Corporate Governance and Financial Inclusion: A Preliminary Review of Literature

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Abstract

The paper focuses on a scantily researched phenomenon, namely, the extent to which financial inclusion is influenced by corporate governance practices. The question that normally arises is whether corporate governance practices are tailored to supporting the financial inclusion mandate. The other question is whether there are certain corporate governance practices that advance financial inclusion. This paper reviews extant empirical literature on these matters with a view of stimulating debate on the subject. Cognisant that institutions that advance financial inclusion are largely financial institutions, the starting point is relating to contemporary corporate governance practice in financial institutions. We know that financial institutions belong to a specific class of corporations whose failure affects society at large because of the financial services they provide. As a result, they are heavily regulated and their corporate governance structures are bound to differ from those of conventional firms. Similarly, we know that financial inclusion institutions are special types of financial institutions with mandates to provide financial services to underserved population segments which equally require special treatment. The scant literature available shows, albeit not conclusive, some evidence of a positive relationship between sound corporate governance and financial inclusion. However, more research on how corporate governance affects different dimensions of financial inclusion is recommended.

Keywords: Corporate governance; Financial inclusion; Microfinance institutions; Bottom of the economic pyramid; Board accountability

JEL Classifications: G3; N2

Introduction

The World Bank^{*} defines financial inclusion as “individuals and businesses having access to useful and affordable financial products and services that meet their needs -transactions, payments, savings, credit and insurance -delivered in a responsible and sustainable way”, which definition captures some elements of good corporate governance. Good corporate governance ensures that financial services are “delivered in a responsible and sustainable way”. However, little is known on how corporate governance is practised and the factors influencing it in special institutions with mandates of advancing financial inclusion. Financial inclusion institutions, which include, among others, microfinance institutions (MFIs)/banks, postal banks, savings banks, credit associations and cooperatives are special type of financial institutions with specific mandates to provide financial services to underserved segments of the population. Although these institutions play a critical role in advancing financial inclusion to people at the bottom of the pyramid (BOP), lack of adequate regulations and proper governance tend to misalign the core focus of these institutions (Ambarkhane, Singh, & Venkataramani, 2016).

The way corporate governance is practiced in financial institutions has since been observed to differ from the manner it is practiced in non-financial firms. For instance, Hopt (2013) has observed that the scope of corporate governance of financial institutions goes beyond equity governance (focus on shareholders) to embrace other stakeholders such as debt holders, insurance policy holders, other creditors and regulators. Such a stakeholder approach is considered appropriate because risk taking by financial institutions, banks in particular, may require government support if they become distressed (Anginer et al., 2015). Therefore, risk taking, and corporate governance approach may be different in the case of banks. The definition of corporate governance of banks provided by the Bank for International Settlements (BIS) (2006) recognizes the plurality of stakeholders involved. It defines it as “the methods and approaches used to manage banks through the board of directors and senior management which determine how to put the bank's objectives, operation and protect the interests of shareholders and stakeholders with a commitment to act in accordance with existing laws and regulations and to achieve the protection of the interests of depositors”.

The intellectual debate has been whether corporate governance should only focus on protecting the interests of shareholders or that it should also embrace other stakeholders who are non-shareholders (Macey & O'Hara, 2003). The Anglo-American model of corporate governance focuses on the primary objective of maximizing shareholder value, and in the absence of a legal duty, other interests are ignored to the extent they conflict with the primary objective. Conversely, the Franco-German model views corporations as “industrial partnerships” in which the interests of long-term stakeholders are given the same respect as shareholders (Ziegler, 2000).

Why should corporate governance of financial institutions get special treatment? The flow of funds in the economy is facilitated by the financial system. The Global Financial Crisis of 2008 is testimony of what can go wrong when there is a disruption in the flow of funds. Financial institutions are more likely to allocate capital efficiently and exert effective corporate governance over firms they lend to if they have sound corporate governance themselves. However, we know that banks are generally more opaque than non-financial firms are. They can hide loan quality and easily alter the risk composition of their assets to continue lending to risky clients. This is one reason they are more regulated than other sectors of the economy. The global financial crisis has shown that while shareholders enjoy limited liability, taxpayers face unlimited liability in the event of failure of ‘too big to fail’ financial institutions.

Adoption of sound corporate governance is critical for nurturing and sustaining public confidence in banks (Zulfikar et al., 2020). However, in a real business environment, there is conflict in the roles of agents and shareholders. These parties tend to interfere with each other's responsibilities leading to information asymmetry and agency problems. This problem is pervasive in MFIs because apart from addressing agent and principal issue, they are other third-party stakeholders.

The special category of financial institutions with a mandate to facilitate financial inclusion –hereinafter referred to as financial inclusion institutions –are not individually too big to pose systemic risks that can potentially lead to the failure of the entire financial system. However, their failure nevertheless can still be costly to both society and the marginalised low-income segments of the population which they serve. Hence, effective corporate governance is equally important to financial inclusion institutions as it is to the mainstream

^{*}<https://www.worldbank.org/en/topic/financialinclusion/overview>

financial institutions. Accordingly, this raises three empirical research questions for investigation. First, to what extent does corporate governance influence financial inclusion? Second, are there specific corporate governance practices that facilitate compliance with the financial inclusion mandate? Third, which corporate governance practices are critical in contributing to financial inclusion? The objective of this review paper to scan the literature that has attempted to address these questions with a view of stimulating future research. The paper is exploratory in nature in that its methodology is a preliminary review of extant literature in preparation of a systematic study of the subject matter.

Thus, the rest of the paper is structured as follows. The next section reviews literature on the institutional environment of financial inclusion institutions. This is followed by a review of theories of corporate governance in the context of financial institutions. Then empirical literature on corporate governance practices of MFIs is discussed. The concludes by suggesting areas for future research.

Literature Review of the Institutional Environment

Generally, financial inclusion institutions such as MFIs operate in economies at what authors like Prahalad (2004) term “the bottom of the economic pyramid (BOP)”. Economies that operate at the BOP have populations that live on less than US\$1.25 per day (UNDP, 2007). Most of developing countries’ populations operate at the BOP, that is they live on less than US\$3,000 per year (Jansson & AfSillén, 2013). Most of these people live in Africa, Asia, Eastern Europe, and Latin America (Prahalad & Hammond, 2002).

BOP economies are relatively unsaturated markets made up of US\$5 trillion in purchasing power (Lehikoinen et al., 2018), and are consequently interesting markets for companies (Jansson & AfSillén, 2013). According to the World Resources Institute (2007), the BOP market is the biggest consumer market in Africa with an estimated purchasing power of 71% that translates into a market size of US\$429 billion. Firms generally hesitate to go into the BOP market because it is complex, unorganized and fragmented (Lehikoinen et al., 2018). Prahalad (2012) observes that when companies go to these markets, they face an ethical dilemma of making profits from customers who can hardly make a living. However, today’s corporate society does not care about ethical judgement, they are more concerned with profit maximization without considering who they exploit. This contradicts Prahalad’s (2012) stand. Hence, the common hurdles companies that operate at the BOP face are changing consumers’ behaviour and rethinking the way products are made and delivered (Simanis & Duke, 2014).

BOP economies are generally characterized by “agrarian-orientation, poverty, lack of education and health services, gender inequality, lack of hard and soft infrastructure [including financial services], low per capita income, and underdeveloped entrepreneurial and business activity” (Varman, Skalen, & Belk, 2012; Cheston & Kuhn, 2002; Robinson, 2001). As observed by Mair & Marti (2009), many of these characteristics are caused by “institutional voids”, that is, non-existent or poor institutional mechanisms that prevent the effective working of systems. Institutional voids stem from the external environment and are beyond the control of firms but threaten firms’ organizational viability and prevent them from undertaking efficient exchanges and enforcing contracts. These difficulties contribute to increased operating costs of firms operating at the BOP (Karamchandani, Kubzansky, & Lalwani, 2011; Khanna, Palepu, & Sinha, 2005; Prahalad & Hart, 2002).

The microfinance industry can be viewed as a response to cure the institutional void besetting the financial service soft infrastructure at the BOP. However, in trying to fill the institutional void, MFIs are also hamstrung by the numerous institutional voids. It is argued that one mechanism to work around these voids is through effective corporate governance. Mersland (2007: 10) defines “corporate governance of a firm operating at the BOP as the system or set of mechanisms that internally direct and control the firm in the present social and economic context”. MFIs are a development tool for fighting poverty in developing countries whose economies are at the BOP characterized by institutional voids that include, among others: lack of accountability, ineffective enforcement of contracts, weak and compromised judiciary, lack of property rights, corruption, lack of independent media, incompetence in bureaucracy, and poor provision of financial services (Khanna et al. 2005; Mair & Marti 2006). More so, indigenous structures like savings groups have also failed to mastermind developments at BOP; even when they are properly run, members are financially constrained. Thus, the financial system of an economy at the BOP is underdeveloped so that poor people cannot access financial services. Financial cooperatives and NGOs appear to be the only way forward for people at the BOP, but since they are not shareholder-owned firms, they do not have solid governance structures. Consequently, it has been argued that NGOS and cooperatives should transform into shareholder-owned firms to improve the governance of these organisations (D’ espalier et al., 2017).

Chakrabarty and Bass (2014) utilize the sociological approach in institutional theory to hypothesize that corporate boards should consider challenges posed by institutional voids when guiding their respective firms. Focusing on MFIs, they hypothesize that a board, which appreciate and understand BOP socio-economic issues are in a better position to guide their firms. MFIs are seen to fill a specific institutional void such as lack of access to financial services by poor people. MFIs are observed to face institutional voids in political and social systems, in labour markets and in product markets of impoverished agrarian regions that they have to work around. On the other hand, it can be argued that financial cooperatives are better placed to deal with these institutional voids since they are grass-root and understand the socio-economic structure of people they serve at the BOP. However, cooperatives are plagued by conflict of interest between members who use them as saving vehicles and those who use them as loan vehicles; for instance, savers would prefer to have a high interest rate on loans while borrowers would prefer a lower interest rate (Djan & Mersland, 2021). This conflict of interest undermines existing governance structures leading to the objective of serving the financially underserved not being met.

From the foregoing, it is imperative that the corporate governance of MFIs and similar financial inclusion institutions should consider, among other factors, the institutional environment under which they operate. However, a preliminary scan of literature shows that finding empirical evidence that supports the relationship between corporate governance and financial inclusion may not be that easy. Afi (2010: 75) provides three main reasons for the difficulty. First, to estimate corporate governance requires its definition, setting a standard and computing the deviations, which exercise is fraught with problems. Second, the measurement of financial inclusion has many dimensions so that any analysis of its relationship with corporate governance will depend on a particular measure used. Third, identifying all relevant variables necessary to deduce a connection is complex. These problems present both opportunities and challenges for future research on the subject matter.

Theories of Corporate Governance

Several competing theories underpin corporate governance. Some are more relevant to explaining corporate governance of financial institutions while others are not relevant.

Agency theory

Amongst the different theories, agency theory is considered the standard theory of corporate governance which at its simplest form views actors in a firm in terms of a principal-agent relationship, that is, shareholders as principals and managers as agents (Daily, Dalton, & Canella, 2003). It provides guidance in the conceptualising of corporate governance and provides alignment of the interests of managers and shareholders. Jensen & Meckling (1976) and Fama & Jensen (1983a; 1983b) have argued that the separation of ownership from control creates agency problems whereby agents may not bear the risks or the “wealth effects of their decisions”. Managers are inclined to shirk their fiduciary duty of maximizing shareholder wealth.

Coase (1937) pioneered the foundational work on markets and firms. The firm implied envisaged in the standard agency theory is the Coasian firm that assumes perfect competition, and optimal capital structure. Jensen & Meckling (1976) complemented the Coasian framework by incorporating information asymmetry whereby though shareholders have expectations of managers acting in their best interests, they may not voluntarily do so. This creates information asymmetry in an organisation, leading to an agency problem. They suggest that this problem can be resolved through prescriptive contracts that mitigate information asymmetry between the agent (managers) and the principal (shareholders) in the firm which idea is supported by other scholars such Ssekiziyivu et al. (2018). While in theory contracting can eliminate the agency problem, in practice this may not be possible due to information asymmetry, rationality, fraud and transaction costs (Panda & Leepsa, 2017).

Focusing on the banking sector, Hagendorff, Collins, & Keasey (2007) have argued that it requires a different agency analysis because of unique agency relationships stemming from the managers' duty to safeguard the funds from various capital providers including depositors. Hence, we can expect practices of corporate governance in banks to exhibit marked differences with practices in conventional corporations. The Coasian firm assumes perfect competition, optimal capital structure and where information asymmetry arises from the principal-agent relationship. In contrast, a financial institution like a bank operates in a regulated market and its capital structure is highly geared whereby individual owners provide rarely subscribe to more than 10% of

capital while the rest is provided by depositors and bond holders. Hence, the agency problem is complex as besides owners and managers, there are three more layers of asymmetric information in banks, viz: (a) between depositors, the bank and the regulator, (b) between owners, managers and the regulator, and (c) between borrowers, managers and the regulator (Ciancanelli & Gonzalez, 2000). These additional layers of information asymmetry make a bank or an MFI very different the firm envisaged in the standard agency theory which views governance as mitigating tensions between owners and managers. The multiple stakeholders involved render agency theory inadequate so that a stakeholder approach to corporate governance could be more appropriate.

Furthermore, Chakrabarty & Bass (2014) observe that the standard agency theory does not consider the role of the external environment in changing the ability of boards to direct and control firms. This becomes acute for MFIs whose environment is characterized by institutional voids.

Stakeholder Theory

The theory postulates that managers in organizations serve diverse stakeholders such as suppliers, employees and business partners in addition to shareholders all with conflicting interests (Cyert & March, 1963; Mintzberg, 1983; Freeman, 1984, 2010). Hung (1998) emphasizes the board's role is therefore to coordinate and negotiate these interests.

However, a proper management of the various interests implies an advanced understanding and identification of all the different stakeholders, as well as an understanding on how the various stakeholders interact and influence the organisation. An understanding of the stakeholder-organisation nexus leads to reciprocated benefits. Harrison, Freeman & Sá de Abreu (2015) observe that when stakeholders are accorded respect for their interests, they reciprocate positively for the benefit of the organization. Stakeholder theory suggests that managing stakeholders involves attending to the interests and well-being of these stakeholders, at a minimum (Harrison, Bosse, & Phillips, 2010).

The application of stakeholder theory on MFIs is more complex relative to mainstream financial institutions which attend to fewer stakeholders. It therefore becomes very difficult to identify all the various stakeholders (Mori, 2010). However, for MFIs to effectively discharge their responsibilities, their key stakeholders should participate on boards where strategic decisions are made (Mori, 2010). Hartaska (2005) observed that MFIs with boards with a diversity of stakeholders performed better than those without diversity, which observation is also noted by Mori (2010).

The common criticism for the stakeholder theory is how it intends to align stakeholders' conflicting interests as it may not be practical to have boards that represent all stakeholders. Furthermore, Maher & Anderson (1999) observe that another problem is that agents (managers) may abuse "stakeholder" reasons to justify their inability to achieve performance targets.

However, by embracing a stakeholder orientation, the stakeholder theory appears to be consistent with the economists' broader definition of corporate governance. It is therefore increasingly becoming the preferred approach to corporate governance. Corporate governance of financial institutions, which are multi-constituency firms, are amenable to a stakeholder approach. Himaj (2014) observes that this approach is particularly relevant for these institutions because of the diversity of their stakeholders. However, Chakrabarty & Bass (2014) observe that stakeholder theory does not explicitly consider that external institutions could be absent or ineffective.

Stewardship theory

Rooted in psychology and sociology, stewardship theory as proposed by Donaldson (1990) and Donaldson & Davis (1991) deals with situations whereby executives are stewards motivated to act in the best interests of their principals. It assumes that the interests of managers are aligned with the interests of shareholders.

Stewards are collective, pro-organizational and have no self-interest motives other than to maximise the profit of the organisation. According to Rahman, Hussain, & Hossin (2019), these qualities of stewards do not mean they do not have personal needs. Sometimes a subjective view may lead to greater returns than an objective view so that working harder for the self-interest motive may result in better organizational

performance. The steward understands the details of the organization and can take decisions which will grow personal interest while indirectly growing a collective interest.

One implication of stakeholder theory is to view managers as trustworthy and reliable individuals (Nicholson & Kiel, 2007:588). Hence, power can be centralised in their hands to take advantage of their intimate knowledge of the business (Rebeiz, 2015). Donaldson & Davis(1991) propose that this would involve combining the positions of Chairman and CEO into one. The argument is that such a single leadership structure would produce superior performance. Torfing & Bentzen (2020: 4) further argues that the performance of the CEO is dependent on empowering which include, among other things, allowing the CEO to chair the board of directors. While agency theory focuses on control and conflict, the stewardship theory emphasizes co-operation and collaboration (Sundaramuthy & Lewis, 2003), and provides a non-economic basis for explaining relationships (Keay, 2017).

Practically, stewardship theory may have relevance in organisations such as non-governmental organisations, church organisations and philanthropic organisations whose actors (including the managers) are driven by a shared homogeneous and humanistic goal. Since many MFIs have evolved from the generosity of non-governmental organizations, the stewardship theory can have relevance to those that would not yet commercialised. It may have little relevance in profit driven firms where there are always some tensions between owners, managers, and other stakeholders.

Institutional Theory

Despite agency and stakeholder theories being the dominant theories in corporate governance, they do not recognize the institutional context in which firms operate. Selznick (1957) observes that the behaviour and outcomes of the firms are affected by factors that are not within its control such as “external norms, regulations, and social pressures”. As Hung (1998: 107) puts it: “organizations are constrained by social rules and follow taken-for-granted conventions that shape their form and practice” and the board’s role entails resolving these issues. Societies resolve corporate governance issues differently depending on constraints imposed by existing political and legal systems (Roe, 2003). La Porta et al. (1998) demonstrates that legal systems determine patterns of corporate finance and governance among countries.

Thus, institutional theory recognizes the presence or absence and the effectiveness or ineffectiveness of external institutions that should be considered in assessing the effectiveness of the board. Hall & Taylor (1996), among other researchers, observe that when effective institutions are in place, organizations are mainly concerned with gaining legitimacy. In contrast, where there are absent, organizations have to manage around identified institutional voids (Chakrabarty, 2009; Mair & Marti, 2006).

Corporate Governance Practices in Microfinance Institutions

The institutional setting of financial inclusion institutions is that they have a wider group of stakeholders compared to commercial banks. Financial inclusion institutions like MFIs operate like commercial banks in many respects though having distinct policies and procedures (Uchenna et al., 2020). This arises from the fact that they have social and economic objectives to provide financial services to underserved and vulnerable segments of the population, and at the same time ensuring their long-term sustainability. These differences affect corporate governance practices, that is, the mechanisms in which the interests of owners and other stakeholders are observed, and the manner the board of directors and managers exercise their functions. The “double bottom line” objective means that corporate governance should strike a balance between the two objectives of financial inclusion and sustainability.

Financial inclusion institutions are diverse and given that there exist different organizational and ownership structures, they are bound to exhibit varying forms of corporate governance. However, this paper largely focuses on corporate governance of MFIs whose legal forms vary as they can exist as banks, non-bank financial institutions, credit unions, or NGOs. Each legal form would necessarily entail a unique corporate governance structure. It is also noteworthy that those MFIs that have not entirely commercialized have an additional relationship with donors in addition to relationships with clients, depositors, and regulators. There is information asymmetry between managers of MFIs and donors, and to mitigate this, donors would institute audit, rating, follow-up visits or employ on-site experts (Mersland, 2009).

MFIs are financially closer to a larger portion of the population than mainstream banking institutions (Bitok, 2014). As such, MFIs appear more complex since they must devise variable strategies to financially include many societal classes. The variable strategic nature of MFIs leads to information asymmetry between shareholders, managers, donors, and other stakeholders, and thus necessitating implementation of robust corporate governance structures (Uchenna et al., 2020).

The IFC (2018) observes that as MFIs scale up and transform, they go through three stages of governance as illustrated in Table 1 below.

Table 1: Three Evolving Stages of Corporate Governance in MFIs

Stage 1: Founding Board	Stage 2: Governing Board	Stage 3: Institutional Board
<ul style="list-style-type: none"> • Founder plays major role. • Board small with members from the local community, among others. • Founder also managing director chairs the board. 	<ul style="list-style-type: none"> • Financing needs increase as the MFI increases in size. • Skilled members are brought into the board. • Influence of the founder decreases. • Board meetings become more formal and assertive. 	<ul style="list-style-type: none"> • MFI transforms to a shareholding licensed/regulated with external investors. • Board's role to raise funds or to approve fundraising increases. • Board committees may become more formal to provide sufficient expertise, and to focus on the board's oversight and monitoring function.

Source: IFC (2018)

What is evident from the evolutionary nature of corporate governance in MFIs is that it is rudimentary during formation, transforming to a duality (combined CEO and Chairperson) at stage 2 and eventually to multi-stakeholder structure during maturity level (stage 3). The maturity level of the corporate governance envisaged by the IFC (2018) appears to exhibit occupational diversity consistent with the empirical results by Hagendorff & Keasey (2012) who focused on a banking environment. Focusing on Kenya, Chenous, Mohamed, & Bitok (2014) found that MFI financial sustainability is influenced by board size, board composition, gender and duality. Nevertheless, studies specifically focusing on corporate governance of MFIs are still scant to make credible conclusions.

Guidance on corporate governance of MFIs is provided by the Council of Microfinance Equity Funds (CMEF), which in 2005 published "The Practice of Corporate Governance in Microfinance Institutions" - that was subsequently revised in 2012. This publication provides guidelines that recognize that MFIs have special characteristics that have a bearing on their corporate governance, and that it is necessary to go beyond generalizations and consider issues that boards actually face in practice.

One central feature provided by the CMEF (2012) is how to deal with some unique governance issues of MFIs. All types of MFIs pursue both social and financial goals, and the challenge is staying focused on social goals. To strengthen oversight of social performance, the CMEF (2012: 10-11) recommends the following:

- 1) "Commitment to social goals should be a requirement for board membership and should be taken into account during member vetting and orientation.
- 2) A board may wish to form a social performance committee or assign individual board members to act as 'champions' for social performance, tasked with ensuring that mission fulfillment receives adequate weight and attention.
- 3) Boards must invest time to develop a shared understanding about social goals and how to achieve them.
- 4) Explicit social goals and targets should be set through the strategic planning process and approved by the board.
- 5) MFIs should have, and the board should monitor (at each meeting), indicators demonstrating the achievement of social targets and goals.
- 6) MFI boards should seek in-depth information from time to time, through market research, impact studies, and personal interaction with clients."

Noteworthy, is the emphasis on achieving social goals and commitment to such goals being the main criterion in determining board membership. The IFC (2018) observes that MFIs are exposed to many different types of risks as they have to deal with many social classes. To underscore the emphasis on social goals there is accordingly a recommendation to create a social performance committee as one of the sub-committees of the board. In addition to CMEF (2012) guidelines, IFC (2018) recommends that to enhance governance and achieve sustainable growth of MFIs entails: “professionalizing boards, finding, and compensating qualified candidates, providing board training, and setting up the appropriate governance structures for the organization to manage the increased risks that come with growth”. Furthermore, governance and technology have been listed among the top ten risks faced by MFIs (IFC, 2018). Therefore, as MFIs embrace financial technology (fintech), their boards are faced with challenges to strategize and navigate opportunities and risks to provide responsible financial inclusion which responsibilities require new skills. Expertise in delivering digital financial services is enhanced through partnerships with fintech companies and having board members with the relevant skills. However, given the numerous risks involved in providing digital financial services which IFC (2018) outline as strategic risk, regulatory risk, operational risk, technology risk, partnership risk, among others, the relationships between fintech, financial inclusion and corporate governance remain are unexplored research avenues.

In the literature, several failures in MFI governance have been reported. Marulanda et al. (2010) narrates several MFI failures in Latin America occasioned by poor governance. They observe that in the face of crisis, the main differentiating factor between those MFIs that overcome difficulties and those that do not is corporate governance structures. They identify the main weaknesses of corporate governance from failed experiences as stemming from concentration of power in a single person and weaknesses of boards. In contrast, Afi (2010) which investigated the link between corporate governance and access to finance of the World Savings Banking Institute members with a financial inclusion mandate found some interesting results. First, they found some evidence of a positive relationship between sound corporate governance and financial inclusion despite the limited data they examined. Second, they found that the components of corporate governance that contribute most to higher financial inclusion, which should be place, are the following:

- The mission statement with a clear reference to the access to finance mandate;
- Separation between CEO and Chairperson;
- Existence of an external audit, an internal corporate governance code and/or a rating from an external agency; and
- A proportion of women in the Board (gender diversity).

Third, regarding country-level components, they found that the existence of quality credit registries with wider coverage facilitates more to financial inclusion.

In another dimension Uchenna et al. (2020) investigated the impact of corporate governance on financial sustainability of MFIs in Nigeria and found no significant relationship between corporate governance mechanisms (board independence, gender diversity) and financial sustainability. Another study by Ssekiziyivu et al. (2018) on how MFIs practice corporate governance in Uganda showed that while they have boards, they are not effective, and neither do they have fully constituted board committees. Similarly, a study by Widyatini (2019) that investigated the link between financial inclusion and corporate governance in Indonesia found that the implementation good corporate governance had a positive effect on credit supply, another dimension of financial inclusion akin to access to savings observed by Afi (2010). Furthermore, focusing on developing economies and MFIs operating at the BOP, Chakrabarty & Bass (2014) found that boards, which have more socio-economic expertise and female representation, are better placed to lower operating costs of MFIs.

Concluding Remarks

The paper provides an exploratory literature study on the link between corporate governance and financial inclusion. It has provided the institutional environment of microfinance institutions whose mandate is financial inclusion. It further gives a discussion of corporate governance theories as they apply to financial institutions including those with a mandate of financial inclusion.

An important observation from the literature is that the institutional environment influences corporate governance structures. The empirical evidence albeit scant shows a positive relationship between sound

corporate governance and financial inclusion. However, it is acknowledged that corporate governance of financial inclusion institutions and their institutional environments have not been extensively researched.

Being an exploratory literature review, the scope of the paper is limited and is only intended to stimulate future research on the subject matter. Envisaged future research would ordinarily be empirical studies examining the nexus between financial inclusion (distinguished by its various dimensions) and corporate governance as well as determinants of corporate governance in financial inclusion institutions such as MFIs and savings groups.

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