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BENCHMARK – BASED REVIEW AS A STRATEGY FOR MICROFINANCE DELIVERY

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ABSTRACT
Microfinance is one of the development tools for poverty reduction. The traditional supply-led subsidized credit delivery has led to increase in credit disbursements. However, there is shortage of model benchmark and indicators for evaluating and comparing performance of microfinance schemes. This study reviewed the monitoring strategy of the Micro Finance Policy Regulatory and Supervisory Framework and highlighted the acute absence of benchmarks and indicators for measurement of performance. Data were gathered from secondary sources. Analysis was by simple descriptive statistics. Recommendations were made for effective benchmark-based periodic review of the performance of micro-credit institutions.

INTRODUCTION
It is widely accepted that microfinance is one of the powerful development tools with which to alleviate poverty (Hadiza, 2006). This objective is achieved through the provision of timely, affordable, available, accessible and dependable financial services to the economically active poor and low income households. However, in the execution of the laudable microfinance schemes, there is shortage of model benchmarks and indicators for evaluating and comparing performance. Consequently, state level performance is not sufficiently evidence-based but are largely unsystematic, poorly targeted and not sustained (AIAE 2007).

This study is designed to investigate the monitoring strategy of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria with a view to determining how it lends itself to benchmark based-peer review for evaluating and comparing performance. This will help inform and improve microfinance delivery activities in Nigeria. The rest of the paper is organized into the following headings: sources and operation of microfinance; performance indicators; benchmark; methodology; review and discussion on monitoring strategies of the microfinance policy, regulatory and supervisory framework. The paper is concluded with recommendations.

Sources and Operation of Microfinance
There are two broad sources of microfinance namely the formal and the informal. Those in the formal category include the financial institutions that come under the regulatory and supervisory guidelines of the government. The informal sources are not legally obligated to such guidelines.

The formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services (Haruna, 2007). This majority (65%) is served by the informal finance sector.

The concept and operation of microfinance date back to history. In Kano, for instance, it dates back to the Trans Saharan trade some 300 years ago (Bashir, 2006). In modern Nigeria, in an effort to encourage food production the agricultural credit policy has been introduced. One of the features of the agricultural credit policy of the early 70s is the Agricultural Credit Guarantee Scheme Fund. This was established in 1977 to share in the risk of banks in agricultural lending and hence encourage them to continue to extend credit to agriculture (CBN, 2005b).

In line with the current global, continental, regional, national and local emphasis on poverty alleviation, the Central Bank of Nigeria (CBN) views the microfinance sub-sector as a strategic priority (Lemo, 2007). The Central Bank of Nigeria sees the sub sector as critical in achieving the Millennium Development Goals (MDGs), the successful implementation of the National Development Economic Empowerment and Development Strategy (NEEDS), job creation and poverty reduction. Hence, the Microfinance Policy Regulatory and Supervisory Framework was launched in 2005.

The ongoing economic reforms in Nigeria emphasize microfinance as important in the economic empowerment of the people (AIAE, 2005). As a result some micro finance schemes are now in operation in Nigeria. Examples include the N50 billion agricultural loan facility of the Federal Government which requires N200million counterpart fund for the state Governments to access it, the Small and Medium Enterprises Equity Investment Scheme introduced in 2001 to provide equity investment and loan to small and medium enterprises (CBN, 2008) and the Micro Credit Fund (MCF) set up by the Bankers Committee. Government sponsored microfinance services have adopted the traditional supply-led, subsidized credit delivery. This mainly focuses on the agricultural and the non-farm sectors (CBN, 2005a).

Performance Indicators

When it has to do with lending to poorer clients, two performance indicators have been developed namely sustainability and outreach (Christen *et. al*., 1995, Yaron, 1992). Sustainability refers to the financial self-sufficiency or the ability of the financial institution to provide durable services without reliance on external subsidies (Klien *et. al*, 1999). Outreach refers to the extent in which a financial institution provides high quality financial services to a large number of small clients. It assesses the extent to which a financial institution meets the effective demand for financial services of the target clientele.

Effective monitoring of the performance is enhanced by a process of periodic reviews of the policies and practices of the microfinance institutions to ascertain progress made or being made towards achieving the hallowed goals of outreach and sustainability. This is where benchmarks and peer reviews become relevant and pertinent.

Benchmark

A benchmark is a standard or a set of standards by which something can be measured or judged (Answers.com). It is a standard against which the performance of a good or service is measured. In terms of microfinance delivery, benchmark can be construed as a set of standards by which the performance of microfinance institutions can be measured. As a performance index, benchmark serves as the yardstick by which all other similar institutions can be measured or compared.

On its own part, peer review is a documented critical appraisal of a specific agency's scientific and or technical work or product (USEPA, 2006). It is a self-monitoring tool aimed at fostering the adoption of policies, standards and practices and leads to comparisons (APRM, 2006). Peer review is conducted to ensure that activities are technically supportable, competently performed, properly documented and consistent with established quality criteria. The established quality criteria are otherwise known as benchmarks.

Peer reviews compare performance against appropriate benchmarks. They are systematic to the extent that they methodologically map out the available evidence, critically appraise same in relation to the established criteria and eventually synthesizing the results. Peer reviews are inherently transparent, methodologically rigorous and empirically replicable. They are undertaken by qualified individuals or organizations who are independent of those who carried out the work and who are collectively equivalent (i.e. peers) to those who originally did the work.

This paper is therefore aimed at discussing the monitoring strategies of the Microfinance Policy Regulatory Supervision Framework for Nigeria. It also highlights the absence of benchmark based reviews for measuring performance.

METHODOLOGY

The study drew on relevant secondary data on Nigeria microfinance institutions. Sources of such data include the CBN publications and reports, African Institute for Applied Economics publications and reports. Data was analysed using simple descriptive statistics.

Monitoring Strategies of The Microfinance Policy, Regulatory and Supervisory Framework

The Microfinance Policy Frame-work is designed to facilitate the provision of diversified microfinance services on a long term sustainable basis for the resource–poor and low income groups. One of the aims of the policy is to bring microfinance activities under the regulatory purview of the Central Bank of Nigeria.

The policy strategies are:

- license and regulate the establishment of Microfinance Banks (MFBs);
- promote the establishment of NGO-based microfinance institutions;

- promote the participation of government in the microfinance industry by encouraging states and local government to devote at least one percent of their annual budget to micro credit initiatives administered through Microfinance Banks (MFBs).
- promote the establishment of institutions that support the development and growth of microfinance service providers and clients;
- strengthen the regulatory and supervisory framework for MFBs;
- promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;
- mobilize domestic savings and promote the banking culture among low income groups;
- strengthen the capital base of the existing microfinance institutions;
- broaden the scope of activities of microfinance institutions;
- strengthen the skills of regulators operators and beneficiaries of microfinance initiatives;
- clearly defend stakeholder roles in the development of the micro financing subsector; and
- collaborate with donors, coordinate and monitor donors assistance in microfinance in line with the provision of this policy.

These policy strategies are sufficiently deficient on benchmarks and peer review mechanisms for performance evaluation. For instance, with respect to the licensing of microfinance banks as a policy strategy, numerical targets and spread within relevant jurisdictions should be clearly set out in a logical framework. Furthermore, benchmarks and peer reviews will draw the needed attention to the obvious breech of the strategy that requires states and local governments to devote at least one percent of their annual budgets to micro credit initiatives administered through microfinance banks. As a federation, Nigeria business environment stakeholders need sustainable capacity in enhancing competitive peer review and indicators for comparison across constituent states (AIAE, 2007)

The framework for the supervision of microfinance banks provides for among, other things, the establishment of a National Microfinance Consultative Committee, Rating Agency and Apex Association of Microfinance Institutions. A National Microfinance Consultative Committee, constituted by the CBN, is to provide direction for t he implementation and monitoring of the policy. With respect to the Rating Agency the CBN shall encourage the establishment of private rating agencies to rate microfinance institutions, especially those NGO-MFIs which intend to transform to microfinance banks. The establishment of Apex Association of Microfinance Institutions is aimed at promoting uniform standards, transparency and corporate practices and full disclosures in the conduct of business.

The activities of these supervisory bodies, to state the least, are thin on the ground. It is also not clear whether or not their mandate specifically covers peer reviews and provision of relevant information for comparison on performance across constituent states.
The success of microfinance service greatly depends on the availability of relevant information (Nigerian Quarterly Microfinance Newsletter, 2006). According to Robinson (2001), lack of reliable information is the main reason for most of the unmet demand for formal sector

commercial microfinance. Relevant and reliable information system assist financial institutions to make sound decisions and also overcome or minimize the risk posed by information asymmetry, moral hazards and adverse selection. It also enables both the financial institution and the stake holders to assess performance on outreach to the core poor, spread to the critical segments of the society especially women and youths and on sustainability. Furthermore, it provides the basis for comparison and competitiveness.

CONCLUSION AND RECOMMENDATIONS

This study focused on benchmark-based periodic reviews as a strategy for effective microfinance delivery. The Microfinance Policy Framework is designed to ease the provision of microfinance services on a long term sustainable basis to resource poor low income groups. The policy strategies as enunciated are without benchmarks and review mechanisms for performance evaluation.

For effective out-reach and sustainability together with encouraging competitiveness and enhancing comparison of performance across constituent states in microfinance delivery the following recommendations are made.

(a) The operators should develop benchmarks based on outreach and sustainability with which performance can be observably measured.

(b) Periodic self-assessment should be institutionalized and operationalized in the microfinance delivery mechanism. This will not only provide the needed information for success and competitiveness but also facilitate comparison among constituent states.

(c) The framework providing for the establishment of private rating agency should be operationalized. This will further promote transparency and good governance in microfinance institutions and in the delivery mechanism.

(d) Micro finance institutions should periodically, preferably annually, marshal out their tasks and targets which will eventually serve as performance indicators and eventual peer reviews.

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