CBN Licenses 768 Microfinance Banks as at May 31, 2008.

By O. A. Fabamwo

At the conclusion of the re-capitalization/conversion programme for community banks (CBs), a total of 607 erstwhile CBs that met the minimum capital requirement of N20 million Shareholders' Funds, unimpaired by losses, converted to microfinance banks (MFBs). An analysis of the CBs converted to MFBs showed that 187 CBs had completed the process and obtained final licences, while 420 had provisional approval as at 30th May, 2008. At the same date, a total of 72 new investors in the microfinance sub-sector have been granted final licences, while 89 have been granted approvals-in-principle (AIPs). The total number of approved MFBs as at the end of May 2008, was 768.

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

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

Geo-Political Zone	Number of MFBs	Total per Zone	% of Total
North-West			
Jigawa	5		
Kaduna	23		
Kano	6		
Katsina	5		
Kebbi	6		
Sokoto	5		
Zamfara	6		
Sub-total	**56**	**56**	**7.3**
North-Central			
Abuja	24		
Benue	9		
Kogi	21		
Kwara	22		
Nasarawa	3		
Niger	10		
Plateau	12		
Sub-total	**101**	**101**	**13.2**
North-East			
Adamawa	8		
Bauchi	10		
Borno	4		
Gombe	3		
Taraba	4		
Yobe	1		
Sub-total	**30**	**30**	**3.9**
South-West			
Ekiti	13		
Lagos	147		
Ogun	51		
Ondo	17		
Osun	31		
Oyo	46		
Sub-total	**305**	**305**	**39.7**
South-South			
Akwa Ibom	10		
Bayelsa	3		
Cross River	15		
Delta	29		
Edo	25		
Rivers	28		
Sub-total	**110**	**110**	**14.3**
South-East			
Abia	18		
Anambra	79		
Ebonyi	6		
Enugu	21		
Imo	42		
Sub-total	**166**	**166**	**21.6**
Total	**768**	**768**	**100.0**

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

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

Culled from CBN Website

In an on-going programme to sensitize State Governments on the development finance initiatives of the Central Bank of Nigeria, the Development Finance Department undertook visits to Lagos and Ondo States in the week of 23rd to 27th June, 2008. During the visits, the Department made presentations to the State Governors and the Executive Councils of the States on the Agricultural Credit Guarantee Scheme and its products, Agricultural Credit Support Scheme, Micro Credit Fund, Microfinance Policy, Entrepreneurship Development Centres, NYSC Venture Prize Award Competition, and the need for the setting aside of 1% of the budgets of the states for microfinance development.

The visit to Lagos State took place on Monday, 23rd, June, 2008 (with the 42-member State Executive Council, including the Governor, Mr. Babatunde R. Fashola) and Friday, 27th, June 2008 (with members of the State Assembly). The State Government which expressed the desire to support its indigenes to move above the poverty line following the presentation, disclosed that it had put in place, an enabling Micro Credit Act to achieve the objective. A total of N1.3 billion was being committed to the micro credit programme of the Government in the year 2008. Also, a 5-member Action Committee headed by the Deputy Governor was constituted during the visit to the Executive Council to work with the CBN officials to ensure the efficient implementation of micro credit programmes in the State.

The Ondo State visit took place on Wednesday, 25th June, 2008. The Executive Governor of the State, Chief Olusegun Agagu and all members of the State's Executive Council were in attendance. The State Government disclosed that it had a micro credit agency that could support the implementation of the Bank's programmes. The major focus of the agency were Agricultural Development Trust Fund, Entrepreneurship Development Training Programme, as well as Resettlement, Palliative and Public Officers Loan Schemes. The Government promised to access the Micro Credit Fund, which was launched by Mr. President in February, 2008, in favor of its indigenes.

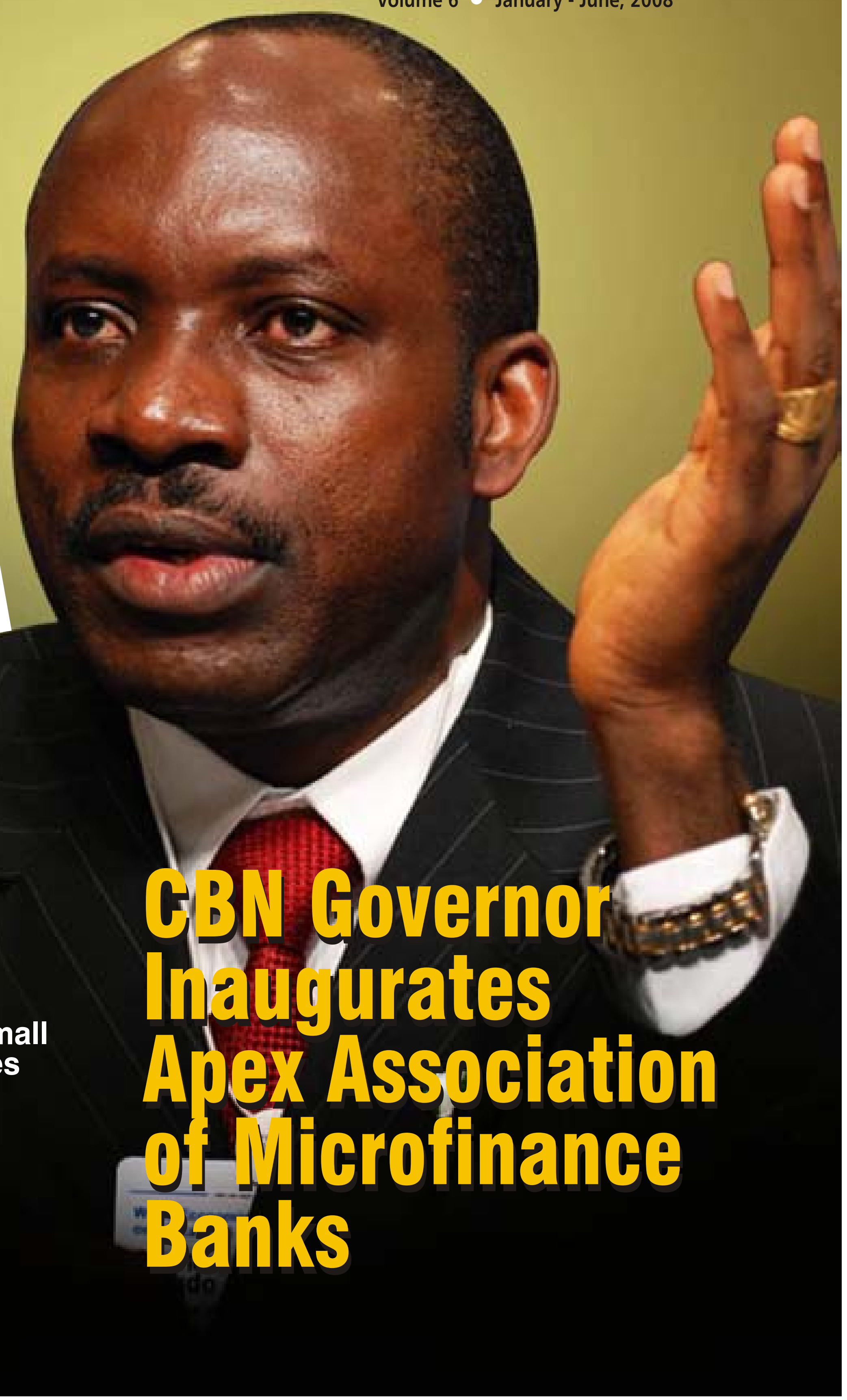
Also, in earlier visits to Ebonyi and Enugu States, the Governors had set up state-based arrangements/committees to work out the modalities for the participation of the States in microfinance programmes, as a follow up to the presentations made by the CBN to their Executive Council members ■

The Nigerian **Microfinance** NEWSLETTER

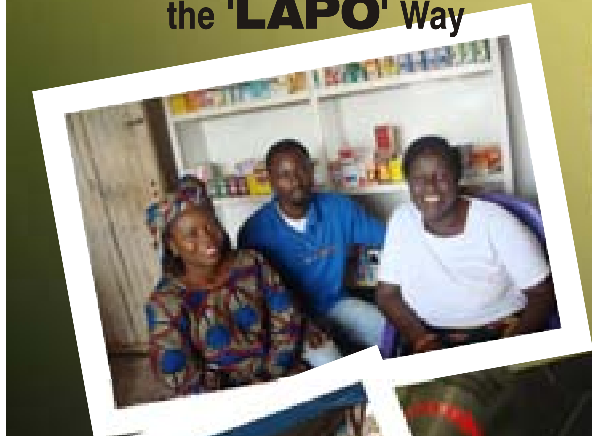
www.yearofmicrocredit.org www.cenbank.org/microcredit

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

Volume 6 • January - June, 2008



Promoting Entrepreneurship, the **'LAPO'** Way



Sources of Funding for Small Scale Enterprises

CBN Governor Inaugurates Apex Association of Microfinance Banks

ISSN 0331-7269

contents

editorial

Microfinance Banking
Need For Proper Orientation

By J. A. A. Attah

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

Practical steps that have been undertaken by countries include, the drafting and implementation of policies, programmes, schemes and establishment of relevant institutions. In Nigeria, the steps have been quite inspiring and far reaching. This stems from the robustness of the processes involved in the drafting of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, its launching, implementation strategies and the number of institutions that have already been licensed to operate as microfinance banks. Over 750 institutions have been duly licensed to operate as microfinance banks. In addition, some of the deposit money banks have been setting up subsidiaries, while others have been partnering with microfinance banks and state governments to provide microfinance services. Governments and Non Governmental Organizations are equally supporting the sector through setting up of microfinance agencies and capital lending, respectively. Development partners such as the United Nations Development Programme, the German Technical Cooperation, Ford Foundation, European Union, Department for International Development, United States Agency for International Development, World Bank, to mention but a few, have been intervening by supporting the creation of appropriate environment for microfinance in Nigeria.

Though Nigeria has made remarkable progress in terms of policy/ creation of appropriate environments and institutions, one of the emerging concerns is the way and manner in which microfinance practice is being conducted and the implication of these on its sustainability.

In countries where microfinance has proved successful, the key consideration that guides service delivery is simplicity. The reason for this is partly because microfinance clients, their businesses and general lifestyles are simple. Secondly simplicity is critical to reducing the huge cost which serving widely dispersed poor and low income groups entail.

The hallmarks of simplicity in microfinance operations include inexpensive office accommodation, equipment, salaries and allowances. The dress code usually brings the loan officer closer to the clients and promotes unfettered interaction between them. In most efficient microfinance environments, the institutions and their branches are given targets for breaking-even in a period not more than two years, in some cases six months. Cost reduction and effective service delivery are continuously given prominence and pursued with vigor.

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

There is an increasing need to reduce these expenses which weigh heavily on the earnings of the institutions if break-even point is to be attained in record time.

Microfinance banks must render practical intermediation services in line with the provisions of the Microfinance Policy Regulatory and Supervisory Framework for Nigeria. They must mobilize savings from and channel such as loans to poor and low income groups instead of investing them in non interest bearing assets. Unless this takes place, the objective of economic growth envisaged in the policy framework, the sustainability of the institutions and their services will be compromised.

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

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

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

Mr. President Launches **Micro Credit Fund (MCF)**

By Dr. M. A. Olaitan

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

The objectives of the Fund include:

- complementing the poverty and small and micro credit interventions by Government at all levels, as well as the activities of the microfinance banks in supplying a large but cheap source of finance to the small and micro entrepreneurs,
- ensuring a wider and equitable distribution of credit around the country to deserving entrepreneurs by allowing State Governments to engage in wholesale borrowing from the banks and on-lend or distribute to the entrepreneurs in their respective states,
- motivating the State and Local Governments to comply with the requirements of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria that they devote at least one percent of their annual budgets to microfinance, and
- strengthening the institutional, organizational and technical capacity of the agencies that will administer the credit, including the microfinance banks, and the beneficiaries.

The Fund would commence operations with the N20.0 billion balance of the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) funds as at December 31, 2007, and subsequently, contributions would be made by each Deposit Money Bank to make the fund up to N100.00 billion by the end of 2010. The Fund would be made available to all State Governments with viable microfinance proposals after setting aside a counterpart fund equal to the amount of the loan being sought in the bank from which it is obtaining the Fund.

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

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

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

ISSN 0331-7269

OICI Now a Beehive of Activities

By Julius Ameh

The Pilot Phase of the CBN sponsored Entrepreneurship Development Centre (EDC) for North West zone, being implemented by the Opportunities Industrialization Centres International (OICI) has taken off with participants in this poverty reduction programme trooping in to receive training, make enquiries or seek opportunities for business counselling and guidance. Commencing in March, 2008, the Centre has trained about 334 entrepreneurs in poultry farming, fish farming, animal fattening, agric-businesses and trading. A total of 172 of the trainees were university graduates and 162 secondary school leavers. The Centre is currently running a programme for 445 others, while over 2,659 were awaiting enrolment for training. The centre has also provided counselling services for a total of 1, 846 entrepreneurs comprising 1, 580 males and 266 females as shown on the table 1:

EDC beneficiaries, OICI Staff and Oceanic bank staff during a typical Community Development Service day.

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

Months	Future Entrepreneurs Counseled	Males	Females	Trained Already	Ongoing Classes	Waiting List
March	411	326	85			
April	605	545	60			
May	316	268	48			
2nd - 20th June	514	441	73	334	445	2,659
Total	**1,846**	**1,580**	**266**	**334**	**445**	**2,659**

There are three core units of the project namely; leadership, entrepreneurship development and business development units. Other units are community service (corporate responsibility), mentoring, monitoring and evaluation (M&E). The leadership unit is designed to provide solution for clients with problems of lack of funds. The Strategy adopted by the unit is to reassure them that their decision to come to OICI whose motto is 'Transforming hopelessness into hope, through human resource development' was appreciated. Following this, the clients are encouraged to open up on their areas of need to the leadership specialists at the Centre and also express what their expectations are. The clients are then counseled on their hopes and aspirations and guided in making informed decisions to either participate in the training programe or not. Information is further given to them on how to register, the nature of the training, as well as the Community Service and Mentoring components. The "carry five" (C5) components is also discussed. Carry five is intended to encourage the clients to assist at least five others to participate in the program in order to have a huge impact on the lives of many Nigerians instead of a select few. In a related development, every staff of OICI EDC program is expected to be involved in a "carry 10" (C10) component. They are also informed about the expected impact of the program at the end of the five years which is basically the emergence of a new middle class in Nigeria.

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

Cross section of a typical EDC class session at Kano EDC Centre

Development Services (BDS) assist the beneficiaries to develop their business plans.

The BDS unit of OICI Kano, is working hard to ensure that participants at the Centre are properly positioned to access microfinance loans. Members of the unit have recently been having meetings with relevant financial institutions such as deposit and microfinance banks that can empower beneficiaries to access business loans for business start-up and expansion.

To prepare the recently graduated trainees for loan facilities, they were grouped into six in order to supervise them to develop viable and bankable business plans.

The Community Development Services (CDS) of the Centre is being driven by the slogan "Giving Back to the Community." As part of its major responsibilities, it builds up relationships with the communities through community development services and collaborates with some organizations, companies, parastatals, ministries, etc in this regard. The community development services have been conducted in various parts of Kano in form of environmental sanitation. The trainees are required to put in 10 (ten) hours of community service during the training period, while OICI staff who have signed performance-based contracts must put in 20 hours quarterly. Areas that had benefited from the community development services include Nasarawa Orphanage home, Police Barracks, Bompai, Immigration Office, Kano Capital Schools, Unguwa-uku Motor Park, Mallam Kato Motor Park, etc.

Currently, for effective implementation of the Kano EDC, OICI has signed an MOU with Technology Incubation Centre, Kano, a parastatal of the Federal Ministry of Science and Technology. OICI is also in the process of signing an MOU with Oceanic Bank International Plc and Society for Family Health (SFH) for loan access and supply of treated mosquito nets and water guard, respectively. The nets will be sold to the community at subsidized rates for improvement of health care delivery.

The mentoring unit of the EDC ensures that all participants in the EDC program pass through its mentoring programme as part of the requirement for graduation. Trainees are attached to mentors for one on one mentoring, while the general mentoring for ongoing classes takes place on Saturdays and Sundays. The unit activities are two-fold: (a) "Mentoring During Program (MDP)": 4 hours for under graduate trainees and 8 hours for secondary school leavers (b) Mentoring Ex-post (MEP): 2 hours per month in order to produce new, successful and sustainable business careers.

The reasons for the success registered at the EDC are the "carry 5" (C5) for trainees and "carry 10" (C10) for staff of the project, as well as capacity building for staff. MOUs with relevant partners like Technological Incubation Centre (TIC), Kano, Society for Family Health (SFH), Oceanic Bank, Women Development Initiative and Freedom Microfinance are also assisting the Centre to expand its horizon and frontiers ■

Typical Mentoring session with EDC participants at Kano Centre.

CBN Signs Contract Agreement with the Implementing Agencies of its Entrepreneurship Development Centres (EDCs)

By A. A. Adeleke

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

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

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

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

The Governor disclosed that the pilot phase would be implemented in three geo-political zones of the country namely, Kano for the North, Onitsha for the South East and Lagos for the South West. The three institutions appointed to implement the programmes were the Opportunities Industrialization Centres International (OICI), Kano for the North; Centre for Entrepreneurship and Development Research (CEDR), University of Nigeria, Nsukka for the South-East and Africa Leadership Forum (ALF), Ota for the South-West. The Governor added that similar EDCs would be established in the remaining geo-political zones of the country upon the successful implementation of the pilot phase.

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

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

Interested applicants are advised to apply to any of the Centres listed below:

- Opportunities Industrialisation Centres International, No. 8B, Dawaki Road, Nasarawa GRA P.O. Box 728, Kano, Kano State.

  e-mail: oici_nigeria@yahoo.com;
- Centre for Entrepreneurship and Development Research (CEDR), University of Nigeria, Nsukka, or Ononenyi Anwa Plaza, No 2, Awka Road, Onitsha.

  e-mail: cedrunn@yahoo.com
- Africa Leadership Forum (ALF), 1, ALF Plaza, Bells Drive, Benja Village, Ota, Ogun State, or

  No 119, Ipaja Road, Agege, Lagos

  e-mail: edcota@africaleadership.org ■

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

By Ologunagba T. Peter

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

The Financial services component, one of the four components of the GTZ programme's main objective is to improve access of the MSMEs to sustainably designed financial services and also provide relevant capacity building input to financial institutions (MFBs & MFIs) in Niger and Nasarawa States. Considering the challenges in the financial sector facing the regulatory authority, MSMEs and financial institutions; the component has been very active by producing valuable initiative to strengthen the sector both at macro and micro level. It also improves economic development and policy framework, employment creation and poverty alleviation.

Specific areas of support of the GTZ are as follows:

- Collaboration with CBN to deliver the Certification Process to the microfinance sector in Nigeria.
- Sponsoring of innovative capacity building measures for non-executive directors and operators in the microfinance sector in Nasarawa and Niger States. The programme focused on corporate governance, internship training by LAPO, CBN reporting format and Product development.
- Provision of financial support for SMEs training to keep them abreast of relevant information.
- Organisation of stakeholders forum where the MSMEs and relevant stakeholders discussed and addressed critical issues and challenges militating against lack of access to financial services.

This forum had enhanced trust building, networking and easy access of communication and information sharing between the MSMEs and the financial institutions in Nasarawa and Niger States ■

Promoting Entrepreneurship, the 'LAPO' Way

By Tony Ogwu

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

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

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

Mrs. Deborah Omonuwa with staff of LAPO during the interview

Mrs. Deborah Omonuwa

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

Excerpts of the Interview with Mrs. Deborah Omonuwa

What has been your relationship with LAPO?

The first contact with LAPO was in 1999. After retiring from active service as a Chief Community Health Extension Worker in 1990, I veered into business, setting up Osas and Osas Enterprises at my residence, off Uwelu Road, in Benin City. I was cash strapped until a fellow nurse introduced me to LAPO. We formed a group of ten people and I became the leader of the group. We then applied for loan to enable us commence our business. But before LAPO could give us the loan, they took us through a six-week lecture, which they called business training. Some of us in the group thought that it was a waste of time. However, at the end of the training, we discovered that we were better able to manage funds. LAPO then gave us the initial loan of N10,000 each.

What were the conditions of the loan?

The interest rate was not too high (though she did not mention any figure). The only collateral was the joint guarantee of members of the group. If any member could not pay, we would gather money and cover her up, without allowing LAPO to know. That way, we maintained the group cohesion and enjoyed further facilities from LAPO.

Were the loans sufficient for your enterprise?

In the past, yes, it was sufficient. But now, with the rising cost of living, it isn't. However, LAPO has increased our exposure over time to N85,000 each.

What line of business do you engage in and what are your challenges?

As a retired nurse, I sell patent drugs. I also sell plastic items, cooking pots, coolers and plates. In addition, I sell pure water to retailers, as well as minerals.

My main challenge is to get higher credit lines.

What is your advice to new entrants?

As I often tell members of my group, we should try and invest our funds on profitable ventures and not waste money on frivolities. Secondly, when you take a loan, you must try and repay in good time so as to maintain your reputation and qualify for another loan.

Any word for LAPO?

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

Mrs. Lucky Toghanro

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

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

Excerpts of the Interview with Mrs. Lucky Toghanro

What are the conditions for the Loan?

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

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

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

What is your advice to starters?

People should get themselves engaged in one activity or the other. They should not be afraid to borrow, provided they are sure that they are engaged in an enterprise that is viable.

What advice do you have for LAPO?

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

Mrs. Lucky Toghanro at her Wood Industry Shop

Mrs. Josephine Imarhlu

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

Armed with a Primary School Leaving Certificate, this mother of 6 children started off as a trader, selling rice and beans for over 20 years. However, her break-through came when she and her group members (15 of them) got a loan of N8,000 each in 1999. With that amount, she bought palm oil and other chemicals for making soap and commenced production.

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

Presently, the group has graduated to obtaining credit exposure of N70,000 each.

Mrs. Josephine Imarhlu mixing ingredients for soap making

Excerpts of the Interview with Mrs. Josephine Imarhlu

What are the conditions for the loan from LAPO?

The main condition is ensuring prompt and full repayment in order to qualify for further exposure. As the group leader, I make sure that none of the group members drags the group back by failing to repay. If that happens, all the other members rally around and bail out the defaulting member without allowing LAPO to know.

What do you say about loan size from LAPO?

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

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

What is your advise to start ups?

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

What do you have to say about LAPO?

LAPO always assists the poor to grow. The 6 weeks training programme was immensely beneficial to me. I pray that LAPO would continue to grow in order to continue offering assistance to people ■

Onitsha Entrepreneurship Development Centre Graduates 281 trainees

By Dr. Benjamin Okpukpara

On 18th February, 2008, the Central Bank of Nigeria signed a Memorandum of Understanding (MOU) with the Centre for Entrepreneurship and Development Research, University of Nigeria Nsukka, to implement the South East pilot phase of its Entrepreneurship Development Centres. This was to carry out specialized training on entrepreneurship for the unemployed graduates and secondary school leavers within the states located in the geo-political zones. The programme which is primarily an in-house training one is packaged to provide entrepreneurial skills and capacity training to prospective trainees, who met the EDC selection critaria. The EDC strongly supports the full development of the potentials and capabilities of independent minded and self-confident entrepreneurs who can successfully exploit business opportunities and over come challenges in the environment. Specifically, the aim of the programme is to help create employment for unemployed school leavers (both graduates and secondary school leavers) through providing entrepreneurship and basic business management training that would enable them to set up and manage viable businesses in a sustainable manner.

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

Green Class in their Unlocking marketing potentials

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

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

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

The graduates from the programme are perfecting their business plans to

Destiny Class during their unlocking potential skill Practices

Royal Class during their Practical and Discussion

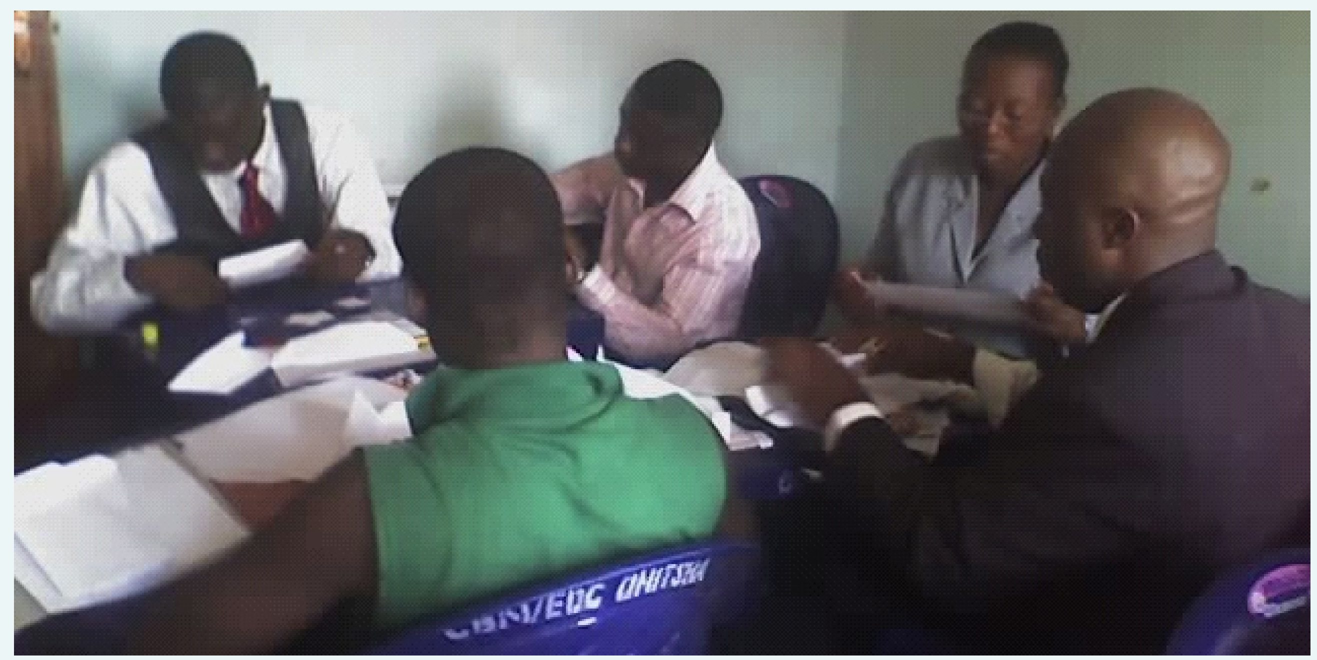
conform to the requirement of the lending institutions after which they will have access to finance. Based on the comments of trainees in the evaluation forms, the students reported that the programme was laudable and pleaded with the government to sustain it. Accordingly, participants attested to the value addition to their knowledge on business management and suggested that such a laudable programme should be extended to Nigerians in other states.

Further comments from participants were as follows:

- The course/training was very good and educative.
- I suggest that you should go to the markets and churches to get people to know of this programme.
- I still want to appreciate the effort you made to bring this kind of programme.
- I wish that the people coming behind us will benefit from this laudable venture and the government should assist the EDC effectively.
- The course/training was so interesting and educative that one can never think of missing it even one day. The instructors were so good and friendly.
- I will like this training to continue because it will help our people especially in terms of self-employment"

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

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



Knowledge Class in their Envelop Games

Central Bank of Nigeria Holds Policy Dialogue with Microfinance Institutions (MFIs)

By U. M. Amedu

As part of strategies to realize the objectives of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria, the Development Finance Department of the Bank carried out a policy dialogue in six geo-political locations of Nigeria from 16th to 19th June, 2008.

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

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

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

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

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

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

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

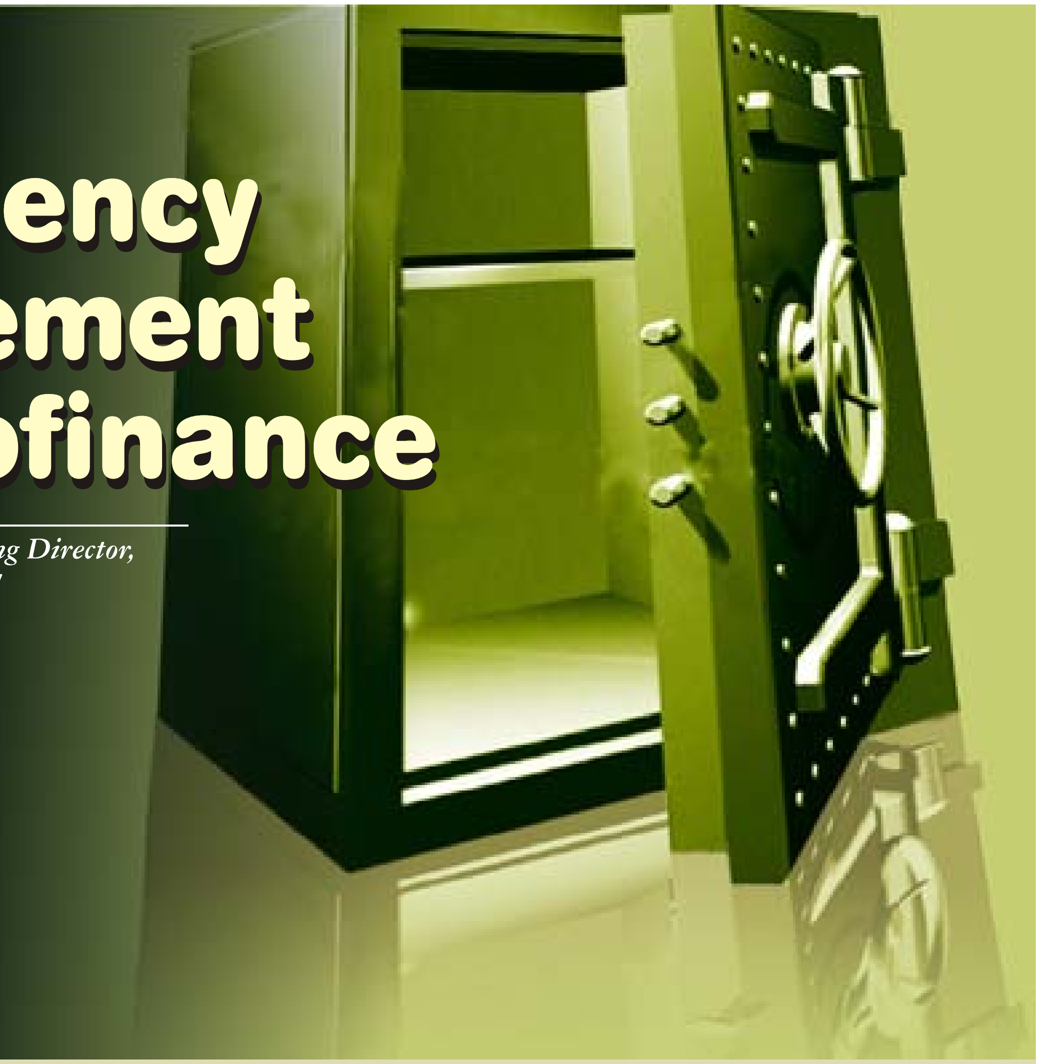
How can NGOs that provide services to vulnerable groups such as women raise money to on-lend particularly to women who pay their loans promptly? The role of CBN in the scheme of things is to support such NGOs to grow to make them marketable to fund providers. For an NGO to be attractive, it needs to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

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

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

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

At the end of the interactive session in each zone, the participants were divided into their various states to enable them discuss how they would form the MFI associations in their respective areas of operations. Following this, some selected persons were nominated to take responsibility for the state-based association of the MFIs, while follow-up activities would be carried out by the CBN ■



Delinquency Management in Microfinance

By Godwin Ehigiamusoe, Managing Director, LAPO Microfinance Bank Limited

Introduction

Attention to delinquency management in microfinance has intensified with the increasing emphasis on sustainability and commercialization. At the inception of what has become the Microfinance Revolution, practitioners and development agencies were preoccupied with the viability and sustainability of the sub-sector. A key determining factor of institutional viability is portfolio quality. One of the deadly viruses which could afflict microfinance institutions is loan delinquency. Poor loan assets undermine institutional sustainability. Many microfinance and indeed financial institutions or banks have either under performed or collapsed due to poor portfolio quality. It is therefore, imperative for microfinance institutions to pay adequate attention to portfolio and delinquency management.

Portfolio Management

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

- Loan portfolio is the most important and largest asset of any financial institution, especially, microfinance banks which despite the rising level of product diversification, are essentially credit driven. Large proportion of their liabilities are utilized to create loan assets. The quality of these assets, determine the ability of the institution to meet its obligation to depositors, lenders and investors.
- Loan portfolio generates income through interest and fees charged, hence the long term sustainability of the institution depends on the level of returns on the portfolio. In most institutions, interest income accounts for over 70 % of operational income.
- Microfinance institutions exist for the sole purpose of advancing credit to their clients and therefore all policies and actions taken are directed at building and maintaining quality portfolio.

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

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

- **Timely.** Rehabilitation or corrective measures can only be taken if shortcomings are detected or revealed early.
- **Accurate.** Care must be taken to ensure accuracy of loan information, for the purpose of decision-making. Inaccurate information is worse than absence of information.
- **Complete.** The report must be as inclusive as possible. All relevant portfolio performance indicators must be included in order to determine the true status of the portfolio.

Delinquency Management

Delinquency management is a major aspect of portfolio management. Although credit delivery institutions advance loans with the expectation of repayment, the microfinance institutions and deposit money banks contend with the challenge of ensuring prompt and complete repayment of loans given out. A borrower is delinquent in repayment, if he or she is unable to meet up with the repayment obligations as and when due. If a customer agreed to access a loan with clearly defined terms, it is obligatory on such a customer to meet those terms. The problem of delinquency is more on the part of the service providers than the borrowers. This is contrary to the belief of managers of financial institutions who often blame their borrowers for non-performing loans. The reality is that there are often bad loans or institutions rather than bad borrowers. All forms of delinquency are traceable to institutional defects in terms of philosophy, loans delivery and recovery approaches, products and services design, and the quality of management and staff. Show me an institution with poor portfolio and I will readily point at a poorly managed institution!

Causes of Delinquency

Delinquency arises from two broad causes which are inability to repay and unwillingness to repay.

1. **Inability to repay.** This refers to the situation where a borrower is unable to meet repayment obligations. The borrower, reacting to promptings from credit staff, earnestly desires to meet her obligations but is unable to do so from her resources. He or she is unable to generate funds to meet her obligations. This situation could result from a number of factors which include:
   a. Poor loan appraisal. Poor appraisal of loan request could lead to wrong decisions in terms of loan size which could have negative impact on loan utilization, investment, returns to the borrowers and ultimately repayment.
   b. Inappropriate loan utilization. This is the commonest factor in loan default. Often, clients invest either a portion or full loan amount in unintended or unapproved businesses with inadequate returns to meet repayment obligations. Such loan diversion would often lead to repayment default.
   c. Mismanagement of funded enterprise. Sometimes, owners of micro-enterprises are ill-equipped in terms of basic management skills and level of education. These deficiencies could lead to under performance.
   d. Disasters. Most enterprises are vulnerable to disaster, especially microfinance institutions which operate from slim economic base. They usually engage in micro and small businesses which cannot stand any shock. An incidence of fire outbreak in a market place could wipe out the entire economic base of a client.
   e. Government policies. Change in government policies could directly or indirectly affect the fortune of small businesses.
2. **Unwillingness to repay.** This is a situation, where borrowers have the means to make prompt repayment but fail to do so. Cases of delinquency of this nature include:
   a. Poor institutional commitment to credit discipline. Some microfinance institutions project the image of charity. There is no strong commitment to business-like approach to credit. This is evident in pricing and relationship with clients. Emphasis is on subsidized credit which in most cases connotes charity. In response, borrowers do not feel any obligation to ensure prompt and full repayment. Lack of commitment to credit discipline is also manifested in the manner institutions tolerate late loan repayment.
   b. Absence of defined procedures or policies on detection, management and prevention of delinquency. This could be total absence of effective loan tracking systems for early detection and measurement of delinquency.
   c. Unskilled and poorly motivated credit staff, would not be willing to enforce relevant provisions of operational manual for tracking and dealing with delinquency.

Management of Delinquency

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

1. Arrears rate. This refers to the proportion of the loan portfolio in arrears. For example, if at the end of a specified period \$5,000 is unpaid out the sum of \$100,000 which was due during the period, in addition to the amount due in previous period(s), then the arrears rate is 5%.
2. Portfolio At Risk (PAR). This refers to the proportion of principal balances of loans with arrears of the total loan portfolio. This is a stricter measure of portfolio quality as it is, to some extent, predictive.

Cost of Delinquency and Default

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

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

   Portfolio quality is a critical measure of institutional strength and performance. Delinquency is regarded as a sign of poor management which has implications, as it damages the reputation of the institution. Such damages include:
   - Low staff morale and high staff turn-over. Persistent cases of delinquency are demoralizing for credit staff which triggers a cycle of poor performance and low morale and this threatens institutional survival. When this occurs, staff begin to look out for every opportunity to exit. Institutions with reputation for poor portfolio performance and management hardly attract quality staff.
   - Deprivation of support and investment. The institution will not be able to attract financial and technical support for meaningful expansion. Funding agents and investors are very sensitive to quality of portfolio. This is understandable as institutional viability is directly related to portfolio quality. Most investors set a level of portfolio quality below which they would not provide required investment.

Managing Delinquency

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

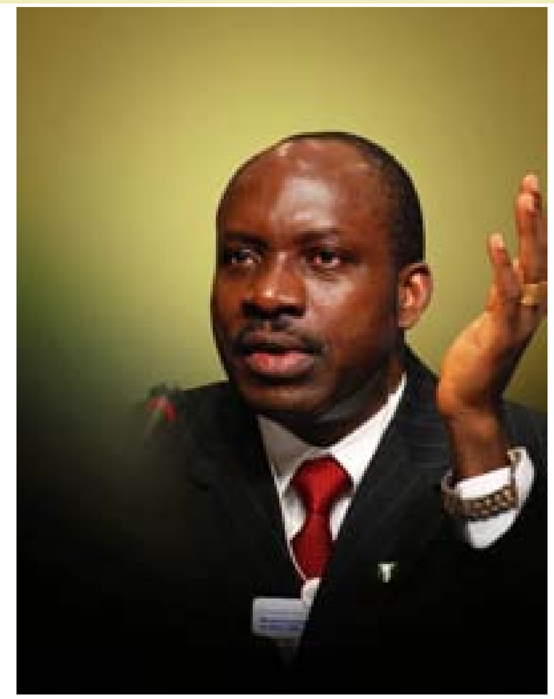
An effective delinquency management strategy must therefore, consist of the following:

- Demonstrated commitment of management to zero tolerance for delinquency. The management of the institution must by its decisions and actions demonstrate commitment to excellence in repayment performance. This must be reflected in the contents of training for new and existing staff, as well as the operational manuals of the institution.
- Clear policy on delinquency control and management. There should be clear policy on default management. The following should be given adequate attention:
  - Set level of tolerance as PAR size that should not be exceeded.
  - Define responsive action to be taken in case(s) of delinquencies.
  - Assign responsibility to staff to table issues of delinquencies.
  - Ensure clear portfolio reporting.

  The contents of the policy must be communicated throughout the institution through training and ensuring strict compliance and enforcement.
- Adequate training for credit staff. Delinquency is challenging and common in microfinance institutions. Staff should be sufficiently equipped to prevent and control defaults. Steps such as formation of credit groups, client training, interaction with clients and loan utilization and monitoring must be carried out by credit staff.
- Incentives for staff. Some MFIs provide incentives for high portfolio quality. This is aimed at motivating Credit Officers to strive towards low delinquency rates.
- Strong Management Information System. Periodic assessment of the level of portfolio management through information dissemination is essential in delinquency management. Management must be able to determine the level and trend of the problem and proffer immediate solution ■

CBN Governor Inaugurates Apex Association of Microfinance Banks

By O. A. Fabamwo



Prof. C. C. Soludo, CBN Governor

The Committee of Microfinance Banks in Nigeria (COMBIN) was inaugurated by the CBN Governor, Professor Chukwuma C. Soludo on Thursday, 8th May, 2008, at the Main Auditorium, CBN Head Office, Abuja. The Committee provides the platform for interaction between the regulators and the operators in the microfinance sub-sector and comprises the Managing Directors/CEOs of all MFBs and officials of the regulatory agencies. It is expected to emerge as a forum for advocacy, information sharing, capacity building and for finding solutions to the challenges facing the fledgling microfinance sub-sector. The Committee would complement the efforts of the regulators, evolve as a powerful tool for effective supervision of the sub-sector and shall meet quarterly under the Chairmanship of the Deputy Governor (FSS).

At the inaugural meeting, issues discussed focused on prompt rendition of monthly returns to the regulatory authorities, umbrella association of MFBs, capacity enhancement programmes for MFBs, installation of an appropriate Management Information System (MIS) by MFBs, proper branding, promotion of credit bureaux and sensitization on deposit insurance.

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

Banks' Contribution to Agricultural Development

By J. A. A. Attah

Introduction

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

Today, the larger part of the Nigerian agriculture remains rudimentary and backward. Obsolete equipment are used and currently, only about 53% of the 72million hectares of arable land is under cultivation. As a result, the sector is unable to meet domestic food demands and hence, billions of naira are spent annually on food importation. Moreso, employment and productivity in the sector have been very slow, while poverty and inadequate capital have continued to inhibit growth. The various efforts by government to shore up growth in the agricultural sector through the provision of incentives(such as credit guarantees, subsidies, fertilizer programmes e.t.c) have not yielded significant results as they have not been able to adequately cope with the ever growing problems of the sector.

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

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

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

Credit is needed to buy land, purchase inputs, equipment, hire labour, adopt new technology, diversify production and embark on other operational activities. However, most of the farmers have remained outside the fold of the formal financial system and so, lack the opportunities to deposit their small savings and access loans for on-farm and off-farm activities. Nigerian banks have shown much reluctance to lending to these credit rationed groups.

Farmers have traditionally patronized informal credit providers some of whom charge high rates than the banks. The informal market, comprising money lenders and thrift associations receive wide patronage because of the accessibility and flexibility of services, but the loans are usually short term since the scale of operation of the average individual lender is small.

In the face of discrimination against small and medium scale enterprises as well as peasant farmers in terms of credit purveyance, various intervention mechanisms have been introduced. In developing countries, credit guarantees were implemented throughout the 20th century as a way of promoting private sector-led growth and development. In Nigeria, the Agricultural Credit Guarantee Scheme Fund (ACGSF) which provides 75% level of guarantee to defaulting farmers net amount realised from security was introduced in 1977. It covered up to a limit of N1,000,000 for single proprietorship and N10,000,000 for corporate bodies.

The objectives of the ACGSF as spelt out in the enabling decree were:

i. To facilitate the flow of capital to farmers to enable them adopt new technologies and farm practices.

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

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

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

Other financial mechanisms which were introduced to promote lending to the agricultural sector in Nigeria included the establishment of the Nigeria Agricultural Cooperative Bank (NACB) in 1973, now Nigeria Agricultural Cooperative and Rural Development Bank (NACRDB). The bank provides credit to farmers, cooperative societies and other rural economic actors to enable them engage in meaningful productive economic activities. The Nigerian Agricultural Insurance Corporation (NAIC) was set up in 1993 to ameliorate the risks of losses in agricultural production that could occur through bad weather, floods, fire and other natural disasters with the aim of ploughing farmers back into production when and where natural disasters occurred.

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

Despite the various interventions in the sixties to early seventies, the demand for finance in the agricultural sector far outstripped the supply. From the period 2002 to 2006, lending to agriculture increased from N227.6 billion to N290.83 billion (see table 1). However, the share of credit to agriculture as a percentage of total credit to the economy decreased from 17.48% to 7.15% in the same period meaning that general support to the agricultural sector was on the decrease compared with other sectors of the economy. The total lending to the sector expressed in terms of ₦ per capita, amounts to only N8,520.00 in 2002 increasing to N9,320.00 in 2006. These figures further reveal that a large part of the agricultural population did not have access to financial services.

Under the Agricultural Credit Guarantee Scheme Fund, a total of 497,692 loans valued at ₦14.9 billion was guaranteed from 1978 to December 2006. From the period 2002 to 2006, the share of total lending to the agricultural sector that was provided by the scheme increased from 1.1% to 4.3%.

The Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), had fresh capital injection since its reorganization in 2002. The bank is entitled to lend to all sorts of on- and off-farm income-generating activities but it has not been able to effectively achieve this due to funding constraints. According to the directives from the Federal Government of Nigeria (FGN), 70% of the loan portfolio must be granted to the poor ("micro loans" below N250,000) at single digit interest rates. The bank expects a repayment rate of the micro loans at 83%, but this goal is yet to be achieved.

As at December, 2006 a total of 1,258 applications valued N28.2billion were received by banks under the ACSS, out of which 126 projects valued N23.3billions were approved. In terms of actual disbursements, a total of forty seven (47) projects valued N17.1billion was recorded as at the end of December, 2006.

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

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

First, agriculture in Nigeria is dominated by small-scale farmers who do not enjoy technical and market economies of scale. Ability to manage large loans required for increased scale and scope of operations remain abysmally low. This further hampers the adoption of

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

	2002	2003	2004	2005	2006
Aggregate net Credit to the Economy (₦ Bil)	1,302.20	1,591.20	2,077.80	2,508.90	4,066.70
Commercial Bank loans to Agric. (₦Bil)	227.60	242.20	261.60	262.00	290.82
ACGSF Loans to Agric. (₦Bil)	1.10	1.20	2.10	3.10	4.30
Total Population (000)	122,163.00	125,620.00	129,175.00	133,767.00	140,000.00
Total Agric. Population (000)	26,700.00	27,840.00	28,717.00	28,990.00	31,193.24
Aggregate Index of Agric. Population (Year 1999=100)	153.70	158.20	166.50	151.50	161.10
Commercial bank loan per agricultural population	8,520.00	8,700.00	9110.00	9040.00	9320.00

improved technology and hence low yields and output encountered in agricultural production.

Second, most farmers usually do not keep accounts that could assist loan officers to easily determine their credit worthiness. Their scattered and widely dispersed settlements further increase the unit cost of loan administration and complicates loan recovery mechanisms.

Third, the peasant farmers lack acceptable collateral security, while liquidity and "money value certainty" are what banks look out for. The communal system of land tenure in which rights of ownership are shared between the individuals and the community present difficulties with regard to accepting land as security for bank loans.

Fourth, most farmers encounter problems in complying with the feasibility reports required by lenders. Since there are often no standard feasibility reports, there are no road maps to follow and the outcome of investments cannot be predicted from inception.

For increased agricultural production in Nigeria to be achieved, there is a need to carry out aggressive policy changes on various fronts:

Training of banks officers:

Lending banks need to have full fledged agricultural finance departments manned by staff with training in relevant fields. Agricultural experts are more likely to understand the dynamics of agricultural production, adopt appropriate risk mitigation strategies, loan monitoring and recovery procedures than non experts. They will be more sympathetic to agricultural lending. There should be training and capacity building through classroom and attachment programmes for loan officers of banks to enable them understand the peculiarities of agricultural production, properly assess agricultural loan proposals and effectively determine the credit worthiness of borrowers.

Deliberate Focus on Investing in Large Scale Farming:

Nigerian agricultural population is basically rural and this category cannot be depended upon to achieve the objective of food security. Efforts should be made to develop a new crop of properly trained agricultural practitioners that have capacity for managing big agricultural plantations, adopt improved technologies and interlink with research institutes. While efforts made by development agencies to meet the needs of small holders is commendable, the time is now ripe for strategic steps to be taken in favour of large holders.

This can be achieved by recruiting graduates in agriculture and providing them with the needed entrepreneurship capacity to engage in large scale farming.

Stakeholder Collaborations and memorandum of understanding:

With respect to the raising of large scale agricultural customers, there should be effective collaboration and memorandum of understanding among stakeholders. Government should provide enabling environment, land and funds for capacity building of farmers, while banks should provide financial resources such as loans and leasing facilities to support the integrated projects. Development Partners such as World Bank, African Development Bank, Food and Agriculture Organization (FAO), International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP) should provide counterpart funding for training, attachment and technical support for farmers.

Forward Integration and Funding of Value Added Processing Activities:

Most successful big time farm businesses are integrated projects with backward and forward linkages. Bank support to agriculture should pursue the twin objective of primary production and processing either in one unit farm or linked with a firm that processes the primary farm products. This will not only assure that there will be market for the producers but also put the products in forms that will improve their shelf life, market and export potentials.

Reorganization of Lending Strategies for Better Efficiency:

Lending to agriculture under the current dispensation should be strictly market driven. The Federal and State Governments should create enabling environment that will attract young people to take agriculture as a profession, particularly young school leavers and graduates. This can be achieved through commitment to the provision of infrastructure such as pipe borne water, road network, electricity, as well as working tools. Subsidies by government should be applied in the areas that can increase the efficiency and profitability of agricultural activities.

Micro borrowers should be the targeted area of the microfinance banks while the deposit money banks should concentrate on large borrowers. The Nigerian Agricultural Cooperative and Rural Development Bank should provide wholesale funds for on-lending activities of microfinance banks. Government subsidized credit to the agricultural sector should be channeled through the microfinance banks or other market based financial institutions so as to promote harmony, market discipline and avoid market distortion.

The adoption of the above stated policy proposals would go a long way to satisfy the objective of lenders, agricultural borrowers, the government and ultimately, the nation ■

Association for Social Advancement (ASA), Bangladesh, a Model for Nigerian Microfinance Banks

By H. Maina

The Association for Social Advancement (ASA), Bangladesh was founded by Dr. Shafiqual Choudhury as a Non-Governmental Organisation (NGO) in 1978. The aim was to create an enabling environment for achieving a just society, through organizing villagers {samities in Bangla} and teaching them basic knowledge of law as a means of social action, promoting legal rights, awareness and social justice. In 1985, following a terrible cyclone that affected the villagers of Bangla and a flood in 1987 and 1988, the need arose to dispense foreign disaster relief to help those affected. ASA was chosen along with other NGOs to do the job.

Bangladesh Narayanganj, Mymensingh, Kishorganj, Pabna

In 1990, ASA started micro credit with part donor funding. As a result of high level of recovery in the micro credit initiative, Dr. Choudhury realized that the need for more outreach was far greater than what was being provided by donors. He envisioned self-sustainability as the way to achieve wider outreach and felt that ASA would need be restructured and re- engineered to become self-sustainable. Thus, ASA became full fledged microfinance NGO in 1991 and shed other services that were outside microfinance. It shifted emphasis from men to women groups and undertook restructuring to meet the new challenges.

Following the change of mission, ASA hired more staff, posted them to branches and simplified their tasks, assisted by detailed operational manual. It paid modest salaries, basing its recruitment system on group rather than individual interviews.

Financial Analysis of ASA *Financial Statistics (Amount in BD Taka) Particulars*	2007	2006	2005	2004
Information				
No. of branches	3,333	2,931	2,291	1,965
Total no. of groups	239,695	204,938	178,904	137,091
No. of members (in million)	6.66	6.46	5.99	3.00
No. of active borrowers (in million)	5.42	5.42	5.16	4.18
No. of loan officers (end of year)	14,788	14,788	11,564	9,489
Average no. of members per LO	451	558	631	430
Avg. no. of borrowers per LO	367	446	441	397
Avg. no. of members per branch	1,999	2,203	2,614	1,525
Loan portfolio				
Yearly total loan disbursed (in million)	48,374	41,312	33,082	24,024
No. of loans disbursed (in million)	6.10	5.56	4.64	3.20
Average loan size	7,868	7,430	7,129	7,517
Total loan outstanding (in million)	24,410	21,003	16,886	11,980
Current	23,953	20,785	16,749	11,881
Overdue (past due)	457	218	137	99
Avg. outstanding balance by clients	4,501	4,068	4,038	4,321
Portfolio per Loan Officer (in million)	1.65	1.81	1.78	1.72
Portfolio per staff (in million)	0.97	1.14	1.14	1.05
Total amount written off (in million)	66.88	47.92	24.12	12.27
Total loan loss reserve (in million)	602.40	598.71	582.79	641.39
Savings				
Total savings (in million)	4,469	3,521	3,036	2,828
Compulsory (in million)	2,247	1,892	1,404	2,173
Voluntary (in million)	2,222	1,629	1,632	655
Avg. savings balance by members	887	777	748	947
Small & others	819	706	691	881
Small business	2,042	2,128	2,331	3,079
Productivity/quantitative indicator				
Cost per money lent	0.050	0.044	0.033	0.037
Cost per loan made	403	327	240	280
Portfolio in arrears	1.87%	1.04%	0.81%	0.83%
Portfolio at risk	3.40%	1.85%	1.22%	0.69%
Loan loss ratio	0.27%	0.23%	0.14%	0.10%
Reserve ratio	4.15%	2.84%	3.45%	5.35%
Effective yield on avg. portfo	25.14%	28.45%	28.87%	29.92%
Effective yield on avg. assets	24.11%	25.15%	24.53%	25.93%
ROE (Adjusted Return on Equity)	7.06%	16.42%	19.66%	19.11%
ROA (Adjusted Return on Assets)	4.51%	9.36%	10.71%	9.57%
Operating self-sufficiency (OSS)	175.51%	238.16%	275.24%	244.56%
Financial self-sufficiency (FSS)	121.44%	155.20%	169.73%	158.51%
Total expenses/Total average assets	21.06%	16.95%	15.35%	12.45%
Financial cost/Total average assets	2.04%	2.29%	2.63%	2.58%
Adjustment costs/Total average assets	6.49%	5.90%	5.88%	4.24%
Loan loss cost/Total average assets	10.37%	0.29%	0.29%	0.75%
Admin. cost/Total average assets	69.48%	8.47%	6.54%	4.88%
Total equity (own fund)/assets	160.27%	55.21%	53.66%	57.73%
Total equity (own fund)/liability	160.27%	140.81%	131.07%	101.41%
$=Taka>	**68.56**	**69.00**	**63.82**	**57.90**

ASA's restructuring exercise was based on an inspiration from Henry Ford. Henry Fords philosophy was to be one of the most innovative pioneers in the production of motor vehicles in the early 1900s. He said "I will build a car for the great multitude. It will be large enough for the family, but small enough for the individual to run and care for. It will be constructed of the best materials, by the best men to be hired, after the simplest designs that modern engineering can devise, but it will be low in price that no man making a good salary will be unable to own one and enjoy with his family, the blessing of hours of pleasure in God's great open spaces". Piloted by the above philosophy, Henry Ford successfully introduced the moving assembly line method of production. This brought model T type Ford to $500, making it possible for a large number of people to own a motor car. Assembling time was equally reduced from 12.5hours per automobile in 1912 to 1.5 hours in 1914. By 1923 , Henry Ford was producing half of Americans automobile vehicles.

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

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

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

Savings products were done weekly with each member of the group contributing US$0.2 for small loan members and US$0.4 for small enterprise members. Individuals could also, save and withdraw any additional amount any time. Ten percent (10%) of savings was held against members who had outstanding loans, while an open access to new voluntary saving products existed. The savings were structured as follows:

- General members saving account: $0.2 per week @ 8% interest per annum
- SEDP-members saving account: $0.5 per week @ 8% interest per annum
- Associate members saving account: amount varied and which can be withdrawn any time @ 7% interest per annum
- Long term (5year) saving account: $2- $10 per month @ 9% interest per annum
- Term Deposit: above $20 per month @ 9% interest per annum

ASA has a flat organisational structure with 3 tiers. The first tier is the Head Office in Dhaka housed in an old purchased and renovated building with 95 staff{1.4% of total personnel} and only 3 vehicles. There is a governing body of 8 members elected by a general body comprising of 20 staff and 20 group members. The Managing Director has 4 teams of 2 or 3 senior official each to work with him. The Head Office perform functions of internal control, policy formulation and provision of broad directions to branch network. The second tier consist of regional managers and divisional managers who travel by public transportation to supervise the branches while the third tier comprise branches or units each comprising of branch manager, four or five credit officers and one support staff. Each branch reports to a regional co-coordinator in Dhaka, Head Office. Each Branch Manager could approve financial services to clients, as well as loan sizes, office expenses according to guidelines properly detailed in an operational manual. This is called maximum delegation with minimum discretion. Some important features that have made ASA methodology a success are:

- Low size of Head Office staff and modest Head Office accommodation.
- Modest branch accommodation serving the dual purpose of residence and office.
- Standardised set of furniture, utilities, office supplies which assist in cost control
- Compulsion of ASA branch offices to become profit centres after a period of 9-12 months of operation, and
- Rapid growth without a decline in quality of services.

On-time loan recovery rates stands at over 98 percent. ASA has been financially self-sufficient since mid 1990s.

Table 1 shows the statements of financial performance between 2004 and 2007 indicating that where microfinance is practiced in the way it ought to, it will pay the institution and the clients.

Against the backdrop of the impressive performances of the ASA, Bangladesh, the Association was engaged in 2006 to conduct training programme for three MFIs in Nigeria under the United Nations Development Programme (UNDP) Project on "Support for the Development of a Sustainable Microfinance Sector in Nigeria." The MFIs were Lift Above Poverty Organisation (LAPO), Benin, Development and Exchange Center (DEC), Bauchi and Justice Development and Peace Commission (JDPC), Ijebu-Ode. A monitoring exercise of the MFIs recently conducted by the Central Bank of Nigeria revealed that the beneficiaries of the training had been recording improvements in their performance indices.

LAPO's activities improved with an increase of loan portfolio from N2 billion as at December 2007 to N2.5 billion as at the end of March, 2008. The institution's clientele base increased from 135,000 as at December, 2007 to 166,000 as at March, 2008, while the loan recovery rate was 99.7%. LAPO had trained three institutions under the ASA methodology knowledge transfer programme and five other institutions on its own initiative.

DEC on its part, was able to successfully reduce its Portfolio at Risk (PAR) from 8% in December, 2007 to 4% as at the end of the first quarter of 2008. This achievement was made possible through a renewed drive towards loan recovery championed by ASA's intensive loan monitoring and collection methods, as well as an increased loan portfolio.

DEC has the intention to establish its MFB as a subsidiary, while continuing with its social function as an NGO/MFI.

At the JDPC, the adoption of the ASA methodology had increased the institution's outreach over time. The institution had 30 branches in Ogun, Ondo, Ekiti and parts of Lagos State with an outreach of 26, 813 clients and N131,424,042 as total savings. The outstanding loan portfolio stood at N238, 861,830. It was also revealed that the institution had a 100% recovery rate and its clients were all women. The institution had no donor related funding, but sourced its funds from a deposit money bank.

Deriving from the achievements of the training programme, the UNDP is considering extending the training to other MFIs and MFBs ■

Sources of Funding for Small Scale Enterprises

By Joe Alegieuno

Introduction

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

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

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

Prospects of Small Scale Enterprises in Nigeria

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

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

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

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

Potential Small Scale Business Opportunities in Nigeria

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

Practical Considerations for Engagement in Small Scale Enterprises

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

i. **Have a well Thought out Idea**

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

ii. **Determine the Nature of Ownership and Management**

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

iii. **Estimate the Nature and Magnitude of Financial Support Required**

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

The guiding principle for the business promoter and the fund

Table 1: **List of Potential Small Scale Businesses in Nigeria**

Agriculture and Agro-based Micro-Businesses	Skills & Trades/Technical Non-Agricultural Micro-Businesses	Commerce/ Services
• Poultry Production • Oil Palm Plantation • Cocoa/Coffee plantation • Rubber Plantation • Soybean production • Grains (Maize, Guinea Corn, Millet) • Legumes (Bambara nut, Ground nut, Cowpea) • Cotton • Orchards(Pineapples, Oranges, Guava, Mangoes, Pears, Plantain, Banana etc) • Fishery • Livestock (Goat, Dogs, Pig, Sheep, Cattle, Rabbits, Grass Cutters,etc) • Snail farming • Processing of any of the above products.	• Tailoring/Fashion Design • Arts and Crafts, sculpturing • Carpentry • Motor repairs/maintenance /vulcanizing • Waste disposal and cleaning • Shoe making/mending • Newspaper/ Magazine vendoring • Electrical/Electronic Services • Water packaging and sales	• General Retail and Merchandise (Buying and selling) • GSM user services • Party rentals • Restaurant business • Musical/ video cassettes sales

provider is the feasibility and viability of the project.

iv. **Establish the Market or Demand for the Product or Service**

As the benefits of the business depend on the availability of a market, the business owner has to ascertain part of the market it can capture, particularly where there are competitors. Where a market is already saturated, it would not be wise to get into it except where there are proven strategies for attracting users of the product or services from present suppliers. Businesses with products having established demands but few suppliers are likely to find it easier. On the other hand, it is possible for a producer to offer a service or product and stimulate demand from customers.

v. **Determine the Legality of the Business**

The chosen line of business should take into consideration, existing laws and regulations. For instance, what are the preconditions for producing bottled water and what licenses need be obtained. The business in question might require registration with an appropriate body and this should be complied with. Among the possible lines of businesses, one has to screen out those that present legal restriction/hurdles which the business owner cannot presently surmount.

Possible Funding Sources for Small Scale Enterprises

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

General Financing Sources:

- Most start-up businesses are generally funded from three main sources: (1) own funds, (2) funds from friends and (3) funds from family. Funds from friends and family members come in one of two ways, they are either approached or offer to invest. Where the former is the case, the entrepreneur should substantiate his request with the merits of the business in a particular market. The later normally occurs when it is perceived that a particular business is doing well and a family member or friend wants to get in to reap from the benefits. In getting start-up capital from friends and family members, care should be taken to have a written contract that clearly outlines the amount received and the terms of repayment.

GSM service provider attending to her customer

- **Equipment Leasing:** Equipment leasing is basically a loan in which the lender buys and owns the equipment and then "rents" it to a business at a flat monthly rate for a specified duration. At the end of the lease, the business may purchase the equipment for its fair market value, continue leasing the old equipment, lease new equipment or return it to the lender.

  Equipment leasing is appropriate at any stage of business, including start-ups with credible founders. Even though they are much more expensive than bank loans, they are more easily obtained. An equipment lease contract could be transacted through a broker- the person who simply structures the deals, and get them financed through a leasing company or directly with a leasing company. Some financial institutions in Nigeria have leasing as part of the services they render to the populace.

- **Asset-Based Loans:** Asset-based loans are usually loans obtained from commercial finance companies (as opposed to banks) on a revolving basis and collateralized by the company's assets, specifically accounts receivable and inventory. Asset-based financing works for rapidly growing, highly leveraged companies with proven accounts receivable, and a demonstrated track record of several times inventory turning over in a year. Asset based lenders generally have higher expenses than bankers and hence charge higher interest.

  To negotiate an asset-based deal, borrowers must come to the table with adequate, clear and reliable financial information that paints a positive picture of the state of affairs of the company. Relevant information include at least three things: (1) a reasonable net worth and long- term viability, (2) financial statements that have been reviewed by a recognized accounting firm and (3) cash flow projections.

- **Bank Loans:** These are the basic commercial loans of banks. They are required as the business begins to grow. They typically carry fixed interest rates, monthly or quarterly repayment schedules and a set maturity date. Bank loans can either be short term, that is usually repayable within a year or medium-term loans, usually less than three years or long-term loans, commonly of durations above three years. Bank term-loans are appropriate for established small businesses that can leverage sound financial statements. Repayment is typically linked to the lifespan of the item financed. Most bank loans require collateral and a relatively rigorous approval process. They are best used for construction, major capital improvements, large capital investments, such as machinery, working capital, and purchases of existing businesses.

  The basic parameters normally examined by financial institutions in the approval of facilities are:

  i. **Character:** This relates to the history of how well the borrower has managed previous businesses or personal loans,

  ii. **Capacity:** This is an assessment of the borrowers ability to utilize and repay the loan,

  iii. **Collateral:** The pledging of a tangible asset on which the bank can fall, in the event the loan turns bad,

  iv. **Capital:** Assets that the borrower owns that can be quickly turned to cash if necessary. This refers to the borrower's stake in the business.

  v. **Comfort/confidence:** How dependable and reliable are the financial projections.

- **Institutional Venture Capital:** Institutional venture capital comes from professionally managed funds which seek to invest in start-ups and potentially profitable companies. They are best suited for financing product development to expansion of a proven and profitable product. Institutional venture capitalists usually demand significant equity in a business they want to buy into. The younger the business, the more equity is required to convince an institutional venture capitalist to invest.

  In making a choice of a venture capital company, one should search for:

  i. a company that specializes in one's line of business or that is known to have preference for his line of business,

  ii. a company that is not far from the location of one's business as the company will be expected to send representation at board meetings and long distance could pose a problem,

  iii. a company that is suited for the current stage of development of one's business; some invest in early stage businesses, others on mature businesses,

  iv. leadership status of the venture capital company, there are leaders in the world of venture capital companies and there are followers; leaders have recognized expertise and conduct due diligence on their prospective portfolio companies while followers are more passive, and

  v. the ideal size of the company; as there are often upper and lower limits on the sizes of their investments.

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

A vulcanizer at work

Special Funding Sources Being Promoted by Government

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

Conclusion

In Nigeria many business opportunities abound. It is necessary to discover these opportunities and make a choice. A small enterprise owner could fund his project through several sources depending on the nature of the business and the scale of operation. These could be through general funding sources offered by financial institutions or through special sources provided by government promoted poverty alleviation programmes.

Critical to favorable consideration of loan requests is the need to present convincing evidence that the benefits or gains of the project outweigh the costs coupled with a demonstrable testimony that there is appropriate management capability to realize the projections in the business plan.

As public sector employment opportunities continue to shrink in the face of various reforms, entrepreneurs should seek for alternatives in private sector self employment by starting a small business today. With good management, a small enterprise could grow into a big conglomerate taking into account deliberate growth strategies ■

Building a Vibrant Microfinance Bank: *The Key Factors*

By Bunmi Lawson, MD/CEO, Accion MFB

"Efficient financial systems are vital to the prosperity of a community and a nation as whole. To ensure that vast number of poor people are included in the benefits of development, it is necessary that they have consistent access to financial services, access that can translate into a key element of economic growth and poverty alleviation options". *José Antonio Ocampo, Under Secretary General for Economic and Social Affairs Co-Chair, Coordinating Committee for the International Year of Microcredit 2005*

Why Microfinance?

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

Evolution of Microfinance

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

Building a vibrant microfinance bank-how feasible?

The new structure of microfinance banks however, raised the question "is it possible for an organization to achieve its mission of economically empowering the poor, while at the same time remaining a financially sustainable entity?" Looking at the success story of microfinance institutions who had adopted an approach of sustainability, such as Banco Solidario Ecuador (Banco Sol) and Bank Rakyat Indonesia's Unit Desa System (BRI-UDS), it would appear that the two objectives could be achieved simultaneously. BRI-UDS adopted the savings mobilization approach as an experiment in 1984 to transform its rural money losing agricultural credit operations to commercially viable intermediaries serving the informal sector. This system which emphasized savings and payment services enabled the bank to become profitable in less than two years.

Banco Sol, the world's first for-profit microfinance institution dedicated to providing financial services to microenterprises was established in 1992 by Accion International and other partners using the financial systems approach. Banco Sol experienced extraordinary growth and profitability in the mid 1990s and is frequently referred to as a model for serving the poor in a sustainable manner.

Key success factors in building a vibrant microfinance bank

Looking at the experiences of organizations, more especially, Banco Sol, it becomes apparent that the key factors for success lay first in a clear mission, which was focused at reducing poverty through the market segments. To ensure that this mission was actualized, the promoters selected people who shared their vision of providing financial access to the un-banked in a sustainable manner as members of the Board of Directors. They also required that these members must have interest in the success of the institution by making them shareholders. Secondly, Banco Sol hired a dynamic management team who shared the same passion for microfinance as the founders did and had personalities suited for leadership. The leadership was able to develop vibrant corporate cultures among their team which dramatically affected the manner in which they conducted business. Another key success factor was technical know-how.

Although, one may learn about microfinance on a trial and error basis, it is best and easier to learn from those who have done it before. A new organization may learn from the failures and successes of other organization in different parts of the world and adapt what worked best to one's environment. In the words of Elisabeth Rhyne, "Microfinance should not be regarded as something anyone can do. It is an emerging profession that combines financial management and banking operations' skills with knowledge of the informal sector market and specially adapted techniques for serving that market".

Information is crucial as it aids in decision making. Availability of accurate data on the populace especially with regards to their location, occupation and borrowing habits greatly enhances decision making and helps to make sure that available funds are directed to where it will be best utilized. Another area to consider is the expense line. Microfinance institutions usually have a very high cost of operations due to the high level of human intervention that is required to serve their clientele. Leveraging on information and communication technology, however, can, in the long term, significantly reduce costs of operations, which will go a long way to ensuring sustainability.

In addition to these factors, operating in a stable socio-political environment, having the support of a regulatory authority that creates an enabling environment where microfinance thrives and developing products and services suited to the needs, requirements and peculiarity of the informal sector are also important.

Implications and Challenges for Nigeria

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

A major challenge faced in Nigeria, however, is the lack of accurate data. Due to competition, stakeholders are also unwilling to share information on the borrowing habits of their customers. This means that one cannot completely verify information provided by potential customers which could have an impact on the quality of loans granted.

A solution to this would be the establishment of credit bureaux through collaboration with all stakeholders which would significantly affect the sustainability and vibrancy of the microfinance sub-sector by creating a repository of credit history of clients. This will enhance verification of loan applications, reduce the incidence of fraud and make processing faster. The establishment of credit bureaux will increasingly become crucial, especially in an emerging industry, such as that in Nigeria, as character rather than asset collaterals are the basis for lending to members of the public.

Conclusion

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

Press Release

By Thomas Timberg

The Micro, Small and Medium Enterprise (MSME) Project is a joint pilot project of the World Bank Group (WB) and the Federal Government of Nigeria (FGN), aimed at increasing employment and production in selected non oil sectors of the Nigerian economy with a focus on the pilot states of Abia, Kaduna and Lagos. The Project has five components: Access to Finance (ATF); Business Development Services (BDS); Investment Climate; Public Private Partnership (PPP); and Project Management.

The Access to Finance Component has made major headway, with the project being at the forefront in supporting the development of a new commercial microfinance industry in Nigeria. The project has already given Performance Grants to six new Microfinance Banks (MFB), against a final year target of two and is considering a Downscaling Grant to one large commercial bank. These grantees already serve 100,000 clients with over $12 million of credit and with low levels of portfolio at risk, and aim to provide $55m capital investment, serving 300,000 clients by the end of the project against a final Project target of $15m investment and 120,000 clients. The ATF grantees constitute a considerable portion of the commercial microfinance sector in Nigeria, in terms of clients and volumes of activity.

The Business Development Services Component has provided 58 matching Performance Grants for a sum of roughly $3 million to support innovative, strategic, commercially oriented business development services in the three target states. The 58 grantees (i.e. BDS Providers) have provided a range of business development and advisory services to over 5600 MSME and achieved a 65% cost recovery, well in excess of final year project targets of supplying 1,000 MSMEs with BDS services, and servicing of 20 BDS providers. The grantees form a dynamic part of the emerging commercially oriented business development services sector in the country.

Also, under the Business Development Services Component, four value chain development programs are scheduled. The first for the catfish industry in Abia, Kaduna, Lagos, and Oyo state has been completed. The work undertaken by the project brought significant technological improvements in production and developed industry wide standards and accreditation systems through the Fisheries Association of Nigeria (FISON) and the Lagos Branch of the Catfish Association of Nigeria (CAFAN). Through its success the project was able to leverage Israeli Government funding to undertake supplementary training of veterinarians. More than 300 specialists were trained, some training materials were prepared and disseminated, and six demonstration farms launched. Other value chain development programs for rice in Kaduna, palm oil in Abia, and tourism in Cross Rivers are in various stages of implementation.

The Business Registration Subcomponent of the Investment Climate Component resulted in the development of a common set of forms and procedures for the Corporate Affairs Commission (CAC) and the Federal Internal Revenue Service (FIRS) and a system linking their computers. Final implementation has been stalled as issues concerned with the software are addressed. Three other subcomponents are: one for assisting the Central Bank of Nigeria with developing the legal and regulatory framework for private sector credit bureaux; another promoting alternative dispute resolution (ADR) in the target states; and a third to promote secured lending against movables and leasing

Contact: *www.msme-nigeria.org, Rm 309 NIPC Bldg., Across from Hilton Hotel, Abuja. eile@msme-nigeria.org* ■