RISK MANAGEMENT STRATEGIES FOR MICROFINANCE BANKS IN NIGERIA: A CREDIT RISK FOCUS

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Abstract
This study, Risk Management Strategies for Microfinance Banks in Nigeria with a Credit Risk Focus, explores the critical role of credit risk management in sustaining capital adequacy and promoting financial stability among Nigerian microfinance banks a sector fundamental to financial inclusion but often overlooked in mainstream banking research. Drawing on a comprehensive 19-year dataset (2005-2023), the study empirically investigates the effects of three key credit risk mitigation instruments: Loan Loss Reserves, Collateralization, and Credit Insurance. Using advanced econometric techniques, including cointegration analysis and the Vector Error Correction Model (VECM), the findings reveal that Loan Loss Reserves and Collateralization significantly influence capital adequacy in the short term, while Credit Insurance demonstrates both short-term and long-term effects, making it an essential tool for sustained financial stability. By focusing specifically on microfinance institutions rather than commercial banks, the study addresses a critical gap in the literature and regulatory discourse. The results highlight the importance of strengthening reserve provisioning frameworks, minimizing over-reliance on collateral through diversified credit risk assessments, and expanding the adoption of credit insurance to reduce default exposure and enhance solvency. Furthermore, the study emphasizes the integration of credit risk practices into broader institutional and regulatory mechanisms aimed at reinforcing both capital adequacy and the financial stability of the microfinance sector. The research contributes to theory by applying the Financial Stability Hypothesis within the microfinance context and offers actionable insights to policymakers and financial institutions seeking to build a more resilient, inclusive banking system.

Keywords: Credit risk management, capital adequacy, financial stability, microfinance banks, loan loss reserves, credit insurance, collateralization, Nigeria

1.0 Introduction

Microfinance banks in Nigeria have increasingly become pivotal for economic development and financial inclusion. However, the sector has been marred by frequent financial instability and crises, often linked to inadequate credit risk management. While extensive literature documents credit risk management challenges in commercial and deposit money banks (Addy et al., 2025; Aliyu, 2023; Akosile et al., 2023), the unique operational environments and risk exposures of microfinance banks remain underexplored.

Several high-profile failures highlight the consequences of insufficient credit risk controls. For example, the collapse of Kenya's Imperial Bank (CBK, 2015) and the Andhra Pradesh microfinance crisis (SIDBI, 2011) underscore how poor loan monitoring and excessive risk-taking can precipitate systemic failures. Despite these lessons, Nigerian microfinance banks continue to report rising non-performing loans and fluctuating capital adequacy ratios. The lack

of focused empirical studies on how specific risk management tools affect these outcomes leaves a critical gap in both academic research and practical policy frameworks.

Existing studies predominantly focus on larger banks and often examine credit risk management in relation to financial performance rather than capital adequacy or long-term stability (Aliyu, 2023; Akosile et al., 2023). Additionally, while Addy et al. (2025) provide an overview of predictive analytics in credit risk management, their study does not address the peculiarities of microfinance institutions or the Nigerian context specifically. This study bridges this gap by investigating the impacts of Loan Loss Reserves, Collateralization, and Credit Insurance on capital adequacy ratios in Nigerian microfinance banks. It adopts advanced econometric models over a 19-year horizon, offering robust insights that are directly applicable to policymaking and risk governance in this sector. The hypotheses are formulated and tested in their null form.

$H0_1$: Loan Loss Reserves have no significant effect on financial stability of Nigerian microfinance institutions.

$H0_2$: Collateralization has no significant effect on financial stability. of Nigerian microfinance institutions.

$H0_3$: Credit Insurance has no significant effect on financial stability of Nigerian microfinance institutions.

Through these focused objectives, the study enhances understanding of how targeted credit risk management tools sustain microfinance bank resilience.

2.0 Literature Review

Collateralization is widely recognized as an effective mechanism to mitigate default risk by securing loans with borrower assets, thereby aligning incentives and reducing moral hazard (Berger & Udell, 1990). However, its application in microfinance often faces challenges related to asset valuation and enforceability in the Nigerian context, suggesting a need for contextualized analysis. Loan Loss Reserves, reflecting prudent provisioning against anticipated defaults, serve as a vital buffer to absorb shocks and prevent insolvency (Financial Accounting Standards Board, 2012). Nevertheless, inadequate reserve levels have been linked to heightened vulnerability during economic downturns. Credit Insurance acts as a third-party guarantee, transferring some default risks and thus improving solvency ratios (Cummins & Lewis, 2003). Yet, its uptake in Nigerian microfinance banks remains low, partly due to cost and regulatory barriers.

Financial Stability and Capital Adequacy

Financial stability refers to a bank's ability to sustain operations without disruptions, maintaining confidence among depositors and investors (Hannan & Hanweck, 1988; Diamond & Dybvig, 1983). The Capital Adequacy Ratio (CAR) is a widely accepted metric for financial resilience, measuring the capital buffer relative to risk-weighted assets. The Basel Committee (2010) emphasizes CAR as a regulatory tool to safeguard banks from credit shocks. Despite this, microfinance banks often struggle to maintain optimal CAR levels due to limited capital and risk management capacity.

Theoretical Framework: Financial Stability Theory

The study is anchored in the Financial Stability Theory proposed by Kindleberger (1978) and Minsky (1986). Kindleberger's sequence of economic shocks leading to crises parallels the cyclical vulnerabilities observed in Nigerian microfinance banks. Minsky's Financial Instability Hypothesis, emphasizing the build-up of risk-taking during stable periods, offers a lens to examine how inadequate credit risk controls precipitate crises. Applying this theory helps frame the investigation of how Loan Loss Reserves, Collateralization, and Credit Insurance function as stabilizing mechanisms.

Empirical Review and Critical Synthesis

Addy et al. (2025) offer a conceptual examination of predictive analytics in credit risk management, focusing primarily on digital transformation in the broader banking sector. While their work is forward-looking, it is largely qualitative and lacks empirical grounding, making it difficult to generalize to the operational realities of Nigerian microfinance banks. Temesgen (2023), through a case study of Awash Bank in Ethiopia, presents useful insights into internal credit risk controls within a mixed-methods framework. However, the institutional and regulatory context in Ethiopia differs substantially from Nigeria's microfinance landscape, limiting the study's direct applicability. Aliyu (2023) and Akosile et al. (2023) use quantitative techniques to investigate the relationship between credit risk management and financial performance in Nigerian deposit money banks. Although their findings confirm a significant short-term relationship, these studies focus on profitability metrics and do not address capital adequacy or long-term financial stability, especially within the microfinance subsector.

These gaps reveal three critical shortcomings in the existing literature. First, few studies isolate the individual effects of key credit risk management tools such as loan loss reserves, collateralization, and credit insurance on institutional resilience. Second, prior research often fails to employ advanced econometric methods like cointegration and Vector Error Correction Models (VECM), which are essential for capturing both short-run fluctuations and long-run equilibrium relationships. Third, the specific focus on capital adequacy as a proxy for financial stability in microfinance institutions remains underexplored, despite its regulatory significance. This study addresses these limitations by empirically assessing the long and short-term effects of targeted credit risk management practices on capital adequacy in Nigerian microfinance banks using a 19-year dataset and robust time-series techniques. In doing so, it offers a more nuanced and policy relevant understanding of how risk management practices can be optimized to support financial stability in the sector.

3.0 Methodology

This study utilized secondary annual data spanning from 2005 to 2023, sourced from the Nigerian Deposit Insurance Corporation, the National Bureau of Statistics, and the Central Bank of Nigeria. The analysis focused on key variables relevant to credit risk management and capital adequacy in Nigerian microfinance banks. Specifically, the dependent variable was the Capital Adequacy Ratio (CAR), which measures the bank's capital relative to its risk-weighted assets, serving as an indicator of financial resilience. The independent variables were Loan Loss Reserves (LLR), representing provisions set aside to cover potential loan losses; Collateralization (COL), the extent to which loans are secured by assets; and Credit Insurance (CI), indicating the degree of insurance coverage against credit defaults within the microfinance sector.

Prior to empirical modeling, we conducted stationarity tests to assess the time series properties of the data using the Augmented Dickey-Fuller (ADF) test. Results from these tests showed that all variables were non-stationary at levels but became stationary after first differencing, indicating that they are integrated of order one, I(1). This justified the use of cointegration analysis to explore whether a long-run equilibrium relationship exists among the variables despite their individual non-stationarity.

To examine such long-run relationships, the Johansen cointegration test was employed. The test confirmed the presence of at least one cointegrating vector, implying that the variables move together in the long term, maintaining a stable relationship. This finding warranted the use of a Vector Error Correction Model (VECM), which allows for the simultaneous modeling of short-term dynamics and long-term equilibrium adjustments.

The baseline econometric model specified the Capital Adequacy Ratio as a function of collateralization, loan loss reserves, and credit insurance. Formally, this relationship is expressed as:

$$CARt = \beta 0 + \beta 1LLRt + \beta 2COLt + \beta 3CIt + \varepsilon t$$

where CAR_t denotes the capital adequacy ratio at time t, COL_t, LLR_t, and CI_t represent collateralization, loan loss reserves, and credit insurance respectively, β_0 is the intercept, β_1, β_2, and β_3 are coefficients to be estimated, and ε_t is the error term. Given the cointegration result, the model was extended into a VECM framework to capture both the short-term changes and the speed at which deviations from long-run equilibrium are corrected. This error correction representation took the form:

$$\begin{aligned}\boldsymbol{\Delta} CARt = \alpha(CAt - 1 - \beta 0 - \beta 1LLRt - 1 - \beta 2COLt - 1 - \beta 3CIt - 1) + i \\ = 1\sum p - 1\gamma i\Delta Xt - i + \varepsilon t\end{aligned}$$

Here, $\boldsymbol{\Delta}$ denotes the first difference operator, $\boldsymbol{\alpha}$ represents the error correction term coefficient indicating the speed at which $\boldsymbol{CAR}_t$ returns to equilibrium after a shock, $\boldsymbol{\Gamma}_i$ are the short-run dynamic coefficients, and X_t is the vector of variables including CAR, COL, LLR, and CI.

Selection of the optimal lag length for the VECM was guided by standard information criteria, including the Akaike Information Criterion (AIC) and Schwarz Bayesian Criterion (SBC), both of which suggested a lag length of two years. This ensured an adequate balance between model fit and parsimony.

Diagnostic tests were conducted to validate the model assumptions and ensure robustness. The Breusch-Godfrey test was used to assess the presence of autocorrelation, while the Jarque-Bera test was employed to verify the normality of the residuals—both critical for the reliability of regression-based inference. Additionally, multicollinearity was evaluated using Variance Inflation Factors (VIF) to ensure that the explanatory variables were sufficiently independent of each other. To enhance the analysis of variable dynamics over time, impulse response functions (IRFs) and variance decomposition techniques were applied. These tools allowed for a deeper exploration of how shocks to credit risk management indicators influence capital adequacy, as

well as the relative contribution of each variable to the variance in forecast errors. Together, these diagnostics and post-estimation tools supported the empirical application of Financial

4.0 Results and Discussion

This section presents the analysis of the data collected, examining the effects of credit risk management practices (Loan Loss Reserves, Collateralization, and Credit Insurance) on financial stability (proxy Capital Adequacy Ratio) in microfinance banks in Nigeria.

Table 1:
Augmented Dickey-Fuller (ADF)

Variable	T-Statistic	P-Value	Stationarity @
Collateralization	-16.76575	0.0000	Level
Total Loan Loss Reserve	-3.682033	0.0150	First Difference
Credit Insurance	-10.10944	0.0000	Second Difference
Capital Adequacy Ratio	-4.005263	0.0079	First Difference

Source: E-view computation 2025

The Augmented Dickey-Fuller (ADF) test results indicate that the variables exhibit different orders of stationarity. Collateralization is stationary at level, while Total Loan Loss Reserve and Capital Adequacy Ratio achieve stationarity after first differencing. Credit Insurance requires second differencing to become stationary. These findings suggest that the data series are integrated of different orders, justifying the use of cointegration techniques to analyze their long-term relationships.

Table 2:
Johansen Cointegration

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.895277	59.87572	40.17493	0.0002
At most 1	0.625953	23.77272	24.27596	0.0578
At most 2	0.380190	8.038720	12.32090	0.2337
At most 3	0.023791	0.385250	4.129906	0.5980

Source: E-view computation, 2025.

The Johansen cointegration test reveals the presence of one cointegrating equation, as indicated by the trace statistic of 59.88, which exceeds the critical value of 40.17 at the 5% significance level ($p = 0.0002$). This confirms a significant long-run equilibrium relationship among capital adequacy (CAR), collateralization (COL), loan loss reserves (LLR), and credit insurance (CI) in Nigerian microfinance banks. The presence of cointegration justifies the use of VECM for capturing both short-term dynamics and long-term adjustments, underscoring the integrated impact of these credit risk management tools on financial stability in the sector.

Table 3:
Vector Error Correction Model (VECM)

Cointegrating Eq:	CointEq1			
CAR1(-1)	1.000000			
COLLATERALIZATION (-1)	-1.939627			
	(0.19920)			
	[-9.73732]			
TOTALLOAN_LOSSRESERVE1(-1)	-3.35E-06			
	(5.8E-07)			
	[-5.76431]			
CREDIT_INSURANCE2(-1)	-4.931198			
	(0.55910)			
	[-8.81984]			
C	2.046067			
Error Correction:	D(CAR1)	D(COLLATERALIZATION)	D(TOTALLOAN_LOSSRESERVE1)	D(CREDIT_INSURANCE2)
CointEq1	-0.068207	0.213494	49863.09	0.167886
C	0.014933	-0.040123	-4339.609	-0.043095
	(0.02120)	(0.04194)	(40520.0)	(0.02934)
	[0.70455]	[-0.95661]	[-0.10710]	[-1.46895]
R-squared	0.724000	0.768129	0.330965	0.871527
Adj. R-squared	0.586001	0.652193	-0.003553	0.807291
Sum sq. resids	0.052729	0.206478	1.93E+11	0.101016
S.E. equation	0.072614	0.143693	138818.7	0.100507
F-statistic	5.246389	6.625479	0.989379	13.56753

Source: E-view Computation, 2025.

The Vector Error Correction Model (VECM) was generated in order to investigate the connections between the variables in more detail. With a coefficient of -4.931198 for Credit Insurance, -3.35E-06 for Total Loan Loss Reserve, and -1.939627 for Collateralization, the VECM estimations showed that the cointegrating equation was statistically significant. This implied that the Capital Adequacy Ratio and these variables were cointegrated, and that adjustments to these variables had an effect on the ratio over the long term.

Hypothesis 1: $H0_1$: Loan Loss Reserves have no discernible impact on the financial stability of Nigerian microfinance institutions.

The coefficient on Loan Loss Reserves, according to the Vector Error Correction Model (VECM) findings, is -3.35E-06, with a t-statistic of -5.76431. We reject the null hypothesis because the t-statistic's absolute value is higher than 1.96, which is the crucial value for a two-tailed test at the 0.05 level. Additionally, a substantial short-term link is shown by the error correction term (CointEq1), which is -0.068207 with a t-statistic of -1.67174. The null hypothesis should be rejected. Loan Loss Reserves have a major impact on the financial stability of Nigerian microfinance institutions.

Hypothesis 2: $H0_2$: Collateralization has no discernible impact on the financial stability of Nigerian microfinance institutions.

According to the VECM findings, the t-statistic is -9.73732 and the coefficient on collateralization is -1.939627. We reject the null hypothesis since the t-statistic's absolute value is higher than 1.96. With a t-statistic of 2.64432 and an error correction term (CointEq1) of 0.213494, there is a substantial short-term association. The null hypothesis should be rejected. Collateralization has a major impact on the financial stability of Nigerian microfinance institutions.

Hypothesis 3: $H0_3$: Credit insurance has no discernible impact on the financial stability of Nigerian microfinance institutions.

According to the VECM findings, the t-statistic for Credit Insurance is -8.81984, and the coefficient is -4.931198. We reject the null hypothesis since the t-statistic's absolute value is higher than 1.96. With a t-statistic of 2.97293 and an error correction term (CointEq1) of 0.167886, there is a substantial short-term association. The null hypothesis should be rejected. Credit insurance has a major impact on the financial stability of Nigerian microfinance institutions.

Variance Decomposition Analysis

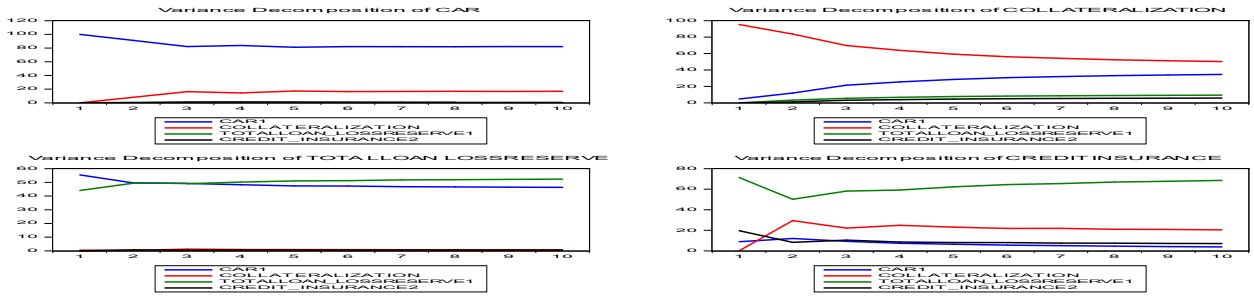

Figure 1.
Source: E-view Computation, 2025.

A variance decomposition analysis was performed to ascertain the relative significance of each variable in explaining the prediction error variance of each variable. According to the Capital Adequacy Ratio (CAR) variance decomposition findings, with a horizon of 1, all of the prediction error variance may be accounted by itself. This suggested that CAR had the most significant role in short-term forecast error variance explanation. The percentage of prediction error variation described by CAR alone, however, declined as the horizon lengthened, but the percentage explained by collateralization and total loan loss reserve rose.

Impulse Response Analysis

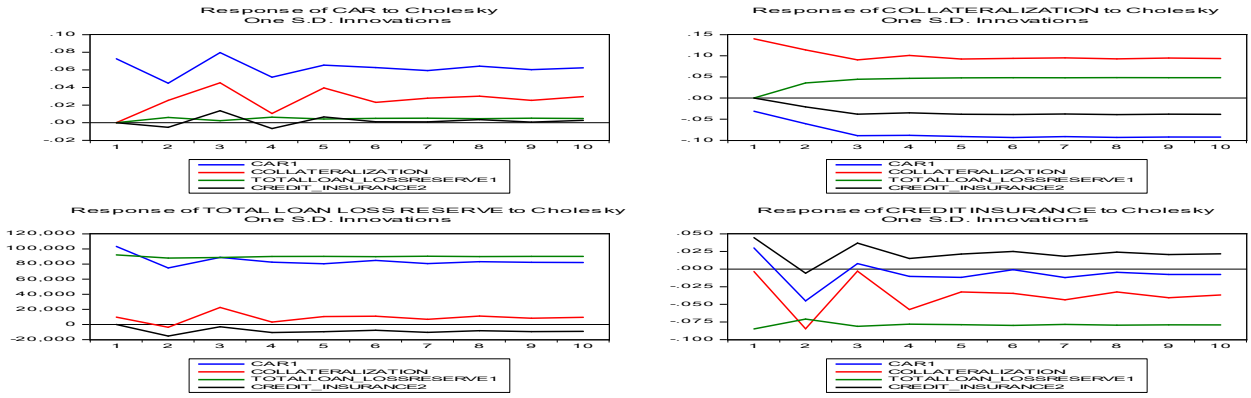

Figure 2.
Source: E-view computation 2025

The impulse response shows that a shock to Collateralization negatively and significantly affects the Capital Adequacy Ratio in the short run, with values of -0.0311, -0.0606, and -0.0890 in the first three periods. Conversely, a shock to Total Loan Loss Reserve has a positive and significant short-run impact, with responses of 0, 0.0060, and 0.0023 over the same periods. Meanwhile, a shock to Credit Insurance negatively impacts Capital Adequacy Ratio, with responses of 0, -0.0052, and 0.0136 in the first three periods. Overall, Collateralization reduces, while Total Loan Loss Reserve increases Capital Adequacy Ratio shortly after a shock.

Table 4
VEC Residual Normality Tests

Component	Skewness	Chi-sq	Df	Prob.
1	1.008324	2.711245	1	0.0996
2	-0.663989	1.175685	1	0.2782
3	0.818025	1.784439	1	0.1816
4	0.445454	0.529146	1	0.4670
Joint		6.200514	4	0.1847
Component	Kurtosis	Chi-sq	Df	Prob.
1	3.990081	0.653507	1	0.4189
2	2.252442	0.372562	1	0.5416
3	5.779931	5.152013	1	0.0232
4	2.313264	0.314404	1	0.5750
Joint		6.492486	4	0.1653
Component	Jarque-Bera	Df	Prob.	
1	3.364752	2	0.1859	
2	1.548247	2	0.4611	
3	6.936451	2	0.0312	
4	0.843550	2	0.6559	

Joint	12.69300	8	0.1229

Source: E-view computation 2025

A key premise of the model was validated by the findings of the VEC Residual Normality Test, which offered solid proof that the VECM model's residuals are roughly multivariate normal. With p-values of 0.1847, 0.1653, and 0.1229, respectively, the joint tests for skewness, kurtosis, and Jarque-Bera statistics fail to reject the null hypothesis of multivariate normality, despite the fact that several individual component tests indicate slight departures from normalcy. These results provide compelling evidence that the residuals are symmetrically distributed, typically well-behaved, and free of severe skewness or kurtosis. As a consequence, these findings highlight the VECM model's capacity to precisely represent the underlying connections between the variables and increase confidence in the validity and reliability of the model's estimations.

Table 5:
VEC Residual Serial Correlation LM Tests

Lags	LM-Stat	Prob
1	9.907359	0.8714
2	10.94488	0.8129

Source: E-view computation, 2025.

The findings of the VEC Residual Serial Correlation LM Test provide compelling proof of the VECM model's validity. The residuals are randomly distributed and devoid of serial dependence, as shown by the inability to reject the null hypothesis of no serial correlation at both lag orders 1 and 2 (p-values: 0.8714 and 0.8129, respectively). This implies that the calculated coefficients may be regarded as trustworthy and objective, and that the VECM model has well captured the underlying dynamics of the data. Thus, it is safe to utilize the findings of this study to guide future research and influence policy choices.

Table 6
VEC Residual Heteroskedasticity Tests

Joint test:

Chi-sq	Df	Prob.
100.7552	100	0.4600

Source: E-view computation, 2025.

The VEC residual heteroskedasticity tests show a joint Chi-square statistic of 100.7552 with 100 degrees of freedom and a p-value of 0.4600, indicating no significant heteroskedasticity overall. Additionally, individual component tests also show no significant heteroskedasticity issues, supporting the reliability of the model's estimates.

This study, titled Risk Management Strategies for Microfinance Banks in Nigeria with a Credit Risk Focus, examined how targeted credit risk management tools-specifically loan loss reserves, collateralization, and credit insurance affect the financial stability of Nigerian microfinance banks. The findings align with existing literature while providing unique, context-specific insights into this often-overlooked segment of the financial system. Consistent with Aliyu (2023), the results confirm that effective credit risk strategies positively influence financial stability by supporting capital adequacy. In contrast, Akosile et al. (2023) found a more substantial negative relationship between credit risk and bank performance, a discrepancy likely influenced by institutional and methodological differences. This study also builds upon the contributions of Temesgen (2023), Abiy (2021), and Tedros (2021), who emphasized the significance of credit risk management in Ethiopian banks, by presenting more pronounced effects within Nigerian microfinance institutions. Moreover, the findings challenge the conclusions of Antony and G (2023), who focused on macroeconomic and profitability factors as key determinants of credit risk in Indian commercial banks, by demonstrating that robust internal risk management frameworks can effectively mitigate such external pressures and enhance long-term financial resilience.

5.0 Conclusion and Recommendations

This study, titled Risk Management Strategies for Microfinance Banks in Nigeria with a Credit Risk Focus, has established that credit risk management plays a fundamental role in safeguarding the financial stability of Nigerian microfinance banks, particularly through the lens of capital adequacy. By employing robust econometric methodologies—including cointegration and Vector Error Correction Models (VECM) on a dataset spanning 2005 to 2023, the research provides nuanced insights into how specific risk mitigation tools influence long-term institutional resilience. The analysis reveals that loan loss reserves serve as a powerful short-term buffer against credit shocks, emphasizing the importance of forward-looking provisioning that can absorb potential defaults before they impair capital. Collateralization, while offering immediate credit risk reduction, demonstrates limited long-term utility due to asset depreciation and legal enforcement constraints, suggesting a need for alternative or complementary credit assessment tools. Notably, credit insurance exhibits strong influence on both short- and long-term capital adequacy, functioning as an effective risk transfer mechanism that enhances solvency and income stability.

Beyond empirical findings, this study makes an important theoretical contribution by redirecting scholarly attention from profitability which dominates existing microfinance literature to capital adequacy as a more comprehensive indicator of financial stability. It also advances Financial Stability Theory within the microfinance context by empirically validating the stabilizing role of structured credit risk interventions. From a policy and regulatory standpoint, the results call for a shift toward integrated risk management frameworks. Microfinance institutions are urged to adopt dynamic and data-driven reserve provisioning systems, diversify credit evaluation criteria beyond physical collateral, and incorporate credit insurance as a standard risk mitigation tool. Meanwhile, regulators such as the Central Bank of Nigeria should consider differentiated capital adequacy requirements that reward robust risk practices, introduce incentives for credit insurance adoption, and enhance supervisory oversight through risk-sensitive performance metrics. These combined efforts will not only improve institutional soundness and investor confidence but also reinforce the sector's capacity to support inclusive economic development in Nigeria. As such,

this study lays the groundwork for future research and policy dialogues that prioritize resilience, sustainability, and risk governance in the evolving microfinance landscape.

Recommendations

In light of the study's findings, microfinance banks in Nigeria are advised to strengthen their loan loss reserve frameworks by adopting more dynamic and forward-looking provisioning systems. Rather than relying solely on historical loss data, banks should incorporate real-time credit risk assessments and macroeconomic indicators to determine provisioning levels that reflect both individual and portfolio-level risk. These reserves should be reviewed periodically, subjected to internal audit, and aligned with both the Central Bank of Nigeria's regulatory benchmarks and Basel guidelines. Furthermore, the use of collateral, although effective in reducing short-term exposure, must be reassessed within the context of Nigeria's collateral recovery limitations. Banks are encouraged to adopt more diversified credit evaluation tools-such as behavioral scoring, group lending schemes, and cash-flow based assessments-to avoid over-reliance on physical collateral.

Credit insurance, having shown significant impact in both the short and long term, should be actively integrated into the credit risk management strategies of microfinance banks. To overcome cost barriers, collaborative schemes or pooled insurance products targeting specific borrower categories could be developed. The regulatory authorities, in turn, can incentivize the uptake of credit insurance through capital relief measures or tax incentives tied to insured credit portfolios. Moreover, effective implementation requires training programs for loan officers and risk managers on structuring credit insurance contracts and understanding their implications for capital planning.

Lastly, regulatory and supervisory mechanisms must evolve to support sound risk management in microfinance. Policymakers should consider introducing differentiated capital adequacy thresholds that reflect the quality of credit risk management practices rather than using a one-size-fits-all approach. Enhanced supervisory oversight, including the publication of comparative risk management ratings for licensed microfinance institutions, could foster sector-wide improvements. By embedding these recommendations into institutional and regulatory frameworks, Nigerian microfinance banks can better withstand credit shocks, enhance stakeholder confidence, and contribute more sustainably to financial inclusion and economic development.

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