectively given the reported estimates for board size that stand at -0.198424 (p=0.04 < 0.05), as against estimate for board composition that stand at -0.181067 (p=0.79 > 0.05). More so, the result shows that credit standard and credit terms have positive and significant effect with estimates of 5.723639 (p= 0.00 < 0.05) and 1.403521 (p =0.00 < 0.05) respectively on loan portfolio at risk.

Table 4: Random Effect Estimation of Corporate Governance, Credit Policy and Delinquency Management (Loan Portfolio at Risk)

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	0.306883	1.165056	0.263406	0.7925
BS	-0.198424	0.096003	-2.066838	0.0400
BC	-0.181067	0.697162	-0.259720	0.7953
CS	5.723639	1.037150	5.518620	0.0000
CT	1.403521	0.475494	2.951715	0.0035

R-square = 0.942565; Adjusted R-square = 0.931078; F-statistics = 82.05467;
Prob(F-statistic) = 0.000000; Durbin-Watson stat = 2.338137

***Series:** LPR, BS, BC, CS, CT*

Reported R-square for random effect estimation presented in Table 4 stand at 0.942565 which implies that about 94% of the explanatory variables contributes to loan portfolio at risk. The coefficient of adjusted R-square is 0.931078 which implies that the systematic variation in loan portfolio at risk can be explained by board size, board composition, credit standard and credit terms of the sampled microfinance banks in Nigeria. The F-statistics value of 82.05467 with the probability value of 0.000 < 0.05 shows that the random regression model is statistically significant and thus appropriate, reliable and acceptable for assessing the effect of corporate governance, credit policy on delinquency management among selected microfinance banks in Nigeria. More so, the Durbin Watson test statistics of 2.33 shows that the model is free from any serial autocorrelation.

Analysis of the Effect of Corporate governance and Credit policy on Delinquency Management measured by Default Rate

Random effect estimation result presented in Table 5 reveals that when heterogeneity effect across microfinance banks and over time is incorporated into the model via the error term, both board size and board composition have negative effect on default rate, however, board size has significant effect while board composition has insignificant effect respectively given the reported estimates for board size that stands at -0.183129 (p=0.00 < 0.05), as against estimate for board composition that stand at -0.321487 (p=0.61 > 0.05). Furthermore, the result shows that credit standard and credit terms have positive and significant effect with estimates of 4.500714 (p= 0.00 < 0.00) and 4.501728 (p =0.00 < 0.05) respectively on default rate.

Table 5: Random Effect Estimation of Corporate Governance, Credit Policy and Delinquency Management (Default rate)

Variable	Coefficient	Standard Error	T-Test Values	Probability
C	4.523011	0.944071	4.790965	0.0000
BS	-0.183129	0.011468	-15.96851	0.0000
BC	-0.321487	0.642455	-0.500404	0.6174
CS	4.500714	1.199306	3.752766	0.0002
CT	4.501728	1.292595	3.482707	0.0006

R-square = 0.883946; Adjusted R-square = 0.861398; F-statistic = 39.20344;
Prob(F-statistic) = 0.000000; Durbin-Watson stat = 2.181888

Series: *DR, BS, BC, CS, CT*

Reported R-square for random effect estimation presented in Table 5 stands at 0.883946 which implies that about 88% of the explanatory variables contributes to default rate. The coefficient of adjusted R-square is 0.861398 which implied that the systematic variation in default rate can be explained by board size, board composition, credit standard and credit terms of the sampled microfinance banks in Nigeria. The F-statistics value of 39.20344 with the probability value of 0.000 < 0.05 shows that the random regression model is statistically significant and thus appropriate, reliable and acceptable for assessing the effect of corporate governance and credit policy on delinquency management among selected microfinance banks in Nigeria. More so, the Durbin Watson test statistics of 2.18 explored that the model is free from any serial autocorrelation.

DISCUSSION AND IMPLICATION OF FINDINGS

Evidence from the result of the Random effect indicates that board size has a negative but with a significant effect on delinquency management of microfinance banks in Nigeria. This implies that there are not too many directors on the board of microfinance banks in Nigeria, however as the number of directors on the board increases, the rate of loan delinquency has tendency to fall and vice versa. The result failed to conform with the *apriori* of positive expectation on delinquency management of microfinance banks, nonetheless, the significant effect implies that banks with larger board size leads to slower and less-efficient decision-

making processes which causes communication problems and hence negatively affects the banks' performance. This finding suggests that a smaller board size can enhance banks' performance by reducing loan default rate as the smaller size can take quick and adequate decision for the performance of the banks as large boardrooms tend to be slow in making decisions, and hence can be an obstacle to change. The negative but significant relationship found between board size and delinquency management is consistent with the conclusions drawn by Ajala, Amuda and Arulogun (2012). They argued that large number of board size leads to the free rider problem where most of the board members play a passive role in monitoring the firm. This result, however, differs from Kyereboah-Coleman and Biekpe as cited in Emeka and Alem (2016) who conclude with a positive relationship. They argue that a large board size brings in more management skills and professionalism therefore, making it very difficult for the CEO to manipulate the board.

The result is connected to the finding of Oyewole, Olusanmi, and Owolabi (2015) that board size negatively affect loan default rate of banks in Nigeria. In an empirical study carried out by Abdulazeez, Ndibe and Mercy (2016), it is disclosed that larger board size is better for corporate performance than smaller board size because in larger board, members have a wide range of expertise to help make better decisions and are also difficult for a powerful CEO to dominate. Hence, management of microfinance banks should endeavour to have large number of directors on the board as required by the Central Bank of Nigeria in order to benefit from wealth of experience in tackling the increasing rate of non-performing loan and bad debt that is being experienced in many microfinance banks.

Also, the study reveals that board composition has an inverse with an insignificant effect on delinquency management of microfinance banks in Nigeria. This implies that lesser presence of non-executives or independent members in their board may not be able to protect their reputations as effective, independent decision makers. More so, it implies that non-executive directors are likely not to have a hands-on approach or are not necessarily well versed in the operations of the institution, hence, do not necessarily make the best decisions. Thus, the need for larger number of non-executive or independent director as board members. This implies that as the number of non–executive director increases in greater proportion to the executive directors, loan delinquency may decreases. The result at variance with the positive relationship evidenced in the empirical finding of Emeka and Alem (2016) but consistent with the negative relationship found in the empirical finding of Uwuigbe (2011). Nonetheless, non-executive directors have the incentive to act as monitors of management because they want to protect their reputations as effective, independent decision makers. The non-executive directors encourage more intensive audits as a complement to their own monitoring role while aiding reduction in agency costs which leads to improved performance. Based on the result of this study, it can be established that corporate governance has negative effect on delinquency management of microfinance banks in Nigeria.

Furthermore, the study discloses that credit standard has positive with a significant effect on delinquency management of microfinance banks in Nigeria. This result is promising and expected theoretically. This implies that microfinance banks in Nigeria are now prudent in

business than before as they relate with their customers thereby adopting the use of some loan collection policies which include; monitoring loans that are in arrears, penalising clients for late payment, use of stringent policies, and limiting members' access to repeat loans (Bwoma, Muturi & Mogwambo, 2017). It also implies that microfinance banks made use of the 7 Cannon of lending in their business which has resulted into low loan delinquency. Nonetheless, management should be extremely careful when setting up credit standard policy in order not to negatively affect the operations of microfinance institutions to ensure maximisation of profits. Improper credit risk management that is not properly set up reduces the MFIs profits, affects the quality of assets and increases loan losses and non-performing loan which may eventually lead to financial distress. Owojori, Akintoye and Adidu (2011) found out that the greatest contributor to the distress of collapsing banks was the incapability to collect advances and loans granted to customers. The study agrees with the empirical finding of Mwangi and Muturi (2016) that credit standard has positive and significant effect on delinquency management of banks.

Finally, the study denotes that credit terms and condition have positive and significant effect on delinquency management of microfinance banks in Nigeria. This result is in alignment with the theoretical positive expectation on delinquency management. This implies that microfinance banks set out credit terms and conditions for her customers and strictly adhere to the stated conditions without giving preference to any customer. Contrarily, the finding does not align with the negative result in the study of Matunda (2016), but consistent with the positive effect recorded in the studies of Bwoma et al (2017). These findings are consistent with that of Jansson (2011) who indicates that an effective debt collection strategy starts with a clearly thought out credit policy and credit management tools to enforce this policy. Jansson (2011) further stated that by making use of opportunities to make the collections processes strategically effective, operationally efficient and customer orientated, an organisation can expect the collection function to add significant value to the business.

CONCLUSION

The study has empirically investigated the effects of corporate governance and credit policies on delinquency of Microfinance banks in Southwest, Nigeria. Statistical evidence establishes that both corporate governance and credit policy are instrumental to delinquency management of microfinance banks in Nigeria but corporate governance has negative impact whereas credit policy has positive effect on delinquency management. It has been established in the literature that corporate governance affects stakeholders and the banks as a whole, corporate governance affects the potential or ability of a bank to reach its market share both domestically and globally; corporate governance also determines the banks' ability to fulfill its social objectives with its clientele and society at large (Emeka & Alem, 2016). This study has, however, established that corporate governance practices when measured by board size have significant though with a negative effect on delinquency management of microfinance banks. However, when measured by board composition, it has a negative with an insignificant effects on delinquency management. The study, therefore, concludes that

corporate governance has negative effect on delinquency management of microfinance banks in Nigeria.

On the other hand, the study establishes that delinquency management of microfinance banks is influenced by credit standard policy and credit terms and conditions. The findings indicated that the mechanism used by microfinance banks to collect loan has been adequate to an extent in reducing loan delinquency. For proper supervision of loan utilisation and repayment to be effective, corporate governance and credit policy must be rightly channeled. A number of reasons or factors could be responsible for high loan defaults rates among microfinance banks. Many of these causes result from the MFIs inability to control and manage their own operations. There are also factors that relate to the loan benefactor such as external pressures to divert the money (e.g., for medical emergencies, school fees, family maintenance), behavioral "biases" in decision-making (e.g., present biasedness, lack of self-control) and the nature of the investment required (e.g., its lumpiness) MFBs in Nigeria can reduce loan defaults by designing financial products that inherently reduce the risk of default by patrons (Owusu, Oppong, Agyeiwaa & Abruquah, 2015). The study conclusively corroborates the empirical finding of Nyawera (2013), Mwangi and Muturi (2016) and Bwoma, Muturi and Mogwambo (2017) that corporate governance and credit policy has positive and significant effect on delinquency management of banking institutions.

RECOMMENDATIONS

Premised on the discoveries and conclusion of this study, the following recommendations are presented:

Microfinance banks should regulate the size of the board which should not be too large and must consist of highly skilled and competent professionals who are conversant with oversight function; Management of microfinance banks need to be cautious in setting up a credit policy that may adversely affect profitability. Policy makers will gain insight on effect of credit policy on financial performance of micro finance institutions. This will enable policy makers and the government to formulate measures to enhance credit policy formulation that will reduce loan delinquency; Microfinance banks should step up measures in her credit terms and conditions before advancing credit facility to the customers; Management of microfinance banks should ensure debt stringent collection effort. Therefore the credit committees at all levels must work in co-ordination in order to ensure that credit is collected in a timely manner.

CONTRIBUTIONS TO KNOWLEDGE

The study contributes to knowledge by employing secondary data indices of credit policies as evident in the study of Nyawera (2013) in Kenya and unlike other studies that employed the instrument of questionnaire to measure credit policies in Nigeria; the study further contributes to knowledge by providing valid and vivid information on key concepts of corporate governance, credit policy and how they are related with delinquency management of Microfinance banks; the study contributes to knowledge by showing that positive and

significant relationship exist between credit policy and delinquency management of microfinance banks and also by indicating that a negative relationship exists between corporate governance and delinquency management of microfinance banks in Nigeria.

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