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

The Nigerian Microfinance NEWSLETTER

An Initiative of the National Organising Committee of the International Year of Microcredit 2005

Volume 10 • January – June, 2010

AFRACA Holds 4th Agribanks Forum in Abuja

Inside

- Challenges & Success Imperatives for Microfinance Institutions in Nigeria
- Suitability of the ASA Model in Nigeria
- CBN and External Stakeholders Meet to Review the National Microfinance Policy
- Rural Finance Institution Building Programme (RUFIN) Holds National Start-up Workshop.

ISSN 0331-7269

contents

The Nigerian Microfinance NEWSLETTER
A Newsletter of the International Year of Microcredit 2005
www.yearofmicrocredit.org www.cenbank.org/microcredit

*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

*The views expressed in **the Nigerian Microfinance Newsletter** do not reflect the thinking of the Central Bank of Nigeria's Management.*

Copies of the Newsletter are available without charge through formal request to the Editor.

ISSN 0331-7269

State Distribution of MFBs —30th June, 2010

State	Cbs Converted to MFBs			New Investors			Total
	Final Licence	Provisional Approval	Sub-total	Final Licence	AIP	Sub-total	
Abuja FCT	8	0	8	28	17	45	53
Abia	14	3	17	7	6	13	30
Adamawa	7	0	7	1	0	1	8
Akwa Ibom	7	0	7	7	1	8	15
Anambra	73	2	75	5	1	6	81
Bauchi	8	1	9	1	2	3	12
Bayelsa	1	0	1	4	1	5	6
Benue	7	0	7	2	1	3	10
Borno	1	2	3	1	0	1	4
Cross River	15	0	15	1	0	1	16
Delta	20	5	25	14	3	17	42
Ebonyi	5	0	5	1	1	2	7
Edo	17	6	23	2	0	2	25
Ekiti	11	2	13	0	0	0	13
Enugu	18	2	20	2	1	3	23
Gombe	3	0	3	0	1	1	4
Imo	31	8	39	3	2	5	44
Jigawa	4	0	4	4	2	6	10
Kaduna	17	1	18	3	2	5	23
Kano	5	0	5	2	0	2	7
Katsina	3	1	4	1	0	1	5
Kebbi	4	2	6	0	1	1	7
Kogi	19	2	21	1	0	1	22
Kwara	18	0	18	4	0	4	22
Lagos	48	11	59	130	27	157	216
Nasarawa	2	1	3	0	1	1	4
Niger	9	0	9	5	5	10	19
Ogun	45	4	49	5	2	7	56
Ondo	13	3	16	1	1	2	18
Osun	23	6	29	5	0	5	34
Oyo	37	6	43	11	0	11	54
Plateau	11	0	11	0	3	3	14
Rivers	15	3	18	13	0	13	31
Sokoto	5	0	5	0	0	0	5
Taraba	4	0	4	0	0	0	4
Yobe	1	0	1	0	0	0	1
Zamfara	5	1	6	0	0	0	6
TOTAL	**534**	**72**	**606**	**264**	**81**	**345**	**951**

Distribution By Geo–Political Zones

Geo–Political Zone	Number of MFBs	Total Per Zone	% of Total
North–West			
Jigawa	10		
Kaduna	23		
Kano	7		
Katsina	5		
Kebbi	7		
Sokoto	5		
Zamfara	6		
Sub-total	**63**	**63**	**6.6**
North—Central			
Abuja FCT	53		
Benue	10		
Kogi	22		
Kwara	22		
Nasarawa	4		
Niger	19		
Plateau	14		
Sub-total	**144**	**144**	**15.1**
North—East			
Adamawa	8		
Bauchi	12		
Borno	4		
Gombe	4		
Taraba	4		
Yobe	1		
Sub-total	**33**	**33**	**3.5**
South-West			
Ekiti	13		
Lagos	216		
Ogun	56		
Ondo	18		
Osun	34		
Oyo	54		
Sub-total	**391**	**391**	**41.1**
South—South			
Akwa Ibom	15		
Bayelsa	6		
Cross River	16		
Delta	42		
Edo	25		
Rivers	31		
Sub-total	**135**	**135**	**14.2**
South—East			
Abia	30		
Anambra	81		
Ebonyi	7		
Enugu	23		
Imo	44		
Sub-total	**185**	**185**	**19.5**
Total	**951**	**951**	**100**

v. NGO-MFIs in Nigeria have an average of 42,000 borrowers and are important financial providers for the rural poor, although their overall impact remains small. Prohibited from mobilizing deposits, NGO-MFIs are still able to request mandatory savings as loan collateral.

vi. The National Poverty Eradication Program (NAPEP) currently has several micro-credit initiatives underway. From the onset, the program recognized the tendency for delinquency rates among borrowers to be higher for those who access government funds than for those who access funds from commercial financial intermediaries. Building on the success with community approaches in the past, NAPEP loans are channeled through community-based commercial financial intermediaries.

vii. Well-organized financial cooperatives are rare in Nigeria and these tend to be found in the Northern states of Gombe and Bauchi, where experience with cooperatives appears to be quite positive. Very little is known about them however, including their total number. While small-scale, registered "cooperative societies" are common throughout the country (since most formal financial providers will only lend to farmers through this vehicle), they are usually stand-alone entities and are not federated under an apex entity. Each society is represented by four elected members who come to weekly meetings during which they bring their society's savings and/or request loans.

Current Status of Rural Finance Institutions in Nigeria

The current status of the rural finance institutions (RFIs) was assessed by World Bank (2008) using some indicators such as outreach, financing structure, financial performance, and profitability. The summary of findings is presented below.

Outreach: Of the RFIs (excluding the commercial bank), community banks have the most significant scale and, with the exception of NGO-MFIs which cannot legally mobilize savings, all the institutions have more savers than borrowers.

Financing Structure: The community banks are the most leveraged, relying mostly on client deposits and private investments, respectively. While the NGO-MFIs rely heavily on grants to fund their operations As for the NACRDB, branches finance operations through client deposits and funds from Head Office, which represent around half of each branch's total assets.

Portfolio Quality and Financial Performance: NACRDB and the rural NGO-MFIs—those institutions dealing with the poorer rural segments—are not operationally self-sustainable (OSS) and have negative returns on assets primarily due to poor loan recovery (lost interest income). NACRDB and the rural NGO-MFIs essentially survive with injections from government and donors, respectively. In contrast, the cooperative, community (and commercial) banks demonstrate some profitability.

Efficiency: In terms of costs per borrower and saver, the rural/urban divide is much more obvious than the subtle differences by institutional type. Most of the institutions located in the rural areas are the least cost-efficient in terms of lending.

Suggested Solutions/ Recommendations for Improved Access to Rural Finance

Four key suggestions become feasible and paramount.

Institution Building and Training: To sustainably improve outreach and lower the risk for RFIs, it is imperative that performance-based capacity building take place and for organizational innovations to be introduced. Examples of successful MFI development in Nigeria itself confirms the role of institutional building and training in meeting RFI potential to operate efficiently and innovatively.

Innovative Approaches to Agricultural Finance: The supply chain data indicates that wider agricultural policies must be careful not to destroy the incentives for private sector participation in supply chain finance. In general, agricultural and trade policies should not generate systemic overproduction, as they have for cassava in Nigeria after a period of high prices for cassava produce or during an intervention by government as it happened during the presidential initiative on cassava.

Investments in Rural Finance Infrastructure: Technology and innovation in rural finance has helped access to finance become a reality for the rural poor across the world. Innovations can be organizational and have proven to dramatically reduce costs and improve outreach elsewhere in SSA (e.g, Ghana). Investing in apex organization for financial cooperatives and/or the newly formed Microfinance Banks in Nigeria, therefore, is based on established good practice and can strike while the organizational iron is hot in Nigeria.

Specifically targeting the rural poor who cannot afford cost-recovering interest rates and who are left out of the formal financial system is not a bad idea after all: The reality is that Nigeria does have rural people that simply cannot pay the highly controvertible 8 percent, talk less of a cost recovery rate of 30 percent. Poor repayment in targeted subsidized agricultural credit programs have meant that these targeted 'credit' programs are, de facto, grants. If this is the case, the objectives of the FGN and partners, in providing access to credit for those who cannot afford debt, might better be served by well designed grant programs that avoid elite capture and target only this segment of the rural poor. Everyone else—farmers and other rural entrepreneurs—should access their financing needs through strong and innovative RFIs. ■

References

- Adams, Dale W, Douglas H. Graham and J.D. Von Pischke (eds.), 1984, Undermining Rural Development with Cheap Credit, Boulder, Colorado: Westview Press.
- Nagarajan, Geetha and Richard L. Meyer. 2005. "Rural Finance: Recent Advances and Emerging Lessons, Debates, and Opportunities." Reformatted version of Working Paper No. (AEDE-WP-0041-05), Department of Agricultural, Environmental, and Development Economics, The Ohio State University (Columbus, Ohio, USA).
- USAID. 2006. Better Lending and Better Clients: Credit Bureau Impact on Microfinance. Basis Brief No. 45. Washington, D.C.:USAID.
- World Bank 2008. Rural Finance in Nigeria: Integrating New Approaches. Agriculture and Rural Development Unit, Sustainable Development Network, Western Africa Country Department 2, Africa Regional Office, World Bank. Report No. 44741-NG
- World Bank (2009) Federal Republic of Nigeria: Repositioning the Nigerian Agricultural, Cooperative and Rural Development Bank. Agriculture and Rural Development Unit, Sustainable Development Network, Africa Region.
- Yaron, J. 1992. "Rural Finance in Developing Countries." Policy Research Working Papers (WPs 875), Agriculture and Rural Development Department, World Bank, Washington, D.C.

The Need for the **Review** of the **Microfinance Policy** for Nigeria

Globally, effective microfinance industry is regarded as one of the key drivers of a robust financial sector and inclusive economic growth, On the other hand, ineffective microfinance industry leads to fragility and instability, and these, can adversely affect the financial system. This informed the Central Bank of Nigeria's increased surveillance of the financial sector, particularly microfinance sub-sector, through systematic assessment of the strengths and weaknesses of financial policies put in place. The ultimate goal is to improve the existing framework as well as foster the development of a stable, strong and sound financial sector.

Consequently, the Microfinance Policy, Regulatory and Supervisory Framework for the establishment of microfinance banks in Nigeria launched in December, 2005 was not only a response to calls by practitioners for a policy framework for the microfinance sub-sector but also to build an inclusive financial system, The policy targets include: ensuring access to finance by majority of the active poor by 2020 thereby creating millions of jobs and reducing poverty, increasing the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in2020 and improving women's access to financial services by 5 percent annually.

The framework for the licensing of microfinance banks mandated community banks that existed prior to 2005 to convert to microfinance banks. Provisionally, both the converting community banks and new investors were expected to licence in one of two categories namely, unit banks with N20 million capitalization and State wide banks with N1.0 billion capitalization. The number of licensed microfinance banks (MFBs) has grown dramatically to 951 by June, 2010, comprising 606 converted community banks and 345 new investors.

However, the MFBs continued to operate sub-optimally as a result of incompetent management, poor corporate governance, insider abuse and weak internal controls. Others included poor credit administration and asset quality, lack of requisite skills to operate in the industry, limited outreach due to unsustainable sources of funds, low technology, acquisition of ostentatious assets and policy gaps.

Confidence in the industry is waning!

This situation is of great concern and requires strong response from the regulatory authorities in order to avert likely cross-subsector contagion effect and systemic risk. A comprehensive assessment of the microfinance sub-sector by the regulatory authorities and feelers from other stakeholders called for a policy review.

For the exercise to be worthwhile, the reviewed policy document should be able to specifically address the supervisory, funding and skills gaps, geographical spread and other grey areas so as to build a strong and inclusive financial system that works for the poor. ■

To the Editor

Please sir, as a young entrepreneur, I saw one of your publication in which you are one of the Editorial Committee members in 2006 newsletter.

1. Please, how can I get an updated or current CBN newsletter that has relevant information about different entrepreneur in different field. I have a national diploma in business administration and diploma in computer science. Now I know how to produce multipurpose liquid detergent, candle stick instead of looking for job here and there.
2. How can I be connected to any organisation that will assist me in bringing my product to the market or boost my morale so that poverty will be a thing of past in my life.

The bible says, we should not be slothful in business, we should be fervent in spirit and serve the Lord. Your advice in time like this will be highly appreciated.

Thanks in anticipation.

Joseph Olu.

Response

Sir,
Thank you for the interest you have in reading the Nigerian Microfinance Newsletter.

Please contact any of the under-listed Entrepreneurship Development Centres (EDCs) for more information. You may wish to register with any of them that is closest to you for more knowledge, enhanced skill and improved productivity:

The Entrepreneurship Development Centres are:

- Opportunities Industrialization Centres International (OICI), No. 8B, Dawaki Road, Nasarawa GRA, Kano, Kano State.
- Centre for Entrepreneurship Development and Research, University of Nigeria, Nsukka (Onitsha Site) with Corporate Office at Onenenyi Plaza, No. 2, Awka Road, Onitsha, Anambra State and
- Africa Leadership Forum, Ota (Lagos Site) with Corporate Office at No. 119, Ipaja Road, Agege, Lagos State.

In addition, you may wish to contact Development Finance Office in any of the Central Bank of Nigeria in your location to collect recent publications of the Newsletters. They are given out free of charge.

Furthermore, endeavour to approach any Microfinance Bank, market women, etc in your area and discuss business with them.

African Rural and Agricultural Credit Association (AFRACA) Holds 4th Agribanks Forum

By Tony Ogwu

Participants at the Agribanks Forum Listening to presentations

The African Rural and Agricultural Credit Association (AFRACA) held its 4th Agribanks Forum at the Ladi Kwali Hall of the Sheraton Hotels and Towers from the 4th to the 7th of May, 2010. Established in 1977, AFRACA is the sub-Saharan African (SSA) Association of Banks and other Financial Institutions which are directly or indirectly involved in the provision of financial services for rural development. Its Secretariat is currently in Nairobi, Kenya while membership cuts across 20 countries which are represented by central banks, commercial banks, government and other institutions involved in rural development. AFRACA has been involved in a number of activities including, support for financial services and development through organizing seminars and conferences.

The 4th of May, 2010 was dedicated to training/discussion workshop on the comparative structure and management in lending to agriculture in Africa. The objectives of the training were to:

i. Review the type of data (in terms of magnitude and level of aggregation) on agricultural lending that already exists in banks and which they report to their central banks;

ii. Appraise the need for additional data requirements from both the regulator and managerial perspectives;

iii. Draw on experiences of banks and central banks, and identifying the core minimum set of data to be collected by institutions; and

iv. Define the way forward for collecting and disseminating data on agricultural lending.

Thirty five officers from various AFRACA member institutions participated at the workshop, while five papers were presented.

The main forum with the theme "Financing Options for Agricultural and Rural Development in Sub-Saharan Africa" which drew about 300 participants from 14 countries across the globe took place from 5th to 7th May, 2010. The participants included decision

back to 1960s and 1970s (Nagarayan and Meyer, 2005) . The new rural finance paradigm, based on lessons from the old paradigm and new views linked to the financial systems approach, emerged in the late 1980s and gained a broader consensus in the 1990s. Microfinance activities, starting in the 1970s, contributed to the evolution of the rural finance paradigm. The microfinance approach that typically worked well in urban and densely populated rural areas among non-farm enterprises and households continues to evolve as attempts are made to extend it into rural and remote areas and to farm households. In doing so, it has contributed to the emergence of a new rural finance paradigm.

The new paradigm reflects a financial systems approach, using market principles to deliver financial services aimed at facilitating rural development that, in turn, promotes asset creation and poverty reduction. It treats finance as a valuable way to expand and integrate markets, rather than as a policy tool targeted for specific market segments. Currently, there is considerable interest in using the value-chain approach to study rural finance. The relevance of this approach to rural finance arise from the observations that integrated operations are emerging between real and financial sectors to facilitate the smooth flow of commodities and services from producers to consumers within the activity clusters or sub-sectors.

Sources of Rural Finance in Nigeria

Rural Financial Institutions (RFIs) are generally classified into two major institutions: Formal Rural Financial Institutions (FRFIs) and Informal Rural Financial Institutions (IRFIs). The IRFIs include:

i. Traditional Savings and Credit Associations: The traditional savings and credit association could be rotating or non-rotating. The rotating savings group consists of members who agreed to make regular fixed cash contributions into a common fund, with each member being handed with the whole or part (cash or kind) of the contribution in turn. Comparatively, the non-rotating savings operated upon a core participant who agreed to save regularly on contractual terms; with the savings used for member and/or non-member loans on interest basis.

ii. Daily Savings/Itinerant Banking: This is a type of personalized banking involving the money collector (banker) and his or her clients. A savings-only itinerant banker collects deposits daily and charges the saver one contribution of the 30 deposits made during the month. Contribution size is fixed, making the cost to saver to b3 3.3 percent.

iii. Money Lenders: Moneylenders are usually sole-proprietors that have mobilized enough savings to meet the financial needs of farmers who are in need of money to quickly undergo a farming operation and also civil servants whose salaries were delayed due to one reason or the other. The interest paid on money lenders' credit is usually not less than 25 percent per month (300 percent per annum.

The formal rural finance institutions in Nigeria include the following:

i. Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB): This is jointly owned by the Federal Government of Nigeria (FGN) and the Central Bank of Nigeria (CBN), and it plays a key role in providing finance in the rural landscape. Formed by a merger of three institutions, NACRDB was given a rural mandate, but in practice, its deposit mobilization and credit services are also extended to urban clients. NACRDB is required to lend 70 percent of its loan portfolio at single digit interest rates through loans of N250,000 or less. The very low repayment rates and the interest rate cap have both been found to undermine the viability of the institution as well as restricting its ability to satisfy the demand for loans from its target client population.

ii. The community bank system was set up with the goal of encouraging locally-owned savings and loans institutions to meet the needs of rural populations not served by the commercial banks and government-owned banks. The imposition of ceiling on interest rate led to inability of many community banks to recover their costs and eventually becoming distressed. Over time, the level of community involvement has fallen.

iii. Microfinance banks emerged in 2006 and 2007, from the community banks, as result of another policy change introduced by the CBN. Through its microfinance policy, the CBN introduced a new regulatory and supervisory framework, which made it compulsory for all institutions to obtain a new license and have a minimum share capital of NGN 20 million.

iv. The People's Bank of Nigeria (PBN) was created in the early 1990s as a Grameen Bank replicator through a decree of the military government in order to reach the unbanked public. It essentially provided micro credit up to NGN 250 000 per client at a 'service charge' of 20% for short term loans and offered ordinary savings through a pass book remunerated at market rates. Clients had to have compulsory savings of 30% of the loan amount.

ASA Staff and a group of clients at a discussion session

Typical office space in ASA

- maximum utilization of revolving loan funds and savings allows a branch to minimize fund requirement.

Lessons from ASA

ASA has always openly shared the core strategies that contributed towards its success and has always tried to help other MFIs adopt these. In most cases mature MFIs have adopted certain aspects of the model and rejected others. This resulted in the creation of hybrid models - the results of an amalgamation of their own policies and the ones adopted from ASA. The benefits to these MFIs have been mixed.

As a result of ASA's work in Nigeria, UNCDF's mid-term evaluation stated "ASA's methodology has proven successful in the Nigeria context thus far and has been cost-effective with respect to results. Standard, easy-to-use systems coupled with technical assistance have been integrated into MFIs-to build an operational base for delivering micro-financial services." (Alter, Okeke, & Onyeagocha, 2002)

This evaluation coupled with the fact that the model is already being implemented in Nigeria through an NGO MFI proves that the ASA Model for Microfinance Operations is viable in Nigeria.

To summarize, looking beyond the operational strategies outlined above, the core messages from ASA's experience are:

- sustainable and cost-efficient microfinance operation is a direct function of organizational architecture, operating processes and institutional culture;
- implementing a cost effective methodology requires strong commitment from staff at all levels and the process must be led by senior managers;
- ASA's model has demonstrated that tight cost control, emphasis on low transaction costs, increasing individual loan officer's productivity and a lean administrative structure can efficiently deliver financial services to millions of poor clients;
- MFIs must be ready to systematically cut costs across all levels of the organizations; not pick and choose to cut cost only in specific areas or for specific tiers; and
- MFIs should strive to avoid becoming a top heavy, bureaucratic organization. ■

Works Cited

i. *Alter, K., Okeke, O., & Onyeagocha, S. (2002). Mictostort Nigeria Programme: Mid Term Evaluation. Abuja: UNCDF Nigeria.*

ii. *ASA Bangladesh, (n.d.). About ASA. Retrieved 10 July 2010, from ASA Bangladesh: http://www.asa.org.bd*

iii. *Fernando, N. A. (2006). Understanding and Dealing with High Interest Rates on Microcredit Manila: Asian Development Bank.*

The author is the Country Director for Nigeria of ASA International. The views expressed herein are his own and may not represent the views of ASA International, ASA, or any other organization he may be associated with.

The author wishes to acknowledge Mr. Enamul Haque, COO of ASA International, for his guidance in preparing this article.

Strategic Approaches to Rural Finance in Nigeria

Abimbola Adubi
Snr Agricultural Specialist
World Bank, Nigeria

Introduction

The rural landscape in Nigeria is inhabited by people that are poor and majority of whom are primarily engaged in agriculture. But most of these farmers do not have enough capital to acquire the needed inputs to increase incomes through productive investment that could help create employment and facilitate investments in health and education, thereby reducing vulnerability.

To overcome this challenge, farmers have continued to exploit various avenues by relying on both non-institutional and institutional sources of credit. But inspite of these efforts with less than expected achievements, rural borrowers still encounter difficulties in accessing credit from formal financial institutions. Although several reasons have been attributed by several authors (Adams, Graham and von Pischke, 1984; Yaron, 1992; Nagarayan and Meyer, 2005; and World Bank, 2008 and 2009), this brief attempts to provide further insights problem with a way of preferring solution to the problem.

The rest of the brief is structured as follows: rural finance paradigms, sources of rural finance in Nigeria, current status of rural finance institutions in Nigeria, new approaches to rural finance in Nigeria and suggested solutions/recommendations for improved credit provision in the country.

Paradigm Shifts in Rural Finance

The old rural finance paradigm, characterized by the notion that subsidized and targeted credit could promote agricultural production and improve the lives of smallholders, dates

makers of financial entities with activities in the Small and Medium Enterprises (SME) and agricultural sectors, as well as agribusiness organizations and companies working in the agricultural sector, top government officials and supporting International organizations.

The objectives of the Forum were to:

- Learn more about innovations and successful strategies in investing in agriculture;
- Identify future directions in agricultural finance for accelerated growth and wealth creation;
- Use numerous networks of opportunities to establish new contacts and exchange knowledge and experience with colleagues, and
- Adopt an action plan for data collection and management on agricultural lending.

The forum focused on financing options because of the pervasive challenges of food crisis facing sub-Saharan Africa. Presentations and discussions therefore centered on financing options for agricultural and rural development through a rich mix of debt, equity, insurance, operation of commodity exchanges, value chain organization and financing, as well as business development services.

On the whole, thirteen papers were presented by experts in various fields of agriculture, rural development, financial and risk management, from Africa and international institutions.

At the end of the presentations and discussions, the forum made the following conclusions and recommendations:

i. At 20-40 percent of GDP, agriculture remains the most dominant activity in Africa, contributing more to poverty reduction than any other single economic sector.

ii. The agricultural sector in Africa lags behind its counterpart in Asia in several aspects such as productivity and competitiveness, while it is also more vulnerable to natural hazards.

iii. Despite several failed attempts at stimulating agricultural finance in Africa, the forum noted that agricultural finance is a viable business if supported by sound risk management, good banking practices and innovative forms of collateral.

iv. Paucity of data in SSA was highlighted, as AFRACA members expressed commitment to collecting a uniform set of core data relating to outreach, quality of portfolio, terms of loans and lending interest rates.

v. That sub-saharan Africa must produce a new generation of entrepreneurs to break out of the old practices and embrace new approaches to agribusiness in order to remain relevant both locally and internationally.

Participants at the Agribanks Forum Listening to presentations

vi. That there should be reduced dependency on natural factors in agricultural production, while a strong case was made for increased farm mechanization as well as the development of informal financial intermediaries.

At the end of the programme, the AFRACA Chairman expressed gratitude to all the supporting parties, and affirmed the usefulness of the programme in improving the agricultural and rural finance environment of the sub-region. ■

Central Bank of Nigeria Entrepreneurship Development Centre (EDC) Works Passionately to Catalyze Industrial Revolution in the South East and beyond.

By Professor A. I. Ikeme - Project Director

The Central Bank of Nigeria Entrepreneurship Development Centre was established in 2008 with the major objectives of triggering entrepreneurship among the unemployed workforce and the business community, encouraging the exploitation of indigenous skills and raw materials and ultimately catalyzing industrial take off of the nation. The Project was located in three centres, namely, South West, North and South East. It was initiated to enhance economic and socio-cultural development. The Implementing Agency in the South East, the Centre for Entrepreneurship and Development Research, University of Nigeria, Nsukka, is working passionately to catalyze industrial revolution in the South East.

Following the inauguration of the EDC, entrepreneurial training took off first in Onitsha and later spread into other communities. It provided opportunity for the unemployed and under-employed work force to start up their own micro businesses and nurture it to bloom. The training emphasized practical entrepreneurship which is essential for proper business and self-management.

A total of 19,396 entrepreneurs benefited from the Centre's services from April, 2008 to March, 2010. The breakdown of this figure showed that 11,270 were males and 8,126 were females. The beneficiaries comprise 7,079 trained graduands and 12,317 who received business advisory services. Out of 7,079 that received full training, 3,976 (56.17 per cent) were males and 3,103 (43.83 per cent) were females, while in terms of educational level, 1,678 (23.70 per cent) were university graduates while 5,40I (76.30 per cent) were secondary school leavers.

In all, 1,081 jobs were created since inception of the programme. These comprise of 358 jobs i.e. 32 direct jobs and 112 indirect jobs. About 937 jobs have been expanded. Forty four (44) trainees, representing 62 per cent of the total trained, were able to obtain loans valued N52,253,325.00 from banks, microfinance institutions and Faith Based Organisations to start their businesses.

In order to reach more people and share the benefits of the EDC, outreach programme was embarked on in December 2008 with the training of the Reverend Sisters of the Immaculate Heart of Mary, Mother of Christ Congregation at Nkpor. Beyond this, EDC reached Port Harcourt early June, 2009 where more than 30 people were counseled and at least 15 participants received full training. Also a Centre was established in Aba where some people benefited in both entrepreneurial counseling and training schemes.

More outreach centres were established in Abia, Cross River and Akwa Ibom States in quick successions to step up the tangible benefits of the EDC. Training and counseling were delivered to most unemployed and underemployed participants making them to

Fashion Designing: *Skill Acquisition in action at St. Catherines Vocational Secondary School, Nsukka.*

Creative Arts: *Bead making*

Abor Mini Trade Fair: *Cosmetology product exhibition*

based out of Lagos since 2009. It has received a Unit Microfinance Bank license in 2010. In a little over a year, ASA's NGO has reached out to over 15,000 women entrepreneurs, lent out more than USD 5 million cumulatively, and has a PAR>30 days of less than 0.1%.

The Case for Operating Efficiency

Nigeria currently has nearly 900 licensed Microfinance Banks and numerous NGO-MFIs operating all over the country. Though they tend to be clustered around urban and peri-urban growth centers. In such a crowded service space there is intense competition and MFIs often gain a competitive edge based on the interest rate charged. In order to remain competitive, MFIs need to keep their interest rates affordable for their clients.

The interest rate charged by MFIs is primarily determined by four major factors: cost of borrowed funds, operating expenses, loan losses, and profits needed to expand their capital base (Fernando, 2006). Given that Nigerian MFIs are all operating within the same broad macro-economic space, the major mechanisms for decreasing the interest rate charged is to either reduce operating expenses or to reduce capital base growth by keeping the cost of borrowed funds and loan losses constant.

From these two options, it becomes obvious that in order to remain competitive, grow, and sustain, Nigerian MFIs must streamline their operations to ensure that costs incurred due to institutional inefficiencies are not passed on to clients.

Within ASA, this continual drive to reduce overhead costs by streamlining operating processes and adopting a low cost approach to operations is more of a philosophy than an operating policy. In the high volume and low margin environment, that holds true for most microfinance operations. ASA's staff at every level of the organization are aligned with the vision of providing efficient service whilst incurring the least possible overhead.

Other MFIs trying to adopt ASA's methodology most often stumble when the vision of senior managers to reach sustainability are not aligned with those in the field who are 'used to' doing business in a certain way and are unable to change. Usually, there is also inadequate stress on change management mechanisms to ensure that staff at all levels embrace the culture of lean and low-cost operations.

Some managers outrightly refuse to believe that a MFI can possibly be run with such a lean structure and with such low overheads. The challenge in adopting lean operations, in most cases, is ideological rather than operational.

Critical Success Factors

ASA is an institution that has long specialized in providing microfinance services and therefore has little chance of mission drift or incurring unnecessary expenditures. This specialization has allowed ASA to stream line and perfect its operating model over the years and helped it remain competitive in a saturated market like Bangladesh.

Some of the major operational policies that help streamline ASA operations are:

- institutionalizing a highly decentralized system where necessary decision making authority is delegated at the branch level;
- cost-effective staff recruitment and on-the-job training following an alternative approach of "each one teach one";
- adopting a simplified and easy accounting and record keeping process, thereby eliminating the need for separate accountants and cashiers at branches;
- providing quick service, reducing paper work and bureaucracies;
- using a self explanatory written manual for field operations, administration, accounts, audit, etc.;
- utilizing a streamlined MIS and monitoring system;
- having a lean mid and senior level management tier; and
- establishing low cost branches that are expected to cover operating costs and break even within 9 months of operation.

In addition to streamlining operations, the ASA Model puts into practice a number of cost-reducing strategies. These strategies were adopted by the Nigerian MFIs that received Technical Assistance from ASA, and were well received in their field operations. At present, ASA International's operations in Nigeria are following their policies to implement a low cost approach to microfinance operations in Nigeria.

A major factor in reducing operational cost at ASA is the low dependence on fixed assets. All ASA operations, globally, operate almost entirely out of rented offices; multiple field units are often housed in the same premises to share cost. Branches are austere, assets are used collectively and motor vehicles are not allowed at the branch level.

A typical ASA Branch has one Branch Manager and four or five Loan Officers, who are responsible for conducting all activities of the branch. A branch is expected to handle between 1,500 to 2,000 clients on average and is required to meet its expenses from the revenue it generates.

Further examples of cost reduction include:

- short duration 'hand-on' training ensure minimal down time of newly recruited staff;
- all branch expenditures are structured and standardized. ASA sets a cost ceiling for all expenditure types thus avoiding unnecessary or expensive purchases;
- administrative overhead costs are reduced by delegating all decision making power including fund management to the Branch Office; and
- midlevel supervisor who oversee 5 - 7 branches each aren't allowed secretarial staff and share their office with a Branch.

Coupled with cost reduction strategies, ASA also employs a number of income increasing strategies, including:

- growing the organization through rapid expansion of branches to exploit economies of scale;
- branch expansion are done based on quick surveys carried out by field staff with minimal involvement of head office managers;
- rapidly providing the first loans to new members and that ensures an immediate stream of repayments;
- strictly controlling on installment payments in order to establish a predictable cash flow;
- encouraging voluntary savings deposits;

SK: At a consolidated level, our NGO hasn't made a profit yet, we have been in operations for a year and a half only. Individual branches, which are treated as individual profit centers, are all self-sustaining –they cover their operating costs from the revenue they generate.

***J.A.A:** Will you be willing to provide training for MFIs in Nigeria, if so when and how do you plan to start this?*

SK: There is a sizeable interest from Nigerian MFIs to learn more about ASA's operating model and how to run cost effective microfinance operations. We have already been approached by a number of MFIs and MFBs who would like us to offer training courses for them.

While we don't have an immediate plan to open a training center, we haven't completely ruled it out either. We are carrying out an assessment to identify the volume and type of training requested in Nigeria. Once we identify a critical mass, we would then look at bringing ASA experts from Bangladesh to conduct these trainings. ■

Suitability of the ASA Model in Nigeria

By Saleh Khan'

Since 1978, ASA has been working relentlessly to assist the economically active poor population in Bangladesh. It has focused exclusively on providing micro-credit and micro-savings services from 1992. After three decades of operations, ASA has emerged as one of the largest sustainable microfinance institutions in the world, having innovated an unique operating model called, "ASA Cost-effective and Sustainable Microfinance Model." (ASA Bangladesh)

This operating model has been recognized and appreciated by various institutions around the world, including the Asian Development Bank (AsDB) that termed it the "Henry Ford Model for Microfinance Operations", to highlight its resilience. Others, including the International Finance Corporation (IFC) of the World Bank Group, Financial Times of the UK, UNDP and Forbes Magazine have provided various accolades in recognition of this model.

Numerous microfinance institutions (MFIs) in Asia, Africa and the Middle-East have adapted this model as it proved to be very simple to implement and is cost-effective. This mechanism of running a lean and efficient operation has been adopted by the majority of these institutions and a cost-effective operations culture prevails in them from the Head Office right down to each Branch Office.

ASA in Nigeria

ASA has been providing Technical Assistance (TA) since 1993 to NGO/MF|s in various countries. In most cases, it acts as a microfinance operations consultant assisting MFIs carry out institutional reforms and business process reorientation. ASA has already provided technical assistance and knowledge advisory services to MFIs in the following countries: Laos, Cambodia, Tajikistan, Jordan, Ethiopia, Myanmar, Afghanistan, Peru, Mauritius, Indonesia, Yemen, India, Pakistan, Sri Lanka, Nigeria, and the Philippines.

In Nigeria, ASA was engaged as an International Technical Service Provider under UNDP's MicroStart Project in 2000. The project was in three phases, eight MFIs were chosen from the initial fourty-nine NGO MFIs, to be trained in the ASA Model in Nigeria. Training was provided to staff from all layers in the target institutions, from the senior managers right down to the grassroots staff.

ASA organized and conducted trainings and workshops for 32 Chief Executive Officers and management staff from these MFIs. The course contents varied from institutional capacity building, corporate governance to field operations management. As part of this training, MFIs were trained on how to open simple, standardized, cost-effective and sustainable model branches whilst ensuring an effective monitoring system. They were also introduced to decentralized management mechanisms for quick and sustainable growth.

Beyond TA services, ASA, under the aegis of ASA International, has been successfully operating an NGO MFI

A client and ASA staff in business transaction

ASA management staff in a session with customers

become entrepreneurs who are now establishing new businesses and strengthening existing ones.

An important aspect of the entrepreneurial training is the changing of mindset which enables people to think about business and success more liberally. This has lead to a lot of graduates leaving their field to venture into other areas. For instance, some people who majored in the arts such as history and international relations are successful poultry farmers, while engineers have embraced events decoration and catering, car wash, cyber café business and similar ventures with remarkable success. There are other instances of switching of interest from professional training.

Activities of the EDC is waxing stronger and making inroads into new areas. Apart from causing some local government and churches to pay for the training of their indigenes and members, communities have embraced training parbrerships with EDC. Notable among this group is the Abor Community in Udi Local Government Area, which has trained about 200 participants recently and sensitized them to commence personal enterprise, and Enugu Ngwo Community in the same Udi Local Government Area. It is expected that soon the effort will manifest in elaborate business activities in the area. EDC has also institutionalized training partnerships with the training of some students of Enugu State University of Technology (ESUT), College of Education, Nsugbe, the University of Mkar, Mkar, Benue State and Saint Catherine's Vocational Secondary School, Nsukka. Also, members of National Youth Service Corps (NYSC) in Onitsha, Anambra State have been incorporated into the EDC training. These are additional to corporate classes that are continuously going on at the Corporate Headquarters, Onitsha The most recent effort has extended the geographical spread of EDC, Onitsha Zone. EDC-South East zone also collaborate with NGOs nationally and internationally. Notable among these are: NETANGOW (Network of Abor NGO Workers), GWF (Grassroots Women Foundation), SODSA (Society for Development and Sustainability in Africa, AIAE (Africa Institute of Applied Economics), Withworth Entrepreneurship Consultancy U.K, IIED (International Institute of Entrepreneurship Development) and Comfort Mamima Foundation, an NGO based in Nkwerre, in Imo State.

Agro Tech. Class in Etinan, Akwa Ibom State

It must be said that enabling environment for nurturing of businesses so conceived, is of utmost importance in EDC operations. Government at all levels should strive to enthrone such enabling environment to consolidate the activities of EDC. The private, public and development agencies should see EDC as a challenging opportunity for meaningful collaboration for economic and technological development of Nigeria. Other institutions of higher learning should borrow a leaf from the CBN-EDC initiative and enter into such partnerships especially where practically oriented entrepreneurship training is not going on yet.

Financial institutions should regard the EDC project as a fertile land to wisely invest their loan funds. The training and mentoring activities of EDC should act as guarantee. This is in addition to the fact that having imbibed entrepreneurial mindset, these emergent entrepreneurs have been groomed to manage loan fund professionally.

On the whole, EDC South East Zone with office located at Onitsha has trained over 7,000 participants and counseled above 12,000 others. We indeed could do better. Cooperative spirit and partnership are necessary tools to achieve even greater strides. ■

CBN and External Stakeholders Meet to Review the National Microfinance Policy

By A. A. Habib

The Central Bank of Nigeria (CBN), on 27th May, 2O1O held a meeting with external stakeholders to review the National Microfinance Policy. Coming almost five after the launching of the Policy, the review is in response to the challenges facing the sub-sector. Among the stakeholders who attended were representatives of Nigeria Association of Microfinance Banks (NAMB), Microfinance Banks (MFBs), NGO-MFls, Donor Partners and Consultants.

Dr. Kingsley Chiedu Moghalu, the Deputy Governor, Financial System Stability, Central Bank of Nigeria, in his opening address, traced the antecedents of the review exercise to the following:

- Emerging issues in the process of the implementation of the Microfinance Policy;
- A call by the participants at the 2008 Annual Microfinance Conference for its review to address some of the observed challenges; and
- The directive by the National Microfinance Policy Consultative Committee to effect the review the Policy.

He implored participants to proffer suggestions to further enrich the Policy and the Regulatory and Supervisory Guidelines for Microfinance Banks.

The Chairman of the Inter-Departmental Review Committee, Mr. Patrick Esenwah, presented the recommendations of the Committee to participants informing them that earlier responses received from stakeholders bordered on the minimum capital requirements, organic growth path, single obligor limits, participation of MFBs in clearing house activities and restriction of the operation of MFBs.

Dr. Ike Abugu, President of the National Association of Small and Medium Enterprises (NASME) who chaired the Questions and Answers session commended the CBN for the initiative and called on participants to make their contributions, bearing in mind that the ultimate was to ensure that micro-enterprises had more access to finance.

In his closing remarks, Mr. Joe Alegieuno, the Director, Development Finance Department, thanked participants for their input, stating that the Bank will try as much as possible to incorporate them accordingly. ■

Rural Finance Institution Building Programme (RUFIN) Holds National Start-up Workshop

By Mrs. A. U. Ufaruna

The Rural Finance Institution Building Programme (RUFIN) held its national start up workshop at the NICON Luxury Hotel, Abuja from 1st to 5th February, 2010. The RUFIN is a seven (7) year programme with the objective of developing and strengthening Micro Finance Institutions (MFIs) and linking them to formal financial institutions in order to create a viable and sustainable rural finance system. The programme is funded by the International Fund for Agricultural Development (IFAD) and the Federal Government of Nigeria. The programme which aims at alleviating poverty with a particular focus on the rural poor especially women, youth and the physically challenged will be implemented in 12 states of the federation (Adamawa, Bauchi, Katsina, Zamfara, Benue, Nasarawa, Oyo, Lagos, Edo, Imo, Anambra and Akwa-Ibom).

The programme's total cost is US$39.9 million made up of IFAD loan of US$27.2 million, IFAD grant US$400,000, Ford Foundation US$500,000 and the Federal Government of Nigeria (participating states and institutions inclusive) US$ 11.9 million.

The programme, domiciled in Federal Ministry of Agriculture, is being jointly implemented by four participating institutions, the Central Bank of Nigeria (CBN), Federal Department of Cooperatives (FDC), Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB) and National Poverty Eradication Programme (NAPEP).

The programme consists of three components, namely:

i. Capacity Building and Technical Support to Bank and Non-Bank

Cross section of participants at the Start-up Workshop

not required. Staff are trained quickly and deployed to the field; and at the field level there are no non-revenue generating staff - like cashier, accountant, MIS Officer.

- ***Operations Standardization:*** All aspects of ASA's operations are standardized and codified in a simple manual - from branch opening, to client selection to loan disbursement. We currently offer only one loan product in Nigeria, and cost ceilings are established for all expenses.
- ***Decentralization:*** Decision making is decentralized to the field level, thus avoiding the need for dedicated mid-level managers; recordkeeping and accounting are done at the branch level; and the branches are empowered to do their own financial planning.
- ***Lack of Fixed Assets:*** ASA operations, globally, operate almost entirely in rented offices and multiple field units are often housed in the same premises to share cost. Branches have minimum furniture and fixtures, assets are used collectively, and motor vehicles are not provided at the branch level.

J.A.A: *What steps did you take to ensure that your staff imbibe the ASA culture in their operations?*

SK: We lead by example. Staff members at all levels are subjected to the same rules of cost effective operations without discrimination. For example, each and every expense incurred in a typical branch operation is itemized in a manual and cost ceilings are set. This level of cost control ensures that no single branch can engage in unnecessary or lavish expenses and helps to reduce costs. Intensive mentoring and constant on the-job training ensure that staff adopt the same operating standard across all levels of the organization.

J.A.A: *Do you have any training programme for your staff? If so, how is it conducted and what are the impacts?*

SK: We believe it is easier to learn about microfinance operation by actually carrying it out in the field rather than learning about it in a classroom. ASA's core training programme is therefore centered on a 'hands on' approach to learning, rather than on a traditional classroom style training and evaluation process.

The entire training process takes only nine days. Newly recruited staff are given a two day orientation at the Head Office on ASA's vision and on the basic tenets of microfinance operations. Thereafter, they spend a week at a Branch Office to carry out expected daily tasks. During this 'hands on' phase, a trainee is attached to an operational branch staff under a training methodology called 'each one teach one' - where one existing staff is required to teach one new recruit. The trainees understudy their mentors and learn practically how field operations works. They also learn how to handle challenges and the sequence of tasks that needs to be carried out.

The impact of this training approach has been great. Our new recruits tell us that they have no confusion on what their job is or what they are expected to do; since they have already carried out most of the tasks required even before they join their duty station.

J.A.A: *What are your future plans with respect to training of staff?*

SK: In the future, as the organization matures, we will be arranging targeted training modules for senior staff. The modules will move away from generic microfinance operations to specific operations aspects, such as budgeting, staff management, credit risk assessment, default management, etc.

J.A.A: *Do you experience staff turnover in your organization? If 'yes', what will you do to check it and if 'no' what have you done to keep your staff?*

SK: We have very low staff turnover. In our 16 months of operations in the country, we have lost only two professional staff. For us, retaining staff is much like retaining clients. We keep an open channel of communications and ensure that staff are aware of the changes happening in the organization. We also try to address their concerns as much as possible.

J.A.A: *Do you intend to expand branches beyond Lagos? If so, what are the major considerations for your branch expansion?*

SK: We are currently reviewing our expansion plans to see how we can spread beyond Lagos State and offer our services to people all across Nigeria. Given our current Microfinance Bank license, and under the current regulatory structure, we would not be able to expand outside Lagos. The capital required to acquire a nationwide license is extremely high, in our view. We have submitted a proposal to our investors for an amount of USD 6.5 million to enable us acquire a national MFB license. As long as our business continues to be successful, this investment will definitely be made.

J.A.A: *How many branches do you currently have and what is the average number of staff per branch?*

SK: With the NGO, we currently have 12 branches. With the MFB, we have one branch and four cash centers in the pipeline. Each branch has 6 staff members, one manager, and five loan officers.

J.A.A: *Are there gender considerations in your employment and outreach? What factors do you consider in this regard?*

SK: We are gender neutral when recruiting staff and believe in equal opportunities for both genders. At present, we have a 60:40 ratio between our male and female employees.

As potential employers, we search for bright and motivated individuals, irrespective of their previous working experiences or gender. What we are really looking for is intelligence and a willingness to learn. This is because if one is willing and quick to learn, no task is impossible.

J.A.A: *What is the average loan officer client ratio?*

SK: On an average, our Loan Officers handle an average of 260 clients and N2 million in loan portfolio.

J.A.A: *How long did it take you to break even since establishing in Nigeria and what are the secrets?*

ASA International On MFI Operational Efficiency

The Association for Social Advancement (ASA) is a microfinance institution with a distinct microfinance methodology that focuses primarily on the micro-entrepreneurial population. The institution's cost-effective delivery approach that focuses on bringing the services to the clients' door steps has been the secret of its success.

This, coupled with a strong sense of commitment, hard work and discipline have seen the institution through, in a terrain that is characterized by high rate of default and operational inefficiency.

In this interview with the Editor, Mr. J. A. A. Attah, the Country Director, ASA International Nigeria, Mr. Saleh Khan bares his mind on the secrets of their success.

JAA: Can you tell us when you commenced operations in Nigeria?

Saleh Khan: ASA started its journey in Nigeria by applying for a Unit Microfinance Bank license in September, 2008. We received our final license in March, 2010 and are currently awaiting permission from CBN to open four Cash Centres in Lagos.

Prior to being granted the MFB license, we registered an NGO MFI called the Association for Social Improvement and Economic Advancement (ASIEA) and started lending through it in March, 2009 in order to gather experience and understand the market.

JAA: What was your primary motivation for setting up in Nigeria and particularly in Lagos?

SK: ASA International's operational focus is Asia and Africa. In West Africa, Nigeria is certainly the most attractive market both in terms of the potential market size and from an MFI – friendly regulatory regime perspective. ASA has an experience of serving the Nigerian market, since it worked as an International Technical Service Provider for UNDP's Micro Start initiative. Under this program, ASA provided training to eight NGO MFIs on its operating model, especially on cost effective operations, rapid growth and institutional reforms.

Lagos is a natural home base for us because of its large microentrepreneurial population. People here are economically active and work hard to earn their living, a combination of which always ensures a good market for microfinance operations. The population density of Lagos State also allows us to serve a large number of clients from a single outlet, making our operations economically feasible.

J.A.A: What is your general experience in serving the Nigerian market like?

SK: From our previous experience of working here, we knew that the Nigerian market is suitable for implementing the ASA Model and there is huge demand from the microentrepreneurs in Lagos.

So far, our experience in Nigeria has been great. Our services have been well received, we have been fortunate to find a group of intelligent and motivated staff members, and we have excellent working relationships with our partners in the country.

J.A.A: It has been said that ASA is a successful Microfinance Bank. What are the secrets of this success?

SK: The basic secret behind this success is that we listen to our clients' needs and lend amounts that they can afford to borrow. The cornerstone of any successful microfinance operation is sustainable lending, by ensuring that a client is not overleveraged. A cost effective services delivery model which focuses on bringing the bank to the clients' doorstep helps establish our presence in any market. Institutional discipline, hard work and a strong sense of commitment of ASA towards Nigeria did the rest.

J.A.A: Tell us a little about your success indices?

SK: I would term ASA's operations in Nigeria a success. In over 16 months that we operated as an NGO, ASIEA has provided loans to over 30,000 clients worth over USD 5 million (N750 million).

As at June 2010, ASIEA had about 15,000 active clients with outstanding loan principal of N240 million. The portfolio at risk (PAR) for loans more than 30 days due is 0.1%.

J.A.A: Can you expatiate on ASA's low cost of operation and how this was achieved?

SK: Running a cost effective operation is a philosophy rather than a set of operational policies in ASA.

Staff at every level are encouraged to be cost conscious and we recognize that costs incurred due to institutional inefficiencies are ultimately passed on to the clients - who should not have to pay more because of our short comings. Each ASA staff is conscious of the fact that any expenditure that does not directly impact on our ability to provide service to our clients is unnecessary.

Some of the core features for ASA's cost effective operations are:

- ***Staffing:*** Field level staff are hired as fresh graduates, prior banking or financial services experience is

Micro-finance Institutions.

ii. Targeted Development and Strengthening Institutional environment for Micro-finance Development and

iii. Programme Coordination and Management.

The Opening Ceremony of the Start Up workshop was presided over by the Honourable Minister for Agriculture and Water Resources, Dr. Sayyadi Abba Ruma. Dignitaries present included the Chairperson, House Committee on Rural Development; Senior Special Assistant to the President on Millennium Development Goals (MDGs); National Coordinator National Poverty Eradication Programme (NAPEP); Deputy Governor, Financial System Stability, CBN; and Honourable Commissioners for Agriculture, Cooperatives and Rural Development in the 12 RUFIN Participating States. Others included the Country Programme Manager (CPM) IFAD; Country Representatives of Development Partners; the President, All Farmers Association of Nigeria; Representative of Financial Institutions; the Executive Director, National Food Reserve Agency (I.IFRA) and Representatives of Federal Ministry of Finance, among others. The workshop was attended by 331 participants.

The first Technical Session witnessed two paper presentations, one by Mr. M.O. Azeez, National Project Coordinator (NPC) RUFIN who delivered a paper on the overview of RUFIN and the roles and responsibilities of Stakeholders in the implementation of RUFIN and the other by Mr. Jonathan Dangwaran, the Director, Federal Department of Cooperatives with a paper titled Cooperatives and Rural Finance Delivery.

The second Technical Session witnessed the presentation of two papers by the CBN; namely Formal Rural Finance Institutions and the State of Micro finance Banks by Mr. P. L Esenwah, Deputy Director, Development Finance Department (MFBs) and Implementation Support

The National Coordinator of RUFIN Mr. Azeez addressing the audience at the Workshop

Participants listening to a presentation

for Regulation of Micro Finance Banks (MFBs) by Mr. A. J. Adesemoye, Assistant Director, Other Financial Institutions Department (OFID).

Three syndicate sessions held during the workshop as follows:

- Development and Strengthening member based Micro Finance Institutions (MFIs);
- Support to Micro finance Institutions (MFIs); and
- Framework Conditions for Micro Finance Development.

At the end of the programme, participants made the following major recommendations:

- That the programme should adhere strictly to agreed guidelines and implementation protocols and avoid political interference.
- That the programme should aim and work at achieving synergy among related donor projects in order to achieve critical mass and maximum impact.
- That RUFIN should embark on aggressive communications and knowledge management strategy to ensure consumer protection and functional financial literacy for microfinance clients in the participating states.
- That RUFIN should pay particular emphasis on markets and commercially oriented societies and unions as rural financial service delivery channels.
- That RUFIN should continue to stress the fact that it provides only training, capacity building and technical assistance to assist eligible and willing MFBs and Non-Bank MFIs to mobilize deposits and to access refinancing facilities from formal financial institutions.
- That RUFIN should continue to encourage States and Local Governments to implement their obligations to support the microfinance sub-sector as outlined in the programme implementation framework
- That RUFIN should constitute periodic stakeholders forum for the following purposes:
  - To develop, review and streamline the grey areas in the Operational Guidelines for the implementation of the programme components
  - To serve as a bridge between the formal banks, regulatory authorities and operators with their fledgling associations;
  - To develop a databank and research into key areas that needs attention;
- That CBN should expedite action on the on-going reforms for the MFBs to prevent a contagion effect and systemic failure in the sub-sector.

A Chat with Development and Exchange Centre

DEC

Development and Exchange Centre (DEC), is a Non-governmental organization located in Bauchi, Bauchi State. It has recorded great successes in microfinance operations in the North East geopolitical zone of the country. In an interview with a member of the Microfinance Newsletter Editorial team, Mr. S. F. Mohammed, an Executive Director of DEC, Mr. J. C. Makka, shed some light on the success story of the institution and other burning issues affecting the microfinance industry in the country. Below are the excerpts:

SF Moh'd: *Can you give us a brief history of the DEC?*

Makka: DEC, Bauchi is a non-government, not-for-profit organization established in 1987. Its mandate is to support women to improve their living conditions. DEC is now operating in 10 States in the North East and North Central zones of Nigeria with a membership strength of 76,000 women.

SF Moh'd: *What are the objectives of setting up DEC?*

Makka: The objectives of establishing DEC are:

- To improve the living conditions of women in the areas of operation by providing micro finance services and promoting enterprise development among women goups;
- To support community development efforts and initiatives through integrated and participatory approaches for sustainable growth at the grass roots; and
- To build capacity of government and non-governmental development agencies and women's groups by providing appropriate training workshops.

SF Moh'd: *Are the objectives being achieved?*

Makka: Yes, the objectives are being achieved through the numerous projects we were able to undertake over the years. DEC operates through 42 branches in 10 states and had supported 70,000 women with micro credit as at December 2008. In addition, DEC provides social services in the area of water supply, basic education and improved reproductive health of women in several communities. This has resulted in significant impact in the livelihood of the women that benefited from our programmes.

SF Moh'd: *Your organization is among the few MFIs that are making efforts to transform to MFB. What is your current loan portfolio?*

Makka: DEC was granted approval in principle (AIP) by the CBN to transform to an MFB in 2007. We are yet to obtain final licence due to delay in organizational restructuring. DEC is restructuring to separate social services functions from micro finance services. This will require a new registration and ownership structure for DEC. The present legal status of DEC is Incorporated Trust with no ownership equity. The loan portfolio before being granted AIP was N323 million which has risen to N655 million now.

SF Moh'd: *What do you consider as the opportunities in microfinancing in Nigeria?*

Makka: Since microfinancing is now being formalized in Nigeria, the greatest opportunity in the sector is the availability of markets. Nigeria has a large market for microfinance and as a result is attracting stakeholders including development partners that are ready to provide both technical and financial supports. The government is also showing interest in microfinancing, which is an opportunity for the sector to develop.

SF Moh'd: *What are the efforts of DEC on staff improvement?*

Makka: DEC is trying to improve the skills of its staff by organizing training for them. DEC also arranges study tours for its staff to acquire more skills and knowledge. In addition, there is regular on-the-job and in-house training to address identified skills gap. Furthermore, staff recruitment is based on possession of relevant skills.

SF Moh'd: *What are the threats to microfinance operations in the country?*

Makka: The major threat to microfinance in the country is the government subsidized progmmmes. This is a threat because the delivery system is faulty because of political interests. Another threat to microfinance operation in Nigeria is the low capital base of the MFBs. There is also lack of skills and expertise among the regulators. ■

areas of product development, micro credit and loan monitoring. The training and certification programme of CBN is laudable and necessary particularly as it includes directors who are expected to provide effective corporate governance.

Credit Bureaus: The licensing of credit bureaux by CBN is timely, given that these institutions would keep and provide information on borrowers, thus checkmating 'professional' borrowers in the sector. It would also help to reduce delinquent loans as an individual borrower cannot access funds from different banks using the same information.

Provision/Improvement of Basic Infrastructure: There is need for government to step up the provision of basic infrastructure, in order to reduce the cost of operation of microfinance banks.

Effective Credit Policies by MFBs: Microfinance operators must put in place, effective credit policy procedures/manuals and ensure that they are strictly adhered to.

Close Supervision by Regulatory Bodies: CBN and other regulatory bodies must ensure close and effective supervision of MFBs to avoid unhealthy practices and increase confidence in the microfinance sector.

Need to increase the Capital Base of MFBs: Given the high cost of operations associated with MFBs, there is need to raise their capital base, especially for unit MFBs operating in cosmopolitan environments. Such an increase would also make the required fixed asset to capital ratio more realistic.

Conclusion

In conclusion, microfinance provides a credible platform for the eradication of poverty and economic development of the nation. All hands must be on deck to ensure that the institutions are efficiently run. ■

SMEDAN, NERFUND, Others Sign MOU, Laud FG for N2billion Business Finance

By Levi Anyikwa

The Director-General (D/G) of Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), Muhammad Nadada Umar, has commended the Federal Government (FG) for providing N2billion through the National Economic Reconstruction Fund (NERFUND) for financing micro and small enterprises in the country.

Speaking shortly after the signing of the Memorandum of Understanding (MOU) between SMEDAN and NERFUND, Muhammad Nadada Umar said it would have been a great disservice and waste of public funds to leave micro and small enterprises unfunded after receiving entrepreneurship and vocational training. He stressed that these enterprises needed cheap and long term credits at single-digit interest rate to survive as they could not compete with large enterprises for commercial bank loans.

According to the D/G, SMEDAN, it was against this background that the Agency welcomed FG's provision of N2billion which would be lent out at single-digit interest rates to SMEs. He said, "The idea behind this is not to create a debt overhang that will cripple the operations of the beneficiaries".

The collaboration between SMEDAN and NERFUND targets provision of medium to long-term financing to micro, small and medium enterprises especially those in manufacturing, agro-allied enterprises, mining, quarrying, industrial support services and ancillary projects to ensure rapid industrialization of the country.

Under the agreement, SMEDAN shall among others, receive applications from prospective beneficiaries, appraise all applications and recommend to NERFUND for approval and disbursement, while NERFUND on its part, shall be the custodian of the funds and be responsible for day-to-day management of the funds.

The SMEDAN DG expressed optimism that the fund would be revolving and made available to as many entrepreneurs as possible. He urged the beneficiaries to utilize the funds for the purpose which it was approved and pay back within the stipulated time.

Also speaking at the occasion, the Managing Director of NERFUND, Alhaji Baba Maina Gimba, said the signing of the MOU was aimed at bringing on board, apex development agencies which have spearheaded the task of sensitizing and re-orientating the active poor and budding entrepreneurs to respond to the Federal Government's effort to stimulate economic growth. He commended SMEDAN and other collaborating agencies who signed the agreements with NERFUND namely: National Directorate of Employment [NDE], Entrepreneurship Development Centre and National Women Development Centre [NWDC], for sensitizing and empowering the public to go into profitable and productive ventures. ■

Challenges and Success Imperatives for Microfinance Institutions in Nigeria

By Pauline Nsa

Introduction

One of the major challenges facing the world today is the high incidence of poverty particularly in Africa and Asia. A significant percentage of the populations of these continents live below one dollar per day. Thus, there exist poor/inadequate housing and medical facilities, absence of clean and potable drinking water. These, coupled with poor environmental conditions, have resulted in shorter life span and vulnerability to various hazards. The need to reverse the trend necessitated the inclusion of its eradication in the Millennium Development Goals.

Several strategies have been adopted to tackle poverty among which is the provision of microfinance services aimed at addressing the access to finance needs of the poor.

What is Microfinance?

Microfinance is all about providing financial services to the active poor who have been excluded from such services by conventional financial institutions, for reasons of inadequate collateral, unstructured businesses and small sizes of transactions. The major services offered by microfinance banks include savings, micro-credit, money transfers, leases, and insurance. In Nigeria, statistics reveal that only 35%o of the economically active populations have access to formal financial services.

In realization of the above inequality, the CBN introduced the Microfinance Policy, Regulatory and Supervisory framework on December 15, 2005. The specific objective of the policy is to make financial services accessible to a large segment of the productive Nigerian population.

Since then, hundreds of microfinance institutions have been licensed by the CBN to provide these services to the target market. However, a significant number of these banks have performed below expectation due to dearth of skills, capital inadequacy, poor quality risk assets and inadequate supervision.

Challenges Facing Microfinance Banks In Nigeria

The microfinance sub-sector in Nigeria is faced with many challenges. Prominent among these are:

Dearth of Skilled Manpower: The influx of unskilled manpower in the sector can be attributed to the conversion of inexperienced community bank operators to manage microfinance banks. Most of these operators are unable to determine the niche to serve and as such, imitate universal banks and their lending methods, resulting in poor credit appraisal, monitoring and ultimately, poor quality risk assets.

Poor Repayment Culture: An average borrower has a tendency to regard loans from microfinance institutions as his share of "the national cake" and thus renege on repayment. Also, insider dealing whereby Directors and shareholders extend credit facilities to themselves and their conies can pose a challenge and affect loan repayment.

Absence of adequate Infrastructure: Inadequate power and other basic infrastructure increase operating costs.

Inadequate Capital: Due to huge costs of providing infrastructure, several microfinance banks have had to invest large portions of their capital in fixed assets and prepayments, thus leaving little resource for financial intermediation.

Anxiety for Growth and Income: The pressure to meet up with shareholders' expectation on return on investment within a short time creates anxiety for managers of microfinance banks, and this has made some of them to compromise on appropriate credit principles.

Inadequate Supervision by Regulatory Authorities: Due to the very large number of MFBs, it has been a challenge for regulators to provide strict and close supervision of their activities.

Success Imperative for MFB In Nigeria

In order to ensure that microfinance banks operate efficiently, the following steps are suggested:

Training: Given the dearth of requisite skills in the microfinance sub-sector, microfinance banks must embark on capacity building of their staff especially in

The Executive Governor of Delta State, His Excellency Dr. Emmanuel Uduaghan being presented with an award from the President, Federal Republic of Nigeria, His Excellency Dr. Goodluck Ebele Jonathan GCFR, while CBN Governor, Mal Sanusi Lamido Sanusi applauds.

Central Bank of Nigeria Holds its 4th Annual Microfinance Conference and Entrepreneurship Awards

The Central Bank of Nigeria held its 4th Annual Microfinance Conference/Entrepreneurship Awards organized at Sheraton Hotel, Abuja from January 21-22, 2010. The theme of the Conference was "Sustainable Microfinance Delivery in Nigeria".

The Conference was attended by over 1003 participants drawn from the Presidency, National Assembly, State Governments, Deposit Money Banks, Microfinance Banks (MFBs), Development Partners, the Academia, Development Finance institutions, Non-Governmental Organizations (NGOs), Organized Private Sector, Microfinance Clientele and the Media. It was declared open by His Excellency, Dr. Goodluck Ebele Jonathan, the Vice President of the Federal Republic of Nigeria. In his opening address, the Vice President commended the CBN for its efforts in creating an enabling environment for the improvement of the financial sector. He encouraged the CBN and microfinance banks to sustain the tempo of various strategies to alleviate poverty, and in particular through micro credit delivery to the active poor. He called on operators of MFBs to imbibe the culture of quality management, while the CBN should work with other agencies to prevent the failure of the banking sector.

In his address, the CBN Governor, Mallam Sanusi Lamido Sanusi welcomed participants to the conference and identified some challenges facing the micro-finance sub-sector as being inadequate financial infrastructure, poor risk management, poor corporate governance and weak institutional capacity. The Governor also highlighted the measures being taken by CBN to curb the challenges of the microfinance sub-sector. These included the ongoing review of the Microfinance Policy, promotion of credit bureaux and rating agencies, joint audit of ailing MFBs with Nigeria Deposit Insurance Corporation (NDIC), collaboration with development partners to design the national micro finance development strategy, implementation of the certification programme and the establishment of the Micro, Small and Medium Enterprises (MSMEs) Development Fund.

The Conference benefited from the presentation of five papers namely: Financial Inclusion and Savings Mobilization; Enterprise-wide Risk Management in Microfinance Institutions; Financial Literacy and Consumer Protection as Strategies to Enhance Microfinance; Institutional Support for Microfinance Sub-sector; and Branchless Banking in Microfinance.

Some of the key issues highlighted at the Conference were that:

- Financial literacy and consumer protection were critical to the sustainable development of the microfinance sub-sector;
- Sound risk management practices were strategic to the sustainability of the MFBs;
- State and Local Governments were not complying with the annual 1.0 per cent budgetary allocation for the development of the microfinance sub-sector;
- The huge cost of outreach and publicity constitute a major constraint to the MFIs in the area of market penetration;
- Inadequate infrastructure negatively impact on the growth of MFBs;
- Lack of wholesale funds is impeding the development of the sub-sector;
- There are delays in clearing of MFBs cheques through their correspondent banks;
- Dearth of human capacity exists in the sub-sector;
- MFBs are not recognized in collection of taxes for government and payment of pension etc;
- Many qualified MFBs are yet to receive their final licences.

Accordingly the conference recommended as follows:

- The cost of executing financial literacy and consumer protection and other awareness programmes was high and therefore the CBN should take it up as part of its developmental role.
- The CBN should encourage government to intensify efforts in addressing the problems of infrastructural development in Nigeria;
- A bill should be enacted on the 1% annual budgetary allocation by State Governments and LGAs to create wholesale funding for MFBs lending activities;
- CBN should compel DMBs to clear all MFBs cheques in accordance with the clearing regulations;
- CBN should disseminate information related to MFBs through circulars rather than pages of newspapers;
- MFBs should adopt tested and contemporary risk management practices covering strategic, financial and operational risks;
- The ongoing Microfinance Certification Programme is a laudable initiative which must be sustained and vigorously implemented to enhance the human capacity of operators;
- CBN should expedite action in issuing final licence to qualified MFBs, because those having provisional licence are considered not credible; and
- CBN should encourage government agencies to allow MFBs to collect taxes and pension on their behalf because they operate at the grassroots.