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

Called from CBN Website

A t the conclusion of the re-capitalisation/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, were 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 provisional approval as in-principle (AIPs). The total number of applications-in-principle (AIPs) 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 geopolitical zones and thinly spread in the Northern geopolitical zones as summarised on table 1.

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

<table>
<thead>
<tr>
<th>Geo-Political Zone</th>
<th>Number of MFBs</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-West</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lagos</td>
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<td>6</td>
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<td>4</td>
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<tr>
<td>Zamfara</td>
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<tr>
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<tr>
<td>Anambra</td>
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CBN Governor Inaugurates Apex Association of Microfinance Banks

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

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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 Organisations are equally supporting the sector through the creation 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.

The hallmark of simplicity in microfinance operations include inexpensive office accommodation, equipment, salaries and allowances. The dress code usually brings the loan officer close 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, while others have been partnering with microfinance banks and state governments to provide microfinance services. Governments and Non Governmental Organisations are equally supporting the sector through the creation 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.

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 in 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 wide and equitable distribution of credit around the country to deserving entrepreneurs by allowing State Governments to engage in wholesale borrowing from the banks and on-lend or distribute to the entrepreneurs in their respective states, monitoring the State and Local Governments to comply with the requirements of the Microfinance Policy.
- 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 (SMEIES) funds as at December 31, 2007, and subsequently, contributions would be made by each Deposit Money Bank to make the fund up to N100.0 billion by the end of 2010. The Fund would be made available to all State Governments with viable microfinance proposals after setting aside a counterpart fund equal to the amount of the loan being sought in the bank from which it is originating the Fund.

At the launching, the President commended the Banks Committee for upgrading the SMEIES 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.

At the launching, the President directed State Governments to engage in poverty reduction program targeting to 3,544 entrepreneurs in poultry farming, fish farming, animal fattening, agro-businesses and trading. A total of 172 of the trainers were university graduates and 162 secondary school leavers. The Centre is currently running a programme for 445 others, while over 2,650 were awaiting enrolment for training. The centre has also provided counselling services for a total of 1,846 entrepreneurs comprising 1,380 males and 266 females as shown on the table 1.

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 they are the right 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 programme 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 examination and a good business plan will qualify them for bank loan. After this, the training begins with the leadership unit taking the trainees through the leadership and life skills training that will arm them with the necessary skills to become successful managers and entrepreneurs. The Entrepreneurship Development Unit of the Centre is responsible for the provision of entrepreneurial development training for the trainees. The unit provides two weeks training programme for the University Graduates (UGs) and four weeks training for the secondary school graduates (SSGs) and in collaboration with Business
CBN Signs Contract Agreement with the Implementing Agencies of its Entrepreneurship Development Centres (EDCs)

By A. A. Adetke

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 restructuring Microfinance Development Centres (EDC) in each of the six geo-political zones in Nigeria. The Child Banks would be expected to provide physical structures, training materials, equipment, human resources and other facilities that would ensure international supportive and competitive 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 schools. The courses enable them establish flourishing businesses. The programmes are open to graduates of Nigerian universities, polytechnics, colleges of education and secondary schools. The programmes include amongst others, the following:

- Developing the entrepreneurship spirit among 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 small and medium enterprises; and
- Generating employment opportunities for Nigerians in part of the provisions of the National Economic Empowerment and Development Strategy (NEEDS).

Raising a new class of entrepreneurs and 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 Governor’s Conference Room of the Central Bank of Nigeria had the Governor, Deputy Governors and Directors of the Bank, members of National Microfinance Policy Consultative Committee (NMPCC), representatives of relevant Federal Government Agencies and 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. Regulation 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 that only successful microfinance banks would justify the launching of the policy.

The Governor disclosed that the pilot phase was implemented in three geo-political zones of the country namely, Kano for the North, Ogun 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), Nigeria-German Development Co-operation (GTZ) and the Technological Incubation Centre, Kano, respectively.

The Kano and Onitsha EDCs had graduated 331 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 Industrialization Centres International, No. 88, Dowaki Road, Nasarawa GRA PO Box 728, Kano, Kano State.
- e-mail: sci_nigeria@yahoo.com;
- Centre for Entrepreneurship and Development Research (CEDR), University of Nigeria, Nsukka, or Omoniyi Anua Plaza, No 2, Awka Road, Onitsha.
- e-mail: cedrunn@yahoo.com
- Lagos EDC had placed advertisements to recruit trainees.

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

By Ogbanaga T. Peter

The “Employment Oriented Private Sector Development” programme is aimed at contributing to increased access 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 programme’s overall objective is to improve access of the MSMEs to sustainably develop and to access the relevant capacity building input to financial institutions (MFIs & MFBs) in Niger and Nasarawa States. Considering the challenge in the formal sector facing the regulatory authority, MSMEs and financial institutions, the component has been very active because of its possible initiative strengthens the sector both at macro and micro level. It has been successful in terms of 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 MSMEs;
- Sponsoring of innovative capacity building measures for non-executive directors and operators in the microfinance sector in Nasarawa and Niger States. The programme focuses on corporate governance, internal training by LAPO, CBN reporting formats and Professional development;
- Prevention 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 mitigating against lack of access to financial services.

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

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

The Kano and Onitsha EDCs had graduated 331 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 Industrialization Centres International, No. 88, Dowsaki Road, Nasarawa GRA PO Box 728, Kano, Kano State.
- e-mail: sci_nigeria@yahoo.com;
- Centre for Entrepreneurship and Development Research (CEDR), University of Nigeria, Nsukka, or Omoniyi Anua Plaza, No 2, Awka Road, Onitsha.
- e-mail: cedrunn@yahoo.com
- Lagos EDC had placed advertisements to recruit trainees.
Promoting Entrepreneurship, the 'LAPO' Way

By Tony Ogwu

Almost anyone thought that microfinance of N10,000.00 and below to individuals 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 that is, no one at all, except LAPO, 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. 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 Uchea 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?

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.

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

I was advised by LAPO officials to seek individual loan. However, before I could do that, I must comply with their rule 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 is your advise to start ups?

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

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 loan amount was too little. My main challenge is to get higher credit lines.

What advice do you have for LAPO?

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

Mrs. Josephine Imarhlu

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

What do you say about loan size from LAPO?

The present exposure was insufficient to sustain my business. I intended 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.

What do you say about loan size from LAPO?

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

What is your advice to start ups?

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.

What is your advice to start ups?

If 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.

Mrs. Lucky Toghanro mixing ingredients for soup making

Mrs. Josephine Imarhlu making soap
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 is primarily an in-house training course that is packaged to provide entrepreneurial skills and capacity training to prospective trainees, who meet the EDC selection criteria. The EDC strongly supports the full development of the potentials and capabilities of independent minded and self-confident entrepreneurs who can successfully exploit business opportunities and overcome challenges in the environment.

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

The Centre for Entrepreneurship and Development Research, University of Nigeria, Nsukka started recruitment and training of its core staff in March, 2008. However, the actual training of students (trainees) started on May 5, 2008. Onitsha was chosen as the venue for the training because of its strategic location as commercial nerve centre of the South East. Onitsha also has the highest concentration 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 Onitsha, Enugu Express Way, Opposite Lake Filling Station, and serves as the actual training centre.

The training methods adopted at the Centre include 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.

Green Class during their Unlocking marketing potentials

The graduates’ area of interest include primary production, marketing and services. Specific activities in primary production include poultry, fish farming, palm product 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 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 pleased 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.

Royals Class during their Practical and Discussion

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.

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

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

By U. M. Amuda

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

The dialogue took place as follows: North West (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 zone with a view to using such associations to support the development of microfinance, and particularly encourage the institutions to graduate to regulated status.

The Development Finance Department’s paper presented during the programme highlighted the key issues in the microfinance policy such as the objectives, ideals 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 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 consistent voice to fight the cause of members, and ensure 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 and 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 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 NGOs in the scheme of things is to support 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 other more licensing requirements stipulated in the regulatory and supervisory guidelines for MFIs.

**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 both, 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 various states to enable them discuss how they would form the MFI associations in their respective areas of operations. Following this, some select persons were nominated to take responsibility for the state-based association of the MFIs, while follow-up actions would be carried out by the CBN.**

**Delinquency Management in Microfinance**

By Godwin Eligbamase, 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 microfinance was all about, the concept which could affect 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. Arrears is given to portfolio for the following reasons:

- Loan portfolio is the most important and largest asset of any financial institution, especially microfinance bank, which despite the rising level of product diversification, are essentially credit driven. Large proportion of their liabilities are unsecured to create loan assets. The quality of these assets determine the stability 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 must be geared towards 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).

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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 his/her 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 in 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...
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 repayments from credit staff, ramrily 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 but is unable to do so from her resources.

2. Unwillingness to repay. This is a situation, where borrowers have the means to make prompt repayment but fail to do so. Causes of delinquency of this nature includes:
   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 constitutes 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 of the sum of $100,000 which was due during the period, in addition to the amount due in previous periods), then the arrears rate is 5%.

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

Cost of Delinquency and Default

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

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

2. Institutional reputation.

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

Low staff morale and high staff turnover. Persistent cases of delinquency are demoralizing for credit staff which triggers a cycle of poor performance and in turn, low morale and this threatens institutional survival. When this occurs, inability to make prompt payments may mean losing any opportunity to exit.

Institutions with reputation for poor portfolio performance and management hardly attract quality staff.

Delegation 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 conscious of portfolio quality. This is understandable as institutional viability is directly related to portfolio quality. Most investors see a portfolio quality below which they would not provide required investment.

Managing Delinquency

Financial Institutions should aspire to attain zero percent delinquency rate, as this improves the marketability of loans and uplift the rating of the institution. Acceptance of a zero percent delinquency level is the decision itself. Thus, the willingness of 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.

A New Delinquency Management Strategy

Management information systems should be efficiently operated to prevent and control defaults. Steps such as formation of credit groups, client training, interaction with clients and loan utilization and enforcement must be carried out by credit staff.

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

Strong Management Information Systems which must be designed to achieve a 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 solutions.

CBN Governor Inaugurates Apex Association of Microfinance Banks

By O. A. Fabamwo

The Committee of Microfinance Banks in Nigeria (COMB) was inaugurated by the CBN Governor, Professor Chukwuemeka C. Soludo on Thursday, 9th May, 2008, at the Microfinance (MF) Committee of Senior Authorities, Abuja. The Committee provides the platform for interaction between MFs and the regulatory authorities, umbrella association and the operators in the microfinance sub-sector and comprises the Management Committee of the principal umbrella association, the Management Committee of the operators in the microfinance sub-sector and the CBN Governor.

At the inaugural meeting, issues discussed focused on promoting prompt rendition of monthly returns to the regulatory authorities and the need for MFs to further enhance their information systems. An important outcome of the meeting was the commitment of the operators to the development of microfinance Information System (MIS) whereby MFs can enhance their information dissemination and management. As the first meeting of the Committee, the operators, led by the CBN Governor, agreed to upgrade their Information dissemination and management tools.

The CBN Governor, in his address stated the committee’s primary task was to enhance the financial needs of the poor and the low income groups in the country, as that was the central focus of the Microfinance Policy, Regulatory Framework and the National Agenda which brought them into being.
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 is hoped that, while much emphasis should be placed on small holdings to guarantee employment for the rural populace, specific attention and policy shift will be given to commercial large scale farming. 

The development of the agricultural sector in Nigeria included the establishment of the Nigeria Agricultural Co-operative Bank (NACRDB) in 1970, which was introduced to promote lending to the agricultural sector. The NACRDB, 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 N250.0bn. It was introduced to enable farmers adopt new agricultural production that could not be desired as farmers have continued to experience problems as some of whom 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 assistance of the financial sector because it is capital intensive. This underscores the general consensus that progress in the agricultural sector can only be achieved through a responsive financial sector arrangement. A study of the major problems inhibiting credit to the agricultural sector in Nigeria included the provision of incentives (such as credit guarantees, subsidies, etc.) for large scale farming, which have not yielded significant results as they have not been able to adequately cope with the ever growing problems of the sector.

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. 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 realized from security was introduced in 1977. It covered up to a limit of N1,00,000 for single proprietorship and N10,00,000 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 Co-operative Bank (NACRDB) in 1973, new 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 phasing 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 N250.0bn. It was introduced to enable farmers exploit the untrapped potentials of Nigeria’s agricultural sector, reduce inflation, lower the large scale cost of agricultural production (i.e., food items), generate surpluses for export, increase Nigeria’s foreign earnings as well as diversify its revenue base.

Despite various interventions in the sixties to early seventies, the demand for informal credit providers has not been reduced. The activities of NAIC still leaves much to be desired as farmers have continued to experience problems as some of whom have not yielded significant results as they have not been able to adequately cope with the ever growing problems of the sector.

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

The activities of NAIC still leaves much to be desired as farmers have continued to experience problems as some of whom have not yielded significant results as they have not been able to adequately cope with the ever growing problems of the sector.
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 practices further increase the unit cost of loan administration and complicates loan recovery mechanisms.

Third, the peasant farmers lack acceptable collateral security, while legality and ‘money value certainty’ are what banks look 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:

1. 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, properly assess agricultural loan proposals and effectively determine the credit worthiness of borrowers.

2. Deliberate focus on investing in large scale farming

Nigerian agricultural production 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.

4. Stakeholder Collaboration 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.

4. 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 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 big 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 channelled through the microfinance banks or other market based financial institutions so as to promote specific groups to 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.
ASA’s restructuring exercise was based on an inspiration from Henry Ford. Henry Ford’s 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, at 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 and enjoy with his family, the blessing of owners of pleasure in God’s great open spaces”. Piloted by the above philosophy, ASA, in 1993, successfully launched the moving assembly line method of production. This brought model T type Ford to Bangladesh making it possible for a large number of people to own a motor car. Assembling time was equally reduced from 12.9 hours per automobile in 1912 to 1.5 hours in 1914. By 1929, Henry Ford was producing half of Americas’ automobile vehicles.

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

- Provision of standardized low-cost products
- Credit Products
- Users 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$800-1200 with a grace period of 2 weeks before repayment. The interest was charged at $2- $10 per month @ 9% interest per annum. Savings products were done weekly.

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, South West Development Commission (SWDC), Delta, Bauchi and Justice Development Commission (JDPC), Jibowu. A monitoring exercise of the MFIs were recently conducted by the Central Bank of Nigeria which revealed that the beneficiaries of the training had been recording improvements in their performance indices.

In 2007 indicating that where microfinance activities is 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.

For its part, was able to successfully reduce its Portolio at Risk (PAR) of 9% 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.

LAPO has the intention to establish its MBF 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 3 branches in Ogun, Ondo, Ekiti and parts of Lagos State with an outreach of 26, 813 clients and N131,425,042 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 are women. The institution had no donor related funding, but sourced its funds from a deposit money bank.

The following is the summary statement 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 performance 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, South West Development Commission (SWDC), Delta, Bauchi and Justice Development Commission (JDPC), Jibowu. A monitoring exercise of the MFIs were recently conducted by the Central Bank of Nigeria which revealed that the beneficiaries of the training had been recording improvements in their performance indices.

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The following is the summary statement 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.
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 are considered among the most vulnerable enterprises employing less than 40 persons. In Nigeria, according to NASSI, small scale enterprises are yet to achieve their optimal potential in the economic equation of the nation. This paper aims at providing information on the various sources from which potential small entrepreneurs can source funds for pursuing their businesses.

Prospects of Small 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 (NASPINI) 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 the 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 products.

The opportunities for growth in the small-scale sector are enormous due to (i) low capital and technology required to set up; (ii) government support and promotion; (iii) special funding opportunities and subsidies; (iv) expansive and expanding market 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, discussions 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 objects 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 owner 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 (debits) 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

Sources of Funding for
Small Scale Enterprises
By Joe Alegieuno

Table 1: List of Potential Small Scale Businesses in Nigeria

<table>
<thead>
<tr>
<th>Agriculture and Agro-based Micro-Businesses</th>
<th>Skills &amp; Trades/Technical Non-Agricultural Micro-Businesses</th>
<th>Commerce/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry Production</td>
<td>Tailoring/Fashion Design</td>
<td>General Retail and Merchandise (Buying and selling)</td>
</tr>
<tr>
<td>Palm Oil Plantation</td>
<td>Arts and Crafts, sculpting</td>
<td>GSM user services</td>
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<td>Cocoa/Coconut plantation</td>
<td>Carpentry</td>
<td>Party rentals</td>
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<td>Rubber Plantation</td>
<td>Motor, repairs/maintenance, vulcanizing</td>
<td>Restaurant business</td>
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<td>Soybean production</td>
<td>Waste disposal and cleaning</td>
<td>Musical/Video cassettes sales</td>
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<td>Grains (Maize, Guinea Corn, Sorghum)</td>
<td>Republic</td>
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<td>Legumes (Bambara nut, Ground nut, Cowpea)</td>
<td>Fishery</td>
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<td>Cotton</td>
<td>flowers</td>
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<td>Orchards/Pineapples, Oranges, Guava, Mangoes</td>
<td>Livestock</td>
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<td>(Pears, Plantain, Banana etc)</td>
<td>(Goat, Dogs, Pig, Sheep, Cattle, Rodents, Grass, Cutters, etc)</td>
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<tr>
<td>Sheep farming</td>
<td>Small farming</td>
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<tr>
<td>Processing of any of the above products</td>
<td>Processing of any of the above products</td>
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</tbody>
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Table 1: List of Potential Small Scale Businesses in Nigeria

<table>
<thead>
<tr>
<th>Micro-Businesses</th>
<th>Agriculture and Agro-based Micro-Businesses</th>
<th>Skills &amp; Trades/Technical Non-Agricultural Micro-Businesses</th>
<th>Commerce/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry Production</td>
<td>Tailoring/Fashion Design</td>
<td>General Retail and Merchandise (Buying and selling)</td>
<td></td>
</tr>
<tr>
<td>Palm Oil Plantation</td>
<td>Arts and Crafts, sculpting</td>
<td>GSM user services</td>
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<tr>
<td>Cocoa/Coconut plantation</td>
<td>Carpentry</td>
<td>Party rentals</td>
<td></td>
</tr>
<tr>
<td>Rubber Plantation</td>
<td>Motor, repairs/maintenance, vulcanizing</td>
<td>Restaurant business</td>
<td></td>
</tr>
<tr>
<td>Soybean production</td>
<td>Waste disposal and cleaning</td>
<td>Musical/Video cassettes sales</td>
<td></td>
</tr>
<tr>
<td>Grains (Maize, Guinea Corn, Sorghum)</td>
<td>Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legumes (Bambara nut, Ground nut, Cowpea)</td>
<td>Fishery</td>
<td></td>
<td></td>
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<tr>
<td>Cotton</td>
<td>flowers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orchards/Pineapples, Oranges, Guava, Mangoes (Pears, Plantain, Banana etc)</td>
<td>Livestock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sheep farming</td>
<td>Small farming</td>
<td>Processing of any of the above products</td>
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</table>
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. When 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 attract a supplier of the product or service 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 to 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 restrictions/hurdles which the business owner cannot presently surmount.

Possible Funding Sources for Start-up Enterprises

Despite the fact that a diverse range of entrepreneurs exist in Nigeria, prospective entrepreneurs may have access to funds from various sources. One should seek external financial support in order to access funds from external sources, adequate information on the sources and the possible fundamentals for obtaining funds should the need arise to 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.

- Equipment Leasing: Equipment leasing is basically a loan in which the lender and the business owner sign the contract. The business owner pays for the equipment, they own it, and the lender is paid over the term of the lease. After a certain period of time, the leased equipment reverts to the lender.

- Leverage sound financial statements. Repayment is typical to the lifespans of the term financed. Most bank loans require collateral and a relatively rigorous approval process. They are best used for construction, major capital improvements, large capital investments, such as machinery, working capital, and purchases of existing businesses.

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

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

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

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

- 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.

- Comfort/confidence: How dependable, stable 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 look for:

i. a company that specializes in one 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 to board meetings and long distances 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 in 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.

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 credits and poverty alleviation agencies that provide subsidized credits in favour of their micro, small and medium enterprises.

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. Therefore, through a general fund offered by financial institutions or through special funds provided by government, entrepreneurs should explore the possibilities.

Crediting to favorable consideration of loan requests is the need to present convincing evidence that the benefits or gains of the project outweigh the costs, and that there is a demonstrable forecast of a profitable investment. It is essential to be able to demonstrate the feasibility and viability of the project. 

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Ecuador (Banco Solidario) and Bank Rakyat Indonesia’s Unit Desa System (BRI).

The success story of microfinance for an organization to achieve its mission and sustainability, such as Banco Solidario at the development level, requires that the Government and regulatory authorities support the emerging economies of many nations, including Nigeria. Microfinance, therefore, has been identified as a tool for achieving this, and the support of the Government and regulatory authorities is evident in the economic reforms of many nations, including Nigeria. Microfinance, therefore, has been identified as a tool for achieving this, and the support of the Government and regulatory authorities is evident in the economic reforms of many nations, including Nigeria.

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 numbers of poor people are included in the benefits of development, it is necessary that they have access to financial services, access that can translate into a key element of economic growth and poverty alleviation options”. - José Antonio Stampa, Under Secretary General for Economic and Social Affairs Co-Chair, Coordinating Committee for the UN’s Decade 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 services and 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 has been viewed as more efficient 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 Bakyat 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 savings and payment services enabling 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 micro-enterprises was established in 1992 through a joint effort by Action International and other partners using the financial systems approach. Banco Sol experienced extraordinary growth and profitability in the mid 1990s and is frequently referred to as a model for serving the poor in a sustainable manner.

Key success factors in building a vibrant microfinance bank

Looking at the experiences of organizations, more specifically, 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 management skills and other operations’ skills from other organizations in different parts of the world and adapt what worked best to one’s environment. In the words of Elisabeth Rhyn, “Microfinance should not be regarded as something anyone can learn from a manual”. It combines financial management and banking operation 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 operations, which in turn 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 high cost of operations due to the high level of human intervention that is required to serve the clientele. Leveraging on information and communication technology, however, is the long term, significantly reduce costs of operations and take the institution a long way to going on a sustainable path.

Conclusion

There are so many challenges ahead as microfinance gains a foothold in Nigeria. This has been the case with all successful microfinance programs. However, the learning from their failures and successes, 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.

Microfinance 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 awarded 28 Performance Grants to six new Microfinance Banks (MBs), 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 500,000 clients by the end of the project against a final Project target of $15m investment in Nigeria. The MBs have a strong foundation to build on and are expected to contribute 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 $8 million to support innovative, strategic, commercially oriented business development services in the three target states. The 58 grantees (ie. BDS Providers) have provided a range of business development and advisory services to over 5600 MSME and achieved a 50% cost recovery, well in excess of final year project targets of supplying 1,000,000 MSME 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 provided substantial technological improvements in production and development industry standards and accreditation. A wide standards and accreditation programme was initiated through the Fisheries Inspection and Research Services (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 movable and leasings. Contact: www.microfinance-nigeria.org, Box 309 NIPC Bldg., Across from Hilton Hotel, Abuja, eflane@microfinance-nigeria.org