CREDIT MANAGEMENT PRACTICES AND PERFORMANCE OF MICROFINANCE BANKS IN MAKURDI METROPOLIS, BENUE STATE-NIGERIA

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Abstract

The study investigates the effect of credit management practices on performance of microfinance banks in Makurdi Metropolis, Benue State-Nigeria. The study specifically sought to find out how client appraisal, credit risk control and collection policy affect performance of microfinance banks in Makurdi Metropolis. The study formulated hypotheses in line with objectives of the study. A survey design was employed and primary data were collected through questionnaire administration. A pilot test was carried out to ensure that the instrument was valid and reliable. The study used 7 managers and 42 credit officers who constituted the population. A census sampling technique was employed for the study. The study used multiple regression analysis for data analysis and test of formulated hypotheses at 0.05 level of significance. Results of tested hypotheses indicated that client appraisal, credit risk control and collection policy have positive significant effect on the performance of microfinance banks in Makurdi metropolis. The study concludes that an effective credit management system is fundamental in ensuring the sustainability and survival of MFBs. The study recommended amongst others that management of the banks should enhance their client appraisal techniques to avoid having un-credit worthy clients leading to loan delinquency and MFBs should conduct proper check on clients’ profile before giving loans to them to avoid issues associated with defaults.

Keywords: Credit, Credit Management, Client Appraisal, Credit Risk Control, Collection Policy, Performance.

1. Introduction

The contemporary and turbulent environment in the 21st century is very demanding for every business organization to effectively manage risk and ensure adequate cash flows to help avert the probability of incurring losses by business organizations. Also, credit firms are faced with economic pressures thereby slowing payments thus, finding it unpalatable to meet higher expectations. It is therefore indispensable for credit experts to explore opportunities to execute proven best practices (Akinselure & Akinola 2019). Credit as a concept has a long history and can be traced back to ancient times. However, it was not until after the Second World War when it largely begun to be appreciated in Europe (Kamau, 2013).

Credit is used by firms to encourage demand for their products and services. Credit entails a circumstance through which instant payment for goods and services is postponed.
and payment is made on a later date as agreed. However, it is paramount to identify potential credit default in time hence, high default rate results to decline in cash flows, liquidity levels and financial distress among credit firms (Muturi, 2016). Ifurueze (2013) opines that one of the business strategies operated by business organizations in their attempts to make profit is allowing credit to customers. To ensure effective credit management, credit institutions should be able to professionally manage customer credit lines.

Credit management entails the means by which institutions that involve in credit transactions manage their credit sales and customers operating with them. Credit management is indispensable since it is impracticable to have an organization with no credit or default risk (Etemesi, 2017). Myers and Berkley (2013) looked at it as techniques and policies put in place by firms to optimally sustain credit levels thereby improving their performance. Gatuhu (2013) elucidates that credit management is extremely important as granting credit is considered to be the equivalent of investing in a customer. It is an aspect of financial management involving client appraisal, credit risk control and collection policy. Effective credit management ensures reduction in capital with debtors and reduces the possibility of bad debts. Credit management is thus, an essential practice for any firm that engages in the business of credit including microfinance institutions (Magali, 2013; Kipkirui & Omagwwa, 2018).

Microfinance banks (MFBs) were established to help fill financing gap by making provision of funds to groups and people that are lower-income earners, who usually engage in small and micro business activities. They usually provide loans in smaller amount to individuals and micro enterprise that do not have collateral to secure loans from deposit money banks (Kurui & Kalio, 2014). Microfinance banks are thus involved in credit management activities such as loan application, appraisal, approval, monitoring, and recovery of non-performing loans, amongst others. Njeri (2016) and Adegbie and Otitolaiye (2020) identified credit management practices to include client appraisal, credit risk control and credit collection policy.

Effective credit management policy is therefore important for the viability of microfinance institutions (MFIs). Most of these institutions generate revenue from interest earned on loans provided to micro and small business owners or entrepreneurs to help improve the performance of their enterprises. Performance is the outcome of a firm’s operations usually measured in monetary and non-monetary terms. Performance of firms is usually measured using return on investment, return on assets, value added, sales growth and customer satisfaction (Muturi, & Rotich, 2016). To improve performance and attract more customers, microfinance banks must have the ability to quickly and easily make well-informed credit decisions and set appropriate lines of credit.

Despite growth in the financial sector, microfinance banks today face challenges resulting from payment defaults by clients (Gatuhu, 2013). The high incidence of credit non-payment has been reflected in the rising levels of non-performing loans by microfinance institutions in Nigeria in recent years (Eno, Ukpe & Essien, 2018; Adegbie & Otitolaiye, 2020). The situation is not different from microfinance banks in the study area. Credit management related issues not only threaten the feasibility and survival of these banks but also hinder the provision of credit to customers (Kasali & Fashanu, 2020). Previous researches on microfinance banks in Nigeria (Olowe, Moradeyo & Babalola, 2013; Ashamu, 2014; Uwalomomwa, Uwuigbe & Oyewo, 2015) failed to demonstrate whether a positive or negative relationship exist between credit management and performance of microfinance institutions. To fill the existing gap in literature this study investigates the effect of credit management on the performance of microfinance banks in Makurdi metropolis, Benue State, Nigeria. The study specially examines the effect of client appraisal, credit risk control and
collection policy on the performance of microfinance banks in Makurdi metropolis, Benue State Nigeria.

2. Literature Review

Microfinance banks are those institutions that provide a range of high quality and affordable financial services to low-income households. These services include savings, credit, insurance, remittances, and payments, and others (Uwalomomwa, Uwuigbe & Oyewo, 2015). Karlan and Goldberg (2007) stated that the objective of microfinance banks is the provision of financial services to individuals and businesses that have no accessibility to other financial institutions. In the words of Munene and Guyo (2013), the goal of these institutions is to supply loans and small credits to finance small projects to help the poor have an income through forming their own small scale business to earn their daily bread and better their living.

Credit refers to the use or possession of goods or services without immediate payment. Mairura and Okatch (2015) define the concept as a situation in which ownership of goods or services is allowed without immediate payment upon a contractual agreement for later payment. The process of implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts is known as credit management (Gatuhu, 2013). Credit management serves as an exceptional mechanism that ensures efficiency and effectiveness of business. Accordingly, credit management involves activities such as loan application, appraisal, approval, monitoring, and recovery of non-performing loans, amongst others (Ezeaku, 2014). Credit management is also explained by Kagoyire and Shukla (2016) to mean techniques and policies credit firms adopt to guarantee optimality in credit provided to customers. The objective of credit management is to safeguard the company’s investments and optimize operational cash flows. It is therefore imperative for microfinance banks to have well-established policies and procedures in place for disposal and collection of loans from customers to help limit dangers associated with non-remittance (Oluochi, 2016). Consequently, it seeks to not only protect the bank or any financial institution involved from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely comportment (Njeri, 2016). Credit management practices help microfinance banks in granting credit and controlling credit policies to reduce the risk associated with credit such as default.

Performance is the strategic outcomes that organizations use to realize its goals, success or not. Performance is the firm’s ability to create acceptable outcomes and actions (Ololade & Olagunju, 2016). Performance also entails the resultant of efforts in form of activities of the business enterprise which includes its strategy and operational activities, management of all segments of business enterprise such as the human resources, finance, production and marketing (Mairura & Oketetch, 2015). Arguably, a firm is said to be performing well when it is able to utilize its resources efficiently and generate outputs that are consistent with its goals and objectives and relevant for its clients and stakeholders (Njeri 2016). Consequently, performance of microfinance banks is their ability to attain stated goals by using available resources efficiently and effectively (Etemesi, 2017). Performance is commonly employed as an index of a firm’s health over a dedicated period of time. By measuring firm performance, a company can identify its strengths and weaknesses (Magali, 2013). Performance measures such as profitability, efficiency and liquidity are often used as parameters for measuring performance of microfinance banks in Nigeria.
2.1 Microfinance Lending Methods
Microfinance banks have employed different lending methods which include individual lending, group lending, village banking approach and wholesale lending because of increasing demand for their products and services by low-income earners and micro businesses (Crabb & Keller, 2006; Akinselure & Akinola, 2019).

Individual Lending
Individual lending is a method of granting credit to individuals who are not members of a group that is jointly responsible for loan repayment (Mutua & Gekara, 2017). Each loan is specifically tailored to the individual and business involved. This approach tends to work best when used with larger urban business or small rural farmers. Njenga (2014) explains that microfinance lend directly to individuals, without any sort of group self-selection or guarantee and are more likely to take collateral such as fixed assets, land and building or household appliances taken in pawn when it is available.

Group Lending
This technique of lending is designed to serve rural and landless clients who wish to borrow from the bank. In group lending, Crabb and Keller (2006) explained that the group usually has a membership of four to seven persons who are not members of a nuclear family. Before receiving any loan each member is required to contribute savings throughout the duration of the group training which last between four and six weeks. Additional requirements for loans include prompt repayment, mandatory weekly meetings, and pre-credit orientation and assistance. After successfully meeting up the conditions the loan officer disburse the loan to two individuals. No further lending is allowed pending loan repayment. The same process occurs for the remaining members of the group (Ifurueze, 2013).

Village Banking Approach
Village banks are community-managed credit and savings associations that focus on rendering financial services to rural areas, building community self-help group and helping members accumulate savings (Ifurueze, 2013). According to Crabb and Keller (2006), these banks consist of women between 25 and 40 who guarantee each other’s loans and self-manage the distribution and collection of funds. They are principally financed by loans from microfinance institutions, but forced and voluntarily savings are collected by the group and may also be loaned to finance members and non-member activities.

Wholesale Lending
Wholesale lending is a method whereby microfinance institutions that have corresponding relationship with the deposit money banks have easy access to working capital loans at concessional cost of funds for on-lending to their customers, especially micro-entrepreneurs and high net worth individual borrowers in their catchment areas (Adamu, Asongo & Nyor, 2014).

2.2 Credit Management Practices and Performance of Microfinance Banks
Previous studies have identified credit management practices used by microfinance institutions to include credit/client appraisal, credit risk control and collection policy (Gatuhu, 2013; Kagoyire & Shukla, 2016; Kipkirui & Omagwa, 2018; Adegbie & Otitolaiye, 2020).

Client Appraisal
This is the first step in providing loans to clients. It involves screening clients to determine their willingness and capacity for repayment of loans. Financial institutions use the
5Cs model of credit to evaluate the potential capabilities of borrowers (Bayene, 2002). The 5Cs include character, capacity, collateral, capital, and condition (Etemesi, 2017). The first two C’s—Character and Capacity—are usually given more attention since they characterize the most basic requirements for extending credit to an applicant. Consideration of the last three C’s—Capital, Collateral, and Conditions—is important in structuring the credit management and making the final credit decision, which is affected by the credit analyst’s experience and judgment. The 5Cs help financial institutions to intensify loan performance since it enables them to understand the customers. Njeri (2016) explains that banks credit analysts often use the five C’s of credit to focus their analysis on the key dimensions of an applicant’s creditworthiness.

A proper client appraisal lowers capital that is locked with the debtors, and trims down the likelihood of having bad debts thereby improving performance (Kurui & Kalio, 2014). A study by Shieler, Emenike, and Amus (2017) indicated a positive significant relationship between credit risk identification and credit risk appraisal and financial performance of microfinance banks. A positive significant relationship between client appraisal and bank performance was also found by Kagoyire and Shukla (2016). In support of this, Kurui and Kalio (2014) revealed that there was a significant effect of client appraisals on MFIs performance. Similar results were also found by Aliija and Muhangi (2015) and Nwanna and Oguezue (2017) in their study on credit management and credit performance of MFIs.

**Credit Risk Control**

Credit risk control is the loan review effort directed at reducing credit risk as well as handling problems associated with loans and liquidating assets of failed borrowers. Effective credit risk control clearly involves credit analysis, execution, and administration. The review process is separated into two functions namely: monitoring the performance of existing loans and handling problem loans (Kipkirui & Omagwa, 2018). Many banks have a formal loan review committee, independent of loan officers, that reports unswervingly to the Chief Executive Officer and directors’ loan committee. The current loan is reviewed to verify that the debtor’s financial circumstance is acceptable, loan documentation is in place, and pricing meets return objectives (Miwa & Ramsey, 2008; Adegbie & Otitolaiye, 2020). Credit analysis is the primary method in reducing the credit risk on a loan request. This includes determining the financial strength of the borrowers, estimating the probability of default and reducing the risk of non-repayment to an acceptable level. In credit risk control a loan officer attempts to evaluate a borrower’s ability and willingness to repay the loan (Njenka, 2014).

Nagarajan (2001) in a study of risk management and performance of microfinance institutions found that credit risk control has significant effect on bank performance. Magali (2013) in his study affirmed that control of credit risk is important for microfinance institutions. A study in Nigeria by Ololade and Olagunju (2016) also supported previous researches that credit risk control is significantly related with performance of microfinance institutions in Nigeria. Saeed and Zahid (2016) affirmed that credit risk is positively correlated with profitability of the banks. Additionally, Mwangi and Muturi (2016) affirmed that credit risk control has a significant impact on the profitability of Nigerian banks. Credit risk control is important in determining the amount of debts (Warue, 2012; Etemesi, 2017; Mutua & Gekara, 2017).

**Collection Policy**

This refers to the procedures financial institutions follow to collect past due accounts from customers (Mwangi, 2012). Methods used by financial institutions could include letters, demand letters, telephone calls, visits by the firm’s officials for face to face reminders to pay
and legal enforcements (Anderson, Williams & Sweeney, 2009). A collection policy also means a guide that ensures prompt payment and regular collections. The justification for this trend is that not all clients meet their obligations, some just take it for granted, others simply forget while others just do not have a culture of paying until persuaded to do so (Mwangi, 2012). Some customers are slow payers while some are non-payers. Effort should therefore be geared towards accelerating collections from non-payers to reduce bad debt losses (Kariuki, 2010). Credit policy refers to a combination of three decision variables namely; collection efforts, credit standards and credit terms (Aliija & Muhangi, 2015).

Scheufler (2002) argues that a credit collection policy is vital aspect of the credit management strategies. Credit policy allows management of microfinance institutions to uphold appropriate standards that will adequately guarantee opportunities for continued business existence and avoidance avoidable risks (Nyor, Falaye, Onah, Nyor, Evans, Olayide & Adama, 2013). A number of collection techniques are employed when a customer defaults and these techniques according to Gatuhu (2013) include: telephone calls, personal visits, letters, using collection agencies and legal action. Olawale (2015) suggested that management of financial institutions should be careful in setting up a collection policy that will not negatively affect their profitability. A positive relationship was found between credit collection policy and performance of microfinance institutions (Ashamu, 2014; Eno, Ukpe & Essien, 2018; Mafumbo, 2020). In conformity with other studies, Imbierowicz and Rauch (2014) established a significant relationship between credit control techniques and performance of microfinance institutions. The study showed that credit control helps to reduce the rate of both credit and liquidity risks.

Hypotheses

Based on the literature reviewed above, the study formulated three hypotheses:

H01: Client appraisal has no significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State Nigeria.

H02: Credit risk control has no significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State Nigeria.

H03: Collection policy has no significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State Nigeria.

Theoretical Framework

This study is anchored on the Credit Management Theory. The as proposed by Woolcock and Narayan (2000) states that the markets for credit or loans are highly shaped by the lenders (MFIs) strategically, for potential borrowers screened and their opportunistic behavior addressed which is encouraged by the nature of loan contracts. Accordingly, lenders usually increase credit pricing to a level that they expect returns to be maximized. This often excludes small, risky and costly borrowers. The consumption of credit tends to be inversely related to both the interest rates and the required collateral. Microfinance banks tend to apply the credit management theory taking advantage of the opportunistic behavior presented by potential borrowers. Consumption of credit is collated to the collateral requirements and a variable interest rate pricing policy might be utilized by individual banks.

The theory is relevant to the current study because it explains that a good credit management system minimizes the amount of capital tied up with debtors. It is very important to have good credit management for efficient cash flow. There are instances when a plan seems to be profitable when assumed theoretically but practical execution is not possible due to insufficient funds. The theory further shows that that in order to avoid such situations, the best alternative is to limit the likelihood of bad debts and this can only be
achieved through good credit management practices (client appraisal, credit risk control and collection policy).

3. Methodology

The study employed a survey design. The use of survey design helps in the collection of primary data from the respondents through questionnaire administration. The population of the study consists of forty-nine (49) staff (7 managers and 42 credit officers) of Microfinance Banks in Makurdi metropolis. The target population includes staff of the following microfinance banks in Makurdi metropolis: Zion Microfinance Bank Limited, Better Life Microfinance Bank Limited, Jamis Microfinance Bank Limited, Excellent Microfinance Bank Limited, Agreb Microfinance Bank Limited, Benue Microfinance Bank Limited and Lado Microfinance Bank Limited. The questionnaire was developed on a four point Likert scale measuring from strongly agree (4), agree (3), disagree (2) to strongly disagree (1).

Table 1: Population of Microfinance Banks in Makurdi Metropolis

<table>
<thead>
<tr>
<th>Microfinance Bank</th>
<th>Managers</th>
<th>Credit Officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zion Microfinance Bank Limited</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Better Life Microfinance Bank Limited</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Jamis Microfinance Bank Limited</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Excellent Microfinance Bank Limited</td>
<td>1</td>
<td>9</td>
</tr>
<tr>
<td>Agreb Microfinance Bank Limited</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Benue Microfinance Bank Limited</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>Lado Microfinance Bank Limited</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>


Validity and Reliability of the Instrument

Construct validity of the instrument was carried out using Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA). According to the results the Kaiser- Meyer- Olkin (KMO) which measures the sample adequacy was .762 while the Bartlett's Test of Sphericity was significant (App. chi-square= 324.452, sig. is .000). To ensure consistency of the measurement instrument, reliability was carried out using test-retest method. A pilot test was carried out on 10 staff of microfinance banks in Makurdi metropolis. This was done using Cronbach’s alpha. The calculated Cronbach’s alpha as presented in Table 2 ranged between 0.843 and 0.894, indicating high reliability for all the constructs. These values are higher than the recommended threshold of α = 0.70 (Nunnally & Bernstein, 1994).

Table 2: Reliability of Measurement Scales

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
<th>No. of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Appraisal</td>
<td>0.851</td>
<td>5</td>
</tr>
<tr>
<td>Credit Risk Control</td>
<td>0.894</td>
<td>5</td>
</tr>
<tr>
<td>Collection Policy</td>
<td>0.828</td>
<td>5</td>
</tr>
<tr>
<td>Performance</td>
<td>0.843</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>0.854</strong></td>
<td><strong>23</strong></td>
</tr>
</tbody>
</table>

Source: Researchers’ Computation from SPSS Output, 2021.
Variable/Model Specification

The study is measured using two variables; the independent variable (Credit Management) and dependent variable (Performance). The independent variable is measured using three predictor variables namely, client appraisal, credit risk control and collection policy. The dependent variable on the other hand is measured using profitability and efficiency. In this study performance of microfinance banks is regarded as a function of credit management. Credit management comprises of client appraisal, credit risk control and collection policy.

In this vein, the study suggests that,

\[ \text{PMFBs} = f(\text{CRM}) \]  

Where;

PMFBs = Performance of Microfinance Banks (dependent variable)
CRM = Credit Management (independent variable)

Given that credit management comprises three dimensions, the implicit form of the model is given as follows:

\[ \text{PMFBs} = f(\text{CLA, CRC, CLP}) \]  

Where:

CLA = Client Appraisal;
CRC = Credit Risk Control;
CLP = Collection Policy

Thus, the explicit form of the model for the study is stated as follows:

\[ \text{PMFBs} = \beta_0 + \beta_1 \text{CLA} + \beta_2 \text{CRC} + \beta_3 \text{CLP} + e \]  

Where:

B0 = constant of the model.
B1,3 = coefficients of the model.
e = disturbance terms or error term.

Data Analysis Techniques

Descriptive statistics were used to summarize the data through simple percentages and frequency tables for ease of understanding and analysis. The data collected through questionnaire were tabulated and analyzed using the Statistical Package for Social Sciences (SPSS 21). Multiple regression analysis was used for test of hypotheses at 0.05 level of significance.

4. Results and Hypotheses Testing

The result of the model summary as presented in Table 3 shows an R² value of .678 meaning that 67.8 % of the variation in the dependent variable (performance) is explained by the predictor variables (client appraisal, credit risk control and collection policy) while 32.2 % is explained by other variables outside the model. The R-value of .921 indicates that there is a strong correlation between the dependent variable (performance of microfinance banks) and the set of independent variables.

<table>
<thead>
<tr>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin- Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>.921a</td>
<td>.678</td>
<td>.623</td>
<td>.964</td>
<td>1.333</td>
</tr>
</tbody>
</table>

a. Predictors (Constant), Collection policy, client appraisal, credit risk control
b. Dependent Variable: Performance of MFBs

The result in Table 4 shows that the significance value (.000) is less than 0.05 indicating statistical significance of the model in predicting the effect of the independent variables (client appraisal, credit risk control and collection policy) on the dependent variable (performance of microfinance banks). The F critical value (3.240) signifies that client appraisal, credit risk control and collection policy jointly affect the performance of microfinance banks in the study area.

Table 4: Analysis of Variance (ANOVA)

<table>
<thead>
<tr>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>9.028</td>
<td>3</td>
<td>3.009</td>
<td>3.240</td>
</tr>
<tr>
<td>Residual</td>
<td>41.791</td>
<td>45</td>
<td>.929</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>50.816</td>
<td>48</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of MFBs
b. Predictors (Constant), Collection policy, client appraisal, credit risk control


The result of the regression coefficient as presented in Table 5 indicated that taking all other independent variables at zero, a unit increase in client appraisal will lead to 25.8% increase in the performance of microfinance banks and a unit change in credit risk control will result to 28.0% improvement in performance of microfinance banks. Also, change in credit collection policy will result to 44.6 % increment in performance of microfinance banks. The results further indicate that credit collection policy has more significant effect on performance of the banks.

Table 5: Regression Coefficients

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.454</td>
<td>.118</td>
<td>29.265</td>
</tr>
<tr>
<td>Client Appraisal</td>
<td>.258</td>
<td>.066</td>
<td>.279</td>
</tr>
<tr>
<td>Credit Risk Control</td>
<td>.280</td>
<td>.081</td>
<td>.248</td>
</tr>
<tr>
<td>Collection Policy</td>
<td>.446</td>
<td>.074</td>
<td>.438</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Performance of MFBs


The results in Table 5 show the test of hypotheses. Hypothesis one (1) which states the there is no significant effect of client appraisal on the performance of microfinance banks was rejected. As shown in Table 5, client appraisal has a significant effect on performance of MFBs (β= 0.258; p<0.05). This implies that client appraisal has a positive significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State.

Hypothesis two (2) which states that credit risk control has no significant effect on the performance of microfinance banks was rejected. The result in Table 5 shows that credit risk control has a significant effect on performance of MFBs (β= 0.280; p<0.05). The result implies that there is a positive significant relationship between credit risk control and performance of microfinance banks in Makurdi metropolis, Benue State.

Also, Table 5 shows the result of hypothesis three (3) which states that collection policy has no significant effect on the performance of microfinance banks. The strength of the relationship between collection policy and performance of MFBs indicates that (β= 0.446; p<0.05) hence the null hypothesis was rejected. The result implies that collection policy has a
positive significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State.

5. Discussion of Findings

Results of the study have confirmed the result of previous studies which indicated that credit management is important for every financial institution (Ifurueze, 2013; Uwalomomwa et al., 2015; Kagoyire & Shukla, 2016). The result indicated that client appraisal has significant effect on the performance of microfinance banks in Makurdi metropolis, Benue State. The study established that client appraisal is a workable policy used in assessing clients’ ability and failure to assess customer’s capacity to repay will result in loan defaults. This result is in agreement with Kurui and Kalio (2014) who averred that proper client appraisal helps in reducing the possibility of bad debts. Shieler, Emenike and Amus (2017) in their study established that credit risk identification and client appraisal have strong positive relationship with performance of microfinance institutions. The result is further supported by Kurui and Kalio (2014), Aliija and Muhangi (2015) and Kagoyire and Shukla (2016) whose studies found significant relationship between the variables. Corroboratively, Aliija and Muhangi (2015) and Nwanna and Oguezue (2017) found significant relationship between client appraisal and bank performance.

Findings of the study also indicated that credit risk control is significantly related with the performance of microfinance banks in Makurdi Metropolis, Benue State. The study established that MFIs use credit risk control to reduce cases of default/credit risk. This result agrees with Gatuhu (2013) who found a significant relationship between credit risk control and performance of microfinance institutions. Njenga (2014) and Magali (2013) in their studies affirmed that credit risk significantly affect the growth of MFIs. Mutua and Gekara (2017) affirmed that credit risk indicators had a positive association with performance of banks. Additionally, results of the study revealed that there is significant relationship between credit collection policy and the performance of microfinance banks in Makurdi metropolis, Benue State. The formulation of collection policies by MFBs have been a challenge in credit management and enforcement of guarantee policies provides chances for loan recovery in case of loan defaults. To confirm the findings of the study previous studies by Scheufler (2002) argued that a credit collection policy creates a common set of goals for the organization thereby improving its performance. Warue (2012) averred that credit collection policy enable microfinance institutions to maintain proper standards of bank loans to avoid unnecessary risks and correctly assess opportunities for business development. Similarly, Miwa and Ramsey (2008) and Imbierowicz and Rauch (2014) found significant relationship between collection policy and performance of financial institutions. The result is corroborated by Enow, Ukpe and Essien (2018) and Mafumbo (2020) whose studies indicated significant effect of collection policy on performance of financial institutions.

6. Conclusions and Recommendations

This study contributes to existing literature by clearly demonstrating how client appraisal, credit risk control and credit collection policy affect performance of microfinance institutions. The study makes several contributions that are noteworthy; it makes contributions to improve the practice and the existing knowledge on credit management and firm performance. This study identifies credit management practices that are imperative for microfinance banks and banks that adopt these practices will perform better. Microfinance institutions will reorganize their credit management policies and critically evaluate their operational guidelines to come up with improved credit policies. The study concludes that client appraisal enhance the performance of microfinance banks. Through client appraisal
techniques, MFBs are able to identify credit worth clients and thus reduce their non-performing loans. The study also concludes that credit risk control has helped to improve performance of MFBs studied. The study further concludes that improvement in collection policy of studied MFBs enhances their performance. The study recommends that microfinance banks (MFBs) in Nigeria should enhance their client appraisal techniques to avoid having un-credit worthy clients leading to loan delinquency. MFBs should enhance their credit risk controls by critically assessing their prospective and current borrowers as well as the reliability of their guarantors to help curtail issues of non-performing loans. Finally, microfinance banks (MFBs) should adopt stringent approaches for loan collection and debt recovery. This will encourage timely payment of debt by customers of such banks.

References


