At the conclusion of the re-capitalisation/conversion programme for community banks (CBs), a total of 607 outstanding CBs that met the minimum capital requirement of N20 million Shareholders’ Funds, unamortized by losses, converted to microfinance banks (MFBs). An analysis of the CBs converted to MFBs showed that 187 CBs had completed the process and obtained final licences, while 420 had provisional approval as at 30th May, 2008. At the same date, a total of 72 new investors in the microfinance sub-sector have been granted approval-in-principle (AIPs). The total number of applications for community banks (CBs), a total of 1% of the total number of approved MFBs. The remaining 31 states and Abuja FCT accounted for 403 or 52.5 per cent of the total number of approved MFBs. The spreads revealed that the MFBs are concentrated in states located in the southern geo-political zones and thinly spread in the Northern geopolitical zones as summarized on table 1.

Central Bank of Nigeria takes Campaign on its Development Finance Activities to State Governments

By O. A. Fabamwo

The major focus of the agency were the need for the setting aside of 1% of the total number of approved MFBs as at the end of May 2008, was 768. An analysis of the total number of licensed banks showed that there was high concentration of the banks in Lagos (147), Anambra (79), Ogun (51), Oyo (46) and Imo (42) States. These five states accounted for 365 or 47.5 per cent of the total number of approved MFBs. The remaining 31 states and Abuja FCT accounted for 403 or 52.5 per cent of the total number of approved MFBs. The spread revealed that the MFBs are concentrated in states located in the southern geo-political zones and thinly spread in the Northern geopolitical zones as summarized on table 1.

Table 1: Distribution of MFBs by Geo-Political Zones - 31/5/2008

<table>
<thead>
<tr>
<th>Geo-Political Zone</th>
<th>Number of MFBs</th>
<th>Total per Zone</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keduna</td>
<td>23</td>
<td>23</td>
<td>3.9</td>
</tr>
<tr>
<td>Kano</td>
<td>5</td>
<td>5</td>
<td>0.7</td>
</tr>
<tr>
<td>Katara</td>
<td>6</td>
<td>6</td>
<td>0.9</td>
</tr>
<tr>
<td>Kebbi</td>
<td>6</td>
<td>6</td>
<td>0.9</td>
</tr>
<tr>
<td>Sokoto</td>
<td>6</td>
<td>6</td>
<td>0.9</td>
</tr>
<tr>
<td>Zamfara</td>
<td>56</td>
<td>56</td>
<td>8.7</td>
</tr>
<tr>
<td>Sub-total</td>
<td>78</td>
<td>78</td>
<td>11.7</td>
</tr>
<tr>
<td>North-Central</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abia</td>
<td>24</td>
<td>24</td>
<td>3.9</td>
</tr>
<tr>
<td>Benue</td>
<td>9</td>
<td>9</td>
<td>1.3</td>
</tr>
<tr>
<td>Kogi</td>
<td>21</td>
<td>21</td>
<td>3.1</td>
</tr>
<tr>
<td>Kwaara</td>
<td>22</td>
<td>22</td>
<td>3.2</td>
</tr>
<tr>
<td>Nasararuwa</td>
<td>3</td>
<td>3</td>
<td>0.4</td>
</tr>
<tr>
<td>Niger</td>
<td>10</td>
<td>10</td>
<td>1.5</td>
</tr>
<tr>
<td>Plateau</td>
<td>3</td>
<td>3</td>
<td>0.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>105</td>
<td>105</td>
<td>15.0</td>
</tr>
<tr>
<td>North-East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adamawa</td>
<td>8</td>
<td>8</td>
<td>1.1</td>
</tr>
<tr>
<td>Bauchi</td>
<td>10</td>
<td>10</td>
<td>1.4</td>
</tr>
<tr>
<td>Benue</td>
<td>4</td>
<td>4</td>
<td>0.6</td>
</tr>
<tr>
<td>Gombe</td>
<td>3</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td>Taraba</td>
<td>1</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>Yobe</td>
<td>1</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>Sub-total</td>
<td>30</td>
<td>30</td>
<td>4.4</td>
</tr>
<tr>
<td>South-West</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edo</td>
<td>13</td>
<td>13</td>
<td>1.9</td>
</tr>
<tr>
<td>Lagos</td>
<td>147</td>
<td>147</td>
<td>21.0</td>
</tr>
<tr>
<td>Ogun</td>
<td>51</td>
<td>51</td>
<td>7.3</td>
</tr>
<tr>
<td>Ondo</td>
<td>17</td>
<td>17</td>
<td>2.4</td>
</tr>
<tr>
<td>Ogun</td>
<td>31</td>
<td>31</td>
<td>4.4</td>
</tr>
<tr>
<td>Oyo</td>
<td>14</td>
<td>14</td>
<td>2.0</td>
</tr>
<tr>
<td>Sub-total</td>
<td>305</td>
<td>305</td>
<td>43.7</td>
</tr>
<tr>
<td>South-South</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Akwa Ibom</td>
<td>10</td>
<td>10</td>
<td>1.4</td>
</tr>
<tr>
<td>Bayelsa</td>
<td>3</td>
<td>3</td>
<td>0.4</td>
</tr>
<tr>
<td>Cross River</td>
<td>15</td>
<td>15</td>
<td>2.1</td>
</tr>
<tr>
<td>Delta</td>
<td>29</td>
<td>29</td>
<td>4.1</td>
</tr>
<tr>
<td>Edo</td>
<td>35</td>
<td>35</td>
<td>5.0</td>
</tr>
<tr>
<td>Rivers</td>
<td>3</td>
<td>3</td>
<td>0.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>110</td>
<td>110</td>
<td>15.0</td>
</tr>
<tr>
<td>South-East</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anambra</td>
<td>18</td>
<td>18</td>
<td>2.5</td>
</tr>
<tr>
<td>Bayelsa</td>
<td>79</td>
<td>79</td>
<td>11.3</td>
</tr>
<tr>
<td>Enugu</td>
<td>6</td>
<td>6</td>
<td>0.8</td>
</tr>
<tr>
<td>Imo</td>
<td>21</td>
<td>21</td>
<td>3.0</td>
</tr>
<tr>
<td>Delta</td>
<td>13</td>
<td>13</td>
<td>2.0</td>
</tr>
<tr>
<td>Sub-total</td>
<td>166</td>
<td>166</td>
<td>23.6</td>
</tr>
<tr>
<td>Total</td>
<td>768</td>
<td>768</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Sources: Other Financial Institutions Department (OFID), Central Bank of Nigeria, Abuja

CBN Governor Inaugurates Apex Association of Microfinance Banks

www.yearofmicrocredit.org www.cenbank.org/microcredit

NEWSLETTER

Volume 6 - January - June, 2008

Promoting Entrepreneurship, the ‘LAPO’ Way

Central Bank of Nigeria, Abuja
Microfinance Banking
Need For Proper Orientation

By J. A. A. Attah

Many countries in the world have been placing increasing emphasis on microfinance as a tool for poverty alleviation, economic and socio-political empowerment. Though the microfinance sub-sector assumes more importance in countries with high poverty indices, the revolution has begun to draw the attention of developed countries as a means of addressing their own relative poverty.

Practical steps that have been undertaken by countries include, the drafting and implementation of policies, programs, schemes and establishment of relevant institutions. In Nigeria, the steps have been quite inspiring and far reaching. This stems from the robustness of the processes involved in the drafting of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, its launching, implementation strategies and the number of institutions that have already been licensed to operate as microfinance banks. Over 750 institutions have been duly licensed to operate as microfinance banks. In addition, some of the deposit money banks have been setting up subsidiaries, while others have been partnering with microfinance banks and state governments to provide microfinance services. Governments and Non Governmental Organizations are equally supporting the sector through the array of microfinance agencies and capital lending, respectively. Development partners such as the United Nations Development Programme, the German Technical Cooperation, Ford Foundation, European Union, Department for International Development, United States Agency for International Development, World Bank, to mention but a few, have been intervening by supporting the creation of appropriate environments and their branches are given targets for breaking-even in a period not more than two years, in some cases six months. Cost reduction and effective service delivery are continuously given prominence and pursued with vigour.

However, some of the microfinance banks in Nigeria have been observed to conduct their business in manners that are at variance with international best practices. Expenses on office accommodation, official cars and fixed assets acquisition have been constituting a heavy burden on the institutions. Also, Salaries and Allowances of Board members and staff have not, in some cases, been based on affordability of the institutions.

There is an increasing need to reduce these expenses which weigh heavily on the earnings of the institutions if break-even point is to be attained in record time. Microfinance banks must render practical intermediation services in line with the provisions of the Microfinance Policy Regulatory and Supervisory Framework for Nigeria. They must mobilize savings from and channel such as loans to poor and low income groups instead of investing them in non interest bearing assets. Unless this takes place, the objective of economic growth envisaged in the policy framework, the sustainability of the institutions and their services will be compromised.

The training of clients on loan usage, management and repayment is another crucial success factor. Most banks that intend to build for the future would need to invest in training of their clients by way of counseling, mentoring and other forms of support. Also, a microfinance institution would need to invest on the training of its staff on regular basis. Staff training will assist them engage in aggressive product development and marketing, loan tracking, monitoring and recovery, thus promoting institution building.

Members of the board and shareholders would need to perform their oversight roles on the institutions and their management. The roles and responsibilities of the Board should be performed in a manner that does not infringe on the executive and management.

Microfinance banking is a distinctive business in Nigeria. The success depends on a proper understanding of this distinctiveness and the acquisition of the skills and competencies required. Huge investment might be required by stakeholders to build the necessary capacity and this must be incurred to avert any shortcoming that could jeopardise the success of the initiative. Government, development partners, or agencies, all have parts to play in identifying the challenges and intervening to address them, so that the objective of empowering the large majority of economically active poor people in Nigeria will be achieved at a faster pace.
Mr. President Launches Micro Credit Fund (MCF)

By Dr. M. A. Olaitan

As part of the strategies to support lending to micro, small and medium enterprises in Nigeria, the President and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, Alhaji Umaru Musa Yar’Adua (GCFR), launched the Micro Credit Fund (MCF) on February 12, 2008, at the Sheraton Hotel and Towers, Abuja, Nigeria.

The objectives of the Fund include:

- complementing the poverty and small and micro credit interventions by Government at all levels, as well as the activities of the microfinance banks in supplying a large but cheap source of finance to the small and micro entrepreneurs.
- ensuring a wider and equitable distribution of credit around the country to deserving entrepreneurs by allowing State Governments to engage in wholesale borrowing from the banks and on-lend or distribute to the entrepreneurs in their respective states, monitoring the State and Local Governments to comply with the requirements of the Microfinance Policy, Regulatory and Supervisory Framework (SMEEIS) and the Entrepreneurs in their respective states, ensuring a wider and equitable distribution of credit around the country to deserving entrepreneurs, and lending to micro, small and medium entrepreneurs to open up on their areas of need to the leadership specialists at the Centre and also express what their expectations are.
- The Fund would commence operations with the N20.0 billion balance of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) funds as at December 31, 2007, and subsequently, contributions would be made by each Deposit Money Bank to make the fund up to N100.0 billion by the end of 2010. The Fund would be made available to all State Governments with viable microfinance proposals after setting aside a counterpart fund equal to the amount of the loan being sought in the bank from which it is obtaining the Fund.

At the launching, the President commended the Boards’ Committee for upgrading the SMEEIS to the Micro Credit Fund, while he directed State Governments to carry along the Local Governments to ensure that the MCF reached the ultimate excluded poor in their respective domains.

The operational guidelines of the Fund have been issued by the CBN and are available at all CBN Branches, Development Finance Department at the Head office and the CBN website www.cbnbank.org.

Table 1: Details of the Training Programme Executed by the OICI

<table>
<thead>
<tr>
<th>Months</th>
<th>Entrepreneurs Trained</th>
<th>Males</th>
<th>Females</th>
<th>Trained Already</th>
<th>Ongoing Classes</th>
<th>Waiting List</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>451</td>
<td>605</td>
<td>545</td>
<td>60</td>
<td>48</td>
<td>73</td>
</tr>
<tr>
<td>April</td>
<td>316</td>
<td>266</td>
<td>266</td>
<td>48</td>
<td>334</td>
<td>445</td>
</tr>
<tr>
<td>May</td>
<td>514</td>
<td>441</td>
<td>78</td>
<td>60</td>
<td>334</td>
<td>445</td>
</tr>
<tr>
<td>Total</td>
<td>1,846</td>
<td>1,580</td>
<td>266</td>
<td>266</td>
<td>1,846</td>
<td>2,659</td>
</tr>
</tbody>
</table>

OICI: Now a Beehive of Activities

By Julius Ameh

The Pilot Phase of the CBN sponsored Entrepreneurship Development Centre (EDC) for North West zone, being implemented by the Opportunities Industrialization Centres International (OICI) has taken off with participants in this poverty reduction programme trooping in to receive training, make enquiries or seek opportunities for business counselling and guidance. Commencing in March, 2008, the Centre has trained about 354 entrepreneurs in poultry farming, fish farming, animal fattening, agric-businesses and trading. A total of 172 of the trainees were university graduates and 162 secondary school leavers. The Centre is currently running a programme for 445 others, while over 2,650 were awaiting enrolment for training. The centre has also provided counselling services for a total of 1,846 entrepreneurs comprising 1,380 males and 266 females as shown on the table:

To have a huge impact on the lives of many Nigerians instead of a select few. In a related development, every staff of OICI EDC program is expected to be involved in a “carry 10” (C10) component. They are also informed about the expected impact of the program at the end of the five years which is basically the emergence of a new middle class in Nigeria.

Having gone through this counseling and information sharing session, the unit undertakes registration of clients to participate in the program. Their forms, are screened after completion by the unit officers to ensure that all requirements have been satisfied. They are also told that to qualify for examination, they must meet at least 75% attendance, while 75% score in the examination and a good business plan will qualify them for bank loan. After this, the training begins with the leadership unit taking the trainees through the leadership and life skills training that will arm them with the necessary skills to become successful managers and entrepreneurs. The Entrepreneurship Development Unit of the Centre is responsible for the provision of entrepreneurial development training for the trainees. The unit provides two weeks training programme for the University Graduates (UGs) and four weeks training for the secondary school graduates (SSGs) and in collaboration with Business
CBN Signs Contract Agreement with the Implementing Agencies of its Entrepreneurship Development Centres (EDCs)

By A. A. Adeleke

O n Monday February 18, 2008, the Central Bank of Nigeria signed the Contract Agreement with the Implementing Agencies for the Pilot Phase of its Entrepreneurship Development Centres initiative. The EDC programme was conceived in 2006 by the Bank to provide support for establishing or accelerating growth of Microfinance Development Centres (EDCs) in each of the six geopolitical zones in Nigeria. The zones would be expected to provide physical structures, training materials, equipment, human resources and other facilities that would assure internationally competitive and sustainable services in the zones. The entrepreneurial training programmes are tailored towards providing practical skills to graduates of Nigerian universities, polytechnics, colleges of education, and secondary school leavers enabling them establish flourishing businesses after graduation. The specific objectives of the EDC concept include amongst others:

- Developing the entrepreneurship spirit amongst Nigerians and providing insight into the tools, techniques and framework for functional areas of business enterprise including production, marketing, personnel and finance;
- Linking trainees to financial institutions for start-up capital especially, the microfinance banks;
- Generating employment opportunities for Nigerians in part of the provisions of the National Economic Empowerment and Development Strategy (NEEDS);
- Raising a new class of entrepreneurs and businesses who can compete globally, manage micro, small and medium scale enterprises, and provide the catalyst for the industrialisation of Nigeria.

The signing ceremony of the Contract Agreement with the Implementing Agencies which took place at the Governor’s Conference Room of the Central Bank of Nigeria had the Governor, Deputy Governors and Directors of the Bank, members of National Microfinance Policy Consultative Committee (NMPPCC), representatives of relevant Federal Government Agencies and those of the Implementing Agencies of the EDCs in attendance.

The Governor of the Central Bank of Nigeria, Professor Chukwuma C. Soludo, in his address, stated that entrepreneurship development was key to the successful implementation of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. This, he said, was based on the fact that only good customers can make success of the emerging microfinance banks and only successful microfinance banks would justify the launching of the policy.

The Governor disclosed that the pilot phase would be implemented in three geo-political zones of the country namely, Kano for the North, Osun for the South East and Lagos for the South West. The three institutions appointed to implement the programmes were the Opportunities Industrialization Centres International (OICI) in Kano, Women Enterprise Development Initiative and Freedom (WEDI) in Osun and Africa Leadership Forum (ALF) for Lagos. He added that similar EDG would be established in the remaining geo-political zones of the country upon the successful implementation of the pilot.

The Governing Council of the EDCs comprising: Federal Ministry of Industry (FMI); Federal Ministry of Works and Housing; Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Directorate of Employment of Nigeria and Central Bank of Nigeria (CBN) was inaugurated on 6th March, 2008 to provide policy direction for the programme.

The Kano and Osun EDCs had graduated 334 and 281 trainees, respectively as at June, 2008, while the Lagos EDC had placed advertisements to recruit trainees.

O pportunities Industrialisation Centres International, No. 8B, Dawaki Road, Nasarawa GRA P.O BOX 728, Kano, Kano State.
- e-mail: oici_nigeria@yahoo.com;
- Centre for Entrepreneurship and Development Research (CEDR), University of Nigeria, Nsukka, or Ononenyi Anwa Plaza, No 2, Aweka Road, Ota, Ogun State.
- e-mail: cedrmain@yahoo.com;
- Africa Leadership Forum, Alfa Plaza, Bells Drive, Benja Village, Ota, Ogun State;
- e-mail: alflagos@yahoo.com;
- e-mail: edc@africaleadership.org.nai

Nigeria-German Development Co-operation Implements “Employment Oriented Private Sector Development Programme”

By Olugbajiga T. Peter

T he “Employment Oriented Private Sector Development” programme is aimed at contributing to increased income and employment by promoting the MSMEs in Nigeria and Naurawa States. This is to be achieved by creating a conducive atmosphere for economic growth, diversifying business services, improving access to financial services and increasing the professional competence of entrepreneurs.

The Financial services component, one of the four components of the GTZ programme’s main objective is to improve access of the MSMEs to sustainably deepen financial services and create the necessary capacity building in the regulation of the MSMEs to further promote the informal sector. The objective is to create a conducive environment for business development and policy framework, employment creation and poverty alleviation.

Specific areas of support of the GTZ are as follows:

- Collaboration with CBN to deliver the Certification Process to the microfinance institutions in Naurawa and Ngest States.
- Sponsoring of innovation capacity building measures for non-executive directors and operators in the microfinance sector and in Naurawa and Nasarawa States. The programme focuses on corporate governance, internal control training by LAPO, CBN reporting formats and Procedures development.
- Prevention of financial support for SMIs training to keep them abreast of relevant information.
- Organisation of stakeholders forum where the MSMEs and relevant stakeholders discussed and addressed critical issues and challenges mitigating against lack of access to financial services.

This forum has enhanced trust building, networking and easy access to information and networking sharing between the MSMEs and the financial institutions in Naurawa and Ngest States.
Promoting Entrepreneurship, the 'LAPO' Way

By Tony Ogwu

Almost anyone thought that microfinance of N10,000.00 and below to individuals for start-ups would not work. Infact, people couldn’t see how anyone could make big money from such small loans. That is, no one at all, except LAPO Microfinance Bank and its multitude of beneficaries. So far, the bank has assisted thousands of clients (especially women) to “rise above poverty” - a veiled experience to LAPO (Left Above Poverty Organisation). Along with this has come a wave of local and international recognition.

Established as a community bank in 1999, the bank converted into LAPO Microfinance Bank in line with the prescription by the Central Bank of Nigeria (CBN)- that all community banks should convert to MFBs before December, 2007, provided they met the minimum capital base.

In this interview with Tony Ogwu, Associate Editor, the Nigerian Microfinance Newsletter, some of the bank’s clients share their minds on their relationship with LAPO.

Mrs. Deborah Omonuwa

Mrs. Omonuwa is a retired nurse in her 50’s. She chronicles her contact with LAPO below and how this initial meeting has blossomed:

Excerpts of the Interview with Mrs. Deborah Omonuwa

What has been your relationship with LAPO?

The first contact with LAPO was in 1999. After retiring from active service as a Chief Community Health Extension Worker in 1999, I ventured into business, setting up Osas and Osas Enterprises at my residence, off Uwelu Road, in Benin City. I was cash strapped until a fellow nurse introduced me to LAPO. We formed a group of ten people and I became the leader of the group. We then applied for loan to enable us commence our business. But before LAPO could give us the loan, they took us through a six-week lecture, which they called business training. Some of us in the group thought that it was a waste of time. However, at the end of the training, we discovered that we were better able to manage funds. LAPO then gave us the initial loan of N10,000 each.

What were the conditions of the loan?

The interest rate was quite agreeable to the group (no mention was made of the rate). Though I was delighted that the level of funding for the group had increased from N10,000 each to N60,000 each, we still needed more funds, as the wood business is very capital intensive.

What advice did you receive from LAPO officials on your request for increased Loan Amount?

I was advised by LAPO officials to seek individual loan. However, before I could do that, I must comply with their rule which is “Giagbah”, which simply means “must be complete”. That is, I must ensure full repayment of the previous loan before applying for a fresh one.

Any word for LAPO?

Yes, LAPO should continue with their good work until they wipe away poverty from our land. I often pray for their success, while they, on their part, always encourages me to excel.

Mrs. Lucky Toghanro

Mrs. Toghanro is the proprietor of Luck Tony Wood Industry- an outfit that sells wood for building and sundry uses.

Her relationship with LAPO dates back to 2003, when she got a loan of N10,000, along with members of her group who also got N10,000 each. However, before the start-up loan was disbursed, the group was tutored for 6 weeks on how to utilize funds for growth and sustainability of their businesses. She affirmed that, the training was of immense assistance to her.

Excerpts of the Interview with Mrs. Lucky Toghanro

What were the conditions for the loan?

The interest rate was quite agreeable to the group (no mention was made of the rate). Though I was delighted that the level of funding for the group had increased from N10,000 each to N60,000 each, we still needed more funds, as the wood business is very capital intensive.

What advice do you have for LAPO?

They are doing a good job! I urge them to keep it up.

Mrs. Josephine Imarhlu

Mrs. Josephine Imarhlu is a 52-year old soap-maker. Her enterprise, aptly tagged “Canan Quality Soap Enterprises”, is located in Benin City, Edo State.

Armed with a Primary School Leaving Certificate, this mother of 6 and Leaver Certificate, this mother of 6 and beans for over 20 years. However, her break-through came when she and her group members (15 of them) got a loan of N6,000 each in 1999. With that amount, she bought palm oil and other chemicals for making soap and commenced production.

Before they could access the loan, all the 15 members of the group undertook the mandatory 6-week training programme on business management, which according to her awakened the entrepreneurial spirit in her.

Presently, the group has graduated to the benefit if they do not give up. I, for instance, have been able to build two, three bedroom flats from the proceeds of my business. If anyone remained steadfast and honest in business, God would always bless that person.

What do you say about loan size from LAPO?

The present exposure is insufficient to sustain my business. I intend to make my product a brand leader, not only in the locality but in the state as a whole. To achieve this, I require huge capital outlay beyond what I currently enjoy from LAPO.

In response to this, LAPO officials advised her to seek individual loan and break away from the group, after effecting full repayment of all previous loans.

What is your advice to start-ups?

I advise people to commence something- anything they have a passion for and remain steadfast. They would surely reap the benefit if they do not give up. I, for example, have been able to build two, three bedroom flats from the proceeds of my business. If anyone remained steadfast and honest in business, God would always bless that person.

What word do you have to say about LAPO?

LAPO always assists the poor to grow.

The 6 weeks training programme was immensely beneficial to me. I pray that LAPO would continue to grow in order to continue offering assistance to people.
By Dr. Benjamin Okpukpara

On 18th February, 2008, the Central Bank of Nigeria signed a Memorandum of Understanding (MOU) with the Centre for Entrepreneurship and Development Research, University of Nigeria Nsukka, to implement the South East pilot phase of its Entrepreneurship Development Centres. This was to carry out specialized training on entrepreneurship for the unemployed graduates and secondary school leavers within the states located in the geo-political zones. The programme which is primarily an in-house training one is packaged to provide entrepreneurial skills and capacity training to prospective trainees, who met the EDC selection criteria. The EDC strongly supports the full development of the potentials and capabilities of independent minded and self-confident entrepreneurs, who can successfully exploit business opportunities and overcome challenges in the environment.

Specifically, the aim of the programme is to help create employment for unemployed school leavers (both graduates and secondary school leavers) through providing entrepreneurship and basic business management training that would enable them to set up and manage viable businesses in a sustainable manner.

The Centre for Entrepreneurship and Development Research, University of Nigeria, Nsukka started recruitment and training of its core staff in March, 2008. However, the actual training of students (trainees) started on May 5, 2008. Onitsha was chosen as the venue for the training because of its strategic location as commercial nerve centre of the South East. Onitsha also has the highest population of job seekers in the South East, as well as the highest concentration of small-scale businesses. There are two training centres in Onitsha, one is located at Ononenyi Plaza, No 2 Awka Road which serves as Head Office and the

Green Class in their Unlocking marketing potentials

Demonstration Centre while the other is at Ifesinachi Plaza, at Km2, Onitsha-Enugu Express Way, Opposite Lake Filling Station, and serves as the actual training centre.

The training methods adopted at the Centre involve the use of games, lectures, practical demonstration, role model (mentoring), visual aid, and case studies. The method is tailored towards enhancing the ability of trainees to appreciate what they learnt after graduation. Training also continues after graduation, and even after the trainees have actually commenced their chosen economic activities. The key components of the training include entrepreneurship, basic business management, leadership and business development services. At the Onitsha Centre, two batches have graduated form the programme totalling 281.

The graduates’ area of interest include primary production, marketing and services. Specific activities in primary production include poultry, fish farming, palm produce processing, fabrication etc, while those in marketing and general merchandising favour motor spare parts, buying and selling clothes and speculation (storage). Trainees in the service related economic activities showed major interest in photography, payphone services, video servicing, cyber cafés, business centres, library services, car wash and beauty salons.

Further comments from participants were as follows:

- The course/training was very good and educative.
- I suggest that you should go to the markets and churches to get people to know of this programme.
- I will like this training to continue because it will help our people especially in terms of self-employment.
- I still want to appreciate the effort you made to bring this kind of programme.
- I wish that the people coming behind us will benefit from this laudable venture and the government should assist the EDC effectively.

The course/training was so interesting and educative that one can never think of missing it even one day. The instructors were so good and friendly.

I will like this training to continue because it will help our people especially in terms of self-employment.

Against the background of successes recorded so far, the Centre is planning to:

- Be more aggressive in advertising/disseminating information about the programme to the public.
- Work towards ensuring that the CBN target is achieved.
- Focus on the credit facilitation to trainees with good business plans.
- Follow up trainees even after they are linked to finance.
- Acquire permanent site for the programme.
- Work towards ensuring the involvement of all the State Governors and Local Government Chairpersons in the South-East.
- Sensitize States and Local Government Areas to own their entrepreneurship development centres.

The graduates from the programme have started on May 5, 2008. The Centre for Entrepreneurship and Development Research, University of Nigeria Nsukka started recruitment and training of its core staff in March, 2008. However, the actual training of students (trainees) started on May 5, 2008. Onitsha was chosen as the venue for the training because of its strategic location as commercial nerve centre of the South East. Onitsha also has the highest population of job seekers in the South East, as well as the highest concentration of small-scale businesses. There are two training centres in Onitsha, one is located at Ononenyi Plaza, No 2 Awka Road which serves as Head Office and the

Red Class in their Unlocking marketing potentials

Green Class in their Unlocking marketing potentials

Royal Class during their Practical and Discussion
As part of strategies to realize the objectives of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, the Development Finance Department of the Bank carried out a policy dialogue in six geopolitical locations of Nigeria from 16th to 19th June, 2008.

The dialogue took place as follows: North West (Kaduna); North East (Bauchi); North Central (Kwara); South West (Ibadan); South South (Benin) and South East (Enugu).

The programme was designed to create room for sharing ideas on how to form association of microfinance institutions in the zones with a view to using such associations to support the development of microfinance, and particularly, encourage the institutions to graduate to regulated statuses.

The Development Finance Department’s paper, presented during the programme highlighted the key issues in the microfinance policy such as the objectives, targets and goals, as well as the institutional provision to deliver microfinance services in Nigeria. The paper pointed out that one of the key institutional arrangements for the implementation of the microfinance policy was the formation of microfinance institution apex associations, a forum and network for members to share experience, facilitate collaboration, promote capacity building, protect interests of members and enhance information.

The benefits of such association were that it would create an opportunity to have a strong and communally directed cause of the members, set and enhance standards of operation, achieve self regulation, disseminate information, provide support services and promote economic growth. Others were ease of facilitating linkages between MFIs and other stakeholders, building capacity of members, promoting business development services and providing clearing services. The paper highlighted that apex associations were playing key roles in microfinance sectors of countries like Ghana, Uganda, South Africa, and Kenya and concluded that it was necessary for Nigeria to adopt this important practice as part of the implementation strategies of the country’s nascent microfinance policy.

Some of the key issues raised and how they were addressed were as follows:

How does a microfinance institution that is transforming to a MFRI manage its social from microfinance functions? The activities and books of accounts of MFRI operations would be separated from the NGO social functions or of the MFRI wishes, it could completely leave its NGO function and concentrate on commercial microfinance.

What can CNB do to reduce the high interest rates charged by banks for wholesale loans that MFIs take from them for on-lending? The Central Bank of Nigeria no longer stipulates interest rates for lending by deposit money banks, and therefore, the interest rates charged should be a commercial negotiation between the parties involved. Since banks were in business to make money, they were free to charge what they think is commensurate with the risk they perceived to be involved in any transaction involving lending.

How can NGOs that provide services to vulnerable groups such as women raise money to on-lend particularly to women who pay their loans promptly? The role of CNB in this scheme of things is to support such NGOs to grow to make them marketable to fund providers. For an NGO to be attractive, it needs to demonstrate to the public that it was doing critical business and also operating effectively. Sources of funds could be the micro credit fund and those offered from donors. As the MFRI form associations, the networking that would ensue could also improve the sources of funding.

CBN awareness campaign is urban based, can’t it be carried to the grassroots? The resources available were to some extent limited, but the Bank expected that when it held meetings with some of the stakeholders, they should in turn support in disseminating information gathered to the grassroots. Nevertheless, the Bank had been using appropriate means to reach the grassroots people.

For NGOs that are operating with donor funding, how can they transform to MFRI? There would be need to get the consent of the owners of such funds to convert their funds to MFRI share capital and more other licensing requirements stipulated in the regulatory and supervisory guidelines for MFRI.

Transformation will lead to increased operational overheads, since lending is usually small scale, what can CBN do to assist in training, to at least reduce this cost? CBN usually provides some form of support or the other for capacity building, but this would not continue indefinitely. Hence the MFRI would also have to play a key role that would bridge their capacity gaps. If there were zonal associations, it would also enhance the support of the CBN, while at the same time making it easy for the members to organize programmes to build their capacities themselves.

At the end of the interactive session in each zone, the participants were divided into their various states to enable them discuss how they would form the MFRI in their respective areas of operations. Following this, some leaders of the participants were nominated to take responsibility for the state-based association of the MFRI, while follow-up actions would be carried out by the Bank.

Portfolio Management
Portfolio is defined as the total amount or value of loans held by banks. The health of the loan portfolio determines the health of the institution. Arrears is given to portfolio for the following reasons:

Loan portfolio is the most important and largest asset of any financial institution, especially microfinance banks. Although the rising level of product diversification, are essentially credit driven. Large proportion of their liabilities are unsecured or take responsibility for the state-based association of the MFRI, while follow-up actions would be carried out by the Bank.

Delinquency Management
Delinquency management is the process which involves policy formulation, decision making and actions towards ensuring high portfolio quality and yields. The ultimate responsibility for portfolio management rests on the Chief Executive Officer.

A major tool of portfolio management is report, as it gives insight into the trends, volume and quality of loan assets. It must however be timely, accurate and complete (TAC).

Loans portfolio gives an opportunity for credit driven institutions to lend to the grassroot, thereby improving the livelihood of the people.

Microfinance institutions exist for the sole purpose of advancing credit to their clients and therefore all policies and actions that affect lending practices must be carried to building and maintaining quality portfolio.

Portfolio management is the process which involves policy formulation, decision making and actions towards ensuring high portfolio quality and yields. The ultimate responsibility for portfolio management rests on the Chief Executive Officer. A major tool of portfolio management is report, as it gives insight into the trends, volume and quality of loan assets. It must however be timely, accurate and complete (TAC).

Loans portfolio gives an opportunity for credit driven institutions to lend to the grassroot, thereby improving the livelihood of the people.
are often bad loans or institutions rather than bad borrowers. All forms of delinquency have institutional defects in terms of philosophy, loans delivery and recovery approaches, products and services design, and the quality of management and staff. Show me an institution with poor portfolio and I will find one at a poorly managed institution!

Causes of Delinquency

Delinquency arises from two broad causes which are inability to repay and unwillingness to repay. This is a situation, where borrowers have the means to make prompt repayments but fail to do so. Cases of delinquency of this nature include:

1. Inability to repay. This refers to the situation where a borrower is unable to meet repayment obligations. The borrower, receiving compensations from credit staff, readily desires to meet her obligations but is unable to do so from her resources. He or she is unable to generate funds to meet her obligations. This situation could result from a number of factors which include:
   a. Poor loan appraisal. Poor appraisal of loan request could lead to wrong decisions in terms of loan size which could have negative impact on loan utilization, investment, returns to the borrowers and ultimately profitability.
   b. Inappropriate loan utilization. This is the commonest factor in loans default. Often, clients invest either a portion or full loan amount in unapproved businesses with inadequate returns to meet repayment obligations. Such loan diversion would often lead to repayment default.
   c. Mismangement of funded enterprise. Sometimes, owners of micro-enterprises are ill-equipped in terms of basic management skills and level of education. These deficiencies could lead to delinquency.
   d. Disasters. Most enterprises are vulnerable to disaster, especially microfinance institutions which operate from slim economic base. They usually engage in micro and small businesses which cannot stand any shock. An incidence of fire or an event that could wipe out the entire economic base of a client.
   e. Government policies. Change in government policies could directly or indirectly affect the fortunes of small businesses.

2. Unwillingness to repay. This is a situation, where borrowers have the means to make prompt repayments but fail to do so. Cases of delinquency of this nature include:
   a. Poor institutional commitment to credit discipline. Some microfinance institutions project the image of charity. There is no strong commitment to business-like approach to credit. This is evident in pricing and relationship with clients. Emphasis is on subsidized credit which in most cases consumes charity in response. Borrowers do not feel any obligation to ensure prompt and full repayment.
   b. Absence of defined procedures or policies on delinquency, management and prevention of delinquency. This could be total absence of effective loan tracking systems for early detection and measurement of delinquency.
   c. Unskilled and poorly motivated credit staff, would not be willing to enforce relevant provisions of operational manual for tracking and dealing with delinquency.

Management of Delinquency

One of the approaches to delinquency management is to determine the level of delinquency tolerance. This would require knowing the level of delinquency or quality of portfolio periodically. The methods include:

1. Arrears rate. This refers to the proportion of the loan portfolio in arrears. For example, if at the end of a specified period $5,000 is unpaid out the sum of $100,000 which was due during the period, in addition to the amount due in previous periods), then the arrears rate is $5,000/$100,000.

2. Portfolio At Risk (PAR). This refers to the proportion of principal balances of loans with arrears of the total loan portfolio. This is a stricter measure of portfolio quality as it is, to some extent, predictive.

Cost of Delinquency and Default

Delinquency has adverse financial and reputational implications for financial institutions which may include:

1. Effects on sustainability. Delinquency afflicts the most important and largest asset of the institution, the loan portfolio. Loan portfolio is the total of balances of loans with arrears of the total loan and is the major source of income, as loan interests often account for a larger proportion of the institution’s income. Delinquency therefore threatens sustainability through:
   a. Delay or outright non-payment of interest and therefore income on the overdue loans.
   b. Increasing cost of repayment drive. Often collection of overdue loans involves undertaking additional forms or processes and even legal repayment drives which are outside the normal process of loan repayment exercise.
   c. Slowing down of rotation of portfolio. Funds are held up in cases of delinquency and this reduces asset productivity by curtailing loan rotation to reach more clients.
   d. Inhibiting operational spread. Program expansion requires funds. Delinquency, if not promptly addressed, constrains expansion of outreach, as borrowers hold up the funds that could have been used for expansion.
   e. Loan loss provisioning, reducing profitability. Delinquency necessitates excessive loan loss provisioning and write-off. This has direct negative impact on profitability.

2. Institutional reputation.

Portfolio quality is a critical measure of institutional strengths and performance. Delinquency is regarded as a sign of poor management which has implications, as it damages the reputation of the institution.

Low staff morale and high staff turnover persist. Over-commitments of delinquency are demoralizing for credit staff which triggers a cycle of poor loan quality and this threatens institutional survival. When this occurs, such banks begin to lose out on every opportunity to exit. Institutions with reputation for poor portfolio performance and management hardly attract quality staff.

Deployment of support and investment. The institution will not be able to attract financial and technical support for meaningful expansion. Funding agents and investors will not invest in the reputation or quality of portfolio. This is understandable as institutional viability is directly related to portfolio quality. Most investors see a level of portfolio quality below which they would not provide required investment.

Managing Delinquency

Financial Institutions should aspire to attain zero percent delinquency rate, as this will have a direct impact on the wealth and uplift the rating of the institution. Acceptance of a zero percent delinquency level is the institution’s decission. Thus, the willingness of top management to strictly adhere to a firm policy on delinquency management, and the devotion and commitment of the staff to their duties and responsibilities are the key factors for sound portfolio management. Commitment to reduction of delinquency must be demonstrated and communicated by the management to every staff of the institution.

An effective delinquency management strategy must therefore, contain the following:

- Demonstrated commitment of management to zero tolerance for delinquency. The management of the institution must by its decisions and actions demonstrate commitment to excellence in repayment performance. This must be reflected in the contents of training for new and existing staff, as well as the operational manuals of the institution.

- Clear policy on delinquency control and management. There should be clear policy on default management. The following should be given adequate attention:
  a. Set level of tolerance as PAR size that should not be exceeded.
  b. Define responsive action to be taken in case(s) of delinquencies.
  c. Assign responsibility to staff to table issues of delinquency.
  d. Ensure clear portfolio reporting.

The contents of the policy must be communicated throughout the institution through training and ensuring its compliance and enforcement.

Adequate training for credit staff. Delinquency is challenging and complex, so training institutions’ staff should be sufficiently equipped to prevent and control defaults. Steps such as formation of credit groups, client training, interaction with clients and loan utilization and education must be carried out by credit staff.

Incentives for staff. Some MFBs provide incentives for high portfolio quality. This is aimed at motivating Credit Officers to strive towards low delinquency rates.

Strong Management Information System (MIS) is essential as it as an aspirant tool for the level of portfolio management through information dissemination is essential to delinquency management. Management must be able to determine the level and trend of the problem and proffer immediate solution.

CBN Governor Inaugurates Apex Association of Microfinance Banks

By O. A. Fahnau

The Committee of Microfinance Banks in Nigeria (COMBIN) was constituted by the CBN Governor, Professor Chukwuma C. Soludo on Thursday, 9th May 2008, at the Microfinance Banks Head Office, Abuja. The Committee provides the platform for interaction between the MFBs, proper branding, management information system (MIS) by MFBs, capacity enhancement programmes for MFBs, installation of an appropriate Management Information System (MIS) by MFBs, proper branding, promotion of credit bureau and provision of capital injection.

At an address to the members, the Deputy Governor, Financial Sector Surveillance of the CBN, Mr. Tunde Lemo urged the banks to position themselves to address the financial needs of the poor and the low income groups in the country, as that was the central focus of the Microfinance Policy, Regulatory framework that brought them into being.
Banks’ Contribution to Agricultural Development

By J. A. A. Attab

Introduction

Agricultural development remains very vital to the growth of the Nigerian economy. In the face of a large land mass, favourable climatic and edaphic conditions, as well as abundant labour, the sector offers a very good opportunity for promoting economic growth, generating employment, and guaranteeing food security. In the early 60s and 70s, Nigeria was mainly an agrarian economy, and this was the mainstay of the Nigerian economy providing a means of livelihood for over 70% of the populace and also contributing significantly to the growth of the gross domestic product. However, the emergence of oil and the consequent oil boom in the late 70s depressed growth in the sector. The attendant massive construction works in the urban areas as a result of the oil boom led to high wage differentials between the urban and the rural sector, thus led to a mass exodus of able bodied youths from the rural agarian sector to the urban sector in search of white collar jobs.

Today, the larger part of the Nigerian agriculture remains rudimentary and backward. Oldfashioned equipment are used and currently, only about 53% of the 70m hectares of arable land is under cultivation. As a result, the sector is unable to meet domestic food demands and hence, billions of naira are spent annually on food importation. Moreover, employment and productivity in the rural sector have been very slow, while poverty and inadequate capital have continued to inhibit growth. The various efforts by government to shore up growth in the agricultural sector through the provision of incentives(such as credit guarantees, subsidies, fertiliser programmes etc) by the sector have not yielded significant results as has not been able to adequately cope with the ever growing problems of the sector.

Agriculture cannot be modernized without the existence of a strong financial sector because it is capital intensive. This underscores the general consensus that progress in the agricultural sector can only be achieved through a responsive financial sector arrangement.

This paper examines the contributions of Nigerian banks to the development of the agricultural sector over the years and also proposes policy changes that could significantly increase the flow of bank credit to the sector, in future years. It postulates, that while much emphasis should be placed on small holdings to guarantee employment for the rural populace, specific attention and policy shift that will channel funds in favour of commercial large scale farming should be put in place.

Growth in any sector of an economy is premised upon capital accumulation, and increased individual and household savings, savings to a large extent, determine the growth rate of the productive capacity and output. However, the relative poverty of the rural populace in Nigeria hampers savings and investment potentials and this has continued to perpetuate low growth and productivity. The ensuing low level of equilibrium trap requires massive investment of capital to break from.

CREDIT IS NEEDED TO BUY LAND, PURCHASE inputs, equipment, hire labour, adopt new technologies and farm practices.

To aid banks to aggressively support agriculture by reducing their lending risks.

To make farmers patronise formal credit markets on a sustainable basis and prevent exploitation by informal credit providers.

To ensure that adequate funds are provided to the agricultural sector on reasonable terms, from the mainstream financial system.

Other financial mechanisms which were introduced to promote lending to the agricultural sector in Nigeria included the establishment of the Nigeria Agricultural Credit Support Scheme (ACCSS) in 1993, now Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB). The bank provides credit to farmers, cooperative societies and other rural economic actors to enable them engage in meaningful productive economic activities. The Nigerian Agricultural Insurance Corporation (NAIC) was set up in 1993 to ameliorate the risks of losses in agricultural production that could occur through bad weather, floods, fire and other natural disasters with the aim of ploughing farmers back into production when and where natural disasters occurred.

Another major intervention in the agricultural financing is the Agricultural Credit Support Scheme (ACCSS), introduced in 2006 through the joint initiative of the Federal Government and the Central Bank of Nigeria with the active support and participation of the Bankers’ Committee. The Scheme has a prescribed fund of N50.0billion. ACCSS was introduced to enable farmers exploit the untrapped potentials of Nigeria’s agricultural sector, reduce inflation, lower the large scale cost of agricultural production (i.e. food items), generate surpluses for export, increase Nigeria’s foreign earnings as well as diversify its revenue base.

Despite the various interventions in the sixties to early seventies, the demand for finance in the agricultural sector far outstripped the supply. From the period 1962 to 1975, the amount of credit disbursements increased from N227.6 million to N250.85 million (see table 1). However, the share of credit to agriculture as a percentage of total credit to the economy decreased from 17.48% to 7.13%. Despite the same period meaning that general support to the agricultural sector was on the decrease compared with other sectors of the economy. The total lending to the sector expressed in terms of N per capita, amounts to only 8,320.00 N in 2002 increasing to 99,320.00 in 2006. These figures further reveal that a large part of the rural population did not have access to financial services.

The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), had fresh capital injections since its reorganization in 2002. The bank is entitled to lend to all sorts of on- and off-farm income-generating activities but it has not been able to effectively achieve this due to funding constraints. According to the directives from the Federal Government of Nigeria (FGN), 70% of the loan portfolio must be granted to the poor (“micro loans” below N250,000) at single digit interest rates.

The bank expects a repayment rate of the loans in the region of 85%, but this goal is yet to be achieved.

As at December, 2006 a total of 1,258 applications valued N28.2billion were received by banks under the ACCSS, out of which 126 projects valued N23.2billion were approved. In terms of actual disbursements, a total of forty seven (47) projects valued N17.1billion was recorded as at the end of December, 2006.

The activities of NAIC still leaves much to be desired as farmers have continued to complain of delayed or non payment of claims. In addition to the fact that NAIC is the only company empowered to undertake agricultural insurance in Nigeria, privately owned insurers or companies might not even be willing to play in this arena because of the complexities involved in dealing with agricultural insurance and the non-lucrative nature of this market niche.

The major problems inhibiting credit supply to the sector are multi-faceted:

First, agriculture in Nigeria is dominated by small-scale practice that do not enjoy technical and market economies of scale. Ability to manage large loans required for increased scale and scope of operations remain abysmally low. This further hampers the adoption of
Agricultural experts are more likely to be more sympathetic to staff with training in relevant fields. Lending banks need to have full fledged training of banks officers: various fronts: carry out aggressive policy changes on Nigeria to be achieved, there is a need to bring about the adoption of the above stated policy proposals would go a long way to satisfy the objective of lenders, agricultural borrowers, the government and ultimately, the nation.

**Table 1: Lending to the Agricultural Sector by Banks: 2002 to 2006.**

<table>
<thead>
<tr>
<th>Year</th>
<th>Aggregate Net Credit to the Economy (N'Bil)</th>
<th>Commercial Bank Loans to Agric. (N'Bil)</th>
<th>ACGSF Loans to Agric. (N'Bil)</th>
<th>Total Population (000)</th>
<th>Total Agric. Population (000)</th>
<th>Aggregate Index of Agric. Population (Year 1999 = 100)</th>
<th>Commercial Bank loan per agricultural population</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>1,302.20</td>
<td>227.60</td>
<td>1.10</td>
<td>122,163.00</td>
<td>26,700.00</td>
<td>153.70</td>
<td>8,520.00</td>
</tr>
<tr>
<td>2003</td>
<td>1,591.20</td>
<td>242.20</td>
<td>1.20</td>
<td>125,620.00</td>
<td>27,840.00</td>
<td>158.20</td>
<td>8,700.00</td>
</tr>
<tr>
<td>2004</td>
<td>2,077.80</td>
<td>261.60</td>
<td>2.10</td>
<td>129,175.00</td>
<td>28,717.00</td>
<td>166.50</td>
<td>9,110.00</td>
</tr>
<tr>
<td>2005</td>
<td>2,508.90</td>
<td>262.00</td>
<td>3.10</td>
<td>133,767.00</td>
<td>28,990.00</td>
<td>151.50</td>
<td>9,048.00</td>
</tr>
<tr>
<td>2006</td>
<td>4,066.70</td>
<td>290.82</td>
<td>4.30</td>
<td>140,000.00</td>
<td>290.82</td>
<td>161.10</td>
<td>9,320.00</td>
</tr>
</tbody>
</table>

**Microfinance**

---

By H. Maita

The Association for Social Advancement (ASA), Bangladesh was founded by Dr. Shafiqul Chowdhury as a Non-Governmental Organization (NGO) in 1991 and shed its initial focus on microfinance. It shifted emphasis from agricultural loans to providing microcredit to the rural poor. In 1993, it restructured to meet the new challenges.

ASA has been able to create an enabling environment for achieving a just society, through organizing villagers (samities in Bangla) in achieving a just society, through organizing villagers (samities in Bangla) and reaching them basic knowledge of law as a means of social action, promoting legal rights, awareness and social justice.

Following the change of mission, ASA hired more staff, posted them to branches and simplified their tasks, assisted by detailed operational manual. It paid modest salaries, basing its recruitment system on group rather than individual interviews.
Henry Ford's philosophy was to be one of mass production. He believed in the mass production of motor vehicles in the early 1900s. He said "I will build a car for the man making a good salary, but small enough for the family, but small enough for the individual to own and enjoy with his family. The blessing of all of the world is the pleasure in God's great open space". He said "I will build a car for the average American which will be less than $500, making it possible for a large number of people to own a motor car. Assembling time was equally reduced from 12 hours per automobile in 1912 to 1.5 hours in 1914. By 1925, Henry Ford was producing half of America's automobiles in stock.

The above became the driving force for the provision of ASA's financial services. ASA committed itself to 4 key organisational norms as follows:

- Provision of standardized low-cost savings products
- Credit Products
- Users group based approach to service delivery
- Quick access to first loans, about 4 weeks of becoming member of ASA

ASA's initial loan was US$80 - $120, with a grace period of 2 weeks before repayment. Savings products were done weekly with simple, effective and rigorous procedures that allow cost-effective delivery of micro credit. It practiced zero-tolerance on late repayment of loan installments.

Savings products were done weekly with each member of the group contributing US$0.2 for small loan members and US$0.4 for small enterprise members. T en percent (10%) of savings was set aside to pay the institution and the clients. Some important features that have made ASA methodology a success are:

- Low size of Head Office staff and modest Head Office accommodation.
- Modest branch accommodation serving the dual purpose of residence and office.

The institution's outreach over time. The ASA methodology had increased the outreach of 26,813 clients and outstanding loan size. A renewed drive towards loan recovery championed by ASA's intensive loan monitoring and collection methods, as well as increased loan portfolio.

The institution has the intention to establish its MF as a subsidiary, while continuing with its social function as an NGO. At the JDPC, the adoption of the ASA methodology had increased the Microfinance's outreach over time. The institution had 30 branches in Ogun, Ondo, Ekiti and parts of Lagos State with an outreach of 26,813 clients and N151,425,042 as total savings. The outstanding loan portfolio stood at N2,931,861,830. It was also revealed that the institution had a 100% loan recovery rate and its default rate was only 5%.

The table shows the statement of financial performance between 2008 and 2007 indicating that where microfinance is practiced in the way it ought to, it will pay the institution and the clients.

Against the backdrop of the impressive performances of the ASA, Bangladesh, the Association was engaged in 2006 to conduct training programme for three MFIs in Nigeria under the United Nations Development Programme (UNDP) Project on ‘Support for the Development of a Sustainable Microfinance Sector in Nigeria.’ The MFIs were Lift Above Poverty Organisation (LAPO), Benin, and Development Bank of Officers (DBO), (Dehi), Bangaldesh. A monitoring exercise of the MFIs recently conducted by the Central Bank of Bangladesh revealed that the beneficiaries of the training had been recording improvements in their performance indicators.

Decisive activity improvements with an increase of loan portfolio from N2 billion as at December 2007 to N2.5 billion as at the end of March, 2008. The institution’s clientele base increased from 155,000 as at December, 2007 to 166,000 as at March, 2008, while the loan recovery rate was 99.7%. LAPO had trained three institutions under the ASA methodology knowledge transfer programme and five other institutions on an on-going basis.

The achievement was made possible through a renewed drive towards loan recovery championed by ASA’s intensive loan monitoring and collection methods, as well as increased loan portfolio.

The institution has the intention to establish its MF as a subsidiary, while continuing with its social function as an NGO.

At the JDPC, the adoption of the ASA methodology had increased the Microfinance's outreach over time. The institution had 30 branches in Ogun, Ondo, Ekiti and parts of Lagos State with an outreach of 26,813 clients and N151,425,042 as total savings. The outstanding loan portfolio stood at N2,931,861,830. It was also revealed that the institution had a 100% loan recovery rate and its default rate was only 5%.

The table shows the statement of financial performance between 2008 and 2007 indicating that where microfinance is practiced in the way it ought to, it will pay the institution and the clients.

Against the backdrop of the impressive performances of the ASA, Bangladesh, the Association was engaged in 2006 to conduct training programme for three MFIs in Nigeria under the United Nations Development Programme (UNDP) Project on ‘Support for the Development of a Sustainable Microfinance Sector in Nigeria.’ The MFIs were Lift Above Poverty Organisation (LAPO), Benin, and Development Bank of Officers (DBO), (Dehi), Bangaldesh. A monitoring exercise of the MFIs recently conducted by the Central Bank of Bangladesh revealed that the beneficiaries of the training had been recording improvements in their performance indicators.

The achievement was made possible through a renewed drive towards loan recovery championed by ASA’s intensive loan monitoring and collection methods, as well as increased loan portfolio.

The institution has the intention to establish its MF as a subsidiary, while continuing with its social function as an NGO.

At the JDPC, the adoption of the ASA methodology had increased the Microfinance's outreach over time. The institution had 30 branches in Ogun, Ondo, Ekiti and parts of Lagos State with an outreach of 26,813 clients and N151,425,042 as total savings. The outstanding loan portfolio stood at N2,931,861,830. It was also revealed that the institution had a 100% loan recovery rate and its default rate was only 5%.

The table shows the statement of financial performance between 2008 and 2007 indicating that where microfinance is practiced in the way it ought to, it will pay the institution and the clients.

Against the backdrop of the impressive performances of the ASA, Bangladesh, the Association was engaged in 2006 to conduct training programme for three MFIs in Nigeria under the United Nations Development Programme (UNDP) Project on ‘Support for the Development of a Sustainable Microfinance Sector in Nigeria.’ The MFIs were Lift Above Poverty Organisation (LAPO), Benin, and Development Bank of Officers (DBO), (Dehi), Bangaldesh. A monitoring exercise of the MFIs recently conducted by the Central Bank of Bangladesh revealed that the beneficiaries of the training had been recording improvements in their performance indicators.
Sources of Funding for Small Scale Enterprises

By Joe Alegieuno

Introduction

Small scale enterprises constitute the bedrock of many economies by providing the impetus for creating employment and value added activities. In most developing countries, the small scale enterprises operate in the informal sector. Developing and sustaining this important sub-sector of the economy will engender economic growth and development. To achieve this objective, conditions for dynamic, indigenous economic activities must be created. Nigeria’s focus on its ability to train and fund local entrepreneurs that can nurture homegrown firms and encourage innovation, risk taking and local investment.

One of the major challenges facing small scale enterprises promoters in Nigeria is that of funding. To resolve this, government has put in place various schemes, programmes and policies. These include the Agricultural Credit Guarantee Scheme (ACGS) and the Agricultural Credit Support Scheme (AGSS) for agricultural enterprises and the Small and Medium Enterprises Equity Investment Scheme (SMEESI) for other real sector activities. Equally, some specialized agencies and institutions have been established over the years. These include the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), National Directorate of Employment (NDE), National Poverty Eradication Programme (NAPEP), the Agricultural Cooperative and Rural Development Bank (ACRDB), Bank of Industry (BOI) and the Nigerian Export Import Bank (NEXIM).

Despite these attempts, the small scale entrepreneurs are yet to achieve their optimal potential in the economic equation of the nation. This paper is aimed at providing information on the various sources from which potential small entrepreneurs can source funds for pursuing their businesses.

Prospects of Small Scale Enterprises in Nigeria

The definitions of small scale enterprises in Nigeria are as various as there are various stakeholders. In terms of employment generation, the International Finance Corporation (IFC) defines small scale enterprises as those that employ 10–50 persons, a position adopted by the Central Bank of Nigeria which says all enterprises employing less than 50 persons are small scale. However, the National Association of Small Scale Industries (NASI) aggregates enterprises employing less than 40 persons as small scale enterprises.

In Nigeria, small scale enterprises play crucial roles in the development process. They are key to the establishment of a robust industrial sector, by stimulating indigenous entrepreneurship and technology. They represent an essential link between primary production and large scale industrialization, and both sides of the divide would function more efficiently if they are enabled to develop and grow through conscious action, policies and initiatives.

Specifically, small scale enterprises are vital to the economy in the following respects: (i) provide opportunities for wealth creation, savings and foreign exchange earnings; (ii) prepare training ground for local entrepreneurs to grow from small to medium-scale; (iii) bring about a more equitable distribution of income and alleviate poverty; (iv) diffuse investment and check the expansion of monopolies; (v) transfer manufacturing activities from congested metropolitan to the non-metropolitan and rural areas, thereby reducing rural-urban migration; (vi) create immediate and permanent employment at a relatively small capital cost; and (vii) create value addition to local production.

The opportunities for growth in the small-scale sector are enormous due to (i) low capital and technology required to set up; (ii) government support and promotion; (iii) special funding opportunities and subsidies; (iv) expansive and expanding market demand for final products; (v) availability of cheap labor in a labor surplus economy like Nigeria; and (vi) ease with which they can be established based on local raw materials.

Potential Small Scale Business Opportunities in Nigeria

In Nigeria, various small business opportunities are advertised on the pages of newspapers, some as one walks along the streets, while others are obtained through discussions with friends and relatives. However, for our purpose, a list of some potential areas of investment in small scale businesses are shown on Table 1.

Practical Considerations for Engagement in Small Scale Enterprises

In order to get engaged in a small scale enterprise, one has to take some critical steps. These steps include the following:

i. Have a well Thought out Idea

The potential entrepreneur should have an idea or concept of the business in which he wants to engage. Such ideas could be conceived from what one sees, discusses and reads. The chosen business should be put on paper, detailing choice made, the reasons for the choice and alternatives available. The business plan must be concise but comprehensive enough to provide details that will provide convincing reasons that the objectives will be attainable.

ii. Determine the Nature of Ownership and Management

One of the major problems that have continued to plague small businesses is the problem of poor management. The entrepreneur should be able to choose whether to operate as sole ownership or with partners. Which ever structure is preferred will have to be documented and the implication of the structure chosen should be spelt out. Most Nigerian business men and women prefer to own their businesses alone, but this means that they will have to think, decide and execute their businesses alone and in most cases, this results in inability to separate such businesses from family ties and considerations. This situation has negatively affected most Nigerian businesses. For this reason, a partnership might be given positive consideration as it affords the business the advantage of joint thinking, joint decision, joint effort and joint action. Where a partnership is the option, a memorandum of partnership have to be drawn and agreed upon.

iii. Estimate the Nature and Magnitude of Financial Support Required

Each business option has different capital requirements, and the potential entrepreneur must estimate how much the business will cost, so as to decide on the financing option and the likely mode of raising the shortfall. Financial services providers would want to know the details of assets (home stocks, livestock, equipment) and liabilities (debts) in order to show a clear monetary value of the business net worth. Critical to receiving a favorable consideration by fund providers is evidence that the promoter have some capital at risk in the venture. This is based on the philosophy that the more risk an investor is exposed to, the more precautions he is likely to take to prevent failure.

The guiding principle for the business promoter and the fund

Table 1: List of Potential Small Scale Businesses in Nigeria

<table>
<thead>
<tr>
<th>Agriculture and Agro-based Micro-Businesses</th>
<th>Non-Agricultural Micro-Businesses</th>
<th>Commerce/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry Production</td>
<td>Oil Palm Plantation</td>
<td>General Retail and Merchandise (Buying and selling)</td>
</tr>
<tr>
<td>Cocoa/Coconut plantation</td>
<td>Rubber Plantation</td>
<td>GSM user services</td>
</tr>
<tr>
<td>Soybean production</td>
<td>Grains (Maize, Guinea Corn, etc.)</td>
<td>Party rentals</td>
</tr>
<tr>
<td>Legumes (Bambara nut, Ground nut, Cowpea)</td>
<td>Fishery</td>
<td>Restaurant business</td>
</tr>
<tr>
<td>Cotton</td>
<td>Orchard/Pineapples, Oranges, Guava, Mangoes, Pears, Plantain, Banana etc.)</td>
<td>Musical/video cassetes sales</td>
</tr>
<tr>
<td>Cocoa/Coconut</td>
<td>Fishery</td>
<td>Merchandise/Retail and Services</td>
</tr>
<tr>
<td>Livestock (Goat, Dogs, Pig, Sheep, Cattle, Poodles, Grass Cutters, etc)</td>
<td>Small farming</td>
<td></td>
</tr>
<tr>
<td>Processing of any of the above products.</td>
<td>Processing of any of the above products.</td>
<td></td>
</tr>
<tr>
<td>Table 1. List of Potential Small Scale Businesses in Nigeria</td>
<td>Skills &amp; Trades/Technical</td>
<td>Commerce/Services</td>
</tr>
<tr>
<td>Agriculture and Agro-based</td>
<td>Micro-Businesses</td>
<td>General Retail and Merchandise (Buying and selling)</td>
</tr>
<tr>
<td>Tailoring/Fashion Design</td>
<td>Arts and Crafts,</td>
<td>GSM user services</td>
</tr>
<tr>
<td>Clothing</td>
<td>Sculpting</td>
<td>Party rentals</td>
</tr>
<tr>
<td>Carpenter</td>
<td>Motor repairs/maintenance</td>
<td>Restaurant business</td>
</tr>
<tr>
<td></td>
<td>Vulcanising</td>
<td>Musical/video cassetes sales</td>
</tr>
<tr>
<td></td>
<td>Waste disposal and cleaning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shoe making/mending</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Newspaper/ Magazine vending</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Electrical/ Electronic Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water packaging and sales</td>
<td></td>
</tr>
</tbody>
</table>
Most start-up businesses are various sources of financing small scale favorable consideration to loan requests external financial support. In order to up capital. The next step is to seek for entrepreneurs have been constrained enterprises exist in Nigeria, prospective. Despite the fact that a diverse range of Possible Funding Sources for vi. Determine the Legality of the Business. The chosen line of business should take into consideration, existing laws and regulations. For instance, what are the preconditions for producing bottled water and what licenses need be obtained. The business in question might require registration with an appropriate body and this should be complied with. Among the possible lines of businesses, one has been to do those that present legal restrictions/ barriers which the business owner cannot presently surmount.

Possible Funding Sources for Start-up Enterprises. Despite the fact that a diverse range of enterprises exist in Nigeria, prospective entrepreneurs have been empowered from many in such businesses owing to insufficient personal savings and start-up capital. The next step is to seek for external financial support. In order to access funds from external sources, adequate information on the sources and the possible fundamentals for giving favorable consideration to loan requests become important. In this section, the various sources of financing small scale businesses are highlighted with a view to giving the business owners the leeway to make appropriate choices.

General Financing Sources:

**Most start-up businesses are generally funded from three main sources:**

1. **Own funds**: Funds from homeowners.
2. **Funds from friends and family**: Funds from friends and family members kommen in one of two ways, they are either approached or offer to invest. Where the latter is the case, the entrepreneur should substantiate his request with the merits of the business in a particular market. The market normally determines how it is perceived that a particular business is doing well and a family member or friend wants to get in to reap from the benefits. In getting start-up capital from friends and family members, care should be taken to have a written contract that clearly outlines the amount received and the terms of repayment.
3. **Commercial finance companies** (as opposed to banks). A revolving line of credit collateralized by the company’s assets, specifically accounts receivable and inventory. Asset-based financing works for rapidly growing, highly leveraged companies with proven accounts receivable, and a demonstrated track record of several times inventory turning over in a year. Asset based lenders generally have higher interest rates than bankers and hence charge higher interest.

To negotiate an asset-based line of credit, borrowers must come to the table with adequate, clear and reliable financial information that paints a positive picture of the state of affairs of the company. Relevant information include at least three things:

1. A reasonable net worth and long-term viability.
2. Financial statements that have been reviewed by a recognized accounting firm and (3) cash flow projections.

**Bank Loans**: These are the basic commercial loans of banks. They are required as the business begins to grow. They are usually repaid with a fixed interest rate, monthly or quarterly repayment schedules and a set maturity date. Bank loans can either be short term, that is usually repayable within a year or medium-term loans, usually less than three years or long-term loans, commonly of durations above three years. Both of these loans are appropriate for established small businesses that can leverage sound financial statements. Repayment is typically linked to the lifespan of the term financed. Most bank loans require collateral and a relatively rigorous approval process. They are best used for construction, major capital improvements, large capital investments, such as machinery, working capital, and purchases of existing businesses. The basic parameters normally examined by financial institutions in the approval of facilities are: i. **Character**: This relates to the history of how well the borrower has managed previous businesses or personal loans, ii. **Capacity**: This is an assessment of the borrower’s ability to utilize and repay the loan, iii. **Collateral**: The pledging of a tangible asset on which the bank can fall, in the event the loan turns bad, iv. **Capital**: Assets that the borrower owns that can be quickly turned to cash if necessary. This refers to the borrower’s stake in the business.

**Institutional Venture Capital**: Institutional venture capital comes from professionally managed funds which seek to invest in start-ups and potentially profitable companies. They are best suited for financing product development to expansion of a proven and profitable product. Institutional venture capitalists usually demand significant equity in a business they want to bank on. The younger the business, the more equity is required to convince an institutional venture capitalist to invest. In making a choice of a venture capital company, one should search for: i. a company that specializes in one’s line of business or that is known to have preference for this line of business, ii. a company that is not far from the location of one’s business, and the company will be expected to send representation to board meetings and long distant problems could cost a company, iii. a company that is suited for the current stage of development of one’s business, iv. companies with investment in early stage businesses, others in more mature businesses, iv. leadership status of the venture capital company, there are leaders in the world of venture capital companies and there are followers, v. it is important that the leader have recognized expertise and conduct due diligence on the prospective portfolio companies while followers are more passive, and vi. the size of the company; as there are often upper and lower limits on the sizes of their investments.

This service can be obtained from professional fund managers, most of which are subsidiaries of deposit money banks.

Special Funding Sources Being Promoted By Government

Federal government poverty alleviation agencies such as the National Poverty Eradication Programme (NAPERP), Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Directorate of Employment and Development (NDE) have specialized and targeted financing programmes that potential entrepreneurs could benefit from. In the same vein, most State Governments have micro credits and poverty alleviation agencies which provide subsidized credits in favour of their micro, small and medium entrepreneurs.

Conclusion

In Nigeria many business opportunities abound. It is necessary to discover these opportunities and make a choice. A small enterprise owner could fund his project through several sources depending on the nature of the business and the scale of operation. This paper highlights a general funding sources offered by financial institutions or through special sources provided by government promoted poverty alleviation programmes. Critical to favorable consideration of loan requests is the need to present convincing evidence that he has the gains of the project outweigh the costs and coupled with a demonstrable testimony that there is appropriate management capacity to realize the projections in the business plan.

Public sector employment opportunities continue to shrink in the face of various reforms, entrepreneurs therefore, have resorted to some kind of sector self employment by starting a small business today. With good management, a small enterprise could grow into a big conglomerate taking into account deliberate growth strategies.
Why Microfinance?

Microfinance provides financial services to the poor who are traditionally not served by the conventional financial institutions. It empowers micro, small and medium enterprises through loans and savings products, thus helping to lift them out of poverty, while increasing their contributions to the GDP of the nation.

Evolution of Microfinance

Traditionally, microfinance was the sole purview of informal institutions such as Non-Governmental Organizations (NGOs). The NGOs funded their activities through private and institutional donors. As the importance and potential of microfinance grew, however, institutions started looking towards developing organizations that had the ability to offer a wider array of products and services without restrictions that were inherent in the not-for-profit structure. This led to the establishment of formal institutions funded by equity and debt, subject to specific banking regulations and supervision. In addition to meeting their social objectives, these institutions had an obligation to provide financial returns to their shareholders.

Building a vibrant microfinance bank-how feasible?

The new structure of microfinance banks provides for an appropriate mechanism that is possible for an organization to achieve its mission of economically empowering the poor, while at the same time remaining a financially sustainable entity.

Building a vibrant microfinance bank-how feasible?

By Bunmi Lawson, MD/CEO, Accion MFB

“Efficient financial systems are vital to the prosperity of a community and a nation as whole. To ensure that vast majority of people are included in the benefits of development, it is necessary that they have consistent access to financial services, access that can translate into a key element of economic growth and poverty alleviation options” — Jose Antonio Stampa, Under Secretary General for Economic and Social Affairs Co-Chair, Coordinating Committee for the Decade 2005 to 2015

UDS, it would appear that the two objectives could be achieved simultaneously. BRI-UDS adopted the savings mobilization approach as an experiment in 1984 to transform its rural money losing agricultural credit operations to commercially viable ones. This was achieved by Action International and other partners using the financial systems approach. Banco Sol experienced extraordinary growth and profitability in the mid 1990s and is frequently referred to as a model for serving the poor in a sustainable manner.

Key success factors in building a vibrant microfinance bank

Looking at the experiences of such organizations, more especially, Banco Sol, it becomes apparent that the key factors for success lay first in a clear mission, which was focused at reducing poverty through the market segments. To ensure that this mission was actualized, the promoters selected people who shared the same passion for microfinance as the founders did and had personalities suited for leadership. The leadership was able to develop vibrant corporate cultures among their team which dramatically affected the manner in which they conducted business. Another key success factor was technical know-how.

Although, one may learn about microfinance operations to commercially viable and 120,000 clients. The ATP grantees constitute a considerable portion of the commercial microfinance sector in Nigeria, in terms of clients and volumes of activity.

The Business Development Services Component has provided 58 matching Performance Grants for a sum of roughly $5 million to support innovative, strategic, commercially oriented business development services in the three target states. The 58 grantees (i.e. BDS Providers) have provided a range of business development and advisory services to over 1,500 MSMEs and achieved a 65% cost recovery, well in excess of final year project targets of supplying 1,000 MSMEs with BDS services, and serving of 20 BDS providers. The grantees form a dynamic part of the emerging commercially oriented business development services sector in the country.

The Business Development Services Component in Nigeria will evolve into a commercially viable and financially sustainable enterprise. However, the most promising performance of a large number of the projects was the creation of thousands of jobs.

Performance Grants for a sum of roughly $5 million to support innovative, strategic, commercially oriented business development services in the three target states. The 58 grantees (i.e. BDS Providers) have provided a range of business development and advisory services to over 1,500 MSMEs and achieved a 65% cost recovery, well in excess of final year project targets of supplying 1,000 MSMEs with BDS services, and serving of 20 BDS providers. The grantees form a dynamic part of the emerging commercially oriented business development services sector in the country.

The Business Development Services Component in Nigeria will evolve into a commercially viable and financially sustainable enterprise. However, the most promising performance of a large number of the projects was the creation of thousands of jobs.

Building a Vibrant Microfinance Bank: The Key Factors

By Bunmi Lawson, MD/CEO, Accion MFB

Implications and Challenges for Nigeria

Poverty eradication is a millennium development goal for many nations, including Nigeria. Microfinance, therefore, has been identified as a tool for achieving this, has the support of the Government and regulatory authorities. This is evident in the economic reforms of the Government including the elimination of a microfinance policy which is a welcome initiative for the development of the informal sector and hence the nation’s economy.

As the importance of microfinance grows, more especially, Banco Sol, it becomes apparent that the key factors for success lay in the establishment of credit bureaus through collaboration with all stakeholders which would significantly affect the sustainability and viability of the microfinance sub-sector by creating a repository of credit history of clients. This will enhance verification of loan applications, reduce the incidence of fraud and make processing faster. The establishment of credit bureaus will increasingly become crucial, especially to an emerging economic environment, such as that in Nigeria, as credit rather than asset collateral becomes a basis for lending to members of the public.

Conclusion

There will be many challenges ahead as microfinance gains a foothold in Nigeria. This has been the case with all successful microfinance organizations. However, by learning from their errors and adopting key success factors, microfinance in Nigeria will evolve into a commercially viable and sustainable entity and should have the desired impact on the lives of the people and the economy.