MANAGEMENT OF BAD DEBT IN MICROFINANCE BANK IN NIGERIA: A CASE STUDY OF THREE SELECTED MICROFINANCE BANKS IN BENUE STATE NIGERIA

ADAMU Garba

Department of Business Management, Nasarawa State University Keffi, Nasarawa State.

Abstract

This study examined management of bad debt in microfinance bank in Nigeria: a Case Study of three selected Microfinance banks in Benue State Nigeria. Data was collected using questionnaire and analyzed using inferential statistics such as multiple regression analysis. The hypotheses of the study was tested using the probability values of the estimates. The result of the regression analysis shows that Non Performing Loan (NPL) has a negative effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis and the effect is not statistically significant ($p>0.05$). This means that a unit increases in Non Performing Loan (NPL) will result to a corresponding decrease in Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria by a margin of 38.7 %. Unsecured loan (USL) has a positive effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria and the effect is statistically significant ($P<0.05$) and the effect is not in line with a priori expectation. This means that a unit increases in Unsecured Loan (USL) will result to a corresponding increase in Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria by a margin of 55.4 %. It was concluded that microfinance banks must develop proactive debt management strategies as a way to improve debt management. It was recommended among others that Management of the selected microfinance banks must intensify effort in bringing to the barest minimum the incidence of nonperforming loans in the studied banks.

Keywords: Management, Microfinance, Bank, Debt, Makurdi, Benue, Nigeria.

BACKGROUND OF STUDY

The term debt is frequently used in reference to debtor's obligation to make payment. Debt and credit are therefore similar terms. Management of credit is simply the application of four management principles which are planning, organizing directing and controlling to credit concept. Banks are major players in the financial sector of every country's economy. The failure or success of these banks will to a large extent affect the financial sector and the economy at large. In recent times some commercial banks have been wound up leaving customers to their fate. It is important to note that the major cause of the winding up of some of these banks is their poor management of their finance and credit. Many of them were writing off huge amounts of debt yearly and also reflected some going concern issues that related to their management of credit and finance.

The Microfinance banks plays a huge role in bringing operational capital to the customers who are usually not services by the commercial banks. Microfinance Institutions (MFIs), has successfully put the issue of micro loans on the governmental policies of most emerging countries (Ochola, 2009). Microfinance Banks were established to help fill financing gap by supply of funds resources to lower-income earners whom are mostly take part in small and micro business activities. Microfinance Banks supplies funds to start-up businesses or for the purpose of working capital, for example, to purchase machines, raw materials, and business equipment. Credit in microfinance is given to the small businesses and enterprises operators, for example, artisans, non-salary earners, peasant farmers, youths etc. These loans are usually not secured, however mostly granted based on the character of the applicant, together with the pooled cash flow of the business and also the applicant's household (Aliija & Muhangi, 2017).

Loan management in microfinance banks involves various policies that are put in place to ensure credit management is done effectively and brings about outstanding performance for Microfinance Banks, this include loan collection policy and Group lending methodology. Loan portfolio management is the effective management that involves monitoring and reviewing of the loan portfolio for lending institutions by using appropriate tools and techniques to ensure repayment of loan so as to prevent the emergence of bad debt. The liquidity crisis in 2009 which also hit the Microfinance Banks sub-sector of the Nigerian economy led to the closure of so many banks, this has made a reasonable percentage of over 990 Microfinance Banks operating in the country to be in bad shape due to factors such as high exposure to non-performing loans and lack of corporate governance, also it has tremendously impaired their performance and in turn affect their capital base. Other factors include insider dealings, incompetent boards, ineffective asset-liability management as a result of loans and deposit mismatch and liquidity issues (Amahalu, 2017).

When a microfinance bank grants credit to its customers, there are usually a few customers who do not pay. The account of such customers are called bad debts. In Nigerian context, there has been increased bad and doubtful trends of debts in microfinance banks, however, banks and their shareholders, government officials and most Nigerians have shown a lot of concern to bad debts. The Central Bank of Nigeria (CBN) regulatory and supervisory guidelines for Micro Finance Banks in Nigeria (2005) defines Micro Finance Banks (MFB) as any company licenses to carry on the business of providing micro finance services that are needed by the economically active poor, Micro, Small and Medium Enterprises to conduct on expand their business. Provision of Micro credit is one of the vital function of Micro Finance Banks.

Bad debt occurs as a result of huge non performing loans, poor management and granting of unsecured loans. Several techniques can be used to manage this bad debts crisis in the microfinance. This involves the control through loan disbursement and other drawn down conditions. Idama, Asongo & Nyor (2014) argued that no loan should be disbursed to the customer when necessary agreement forms have not been duly completed by the customer or the security document have not been signed yet. Also, loans should not be disbursed until customers satisfied all security formalities. The danger of allowing a customer to drawn down the loan while the customer is yet to comply with the security documentation cannot be over emphasized.

When drawn down has not been effected, a customer is over willing to co-operate to finish the required documentation which is not always the case once the customer has the money. No disbursement should be allowed against anticipating approvals. Valid approvals needs to be attained from the approving authority before disbursement is allowed because jumping the gun in loan disbursement is dangerous as the banks position may be jeopardized.

Statement of Problems

The establishment of Micro Finance Banks (MFB) in 2005, by the Federal Government, is a replacement of community Banks that was deemed unsuccessful in addressing the challenges of rural populace and the unbanked in the society. Since the establishment of Microfinance banks in the study area, the researcher has noticed that most of the microfinance banks do not last more than five years in existence. It is in the thinking of the researcher that this could be as a result of the huge amount of money they lose yearly through bad debts and the attendant inability to recover these monies. Indiscriminate and unprofessional lending practices, poor management are among the various factors that fuels the increasing level of bad debts in the microfinance bans in the study area. The implication is that there is low confidence on the part of some microfinance bank customers that their deposits are safe and this also has a dangerous implications on the shareholders of the bank. Bad debt brings about illiquidity in banking sector and also make banks unable to meet repayment obligations. It is in a bid to effectively study this that this study examines in detail the Management of bad debt in Microfinance Bank in Nigeria: A Case Study of three selected Microfinance Banks in Benue State Nigeria.

Objective of the Study

The main objective of the study is to examine Management of bad debt in Microfinance Bank in Nigeria: A case study of three selected Microfinance banks in Benue State Nigeria. The specific objectives are to:

i. Examine the causes of bad debt in the selected microfinance banks in Makurdi Metropolis, Benue State, Nigeria.

ii. Determine the effect of nonperforming loans on the management of debt in the selected microfinance banks in Makurdi Metropolis, Benue State, Nigeria.

iii. Ascertain the effect of unsecured loans on the management of debt in the selected microfinance banks in Makurdi Metropolis, Benue State, Nigeria.

Hypotheses of the study

H_{01}: Nonperforming loans has no significant effect on the management of debt in the selected microfinance banks in Makurdi Metropolis, Benue State, Nigeria.

H_{02}: Unsecured loans has no significant effect on the management of debt in the selected microfinance banks in Makurdi Metropolis, Benue State, Nigeria.

2.0 LITERATURE REVIEW
Conceptual Framework
Concept of Bad Debt

Bad debt occasionally called accounts expense is a monetary amount owed to a creditor that is unlikely to be paid and, or which the creditor is not willing to take action to collect for various reasons. One of the ways to totally avoid bad debts is to refuse to lend money at all. If microfinance banks should then refuse to lend at all, then issue of profitability is cancelled and hence the main purpose of carrying on a business, which is to maximize profit, is then defeated. Credit must be adequately managed so that banks could remain in business and prudent lending could do this (Miller, 2004). The provision for bad and doubtful debts rises steadily in banks annual reports which send bad signals to the investors within the economy. The cases of failed microfinance banks in the economy over the years have made the investors in this area to lose confidence in the banks. Creation of provision for doubtful debts corresponds to the principle of prudence formulated in the accounting regulations.

Concept of Management of Bad Debt

NPLs are loan that have not been paid or bad in both its principle and in its interest for an extensive time frame which differs from the specified terms and conditions that is under the contract of the loan as noted by (Gesu, 2014). Any credit facility that isn't current regarding repayment both on principle and interest clashing to the terms of the credit agreement is NPLs. Consequently, the amount of nonperforming loan measures the bank's asset quality (Tseganesh, 2012). The loans that are nonperforming are usually expected to enter default. Frequently, if the loan isn't in default yet, the borrower has neglected to make various installments payment within a predefined period. These can also be defined as loans which the bank perceives as possible losses of funds due to loan default.

Omankhanlen, Ogaga and Taiwo, (2015) posited that banks should carry out their financial intermediation role carefully in order to avoid assets and liabilities mismatch.

Debt management can be seen as those policies which seek to alter the stock composition and the terms on which debt is created with a view to maintain at any given time. A debt which matures within one year is defined as floating debt. That which matures between one to five years is often regarded as short-term debt. Several classification of debts suffices: A debt, which due for repayment between five and ten years usually qualifies as medium term while that is mature after ten years is a longtime one (Onwudiegwu, 2001).

In other to manage bad debt, loan management minimizes the risk of a loan to default, and uses different lending methodology to manage risk of customers to default microloans. Lending methodology such as Joint liability contracts are also practices of risk management which where innovated by MFBs (Armendariz deAghion & Morduch, 2005). Group lending, in light of the Stiglitz model (1990), is hypothetically founded Grameen Bank case study. Joint-liabilty contracts put in connection to one microfinance bank and a number of borrowers. When there are less than 10 people in a group, the methodology of lending is a unanimity group lending contract where by loans are giving to people and individuals, but are jointly responsible and liable for credit (Anyawu, 2004). These collateral is combined and collective. The moment the size of the group is between 10 and 30 people, then a village bank is considered to give out loan. For this

situation, the MFBs offers credit to the team or group (village bank), thereby assuming responsibility of individual loans administrations. The team or group now becomes a hand-on of the MFBs in the lending and collection of collateral for every member. Though contract in joint liability helps reduces the bank's cost of lending such as gathering of data, monitoring of projects, and evaluating borrowers (Mahjabeen, 2010), contacts of group-lending are not the remedy to information failure. This contract does not automatically guarantee a superior asset quality and value.

Non-Performing Loan are loan that have not been paid or bad in both its principle and in its interest for an extensive time frame which differs from the specified terms and conditions that is under the contract of the loan as noted by (Ochola, 2009). Any credit facility that is not current regarding repayment both on principle and interest clashing to the terms of the credit agreement is Non-Performing Loan. Consequently, the amount of nonperforming loan measures the bank's asset quality. The loans that are nonperforming are usually expected to enter default. Frequently, if the loan is not in default yet, the borrower has neglected to make various installments payment within a predefined period. These can also be defined as loans which the bank perceives as possible losses of funds due to loan default. Omankhanlen, Ogaga and Taiwo, (2015) posited that banks should carry out their financial intermediation role carefully in order to avoid assets and liabilities mismatch.

According to Onwudiegwu (2001), the concept of default is less obvious than it first seems, for it could result from non- or delayed payment of interest and or principal for a given period. One or a combination of the following factors could contribute immensely to default especially in a depressed economy. The more one borrows; the more one would want to borrow consequently. The volume of the loan would increase which decreases the ability to repay as opposed to the willingness to repay. The ability to repay increases with increased net income although that does not say anything about the willingness to repay. One would expect borrowers with high net income to have low debt/equity ratio, the lower the debt/equity ratio, the higher the ability to repay. The effect of high net income and low debt/equity ratio is a precaution for borrowers to build up valuable assets. Onwudiegwu (2001) equally posited that, as the value of the collateral increases, the default rate is expected to decline. Where there is income variance as a result of economic or natural circumstance, credit service ability per individual borrower decreases and hence default could increase. Such income variances are common in agricultural and manufacturing sectors. The higher the interest rate, the more the outstanding balance the borrowers have to pay considering the principal. Rate of inflation has link with the real interest to be paid by the borrowers. If inflation is higher than the interest rate, it will mean that the lending bank would be paying borrowers to take its loans. The close monitoring of borrowers to ensure a loan is not diverted to unproductive use, though costly, has a lot of bearing on ability of the borrower to repay. The effort is put in ensuring utilization of a facility, the less chance of default.

Theoretical Framework
Accounting Perspective Theory

Accounting is a service activity, where its function is to provide quantitative information, especially information regarding the financial position and company performance results, which are intended to be useful in making economic decisions (in making a choice among various alternatives exist). Accounting is the process of identifying, measuring and reporting economic information to allow for assessment and a clear and unequivocal decision for those who use the information (Powell, Mylenko, Miller & Majnoni, 2004).. The financial statement of the bank must be in accordance with the accounting principles that have been widely accepted or bookkeeping techniques, posting, and recording all transactions made in the operation of a bank (Francis, 2008). The quality of accounting information is very paramount of if the prevention of bad debt is to be effectively curtailed. Accounting misinformation, cover up and poor accounting quality are the building blocks of bad debt in the Microfinance banks.

Empirical review

Nangila (2013) established the nature of unsecured personal loans offered by commercial banks and the effects of unsecured personal loans on Household welfare of secondary teachers in Bungoma County-Kenya. The study found that the major types of unsecured personal loans borrowed by secondary school teachers were Home improvement, Education, loans to provide capital, medical loans and loans to clear other loans.

Nam & Elliot (2013), determined on whether student debt jeopardize the short term financial health of U.S households. They indicated that households with outstanding student loan debt and a median 2007 net worth of $128,828 incurred a loss of about 54 percent of net worth in 2009 compared with households with similar net worth levels but no student loan debt over the same period. Felix and Claudine (2008) examined the association between the performance of banks and credit risk management. As part of their findings, they observed that return on equity and return on assets both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. Correspondingly, Kithinji (2010) examined the effects of credit risk management on commercial banks profitability in Kenya. They observed that the level of credit was high in the early years of the implementation of Basle II but decreased significantly in 2007 and 2008, probably when the Basle II was implemented by commercial banks. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of credit and non-performing loans suggesting that other variables other than credit and non-performing loans impact on profits. Kargi (2011) examined the impact of credit risk on the profitability of Nigerian banks. Findings from the study revealed that credit risk management has a significant impact on the profitability of Nigerian banks. Hence, they opined that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress. Although, some considerable amount of literature exists on the interaction between finance and credit management on banks liquidity position, however, the same is not true in developing economies like Nigeria where there is a relatively dearth in literature in this area, coupled with the huge institutional differences between Nigeria and other developed economies. Hence this study examined the relationship between credit management and bank performance in Nigeria.

3.0 METHODOLOGY

Research Design

A survey design was used in this study. The study used this method to collect opinions from the respondents on the Management of bad debt in Microfinance Bank in Nigeria in three Selected Microfinance Banks in Benue State Nigeria. The study area covered by this study is Makurdi Metropolis. The LGA of Makurdi Metropolis has an area of 2,402 km² and a population of 225, 471 at the 2006 census. The population of this study is made up of 50 employees of the selected Microfinance Banks in the Study area namely; Algreb Microfinance, Better Life Microfinance, and Zion Microfinance. The Microfinance Banks were selected because of their track record in loan disbursement to farmers and those operating small and medium scale businesses in the study area.

Table 1: Sample of the Selected Microfinance Banks in Makurdi Metropolis

Nature of Microfinance	No of Respondents
Algreb	15
Better life	23
Zion	12
Total	**50**

Source: Author's Computation, 2020

The study used a census sample. This enabled the researcher to use the whole population as the sample size. This is because the population is not large hence the sample size used for this study is 50 respondents. The questionnaire was used as the instrument for data collection in this study. Validity is of the instrument was done through content validation and construct validation. Content validity was achieved by ensuring that the questions are consistent with the research objectives and questions. Construct validity was achieved using factor analysis.

Validity of Instrument

Table 1: Kaiser-Meyer-Olkin and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.891
Bartlett's Test of Sphericity	Approx. Chi-Square	7.403
	df	3
	Sig.	.030

Source: Authors' Computation, 2020

A pilot test was conducted. The input variable factors used for this study were subjected to exploratory factor analysis to investigate whether the constructs as described in the literature fits the factors derived from the factor analysis. From Table 1, factor analysis indicates that the KMO (Kaiser-Meyer-Olkin) measure for the study's three independent variable items is 0.891 with Barlett's Test of Sphericity (BTS) value to be 3 at a level of significance $p=0.030$. Our KMO result in this analysis surpasses the threshold value of 0.50 as recommended by Hair, Anderson, Tatham, and Black (1995). Therefore, we are confident that our sample and data are adequate for this study.

Table 2: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.743	58.097	58.097	1.743	58.097	58.097
2	.778	25.930	84.027			
3	.479	15.973	100.000			

Extraction Method: Principal Component Analysis.
Source: Authors' Computation, 2020

The Total Variance Explained table shows how the variance is divided among the 3 possible factors. One factor has Eigenvalues (a measure of explained variance) greater than 1.0, which is a common criterion for a factor to be useful. When the Eigenvalue is less than 1.0 the factor explains less information than a single item would have explained. Table 2 shows that the Eigenvalues is 1.743 greater than 1. Component one gave a variance of 58.097. The cumulative of the rotated sum of squared loadings section indicates that component 1 alone accounted for 58.097% of the variance of the whole variables of the study. This shows that the variables have strong construct validity.

Figure 1: The Scree Plot
Source: Authors' Computation, 2020

The Scree Plot shows the initial Eigenvalues. Note that both the scree plot and the Eigenvalues support the conclusion that these three variables can be reduced to one components. The scree plot also slopes downward after the first component. The Scree plot shows that after the first components, differences between the Eigenvalues decline sharply (the curve flattens), and they are less than 1.0. This again supports a one components solution.

Reliability of Instrument
The following statistics presents the reliability of the instruments used for this study.
Table 3: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.865	.991	3

Source: Authors' Computation, 2020

As shown by the individual Cronbach Alpha Coefficient the entire construct above falls within an acceptable range for a reliable research instrument of 0.70. The Cronbach Alpha for the individual variables is 0.865 and is found to be above the limit of acceptable degree of reliability for research instrument.

Table 4: Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
MGD	57.2500	61.776	.630	.167	.586
NPL	50.4000	113.516	.546	.316	.347
USL	47.1500	83.503	.776	.221	.640

Source: Authors' Computation, 2020

As shown in Table 4, an item-total correlation test is performed to check if any item in the set of tests is inconsistent with the averaged behaviour of the others, and thus can be discarded. A reliability analysis was carried out on the variables of the study. Cronbach's Alpha showed the questionnaire to reach acceptable reliability, $\alpha = 0.865$. All items appeared to be worthy of retention, resulting in a decrease in the alpha if deleted. There is no exception to this in all the variables of the study as none of the items if deleted will improve the overall Cronbach alpha statistics. As such, none of the variables was removed. A correlation value less than 0.2 or 0.3 indicates that the corresponding item does not correlate very well with the scale overall and, thus, it may be dropped.

Models Specification

The functional relationship between the variables of the study, the model is expressed in implicit and explicit function as shown below:

MGD = f (NPL, USL) -   -   -   -   -   -   -   - (1)

Where,

MGD = Management of Debt

NPL = Nonperforming Loans

USL = Unsecured Loans

In explicit form, the functional relationship between the variables of the study can be shown below:

$MGD = b_0 + b_1 NPL + b_2 USL + U_t$ -   -   -   -   -   -   - (2)

Where,

b_0 = Regression constant

$b_1 - b_2$ = coefficients of independent variables.

U_t is the error term

A priori **expectations**

$b_1 < 0$, $b_2 < 0$,

The multiple regression analysis was used to assess the nature and degree of relationship between the dependent variable and a set of independent or predictor variables. However, the

probability value of the estimates was used to test the seven hypotheses of this study. ***Decision rule:*** The following decision rules were adopted for accepting or rejecting hypotheses: *If the probability value of b_i [p (b_i) > critical value] we accept the null hypothesis, that is, we accept that the estimate b_i is not statistically significant at the 5% level of significance. If the probability value of b_i [p (b_i) < critical value] we reject the null hypothesis, in other words, that is, we accept that the estimate b_1 is statistically significant at the 5% level of significance.*

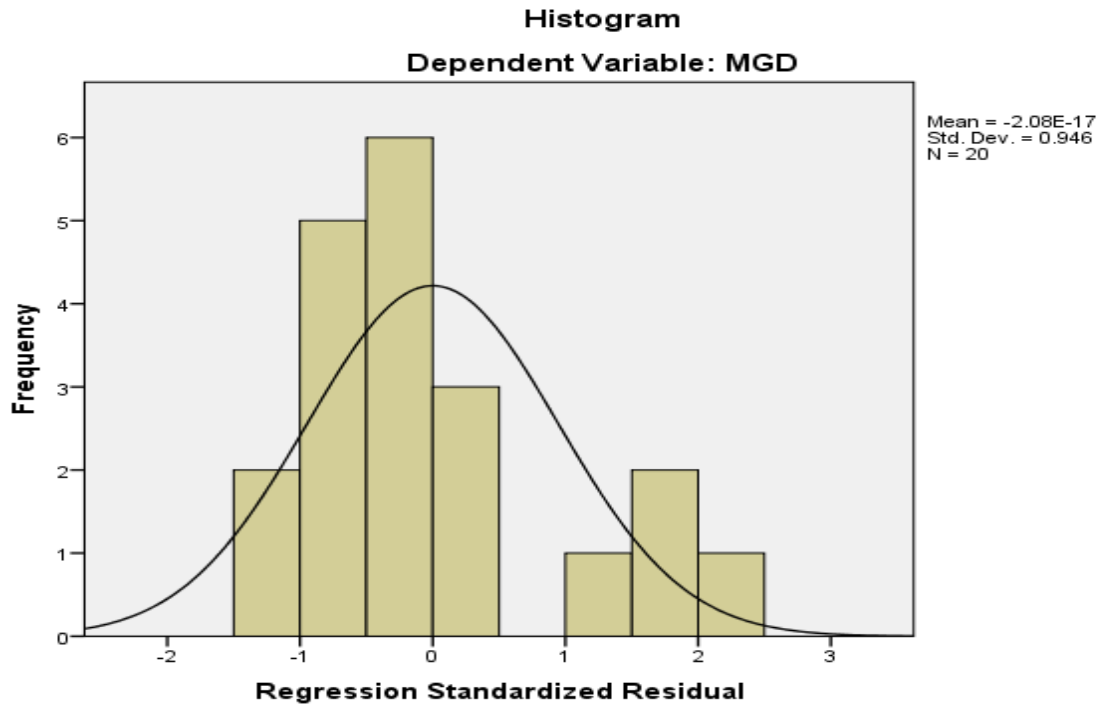## 4.0   RESULTS AND DISCUSSION

Figure 1: Regression Standardized Residual

Source: Authors' Computation, 2020

Figure 1 above shows a histogram of the residuals with a normal curve superimposed. The residuals look close to normal, implying a normal distribution of data. Here is a plot of the residuals versus predicted dependent variable of Management of Debt (MGD). The pattern shown above indicates no problems with the assumption that the residuals are normally distributed at each level of the dependent variable and constant in variance across levels of Y.

Table 5: Statistical Significance of the model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	202.554	2	101.277	1.708	.011[b]
	Residual	1007.996	17	59.294		
	Total	1210.550	19			

a. Dependent Variable: MGD

b. Predictors: (Constant), USL, NPL

Source: Authors' Computation, 2020

The result of the statistical significance of the model is presented in Table 5. The F-ratio in the ANOVA table above tests whether the overall regression model is a good fit for the data. The table shows that the independent variables statistically significantly predicts the dependent variable F $(2, 17)$ = 1.08, p =0.011[b] (i.e., the regression model is a good fit of the data).

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.905[a]	.867	.769	7.70025

a. Predictors: (Constant), USL, NPL

b. Dependent Variable: MGD

Source: Authors' Computation, 2020

Table 6 shows the model summary. The coefficient of determination R^2 for the study is 0.867 or 86.70%. This indicates that 86.70% of the variations in the model can be explained by the explanatory variables of the model while 13.30% of the variation can be attributed to unexplained variation captured by the stochastic term.

Table 7: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	27.735	15.044		1.844	.027		
	NPL	-.352	.228	-.387	-1.543	.141	.780	1.282
	USL	.637	.265	.544	2.400	.033	.780	1.282

a. Dependent Variable: MGD

Source: Authors' Computation, 2020

The result of the multiple regression indicates that Non Performing Loan (NPL) has a negative effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi

Metropolis and the effect is not statistically significant (*p>0.05)* but in line with *a priori expectation*. This means that a unit increases in Non Performing Loan (NPL) will result to a corresponding decrease in Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria by a margin of 38.7 %. Using the probability value of the estimates, p (b_1) > critical value at 0.05 confidence level. Thus, we accept the null hypothesis. That is, we accept that the estimates b_1 is not statistically significant at the 5% level of significance. This implies that non performing loan has no significant effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria. This finding is in line with that of Keeton and Morris (1987) who studied non-performing loan determinants in the USA during the period 1979- 1985, and found that the crises in the agriculture and energy sectors were the main determinants of the worsening in NPL. The study by Kargi (2011) on the impact of credit risk on the profitability of Nigerian Banks also shows a link between risk occasioned by NPL on bank's profitability. Findings from the study revealed that credit risk management has a significant impact on the profitability of Nigerian banks.

Unsecured loan (USL) has a positive effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria and the effect is statistically significant (P<0.05) and the effect is not in line with *a priori* expectation. This means that a unit increases in Unsecured Loan (USL) will result to a corresponding increase in Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria by a margin of 55.4 %. Using the probability value of the estimates, p (b_2) < critical value at 0.05 confidence level. Thus, we reject the null hypothesis. That is, we accept that the estimates b_2 is statistically significant at the 5% level of significance. This implies that unsecured loan has a significant effect on Management of Debt (MGD) in the selected Microfinance Banks in Makurdi Metropolis, Benue State, Nigeria. This finding is in line with that of Nangila (2013) who established the effects of unsecured personal loans and found a positive effect.

5.0   CONCLUSION

The microfinance banks must develop debt management strategies such as better Innovative lending and loan monitoring line of action and also successful asset quality management to enhance the performance of loans, to utilize the liquidity of the Bank in order to meet their operating cost and lending practices. From the result of the study, it was found that Non performing loan has a negative and a non statistical effect on the management of debt in the study area in line with a priori expectation. Unsecured loan has a positive and statistically significant effect on management of debt in the selected deposit money banks in Makurdi Metropolis and the effect is in line with a priori expectation. The positive effect of unsecured loan could be attributed to the trustworthy nature of the customers of the selected banks in loan repayment.

The management of debt is a key factor that determine the success or failure of the microfinance banks operating especially in Makurdi Metropolis. Debt management is so important because without the ability to effectively minimize the magnitude of the debt in a microfinance, the role of the bank as an important economic agent of mediation is defeated.

RECOMMENDATIONS

The following are recommended based on the result of the empirical study conducted:

1. Nonperforming loan is a threat to the continued existence of the selected banks as the result showed a negative effect on debt management effort. Hence, Management of the selected microfinance banks must intensify effort in bringing to the barest minimum the incidence of nonperforming loans in the studied banks.

2. More checks and balances can be put in place to ensure that loans are secured as it is a huge risk to continue the provision of unsecured loan as this can be detrimental to the productivity of the banks in the study area,

3. A comprehensive study of all the factors that affects debt management in the study area should be studied so that strategies to mitigating them can be implemented.

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