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The Nigerian Microfinance NEWSLETTER

A Newsletter of the International Year of Microcredit 2005

POLICY FRAMEWORK • UPDATES • OPPORTUNITIES

Volume 4 January - June 2007

Microfinance
The Financial System that Works for the Majority

Featuring:

FSS 2020 Financial Systems Strategy | A vision of Self Discovery

2006 International Microfinance Conference and Annual Microfinance / Entrepreneurship Awards *and more ...*

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Editorial

Operational Principles for Sustainable Private Sector Microfinance

One of the key questions that has continued to keep the private sector from investing in microfinance activities is; "will it succeed?" Against the background of tales of failures, unsuccessful attempts and the popular perception of microfinancing as a difficult business, are success stories from many countries in South East Asia, Latin America and East Africa which point to the fact that microfinance can be a successful business venture if approached with the right mindset, methodology and vision.

Several factors account for successful microfinance operations. Among these, the persons who are charged with the responsibility of implementing the broad policies governing the institutions are fundamental. The primary oversight of the activities of the institution is the *bona fide* responsibility of the Board. Members of the Board should possess an appropriate mix of relevant qualification, experience and proven track record in related fields. The functions of the Board should be clearly defined and understood by members and management, and all board members should be jointly and severally liable for the health and performance of the institution. The supervisory role of the Board can only be effective to the extent that the Board members are effective.

Broadly speaking, the basic responsibilities of the Board include among others, the following:

- Safeguarding the interest of the institution and ensuring that the managers operate in its best interest.
- Participating in the Microfinance Institution's (MFI's) long-term strategy by critically accessing the risks and approving plans to minimize them.
- Delegating authority to management as appropriate, supervising the execution of approved strategic plans and evaluating the performance of the management.
- Supervising the selection, evaluation and compensation of senior management staff.

Most MFIs are **Non-Governmental Organiation (NGO)** based and derive their capital from original owners, some of whom are committed to a social rather than business objectives. As the MFIs expand and reach a critical stage of growth, original owners might not have the resources and willingness to increase their equity contribution to meet the increased demand for financial services. When this occurs, more shareholders should be admitted and commercial funding sources should be explored. An MFI's ability to attract capital depends on the credibility it has acquired over time. Investors would be interested in high standards of prudence, governance, discipline and riguor in the MFIs operations as well as good financial returns.

While there is no specific product that fits into every clientele base, an MFI should consider the following in its product development strategy:

- Provision of financial services such as savings, credit, insurance, credit cards and payment services.
- Human and social capital development.
- Business training, marketing and technology upgrade.
- Provision of social services such as health, nutrition, education and literacy training.

Owing to the fact that product development is an on-going Process, an MFI that wants to stay in business must undertake regular research and development.

For MFIs that offer savings services, there is the need to put in place, necessary checks and balances in the form of internal control measures to forestall internal and external threats to continued operations. Savers want their money in safe, convenient and easily accessible form. Where an MFI transacts mobile banking business, this should be done by at least two officers to checkmate fraud and theft. Other measures that enhance internal controls include checking high employee turnover and cultivation of high integrity in the system, as well as providing good incentives.

The MFI market has diverse audience and requires appropriate linkages and networking for practitioners to have easy access to valid information, funding, capacity and skills upgrade, donor support, local and international technical assistance. The linkage would promote reduction in administrative costs and enhance wholesale funding arrangements with conventional institutions such as commercial banks and specialized development funds ■

J.A.A. Attah, *Editor*

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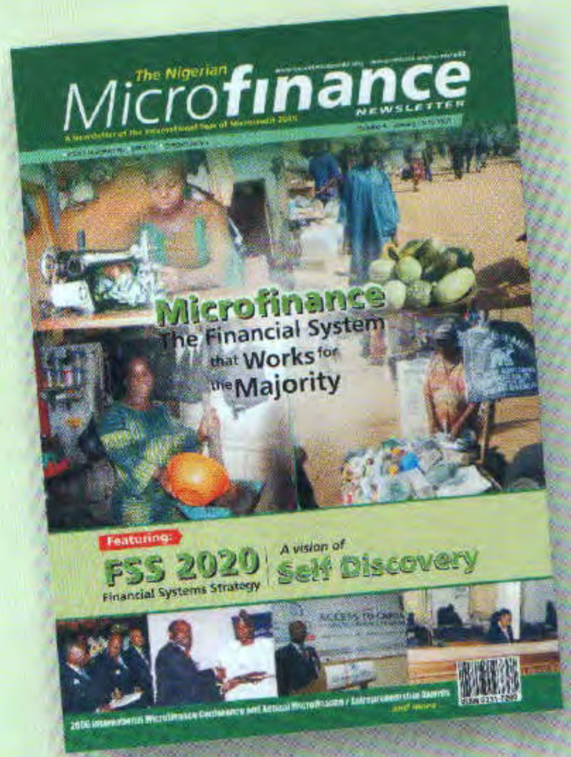

Financial Systems Strategy 2020 (FSS 2020) International Conference:

A Vision of Self Discovery

and Economic Sustainability for Nigeria, by the Year 2020

By Tony Ogwu

Mr. President, Alhaji Umaru Musa Yar'Adua, presenting the opening remarks at FSS 2020 Conference

Still savouring the success of the consolidation of the banking industry, the Central Bank of Nigeria (CBN), rolled out another visionary initiative - the Financial Systems Strategy 2020 (FSS 2020). The FSS 2020 is a financial blueprint to reposition the country to become one of the twenty largest economies in the world by the year 2020.

To drive home this point, and actualize the dream, the CBN held the FSS 2020 International Conference at the Transcorp Hilton Hotel, Abuja, from the 18th through 20th of June, 2007. The objectives of the conference were to articulate strategies to make Nigeria:

- The financial hub of Africa by 2020.
- Join the league of the top 20 economies by year 2020.
- Build financial institutions that are global players and specifically, banks that are among the top 50 - 100 banks in the world by 2015.

The three, day conference drew participants from various sectors of the economy, including local, international and finance experts, development partners and representatives of the World Bank (WB), International Monetary Fund (IMF), the African Development Bank(AfDB), Department for International Development (DFID) and German Technical Aid Agency (GTZ).

The President and Commander-in- Chief of the Armed Forces of the Federal Republic of Nigeria, Alhaji Umaru Musa Yar'Adua (GCFR) performed the opening ceremony at the conference. In his opening remarks, the President welcomed participants and commended the CBN for the FSS 2020 initiative. He hinted that the initiative was in consonance with his administration's priority for the nation, which was improvement of the economy. He admitted that the vision of transforming Nigeria into one of the 20 largest economies in the world could only be achieved within the context of a sound financial system. The President also noted that his government would build on the successes of the immediate past administration's reform efforts. As the concerns of most economic agents included security of lives and property, stable prices and exchange rate regime, transparency and predictability of regulations, he assured that his government would deliver on all these, and provide a conducive business environment for the private sector to thrive. Since the agenda of the conference would focus largely on the above concerns, he stressed that he was eagerly awaiting the report of the conference. Thereafter, he wished the participants very fruitful deliberations and declared the conference open.

The Governor of the Central Bank of Nigeria, Professor Chukwuma C. Soludo who was also the Chief Host, welcomed participants to the conference and thanked the President for attending in person. He observed that the number of people in attendance was unprecedented, and attributed this to the significance of the theme of the conference to current realities. He traced the origin of the initiative to his dream which was actualised by a small steering committee that commenced work in June 2006, and metamorphosed into a technical committee that provided the content and form to the FSS 2020 initiative. In his paper titled "Nigeria Financial System Strategy 2020 Plan: Our Dream", Professor Soludo pointed out that if Africa must lay claim to the 21st century, Nigeria must as a matter of necessity take the lead and become one of the largest economies in the world by the year 2020. If this must be so, then the development of a sound financial system must be at the heart of it all.

Thereafter, he made an indepth presentation of the FSS 2020. Quoting copiously from the Goldman Sachs report which projected in 2001 that after the BRIC countries (i.e. Brazil, Russia, India and China), 11 countries (Nigeria and Egypt inclusive) have the potentials to be among the largest economies in the world by the year 2025. He stated that Nigeria must grow her economy by a yearly average of 12.4 percent for her to be the financial nerve centre of Africa. This he affirmed, informed the need to establish a robust and vibrant financial system that would power the Nigerian economy and by extension, propel the rest of the African economy to the desired goal.

This prompted him to declare that "Nigerian banks were the soundest and safest having been described as the fastest growing in Africa by the Financial Times of London in December 2006."

Going down the memory lane, the Governor recalled that the Nigerian financial system which was characterized by systemic crisis arising from inadequate capital base and poor corporate governance, had been strengthened to the point where seven out of the twenty five consolidated banks were expected to have more than $1 billion in Tier One Capital by the end of 2007. In addition, he stated that sixteen Nigerian banks were in the league of the top 1000 banks in the world.

This prompted him to declare that "Nigerian banks were the soundest and safest having been described as the fastest growing in Africa by the Financial Times of London in December 2006."

On microfinance which is the current toast of the financial sector, the Governor situated microfinance banking as the next level in the financial sector reforms. He alluded to the importance of microfinance banking in providing for the over 65% of the Nigerian population that lacked access to the formal financial system. After explaining the modalities for setting up microfinance banks, he concluded by declaring that the banks would assist micro-entrepreneurs in Nigeria to contribute to economic development through increased economic activities.

On a final note, he called on participants to assist in realizing the vision, which was still sketchy, by coming up with useful suggestions to make it a reality.

The proceedings of the conference involved delivery of papers, discussions by panelists and questions and answers.

The specific theme covered during the first day was *"Financial Sector Reforms and the Economy: Analytical and Empirical Linkages."*

- The Sub-themes included:
- The Financial Industry as a Catalyst for Economic Growth;
- How does the Market Respond to Financial Sector Reforms?

The morning session of the second day featured the plenary sessions with presentations by both local and international facilitators. This was done with a view to garnering the experiences of other practitioners, and leveraging on them in order to come up with an improved version.

The afternoon featured breakout sessions with discussions on the legal framework, regulation, macroeconomic and monetary policy for sustainable financial sector development, human capital development, payment system, financial markets (money, FOREX and capital markets) credit, mortgage and insurance.

The third day was dedicated to issues on Small and Medium Enterprises (SMEs). Four papers were presented during the session, followed by deliberations on developing the SMEs and microfinance sub-sector.

The specific theme covered during the first day was "Financial Sector Reform and the Economy: Analytical and Empirical Linkages."

The conference was wrapped up with a closing remark and vote of thanks by the Secretary to the Government of the Federation (SGF), Alhaji Baba Gana Kingibe and the Deputy Governor (FSS), CBN, Mr. Tunde Lemo, respectively.

In his closing remarks, the SGF thanked the participants on behalf of the President, government and people of Nigeria, for their participation and for proffering solutions to some of the problems of the Nigerian financial system. He assured that by evolving the FSS 2020, Nigeria was aspiring to become one of the top 20 leading economies of the world by the year 2020, and Africa's financial nerve centre.

He further commended the participants on a successful conference and declared it closed.

The Deputy Governor, delivering his vote of thanks, thanked both the President, Alhaji Umaru Musa Yar'Adua for opening the conference, and the SGF for closing it. He commended the Governor of the CBN for his vision in initiating the FSS 2020, the members of the Steering Committee and other sub-committees for their hardwork in realizing the dream.

Mr. Lemo also expressed gratitude to the donors, development partners, deposit money banks, event managers, sponsors, the press and others who contributed to the success of the conference. He assured that their suggestions would be put to use ▪

2006 International Microfinance Conference and Annual Microfinance / Entrepreneurship Awards

Highlights

Coming exactly one year after the launching of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in December, 2005, the International Microfinance Conference and Annual Microfinance/Entrepreneurship Awards was held at the Sheraton Hotel and Towers, Abuja from 14th - 15th December, 2006.

With the theme "The Challenges of Microfinance Intermediation in an Emerging Economy", the conference attracted over 700 participants including individuals, corporate bodies and institutions from both the local and international communities.

The President and Commander-in-Chief of the Armed Forces of Nigeria, Chief Olusegun Obasanjo was represented at the programme by the Former Honourable Minister of Finance, Mrs. Nenadi E. Usman. Others in attendance were the Governor of Katsina State, Alhaji Umar Musa Yar'Adua, as well as the Governor of the Central Bank of Nigeria, Professor Chukwuma C. Soludo and the Deputy Governor (Financial Sector Surveillance), CBN, Mr. Tunde Lemo.

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2006 International MICROFINANCE CONFERENCE and Annual MICROFINANCE/ENTREPRENEURSHIP AWARDS

Opening Remark by MRS. NENADI E. USMAN, Former Honourable Minister of Finance, Federal Republic of Nigeria.

I would like to thank you for your invitation to me to deliver some remarks on this occasion of the International Microfinance Conference and the Annual Microfinance/ Entrepreneurship Promotion Awards.

I understand that on this occasion, Microfinance Banking Licenses will also be granted to qualified promoters. This is a very good step in the right direction. The contemporary thinking in the microfinance industry, which is also the position of this administration, is that in order for micro-finance to be truly successful on a sustainable basis, it should be carried out by private operators who can put in the effort to develop and manage profit-making microfinance institutions. There is no better example of this model than the Grameen Bank, the microfinance institution built by Muhammad Yunus who was awarded the 2006 Nobel Peace Prize for his efforts.

I am particularly pleased to note that the award categories provide the opportunity to recognize contributions from many stakeholders whose enterprises are critical to the success of the microfinance sector. These include, entrepreneurs, farmers, Local Government Chairmen, Governors, universal and microfinance banks, and donor agencies. I would however, encourage you to create a special category for women entrepreneurs in future award ceremonies. The experience of other countries show that while women are sometimes overlooked, they can be a major driving force in the development of the microfinance sector; so any special encouragement they receive will not be wasted.

The initiative to stimulate a vibrant microfinance sector for our country, which is being spearheaded by the CBN, is very important, as it builds on the gains of President Olusegun Obasanjo's reform programme. In particular, the promotion of microfinance is one of the key strategies outlined in National Economic Empowerment and Development Strategy 1 (NEEDS I) for accomplishing poverty alleviation and development of small scale industries.

This administration is working to ensure that the common man is able to feel the impact of the improving economy. The government is investing heavily in core sectors of the economy such as power, water, health, education, agriculture and transportation. The 2007 budget places a major focus on transportation, particularly, railway, roads and inland waterways. Just two weeks ago, Mr. President flagged off the 25-year railway development project with the commencement of work on the Lagos-Kano rail line.

The Administration of President Olusegun Obasanjo

Mrs. Nenadi E. Usman,
Former Hon. Minister of Finance

has been able to achieve a dramatic turn-around in the country's economic fortunes with significant progress in the country's key developmental indicators. The GDP growth rate which was just 1.9% in 1999 rose to 6.23% by 2005 with contributions from the non-oil sector increasing from 4.37% in 1999 to 8.21% in 2005 (see table 1). This strong growth trend has continued in 2006 with a growth of about 7.6%. Annual growth rates in various non-oil sectors improved between 1999 and 2005 (see table 2): agriculture improved from 5.28% to 6.81%, telecommunications improved significantly from 5.39% to 28.96%, manufacturing improved from 3.44% to 9.41%, while wholesale trade improved from 2.50% in 1999 to 12.32% in 2005.

Developments in other macroeconomic variables were equally encouraging. Inflation has stabilized and stood at 11.6% by the end of 2005. Nigeria's external foreign debt which was US$38.0 billion was reduced to US$5.3 billion after the final payoff to the Paris Club of creditors. Our external reserve which was US$3.0 billion in 1999 increased to about US$42 billion as at November 2006. These positive changes are largely due to prudent management of the economy combined with recently favourable oil prices.

There have also been improvements in key social indicators (see table 3). Life expectancy has risen slightly from 54 to 57 years (male = 56.27 to 57.91 and female = 54.85 to 56.35), the HIV/AIDS prevalence reduced from 5.4% to 4.4%, and school enrolments also rose considerably. The level of employment rose by 7.4% between 1999 and 2005 and unemployment now stands at 12.79%.

A significant portion of our public expenditure is also focused on human capital development and empowerment to ensure that the common man can perceive the benefits of our economic reforms. A total of ₦100.0 billion of our debt-relief savings are being channeled to priority areas to assist in meeting the Millennium Development Goals.

I would like to take the opportunity of my remarks on this occasion to encourage all our entrepreneurs to take advantage of the numerous business opportunities and the improved business environment which this administration has created.

Table 1

	ECONOMIC PERFORMANCE		
	INDICATOR		2005
	GDP Growth (i.e. @ 1990 Constant Prices)		6.23
	Oil Sector %		0.50
	Non - Oil Sector %		8.21
	Private Final Consumption Expenditure (Growth Rate)		19.04
	Reserves		28,608*
	Inflation rate		11.6
	SECTORAL CONTRIBUTION TO REAL GDP (%)		
i	Agriculture	43.45	41.21
ii	Petroleum (Crude Petroleum & Natural Gas)	24.45	24.33
iii	Solid Mineral (Metal Ore, Quarrying, Coal & Other Mining)	0.25	0.27
iv	Telecommunication & Post	0.45	1.45
v	Manufacturing	3.49	3.79
vi	Financial In stitutions	4.06	3.82
vii	Wholesale & Retail Trade	13.46	13.64
viii	Others	10.25	11.36

President Obasanjo's administration has placed emphasis on easing the process of doing business in Nigeria. In March, 2006, we established a One-Stop Investment Center (OSIC) that provides a single port of entry for all the needs of investors seeking to do business in Nigeria.

The Commerce 44 Initiative (see table 4) seeks to harness Nigeria's export potentials and diversify the economy. This initiative aims at promoting the export of 11 commodities, 11 manufactured goods, and 11 solid minerals to 11 export destinations.

Agriculture has been given special emphasis in view of its high potential for poverty alleviation. The Agricultural Credit Support Scheme (ACSS) provides ₦50.0 billion of financing from different sources to fund small and medium scale farmers. The Agricultural Credit Guarantee Scheme Fund (ACGSF)

Table 2

	SECTORAL GROWTH RATE (%)		
	Indicator	**1999**	**2005**
i	Agriculture	5.28	6.81
ii	Solid Mineral (Metal Ore, Quarrying, Coal & Other Mining)	3.79	9.50
iii	Telecommunication & Post	5.39	28.96
iv	Manufacturing	3.44	9.41
V	Wholesale & Retail Trade	2.50	12.32
vi	Others	3.70	7.94

Source: National Bureau of Statistics

Table 3

CORE WELFARE INDICATORS

	INDICATORS		1999	2005	CHANG
i	Life Expectancy	Male (years)	56.27	57.91	1.6
		Female (years)	54.85	56.35	1.5
ii	HIV/AIDS Prevalence Rate (%)		5.4	4.4	-1.0
iii	Housing Stats (Thousands)		156	374	218
iv	Student Enrolment	Primary School	17,907,010	22,099,533	23.4%
		Secondary School	3,844,585	6,255,522	62.7%
		University	312,344	779,253	149%
v	Adult Literacy		57.00	62.37	5.37
vi	Manpower	Employment (Millions)	40.99	48.39	7.40
		Unemployment %	14.80	12.79	2.0%

Source: National Bureau of Statistics, Nigerian Institute for Social and Economic Research

Table 4

COMMERCE 44 INITIATIVE

11 Commodities	11 Manufactured Goods	11 Solid Minerals	11 Export Destinations
Cashew	Shrimp	Kaolin	European Union
Shea Nuts	Vegetable Oil	Tin	Japan
Sesame seeds	Pharmaceuticals	Tantalite	China
Ginger	Footwear	Wolframite	Iran
Rubber	Iron and Steel	Zinc	North America
Horticulture	Beverages	Iron Ore	Thailand
Gum Arabic	Leather	Coal	India
Poultry	Textile	Lead	ECOWAS & rest of Africa
Solid Minerals	Movies & Music	Pyrite	The Caribbean
Cotton	Tyres	Zircon Sand	Turkey
Cocoa	Services	Gemstones	Latin America

Source: Federal Ministry of Commerce

has guaranteed close to ₦2.50 billion of credit since 2003. ₦700.0 million has been disbursed to the Ministry of Agriculture for provision of micro-credit to farmers. The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) has been reorganized and re-capitalized with ₦5.0 billion and the National Agriculture Development Fund (NADF) has been established with an initial grant of ₦10.0 billion. In the 2007 budget, ₦45.0 million will be provided through the Ministry of Agriculture to fund technical support programmes for private firms providing microfinance to the agricultural sector. The ₦12.0 billion Social Safety Net Programme of the Millennium Development Goals (MDGs) office includes support for technical assistance certification of micro-credit entrepreneurs, to be provided by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), and micro-credit funding to be provided through National Poverty Alleviation Programme (NAPEP).

As you can see, President Obasanjo's administration has a robust strategy for poverty alleviation in general, and the development of Small and Medium Enterprises (SMEs) in particular. I would like to close by encouraging each of us to roll up our sleeves, and get to work to ensure that our small scale industries become the engine of growth and poverty alleviation for our country

Thank you for listening and God bless you ▪

Consultative Group to Assist the Poor's (CGAP'S) Services on Financial Market Infrastructure For MFIs

▪ By: S. F. Mohammed.

The Consultative Group to Assist the Poor (CGAP) is a consortium of 33 public and private development agencies working together to facilitate access to financial services by the poor. The organization provides technical advice, training, research and development, access to information and funds for innovation.

In fulfilment of its mandate, the organization works to build the domestic financial infrastructure of various countries for microfinance so that the poor people can benefit from professional, safe, and high quality financial services. The variety of services offered by CGAP to help build financial infrastructure include the following:

(A) CGAP - Inter-American Development Bank (IDB) Rating Fund:
The Rating Fund set up by the institution provides partial funding and advice for MFIs to obtain credit ratings or evaluations from recognized rating agencies. Details are available on www.ratingfund.org.

(b) Microfinance Information exchange:
This is an online resource which allows investors to identify potential investees, compare different investment funds and track the portfolios of hundreds of microfinance institutions online, using the latest financial and social performance standards. The microfinance benchmarking information could be assessed on www.mixmarket.org.

(c) Information Systems Fund:
This is another financing facility where microfinance institutions can access CGAP fund to identify and pay for consultants experienced in conducting IT diagnostics and planning technology solutions that enhance efficiency and lower operational costs. This facility is available on www.isfund.org.

Microfinance practitioners and other interested parties are advised to visit the above websites in order to benefit from these important services. Further information could be obtained from the CGAP's website www.cgap.org ▪

Community Outreach Development and Empowerment Centre:

The NGO with a Difference

▪ By Oscar Angus Okorie

Group Photograph of CODEC Clients

Community Outreach Development and Empowerment Centre (CODEC) is an NGO which was started by Mr. Oscar Angus Okorie, the Chief Executive and National Co-ordinator in 2003. The organisation has made positive impact within a period of 4 years in different parts of Nigeria, through the disbursement of N3.7 million to equip beneficiaries to manage their economic activities.

The activities of CODEC have penetrated at least 9 states of the federation. These includes: Imo, Nasarawa, FCT-Abuja, Cross River, Benue, Anambra, Adamawa, Niger and Kaduna States.

The broad objectives of CODEC is to support the development and expansion of financial services to the poor, low income earners, civil servants and provide/promote training/advice to women traders and the peasant farmers so that the culture of savings is inculcated in them.

The organization recently organized a workshop on capacity building aimed at empowering women and youths in the Federal Capital Territory (FCT). The disbursement of N3.7million micro loans alongside the workshop was intended to equip the beneficiaries with the know-how of managing micro loans. The National Co-ordinator, Mr. Oscar Angus Okorie, said that CODEC's mission was to mobilize the rural communities in the country, especially women and youths to fight poverty and improve their well-being. He added that the organization was out to offer soft loans to peasant farmers and the poor, most especially women to facilitate their self-employment. It was also to sensitize and support widows, orphans and AIDS victims.

Speaking during the workshop, the Secretary of the Northern Zone, Paul Tavershima Asema, added that the organization's major activities were on agriculture, advocacy, micro-credit and health education ▪

Microfinance:

The Financial System that Works for the Majority

▪ By David Haruna

...they are usually small business owners or entrepreneurs and constitute the bulk of actors in the informal sector.

INTRODUCTION

One immediate justification for the formulation of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria which was launched on 15th Dec., 2005 is that the formal financial system provides services to only about 35% of the economically active population, while the remaining 65% are excluded from access to financial services. This 65% are served by the informal financial sector (not regulated by the CBN) through Non-Governmental Organisation Microfinance Institutions (NGO-MFIs), money lenders, friends, relatives and credit unions. For meaningful economic growth and development to be achieved, a well focused programme that would enhance the access of the poor people (who are in the majority) to factors of production, especially credit must be put in place.

WHAT IS MICROFINANCE

Microfinance is the provision of credit, savings and other financial services to micro-entrepreneurs and low-income borrowers. It is considered distinct from the intermediation of the formal financial sector because it specifically targets low income people who lack access to credit for their income generation or production activities.

The cost of administering large number of very small loans without collateral is considered by deposit money banks to be prohibitive. As a result, poor people are effectively being denied access to formal credit. Thus, the underlying objective for employing micro-finance as poverty reduction strategy is to assist the economically active poor who cannot make savings, accumulate asset or invest in any meaningful income generating activity that would help to break the circle of poverty.

Microfinance is not new to Nigeria as the practice is culturally rooted and dates back to centuries. Traditional lending schemes such as "Adashi" and "Esusu" are good examples of microfinance schemes. These institutions create access to credit for the poor and places obligation on them for proper utilisation and complete repayment, at commercial rates.

DESIGN

The structures, processes and product of microfinance schemes are designed to meet the needs of a large portion of economically active population who are locked out by banks and other formal financial institutions. They are usually small business owners or entrepreneurs and constitute the bulk of actors in the informal sector.

WOMEN

Women all over the world constitute the core of socio-economic activities since they carry out multiple burden of resource management, and household responsibility, as well as care of the vulnerable members of the family i.e. the sick, the children and elderly.

In Nigeria, about 70% of more than 55 million women (1991 census) constitute the agricultural work force. Their limited access to increasingly scarce productive resources such as land, employment and credit which is a major cause of poverty among them has constrained them to the informal sector.

Nature has uniquely endowed women to nurture, unify and uplift the human society. Their natural endowment therefore makes their contributions to successful implementation of any human development initiative unique and indispensable. Women undoubtedly form a higher percentage of the poor in the society.

Their crucial role as mobilisers, economic enablers and key agents of change in all spheres of life such as education, health, agriculture, small and medium scale entrepreneurship cannot be overemphasised. Most microfinance schemes, in design and practice, take into consideration these unique features of women.

NON COLLATERAL LENDING

Collateral requirement by formal financial institution is one of the major obstacles to affordable credit by micro-enterprise owners. Microfinance begins with the recognition of the fact that the poor do not own assets usually pledged as collateral. Microfinance believes in people and not collateral. It recognises the credibility of the people and trusts them. It uses the approach of collective appraisal of loan applications, loan utilisation, monitoring, peer pressure and cross guarantee to enforce repayment. In some cases, savings besides assisting borrowers to build own capital also act as security for credit facilities.

EMPLOYMENT GENERATION

Apart from providing enhanced income and employment for the borrowers, it empowers the borrowers to hire assistants as a result of increase in volume of activities, thereby creating wealth. There will be enhanced employment generation in the country as proprietors of cottage industries would employ more hands, whilst the microfinance operators will be encouraged to hire more hands as their business and creditor base expands.

The financial empowerment as a direct result of the jobs derived from microfinance services will create large demand for goods and services and subsequently boost the capacity utilisation of our cottage industries

GROUP METHODOLOGY\DOOR-STEP SERVICE DELIVERY.

Clients are organised into self-selecting groups of borrowers. Group methodology is obviously a feature borrowed from the traditional microfinance and the co-operative movement. It is also on record that unlike the practice of customer's several trips to branches of banks as in the case of conventional banks, credit officers take financial services to clients in their homes and meeting places. Branches and centres (meeting places) are located near their dwelling and business locations.

CONCLUSION

In spite of the enormous potentials of microfinance at turning the economy around, there exist a huge untapped opportunity for financial intermediation at the micro and rural levels of the Nigerian economy. The existing microfinance institutions serve less than one million out of the over forty million that need their services.

There is indeed, a huge gap in the provision of financial services to a large proportion of the active but poor and low income groups. Addressing this gap will require institutions that recognise the peculiarities of microfinance and put them into consideration in the design and implementation of financial services ▪

WAIFEM Holds Regional Course on Regulation and Practical Operations of Microfinance Institutions

The Governor of the Central Bank of the Gambia,
Hon. Famara Jatta, delivering his Keynote address during the course.

▪ By Attah, J.A.A.

The Regional Course on Regulation and Practical Operations of Microfinance Institutions was organized by the West African Institute for Financial and Economic Management (WAIFEM) from March 7-15, 2007 in Banjul, The Gambia. The course was aimed at enabling participants to learn innovative strategies in the leadership and management of microfinance institutions; up-scale their skills in microfinance programming; develop a critical analysis of the broader issues and environment in which microfinance initiatives are based; and analyze/adapt current best practices from varied experiences to their own situations.

The course was declared open by Hon. Famara Jatta, the Governor of the Central Bank of The Gambia. In his keynote address, the Governor advocated the deployment of a regulatory approach for the microfinance industry and advised that microfinance practitioners should embrace the critical triangle (outreach, sustainability and impact) of microfinance in actualizing their mission of helping to improve the lives of the poor.

Dr. Chris O. Itsede, Director General of WAIFEM in his welcome remarks, stated that rising expectations in financial services delivery by microfinance institutions had accentuated the need for enhanced capacity of all significant stakeholders in the industry. According to him, countries in the sub-region should explore the possibility of participating in a microfinance certification scheme floated by Nigeria of which WAIFEM has been retained by the Central Bank of Nigeria as a technical service provider.

The course was attended by thirty-nine (39) executive/ senior/middle level officials of central banks, core economic ministries, deposit money banks, microfinance regulatory agencies, microfinance institutions, development agencies/partners and other public and private sector agencies involved in microfinance and non-bank financial sectors. The participants were from The Gambia, Ghana, Liberia, Nigeria and Sierra Leone.

Some of the observations by participants included:

- That the development and operations of the MFIs in the sub-region were constrained by lack of appropriate regulatory framework.
- That there was inadequate capacity in the sub-region to cope with the emerging complexity of the issues involved in the growth of the microfinance sub-sector. This meant that, with the move towards regional integration, concerted effort should be made to embark on aggressive capacity building programmes by all the countries.
- That outreach and sustainability which were key success factors of MFIs were greatly hampered in the sub-region because of over-dependence on donor sources of funds, absence of platform for information-sharing among MFIs in member countries, shortage of technical service providers and unregulated status of microfinance intermediation process.

To address the identified problems, participants recommended the following measures:

(i) That more resources should be invested in capacity building through training and exposure visits to other countries with well established microfinance sub-sectors.

(ii) That opportunities should be strategically created by member countries for linking the informal sector with the conventional banking institutions with a view to fostering mutually beneficial business relationship that would promote downscaling to the lower market end, expand outreach and enhance sustainability of the microfinance services delivery system.

(iii) That appropriate regulatory approaches that combine compliance with counseling, mentoring, and guidance should be adopted to foster orderly microfinance development.

(iv) That WAIFEM should be encouraged by central banks of member countries to play more active roles in the implementation of national microfinance policies ▪

■ By Godwin Ehigiamusoe (CEO, LAPO)

What Made Lift Above Poverty Organization (LAPO) a Microfinance Success Story

The New banking hall of the proposed LAPO MFB, Benin City

Microfinance institutions are supposed to be engaged mainly in poverty lending, and in order to do this effectively, it is essential to design what is called eligibility criteria.

Most MFIs across the world fail simply because they operate without a properly designed eligibility criteria, spelling out who and who should constitute their beneficiaries. They simply call all poor people to come and take loans without due regard to eligibility criteria. The implication is that rich people will also come and take loans in the name of the poor and what usually results, due to this lapse, is poor repayment performance.

The biggest challenge facing any lending institution, whether commercial, co-operative or universal is loan recovery. LAPO recognizes this challenge and has adopted several strategies to address them in terms of processes and structure.

LAPO uses group methodology for instance, and this ensures that the borrowers put some level of pressure on each other to ensure that they repay promptly. It also ensures that repayment is made instalmentally in small bits. The popular repayment schedule is the weekly repayment based on the cash flow pattern of borrowers.

The type of training given is not only to staff of LAPO but also to the clients. LAPO has what is called pre-loan training, which every client must undergo as a condition for accessing their credit facilities. The training is basically designed to ensure two objectives:

> *"LAPO uses group methodology for instance, and this ensures that the borrowers put some level of pressure on each other to ensure that they repay promptly"*

make clients develop sufficient understanding of what LAPO is and what it is not, and equip them with basic tips on how to invest and manage funds for the purpose of profitability.

Maintaining zero tolerance for default is yet another strategy which LAPO employs in ensuring good loan repayment. LAPO's repayment performance has been acknowledged internationally as very good.

Much unlike the practice in formal financial institutions, LAPO does not believe in collateral as a means of guaranteeing loan. In microfinance, motivation for repayment can be created through means other than collateral requirement and that could be through the group methodology as has been emphasized earlier.

The practice of repeated disbursement also motivates good repayment of loans. For instance, the prompt repayment of a first loan automatically qualifies the client for a bigger one. In LAPO, there are several women who have taken loans about fifteen to twenty times and the fact that they have promise of additional funds is enough motivation for repayment.

Some people have argued that LAPO has no point charging interest on loans because of its status as a non-profit organization. LAPO charges little interest to defray cost of service delivery and to ensure financial sustainability. At the moment, it charges 36 percent per annum and this is so because the bulk of its loan portfolio, which is about ₦1 billion as at December 2006 comes from the banks. LAPO is now borrowing money from the

banks for refinancing purposes. Apart from this, there are no hidden charges and there are no other payments that are not documented. The organization also assures that clients do not need to bribe or know anybody in order to be able to access credit as long as they engage in micro economic activities.

Since its inception in the late 80s, LAPO has never operated on the basis of charity. The organization believes that everyone who takes money from it has a responsibility, first for proper utilization of the money and secondly, for complete repayment.

With its 99.4 percent repayment rate at the moment, LAPO has sufficiently proved its position against erroneous belief in some quarters that women are credit risk. LAPO believes that women are poor, not necessarily because they are lazy, but that they lack

> *"LAPO only tries to deploy its resources to where the problem is more acute and this accounts for why most of its clients are women."*

access to funds for good business investment due to entrenched discriminatory practices and socio-economic deprivations.

Although women constitute over 97 percent of its total clients, LAPO has no documented policy that restricts lending to women. The truth is that LAPO, first of all, conceives of poverty as affecting more of women. There is no society in the world where women are treated equally as the men. LAPO only tries to deploy its resources to where the problem is more acute and this accounts for why most of its clients are women. The current transformation process of LAPO into a microfinance bank could also lead to its expansion of services to include more men.

LAPO is growing by leaps and bounds. Currently, it has 15 branches in Edo State and 23 in Lagos State. In PortHarcourt, it has 6, Kogi, 2, Niger, 1, Nassarawa, 1, Federal Capital Territory, Abuja, 2, and in Delta, 12. Altogether, LAPO now has 62 branches ■

International Conference on Access to Capital for Microfinance Holds in Nigeria

■ By: Mr. Akinyemi Akint

The Enterprise for Development International (EfDI), Centre for Microenterprise Development (CMD) and the Community Development Foundation (CDF) jointly convened an International Conference on "Access to Capital for Microfinance in Nigeria". The conference which was held from 26th to 27th March, 2007 at the Transcorp Hilton, Abuja, was made possible largely with support from the Ford Foundation.

It brought together experts and stakeholders on Microfinance to generate discussion on open access to sound results - based financial services to millions of low - income entrepreneurs and producers in Nigeria. The ultimate goal was to reach a consensus among leading Nigerian and international microfinance practitioners and other stakeholders on key challenges to accessing capital for microfinance in Nigeria, as well as identifying key actions to overcome these challenges, while recognizing performance standards as bedrock for accessing capital.

A cross section of participants at the International Microfinance Conference

Participation

The conference featured a rich mix of national and international speakers. The format involved paper presentations, plenary sessions and round table discussions. The Keynote Address was delivered by the representative of the Governor, Central Bank of Nigeria (CBN), Mr. Tunde Lemo, Deputy Governor (Financial Sector Surveillance). In the Address entitled "Sustaining the Microfinance Sector in Nigeria", the Governor expressed his pleasure of being provided with an appropriate forum to share his thoughts on the microfinance sub-sector with participants. According to him, the conference affords the CBN the opportunity to further sensitize key players on the efforts of the Bank to create a sustainable microfinance sub-sector and is also part of the CBN policy dialogue approach adopted to ensure policy buy-in. He further stated that the emergence of a sustainable microfinance sub- sector in Nigeria was a strategic priority to achieving the Millennium Development Goals (MDGs), job creation and poverty reduction among others. In his concluding remarks, the Governor noted that there was a global recognition of the crucial role the microfinance sub-sector could play in the economic development of a nation. Therefore, Nigeria should within the shortest possible time be on the path of sustainable development. Mr. Lemo afterward, formally declared the conference open.

Presentations were also made by Mr. Sam Oni, Director of the Other Financial Institutions Department (OFID) and Mr. A Sesan Bamisile, Director of the Development Finance Department (DFD) both of the CBN. Mr Oni spoke on *"Performance Standards as Bedrock for Access to Capital"*, while Mr. Bamisile spoke on *"Overview of Emerging Issues in Access to Capital in the Microfinance Sector in Nigeria."* Over one hundred delegates were in attendance from across Nigeria. Delegates were drawn from community banks; Non-Governmental Organisation - Microfinance Institutions (NGO-MFIs); microfinance banks; deposit money banks, investors and donor agencies. Dr. Adhiambo Odaga, Representative of The Ford Foundation chaired the opening session. The conference partners, Dr. Charles Akinola, Executive Director, Enterprise for Development International (EfDI); Ms Edna Ishaya, Managing Director, Centre for Microenterprise Development (CMD) and Mr. Akinyemi Akintola, the Executive Director, Community Development Foundation (CDF) co - facilitated proceedings during the conference.

Dr. Adhiambo Odaga, presenting a paper during the international Conference

Emerging Issues

Deliberations at the conference established that while new microfinance banks had been licensed and were operational, most were not funded by institutional investors but by domestic high net-worth individuals. This development was seen as laudable because it indicated an emerging class of investors who were prepared to put considerable resources in the emerging microfinance market. The conference also observed that the few community banks and NGO-MFIs that had been rated had responded positively to the gaps highlighted by the rating reports. This was seen as a good development as it indicated that the learning curve for the average Nigerian microfinance institution was short.

The participants from the Central Bank of Nigeria expressed their willingness to learn from practitioners and also acknowledged that there was room for improvement of the Microfinance Policy, Regulatory and Supervisory Framework that they were promoting. They further declared that they were open to constructive suggestions from operators that would add value to the microfinance sector.

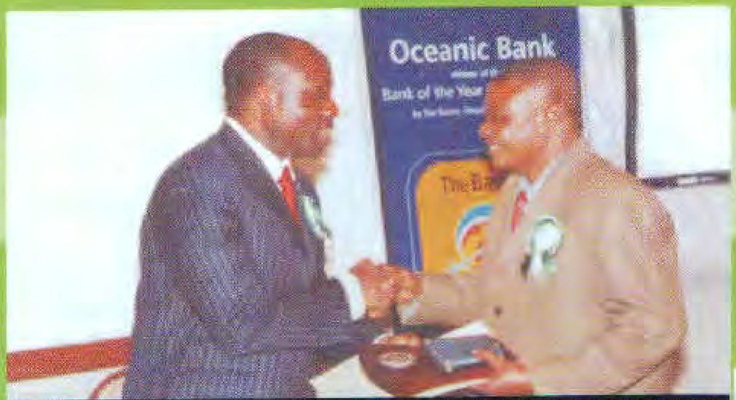
The conference also identified challenges, particularly, for technical service providers in two distinct areas. The first was in the area of capacity building where there was a need to fill the gaps in performance standards as currently experienced by practitioners in the microfinance sector. Many of the community banks do not know how to raise capital to meet the policy requirements. Due to the lack of appreciation of the significance of performance standards, many of them were not strategically positioned for local and international institutional investors. Further compounding the issue was that many of the Deposit Money banks were undecided on whether or not to invest in the microfinance sector and were reluctant to take the risk. Microfinance institutions, especially the community banks acknowledged their inability to meet the new capital requirements. The inability of these community banks to attract investors was not unconnected with the relatively low level of investor confidence prevalent in the sector. The major reason proffered for low investor confidence was the poor performance of these banks. A possible option for these microfinance institutions was merger and acquisition or some other partnership arrangement.

Conclusion

Participants were unanimous in their suggestion that for Nigerian microfinance institutions to have access to capital, it was imperative for them to appreciate the significance of performance standards in all its ramifications. Practitioners were of the consensus that there was a definite need for a robust local support industry for the microfinance sector. While it was agreed that the new microfinance policy was a good initiative, the conference acknowledged that its implementation presented a lot of challenges in terms of independent assessment, capacity building, management information system, corporate governance, outreach and access to capital ▪

Photorama

2006 Internationa icrofinance Conference and Microfinance trepmeurship Awards

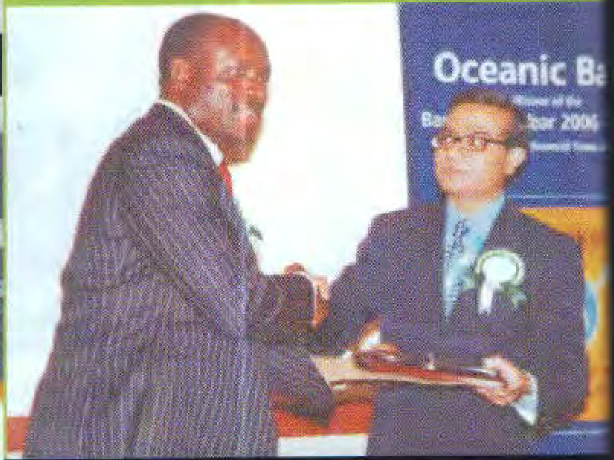


Prof. Chukwuma C. Soludo Governor, CBN presents the Best Micro Entrepreneur (Employment Generation), to Mr. Patrick Aja of Semvita Ng. Ltd. during the Microfinance/Entrepreneurship Award ceremony


Prof. Chukwuma C. Soludo Governor, CBN presents an award of Best National Farmer (ACGSF, Tree Crop) to Chief Claudius Oladipo during the Microfinance / Entrepreneurship Award ceremony


The country representative, USAID displays the Agency's award for Best Donor Support in Capacity Building


Alhaji Umaru Musa Yar-Adua, then Governor of Katsina State and now President and Commander-in-Chief of Federal Republic of Nigeria inspecting a micro enterprise product at an exhibition boot during the Conference


Prof. Chukwuma C. Soludo Governor, CBN presents Best Donor in Microfinance Institution Building to the representative of UNDP


Mr. David Mugwanga, presenting a paper during the conference.


Participants share pleasantries with Mrs Margaret Pollock after delive of her paper


The Deputy Governor, FSS, CBN, Mr. Tunde Lemo delivering a speech at the award ceremony


Mrs. Fatou Deen Touray, presenting a paper during the conference.


Some high table members, during the Award ceremony

Prof. Chukwuma C. Soludo Governor, CBN presents the Best SMEEIS Support Bank Award to the Managing Director of the Oceanic Bank Plc, Mrs. Cecilia Ibru


Prof. Chukwuma C. Soludo Governor, CBN presents an award to Hajiya Rabi Mudi, winner Most Marketed Micro product during the Microfinance/Entrepreneurship Award ceremony


Prof. Chukwuma C. Soludo Governor, CBN presents the Best Agric. Support Bank Award to the Managing Director of the Union Bank of Nigeria Plc, Mr. Barth Ebong


Engr. Nnamdi Udoh, NDE, presenting a paper during the conference.

Sustaining the Microfinance Sector in Nigeria

A Keynote Address by The Deputy Governor, FSS, CBN, Mr. Tunde Lemo

PROTOCOL

The Deputy Governor, FSS, CBN, Mr. Tunde Lemo, presenting a keynote address at the International Conference

It is with great pleasure that I accepted the invitation extended to me to present the keynote address on "Sustaining the Microfinance Sector in Nigeria" by the organizers of this International Microfinance Conference with the theme "Access to Capital for Microfinance in Nigeria". This opportunity to share thoughts on the microfinance sub-sector is most appropriate. This is because it affords the Central Bank of Nigeria the chance to further sensitize the key players on the efforts of the Bank to create a sustainable microfinance sub-sector and also part of the CBN policy dialogue approach adopted to ensure policy buy-in.

The emergence of a sustainable microfinance sub-sector in Nigeria is a strategic priority for the Central Bank of Nigeria (CBN). The Bank sees the sub-sector as critical to achieving the Millennium Development Goals (MDGs), the successful implementation of the National Economic Empowerment and Development Strategy (NEEDS), job creation and poverty reduction, among others. The Bank therefore adopted a systemic approach to making financial services available to micro, small and medium entrepreneurs (MSMEs) by promoting the establishment of requisite financial infrastructure through appropriate policy, regulatory and supervisory framework. This offers confidence and trust to investors, as well as depositors in the microfinance industry. Thus, the Microfinance Policy, Regulatory and Supervisory Framework was launched by the President and Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, Chief Olusegun Obasanjo (GCFR) on December 15, 2005. The Policy is to complement the banking sector reforms, bring microfinance activities under the regulatory purview of the CBN and hopes to provide sustainable access to financial services by the economically active poor in the society. It is targeted at creating an environment of financial inclusion to boost capacity of micro, small and medium enterprises (MSMEs) to contribute to economic growth and development through job creation which will lead to improved standard of living and poverty reduction, among others.

The Policy targets are:

- covering the majority of the poor but economically active population by 2020;
- increasing the share of micro credit as a percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020;
- increasing the share of micro credit as a percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020;
- promoting the participation of at least two-thirds of state and local governments in micro credit financing by 2015;
- improving women's access to financial services by 5% annually; and
- increasing the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

The new microfinance policy regime was

introduced because of the failure of past policy initiatives which emphasized disbursement and neglected other issues including portfolio management, demand for financial services, savings mobilisation and efficiency of financial markets. The problem of microfinance sub-sector is further compounded by the reluctance of the Deposit Money banks to fund rural and micro economic activities. Non-Governmental Organisations (NGOs) that emerged to champion the cause of the micro and rural entrepreneurs also had limited outreach. Hence, access to capital by MSMEs was constrained through prolonged sub-optimal performance of MFIs, especially the existing community banks (CBs) and Development Finance Institutions (DFIs).

The problem of microfinance sub-sector is further compounded by the reluctance of the Deposit Money banks to fund rural and micro economic activities

The Challenge of Access to Capital: Lack of depth of the formal financial institutions and the MFIs left majority of the population without access to financial services and constrained the economic activities of low-income households. This situation has limited the growth of productive activities, as well as the economic development of Nigeria and remained an obstacle to poverty alleviation. Over time, a huge gap developed for the purveyance of financial services and today over 91.0 million (65% of 140.0 million, 2006 census) economically active poor people are underserved or totally lack access to capital.

Access to services and financial sustainability of MFIs is a prime concern and achieving this goal is a great challenge to the CBN, especially in a globalised and increasingly competitive demand for financial resources, and rapidly changing macro economic environment. Each of these trends presents unique challenges for the CBN in the search for sustainable growth in the sub-sector. Investors have limited resources, which makes them more discriminating in their investment portfolios, while donors funds are thinning out and are therefore selective in their interventions.

Addressing the Challenge: In order to ensure that services are available to over 91.0 million economically active poor and the low income households on a sustainable basis, the CBN is set out to implement a number of strategies. These include:

Licensing of MFBs: The Microfinance Policy permits the establishment of two categories of MFBs, namely: (i) MFBs operating as a unit bank with a minimum capital requirement of N20.0 million (US$ 156,250.00); and (ii) MFBs operating in a state with a minimum capital requirement of N1.0 billion (US$7,812,500.00). The Policy also recognizes that the current financial landscape in Nigeria is skewed against micro, small and medium enterprises (MSMEs) and rural areas in terms of access to capital. To address the imbalance, it has created an organic growth path for MFBs to promote an even spread of MFBs, their branches and activities to serve the un-served but economically active clients in the rural, semi-urban and urban areas. The organic growth path is targeted at ensuring even spread of MFBs' branches and national coverage.

Access to Sources of Funding: Access to funding is a major constraint to increasing the outreach of MFBs. Thus the minimum capital base was increased from N5.0million for community banks to minimum of N20.0million for MFBs. The Bankers' Committee in order to contribute to the development of the sub-sector also set aside ten percent (10%) of the cumulative N 38.0 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) Fund for micro entrepreneurs through microfinance banks. State governments are also expected to set aside one percent (1%) of their annual budget for on-lending through MFBs to their residents. A proposal for the establishment of a Microfinance Development Fund (N5bn or $39.1mn) to provide wholesale funds to MFBs and linkage to universal banks is in the pipeline.

Capacity building: It is easy to assume that the requirements for proficiency in conventional banking would be the same for microfinance banking, this is however, not so. Management of MFBs would require a pedigree of knowledge on microfinance to successfully operate in the industry. Financial institutions in the industry have to segment the market, build up in-depth knowledge and develop appropriate products and services for MSMEs to operate effectively and efficiently due to the peculiarities of microfinance operations. Towards this end, an initiative on the certification for senior management staff of MFBs is at an advanced stage. The programme when commenced will orient the management team of MFBs and enhance the acquisition of appropriate operational skills on microfinance business models and practices, among others.

Deposit Protection: The Nigeria Deposit Insurance Corporation (NDIC) has taken up the responsibility to insure the deposits of microfinance banks to build confidence and trust in the sub-sector.

Establishment of Requisite Institutions:
The Microfinance Policy recognised the critical role of appropriate financial infrastructure in the growth of institutions that serve the lower end of the market such as credit bureau, rating agencies, apex association of microfinance banks. The CBN would encourage the organised private sector to establish these institutions to drive the industry to the next level. The National Micro Finance Policy Consultative Committee has been set up to give direction for the implementation and monitoring of this policy.

Ownership: To encourage more investments in the sector, the policy allows broad ownership base for MFBs to ensure good corporate governance. An MFB can therefore be established by individuals, group of individuals, community development associations, private corporate entities and foreign investors.

Microfinance Policy Implementation:
The implementation of the new Policy started in earnest in January 2006 and it is still evolving. The CBN carried out enlightenment campaigns involving the print and electronic media. The following activities have also been undertaken by the Bank:

- Eight (8) microfinance bank (MFB) licences granted;
- Sixteen (16) approvals-in-principle (AIP) issued;
- Five hundred and sixty-five (565) community banks have applied for conversion,;
- Forty (40) new applications have been received; and
- Resource gap assessment of the CBN Departments responsible for the implementation of the policy had been concluded.

The Way Forward:
As the MFBs move towards full integration into the formal financial system, the issue of financial sustainability must not be disregarded. Financial sustainability not only assures their survival, but also guarantees that they will be able to deliver financial services on a sustainable basis to the poor.
The sustainability of the sector can be achieved through partnership with deposit money banks. For instance, a landmark loan purchase agreement was achieved when ICICI, a deposit money bank in India, acquired 25 percent of SHARE's microcredit portfolio of loans for $4.3 million. SHARE is an NGO that operates along the

lines of the original principles of Grameen Bank. The $4.3 million new capital would be used for expanding its microcredit lending activities to approximately 50,000 new female clients. Similar partnerships can be arranged between MFBs and deposit money banks (DMBs) in Nigeria in view of their new strength and capability to mobilise resources.

Adoption and strengthening of financial system approach is crucial to achieving sustainability in the sub-sector as well as optimising its development impact. This approach emphasizes enabling policy environment, appropriate financial infrastructure, and growth of MFBs that are committed to financial and operational sustainability. System development must de-emphasize provision of loans only for on-lending. Development of a sustainable microfinance system that can efficiently and sufficiently mobilise both domestic and international resources to expand outreach of services must be the goal. To achieve this, the design and systematic use of the financial system development approach must incorporate best practices.

Adoption and strengthening of financial system approach is crucial to achieving sustainability in the sub-sector as well as optimising its development impact

Continued policy dialogue within the sector is of critical importance for policy reforms, buy-in of key stakeholders and to create a better policy environment for development of a sustainable microfinance industry. Necessary technical assistance is also required for the deposit money banks in Nigeria that have clear commitment for downscaling operations, in order to leverage on their huge financial resources for the microfinance sub-sector development.

Conclusion:
Sustainability of the microfinance sub-sector must be given top priority because of the array of opportunities it portends, as the country devices different pro-active strategies for economic growth and development. The Microfinance Policy was to harmonize microfinance practice, strengthen supervision, bridge the huge gap of financial services available to MSMEs and low income households, expand the outreach of MFIs for the transformation of the country's financial landscape to put Nigeria on the path of sustainable economic growth and development. However, sustainability of the sub-sector is dependent on the availability of constant flow of funds. Diversified sources of funding; development of effective marketing strategies; effective supervision; and provision of demand-driven and fee based services are also crucial to sustainability. Government must not also undermine the sector through subsidised credit programmes because it creates market distortions.

The Financial Systems Strategy 2020 (FSS 2020) is being articulated for the country as an integral part of the ongoing economic reforms to harness the country's potentials in order to ensure that Nigeria becomes the financial hub for Africa with the overall goal of joining the league of the top 20 economies in the World by 2020.

There is now global recognition of the crucial role the micro finance sub-sector can play in economic development. This was amply demonstrated by the 2006 Nobel Peace Prize awarded to Professor Muhammad Yunus and his bank, Grameen Bank, for his pioneering role in the field of micro finance. With the microfinance initiative and FSS 2020 therefore, Nigeria should, within the shortest possible time be on the path of sustainable development.

Thank you for your kind attention and God Bless ▪

contingencies for the bad and doubtful debts.
The MFIs and MFBs practitioners need to give loans to their clients on a timely basis and in transparent manner, under the approved conditions of the borrower's good character/integrity and his/her ability to repay the loan granted.

d) There is need to appreciate the fact that business, (microfinance or otherwise), is not easy and that, not every poor and marginalized person has the ability or the capacity to develop into a microfinance entrepreneur. Regardless of socio-economic status, there are some persons who simply do not have the mind of an entrepreneur and would happily welcome an opportunity to be employed by a successful local microfinance entrepreneur.

e) There is need to acknowledge that as humans, people can take advantage of beneficial situations and become dishonest. There is therefore a need to introduce sanctions for defaulters. MFIs and MFBs should therefore operate professionally and have clearly stipulated, easily understood and enforceable risk management strategies against loan defaulters. Furthermore, there must be clear understanding, from the start, that loans are not gifts and must be paid back in full. Introducing the culture of discipline is the key to the creation of long-term, sustainable MFIs.

f) There is the need for the practitioners (Lenders) to support the capacity building and business development skills of their clients, if they (lenders) hope to recover their money.

g) Emphasis must be placed on the fact that the poor do not need *"Hand-Outs"*-grants, instead, they need *"a Hand"*, to enable them to become self-reliant, to live in dignity and self-respect. A continuous state of dependency, destroys one's self-esteem and undermines one's dignity.

h) Initiating one's new products and re-packaging of old ones, enables one to become responsive to the clients' needs. These critical factors are key to the long-term survival of the MFIs and MFBs.

i) Practitioners and borrowers should fully appreciate that the role of the Government, the Central Bank and donors is that of facilitator and enabler in the sector, not the doer!

j) Setting interest rate ceiling and giving subsidized loans by the government or its agencies do not augur well for the growth of long-term sustainable microfinance sector. The private sector should be the key driver in the provision of financial services.

k) There is a need to have an Apex Association of MFIs and MFBs, made up of individual members to develop and encourage observance of standards and achievement of internationally accepted "best practices" in microfinance. Such organization would, also, advocate for enabling environment and push for development of policies conducive to achieving a vibrant and long-term sustainable microfinance sector.

L) It is the fiduciary responsibility of the committed and genuine microfinance practitioners and other stakeholders to devise a solution to the problems created by the briefcase microfinance "practitioners", who enter the microfinance industry with the sole purpose of defrauding the poor and the marginalized of their hard earned savings! The action of such one *"bad apple"* spreads like forest fire, to the serious detriment of all the committed and genuine practitioners and supporters!

In concluding this article, country experiences have shown that good corporate governance, zero-tolerance to loan default, appropriate provisioning strategy, capacity building, product packaging, and liberalized interest rates are some of the key factors that will ensure long-term service delivery by the MFIs. Though the microfinance industry in Nigeria is still young, the adoption of a business-like approach to micro-financing would go a long way to enhance the sustainability of their institutions.

Please send your QUESTIONS or ENQUIRIES on Microfinance to:

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OR

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A Cross section of participants at the International Conference

The representatives of development partners, the United Nations Development Programme (UNDP), United States Agency for International Development (USAID) and the German Technical Cooperation (GTZ), were in attendance and presented goodwill messages.

The conference had four major planks:

- To brainstorm on the challenges of implementing the micro-finance policy after one year;
- To broaden the horizon of stakeholders and expose the industry to best practices;
- To share experience and chart a sustainable course for micro-finance development in Nigeria; and
- To recognize industry promoters and practitioners through awards.

During the technical sessions, a total of nine well-researched papers were presented. The presentations engendered healthy debates among participants who, without doubt were able to harness the views and opinions of experts in the field of microfinance for the improvement of the industry.

The high point of the ceremony was the presentation of awards to winners as a way of encouraging the growth and developments of the industry.

Seven categories of awards were made and seventeen awardees including individuals, corporate bodies, institutions and State Governments were recognized based on their outstanding contributions to the development of microfinance in Nigeria.

The awards were targeted at promoting entrepreneurship spirit, healthy competition, job creation, poverty alleviation, economic inclusion and linkages of the lower segment in the development process, and above all, to spu[r] expansion in the financial markets to sustain economic growth and development.

Both the UNDP and USAID received awards for their support in microfinance capacit[y] and institutional building, respectively.

In a similar vein, two promoters were presented with symbolic licenses, to operate as microfinance banks.

In her remark, the Minister of Finance, Mrs. Nenadi E. Usman who represented the President and Commander-in-Chief of the Armed Forces of Nigeria, Chief Olusegun Obasanjo, GCFR called on the organizers to broaden the entrepreneurship awards to capture other categories and segments of the society in order to stimulate growth in those sectors.

At the wrap-up session, held on Tuesday, 15th December, 2006, the Deputy Governor (Financial Sector Surveillance) congratulated the organizers on a job well done and called on participants to put to practice the lessons learnt from the conference, as microfinance has been identified globally as the key for unlocking the vast resources that lay dormant among the large segment of unserved, actively poor population of any country ▪

Small Enterprises Educational Promotion Network Holds 2006

Annual Conference in Washington DC, United States of America

▪ By P. N. Eluhaiwe

Some Nigerian participants at the SEEP Conference and CGAP Staff

The Annual Conference of the Small Enterprises Educational Promotion (SEEP) Network took place in Washington DC from 23rd to 27th October, 2006. The theme of the Conference was "Investing in the Majority". Nigeria was represented at the meeting by participants from the Central Bank of Nigeria, some Non-Governmental Organization Microfinance Institutions (NGO-MFIs), Wuse Community Bank, Abuja, United States Agency for International Development (USAID), Nigeria REFORMS Project and the African Institute of Applied Economics (AIAE), Enugu. A total of three hundred and fifty four (354) participants drawn from direct microfinance industry, market players and support institutions attended the programme.

SEEP Business Meeting for members and the investors roundtable were held during the morning sessions of Thursday 26th October, 2006. The investment forum provided the platform for both private and institutional investors to meet and exchange views on market development, opportunities and challenges. The topic "Spotlight on Nigeria: The Microfinance Policy, Regulatory and Supervisory Framework in Africa's Largest Microfinance Market" was presented by the Director of the Development Finance Department of the Central Bank of Nigeria, Mr. A. Sesan Bamisile.

The programme enabled the Nigerian delegation to acquire current tools for understanding and assessing the operations and performance of microfinance institutions. In addition, extensive new relationships and networks were established, while old relationships were further consolidated with technical services providers who would be needed to provide institutional and technical assistance in microfinance policy implementation. In addition, investing private and institutional communities indicated their interest in investing in Nigeria's microfinance markets. The 90 minutes spotlight on Nigeria during the workshop, provided the CBN team the opportunity to inform the participants on the profound changes taking place in the Nigerian financial system.

The team's campaign at the conference also exposed Nigeria as the biggest microfinance market in Africa that is waiting to be explored. ▪

List of Licensed
MICROFINANCE BANKS
LICENSED MICROFINANCE BANKS AS AT 10/05/2007

S/NO	NAME OF THE INSTITUTION AND THE DIRECTORS	ADDRESS	TELEPHONE AND E-MAIL
	NEW INVESTORS		
1.	**Integrated MFB Ltd (RC 657155)** **CBN Licence No. 000001** (a) Dr (Mrs) Doyin Abiola (Chairman) (b) Simon A. Akintoye (MD/CEO) (c) Segun Adoju (d) Samuel B. Owoeye (e) Jerry Ariomovuohoma (f) Gabriel Demilade Adepoju	64 Adeniyi Jones Avenue, Ikeja, Lagos.	01-2716530-9 info@imfb-bank.com
2.	**WizeTrade MFB Ltd.** (a) Augustine Egona (Chairman) (b Oboyano Consider (MD/CEO) (c) Tracy Landerr (d) Doris Amaka Ochei	Investment House, 8th Floor, 21/25 Broad Street, Lagos.	01-2715279, 01-2711252
3.	**Susu MFB Ltd.** (a) Mr. Ade Adeniji (b) Mrs. Toyin Adeniji (MD/CEO) (c) Mr. K. R. Smith	34 Commercial Avenue, Sabo-Yaba, Lagos.	01-4611725-7, 2718093-6, 2718092 (fax) info@susumicrofinancebank.com
4.	**Prime MFB Ltd.** (a) Mr. Austin Dresmann (b) Mr. Ebinabo Kieriama (c) Barr. N. Awoikiegha (d) Rev. Eyo Edet James (e) Mr. Ephraim Okon Udo	Akpan Andem, Uyo, Akwa ibom State. c/o 32B Adebayo Doherty Road, Lekki Phase 1, Lagos.	085-201755 085-201796
5.	**Nwannegadi MFB Ltd (RC624560)** **CBN Licenc No. 000005** (a) Most Rev (Dr) G.O. Odiagha (b) Chief (Engr.) Hillary Ozigbo (c) Rev Fr. Patrick C. Obinabu (d) Rev Fr, John Ikwuoma (e) Prof. (Mrs) Rose Acholonu (f) Mrs Pet C. Muoh	51 Bishop Shenahan College Road, Orlu, Imo State.	08037153797 nmfbank@yahoo.com
6.	**First Global MFB Ltd (RC672687)** (a) Dr. G. C. Ofunne (b) Victor Itonyo (c) Lady Emma Obunge (d) Sir Okon Abia (e) Bishop Williams Daka	20 Rumuola Road, Luli Mall Plaza, Port Harcourt	084-749620 enquiries@firstglobalmicrofinancebank.com
7.	**MIC MFB Ltd.** (a) Temitope Ola (b) Remi Babalola (WEMASEC) (c) Chief S.O. Adegbite	10 Allen Avenue, Ikeja, Lagos.	01-8994251 01-27136881-4 temitopeo@microfinancegroup.com
8.	**Century MFB Ltd (RC 678619)** (a) Engr. Patrick Ikekhua (Chairman) (b) Mr. Salim Abou-Jaoude (c) Mr. Adewunmi Soyebi (d) Mr. Ademola Adewunmi (e) Miss Titilola O. Kukoyi (f) Mr. Anthony B. Akinyode (g) Emmanuel Ademola Adewunmi (MD/CEO)	4B Toyin Street, Ikeja, Lagos.	01-7939957 ademolaadewunmi@yahoo.com
9.	**Accion MFB Ltd** (a) Mr. Patrick Akinwuntan (Chairman) (b) Mr. Envique Ferraro (c) Ms. Tosin David (d) Mr. Andrew Alli (e) Mr Rotimi Oyekanmi (f)Mr. Godwin Emefiele Mrs Bunmi Lawson (MD/CEO)	2nd Floor, Fabac Centre, 3 Ligali Ayorinde Avenue, P.O. Box 1075, Victoria Island, Lagos	01-2719325-6 01-2719327 (fax) blawson@accion.org
10.	**Moneywise MFB Ltd** (a) Abioye Kusamotu (b) Sodeinde Caroline (c) Olatunde Kusamotu (d) Odumadu Ikemefuna (e) Adebisi Akindiji (f) Donatus Nwosu (Ag MD/CEO)	29 Ladipo Kasunmu Street, Off Allen Avenue, Ikeja, Lagos.	01-8792980 info@moneywisemfb.com
11.	**PROSPERITY MFB Ltd** (a) Barrister Jude Eze Nosagie (Chairman) (b) Pastor Kola Aiyedogbon (c) Prof. A.R. Anao (d) Col. H.I. Shuaibu (Rtd) (e) Samson Momoh (f) A.O. Agholor (g) Iyamu Kelvin Omogiate (Ag.MD)	Jeremiah 17:8 Place, 1 Siluko Road, Benin city. Edo State.	052-255308, 254968, 250613 (fax) info@pmbank.com
12.	**EKONDO MFB Ltd** (a) Chief Ekpenyong Asuquo (Chairman) (b) G/Capt. Ikpeme David Ita (Rtd) (c) Mr. Henshaw E. Gershom (d) Dr. Altoe David (e) John Owan MD/CEO	No. 44 Murtala Mohammed Highway, Beside Mr BIGGS, Calabar.	087-239670-9, 235442, 234016, 237697, 232953 (fax) ekondobank@yahoo.com
13.	**EAGLE FLIGHT MFB Ltd** (formerly **Isiuwa Community Bank**) (a) Rev (Mrs) Helen Oritsejafor (Chairman) (b) Mr. Samuel Dottle (c) Mr. Adiele Hyaci nth (d) Barr.Morgan Jibromah (e) Mr. Samuel Akpoviroro (Mr. Gbolagoke James Olu (MD/CEO)	129B Ajamimogha Road, Warri, Delta State	08057448294, 08025928610 053-254247 (fax) eagleflightmicrofinancebank@yahoo.com
14.	**BAKASSI MFB Ltd** (a) HRH Etinyin (Dr) Etim Okon Edet (Chairman) (b) Chief Bassey Edem Ephraim (c) Elder Chief (Mrs) Mary Edet (JP) (d) Chief (Mrs) Irene Offiong Ekpe (e) Etubom Ekpo Eyo (f) Blessing Inyang Okon (MD/CEO)	199 Ididem Iso Road, Opposite Parliamentary Village, Calabar.	08037822589 08033895884 08033767186 bakassibank@yahoo.co.uk

List as at June 2007

Funding Sources for Microfinance Banks in Nigeria

■ By Dr. M. A. Olaita

Introduction

Nigeria is an immensely endowed country in both natural and human resources, with a population of over 140 million (2006 census) people who are largely engaged in the informal sector. This sector is primarily dominated by micro, small and medium-scale enterprises (MSMEs) and peasant farmers who require financial services to grow their businesses and improve their livelihood. When duly empowered, they will, to a large extent, impact positively on poverty reduction and engender economic development in the country. However, lack of access to formal financial services has constrained their growth and contribution to the development of the country.

The Microfinance Policy

To redress the situation and unlock the potentials of this segment of the society for economic growth and development, the Central Bank of Nigeria on December 15, 2005 launched the Microfinance Policy, Regulatory and Supervisory Framework (MPRSF) for Nigeria. The vision of the Policy is to establish a viable and sustainable private micro financial market, with the government providing a supportive and appropriate policy environment and institutional framework for the orderly development of the microfinance sub-sector.

Under the Microfinance Policy, the over 700 existing community banks are to convert to MFBs by December 2007, while the Non-Governmental Organisation - Microfinance Institutions (NGO-MFIs) are also expected to transform to MFBs. The Policy recognizes the peculiar financial services requirements of the lower segment of the society, and thus adopted a two-tiered approach to licensing of MFBs, namely, unit MFBs and state MFBs. The minimum capital requirement for unit and state MFBs as stipulated in section 6(i) of the Policy are N20.0 million and N1.0 billion, respectively. The Microfinance Policy which is to complement the ongoing banking sector reforms, has therefore, totally changed the financial landscape of Nigeria.

The Huge Microfinance Market in Nigeria

The market for microfinance in Nigeria is enormous. As attested to by the UNDP (2005), over 98.3 million (70.2%) of the population live on less than $1 a day. In addition, over 65% (91.0 million) of the economically active population do not have access to formal financial services (Microfinance Policy 2005). Thus, a huge gap exists in the provision of services to this segment.

The implication is that existing microfinance institutions only serve a very small fraction of the estimated 98.3 million people who need financial services in Nigeria, thus, making it the biggest microfinance market in Africa. The implementation of the Policy has brought to the fore new challenges, highlighted the need for innovations and above all, brought about opportunities for the growth and development of the microfinance institutions (MFIs) - the critical player, that drives the microfinance industry.

What are the available sources of Funds?

One of the critical challenges th the new policy regime has introduced is that of funding of operations of MFBs. Funding is required to meet the capital bas stipulated in the new policy regi It is also required for skills chang and upgrade, recruitment of requisite personnel and the acquisition of appropriate management information system (MIS), among others.

The funding options available for the activities of MFBs under the n regulatory guidelines are numero and can be classed into the following:

Equity Capital:

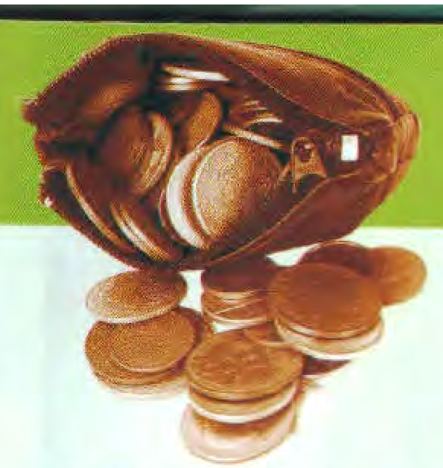
To raise funds, the promoter can s partial interest in the MFB to investors. The equity investors become part-owners and partners The investors will receive in exchange for their funds, stocks fo their ownership position in the MF It is a very convenient way of raisin capital because it does not involve direct obligation to repay, which gives the management some degre of control on the activities of the MFB.

Debt Financing:

This involves borrowing money from commercial sources with the full understanding that the total amount will be repaid in the future with interest within a specified period. Generally, debt financing does not involve any provision for ownership of the company.

Partnering:

Deposit money banks (DMBs) have started to partner with MFBs and MFIs in other jurisdictions. This has



taken different forms. It includes the provision of credit facilities, as well as mutual outsourcing arrangements. Under the mutual outsourcing arrangements, the MFB or MFI performs all of the lending operations for the DMB, which will only book the risk on its own balance sheet.

Finance Company:

This is another source of securing funding by MFBs. However, interest rate charged by finance companies is usually higher than the banks or cooperatives which makes this source of funding unattractive.

Private Placement of Securities:

This is a strategy for raising fund, which involves the MFI offering securities not to the public but to individuals or a small group of investors. This type of offerings is not required to be registered with the Securities and Exchange Commission.

Selling Assets:

An MFB can choose to sell some of the personal or business assets to finance its operations. Well established and viable MFBs or MFIs may not have to use this strategy to raise capital because its track record and goodwill will enable it to secure funding from other sources, either private or public.

Securitization/ Collateralization:

Securitisation is a means by which an MFB can secure funding as well as transfer the risk of a portfolio of loans or leases to investors via the capital markets. This form of transaction, securitisation, is widely used by banks, leasing companies and other corporations to obtain refinancing at attractive rates. It is also used to repackage the risk of asset portfolios so that it can be efficiently transferred to the capital markets. Example of this type of funding is the partnership between India's second largest bank, ICICI with CASHPOR and a $4.3 million securitization of India-based SHARE's loan portfolio with ICICI.

Guarantee:

This is not loan per se, but it reduces the risk exposure of lenders. Loan guarantee reduces the amount of capital required by the lenders on outstanding loans. It is a fall back position for lenders and increases their liquidity. According to Alvaro Ruiz Najaras (2001), credit guarantee schemes are programmes that insure the repayment of a loan, in part or in full, in order to motivate lenders to lend to groups/individuals which would not have access to credit under normal circumstances. MFBs can use guarantees to secure funding from financial institutions.

Private or commercial capital:

Refers to all private sector financial resources available for use. In the case of investment, this includes monetary capital that is privately owned and invested directly by its owners or via intermediaries. Commercial capital expects to make positive rates of return relative to risk. MFBs or MFIs that have established themselves as market leaders and innovators could access private capital markets by demonstrating that their portfolios are low-risk class of assets. If the assets are adjudged to be truly low-risk by being evaluated according to a set of benchmarks, they could attract mainstream investors.

Capital Markets:

It offers facilities to raise funds direct from investors. In order to deliver on their potential to reduce poverty, MFBs/MFIs can explore the capital market because it offers the largest source of financing if the microfinance industry is to scale up appreciably.

Microfinance Development Fund (MDF):

The modalities for setting up the MDF are in the pipeline. The MDF when established will provide dependable and sustainable source of funding for MFBs. The establishment of the MDF was stated in section 11.9 of the Microfinance Policy.

Other sources for funding MFBs' operations are debt issues, leasing, venture capital, backstopping with collateral and loans from banks.

Conclusion:

Several funding sources are available to microfinance institutions and they could tap into any of these sources to improve their asset creation potential and the provision of other essential microfinance services. Institutions must assess the appropriateness of the sources, as a basis for making the right choice taking into cognisance the regulatory environment under which they operate ■

MSME Project Nigeria Awards Performance Grants to SUSU and MIC Microfinance Banks

▪ By Emeka Ile

Representative of SUSU Microfinance Bank receiving grant from the Executive Secretary, Nigerian Investment Promotion Commission, Engr. M. S. Bello

The Nigeria Micro, Small and Medium Enterprises (MSME) project held a formal grant award signing ceremony for two new microfinance banks in Lagos. The event took place at the Sheraton Hotel and Towers, Lagos on the 8th of February 2007.

The MSME Project is a joint project of the Federal Government of Nigeria and the World Bank Group. It is a 5-year pilot project which will run till 2009. Its objective is to raise income and employment in non-oil MSMEs, especially in the target states of Abia, Kaduna and Lagos.

The Project has four elements designed to promote access to finance, business development services, improved investment climate, and public private dialogue. Under the Access to Finance element, Performance Grants are awarded to support additional technical services to large scale, commercial MSME financial initiatives. These grants are disbursed as the *'grantees'* meet their targets in terms of number of loans and financial sustainability. Grantees are required to reach a minimum of 30,000 active clients, attain full financial sustainability, and maintain a portfolio at risk of under 5% at the end of their fourth year of operation.

The grants to Susu Microfinance Bank and MIC Microfinance Bank, brings to three, the number of Access to Finance grants awarded by the project with a total value of $4.2million. The Project had in 2005, awarded its first grant under the Access to Finance Grant Program to ACCION Microfinance Bank. These grants are to pay for technical assistance costs only, while the equity and loan funds are borne by the *'grantees'*.

Engineer M.S. Bello, Executive Secretary of the Nigeria Investment Promotion Commission (NIPC), delivered the keynote address at the occasion. Mr. Solomon Adegbie-Quaynor, Country Manager of the International Finance Corporation (IFC) as

Representative of MIC Microfinance Bank receiving approval from the Executive Secretary, Nigerian Investment Promotion Commission, Engr. M. S. Bello

representative of the World Bank, Mr. Sam Oni, Director, Other Financial Institutions Department of the Central Bank of Nigeria representing the CBN, Mr Peter Mousley, the Task Team leader of the Project, World Bank, Washington DC, Mr James Ebuetse, Director NIPC, Mr Temitope Ola, Managing Director, MIC Microfinance Bank, Mrs. Toyin Adeniji Managing Director, SUSU Microfinance Bank and representatives of numerous other public and private bodies were also in attendance.

Both MIC Microfinance Bank and Susu Microfinance Bank plan to have at least 35,000 active borrowers and be fully financially self-sustaining by the end of their fourth year of operation . To enable them achieve these goals, both institutions have formed partnerships for technical assistance with leading Microfinance Technical Service Providers - K-Rep Advisory Services of Kenya in the case of MIC Microfinance Bank and Quality Finance International, Egypt for Susu Microfinance.

Following the award of Performance grants to the two new Microfinance banks (Susu MFB and MIC MFB) by the World Bank/Nigeria MSME Project, a visit to the two banks was undertaken by the Deputy Governor, FSS Central Bank of Nigeria, Mr. Tunde Lemo on February 9, 2007. He was accompanied by a team comprised of representatives of CBN, Messrs S. Oni (Director OFID) and Sola Awoyungbo, and Isaac Idowu representing NIPC. Others include the MSME project Team members Dr. T. Timberg, Messrs Emeka Ile and Alid Camara. The meeting afforded the visiting team a unique opportunity to interact with the management of the banks, as well as their clients who had some good stories to tell. The DG expressed delight at the level of progress so far made by the two institutions and advised them to stay true to their mandate and maintain high quality loans portfolio at all times ▪

Grameen Foundation Announces a $1 Million Landmark Financing for LAPO

(May 07, 2007) First Growth Guarantees Transaction in Sub-Saharan Africa

■ Culled from Grameen Foundation Resource Centre - By Abdulrahman A. H.

Grameen Foundation has announced its first Growth Guarantee transaction in Sub-Saharan Africa: US$1 million for Lift Above Poverty Organization (LAPO), a leading microfinance institution (MFI) in Nigeria. Citibank, acting through its subsidiary in the country, The Nigeria International Bank (NIB), structured the US$1million Naira equivalent loan supported by a US$500,000 guarantee from Grameen Foundation. This marks the first transaction between a Nigerian MFI and NIB/Citibank, and it is also LAPO's first leveraged commercial bank transaction.

This financing will support LAPO's aggressive expansion plans to serve an increasing number of customers in Nigeria that currently lack access to formal financial products and services. It will also allow LAPO to tap new sources of funding, previously only available from donors or subsidized loans.

"LAPO has made tremendous strides over the past few years to become a key player in Nigeria's microfinance industry, and we are pleased to support their continued growth," said Alex Counts, President and CEO of Grameen Foundation. "There are an estimated 40 million Nigerians who could benefit from microfinance, and we hope this watershed transaction will encourage greater support for microfinance from Nigeria's commercial institutions." LAPO has been a Grameen Foundation partner since 2002, growing from 15,000 clients to its current outreach of 90,000. It intends to reach more than 225,000 clients by 2008.

In Nigeria, more than 70 million people live in poverty, but in the 935 communities in the 8 states served by LAPO there is hope for progress. "This wonderful partnership with Grameen Foundation and Citigroup will certainly expand and strengthen LAPO's outreach significantly, which means better businesses and better living for our clients," said Godwin Ehigiamusoe, LAPO's founder and executive director.

"We believe that microfinance is a key weapon in reversing sub-Saharan Africa's growing poverty rates," said John Doerr, a Grameen Foundation board member and ardent Africa champion. "Attracting commercial funding will help LAPO and other MFIs expand their operations, and also open new doors for them."

Speaking during the deal, Mr. Emeka Emuwa, Citi's Country Manager said that the structure was in line with Citi's global objective to support the development of microfinance and diversify commercial funding sources available to LAPO and also support the Government of Nigeria's objective of building more inclusive financial systems". ▪

Executive Director, LAPO, Mr. Godwin Ehigiamusoe

The Agricultural Credit Guarantee Scheme Fund (ACGSF) Board Visits Galilee College

■ By: B. O. OGUNLAJA

Members of the ACGSF Board and some staff of Galilee College

In the bid to learn the dynamics and linkages that exists between research and development in Israeli agriculture, share experiences and explore the possibility of forging new areas of collaboration with key institutions, the delegation of the Board of the Agricultural Credit Guarantee Scheme Fund (ACGSF) visited Israel from 17 - 22 December, 2006. The ACGS Board's business visit was designed to expose members to the investment opportunities explored by Israeli farmers and entrepreneurs which accounted for the country's accelerated development.

While in Israel, members of the Board visited the world's largest International Centre of Greenhouse Technology and the Netafim Irrigation Systems Company located at Kibbutz Magal. They also visited the Barkanit Home Diaries Production in Galillee Province, the Israeli State Aquaculture Centre at Upper Galillee and the Kidmat Zvi Outdoor Cutflowers Production Centre situated in the Golan Heights.

The study tour afforded the Board, first hand opportunity to understand the framework of agricultural financing in Israel, exposed them to the technological advances of the country. It also enabled them to hold stakeholders' meetings with relevant private sector institutions and major government agencies like the Israeli Export & Marketing Institute and the National Headquarters of Israelis' Ministry of Agriculture concerned with agricultural research, crop production, branding of specialized products, and marketing strategies. Also in attendance was the, Israeli export policy, micro, small and medium businesses development and management ▪

Microfinance Transforms
the Lives of Micro Entrepreneurs

▪ By Attah J. A. A.

The microfinance industry has not only been recognized as a poverty reduction and employment generation strategy but has impacted positively on the economy of various individuals from across the globe. At a microfinance / entrepreneurship promotion awards ceremony held on 14th December, 2006, life testimonies of microfinance clients who were awarded prizes during the programme were given. This showed how microfinance could transform the lives of the poor and the low income clients. Some of the testimonies were as follows:

Savinta Nigeria Limited: Savinta Nigeria Limited who won the National Award for employment generation under the micro enterprises category is a self-help business outfit with its headquarters at 15 Guining Road, Abakaliki; Ebonyi State. It specializes in custard and tea production. In 2001, the company obtained a credit facility of ₦40,000.00 from the Community Development Foundation (CDF) and became self supporting thereafter. In 2006, the company's turnover were ₦96,000.00 and ₦100,000.00 from the sales of tea and custard, respectively. The staff strength also increased from seven (7) at inception to twelve (12) in 2006. In percentage terms, this represents a 41.66% increase.

Hajiya Jauro and Company: Under the micro business model, Hajiya S. Jauro, the proprietor of Hajiya Jauro and Company, a tie and dye outfit based in Kano was accorded due recognition during the programme. With a loan of ₦100,000.00 secured in 1980, this fifty one year old woman, was able to expand her enterprise and attract seven other permanent staff, two of whom are graduates. The company has obtained and fully repaid four cycles of loans ranging from the initial ₦100,000 at start in 1980 to ₦900,000 obtained in January 2006. The company also undertakes capacity building, as an average of 15 workers are trained in various skills yearly. The monthly turnover of the company is about ₦500,000.00.

Mr. Vincent Ubah who hails from Mgbede Community in Onne Local Government Area of the Rivers State, was the winner of the most innovative product under the micro enterprises category. He is involved in the production of plantain flour which is in high demand because of its confirmed nutritional qualities. He holds a National Certificate of Education (NCE) in Agricultural Technology and was nominated by the Community Development Foundation (CDF), a microfinance institution based in Lagos for the award. He commenced business in 2002 with a modest capital and has since expanded his enterprise to accommodate two locally fabricated ovens and a factory house after obtaining a loan of ₦300,000.00 from CDF. Records available showed a turnover of ₦1.41 million as at the end of October, 2006.

Hajiya Rabi Mudi: The winner under the most marketed product category was Hajiya Rabi Mudi. She is a blacksmith and crafts producer who hails from Makera Farfaru, Kura Makera Local Government Area of Kano State. Her products include spoons, trays, decorative materials and souvenirs. With a capital outlay of ₦1,000.00, she set up her business in 1977.

However, to overcome the twin problems of high cost of funds and lack of access to credit, she and other micro entrepreneurs formed the Kura Women Blacksmith Group and registered with the Women Development Initiative (WDI) from where she has borrowed on eight occasions. All the loans were repaid according to schedule. With a yearly sales figure of ₦2.6 million and a business enterprise that covers 44 Local Government Areas in Kano State, 7 states in the Federation and even beyond the shores to Niger Republic, Hajiya Rabi Mudi modest effort at blacksmithing has expanded dramatically.

Downscaling Services
As Financial Strategy For Deposit Money Banks

Downscaling involves the decision of a bank, opting to expand into microfinance as a new line of business with long-term viability and *potential to contribute to the bank's* profitability. It entails the setting up of *new lending windows* and *services* targeted at microentrepreneurs who are traditionally not viewed as prospective clients. The motivation for downscaling arises from the potential profits in a new market niche or, in some cases by the fact that large numbers of people still lack access to formal financial service.

In spite of the reasons adduced for regarding micro lending as a no go area by banks, micro clients continue to present a potentially profitable market niche for conventional institutions. Many universal banks have been making successful in-roads into the microfinance business by using effective credit models and technologies.

A study conducted by Financial Sector Team, of the Policy Division of the Department for International Development, London in April 2005 presented successful cases of commercial banks that have downscaled by adding a distinct microfinance unit or service company. Such cases included Sogebank in Haiti; Baco Wiese Sudamaris in Peru; Hatton National Bank in Sri Lanka; Stanbic Bank in Uganda; Khan Bank of Mongolia and Capitec Bank in South Africa. A study visit by the Central Bank of Nigeria to Indonesia in 2006 revealed that Danamon Bank had made success of promoting microfinance using its own models and that after two years of operation, microfinance was contributing about 10% to its gross profit. Although the repayment rates vary among regions and institutions, the worldwide average hovers around 98% on-time repayment - much higher than the commercial banking industry's average. A number of recent studies, which compare the returns earned by the top commercial banks with those of the top microfinance institutions in various regions, found that the top microfinance institutions in many cases outperform their commercial counterparts. MicroRate, a microfinance rating agency, found that 12 out of the 29 microfinance institutions they rated in Latin America, were consistently more profitable than Citigroup. As the accompanying figure shows, the most profitable microfinance institution had a return-on-equity of 42.9%, compared to Citigroup's 19.7%. Following the consolidation of the banking sector, the deposit money banks are faced *particularly, with the challenge of* exploring additional investment alternatives. Deposit money banks, can leverage on their extensive physical, financial and human resources, to quickly and efficiently launch and expand microfinance services and at relatively less cost.

Achieving such relationships would provide benefits to the deposit money banks through deeper market penetration, portfolio diversification and increased business volume in a potentially profitable but untapped market niche. The end result would be increased micro enterprise activity, increased income, savings, investment, financial sector deepening for growth and development. Deposit money banks can participate actively in the microfinance sub-sector of the economy through any of the following approaches.

Microfinance Departments/Units: These are semi-independent microfinance units having adequately staffed specialized windows in each branch that performs its lending activities. The administrative and financial functions are integrated into the larger bank (as exemplified in Banco Agricola Comercial, El Salvador; Banco del Pacifico, Ecuador; and Financiera Familiar, Paraguay, etc). They strictly provide services to the micro entrepreneurs and other economic agents who are categorized in the lower end of the market.

Microfinance Bank Subsidiaries: Subsidiaries are fully independent retail centres, affiliated to a bank but with separate lending policies, staff, and information systems(for example, Banco del Desarrollo's microfinance subsidiary in Chile, the Unit Desa of Bank Rakyat Indonesia, and the Social Enterprise Program of the Bank of Nova Scotia in Guyana, etc.). Subsidiaries specifically serving micro clients, are generally better positioned to pursue the outreach goals of the larger microfinance industry, and find it easier to institute microfinance lending policies, procedures, and methodologies without interference from the larger bank culture. Owing to the fact that they have properly defined mission and vision, they more easily qualify for technical support from donors.

Full Conversion to Microfinance Bank: The growing awareness of the potentials of microfinance has motivated commercial banks that are pressured by competition to refocus and convert to full microfinance banking. This approach would require comprehensive organizational re-engineering and training to execute.

Strategic Partnership With Specialized Microfinance Service Providers: If a deposit money bank does not want to set up a department within its organizational structure to handle microfinance service or a subsidiary, it could enter into linkage agreement with existing MFIs. Services that could be offered include: equity investment in MFBs, wholesale lending to a microfinance bank, refinancing and guarantees. In practical terms linkage could take the following forms:

- *Wholesale loans and or refinancing facilities provision to licensed microfinance banks/NGOs for on-lending to their clients.*
- *Direct lending to clients that have been specially trained by NGOs without the NGO being involved in credit disbursement.*
- *Contribution to a central fund (Microfinance Development Fund) from which licensed microfinance banks and NGOs can obtain wholesale funds.*

Successful downscaling exercise depends on several strategic initiatives on the part of the downscaling bank. These include:

- existence of a firm organizational commitment to serving the low end of the market as a legitimate and profitable niche;
- adequate exposure and training in various aspects of the business such as product development and marketing, risk management, loan appraisal, monitoring and recovery;
- choice of an option that is best suited to the corporate goal of the downscaling bank, and
- branch network s or mobile services to serve and actively reach out to the clients ▪

Extract from a Paper presented by ***Mr. A. Sesan Bamisile,*** *Director of Development Finance Department of the Central Bank of Nigeria to Deposit Money Banks in June, 2007.*