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Central Bank of Nigeria Holds 3rd Annual Microfinance Conference and Microfinance/ Entrepreneurship Awards

Inside:

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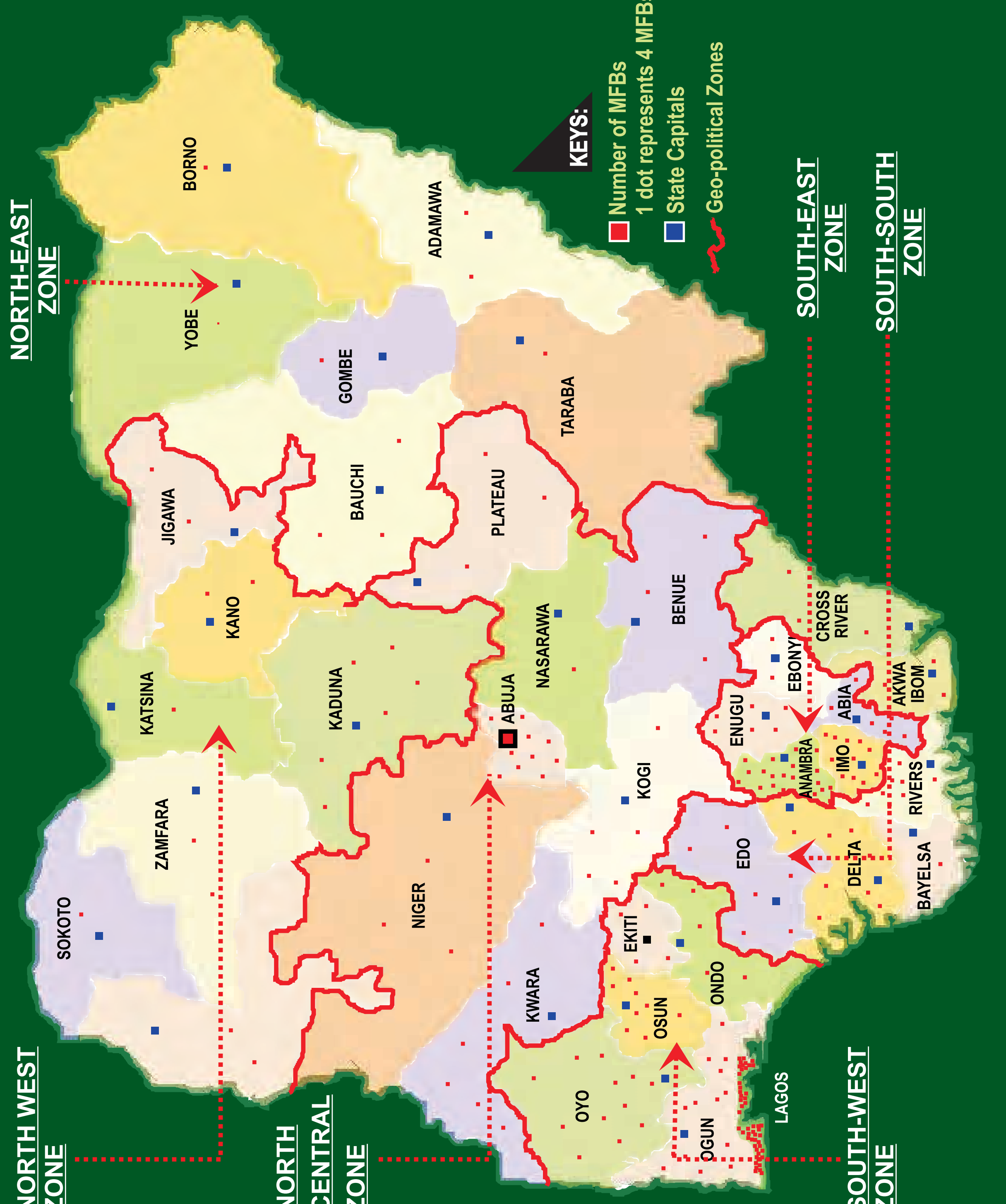
DISTRIBUTION OF MFBs BY GEO-POLITICAL ZONES AS AT JUNE 2009.

GEO-POLITICAL ZONES	NUMBER OF MFBs
NORTH WEST	
JIGAWA	8
KADUNA	23
KANO	7
KATSINA	5
KEBBI	6
SOKOTO	5
ZAMFARA	6
SUB-TOTAL	60
NORTH-CENTRAL	
ABUJA FCT	40
BENUE	10
KOGI	21
KWARA	22
NASARAWA	3
NIGER	12
PLATEAU	13
SUB-TOTAL	121
NORTH-EAST	
ADAMAWA	8
BAUCHI	12
BORNO	4
GOMBE	4
TARABA	4
YOBE	1
SUB-TOTAL	33
SOUTH-WEST	
EKITI	13
LAGOS	205
OGUN	54
ONDO	18
OSUN	32
OYO	48
SUB-TOTAL	370
SOUTH-SOUTH	
AKWA IBOM	13
BAYELSA	4
CROSS RIVER	6
DELTA	33
EDO	25
RIVERS	31
SUB-TOTAL	122
SOUTH-EAST	
ABIA	26
ANAMBRA	80
EBONYI	6
ENUGU	22
IMO	43
SUB-TOTAL	177
TOTAL	**883**



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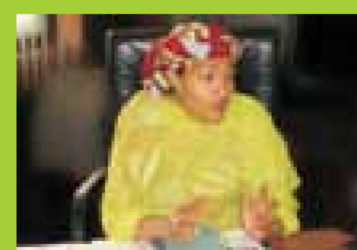

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All Correspondences are to be directed to the ***Editor-in-Chief, The Nigerian Microfinance Newsletter,*** *Development Finance Department, Central Bank of Nigeria, Central Business District, Garki, Abuja, Nigeria.*
E-mail: pneluhaiwe@cenbank.org
Jaaattah@cenbank.org

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editorial

Bridging The Funding Gaps in the Microfinance Subsector:

The Need for Necessary Fundamentals

One of the critical challenges facing microfinance institutions in Nigeria is the lack of funding needed to expand financial services to clients. This arises primarily from the low capital base of the institutions.

Considering the absolute number of the underserved and unserved low income population in Nigeria, microfinance institutions will definitely require huge amount of funds to carry out effective and adequate intermediation processes. Non-Governmental Organizations and financial cooperatives have tried to resolve their funding challenges through savings, deposit mobilization from their members and injection of capital from owners. Those that have demonstrated sound financial positions and ratios have been able to mobilize support from donors with social mission and objectives. Nevertheless, the activities of these institutions still remain severely constrained because deposit and savings mobilization are limited to the number of their members. Also, support from donors and stakeholders with social mission are becoming increasingly difficult particularly for Nigerian institutions, owing to lack of transparency in financial reporting and absence of commensurate results from previous assistance programmes. In the light of these, NGOs and financial cooperatives that intend to impact on the society as an on-going programme must undertake steps to diversify their funding sources.

The starting point of this within the Nigerian context, is to undergo the process of transformation. Transformation entails a redefinition of the institutional objectives of the organization, changes in organizational structure, adoption of appropriate governance and attainment of regulated status through licensing as a microfinance bank by the Central Bank of Nigeria. Licensing empowers the transformed institution to take deposits from the general public and this expands the fund mobilization base of the institution. In addition, it exposes the institutions to the regulatory scrutiny of the Central Bank and checkmates practices that could jeopardize the fortunes and long term sustainability of the institution. Equally, compliance with regulatory provisions guarantees sound financial standing of the transformed institution in terms of relevant performance ratios, and this could qualify them for commercial funding from various sources such as commercial banks, asset and fund management companies at viable rates of interest. Such institutions can enjoy guarantee facilities from international organizations to support their funding drives.

Microfinance banks, though licensed are not immune to the funding problems in the microfinance sub-sector. Their funding challenges emanate from low capital base, inordinate fixed assets acquisition, ostentatious operational disposition, inability to mobilize deposits, poor lending and questionable governance and management arrangements. Traditionally, the capital requirements of the two recognized categories of microfinance banks (N1.0 billion for state banks and N20.0 million for unit banks) obligate sound and shrewd management to attain the necessary fundamentals for attracting the attentions of savers and commercial funds providers. As things are in Nigeria today, many microfinance banks need drastic reorientation, reorganization and restructuring to positively tilt their performance indices. This will be a compulsory precondition for any support worth giving.

Bridging the funding gaps in the microfinance sub-sector calls not only for institutional changes but also other prompt ancillary initiatives and complements. The reforms in the banking sector and the lifeline that had been made available to the deposit money banks to restore confidence in the system support the fact that institutions that provide financial services for the larger majority (microfinance banks and institutions) will need similar support. This derives from the fact that they suffer most from any perceivable liquidity crunch in the entire system.

By virtue of their number and spread, these institutions contextually have the potential for reaching and impacting more people and their economic engagements. They spend more to reach largely dispersed customers in terms of cost of operations and require more funds to lend to this large majority. Their need for funds requires a combination of commercial and special arrangements. As the commercial banks grapple with the challenges of the recent reforms, there exist a very slim window for them to provide adequate wholesale funds and commercial finance in favour of the microfinance institutions.

Government authorities will, in the present circumstances, need to promptly conceptualize appropriate life support to assuage the funding gaps in the institutions. The institutions must at the same time provide evidence that given the opportunity, they will be able to deliver. Amongst others, the establishment of the Microfinance Development Fund as stipulated in the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria will provide a sustainable stop gap and should be given immediate consideration. This is necessary to save the microfinance institutions, provide empowerment for their clients and energize their economic undertakings. Unless this is done, the financial hemorrhage that is currently evident in the microfinance institutions might bleed them to undesirable proportions and this will definitely affect the poverty alleviation, job creation and increased income generation objectives of government. A stitch in time saves nine ■

Central Bank of Nigeria Holds 3rd Annual Microfinance Conference and Microfinance/Entrepreneurship Awards

By Tony Ogwu

The 3rd Annual Microfinance Conference and Microfinance/ Entrepreneurship Awards of the Central Bank of Nigeria took place from Thursday, January 22 to Friday, January 23, 2009. The Sheraton Hotel and Towers, Venue of the Conference was a beehive of activities as participants filed in to register attendance on the first day of the programme.

The Conference drew a total of over 1000 participants mainly from the microfinance sub- sector. Important dignitaries included the Vice President of the Federal Republic of Nigeria, Dr. Jonathan Ebele Goodluck, the Federal Minister of Commerce and Industry, Chief Achike Udenwa, the Federal Minister of Finance, Dr. Mansur Mukthar, the Attorney General of Federation and Minister of Justice, Justice Mike Aondoakaa and the National Coordinator of the National Poverty Eradication Programme, Dr. Magnus Kpakol. Others included representatives of the United Nations Development Programme, the German Technical Cooperation, the Department for International Development, the Ford Foundation, African Development Bank and the World Bank.

The opening ceremony featured the Opening Address by the Vice President, Dr. Goodluck Ebele Jonathan, Welcome/Keynote Address by the Governor of the Central Bank of Nigeria, Professor Chukwuma C. Soludo and Goodwill messages. Awards to the best Microfinance Support State (Lagos State), Best Agricultural Credit Guarantee Scheme Fund Support State (Delta State) and Best Agricultural Credit Guarantee Scheme Fund Support Bank (Union Bank of Nigeria) for 2008 were performed by the Vice President during the opening ceremony.

L-R: His Excellency, Dr. Emmanuel Uduaghan, Delta State Governor, Prof. Chukwuma C. Soludo, Governor, CBN and His Excellency Dr. Goodluck Ebele Jonathan, Vice President, Federal Republic of Nigeria during the National Anthem at the conference

The Vice President in his Opening Address acknowledged the unflinching support of the Central Bank of Nigeria in the development of policies and programmes to make financial services accessible to the large segment of the under-served Nigeria population. He pointed out that the initiatives of the Bank will no doubt enable low income people make meaningful contribution to the national economy and accelerate growth and development.

Professor Soludo, in his Welcome/Keynote Address reminded participants that the Conference and Awards had been institutionalized as an annual programme. He disclosed that, despite the success of the banking sector reforms in Nigeria, about 65 per cent of the Nigeria potential active population was still lacking access to financial services. The global economic melt down, he pointed out, could worsen the situation if prompt action was not taken. One of the ways to get that done was to place microfinance in the front burner of financial sector initiatives of the Bank.

L-R: Mr. Joe Alegieuno, Ag Director, Development Finance Department, CBN and Mr. Tunde Lemo, Deputy Governor, Financial Sector Surveillance

The Governor further disclosed that a total of 840 microfinance banks had been licensed by the Central Bank of Nigeria as at December, 2008. He stressed that there were uneven distribution of the banks in the country and called on State Governments to undertake steps to encourage and motivate high net worth individuals in their domains to float microfinance banks in the interest of the teaming poor population in their respective areas. The States were also called upon to take advantage of the Micro Credit Fund to partner with deposit money banks to provide funds for on-lending to their people. Other areas that the Central Bank of Nigeria would play more roles according to the Governor included the strengthening of the regulatory capacity of the Bank, institutional development and promotion of entrepreneurship through its Entrepreneurship Development Centres.

The technical session of the programme featured the presentation of papers on the theme, "Commercial Microfinance as a Tool for Poverty Alleviation". The papers included "Designing Products for the Poor and Low Income Groups in a Commercial Microfinance Environment: International Experience by Kirsten Weiss, Senior Consultant, ShoreBank International, Washington DC; Survey Report on Access to Finance in Nigeria by Modupe Ladipo, Enhancing Financial Innovation and Access (EFInA); Balancing Social and Financial Objectives in Microfinancing by Adhiambo Odaga, Representative for West Africa, Ford Foundation; Risk Management Strategies for Microfinance Service Delivery by Godwin Ehigiamusoe, Executive Director, Lift Above Poverty Organization, Benin City. Others were the Challenge of Commercialization in Microfinance: Lessons from Other Countries by Ms. Mariama Olatunde Ashcroft, Women's World Banking, New York, USA and Building Financial Literacy in Microfinance Clients by Eduardo Cabral Jimenez, Microfinance Specialist, Central Bank of Philippines.

The Award Night of the Conference took place on Thursday, January 22, 2009 at 6.30 pm. Three Deputy Governors of the CBN, namely, Messrs Tunde Lemo (Financial Sector Surveillance), Dr. (Mrs.) Sara Alade (Policy) and Suleiman Barau (Operations), the Charge De' Affairs of the Federal Republic of the Philippines amongst other dignitaries graced the occasion. Those awarded prizes during the ceremony were:

- 5 Winners each, for Best Micro Entrepreneurs and Best Small and Medium Enterprises Categories,
- 4 National Farmers under the Agricultural Credit Guarantee Scheme Fund,
- 4 Winners in the "Best Bank/Venture Capital Support for Small and Medium Enterprises,
- 1 Winner for Best Agriculture Support Bank,
- 1 State each, for supporting microfinance and agriculture, and
- 2 Development partners that excelled in providing assistance for institutional and capacity building, respectively in 2008.

During the wrap up session which was performed by the Deputy Governor, Financial Sector Surveillance, Mr. Tunde Lemo, opportunities were given to participants to raise issues and questions arising from the Conference. Its was stressed that microfinance banks should braze up to competition in the industry by developing appropriate products and undertaking steps to cut costs so as to remain sustainable. The community banks that had not concluded their conversion processes were given up to April 2009 to do so, failing which, the Central Bank of Nigeria might withdraw their provisional licenses

One of the Awardees (middle) pose for a photograph with two other participants, Dr. Ndidi Nnoli Edozien of Growing Business Foundation (left) and Ms Ogochukwu Ekezie of the Nigeria International Bank Limited (right)

Keynote Address by His Excellency, Dr. Goodluck Ebele Jonathan, GCON, at the 3rd Annual Microfinance Conference and Microfinance/Entrepreneurship Awards Held at Ladi Kwali Hall, Sheraton Hotel and Towers, Abuja on 22nd January, 2009

By Mr. A. C. Ogwu

Vice President of the Federal Republic of Nigeria, Dr. Goodluck Ebele Jonathan, presenting his keynote address at the conference.

It is my pleasure to be here today to address you at the occasion of the 3rd Annual Microfinance Conference and Entrepreneurship Awards of the Central Bank of Nigeria. I would like to commend the Central Bank of Nigeria for organising this Conference, especially at this time when the global financial meltdown has drastically reduced access to finance. The theme of the conference, "Commercial Microfinance as a Tool for Poverty Alleviation" is very timely, as it will help to bring to focus the various ways commercial microfinance can be used to alleviate poverty among our people, particularly the active poor.

Today, access to financial services, including credit, is globally recognized as a powerful tool to move people out of poverty and into economic prosperity. This administration recognizes that sustained growth and development will depend largely on the availability of affordable and efficient financial services.

We have embarked on many initiatives, particularly the Seven Point Agenda aimed at accelerating economic growth. These reform measures are expected to make a concrete and visible difference in the lives of ordinary Nigerians. It is for this reason, I commend the Central Bank of Nigeria, once again for its efforts in implementing the Microfinance Policy which was launched in 2005.

The commitment of our Administration to improve the living standards of our people, as well as their economic empowerment is amply demonstrated by the launching of the ₦50 billion Micro Credit Fund in February, 2008, the implementation of the Financial System Strategy 2020 (FSS 2020); and increased budgetary provisions for poverty alleviation programmes, among others. These initiatives are targeted at improving access to financial services by the majority of Nigerians, especially at the grassroots, and will no doubt enable them contribute to the growth and economic development of this nation.

As we gather here today, let us be aware of the realities of the global economic crisis, which is afflicting many countries of the world. This administration has therefore taken bold and pragmatic steps to shield the economy from the negative effects of this global meltdown. We have set up a Presidential Steering Committee on the Global Economic Crisis made up of experienced professionals who are expected to give greater effect to efforts to cushion the impact of the global economic recession on Nigeria.

It is gladdening to note that Nigeria's economic outlook remains very favorable, in spite of the current global financial crisis. Our economic growth is on track, buoyed by the strong performance of the non-oil sector. The provisional estimate of Nigeria's GDP growth rate for the end of 2008 was an impressive 6.8 per cent, compared with a 6.2 per cent in 2007.

It is my personal desire to see that the microfinance sector in Nigeria provides the funding required for the engagement of the active poor in profitable economic activities. This will surely lead to improvement in the standards of living of the citizenry.

Ladies and gentlemen, it is worthy of note that some individuals, State Governments and institutions, have excelled in their respective enterprises and made modest contributions in the microfinance sub-sector and today they will be honoured at this Conference. Let me seize this opportunity to congratulate them and urge them not to relent in their efforts in ensuring continued economic growth of our nation.

The Governor of the Central Bank of Nigeria, Distinguished Guests, Ladies and Gentlemen, on behalf of Mr. President, it is my singular honour and privilege to formally declare the 3rd edition of the International Microfinance Conference open.

I thank you for your attention and God bless you all ■

In order to create awareness among readers on the progress Nigeria was making in the achievement of the Millennium Development Goals, the Microfinance Newsletter Editorial Committee recently conducted an interview with the Senior Special Assistant to the President on MDGs, Mrs. Amina Az-Zubair, on the activities of her office.

The interview was conducted by Ms. A. A. Habib, a member of the Newsletter Editorial Committee.

Below are the proceedings:

Interview with the Senior Special Assistant to the President on Nigeria's Progress on Millenium Development Goals (MDGs).

By A. A. Habib

Mrs. Amina Az-Zubair, SSA to the President on MDGs

A. A. Habib: *What are the functions of your office?*

Mrs. A. Az-Zubair: My office was set up in 2005 with the primary mandate of acting as a Secretariat to the Presidential Committee on the MDGs. We were asked to develop a coherent approach for the achievement of the MDGs and facilitate the design of an appropriate system to tag and track debt relief funded MDG expenditure that will have impact at both National, State and Local levels.

Additionally, the office collaborates with a number of national agencies such as the Ministry of Finance, the Budget Office, National Planning Commission and Debt Management

A. A. Habib with Mrs. Amina Az-Zubair during the interview.

Office to provide for the operation of a virtual poverty fund designed to ensure that domestic resources derivable from debt relief are utilized for poverty eradication programmes. Public officials are then sensitized in both the design and implementation of the fund. The office works with a number of agencies to produce reports that address progress and challenges facing the delivery of the MDGs nationwide. We work with key partners that include, but are not limited to senior public service managers, representatives of International Development Partners (IDPs), as well as civil society to identify the areas likely to have the greatest impact on achieving the MDGs.

Within the last two years, we have worked in collaboration with several agencies, we have also developed a matching grant mechanism that provides States with incentives to undertake MDGs and set targets for implementation within the framework of their own development plans called "The Conditional Grants Scheme".

A. A. Habib: *What is the state of poverty in Nigeria today?*

Mrs. A. Az-Zubair: 54 per cent of Nigerians are thought to live in relative poverty. That represents almost half of all Nigerians. However, the trend indicates that these figures are on the decline, 54 per cent current poverty rate being a drop from about 66%, seven years ago.

A. A. Habib: *Would Nigeria be able to meet its MDGs?*

Mrs. A. Az-Zubair: Nigeria is likely to meet the MDGs if currents efforts are sustained and scaled up to address emerging issues. Government at Federal, State and the Local government levels are working in partnership to deliver on the promises to Nigerians and the international community by ensuring that Nigerians have access to the basic necessities of life.

We are currently on track as regard meeting Goal 2 which addresses education. School enrolment for both girls and boys has witnessed a steady increase. Net enrolment currently stands at 89.6 per cent. This is in large part, due to the Universal Basic Education law which guarantees 9 years free basic education for all Nigerian children.

The President's 7-Point Agenda also, addresses issues of childhood enrolment, reforming science technology and technical education, funding for special education and a vision for tertiary education. While progress in enrolment has been good, more needs to be done to ensure that across the nation, the quality of education is good as well.

In the area of poverty reduction, though progress has been slow, we have seen some improvement with the creation of a National Poverty Alleviation Agency, the National Poverty Eradication Programme (NAPEP). We have been able to implement a number of interventions with partner agencies. These include a multi-partner matching fund which disburses credit to the poor, the conditional grants scheme, village community enhancement scheme, as well as the National Fadama projects.

Progress has also been achieved in the reduction of prevalence rates in HIV/Aids and in the areas of women's empowerment.

However, to meet all the MDGs by 2015, more has to be done on maternal health and child mortality where Nigeria is lagging behind. Far too many Nigerian children die before their 5th birthdays from preventable diseases such as polio, measles, malaria and these require urgent attention.

A. A. Habib: *Goal 1 of the MDGs is to halve extreme poverty by 2015, what strategies are in place to ensure that this goal is met?*

Mrs. A. Az-Zubair: Debt Relief to the tune of one hundred and ten billion Naira, a year, is channeled through my office to various ministries and agencies to top up their spending on MDGs related programmes and projects. These have resulted in the building of hospitals, schools, farms, earth dams, provision of credit to extremely poor households to name but a few.

In addition, the collaboration with the States through the Conditional Grants Scheme has ensured that more poverty alleviation measures are targeted where they have the most impact. In 2008, constitutional projects that provide access to basic necessities such as water, health care, schools, medicines across communities have been implemented by the government in collaboration with the national assembly. These are coordinated through my office.

Additionally, the President's 7-Point Agenda, with its focus on critical infrastructure and agriculture, is designed to ensure that progress is felt in this area.

A. A. Habib: *Various agencies are involved in poverty eradication in the country. Would you say that these have had an impact on your activities, as well as the level of poverty in the country?*

Mrs. A. Az-Zubair: My Office since its inception had worked in partnership with a large number of poverty eradication agencies, in various capacities. We strive to work with numerous organizations to ensure that there is less duplication. To that end, we have funded various organizations in their efforts to scale up their programmes and projects. We also have ongoing collaborations with government, International Development Partners and civil society to ensure that we get the best advice and inputs in whatever we do.

Interviews with Eduardo Jimenez and Mariama Ashcroft, on Financial Literacy and Commercialization of Microfinance.

By Ms. Kirsten Weiss

The Annual Microfinance Conference and Microfinance/ Entrepreneurship Awards organized by the Central Bank of Nigeria was held at the Sheraton Hotel and Towers, Abuja, Nigeria on 22nd and 23rd January, 2009. Messrs. Mariama Olatunde Ashcroft of the Women World Banking, Washington DC, USA and Eduardo Cabral Jimenez, a microfinance consultant with the Central Bank of the Philippines presented papers on the Challenge of Commercialization in Microfinance: Lessons from Other Countries and Building Financial Literacy in Microfinance Clients, respectively. Deriving from the interesting presentations at the conference, Ms. Kirsten Weiss, a Consultant with the Shore bank International, New York, USA conducted an interview with the paper presenters.

The excerpts of the two separate interviews as culled from the Women World Banking Web site are as follows:

Ms Weiss represented ShoreBank International, New York, USA who also presented a paper on Commercial Product Development at the Conference

Interview with Eduardo Jimenez on Financial Literacy in Microfinance Clients

Kirsten Weiss: *Why should the microfinance industry concern itself with financial literacy?*

Eduardo Jimenez: The industry should be concerned about empowering the three major stakeholders in the industry: clients, microfinance providers and regulators. Microfinance clients need to be clearly informed so they can make intelligent decisions. Next, in terms of the providers, informed clients make informed decisions which result in good portfolios. Good portfolios mean good assets and more income, both for the suppliers and for the clients themselves. Finally, the oversight or regulatory agencies and the external stakeholders might have less heartache if

A. A. Habib: What are the challenges faced by the Agency in carrying out its duties?

Mrs. A. Az-Zubair: We are currently facing a number of challenges that will need to be tackled by the nation as a whole to ensure that the MDGs are met. They include a need to scale up current investments in poverty alleviation projects and programmes at a time of enormous global financial and credit crunch. Greater investments are needed in human capital development, infrastructure, industrialization, creation of an environment that promotes growth, good governance, information technology and strict anti-corruption measures.

The dearth of credible data also hinders the ability to properly plan and project, for a rapidly growing population. Also important, is a serious funding gap that is putting the achievement of the MDGs in serious jeopardy. The Debt Relief has enabled us to scale up pro-poor projects and programmes but this is not enough. We need an average of about $5 - $7 billion annually to be able to meet the MDGs.

Another major challenge pertains to the issue of human capacity to adequately address the programmes of the MDGs Secretariat. However, the Secretariat is collaborating with various training institutions, as well as the office of the Head of Service to provide training for public servants at both Federal and State levels.

A. A. Habib: What message of hope would you give to the poor in Nigeria?

Mrs. A. Az-Zubair: The first thing I would say is that help is on the way. The advent of the MDGs has now put the poor in the driver's seat. Unlike the previous policies of government whereby the common man was not carried along, the new policy gives the opportunity for better awareness creation and collaboration with those benefiting from the policy. They are given the opportunity to monitor the implementation of the policy and offer their opinions. For instance, they have a say in the location of a Primary Health Centre and the choice of similar facilities that impact positively on their livelihood.

The sustainability and security of the amenities to various communities by government is their responsibility. Today, the common man will not see such amenities as government property but his own in the long-run. Apart from this, the value system is slowly being restored and with it, confidence in government is growing.

With the improvement in the economic and social amenities, the hope of achieving the Millennium Development Goals by 2015 and Vision 2020 is therefore feasible ■

Eduardo Jimenez: Consultant to the Central Bank of Philippines

those they regulate have good portfolios.

***Kirsten:** Tell us about the Philippine experience with its Microfinance Literacy Programme (PMLP)?*

Eduardo: The PMLP started over two years ago as a commitment by the Philippines government to see a strengthened microfinance sector. The National Credit Council, which is comprised of several agencies, including regulators, felt that they need to work on financial literacy to reinforce the gains made so far in terms of policies and regulations. The Asian Development Bank supported us in terms of technical assistance, and I became involved as team leader.

As I looked at the literature and documents on financial literacy programmes from other countries, I could see what needed to be done. But as I interacted with the sector, including regulators, providers, and community based institutions, I discovered that they had their own needs and perspectives. As a result, we integrated some of these issues into the PMLP.

There are five modules which look at how to increase savings and investment, the roles and responsibilities of clients, the right use of credit, consumer protection, and microinsurance. Sector stakeholders requested that we add two more modules: on microfinance in general e.g. what it is, the legal and regulatory framework, the national strategy and information on available business development services (BDS). The latter focused on an overview of what BDS is, what's happening in the context of BDS in the Philippines, and how business owners can link to existing BDS providers.

***Kirsten:** What are the challenges to delivering financial literacy programmes?*

Eduardo: One is cost. All the providers see the need for financial literacy, but at some point, these programmes are conducted separately from credit operations and that is a bit costly. Financial literacy is an investment on the providers' side. To reduce these costs, they typically empower the account officer or field trainer within the particular institution to walk alongside the client and conduct the training over time, perhaps over a month or so.

Another challenge is popularizing financial literacy programmes among other sectors. For example, I think the habit of savings as a discipline is critical. The Central Bank worked with the Department of Education, crafting modules to integrate a savings training programme into the regular educational programmes of its elementary schools. It took more than six months to design a module that finally was integrated into three existing topics and pilot tested in schools. After pilot testing, it became part of the national education programme. You need to integrate financial literacy into the educational system at an early stage.

***Kirsten:** What are the lessons learned?*

Eduardo: You have to approach financial literacy training from where the clients are coming from i.e. don't use the typical lecture or the teaching methodology for adult microfinance clients. When you're dealing with adults, with an average age of over 45, you have to be creative when introducing the concepts of savings, investments, and insurance in order to stimulate these concepts and the principles. Because the target market is "mature," trainers need to be adaptable, using adult training techniques.

Next is the challenge of getting other educational and training institutions, including academic agencies and other NGOs, to embrace the principle of financial literacy. Again, financial literacy training is a cost to their programmes, but I think when they understand the value, they will embrace it. We don't want to see a repetition of what's happening in the current global economic and financial meltdown. What we're seeing in the West is a grim reminder that people need to become financially literate.

***Kirsten:** What else would you like to add?*

Eduardo: The goal of microfinance is the double bottom line sustainability of the institution, and empowerment of the clients and transformation of the communities. Financial literacy is an effective tool to empower clients.

Interview with Mariama Olatunde Ashcroft on Commercialization of Microfinance Clients

Mariama Olatunde Ashcroft of the Women World Banking

***Kirsten Weiss:** How do you define microfinance commercialization?*

Mariama Ashcroft: It's a strategy to create a means of reaching large number of low income borrowers, with a focus on sustainability. This means an approach that relies on strong systems, governance, professional staff, and high performance standards, and which is moving toward profitable, efficient operations and integration into the financial system. The latter in turn translates into financial intermediation being able to mobilize deposits and access commercial funds. Financial integration/intermediation is what draws the line between NGOs and commercial Microfinance Institutions (MFIs).

***Kirsten:** Why should MFIs commercialize?*

Mariama: The primary reason is the need to expand access. Though the estimates vary, the numbers indicate that demand for financial services far outstrips supply. One statistic suggests that there are two billion productive people without access to finance. Other numbers refer to 500 million microentrepreneurs without access to credit.

Because NGOs can neither fully intermediate nor provide a broad range of financial services, it makes sense for NGOs to transform to commercial institutions. The assumption is that when the institution can mobilize financial resources, it can expand more broadly and deeply, placing it in a better position to provide more products that low income people need.

The other part of the rationale is in terms of governance. When MFIs commercialize, there are expectations of higher performance and reporting standards. For instance, they're typically regulated with stricter oversight. As one example, there are frequently minimum conditions at the board and senior management level such as the fit and proper test, which requires regulators to approve all board and senior management positions.

***Kirsten:** What are the challenges to transformation?*

Mariama: The first challenge is the regulation, particularly the minimum capital requirements. In many cases, NGOs have been able to accumulate retained earnings over time sufficient to meet the minimum capital requirements stipulated by law to become a microfinance bank. But in many countries, these MFIs aren't allowed to be sole owners, so they must find other investors for equity participation.

Another important hurdle for transforming NGOs lies in product design and development. Here I'm talking mainly about savings. Most NGOs only take savings as a guarantee for loans. As a microfinance bank (MFB), however, they must develop savings products that appeal to clients based on trust.

When providing credit, the MFI must trust the customers. With savings, the reverse is true and crossing that line has been a challenge for many MFIs.

The third hurdle is in terms of systems. Under regulation, MFBs are held to higher reporting and compliance standards. Many NGOs tend not to have these systems fully developed and in many cases must start from scratch as they transform. This can be both costly and stressful.

A fourth hurdle I'd like to mention in terms of meeting the rationale for commercialization is to be able to reach scale in terms of outlets. An NGO can set up branches wherever it wants because it doesn't need a sophisticated infrastructure to provide credit. An NGO can set up a meeting under a tree if it likes. But once you become regulated that changes, because the law says branches must look a certain way, they must have secure premises, a strong room, etc. In many cases, MFI branches can't meet these specifications. I know of one case of an NGO which transformed to a MFB and its operations shrank as much as 50 per cent. It took them over five years to return to their original size. In another case, an NGO started with 21 branches but after transformation was only able to upgrade ten branches to reach the minimum requirements. The other branches remained unlicensed and offered credit only.

In Nigeria, Central Bank policy allows MFBs to work around this hurdle by having "meeting points." Meeting points can be a small room somewhere with a table and a few desks, enough room for field agents to work and to meet with clients. These are supplements to full-service MFB branches; for example, one branch might service seven meeting points. Another good thing about Nigerian regulation is that MFB field agents can make collections in the field, then at the end of the day return to their meeting points, prepare reports, check cash, and take the cash to the branch. This system reduces pressure on MFBs to have many branches, while increasing access to customers.

A final challenge is the risk of serving less poor clients because of the pressure for profitability. Commercial investors want commercial returns. This has led to a tendency to disburse larger sized loans to higher income clients. The concept of mission drift comes into play here.

Kirsten: *What trends do you see in microfinance commercialization?*

Mariama: I see more commercial banks doing microfinance but there's still a long way to go here. There are also more private investors interested in microfinance, increasing the flow of funds into the sector. Microfinance is attracting new players that aren't even financial institutions, for example cell phone companies and other technology providers, grocery stores and gas stations serving the role of point of sales outlets. Rating agencies are playing an increasingly important role in terms of increased demand for transparency. Even mainstream companies are becoming interested in rating MFIs ■

German Technical Cooperation (GTZ) Supports Microfinance Banks in Nasarawa and Niger States

By Peter T. Ologunagba

The GTZ programme tagged "Employment-oriented Private Sector Development" (EoPSD) has been providing technical assistance to community banks that converted to microfinance banks in the Nasarawa and Niger States. Three banks in Nasarawa and nine banks in Niger are benefiting from the support in this regard. In June 2008, the GTZ Financial Sector Component employed three national consultants to assess the financial and organizational situation of the converted MFBs in the two States. The assessment placed special emphasis on the description of the management culture in the microfinance banks and their ability to manage the conversion from community banks to microfinance banks, the relationship between the Board, the Chief Executive Officers and the business plans of the banks.

In order to boost the corporate identity and networking between the MFBs, a Stakeholders' Forum comprising the officials of the GTZ, and the 'Partners' represented by Chairmen/Directors, Managing Directors/Managers and Presidents etc, of MFBs/MFIs was also held. The first stakeholders' forum which took place in April 2008 led to a better understanding between the parties on how future assistance should proceed. A 2-day course on Corporate Governance was also sponsored in August 2008, followed by an interaction between the parties. In addition, a coaching exercise in support of the conversion processes was carried out. This created complementary relationship between the banks, the coach, and created room for navigating into various terrains of management of the MFBs that could probably not be reached otherwise.

Some customers of the Nasarawa MicroFinance Bank visiting the bank for transactions

To consolidate on the gains of the coaching exercise, a series of training was conducted for the MFBs in 2008. These include training and mentoring by Lift Above Poverty Organization, Product Assessment, Review and Design, capacity building on Rendition of returns to CBN (CBN reporting Format) and Customer Service Training for Marketing/Credit Officers/Tellers. Others were Fraud Detection and Internal controls for Heads of Operations and Internal Control Officers and Credit/Risk Management for Credit officers and Managing Directors.

Participants at one of the GTZ training workshops

These interventions paid off in the two States in 2008. The total loan portfolio of the Nasarawa/Niger MFBs increased from ₦140 million in 2005 to ₦486 million as at December 2008, showing a growth rate of about 200 percent. Also, in the last two years, the deposit/savings portfolio had more than tripled from ₦103 million to ₦600 million, a clear sign that the MFBs had regained a considerable amount of confidence within the local population.

Nevertheless, there is still a gap between the demand for and supply of financial services. MFBs which are based in urban centers still face difficulties to reach out to their target areas in the rural settings. These MFBs tend to compete with the commercial banks and might need to be supported to locate in rural areas. The GTZ in future interventions will take steps to address some of the challenges being faced by the financial institutions and their clients in the two States ■

Participants at the capacity building programme organised for the Microfiance Institutions (MFIs) in the South-West Zone, held at Ibadan

Central Bank of Nigeria Sponsors Capacity Building Programme

By A. A. Adeleke

The Central Bank of Nigeria in the bid to support the capacity and skills gap of microfinance institutions in Nigeria organized a one-day capacity building programme in each of the six geo-political zones across the country. The programme took place in Ibadan, Enugu, Calabar, Bauchi, Kaduna, and Lokoja. The programme was conducted in two phases; the first phase was carried out from the 15th to 19th June, 2009 in Ibadan, Enugu and Calabar Centres. The second phase was carried out from 22nd to 26th June, 2009 in Bauchi, Kaduna and Lokoja Centres.

The specific objectives of the programme were to:

- Encourage MFIs to obtain the necessary capacity to enable them acquire licensing statuses.
- Acquire general skills necessary to bridge the immediate general knowledge gap required for effective growth and development.
- Gain from the global pool of knowledge in microfinance activities.
- Provide necessary knowledge to enable the MFIs improve their services and adopt international best practices.

Topics Covered during the Programme included: a) Fundamentals and Principles of Microfinance, b) Product Development and Marketing Strategy; c) Lending Methodologies and d) Book-Keeping (Financial Statements/Records /Operational Manual):

The participants at the programme included managers and desk officers of MFIs and representatives of the Central Bank of Nigeria. A total of 561 participants attended the programme.

Some questions asked and addressed at the programme included the following:

i. *How can CBN monitor government involvement in the Micro Credit Fund (MCF) to ensure that the funds do not go to party supporters?*

Response: The CBN has put in place guidelines for monitoring the implementation of MCF. However, the MFIs need a strong microfinance network that would act as a pressure group to impress on government to participate in the MCF.

ii. *How can MFIs be assisted with funds to meet customer demands at minimal interest rate considering that they are not allowed to mobilize savings from the public? Also, what is CBN doing about MFIs access to cheaper funds for on-lending, excluding government funds?*

Response: The MFIs can access the MCF through their State Governments. The MFIs, through their apex associations can put pressure on their State Governments in this connection. Grants/Loans can be sourced from development partners/donors, development finance institutions, etc to fund their projects.

iii. *What is the legal status of MFIs from CBN perspective and how does the Bank regulate the activities of MFIs?*

Response: The Microfinance policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the CBN. Such institutions are expected to engage in the provision of micro credits to their targeted population and will not mobilize deposits from the general public. CBN however, requires such institutions to send regular returns for monitoring purposes.

Participants at the South-East Zonal capacity building workshop held in Enugu.

Cross-section of participants at the Ibadan Microfiance Institutions (MFIs) workshop

Furthermore, an existing NGO-MFI which intends to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB.

iv. *What is the solution to the delinquency problem?*

Response: An institution is responsible for its delinquency; there is no bad borrower, but bad lender. Delinquency is as a result of poor customer service, poor client selection policy, poor staff recruitment policy, lack of training, etc. We have the responsibility of guiding our clients in their various trades for profitable operations, by showing commitment and motivation.

v. *Is there a common direction or discernable pattern between what the CBN is doing and the thinking of the Federal, State and Local Governments in the country?*

Response: The focus of the CBN is the implementation of the Microfinance Policy, so as to promote access to finance by economically active Nigerians. The State Governments may be carrying out activities in the microfinance sector that may seem to be an infringement on what we want to see, CBN has always advised them to channel such resources through licensed microfinance banks which will ensure accountability and repayment of the funds to enable more people benefit. We can only use moral suasion as the Bank has no authority over how a State Government spends its resources.

vi. *What can the CBN do to help MFIs transform?*

Response: Sensitisation exercise and capacity building are some of the ways the CBN encourages the MFIs to transform. However, the MFIs are encouraged to seek help from other sources to complement what the Bank is doing.

After the capacity building programme in Enugu, the representatives from the South East elected interim officials for their Association of Microfinance Institutions (AMFI) the same day. They are to co-ordinate their activities and act as pressure group to access funds from their State Governments under the MCF. Similarly, the MFIs in Cross River and Kogi States held meetings on how they could form their own States Associations of MFIs ■

CBN Holds First Microfinance Investors' Forum in Kano

By A. A. Habib

The Central Bank of Nigeria (CBN) staged its first Microfinance Investors Forum at the Royal Tropicana Hotel, Kano on March 17, 2009. The Forum was declared open by the Kano State Governor, Mallam Ibrahim Shekarau who was represented by the Deputy Governor of the State, Engr. Abdullahi Muhammed Gwarzo.

The main objective was to enlighten and encourage potential promoters to set up microfinance banks and use them as a tool for poverty reduction in the State. The forum also created awareness on the numerous investment opportunities and how micro-entrepreneurs can tap into these opportunities. The importance of participation of State/Local Governments in devoting at least 1 per cent of their annual budgets to micro-credit initiatives was also highliighted.

A total of 327 participants drawn from the State and Local Governments, Traditional Rulers, Deposit Money Banks, Microfinance Banks (MFBs), the Academia, the organized private sector, NGO-Microfinance Institutions and Micro-Entrepreneurs attended the programme.

In the welcome address delivered by the Honourable Commissioner for Commerce, Industries, Cooperatives and Tourism, Alhaji Ahmed Yakassai, he disclosed that the State Government had introduced several programmes to assist local businesses develop their entrepreneurial capacities in the past. These included enterprises support facility, cooperative societies' loan scheme, small scale industry loan scheme and the handicraft loan scheme. He urged investors, NGOs, etc to come out and establish more MFBs in the State considering the position of Kano State, as a commercial centre in the Nigerian economy.

The Executive Governor of Kano State, in his Keynote Address, commended the CBN for locating one of the three pilot Entrepreneurship Development Centres (EDCs) in Kano, adding that the State Government was ready to collaborate with the Kano EDC in its activities. He admitted that Kano State was far behind in the establishment of microfinance banks, as only six of the banks had been licensed up to that date. He added that the State Government had set aside N500 million to support those establishing microfinance schemes and banks.

The CBN Deputy Governor Financial Sector Surveilance, Mr. Tunde Lemo called on the State Government and well meaning indigenes to set up appropriate machinery to realize the objective of establishing more MFBs across the State. He further added that the CBN had produced a framework for the regulation and supervision of non-interest banking in Nigeria to guide the establishment of non-interest banks.

Mr. Lemo informed participants that the President had approved that CBN mobilize a N200 billion agricultural fund to be disbursed to commercial farmers at an all-interest of 9 per cent through commercial banks. This, he said would be beneficial to Kano State which is known for its agricultural activity. He assured the State that CBN was ever ready to collaborate with the State Government in fighting poverty as demonstrated in the establishment of EDC in Kano.

Four papers including "Islamic Microfinance as a Means to Poverty Reduction" were presented during the technical session.

To close the ceremony, a drama highlighting the benefits of microfinance was staged by a cultural troupe from the Kano State Radio Broadcasting Corporation ■

SME Forum Seeks Establishment of New Credit Guarantee Scheme

By Charles Adibe

In a spirited search for a sustainable Small and Medium Enterprises [SME] Financing Scheme, stakeholders in the sub-sector rose at the end of a one-day meeting in Abuja canvassing a multi-pronged strategy which includes the expansion of the Agricultural Credit Guarantee Scheme and establishment of a new Small and Medium Enterprises [SME] Credit Guarantee Scheme.

The communiqué released at the end of the Forum organized by the Small and Medium Enterprises Development Agency of Nigeria [SMEDAN], recommended that 5-10 percent of budgets of the three tiers of Government should be contributed into the Fund as well as a percentage of Pension Funds Administrators [PFA] Funds and proceeds of the proposed Special Tax for SME Development.

The Forum recommended the adoption of the Ghanaian Trust Fund model where government contributes bulk of the fund, but with management in the hands of Trustees appointed from among the leading entrepreneurs. Other contributors are commercial banks, telecom companies, oil and gas companies, among others. According to the forum, there should be an enabling law that will compel stakeholders to contribute specified percentages to the Trust Fund.

The meeting was attended by representatives of deposit money banks, venture capital firms, finance companies and entrepreneurship development organizations. The Forum also wanted small and medium enterprises to organize themselves into groups to facilitate group lending which is adjudged to be easier.

Other recommendations of the forum included: strengthening of the Bank of Industry [BOI]; extension of Micro Credit Fund by the Central Bank of Nigeria [CBN] to SMEs; streamlining interest rates to compare favourably with returns on investment and prevailing deposit rates; and intensification by SMEDAN, of business management training.

Declaring the Forum open, the Director-General of SMEDAN, Muhammad Nadada Umar, who was represented by the Group Head [Planning, Research and Library], Dr. Adeniyi Balogun, noted that Nigerian SMEs were known for their potentials rather than actual contribution to economic growth, yet entrepreneurship development was the surest way towards the realization of the Federal Government's Seven-Point Agenda and Vision 2020.

According to him, "although there were indications that some small businesses, going by the current official definition as contained in the MSME Policy were receiving financial services from the microfinance banks, these were only on the fringes, just as we have just a few small and medium enterprises obtaining services from the commercial banks".

He added: "we are bothered in SMEDAN about this situation. We do not have answers but we are in no doubt that answers must be found. If we fail, what may appear initially as an economic problem will surely graduate into a social malaise that could engulf all of us." ■

Agriculture Finance Support Facility (AFSF)

A World Bank initiative supported by the Bill and Melinda Gates Foundation

Culled from: www.worldbank.org/rural

The World Bank, with the support of the Bill and Melinda Gates Foundation, has established the ***Agriculture Finance Support Facility*** (AFSF). The Facility will support activities that are expected to significantly increase ***financing for agriculture, particularly for smallholder farmers.***

One major activity of AFSF will be to provide grants to ***partially finance initiatives by financial institutions in Africa and Asia*** to enter the agriculture finance market at a significant scale or significantly scale-up their agriculture finance portfolios.

- The grants will be made to ***retail financial institutions*** such as commercial banks and regulated non-bank finance companies.
- Grants are expected to range from ***US$500,000 to US$1 million.*** Smaller and larger grants will be considered for financial institutions assessed to have significant potential to influence the local rural finance market.
- Grants would need to be ***matched by own resources*** by the Grantees.
- Grants ***can be used for initial development expenses*** that could include but are not limited to: a) technical advise for rural finance strategy development and implementation; b) rural outreach infrastructure such as leasing of office-space or mobile banking vehicles, smart cards and card-reading devises, point of sale devises; c) management and staff training expenses; d) client training expenses (financial literacy); e) consultancy expenses for developing products, processes, marketing campaigns, and, f) staff salaries, on a temporary and declining basis.
- Grants ***cannot be used for activities not directly related to AFSF's objectives*** - purchase of land, buildings, and similar purposes.
- Grants ***cannot be used as capital*** - for equity, on-lending, and partial-guarantees.
- Grants need to be utilized over a ***maximum period of 2 years.***
- Grantees ***will be required*** to report periodically on the project progress, facilitate independent assessments of the projects and be willing to share the findings of such assessments, and participate in peer-learning events.
- Grantees will have the opportunity to participate in ***peer-learning and networking opportunities*** through participation in ***grantee conferences and study tours.***

Financial institutions can apply either individually or, if members of a network, as a consortium for grants from AFSF. Applicants would have to initially submit a Concept Note, and if selected for further consideration, submit a full proposal. Criteria for selection of proposals for financing will include:

- Scalability and sustainability potential of proposed business activities.
- Organization's track-record of financial and service delivery performance.
- Organizational stake in the project as demonstrated by senior management commitment to the project and willingness to invest necessary resources.
- Level of increased outreach to smallholder farmers and other low-income clients.

The Facility is now accepting Concept Notes.

For further enquiries regarding the grants, institutions in Africa can contact Graham Owen, Program Officer (*gowen@worldbank.org*) and those in Asia may contact Rainer Haberkorn, Program Officer (*rhaberkorn@worldbank.org*). ■

CGAP for Retail Financial Service Providers

Culled from: www.cgap.org/resources/forproviders

CGAP offers online resources, operational tools, and training aimed at strengthening your capacity to provide high-quality financial services to poor households. We also offer funding for pro-poor initiatives, ratings, and information systems. For more information on and links to the services and resources detailed below, visit www.cgap.org/resources/forproviders. or e-mail us at cgap@worldbank.org.

Get Practical Guidance and Training

Learn about practical ways to measure social performance. Download guides to help design client monitoring, impact studies, and social performance indicators.

Get advice on the right MIS system. Use CGAP's Information Systems Fund to identify a consultant experienced in conducting IT diagnostics and planning technology solutions that fit your organization's needs.

Get advice on mobile banking and agent distribution models. Access our online resources (http://www.cgap. org/p/site/c/tech/) and publications on agents, business models, and customers. Get practical information on developing partnerships with mobile network operators, payments companies, and others. Apply for funding to pursue a novel approach to providing financial services using technology. Contact our team at technology@cgap.org for more information.

Use the Technical Guide Making Money Transfers Work for Microfinance Institutions to learn about business models for microfinance investees to launch or improve money transfer services and negotiate with banks and money transfer companies. Inquire about the CGAP-EU-IFAD Financing Facility on Remittances, which awards grants to support innovative money transfer services.

Manage foreign exchange risk. Use our technical guide to assess your institution's exposure to foreign exchange risk, and learn the techniques used by microfinance institutions to manage or avoid foreign exchange risk.

Get tips on commercial loan agreements. Use our comprehensive guide to help negotiate loan agreements with commercial banks.

Upgrade financial management skills by attending the Skills for Microfinance Managers courses designed to improve financial and operational management of microfinance institutions. These three- to five-day courses are practical, offered in 11 languages, and given locally in more than 40 countries in partnership with training centers. Also attend the Boulder Microfinance Training Program in Turin, Italy, for a three-week overview of key issues in microfinance and networking with other microfinance institutions, government policy makers, and staff from funding organizations.

Monitor the Latest Developments

Track the latest microfinance news and trends. Check CGAP's Microfinance Gateway for industry news, announcements, and highlights. Subscribe to CGAP's blog for commentary on the latest issues.

Learn more about small-scale savings mobilization. Visit our Savings Information Center, and talk with experts about savings mobilization. Take a virtual tour of savings services offered to the poor by 80 institutions worldwide.

Keep up to date on the latest technology news. Read our technology blog to learn about innovative applications of technology being used to expand access to financial services. Access our online resources and publications on branchless banking agents, business models, and customers.

Join the Campaign for Client Protection in Microfinance. The Campaign is part of a collaborative initiative endorsed and led by a broad coalition of microfinance stakeholders. The Campaign, which includes the Client Protection Principles, helps ensure that providers of financial services to low-income populations take concrete steps to protect their clients from potentially harmful practices and financial products.

Increase Your Visibility

Get international recognition for your financial statements. Through CGAP's upcoming Financial Disclosure Certification Program, microfinance institutions will be recognized for their compliance with International Financial Reporting Standards as well as CGAP's Financial Disclosure Guidelines. Program details will be posted on CGAP's Web site as they become available.

Use the Microfinance Information eXchange and MicroBanking Bulletin. Post your institutional profile, benchmark your institutional performance to other similar institutions, and search for funding and potential investors on the independent (CGAP created) MIX. Receive customized performance reports by submitting data on your performance to the MicroBanking Bulletin ■