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SERVICES FOR SCIENCE AND EDUCATION

Internal Governance Mechanisms and Performance of Microfinance Institutions inTogo

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ABSTRACT

Despite the boom in microfinance in Togo, the sector is seriously shaken by serious crises that threaten its performance and cast doubt on its sustainability. To explain performance crises to which microfinance institutions are subject, governance is regularly mentioned. This paper aims to identify internal governance mechanisms that can influence microfinance institutions' performance in Togolese context. It is found out at the end of this paper that board of directors (the board size, presence of women on the board, duration of directors' term of office and frequency of board meetings) influences financial and social performance of MFIs. On the contrary, the fact that MFI belong to a network or not, and its legal status have no effect on its performance.

Keywords : Microfinance, governance, performance

INTRODUCTION

Today, microfinance is a true financial industry in different contexts and is considered as a powerful tool in fight against poverty (Tchakouté-Tchigoua, 2018). It "is recognized as an effective lever for development, loosening financial constraints and expanding the range of possibilities" (Gentil and Servet, 2002). It has taken over from international public aid, which is sometimes considered ineffective.[1] The modern concept of microfinance can be defined in several ways and encompasses several realities. According to some authors (Ledgerwood, 1999; Robinson, 2001), microfinance refers to provision of financial services (generally credit and/or savings) to poor clients, particularly small-scale self-employed people. Berguiga and Adair (2019) understand microfinance as institutions that provide financing to poor clients who are excluded from the mainstream banking system.

Microfinance in sub-Saharan Africa, as elsewhere, has grown considerably over the past 30 years (Doliguez, 2017). In 2017, microfinance institutions (MFIs) reached 139 million clients for an estimated $114 billion in total loans (Microfinance Barometer, 2018). The Banque de

[1] Arrassen Wassini; 2013 "La microfinance, quelle expérience tirées des pays en développement ? " PhD thesis defended at the Eole Doctorale of Paris Dauphine.

France estimated in 2014 that there were more than 723,000 microcredit organizations in developing countries that provide financing to approximately 200 million borrowers (Dardour and Ouvrard, 2015). Like most WAEMU countries, Togo is participating in this upturn. There is a pronounced dynamism of supply, which is reflected both in number of active operators'growth (nearly 500 outlets in 2017, compared to 400 in 2012) and in remarkable increase in deposits and loans granted (outstanding loans that reached CFAF 129,216 million in 2017) and in number of clients served (from 823,776 in 2010 the number of clients has risen to 2,000,000, *CAS-IMEC, 2017).*

However, despite evidence of this dynamism, MFIs are experiencing significant dysfunctions. They face enormous difficulties that affect their stability, viability, and sustainability. Microfinance, which was widely acclaimed for financial inclusion of people who do not have access to traditional financial circuit, is therefore struggling to perform significantly in its mission (Koné, 2019). Bankruptcy cascades facing the sector are revealing. As of September 30, 2017, seven (7) microfinance institutions were under provisional administration at community level and Togo alone recorded three (3), or nearly 43% (*APSFED-Togo*, 2018). It emerges from evaluations of National Monitoring Committee of WAEMU Action Plan held on May 10, 2017, that, 12 Togolese institutions will be subject to liquidation in the coming days. Fifteen (15) structures have had their approval withdrawn until early 2018.[2] In 2010, a joint inspection by CAS-IMEC and BCEAO of the microfinance institution "Investir Dans l'Humain" (IDH-Togo) revealed that the institution was facing an advanced deterioration of its equity. A few months after this finding, IDH-Togo was declared bankrupt, leaving its clients (especially savers) in a particularly delicate financial situation. This was one of the biggest microfinance scandals the country has ever known. An audit conducted by competent services revealed that the "IDH" crisis was the result of significant governance problems faced by the institution. Other scandals have followed and have significantly shaken Togolese microfinance landscape. Particularly, the case of "PAPILLON", "ODJOBO MECO", "FIDEC", etc., is worth recalling. The APSFD-Togo study report reveals, in the first quarter of 2017, poor governance in most Togolese microfinance structures, characterized, among other things, by non-compliance with administrative texts and procedures, failure of internal control service and bodies to function properly, poor allocation of operations, absence of a reliable information system, multiple functions, etc. (*APSFD-Togo*, 2017).

Several factors have been identified in trying to explain dysfunctions affecting the sector, and among them, governance deficiencies are increasingly mentioned. Poor governance seems to be the primary factor in the dysfunctions observed in MFIs (Fall and Onomo, 2012, Augustine, 2012; Onomo, 2015; Okoye and Siwale, 2017, Tchakouté-Tchigoua, 2018). Current events in microfinance regularly highlight institutions' fragilities, starting with their governance (Microenterprise Americas, 2003; Prisms, 2005; Intellecap, 2006; CSFI, 2008). Lapenu (2002) shows that good governance is a key factor that conditions financial and social performance of MFIs. Authors such as Hartaska (2005), Hartarska and Mersland (2010), Thrikawala et al, (2016); Boubacar (2018); Chakrabarty and Bass (2014); Kyereboah-Coleman and Osei (2008) have tried to explain performance of MFIs by the quality of internal and externalgovernance mechanisms that govern them. They emphasized characteristics of the board of directors

[2] CAS-IMEC 2018

(competence of the board, size of the board, representation of women on the board, duration of the term of office, etc.) and characteristics of the MFI (legal status, presence of an internal audit body, size, age, etc.) as governance mechanisms that are likely to influence MFI performance.

In Togolese context, given the performance problems facing microfinance industry and lack of research on the subject to date, the following main research question is asked: **Whatis the influence of internal governance mechanisms on the performance of microfinance institutions in Togo?**

This research paper's main objective is to identify internal governance mechanisms that can influence MFIs' performance in Togo. It should also be remembered that the results of governance studies in one country cannot be directly transposed to another country because of socio-cultural variables' influence (Charreaux, 2004).

The paper is structured around four parts. Firstly, it discusses conceptual framework and sheds light on notions of governance and performance in MFIs. Next, it sums up literature on governance mechanisms and performance in MFIs. Thirdly, it presents the research methodology before ending in the fourth part with the results.

DEFINITION OF GOVERNANCE AND PERFORMANCE IN MICROFINANCE CONTEXT

Governance in MFIs

According to Charreaux (1997), governance refers to the set of organizational mechanisms to delineate powers and to influence decisions of corporate leaders. Applied to microfinance, governance is defined as the process used by the board of directors to help an institution fulfill its mission and protect its assets over time (Rock et al. 1998). According to Labie and Périlleux (2008), the specificity of governance in MFIs is due to their democratic decision-making principles, but also to their diffuse ownership structure. In microfinance sphere, one can distinguish structures established in form of associations, mutual organizations, cooperatives or private companies. This makes their mode of governance particularly singular and difficult to control. Moreover, in microfinance, problems of agency increase when one integrates the double vocation of the institutions. On the one hand, they must reach maximum number of customers among the poorest segments of the population in order to contribute significantly to development of countries concerned; and on the other hand, this first vocation must be ensured on a financially viable and sustainable basis (Wélé, 2009). However, in microfinance sphere, if one emphasizes agency theory, governance-performance relationship refers to contractual structure that allows for minimization of agency costs. Governance then presupposes organizational capacity, management capacity and performance capacity. Organizational capacity is based on MFI's ability to define its missions and operating mechanisms. Management capacity reflects MFI's ability to define and implement its mechanisms and decision-making methods in order to meet its challenges. Performance capacity allows MFI to translate its purpose into objectives and results, from which its effectiveness, efficiency and impact can be measured. Governance is also a capacity for technical absorption and for taking charge of expertise and instrumentation. Put in these terms, the concept ofgovernance refers to a problem of power distribution and a problem of taking charge of functions. In these structures, one distinguishes between internal and external

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governance mechanisms. Internal mechanisms include functions of the CEO and the board of directors, as well as mode of ownership (Bakker et al., 2014). On the other hand, external governance mechanisms are more or less determined by external factors: the market and the supervisory environment (Mersland and Strom, 2007).

Performance in MFIs

In microfinance, performance should be considered in two dimensions: social performance and financial performance. Some believe that microfinance institutions are obliged to generate profits in order to guarantee their financial profitability, ensure their sustainability and thus contribute to poverty reduction (Hoff and Stiglitz, 1998). For an MFI to accomplish its mission, it should remain a sustainable business. For the proponents of this approach, microfinance institutions must fund the least poor first. Once funded, they will be able to create their own businesses,which will allow them to secure their own activity, generate jobs, and thus promote economic growth and general well-being. These institutions will be able to raise new funds in financial markets and scale up their activities if only they are financially profitable. A lack of financial profitability could, in medium or long term, lead to failure of microfinance programs and sound the death knell for a new way of fighting poverty. On the other hand, the schools of thought prioritizing social performance believe that since the original objective of microfinanceis to reduce poverty, microfinance institutions should focus on the "poorest people" to help them improve their well-being. The objective is to grant credit at very low rates (below market rates) accompanied by provision of non-financial services such as education, vocational training, family planning, health care, etc. The aim is therefore to get people out of poverty. It is to lift the poorest people out of extreme poverty. Given the duality of objectives pursued by MFIs (viability as an organization and the objective of helping the poor improve their daily lives), social performance and financial performance are essential in these structures. Instead of pitting these two visions against each other, it might be useful to synthesize them. To reduce poverty, it is necessary to both fund programs for the poorest populations and to broaden the possibilities of action for MFIs by mobilizing adequate sources of financing (Ayayi and Noel, 2007) and by ensuring the profitability of this type of organization.

INTERNAL GOVERNANCE MECHANISMS AND MFI PERFORMANCE

Organizational Form and Performance of MFIs

The literature on theory of cooperative organizations proposes a comparison of MFIs by organizational mode (Tchakouté-Tchigoua, 2010). This mainly involves comparing performance of MFIs that are in strategic networks to those that are not. Fischer (2000) shows that, with very few exceptions, MFIs belonging to strategic networks perform at least as well as those belonging to atomized networks. This assertion was validated by Desrochers and Fischer (2005) who, in their work, made an international comparison of performance of MFI networks operating in countries at different levels of economic development. Their conclusions also held that network integration is less important in MFIs in southern countries. After conducting a study of 64 microfinance institutions in Sub-Saharan Africa, Tchakouté-Tchigoua (2010) found no influence of organizational form on performance of these institutions. The existing literature on the subject reveals that an MFI's being part of a network or not plays no role in its performance. However, one notes that the research carried out in this respect has considered heterogeneous groups of MFIs with specific characteristics. Also, very few studies have

attempted to establish the link between organizational form of MFI and its financial and social performance in Africa and particularly in Togolese context.

H 1: Organizational form (whether MFI belongs to a network or not) influences performance

Legal Status and Performance of MFIs

In microfinance, there are three main legal forms: association (or NGO), cooperative (or mutual organization) and corporation. These legal forms differ in terms of ownership, agency conflicts andgovernance (Tchakouté-Tchigoua, 2010). Mersland and Strom (2008) find no significant difference in social performance between NGOs and private microfinance companies. Their study included a sample of 132 NGOs and 68 private MFI companies. They concluded that legal status of MFIs does not influence their social performance. Mersland and Strom (2009) reach the same conclusions based on a sample of 278 microfinance institutions. It turns out that ownership structure does not fundamentally improve MFI performance. The authors suggest that traditional governance mechanisms which have proven successful in traditional firms are less important in MFIs. Ownership type is thus an unreliable predictor of bank performance in general (Altunbas et al. 2001) and MFI performance in particular (Mersland and Strom, 2008; 2009; Labie and Sota, 2004). For Mersland (2009), cooperatives and NGOs are more efficient than private microfinance companies. He explains this by saying that operating costs are relatively lower in cooperatives and NGOs than in private companies because the vast majority of employees are volunteers. Based on this assertion, it seems clear that NGOs and cooperatives achieve their goals earlier than profit-making companies. However, some practitioners such as White and Campion (2002) and Fernando (2004) argue that unregulated MFIs (NGOs or cooperatives) become regulated MFIs (private companies). Assuming, therefore, that the governance system is effective, i.e., that these bodies are competent and motivated, MFIs incorporated as private companies would exercise greater control over managerial latitude and therefore perform better financially and socially than non-profit-making MFIs (Thrikawala et al., 2016). Similarly, in African context, in seeking to find a relationship between legal form and performance of 64 MFIs, Tchakouté-Tchigoua (2010) concludes that private microfinance companies are more sociallysuccessful and sustainable than NGOs and cooperatives.

H 2: Legal status has an effect on the performance of MFIs in Togo

Size of the Board of Directors

In literature on corporate governance, it is generally accepted that the number of directors can affect firm's performance. There is a lot of work that emphasizes the usefulness of small boards of directors. Indeed, a very large board of directors would hinder the control mission of its members allowing, for instance, a high degree of independence of the Chairman and CEO. According to Jensen (1993), boards with more than seven or eight members function less effectively and are more likely to be controlled by the CEO. If the size of the board is very large, this may hinder its ability to take strategic action. To this end, Yermack (1996) argues that any advantages that may be associated with large boards will be offset by inefficient decision-making processes that characterize them. When a firm's board is large, it requires a great deal of compromise to reach a decision-making consensus. As a result, decisions from such boards are less effective, leading to lower performance. Performance measured by ROA in particular is

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negatively associated with a board that is composed of a large number of members (Yermack, 1996). Results of study by Cheng (2008) confirm this point of view and show that size of the board of directors is negatively correlated with both ROE and ROA. Similarly, Aggarwalet al. (2015) find that board size is negatively related to performance. The same conclusion was reached by Liang et al. (2013) who point out that performance of Chinese banks is negatively affected by their board size.

In literature on microfinance institutions, few studies have examined relationship between board size and performance of these institutions (Mori and Mersland, 2014). For instance, using data on Eastern European MFIs, Hartarska (2005) finds that MFIs with small board sizes perform better. Examining the relationship between performance and board size, Hartarska and Nadolnyak (2007) conclude that effectiveness of community development lending organizations (forms of microfinance institutions) improves when size of the board does not exceed 13 members. Using data from Ghanaian microfinance institutions, Kyereboah-Coleman and Osei (2008) show that the ROA of these institutions is positively related to board size. However, some studies such as Mersland and Strom (2009) did not find a statistically significant relationship between financial performance (ROA) and board size in MFIs.

H 3: The size of the board of directors influences the performance of MFIs

Women's Presence on the Board of Directors

Several studies show that gender diversity (as measured by representation of women on the board) improves firm performance. For example, defining diversity as the percentage of women and minorities on the board, Carter et al. (2003) finds a positive and significant relationship between board diversity and firm value. Mersland and Strom (2009) argue that women's presence on the board of MFIs positively affects financial performance. According to these authors, this impact is more positive if there are three or more female directors. In the same vein, Strom et al (2014) mention that presence of female directors and female board chairpersons positively affect MFI performance. They explain this result by better understanding of female-dominated clientele of MFIs by women on the board. In their research, Mersland and Strom (2009) find that MFIs with female CEOs and board members outperform those with male CEOs. The main argument here is that MFIs run by women serve mainly female clients and therefore women CEOs are able to obtain more relevant information that is useful for decision making, which leads to better performance. Périlleux and Szafarz (2015) find that in financial cooperatives, the dominant presence of women on the board of directors promotes social orientation and performance (in terms of lending) of these institutions. Augustine et al (2016) find that in an African MFI with 50% of female board members, ROA is about 2% higher than in an MFI with an all-male board. This result corroborates those of Bassem (2009) who shows that in Mediterranean and Middle Eastern MFIs, having more women on the board improves performance. Addressing the same issue, Hartarska et al. (2014) argue that promoting gender diversity in MFI senior management is beneficial in terms of social and financial benefits. For example, social performance (measured by the number of active clients) of MFIs is appreciated from 12% to 14% in MFIs led by women. In research on Tanzanian and Kenyan MFIs, Mori and Olomi (2012) highlight the need for gender diversity on boards of directors. Indeed, according to the authors, women's presence on the board positively and

significantly affects financial and social performance of MFIs in these two East African countries.

H 4: Women' s presence on the board influences the performance of MFIs

Frequency of Board Meetings and MFI Performance

A literature review suggests that the link between frequency of board meetings and performance leads to contradictory conclusions. Thus, some authors following the example of Godard et al, (2004) predict that a significant increase in number of board meetings has a positive impact on financial performance of French firms. Approaching the topic in thesame line, Bouheni (2016), after conducting a study on three French banks, came to the conclusion that when the number of board meetings increases, the banking risk decreases. For this author, regular board meetings help in risk management and act as disincentives for managers to invest in high-risk activities. However, other research, such as study by Vafeas (1999), has concluded that an increase in number of board meetings is not synonymous with good financial performance. This is because frequent meetings are costly and will be negatively associated with board performance and will then negatively impact performance of the organization. Bouheni (2016) states in his findings that number of board meetings is negatively associated with bank profitability as measured by ROA and ROE, meaning that when number of board meetings increases, bank profitability decreases. This is supported by Vafeas' (1999) studies that confirm that firms with regular board meetings have poor performance. In microfinance institutions, there is little research that points to a link between frequency of board meetings and performance. Nevertheless, Wamba et al, (2014) and Essama et al, (2015) found a positive and significant influence of regularity of board meetings on financial performance of MFIs in Cameroonian context. Similarly, Tchakoué-Tchakouté-Tchigoua, (2014) found a positive and significant relationship between frequency of MFI meetings and return on assets, suggesting that increased frequency of board meetings is more of a response to search for strategic decisions that create financial wealth.

H 5: Frequency of meetings has an impact on MFI performance

Board Member's Term of Office and MFI Performance

Wamba et al (2014) succeeded in showing that duration of the board's term of office has a significantly positive influence at the threshold of 1% on financial performance of private companies and microfinance NGOs. In contrast, he did not find a significant influence of this governance mechanism on the performance of other types of MFIs. A board of directors that has a long term of office could become ineffective because directors, for reasons of longevity in their position, will tend to adopt deviant behaviors by seeking to maximize their personal utility to the detriment of the organization's performance objectives.

H 6: Board's term of office influences MFI performance

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RESEARCH METHODOLOGY

The methodological aspects of this study are presented in this part. The study's working sample, its variables, as well as the model retained, are successively described.

Data Sources and Sample Presentation.

To constitute the sample for this study, the database of Cellule d'Appui and Suivi des Institutions Mutualistes ou Coopératives d'Epargne et/ou de Crédit (CAS-IMEC) is used. On September 2018, this has 75 microfinance institutions throughout the nation and records their accounting and financial information. Among this population, there are 68 unitary structures and 7 networks made up of 95 basic structures.[3] This group includes 69 IMECs (Mutual or Cooperative Institutions), 4 associations and 2 private microfinance companies. Given the availability of information, microfinance institutions, recognized by Togolese Ministry of Economy and Finance, were chosen. Accounting and financial data available covers six years (from 2011 to 2016). On this basis, structures, the information of which was missing during the period under consideration, have been excluded. Young structures were also excluded, i.e., those that have been in existence for less than six (6) years, because it is believed that in order to objectively assess an organization's performance, it is important to let it reveal itself over at least five years (MIX[4], 2015). The information on governance mechanisms was obtained through questionnaires administered to MFIs. Equally, all microfinance institutions that refused to complete the study's survey questionnaire or completed it incorrectly were excluded. The study's final sample is composed of 38 microfinance institutions, including 32 unitary structures and 4 networks. This list includes 3 microfinance associations and 35 mutual institutions/cooperatives. It is recalled that this sample is representative since the MFIs that make up the sample alone mobilize 72% of gross outstanding loans and concentrate about 80% of the market share in terms of active clients.

Operationalization of Variables and Presentation of Empirical Model

Dependent Variable: Measure of Financial and Social Performance of Each MFI:

Given the dual objectives of microfinance institutions (sustainability as an organization and helping the poor improve their lives), both social and financial performance are required in these structures. Financial performance is measured by three indicators. These are the indicators of economic profitability ROA[5] (Boubacar, 2018; Hatraska, 2005; Thrikawala, 2016), sustainability AO[6] (Wamba, 2014; Boubacar, 2018, Hartaska, 2005; Kyereboah-Coleman and Osei, 2008) and portfolio quality PAR[7] (Thrikawa, 2016). For these financial indicators, the standards of comparison set by the BCEAO[8] (*ROA> 3%; AO > 130% and PAR < 3%)* are used to distinguishfinancially performing MFIs from those that are not. Social performance indicators were measured by the percentage of women clients (Prop_Fem), the size of loans granted (Tail_cred) and the number of active borrowers (Nom_emp). Socially successful MFIs are those

[3] APSFD: Association Professionnelle des Systèmes Financiers décentralisés du Togo (Professional Association of Decentralized Financial Systems of Togo)
[4] Microfinance Information Exchange
[5] ROA= Résultat Opérationnel net d'impôt/Montant moyen de l'actif (Net Operational Income of tax/Average asset value
[6] AO = Financial income / (Operating expenses +provisions for bad debts+ Financial expenses)
[7] PAR = Outstanding losses with at least one payment due in more than 90 days/gross outstanding loan portfolio
[8] BCEAO: Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States).

with *Tail_cred*[9] *< 1, or Prop_Fem> 50%, or Nom_emp > 30,000* (Hartaska, 2005; Boubacar, 2018; Kyereboah-Coleman and Osei, 2008; Tchakouté-Tchigoua, 2010).

Independent Variables: Measurement of Internal Governance Mechanisms:
The size of the board of directors (Tail_ca), which expresses number of directors on the board, proportion of women on the board (PropFem_ca), which provides information on the proportion of women directors, frequency of board meetings (Fréqrén_ca) and duration of the board's term of office (Mand_ca) are variables that characterize the structure of the board of directors (Wamba et al, 2014, Tchakouté-Tchakouté-Tchigoua, 2014; Hartaska, 2005). Organizational form and legal status are the other internal governance mechanisms that characterize the MFI.

Control Variables:
If one seeks to test the impact of internal governance mechanisms on MFI performance, other variables must be taken into account to ensure the quality of the study. These include the age of the structure (Bassem, 2009; Bakker et al, 2014) assessed by the number of years of existence (age_imf), and its size measured by the neperian logarithm of total assets (Lntactif) (Bakker et al, 2014, Boubacar, 2018). The Gross Domestic Product GDP (Lnpib) was also used as a control variable in the study's model (Sbai and Meghouar, 2017; Boubacar, 2018).

Research model
In the context of this research and given the objective pursued, binomial logistic regression on panel data is chosen to analyze the impact of internal governance mechanisms on performance of microfinance institutions in Togo. Binomial logistic regression is a probabilistic statistical analysis method. The explained variable "performance" is transformed into a dichotomous variable at all levels. It can only take two values (0 or 1). The explanatory variables are qualitative or quantitative. Drawing on the work of Darcillon (2013), the general study model is presented as follows:

$$Y^{*}_{it} = \alpha_0 + \beta X_{it} + \sum_k Q_k U_{k,} + c_{it}$$

$$Y_{it} \begin{cases} Y^{*}_{it} = 1 \text{ if the MFI is performance} \\ Y^{*}_{it} = 0 \text{ otherwise} \end{cases}$$

With Y^{*}_{it} the latent variable that is related to dichotomous variable Y_{it}, $\boldsymbol{X_{it}}$ denotes the vector of K explanatory variables that characterize the internal governance mechanisms for microfinance institution *i in* year *t*; β denotes the coefficient on variable Xi and represents the marginal impact of Y* on X, $\sum_k \boldsymbol{U_k}$, denotes the set of control variables and $c_{\boldsymbol{it}}$ denotes the error term, *i* = 1,….38 (Togolese microfinance institutions). The study focuses on a sample of

[9] Tail_Credit: Average credit outstanding per borrower/gross national income per capita

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38 Togolese microfinance institutions observed over a period of six years, which, by definition, leads to the estimation of regression models on panel data (228 observations) in total. The use of panel econometrics thus requires a choice between a fixed effects model and a random effects model after the specification test (Hausman, 1978). The Hausman test was performed under the stata software and the results showed that for each of the models, the p-value of the Hausman testis higher than the 10% threshold. Therefore, random effects models are the most appropriate. The study assessed the multicollinearity between the independent variables. The cut off value of the correlation coefficient for which the study assumes presence of a serious multicollinearity problem between two explanatory variables is 0.8 (Kennedy, 2003; Sbai and Meghouar 2017). In the case of this study,the largest value taken by the correlation coefficient is 0.62. It is concluded from this that relationships between the explanatory variables disturb in a very little measure the model and the selected variables can be used in the regression model. Logistic regression allows calculation of odds ratios or marginal effects, which facilitate interpretation of the results. Marginal effect ofa variable is the second way of assessing the practical significance of parameter associated with it. This second solution has the advantage of making the results of a logit easier to read than with the odds ratio approach (Afsa, 2016). The study chose to keep marginal effects to interpret and assess the practical significance of parameters resulting from the study's regressions.

Table 1: Hausman test on the different models

Model with dependent variables	Hausman test *p-value*
Model 1(y = ROA)	0.6196
Model 2 (y = AO)	0.1334
Model 3 (y = PAR)	0.7582
Model 4 (y = Nomb empr)	0.3108
Model 5 (y =Tail_Créd)	0.4292
Model 6 (y = Prop_Femm)	0.8882

Source: Data from our surveys

STUDY RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics show that only 26% of Togolese MFIs are profitable (ROA) and 13.6% are viable (AO). The majority of Togolese MFIs record a poor score in the repayment of loans granted (PAR). It is noted that 65.79% of microfinance institutions in the study's sample have a PAR greater than or equal to 3%. It is concluded from these statistics that Togolese MFIs are not financially efficient. It is equally noted that the majority of MFIs deviate from their social missions. Even if most of these structures (91%) lend to the poorest (Tail-Cred), more than 50% lend more to men than to women (Prop-fem). Also, it noted that only 13.61% serve more than 30,000clients (Nomb_empr). Through this study, it noted that MFIs in Togo have medium-sized boardsof directors (about 6 members), 68% have at least one woman on the board. The boards meet frequently (on average 6 times a year). The results of this study reveal that 87% of the boards in the sample have a term of office of less than 5 years, renewable once, 10% have a term of office of between 5 and 10 years and only 3% have a term of office of more than 10 years. Furthermore, it is noted that 10.53% of observations in this study concern microfinance institutions that have formed a network as opposed to 89.47% for those that are unitary

structures, 92.11% of MFIs are mutual organization or cooperatives as opposed to only 7.89% for associations**.**

Regression Analysis

In order to further investigate the above results, it is necessary that a multivariate analysis is conducted.

Table 2: Summary of estimation results

	ROA	OA	PAR	Tail_Credit	Nmb_Emp	Por_Fem
Form_org	0.145	-	-	-	-0.102	-
Stat_jur	**0.287***	-	-	-	-	-
Tail_ca	-0.023	0.018	0.019	**-0.065****	**-0.050****	-
ProFem_ca	**0.109*****	0.050	-0.069	**0.064****	-	-
Frereun_ca	**0.031*****	**0.038*****	0.015	**-0.011****	-	-
Mand_ca	**-0.292*****	-	-	**-0.068***	-0.103	-0.247
Lnpib	0.175	0.152	-0.549	**0.165****	0.224	**1.559*****
Lntactive	**-0.044****	-0.031	0.058	0.007	**0.229*****	-
age_imf	**-0.010*****	**0.011*****	0.014	**-0.010****	**-0.022*****	**-0.022***
_pictures		-				
lnsig2u						
_pictures						
N	228	228	228	228	228	228
df_m						
chi2						
P	0.004	0.001	0.792	0.027	0.001	0.059

Dependent variables (financial and social performance variables) are ROA, economic profitability; AO, financial viability; PAR, portfolio at risk at 90 days; Tail_Credit, credit size; Nmb_Emp, number of borrowers; Por_Fem, percentage of women clients. Independent variables are Form_org: organizational form; Stat_jur: legal status; Tail_ca: size of the board of directors; ProFem_ca: proportion of women on the board of directors; Fréréun_ca: frequency of board meetings, Mand_ca: duration of board of directors' term of office; Lnpib: neperian logarithm of GDP; Lntactif: the neperian logarithm of the total assets; and age_imf: the age of the MFI.
(*), (**), (***), significant at 10%, 5% and 1% respectively.

Sources: Data from our surveys.

According to the present study, it noted through Table 1 that characteristics specific to microfinance structure (legal status, organizational form, etc.) have little significant impact on financial and social performance of Togolese MFIs. These findings corroborate those of Tchakouté-Tchigoua (2010) who do not find a significant relationship between MFIs' characteristicsand their financial and social performance. The results of this study show that the characteristics of the board of directors generally have a high probability of influencing the performance ofTogolese MFIs, thus confirming the thesis supported by Jansen (2006), who argues that one ofthe central elements in governance is the board of directors. Thus, it is found out that women's presence on the board of directors has a strong probability of positively influencing the financial and social performance of MFIs measured by ROA and loan size, respectively. The more women directors there are, the greater the likelihood of improving profitability and outreach. The results of this study are consistent with those of Darko et al

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(2016); Martin-Ugedo and Miguez-Vera (2014); Mori and Olomi (2012) but contradict those of Thrikawala (2016) and Hartaska (2005). Even though the board of directors' size has no probability of affecting financial performance, it still significantly and negatively impacts social performance represented by credit size and number of borrowers. Also, the variable relating to the frequency of meetings, reflecting the dynamism of the board of directors, has a positive and significant coefficient on both viability and profitability. The study's results are in line with those of Tchakouté-Tchakouté-Tchigoua (2014) and Wamba et al (2014) who advocate regular meetings of the board members. Duration of the board's term of office plays a negative role on financial performance (ROA) and social performance (credit size). The longer theduration of the board's term of office, the less likely the MFIs are to perform. It is equally noted that the age of the MFI has a negative and significant influence on both financial and social performance of MFIs (Boubacar, 2018; Cull et al, 2007), thus confirming that as they age, Togolese MFIs, like the majority of MFIs, turn away from their missions.

CONCLUSION

This research underscores importance of including internal and external governance mechanisms in reflections on MFI performance in general and Togolese MFIs in particular. It highlights an interesting problem and answers questions raised in the existing literature by rejecting or confirming results obtained to date. It reiterates once again the role of boardof directors as a governance mechanism and driver of MFI performance efficiency. This research reveals that women's presence on the board is a determining factor in financial and social performance of MFIs in Togo. Therefore, the study advocates for a consideration of gender balance as an integral part of fundamental attributes, and for maneuvers in favor of gender equality in governing bodies of MFIs in Togolese context. The research has alsoshown that, to ensure the financial performance of MFIs, it is necessary to have a medium-sized board that meets regularly. It is necessary to create an environment that can motivate the board and make it dynamic because, as De Briey (2003) observes, the proper functioning of governance bodies of MFIs requires a continuous effort on the part of elected officials. An active board is a source of wealth creation for organizations. Moreover, as these structures mature (by getting older), they must not forget their original mission, which is to improve daily lives of the poor, and at the same time ensure their financial performance objectives.

The present study has some limitations that should be mentioned. First, the study was restricted to a sample of 38 MFIs out of a population of 75 institutions. Although the study sample is representative, an analysis of the majority or even all Togolese MFIs may yield even more relevant results. Furthermore, the study only took into account mutual/cooperative organizations and microfinance associations without exploring realities of private microfinance companies. This is justified by the fact that until the period this work was completed, there had been no private microfinance companies in Togo.It should also be noted that this study did not take into account certain aspects of governance. These include external governance mechanisms such as prudential regulation, external auditing and rating. All of these limitations may provide avenues for future research that could help improve analysis of governance on MFI performance.

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