EVALUATING THE PERFORMANCE OF THE MICROFINANCE SUB – SECTOR OF THE NIGERIAN ECONOMY

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ABSTRACT

The paper evaluates the performance of the microfinance sub-sector of the Nigerian economy. Using Lift above Poverty Organization (LAPO) as a case study, this paper settles for the outreach and sustainability criteria for evaluating the performance of microfinance institutions (MFIs). LAPO is one of the MFIs in Nigeria that has sufficiently addressed some of the practical challenges facing micro financing. In spite of the challenges of high operation costs, loan repayment problem, inadequate experienced credit staff, inadequate refinancing facilities, client apathy and drop-out, internal control and so on facing most micro finance institutions in Nigeria, it was found that LAPO has been performing fairly well. This derives from the good performance of the outreach and sustainability indicators used. It was recommended that the formation of cooperatives should be encouraged so that a number of beneficiaries that are engaged in similar businesses could collectively enjoy the micro finance services and hence reduce operating costs as well as reduce the likelihood for borrowers to default. There is also the need to establish more microfinance institutions in rural areas so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth.

Keywords*: LAPO, microfinance, micro credit, micro enterprise, micro finance sub-sector and outreach.*

Introduction:

Microcredit is the newest darling of the aid community. In Latin America, most of the excitement is based on the fame of a few of the best microfinance organizations. These include BancoSol, Caja Los Andes, PRODEM, FIE, and Sartawi in Bolivia; Caja Social in Colombia; ADEMI in the Dominican Republic; Financiera Calpiá in El Salvador; Compartamos in México; and ACP/MiBanco in Perú. Worldwide, the best-known microfinance organizations are the Grameen Bank of Bangladesh and the *unit desa* system of Bank Rakyat Indonesia (Yaron, Benjamin, and Piprek, 1997). Grameen and BRI reach millions of depositors and borrowers, and many if not most are poor women. A survey of 200 of the thousands of microfinance organizations worldwide found 13 million loans worth $7 billion outstanding as of September 1995 (Paxton, 1996).

There are many dimensions to the issue of micro-financing in Nigeria. Meyer (2002) harps on household participation in micro credit scheme, Kpakol (2005) analyses the role of microfinance in poverty reduction, Kimotha (2005) stresses on the expected impact of microfinance policy framework, Ehigiamusoe (2005) focuses on institutional practice for efficient microfinance service delivery while Okonjo-Iweala (2005) addresses government role in microfinance development. In contrast to the large volume of theoretical research on credit markets, the empirical literature on the microfinance sub-sector of the Nigerian economy is surprisingly scare. This situation is partly due to lack of reliable data on micro borrowing and lending in developing countries. This paper attempts to fill the gaps that still exist by trying to evaluate the performance of micro-finance sub-sector of the Nigerian economy.

The level of capital formation in developing economies is rather low thereby constraining the flow of funds from the surplus units to the deficit units at affordable interest rate and at conditions that will not send the borrowers away. Even where it is possible to access funds from the formal financial institutions, it has always been difficult to meet the lending conditions (collaterals) and high interest rate that frustrate repayments.

From the foregoing, the overall objective of this paper is to evaluate the performance of the microfinance sub-sector of the Nigerian economy. Specifically, the objectives are to:

a. Examine the role of micro financing in economic growth in Nigeria.
b. Evaluate the performance of Lift above Poverty Organisation (LAPO) as microfinance in terms of outreach and sustainability criteria.
c. Examine the existing microfinance policy and recommend policies that would facilitate the linkage of informal, semi formal and formal financial services providers to micro and small scale rural entrepreneurs.

The paper is justified on the following grounds: Firstly is the fact that after the consolidation process in Nigeria the access to banks' loan has still been out of reach to the common man in the society because he could not meet the requirements for borrowing loans from the big banks. An analysis of the performance of the microfinance sub-sector will give a clear picture of how far the common man is getting access to micro loans.

Secondly since the formal financial institutions are unable to provide financial services and intermediation to both the rural and urban poor coupled with the non sustainability of government sponsored development schemes, there is the need to induce the growth of private sector–led micro finance in Nigeria.

Thirdly in Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to such financial services. Also the domestic market in Nigeria is large with over 120 million people in need of various goods and services. Therefore the importance of microfinance and its promotion especially in developing countries is underscored by the fact that the poor and impoverished in many of these countries who would have produced these goods and services do not have access to credit from formal financial institutions (such as banks and finance houses). The need for equity of access to finance provides a good and compelling reason more so as such will help in uplifting the living conditions of poor people (Hulme and Mosley, 1996; Wood, 1997; Johnson and Rogaly, 1997; Mckerman, 2002 and Onwumere, 2003 and 2007).

Fourthly large volumes of financial transactions are carried out by micro finance institutions with little or no publicity around them. Their operations are not explicitly captured in official statistics and their activities are hardly reported by the mass media, yet their transactions impact greatly on a large section of the population especially the rural and urban poor. Closely related to this is that the regulation of the activities of some of these institutions will help to promote monetary stability and sound financial system.

The continuous lay off of labour from both the public and private sectors since the introduction of the structural adjustment programme in 1986 and the growing number of graduates from schools and colleges is pushing a large proportion of the population into informal sector activities and a form of micro financing is needed by this category of people.

Conceptual Definition of Terms:

This section of the paper takes a look at the definitions of some terms used in the course of writing. For the purpose of clarity, the following terms and definitions shall be used in the applicable sections.

CGAP means Consultative Group to Assist the Poorest

Microfinance:

Microfinance can be defined as the provision of very small loans that are repaid within short periods of time and are essentially used by low income individuals and households who have few assets that can be used as collateral (Ukeje, 2005). Micro finance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Microfinance involves the provision of a broad range of financial services such as savings, loans, insurance, transfer of services, money transfer and insurance to the poor and low income households and their micro enterprises.

Micro Finance Client:

According to the Central Bank of Nigeria (2005), a micro finance client is the poor who possesses the following features:-

- His monthly income is not more than twice the monthly per capita income of Nigeria or minimum wage, whichever is higher;
- His total productive assets are not more than N500,000 (Five hundred thousand naira). The assets include loans and exclude the cost of land;
- He is not a regular employee of any organization;
- He is aged between 18 and 60 years.

Destitutes are not traditional micro credit clients because they lack stable cash flows to repay loans. However, most of the micro–credit institutions and agencies all over the world focus on women in developing countries. There are many reasons why women have become the primary target for microfinance services. Experience shows that women are a small credit risk repaying their loans and tend more often to benefit the whole family. Women are in most cases responsible for children and when in poor conditions it results in physical and social underdevelopment of their children. Seventy per cent of the world's poor are women and they have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services.

Poor Person:

A poor person refers to one with a meager means of sustenance or livelihood and total income during a year less than the minimum taxable limit set out in the law relating to income tax (CBN, 2005). Poor people are the unemployed or entrepreneurs or farmers who are not bankable because they lack the collateral for loan, steady employment, income and a verifiable credit history. Because of these reasons they cannot even meet the minimal qualifications for an ordinary credit.

Micro Enterprise:

A micro enterprise is that enterprise which requires micro loans to operate; its management and operations revolve around the sole owner. Its scope of activities includes primary production and craft, value added processing and distributive trade and the micro entrepreneurs work informally without business licenses. Enterprises in trading, farming, tools hiring, food catering are also implied.

Micro loan/Micro credit:

According to CBN (2005) micro–loan or micro–credit is defined as having the following features:
It is a facility granted to an individual borrower or a group of borrowers having principal source of income derived from business activities involving the production or sale of goods and services.
Maximum principal amount shall not exceed N500,000 (this is subject to review by CBN from time to time).
The loan is to be granted to such operators of micro enterprises as peasant farmers, artisans, fishermen, rural women, senior citizens, salaried and non-salaried workers.
Loan granted are unsecured.
The tenure of the loan is 3 month or 12 months for crops with long gestation periods.
Joint and several guarantees may be required and repayment may be structured daily, weekly, bi-monthly or monthly basis depending on the amortization schedule in the loan contract (CBN, 2005).

Microfinance Bank:

A microfinance bank (MFB) unless otherwise stated, shall be construed to mean any company licensed to carry on the business of providing microfinance services such as savings, loans, domestic fund transfers and other financial services that economically active poor, micro–enterprises and small and medium enterprises need to conduct or expand their businesses.

A Theoretical Framework for Outreach:

Judgements of the performance of microfinance organizations have been based on the concepts of outreach and sustainability (Yaron, 1994). Here, we express outreach and sustainability in terms of the theory of social welfare. The purpose is to reconcile the jargon of microcredit with the standard tools of project analysis. Outreach is the social value of the output of a microfinance organization in terms of depth, worth to users, cost to users, breadth, length, and scope.1 Outreach is commonly proxied by the sex or poverty of borrowers, the size or the terms of loan contracts, the price and transaction costs borne by users, the number of users, the financial and organizational strength of the lender, and the number of products offered, including deposits.
Sustainability is permanence. The social goal is not to have sustainable microfinance organizations but rather to maximize expected social value less social cost discounted through time. In principle, sustainability is neither necessary nor sufficient for social optimality. In practice, however, sustainable organizations tend to improve welfare the most. Most unsustainable microfinance organizations inflict costs on the poor in the future in excess of the gains enjoyed by the poor now. Sustainability is not an end in itself but rather a means to the end of improved social welfare (Rhyne, 1998).
Thus outreach stands for the social value of loans from a microfinance organization, and sustainability helps to maximize expected social value less social cost discounted through time, including the net gain of users from loans and deposits, the profits or losses of the microfinance organization, and the social opportunity cost of the resources used. Sustainability affects outreach since permanency tends to lead to structures of incentives and constraints that prompt all the groups of stakeholders in a lender to act in ways that increase the difference between social value and social cost. In principle, a complete evaluation would use cost-benefit analysis or cost effectiveness analysis to compare social value with social cost in general equilibrium. In practice, it is so expensive to measure social value and social cost that almost all talk proceeds in terms of outreach and sustainability in partial equilibrium. From the foregoing come the six aspects of outreach which are discussed below. The six aspects of outreach are the depth, worth to users, cost to users, breadth, length and scope of outreach. Each of these can now be explained in turn.
The depth of outreach is the value that society attaches to the net gain from the use of microcredit by a given borrower. Since society places more weight on the poor than on the rich, poverty is a good proxy for depth. For example, society likely values the net gain from a small loan for a street kid or for a widow more than the same gains for a richer person. Deeper outreach usually increases not only social value but also social cost. As income and wealth decrease, it costs more for a lender to judge the risk of a loan. This happens since, compared with the rich, the poor are more heterogeneous and less able to signal their ability and willingness to repay (Conning, 1999). Fixed costs also matter more for the poor since their loans are shorter and smaller and have more frequent installments, renewals, and disbursements. Deeper outreach increases only social value and not social cost when a lender finds better ways to judge risk at a cost less than the savings from the better judgment. Such progress increases *access*, the ability and willingness to borrow and to repay at a price that covers the long-run cost of an efficient producer. Access is the nexus of creditworthiness—demand based on ability and willingness to repay—and the lending technology—supply based on an efficient way to judge creditworthiness. More access is progress since loans depend more on the creditworthiness of the borrower and less on the constraints of the lender to judge creditworthiness. For example, a lender that does not need physical collateral to judge creditworthiness could serve poorer users and thus have deeper outreach, all else constant, than a lender that requires physical collateral.
The worth of outreach to users is how much a borrower is willing to pay for a loan. Worth depends on the loan contract and on the tastes, constraints, and opportunities of the user. With the cost to the user constant, more worth means more net gain.
The cost of outreach to users is the cost of a loan to a borrower. This is distinct from the cost of a loan to society or from the cost of a loan to a lender. Cost to users

includes both price and transaction costs. Price includes interest and fees. Prices paid by the user are revenues for the lender. Transaction costs are non-price costs. They include both noncash opportunity costs—such as the value of the time to get and to repay a loan—and loan-related cash expenses such as transport, documents, food, and taxes. Transaction costs borne by the user are not revenues for the lender. The three aspects of depth, worth to users, and cost to users are tightly linked but still distinct. Net gain is the difference between worth to a user and cost to a user. It is the highest cost that the borrower would agree to bear to get the loan, less the cost that the borrower does in fact bear. In turn, depth of outreach reflects the social value attached to the net gain of a specific person. For example, $100 of net gain for a poor person may be worth more to society than $500 of net gain for a rich person. Costs to users can be measured as the present value of the cash flows and transaction costs associated with a loan. Worth to users is more difficult to measure. Still, the relative worth of two or more loan contracts can be compared through their costs. If a borrower has alternative sources of loans, then net gain can be measured as the cost savings of a switch to a microfinance lender.

The breadth of outreach is the number of users. Breadth matters since the poor are many but the aid dollars are few.

The length of outreach is the time frame in which a microfinance organization produces loans. Length matters since society cares about the welfare of the poor both now and in the future. Without length of outreach, a microfinance organization may improve social welfare in the short term but wreck its ability to do so in the long term. In theory, a perpetual source of support can allow a microfinance organization to achieve length of outreach without sustainability (Morduch, 1998a; Woller, Dunford, and Woodworth, 1998). In principle, such an organization could live a long time. In practice, however, longer outreach through sustainability usually strengthens the structures of incentives that serve to maximize expected social value less social costs discounted through time. Without length, borrowers have few selfish reasons to repay since the lender cannot promise to lend again in the future. Loan losses shorten length of outreach in a downward spiral. Likewise, lack of profits prompts employees to strip the lender bare and to bask in perks before the chance is gone.

The scope of outreach is the number of types of financial contracts offered by a microfinance organization. In practice, the microfinance organizations with the best outreach produce both small loans and small deposits. Deposits matter for two reasons. First, all poor people are depositworthy and save to smooth consumption, to finance investment, and to buffer risk. In contrast, not all poor people are creditworthy. Second, deposits strengthen the incentives for sustainability and length of outreach. Depositors shun microfinance organizations if they do not expect them to live to return their deposits. To attract and to keep deposits, a microfinance organization must please not donors and government but rather users and regulators.

Trade-offs and feedback among the six aspects:

Depth is the social value of worth to users less cost to users. Breadth counts users, length counts years of service, and scope counts types of contracts. These six aspects of outreach are useful because direct measures of the social value of microfinance are expensive. Outreach is worth minus cost, weighted by depth, summed across breadth of users and scope of contracts, and discounted through length of time. Social welfare depends on depth, worth, cost, breadth, length, and scope, but the greatest of these is length. In particular, more length in the short term requires more profit. This means higher prices, more cost to users, and less net gain per user. In the long term, however, the trade-off may vanish if the push for length leads to innovations in technology and organization that increase profits and/or increase worth to users without parallel increases in social cost or in cost to users. Increased length feeds back to decrease social cost because length gives users more selfish reasons to repay. More scope also increases worth to users and strengthens the incentives that boost length. The debate over the social value of sustainability hinges on the effect of length. Microfinance organizations that do not aim for sustainability believe that the short-term increase in net gain caused by low prices swamps the effects of reduced length from low profits. Lenders that aim for sustainability believe the converse. The rest of this paper looks at evidence of depth of outreach for five microfinance organizations in Bolivia. Even if society cares only for the poorest, however, the theoretical framework highlights that social welfare depends on more than just depth. Breadth affects the number of the poorest served, and cost and worth to users affect the net gain. The poorest can use not only loans but also deposits, not only now but also in the future.

An Overview of Microfinance Activities And Initiatives In Nigeria:

The professed goal of public support for microcredit is to improve the welfare of poor households through better access to small loans. Often public funds for microfinance organizations carry a mandate to serve the poorest (Consultative Group to Assist the Poorest, 1995). For example, the Microcredit Summit in February 1997 rallied support to seek more than $20 billion to provide microcredit to 100 million of the poorest households in the next ten years (Results International, 1996).

Although microcredit has claimed more and more of the aid budget, it may not always be the best way to help the poorest (Buckley, 1997; Rogaly, 1996). The fervor for microcredit may siphon funds from other projects that might help the poor more. Governments and donors should know whether the poor gain more from more small loans than from, for example, more health care, food aid, or cash gifts. Is public support for microcredit wasted or worthwhile? No one knows. Most measures of the impact of microfinance organization fail to control for what would have happened in their absence (Sebstad, Barnes, and

Chen, 1995; Von Pischke and Adams,1980). If users borrow more than once, then they must get benefits. The question, however, is not whether microfinance is better than nothing for their users. The question is whether microfinance is better than some other development project for the poor as a whole. We construct a theoretical framework for rigorous thought about the social worth of the output of a microfinance organization. The framework puts the standard theory of project analysis in terms of the jargon of microcredit. By defining precisely the social worth of service to the poorest, the framework helps to judge the trade-offs between service to the poorest and service to others. The goal is to render more explicit the judgements used to allot public funds.

The importance of microfinance to entrepreneurial development made the Central Bank of Nigeria to adopt it as the main source of financing entrepreneurship in Nigeria. Despite this, however, finance is still considered as one of the major hindrances to entrepreneurial development in Nigeria (Ubom, 2003).

Akinola (2008) suggests that microfinance as a policy is aimed at facilitating loans to enable young school leavers to become shop owners through self–employment. According to Musoke (2008) the benefits through microfinance banks to sustainable microfinance development would foster the occupation of unemployed graduates in some micro enterprises, know the areas of competence in order to achieve success.

Ehigiamusoe (2008) says the fact of the financial landscape today in developing countries is the emergence of micro financing or micro finance bank, if ever there is any phrase as the latter.

Credits to micro enterprises are assuming importance in rural areas in response to the need of the less privileged entrepreneurs with limited capital base. In Nigeria access to formal credit is a major problem facing the small and medium scale entrepreneurs due to the prevalence of some factors such as delays in loan disbursement on the part of the financial institutions and payment defaults on the part of the beneficiaries (Olajide, 1980).

Olajide (1980) further identifies two sources of credits for entrepreneurs and classified them as internal and external. While the internal funds arise from net flow as a result of entrepreneurial activities, the external funds arise from loans extended by micro finance providers, and equity introduced by new proprietors. Rural enterprise requires capital which is believed to be provided by microfinance providers, as financing to micro enterprise are universal not only in rural areas but even in urban areas. Credit to small and medium enterprises has been an important instrument in fostering the development of industrialization and improving the efficiency of the enterprise as well as expanding productivity.

Apart from the peculiar problems that face microfinance institutions themselves, there is always the problem of lack of skills which poverty alleviation in particular and rural development efforts generally have faced in the country. It is true that clients of MFIs are usually ill-equipped in terms of education and management skills. Olaitan (2001) opines that poverty in rural communities can be traced to two factors: low productivity and ignorance. Productivity in agriculture, technical trade, commerce and local craft is low because rural people employ traditional methods in production process. Improved productive capacity requires that these rural people be equipped with skill and abilities which would enable them make effective use of modern techniques and technologies in their work roles. Not only the productive and business skill; they also lack necessary record keeping, planning and other basic management techniques; they are not versed in the art of feasibility study and market survey (Ehigainmusoe, 2006b).

The experiences in Bangladesh, Egypt and Kenya are very good examples, in which banks have done much to fund MFIs and micro enterprises. Also, in Indonesia, the world's fourth largest country, a single micro banking institution, Bank Rakyat Indonesia, serves about one third of the country's households through her micro banking system (Charistenenko, 2004).

Microfinance is not new in Nigeria. Historically, the practice of microfinance in Nigeria is culturally rooted and dates back to several centuries. Over the years the traditional microfinance institutions in Nigeria have provided access to credit for the rural and urban, low-income earners. They are mainly the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collector and cooperative societies (CBN Brief, 2005a).

Informal microfinance is provided by traditional groups that work together for the mutual benefits of their members. These groups provide savings and credit services to their members. The informal microfinance arrangements operate under different names: *esusu* among the Yorubas of Western Nigeria, *itutu* for the Igbos in the East and *adashi* in the North for the Hausas (CBN, 2000). The key features of these informal schemes are savings and credit components, informality of operations and higher interest rates in relation to the formal banking sector. Other terminologies have been found to refer to these traditional systems not only in the three major ethnic groups but in all other parts of the country. The informal associations that operate traditional microfinance in various forms are found in all the rural communities in Nigeria (Otu, *et al*, 2003). They also operate in the urban centres. However, the size of activities covered under the scheme has not been determined.

Apart from the informal institutions which are pervasive, but have limited outreach due primarily to paucity of loanable funds (CBN, 2005) there are, also the semi formal and formal institutions as have been conceptualized above. The operations of semi formal microfinance institutions in Nigeria are relatively new, as most of them were registered after 1981 and most of them operated as non-governmental organizations.

Until 1990 when the community-banking scheme was inaugurated, the government had relied much on direct intervention measures or government finance institution as the medium to solving microfinance problems. The direct intervention measures are usually based on a top-down or trickle-down non-profit-oriented approach. Notable among the programmes in this category were the development finance institutions (DFIs).

Between 1964 and 1977, various development finance institutions were established including the Nigerian Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI), Nigerian Agricultural and Cooperative Bank (NACB) and Federal Mortgage Bank of Nigeria (FMBN) (Anyanwu, 2004).

The Central Bank of Nigeria survey (2001) indicated that the operations of formal microfinance institutions in Nigeria are relatively new. The 10 MFIs analyzed in that survey were also registered from 1982 as non-governmental organizations (NGOs). They operate in both urban and rural areas except for three institutions that operate exclusively in the rural areas.

In order to enhance the flow of financial services to Nigeria's rural areas the Federal Government of Nigeria has at various times initiated a series of publicly-financed micro/rural credit programmes and policies targeted at the poor. Notable among such programmes were the Agricultural Development Programmes (ADP), Rural Banking Schemes, National Economic Reconstruction Fund, National Directorate of Employment (NDE), Directorate of Food, Roads and Rural Infrastructure (DFRRI), Better life for Rural Women, Family Economic Advancement Programme (FEAP), National Poverty Eradication Programme (NAPEP), Nigerian Investment Promotion Council (NIPC), and Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

Other efforts include special Presidential Initiatives on cassava and rice, the merger of the Peoples' Bank, FEAP and Nigerian Agricultural Cooperative Bank (NACB) to form the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in 2000 aimed at enhancing the provision of finance to the agricultural sector, the recapitalization of the Agricultural Credit Guarantee Scheme Fund (ACGSF) in 1999 and 2000, the establishment of the Bank of Industry (BOI) in 2000 and the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) which is an initiative of the Bankers' Committee.

To increase public access to micro finance the Central Bank of Nigeria embarked on a detailed thirteen–point reform agenda in July 2004. The major thrust of the plan was that all banks should increase their capital base to N25 billion within 18 months and also consolidate their operation through mergers and acquisitions before December 31st, 2005 (CBN, 2004). Banks not able to meet the minimum capital base at the stipulated time frame were given the option if they so wish to apply for license to operate as micro finance banks to fully help complement the emergent and already existing micro finance institutions operating in both the formal and informal sectors of the Nigerian economy.

The Role of Micro Financing In Economic Growth:

Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them to engage in economic activities and be more self reliant, increase employment opportunities, enhance household income and create wealth (CBN, 2005a).

The promotion of microfinance activities is an indirect approach to the provision of employment to a large number of people who are unemployed in the rural and urban areas in Nigeria. Small and medium enterprises development is encouraged with great attraction for self employment. By promoting microfinance institutions (MFIs) governments are inadvertently advancing the cause of education. Many people especially the poor in developing countries who are educationally challenged find pride of place in training their wards educationally. The role of microfinance if women are more empowered than men is that repayment will be more assumed. It has become accepted that the repayment rate of microfinance facilities by women is significant (ranging between 80% to 90% and even 100% in most cases). Getting women have access to such finances will not only improve their incomes, but will also give them more active roles in family decisions, encourage their economic/financial self reliance and give them political viability. By improving the level of incomes accruing to the poor the overall demand for goods in the economy will be increased, promoting economic growth while their health problems could be taken care of significantly unimpaired. One of the most compelling reasons for promoting MFIs is the mobilization of savings especially from the informal sector. This is very important to the MFIs as funds must always be available for recycling for them to remain relevant and in business too. Only few researchers have attempted to analyze the determinants of household access to credit particularly rural households. Since the objective of microfinance is to allow the poor and low income people to have access to credit, higher rate of participation ought to be observed. But a contrast exists between the expectation and the realization of the objective, leading to lower rate of credit participation. Most studies analyze this as credit rationing and they study the household's behavior under this situation. Some authors give as explanation that the credit products do not meet the demand for credit by household (Meyer, 2002). In our point of view they do not take into account the presence of social networks and the cultural environment of potential borrowers. The outcome of this study could help policy makers in the reformulation of credit police. Microfinance managers will know key variables influencing the demand for loan and those explaining observed preference.

Methodology:

LAPO was chosen for the performance evaluation because of the availability of data for the study. Besides the data gathered from primary sources, LAPO official documents (i. e. LAPO Bulletin) were of vital use for the evaluation. LAPO was specifically chosen for the performance evaluation of microfinance because it is the largest serving microfinance institution in Nigeria. Of the two major criteria (outreach and sustainability) suggested by CGAP (2004) and Yaron (1997) for evaluating the performance of MFIs the two criteria were adopted. Youssoufou's (2002) outreach performance measures used are changes in number of clients, the percentage of female clients, total value of assets, amount of savings on deposit, value of outstanding loan portfolio, average savings deposit size, average credit size and number of branches. The sustainability indicators used are rate of recovery, portfolio at risk, operating self sufficiency and financial self sufficiency. In order to accomplish a meaningful performance evaluation, trend performance indicator table was presented. Also a table was used to present the regional spread of LAPO services in Nigeria.

Evaluating The Performance of Lapo In Nigeria:

The table that is presented in this section (Table1) is a table of performance indicators of the largest serving microfinance institution in Nigeria, LAPO. The period covered by the evaluation as the table shows is the pre and post launching of microfinance policy in Nigeria.

In order to accomplish a proper evaluation of the performance of LAPO, the table is divided into nine columns and sixteen rows. The items in the first 13 rows are presented to explain the performance of LAPO in terms of outreach criterion while the last four items are presented to explain the sustainability criterion. For instance, the number of states covered by LAPO services increased from 4 to 5 between 2001 and 2002 and remained at 5 in 2003 but rose in an arithmetic progression from 2003 to 2006. The figure that stood at 8 in 2007 increased by 7 to 15 in 2008. In terms of the number of local governments covered the figure stood at 23 in 2001. This figure increased to 77 in 2005, then 135 in 2007 and 238 of the 774 local government areas in Nigeria. The number of communities served by LAPO increased significantly from 44 in 2001 to 2,032 in 2008. The number of active savers/client rose from 17,578 in 2001 to 245,144 in 2008. The total value of savings of ₦43,120,090 in 2001 to ₦2,124,363,295 in 2008. Apart from 2001 and 2002 when the percentage of female clients was 95, the figure remained stable at 98% between 2003 and 2008. The total value of loan outstanding rose steadily from ₦72,465,319 in 2001 to ₦3,257,974,453 in 2008.

The sustainability criterion for LAPO exhibited fluctuating trend during the period covered by the analysis. For instance, the rate of loan recovery that stood at 84.28% in 2001 rose to 99.76% in 2004 but fell to 98.57% in 2007. This indicator experienced a gradual rise to 98.94% in 2008. The operating self sufficiency criterion that was 226 in 2001 fell to 184. The figure rose from 228 in 2005 to 232 in 2006 and fell to 208 in 2007 before picking again in 2008 to 234. The financial self sufficiency also witnessed a fluctuating trend, rising from 85.7 in 2001 to 105 in 2005. The figure stabilized between 2006 and 2007 before falling to 110 in 2008.

Table 2 shows the tabular presentation of the regional spread of LAPO services in Nigeria. From the table the activities of LAPO are spread across nine regions with 50 outreaches in three (north central, south-south and south west) of the six geopolitical zones in Nigeria. In terms of outreaches, Ibadan region has the highest outreach figure of 10. This is closely followed by Alimosho and Edo/Delta regions with 9 outreaches each. Port Harcourt and Ondo are the least served regions with 2 outreaches each as at 2009. In the north central (comprising Abuja and Lokoja regions), south south (Port Harcourt, Calabar and Edo/Delta regions) and south west (Surulere, Alimosho, Ibadan and Ondo regions) geopolitical zones there are 37, 62 and 111 branches of LAPO respectively. The observation is that apart from the eastern zones which comprise South East, North East and North West, other zones in Nigeria are covered by LAPO services.

Findings:

The results of the investigation carried out on LAPO performance revealed the following:- The two assessment criteria used in the paper were found to have varying degrees of performance. Considering the outreach criteria, all the indicators performed well for LAPO. However, varying degrees of fluctuations were associated with most of the sustainability indicators. In the area of skilled personnel what obtains at present in LAPO is inadequate. The level of grants as a source of funding is very high while the contribution of commercial sources such as savings is low. LAPO is also facing the problem of operating costs. The existing policy does not provide linkage between the informal, semi formal and formal financial services providers to micro and small scale rural entrepreneurs.

Recommendations and Conclusion:

One major area in LAPO's micro financing has to do with adequately addressing the inadequate skills on the part of the operators. Though the study of entrepreneurship is made compulsory in tertiary institutions, mass education at the local level where about 70% of the people reside should be encouraged so that the poor can take advantage of it.

There is the need to emphasize savings mobilization, encourage long term sourcing of funds from banks, and negotiate funding arrangements with Development Financial Institutions (DFIs) thereby reducing dependence on grants.

Table 1: Performance Indicators of Lift Above Poverty Organisation (LAPO)

Performance Indicators	2001	2002	2003	2004	2005	2006	2007	2008
Number of states covered	4	5	5	6	7	8	8	15
Number of local government covered	23	33	40	57	77	83	135	238
Number of communities/villages covered	44	52	66	73	117	120	1,602	2,032
Number of active savers/client	17,578	21,766	24,563	32,938	48,735	89,430	135,974	245,144
Total value of savings balance (□)	43,120,090	32,241,601	57,267,194	101,199,372	180,265,076	454,229,478	932,343,990	2,124,363,295
Total number of loan	13,859	18,740	23,136	29,812	43,699	84,006	130,979	200,115
% of female clients	95	95	98	98	98	98	98	98
Total value of loan outstanding (□)	73,465,319	100,481,227	186,165,575	251,183,975	441,858,238	1,014,785,252	1,951,474,947	3,257,974,453
Average loan outstanding (□)	60,029,838	86,973,273	143,323,401	218,674,775	346,521,107	728,321,745	1,483,130,100	2,604,724,700
Number of credit/loan officer	54	69	90	114	149	227	421	742
Active borrowers per credit officer	257	272	257	262	293	370	311	270
Rate of recovery	84.28	94.87	95.62	99.76	99.64	99.35	98.57	98.94
Portfolio at risk (PAR) %	15.38	11.02	7.75	1.05	1.07	0.88	2.75	2.42
Operating self sufficiency (OSS)	226	151	179	184	228	232	208	234
Financial self sufficiency (FSF)	85.7	97	99.2	101	105	112	112	110

Source: Lift Above Poverty Organisation Bulletin, 2009.

Table 2: Regional Spread of Lift Above Poverty Organisation (LAPO) Services in Nigeria

S/NO.	Regions	List of Outreaches	Outreaches in figures	Number of Branches
1	Abuja	Abuja, Minna, Keffi, Gwagwalada, Zaria, Kaduna	6	23
2	Lokoja	Lokoja, Ayingba, Offa	3	14
3	Port Harcourt	Ikwere, Obigbo	2	10
4	Calabar	Calabar, Uyo, Eket	3	11
5	Surulere	Matori, Apapa, Ilupeju, Yaba, Epe, Ijebu Ode	6	21
6	Alimosho	Alimosho, Agee, Mile 2, Abule Egba, Ota, Ketu, Ikorodu, Sagamu, Abeokuta	9	38
7	Ibadan	Dugbe, Oke Ado, Agbeni, Ojoo, Old Ife, Ife, Oyo, Saki, Osogbo, Ogbomoso	10	37
8	Edo/Delta	Benin, Benin Central, Sakpoba, Edo North 1, Edo North 2, Warri, Okpe, Asaba, Agbor	9	41
9	Ondo	Ondo, Akure	2	15
Total			50	210

Source: Lift Above Poverty Organisation Bulletin, 2009.

It is recommended that LAPO should encourage the formation of cooperatives so that a number of beneficiaries that are engaged in similar business can collectively enjoy their service and hence reduce operating costs as well as reduce the likelihood for borrowers to default. There is also the need to establish more microfinance banks in rural areas so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth.

The existing policy on micro financing should provide linkage between the informal, semi formal and formal financial services providers to micro and small scale rural entrepreneurs.

The paper evaluated the performance of the microfinance sub-sector of the Nigerian economy. Using Lift Above Poverty Organisation (LAPO) as a case study the paper settled for the outreach and sustainability criteria for evaluating the performance of microfinance institutions (MFIs). LAPO, one of the MFIs in Nigeria was found to have sufficiently addressed some of the practical challenges facing micro financing. In spite of the challenges of high operation costs, loan repayment problem, inadequate experienced credit staff, inadequate refinancing facilities, client apathy and drop-out, internal control and so on it was found that LAPO has been performing fairly well. This derives from the performance of the indicators used. It was recommended that the microfinance outfit should encourage the formation of cooperatives so that a number of beneficiaries that are engaged in similar businesses could collectively enjoy their service and hence reduce operating costs as well as reduce the likelihood for borrowers to default. There is also the need to establish more microfinance institutions in rural areas so as to further promote and develop the entrepreneurial capacity that is needed for transforming the areas and accelerating economic growth.

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