International Year of Microcredit 2005

Nigerian Quarterly Microfinance NEWSLETTER

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CENTRAL BANK OF NIGERIA SENSITIZES CORPS MEMBERS ON ITS DEVELOPMENT FINANCE SCHEMES AND PRODUCTS

In the bid to make financial services available to more Nigerians, the Central Bank of Nigeria undertook a sensitization campaign on its development finance schemes, programmes and products for the members of the National Youth Service Corps in the 36 states of the Federation and the Federal Capital Territory, Abuja. The exercise took place on 13th September, 2006 at the various National Youth Service Corps orientation camps nationwide.

The objectives of the campaign was to educate corps members on the available investment opportunities and funding sources with a view to enabling them to identify businesses they could engage in after the service year. The initiative was embarked upon as part of the Bank's contribution to reducing the increasing rate of unemployment among graduates in the country and alleviating poverty. It was carried out in collaboration with the National Youth Service Corps Headquarters, Abuja, as well as the various State Secretariats, deposit money banks, particularly, United Bank for Africa Plc, First Bank of Nigeria Plc and Fidelity Bank Plc.

During the CBN presentation, the attention of corps members was drawn to the need for the country to urgently meet its national development objectives of ensuring food security, rural and agricultural development. It also justified the need for Nigerian youths to be self-employed as well as urged the corps members to avail themselves the opportunity of

A cross-section of Corps Members at their Orientation Camp

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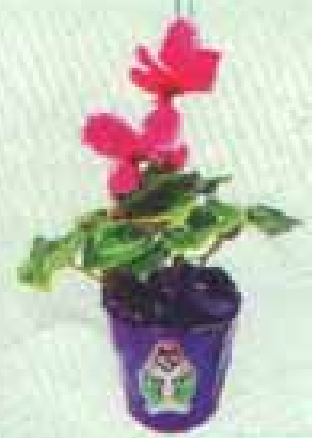

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Editorial

PROVIDING INSTITUTIONAL SUPPORT FOR MICROFINANCE DEVELOPMENT

Microfinance provides savings, loans, domestic fund transfers and other financial services that micro-entrepreneurs need to conduct, expand and diversify their economic activities in order to increase their incomes and improve their lives. Critical to the success of any efficient microfinance delivery are the existence of appropriate institutions. Institutions perform the role of mobilizing resources from surplus to deficit microfinance units. They represent a meeting point between sellers and buyers of financial resources. Efficient microfinance institutions provide, in addition to direct financial services, advisory functions and play key roles in business planning and expansion. Owing to the fact that micro-entrepreneurs require reliable financial services on a permanent basis, enduring institutions are often desirable.

In Nigeria, diverse financial intermediaries that provide microfinance services abound. The licensed institutions include universal banks, community/microfinance banks, development banks and finance companies, while the unlicensed ones comprise Non-Governmental Organisations - Microfinance Institutions (NGO-MFIs), credit unions, cooperative societies, moneylenders, pawnbrokers, non-registered self-help groups and other informal associations. The formal institutions support broader economic development, while the informal sectors provide financial services targeted at specifics and often lean towards credit for such activities as agriculture, services, mortgage development, cottage enterprises and small- scale industries. The informal financial institutions or intermediaries operate outside the structure of government regulation and supervision. They transact their businesses using methods that are effective, but alien to conventional banking practice.

Most intermediaries set up to provide microfinance services in Nigeria have performed below expectation due to lack of appropriate policy environment that could promote the cutting-edge technology for service delivery. Reversing the trend calls for ancillary institutions that support the orderly development, appropriate governance, transparency, adherence to standards, emergence and growth of financial intermediaries who can translate the demands of their clients to enduring, dynamic and profitable business activity.

The success of microfinance service providers greatly depends on available information and degree of networking in the industry. Good networking and information gathering are critical to better decision making and understanding of market operations. A credit reference system which would provide information on microfinance clients is essential. An adequate credit information system assist financial institutions to take sound decisions, minimize risks and also enable them to overcome the difficulties posed by information asymmetry and attendant moral hazards.

Patronage of any microfinance institutions by investors and clients depends on their respective perception of the institution in question. Rating agencies provide information about the soundness of institutions and their performance relative to peer groups and thus, assist stakeholders to determine where to put their money. Client decisions could also be improved if they could assess the soundness and safety of alternative institutions with which they have to operate. Also important, is an assurance that customers' money will be protected in the event of any bank failure. Deposit insurance coverage through statutory institutions are increasingly being used to create this needed assurance.

Client needs in microfinance are often required at short intervals and in small amounts. Microfinance Development Funds have emerged over the years to provide wholesale funding services and enabling microfinance institutions access to refinancing and on-lending facilities. They also provide financial assistance to partner organizations to strengthen their institutional structure, needed capacity, economic strength and commitment to serve the poor. They are increasingly providing a vehicle for channeling donor funds in this regard. Other possible functions of Microfinance Development Funds are peripheral services such as credit insurance and credit rating systems, micro credit research, provision of technical assistance and support for the activities of MFIs apex associations.

Institutions that support microfinance intermediation are as dynamic as the sub-sector itself. Setting up right institutions would have to take into consideration, the stage of development of the sector, the need of clients and the objective of microfinance in the society in question. Policy makers and implementers would need to base the type of institutions to promote on empirical studies and international best practices.

This special edition of the Nigerian quarterly micro finance newsletter presents some essential institutional support structures that are needed for a fledging microfinance market like Nigeria to grow in a rapid and sustainable manner. ■

MICROFINANCE DEVELOPMENT FUNDS

AND THE GROWTH OF MICROFINANCE INSTITUTIONS

– Mrs. Maina Hadiza, Manager, Dev. Finance Dept. CBN

1.0 INTRODUCTION

There is a current world wide belief that microfinance is one of the powerful development tools with which to eradicate poverty through the provision of timely, affordable and dependable financial services to the economically active poor and low income households. Throughout history, credit has been a key factor for the creation of wealth since loans to small businesses and individual entrepreneurs foster self-reliance and community-wide economic development. Indeed, several microfinance scholars have laid the claim that the industry is growing at a rate of more than 25% per year in the last decade. However, only a small fraction of the demand for microfinance services has been met as domestic capital markets have been inaccessible to MFIs, while international donors that contributed collectively or individually cannot supply all the resources needed for scaling up services and outreach.

Taking into consideration this gap and the fact that general lack of access to both local and international financing perpetrate MFIs' inability to obtain enough funds, the Nigerian Government launched the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in December, 2005. Incorporated in the policy section 11.9 (page 25) is the provision that an independent Microfinance Development Fund should be set up to promote the sub-sector and provide sustainable and dependable wholesale funding to meet the requirement of microfinance banks. Microfinance Development Fund (MDF) facilitates and supports the orderly growth of microfinance sector through diverse flow of financial services to the target group. The fund can also be utilized to support interventions in eligible institutions such as; Microfinance Banks (MFBs), Non Governmental Organisations-Microfinance Institutions (NGO-MFIs), relevant Government agencies in the microfinance sector and any other organization as may be decided by the MDF governing board.

In most developing Nations like India, Philippines, Pakistan, Bangladesh, Nepal and Mongolia among others, Microfinance Development Funds have been instrumental to the promotion and development of microfinance sector in a sustainable manner. The fund in these countries provide financial assistance to partner organizations undertaking financial services to the poor and the low income households.

2.0 OBJECTIVES OF A MICROFINANCE DEVELOPMENT FUND (MDF)

The broad objectives of a MDF are to support the development and expansion of financial services to the economically active poor and low income earners by-passed by the formal financial system, through the provision of wholesale funds, refinancing facilities and wholesale guarantee for MFBs and similar institutions.

Others are:

* Serving as both financial intermediary and market developer;
* Facilitating and developing of MFBs;
* Encouraging financial and operational self-sufficiency of MFIs;
* Providing promotional, training and advisory services to MFIs in order to enhance their institutional capacity and that of other stakeholders;
* Supporting the scaling up of NGOs-MFIs to MFBs;
* Supporting enduring relationship between MFBs and the universal banks;and
* Subsidizing the cost of certification programme for microfinance banks.

3.0 BENEFITS OF CREATING A MDF

The key benefits of creating a MDF are for support and interventions in programmes such as:

i) **Funding Support**

a) contributing capital support to MFIs and service providers;
b) providing financial support for start-up and on-lending for microfinance activities;
c) granting support for research; and

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ATRB three loans for twelve months would have created wealth of N24,840 (N3,000 +N5,000 + N10,000+ N5,000 total deposits and N1,840 surplus savings) capital within one year for her to work with.

PRODUCTS

Saving products:

- Daily/Monthly Savings-Individuals.
- Groups Savings-Monthly Savings(Agric and Agro Allied).
- Entreprenuership/Business monthly Savings
- Health monthly savings.
- Women Leadership/ Decision making position monthly savings.
- Youth Entrepreneurship monthly savings.

INVESTMENT PRODUCTS

Cowan African Responsive Banking (CARB)

- Loan for the poorest of the poor.
- Loan for group.
- Loan for community enterprise and business development.

Agriculture

- Technologies.
- Food production, processing and marketing.
- Food Banking/ African Women Food Farmer Initiative.
- AgroAllied Activities.
- Health-Integrated Development Fund.
- Women leadership/Decision making position (women political participation Development Fund (WOPOPADEF).
- Youth Entreprenuership.
- Cowan Indigenous Product Enterprises (CIPE)
- Capacity Building/Training.

Loan Products

- Poorest of the poor loan (CIPE).
- Primary Group loan.
- Community Enterprise Development Loan.
- Food Banking loan.
- Widowhood loan.
- Youth enterprise loan.
- Leadership/Political loan.
- Emergency/Educational Loan.
- Health care.

CONCLUSION:

COWAN employs savings as the central element in its integrated developmental approach. Twenty-four years experience in rural development has taught COWAN that if poor women are to be empowered economically and overtime, build financing assets, these assets will largely take form of savings.

At the end of 3 loan cycles in 12months a poor saver would have N24,840 as security to negotiate forwith a higher loan of at least N50,000. Hence, we are inviting you to be involved and help the poor get out of the cage of poverty. Together we would change the sentence and get the poor to live above $2 a day before 2015 the Millennium Development Goals(MDG) target NO ONE WANTS TO REMAIN POOR FOR ANOTHER NINE YEARS. ■

Ikulu women on field trip to Olu Arafo COWAN Soya Gari processing centre at Ido-Ani

COWAN Owo Weaving Centre

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funds for research and training, capacity building and market information system.

• *Commercial:* Providing wholesale funds for on-lending to clients and corporate bodies on commercial terms through appropriate microfinance banks and other commercially viable microfinance institutions.

In order to ensure increased sustainability, the proposed mandate of the Fund should be as broad as possible; however, services offered should be demand driven and cost effective as development is driven by a mix of economic activities.

6.0 Conclusion

The National Microfinance Policy, Regulatory and Supervisory Framework for Nigeria provides for the setting up of a National Microfinance Development Fund to provide commercial wholesale loans, refinancing facilities and technical assistance for microfinance banks. The Fund is very vital in economies like Nigeria where microfinance is still developing and need various forms of support to deliver appropriate services.

For the Fund to be successful in Nigeria, several sustainability strategies such as diversification of ownership structure, autonomy of operations, good governance and commercial orientation to services delivery have to be put in place. ■

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learning how to secure loans from the banks for their entrepreneurial pursuits. Some of the investment opportunities highlighted by the CBN paper included primary agricultural production such as arable cropping, horticulture, bee keeping, snail farming, and fisheries, amongst others. Other issues included the modalities for operating and accessing the Agricultural Credit Guarantee Scheme (ACGS) and Small and Medium Enterprises Equity Investment Scheme (SMEEIS). Also convered were the Self-Help Groups (SHGs) Linkage Banking initiative, benefits derivable from the Interest Drawback Programme (IDP), the Trust Fund Model (TFM), the N50.0 billion Agricultural Credit Support Scheme (ACSS) and the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. The deposit money banks that participated accordingly presented papers on their products and how corps members could access funds for start-ups and business expansion.

At the end of the presentations, the corps members agreed that since agriculture was the second largest foreign exchange earner in Nigeria after oil, they would start tinkering with relevant agriculture-based enterprises they would engage in after the service year. In their view, agriculture could more readily provide them jobs after the service year. They further thanked the CBN for the information shared and the brochures/handbills provided.

A total of 52,169 corps members across the nation were sensitized out of 75,000 expected on the camps, which represented 69.55% of the targeted audience. ■

WHEN CAN MICROFINANCE BECOME A BUSINESS KILLER?

- [illegible], Director, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN)

The importance of Microfinance is no longer a dispute to the development of growing nations and micro and small businesses.
Microfinance is a good tool for poverty alleviation because it enables the poor to increase incomes, build assets, and reduce their vulnerability to external shocks.
Microfinance allows poor households to move from everyday survival to planning for the future, investing in better nutrition, improved living conditions, and children's health and education.

Microfinance involves creating permanent local financial institutions which means building financial systems for the poor by providing sound domestic financial intermediaries with sound financial services to poor people on a permanent basis. Such institutions will be able to mobilize and recycle domestic savings, extend credit, and provide a range of services.

The agitation for special microfinance facilities for women is also on the increase as women see themselves as the focal points in the welfare of their families and the nation as a whole. Because women are the traditional home keepers; instead of the family being poor, the woman would, in her motherly role look for a way out.

She talks to her family, neighbours, friends trying to find improvement and alternatives to the home situation. She seeks for and finds micro credit. Women are therefore gradually becoming the main beneficiaries of micro-credit and microfinance.

All said and done about microfinance, it can actually be a business killer.
How? Microfinance is not appropriate for everyone or every situation. The poor who have no income or means of repayment need other forms of support before they can make use of loans. In many cases, small grants, infrastructure improvements, employment and training programs, and other non-financial services may be more appropriate tools for poverty alleviation. Wherever possible, such non-financial services should be coupled with building savings.
This article wishes to underscore the importance of Business Development Services (BDS) to the development of micro enterprises as a support to microfinance provision.

A lot of businesses would do better if they are provided with the necessary services required for the growth and development of a business. BDS brings to the fore the underlying potentials of an entrepreneur because these services are 'eye-openers' for him/ her to assess every business situation and apply the right problem solving tool.

Nigerian banks have stated unequivocally and repeatedly that Small and Medium Enterprises (SMEs) pose a high risk, therefore reducing their probability to access funds from banks.
SMEs that benefit from BDS have higher chances of accessing loan facilities from banks because their capacity has been built up to such levels whereby they meet the borrowing conditions of banks and other credit facility providers. For example, a small business that keeps good records, is legally registered and recognized, prepares a business plan up to acceptable standards and files tax returns will instill more confidence in fund providers than a business lacking in these qualities.
Providing BDS involves an in-depth analysis of the business, the problems, the opportunities and even a wider knowledge of the prevailing situation and environment within which the business exists. BDS covers various key areas of business which serve as strong points that would enable such businesses withstand economic turbulence.
It can also be inferred that an entrepreneur that has access to BDS is more likely to succeed than the entrepreneur without any form of BDS. The entrepreneur who runs a business without BDS is limited in knowledge, training, skills etc.
So what does it entail?
A typical BDS consists of the following services:
Marketing, business planning, bookkeeping and cost calculation, import, trade fairs and access to finance, management training, information on technologies, export and domestic markets access, and inter-firm linkages and most importantly, counseling and mentoring services.
An efficient BDS programme will assist SMEs to:

i. Prepare bankable business plans;

ii. Source and utilize pertinent business information;

iii. Develop requisite business capacity in terms of knowledge, skills and attitudes;

iv. Register with statutory and regulatory bodies, a step that will boost the confidence of fund providers.

v. Embrace accurate book keeping and accounts as well as company activities.

vi. Improve managerial capabilities;

vii. Form clusters, cooperatives and other networks that could be jointly served by banks;

viii. Adopt best practices, knowledge and skills

Making finance available to a business without the other necessary business support services is a disaster waiting to happen. The lack of BDS in the past accounts for the failure of finance-providing projects.
The role of BDS in the development of Nigerian SMEs cannot be overemphasized, that is why the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), is committed to enhancing the growth of SMEs in Nigeria through the use of Business Development Service Providers (BDSPs). In line with this, SMEDAN has commissioned 16 BDSPs to provide these services to enterprise clusters and groups across the country.

www.smedan.gov.ng

Small Scale Oil Processing Enterprise at Bamikemo in Ondo State

Introduction Of

A CERTIFICATION SCHEME FOR MICROFINANCE

By Jan Kemr, GTZ-EoPSD, Financial Services, Abuja

The Author has, from 2003 to 2005 supported the establishment of CERTIF in Indonesia, the 1st certification scheme for microfinance worldwide. In 2006, he published a report on the lessons learnt and recommendations for replication of the approach. He is currently working as freelance consultant for microfinance projects in Africa and Asia.

BACKGROUND

One of the key requirements for the success of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria launched by the President of the Federal Republic of Nigeria and Commander-In-Chief of the Armed Forces, Chief Olusegun Obasanjo on December 15, 2005 is the implementation of a Management Certification Programme to address the technical skills gap for the delivery and supervision of sustainable microfinance services. This is to forestall a repeat of the poor performance of the community banks in Nigeria, which was characterised by weak corporate governance, inadequate internal controls, poor deposit mobilization, unacceptable risk management practices, lax credit administration and its resultant impact on their earnings, and erosion of their shareholders' funds. Also important, is the need to address the skill gap on the part of both the supervisors and local technical service providers that may constrain them in the discharge of their responsibilities to guarantee the success of the new microfinance framework.

The existing community banks (CBs) numbering above 700 which have been mandated to convert to either unit or state wide microfinance banks (MFBs) need re-orientation on microfinance banking to deliver their mandates. Most of the managers of the current CBs lack practical knowledge of financial services specifically designed to empower the active poor. One of the ways to redress the problems of CBs in their conversion process to microfinance banks (MFBs) is to design and implement an appropriate capacity building programme for the executive directors and top management of the banks, the supervisors and local technical/training service providers. This becomes critical as most of the existing CBs are unable to undertake the appropriate training programmes on their own without supporting them with some technical assistance and aid.

The objective of the programme is to lay a solid background and provide adequate capacity to manage the emerging MFBs in an efficient, effective and sustainable manner.

The specific tasks for the certification of regulators shall include the following, among others:

- To establish minimum standards for regulators and supervisors of the CBN and related agencies in consultation with the affected and similar institutions in other jurisdictions where microfinance good practices have taken root ;
- To design training programme, modules, competencies and curricular for regulators and supervisors and local technical service providers;
- To recruit and retain competent trainers within and outside Nigeria to execute the training programme, with specific focus on Risk Based Supervision (RBS) for microfinance banks;
- To conduct examination on the training curricular of learning delivery institutions in Nigeria or in other jurisdictions with a view to certifying them to be competent to provide services as centers for microfinance certification process; and
- To issue relevant certificate(s) to the regulators and supervisors.

The specific tasks for the certification of operators shall include the following, among others:

- To establish standards of expertise and competence for the management of MFBs/MFIs including existing and potential Directors and of MFBs/MFIs, as well as managers of MFBs/MFIs;
- To design training programmes, modules competencies and curricular for MFBs and MFIs Directors, Directors Candidates, and Chairmen;
- To set guidelines concerning procedures and standards for training, examination and certification on best practices in microfinance;
- To conduct examination to test competencies and skills needed by MFBs/MFIs Directors and managers;
- To run major programmes in microfinance and ensure standardisation, uniformity and certification in the sub-sector; and
- To ensure and uphold professionalism, credibility and integrity in the certification process.

On the long run, the training may be decentralized while the examination process will be conducted by the selected institutions to ensure continuity.

The specific tasks for the certification of local technical training service providers shall include the following, among others:

- To establish standards for expertise and competence for the technical training service providers to operators of MFBs/MFIs including Directors and Director Candidates of MFBs/MFIs, as well as managers of MFBs/MFIs;
- To design training programmes, modules competencies and curricular for technical training service providers ;
- To set guidelines concerning procedures and standards for training examination and certification;
- To conduct examination to test competence and skills needed by the technical training service providers;
- To run major programmes in microfinance and ensure standardisation, uniformity and certification;
- To issue relevant certificate(s) to the trainees and trainers;
- To certify training of trainers (TOT) firms and individuals or freelance consultants or facilitators; and
- To set assessment criteria (based on staffing, infrastructure, competencies etc.) for selecting microfinance technical training service providers that would enable them provide services in a continuous manner.

The Certification Scheme

State-of-the-art capacity building is designed to provide practitioners with the practical skills and competencies they need for their daily operations rather than theoretical classroom knowledge. Thus, at the core of the certification system stands a Skills and Competencies Catalogue (SCC) which outlines what abilities e.g. the manager of a MFB must possess in order to successfully run a microfinance institution. A specialized institution takes on the task to develop a meaningful and constantly updated SCC, and to carry out examinations which test whether a candidate possess the skills and competencies required. The main role of such institution is to safeguard the integrity of the system and to assure the quality of examinations. Practitioners should prepare themselves through specially designed trainings which are developed in such a way that they help them to acquire the skills and competencies required. Training course development and provision of training is conducted through various training providers competing on the free market. The reasons for establishing such a complex certification system are:

- To provide practitioners with high-quality trainings which provide them with the skills and competencies required in their day-to-day job;
- To certify the supervisory authority (in this case CBN) that the respective MFBs are run by professional management;
- To show the general public that MFBs are trustworthy and professionally run institutions where they can safely deposit their money; and
- To support the development of a strong and competitive training providers market.

Implementation of the Certification Scheme

CBN together with NDIC is fully committed to establish the certification scheme for microfinance. They have assigned West African Institute for Financial and Economic Management (WAIFEM) and Financial Institutions Training Center (FITC) with the task to run a pilot project over a timeframe of 3 years where the SCC, the examination procedures, and the training courses are to be developed, and the 1st trainings and examinations are to be conducted. Within this pilot project a transition from the project unit into a fully independent and self-sustainable certification institution is envisaged. Through the establishment of the certification system, the human capacity in MFBs will be significantly increased. Other types of microfinance institutions beside MFBs might be included in the system at a later stage to strengthen the microfinance sector as a whole. ■

NOBEL FOR A BANKER

...FOR THE POOR

~Godwin Ehigiamusoe, Executive Director of LAPO

The world of microfinance and of the omnibus poverty alleviation was agog on October 13, 2006. For Alex Counts, the President, Grameen Foundation-USA, a Nobel Peace Prize for Professor Muhammad Yunus, the acknowledged creator of what is known as microfinance was 'exhilarating'. For Yunus' immediate colleagues and disciples across the world, the prize was the biggest and the latest global endorsement of microfinance as an effective *escalator* out of poverty for the poor. Excited as his friends are, we are certainly not surprised. If there be any element of surprise, it is that the Nobel is not in economics. That certainly is neither here nor there.

Like all men of destiny, the American trained Econometrician was propelled on the path of greatness by the misery of his people defined by famine and perennial floods. As an activist, he sought the freedom of Bangladeshis whether from the internal colonisation of Pakistan or from the grip of poverty. Bangladesh till 1971 was an unwilling part of Pakistan. In mid-1970s Henry Kissinger, then US Secretary of State uncharitably dubbed Bangladesh a 'basket case' on the account of the Asian nation's wide spread poverty and hopeless development prospects. Scandalised by poverty on the streets of Bangladesh, Prof. Yunus in his confession could not establish any relationship between the increasing starving Bangladehis and the elegant economic development theories and models he taught at the University of Chittaggong, a Southern city of Bangladesh. Cocktails of conventional development therapy were failing. Professor Yunus did what ordinary men would not do; he dumped his chalk and professorial chair. With few *takas*, he began to provide credit facilities to landless women. His charisma, vision, selflessness and commitment attracted his ex-students to hamlets and villages to deliver financial services to victims of hardcore poverty.

These qualities paved his way to the Nobel. His belief in and arguments for credit as an antidote for poverty are infectious and compelling.

Prof. Muhammed Yunus, a Nobel Peace Prize Winner

Yunus is a very persuasive speaker. He foresees poverty free world through access to credit for everyone. He has repeatedly noted that the world has enough technological know-how and resources to realise this vision. Back in 1990, Muhammad Yunus has declared credit as a 'fundamental human right' and argued that those who command world resources and attention should follow suit, a wish which remains outstanding . To him, poverty is the root of all evils. Listening to him in the conference hall of Grameen Bank in 1991 explaining why the devastating flood of that year was less an evil than poverty was amazing. According to him, while flood affected only thousands and within few days, the lives of millions of people consists of daily grim struggle with poverty. Yunus is an unrepentant believer in the ability of human beings, even the poor. He argues against the paternalistic view that poor need training or be told how to invest their loans. He insists that the poor know what to do, that they remain poor because they lack access to affordable credit. He rubbished the primacy of tangible collateral requirement in credit dealing and rather demonstrated that motivation for prompt loan repayment can be created with 'social collateral'. He sees collateral as the barrier against poor persons' access to institutional credit and as for his position on several credit issues, he is absolutely right. His trust in the ability of all men prompted the internationalisation of what he termed the 'Essentials of Grameen' or the Grameen Bank Approach (GBA) to credit delivery. He was emphatic that you do not need another 'Yunus' to make success of microcredit schemes in other cultures, while conventional wisdom at that time tended to the contrary. The spectacular performances of microfinance institutions in Africa, Latin America and Asia are eloquent testimonies of his vision. Today, through Grameen Trust, a non-profit institution he created in early 1990s, there are over 150 successful grameen replications of various degrees.

Beyond Grameen, Yunus has brought succour to several poor across the world . He doggedly pushed the practice of delivering small loans to the poor to global acceptability against all odds, especially opposition from international development establishments and authorities. Like the attitude towards most innovations, consultants, even some very respected saw more 'whys' the idea of credit-for-the poor would fail than succeed. He guided the practice through its phases of development to it current general acceptance by the entire world.

He has spearheaded initiatives, which brought resources to microfinance. He once chaired the Consultative Group to Assist the Poorest (CGAP), a global resource group for microfinance housed in The World Bank. The Nobel laureate is the main driving force behind series of Microocredit Summits. As we celebrate this man of vision and courage , we should acknowledge his University of Chittagong ex-students and colleagues who constituted the bedrock of the Grameen success. Dimpal Barua, the current Deputy Managing Director of Grameen Bank and Professor Islam Latife, Managing Director of Grameen Trust are shining examples of loyalty and commitment.

CREDIT REFERENCE BUREAU FOR MICROFINANCE BANKS

– Dr. Chris Ikede, Director-General, West African Institute for Financial and Economic Management (WAIFEM)

Introduction

Credit reference bureaus (CRBs) are now an important and well entrenched component of the financial system infrastructure in many parts of the world, notably in the United States, Europe, Asia and Latin America. They have come to be recognized as a potent weapon to combat the endemic problem of bad debts which generally have devastating effects on the lending institutions. Despite their acclaimed salutary effects on credit administration, credit reference bureaus exist and operate only in a few countries in Africa. These include: Kenya, Tanzania, Zambia, Egypt, South Africa, Nigeria and some countries in Francophone West Africa. In what follows, we shall briefly examine the nature of CRBs, their benefits for microfinance banks (MFBs), and issues and challenges in operating a CRB system for MFBs in Nigeria.

Definition and Rationale

A credit reference bureau is an agency that provides information on the credit history and habits of borrowers to credit grantors. This improves the lender's ability to assess the credit-worthiness or ability of the prospective borrower to repay a loan. Generally, CRBs collect and collate financial data on individuals and companies from financial institutions with which they have business relationships. On request, the information is made available, usually for a fee, to third parties for the purpose of credit assessment and credit rating. A CRB does not tell a credit grantor whether to lend or not to a prospective borrower. But the information supplied by a CRB can weigh heavily on the terms and conditions of a loan granted to a borrower. Credit reference bureaus or reporting agencies may be operated as private enterprises or as cooperatives formed by concerned stakeholders in a specific geographical area.

Regardless of the nature and structure of ownership, the basic function of credit reference bureaus is to provide information in the form of credit reports regarding loan histories, solvencies, bankruptcies, foreclosures, criminal records and sometimes character and reputation. Typical clients of CRBs include banks, mortgage lenders, credit card companies, wholesalers, leasing firms and other financing companies. From credit reports of CRBs, lenders are able to determine if a loan applicant has a good record servicing past loans, the quantum of loans currently outstanding, and assets pledged as security against them.

A recent World Bank (WDR 2005), study underscored the relevance and importance of CRBs even for small firms. According to the study, information on credit history can reduce processing time, costs and default rates by more than 25 percent. The Bank further argues that on the average, countries without credit registries have a private credit-to-GDP ratio of 16 percent; those with publicly owned credit registries about 40 percent, and those with private bureaus about 67 percent. In an empirical study of the impact of credit bureaus on credit markets, Inessa Love and Natahya Mylenko of the World Bank, found that 49 percent of small firms reported credit constraints in countries without a credit bureau, compared with only 27 percent in countries with one. They also found that the likelihood of obtaining a loan improves from 27% in countries without a credit bureau to 40% in countries with one.

Credit Reference Bureau for Microfinance

Benefits for MFBs

Microfinance services have emerged over the past few decades as important tools for economic development and the empowerment of the world's poor. Expansion of the global microfinance sector has brought in its wake problems of information asymmetry, adverse selection and moral hazard. Information asymmetry refers to the condition in which market participants do not have access to the information they need for their decision making processes. Adverse selection is the occurrence of unfavourable results arising from information asymmetry, while moral hazard is the risk that a party to a transaction will not act in good

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faith. These risks could be particularly hazardous for the smooth operation and sustainability of microfinance banks. Hence the growing conviction that credit information systems or CRBs would be supportive of the operational efficiency of microfinance banks. Specifically, a credit information sharing system for microfinance banks would help to reduce risk and transactions costs, increase transparency, facilitate the creation of better incentives to repay loans, and spur competition among industry players to the advantage of all concerned.

For Nigeria, operation of CRBs will enable MFBs to reduce the average time spent on processing of loan applications, thereby lowering the cost of providing credit. In the same vein, micro-entrepreneurs will spend less time waiting for loan approvals a major problem with borrowers in most developing countries. Assessment of borrower risk by MFBs will be better undertaken and consequently, MFBs would price their services more accurately and improve the management of their loan portfolios. Greater transparency would be achieved as MFBs gain better knowledge of the liability side of businesses using non-standardized accounting procedures. This information will also help regulatory authorities to monitor the sector more effectively.

Experience has shown that the risk element of repeat loans in microfinance banking systems with CRBs can be reduced by as much as half of the risk in new loans. Thus, MFBs will compete for clients with favourable credit histories, resulting in better terms for those borrowers. Existence of credit bureaus tends to impel borrowers toward greater discipline with the knowledge that they risk being locked out of credit markets if they unduly delay or default on their loan repayments. Objective and proper assessment of the borrower's fidelity by MFBs would be enhanced as reputational collateral will work in favour of borrowers with good credit histories. This would be particularly helpful to the lending institutions and borrowers since under microfinance lending, credit could be granted without physical collateral but solely on the basis of the reputation of the borrower or guarantor.

Issues and Challenges

Notwithstanding, the expected benefits to microfinance banking in Nigeria, it will be necessary to contend with issues and challenges that have confronted other countries in establishing and/or operating CRBs for microfinance banks and which are relevant to the Nigerian situation. First, there is the issue of the magnitude of demand for credit information sharing which depends on the stage of development of the microfinance sector in a particular country. Countries with few and under-developed microfinance institutions tend to exhibit a corresponding low demand for credit information sharing. On the other hand, where there is growing competition amongst microfinance institutions as happened in the past decade in countries such as Bolivia, Bangladesh, Mali, Uganda and Paraguay, the demand for credit information sharing increases significantly. If microfinance institutions do not share information about their clients, opportunities would abound for borrowers to take out multiple loans from different institutions without detection by unwary lenders. Given the desire and commitment of the CBN to the orderly development and sustainable viability of the emerging MFBs, establishment of a credit reporting mechanism for the sector is imperative.

Spatial Domain Of Operation Of MFB Credit Reference Bureau

For Nigeria, operation of a CRB for microfinance banks must be contextualised within the Microfinance Policy, Regulatory and Supervisory Framework espoused by the Central Bank of Nigeria recently for them to address the peculiarities of the structure and operations of MFBs as envisaged under the policy. Under the policy, the geographical domain of operation of an MFB will flow from its level of capitalization. Permission is required to expand operations outside the prescribed boundaries. Under the policy, states and local governments are expected to channel 1% of their annual budget through microfinance banks for relevant poverty reducing and growth enhancing economic activities. The contributions by the states and local governments to MFBs in their jurisdictions may impel them to take more than a passing interest in ensuring that MFBs disburse the funds to their clients within the state or local government area only. The practical implication is that subscribers to CRBs will be confined to particular local government areas or states in accordance with the area of operation of MFBs. It would appear that the coverage of CRBs would not exceed the boundaries of their authorized

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geographical area of operation. This setting raises a number of issues for CRB development for microfinance.

Arising from the foregoing, it is not clear whether the demand for credit information sharing in a state can justify competitive CRB operations with the attendant cost effectiveness and efficiency in services. Faced with a low demand situation, the pragmatic option could be to establish CRB monopolies with the attendant high pricing and other inefficiencies. These and other related issues require further reflection in order to evolve an appropriate model of CRB for MFBs in Nigeria. These and other considerations must have inspired the CBN to stipulate in the new policy that the operations of its existing CRB would be extended to cover MFBs. In other words, MFBs would be required to report details about their lending data to a central depository for warehousing, processing, analysis and dissemination in accordance with the rules of engagement.

Models of Credit Reference Bureau

A pertinent question to ask is what should be the ownership profile of a CRB for microfinance; should it be a public, private or public/private partnership? According to the World Bank, experience has shown that private CRBs have demonstrated greater effectiveness than their publicly owned counterparts which tend to manifest the traditional ailments associated with public sector enterprises. Regardless of which model is adopted, one thing is clear; the Central Bank has a pivotal role to play in the orderly development of credit reporting systems. In the short- to medium-term, the Bank must continue to take the lead in policy initiatives on CRBs, champion legislative intervention, register or license credit bureaus, provide legal oversight for CRBs, provide dispute settlement avenues and promote participation and compliance through regulatory requirements and supervision.

It is important that in the long run, CRBs for microfinance be self sustaining and profitable. This will require a wide participation of MFBs, as well as demonstrated efficiency and cost competitiveness on the part of the CRB. The pricing of the CRB's services will need careful handling to avoid a slow-down of its supply of credit reports. The point cannot be over stressed that a clear legal and regulatory basis for CRBs is required for effective oversight and protection of all stakeholders. In particular, legislation must create a balance between the need to protect the privacy of the borrower and effective information sharing between the CRBs and MFBs. Such legislation must provide for adequate safeguards against misuse of data generated from the reporting mechanism by CRBs.

Another issue to be considered is the critical role that information technology will play with respect to credit reference bureaus, microfinance banks and their clients. Information technology (IT) has been revealed as an important tool for enhancing the quantum, quality, timeliness, and accuracy of credit reference reports. Thus, the place of IT in the establishment of a credible tracking system which CRBs could leverage for their operation cannot be emphasised. In an environment where there is no reliable national identification scheme, and considering the fact that most customers of MFBs are literacy-challenged, it might be helpful to explore deploying an IT tracking system with biometric capability in the design of a CRB for the microfinance banking sub-sector in Nigeria.

Getting Started

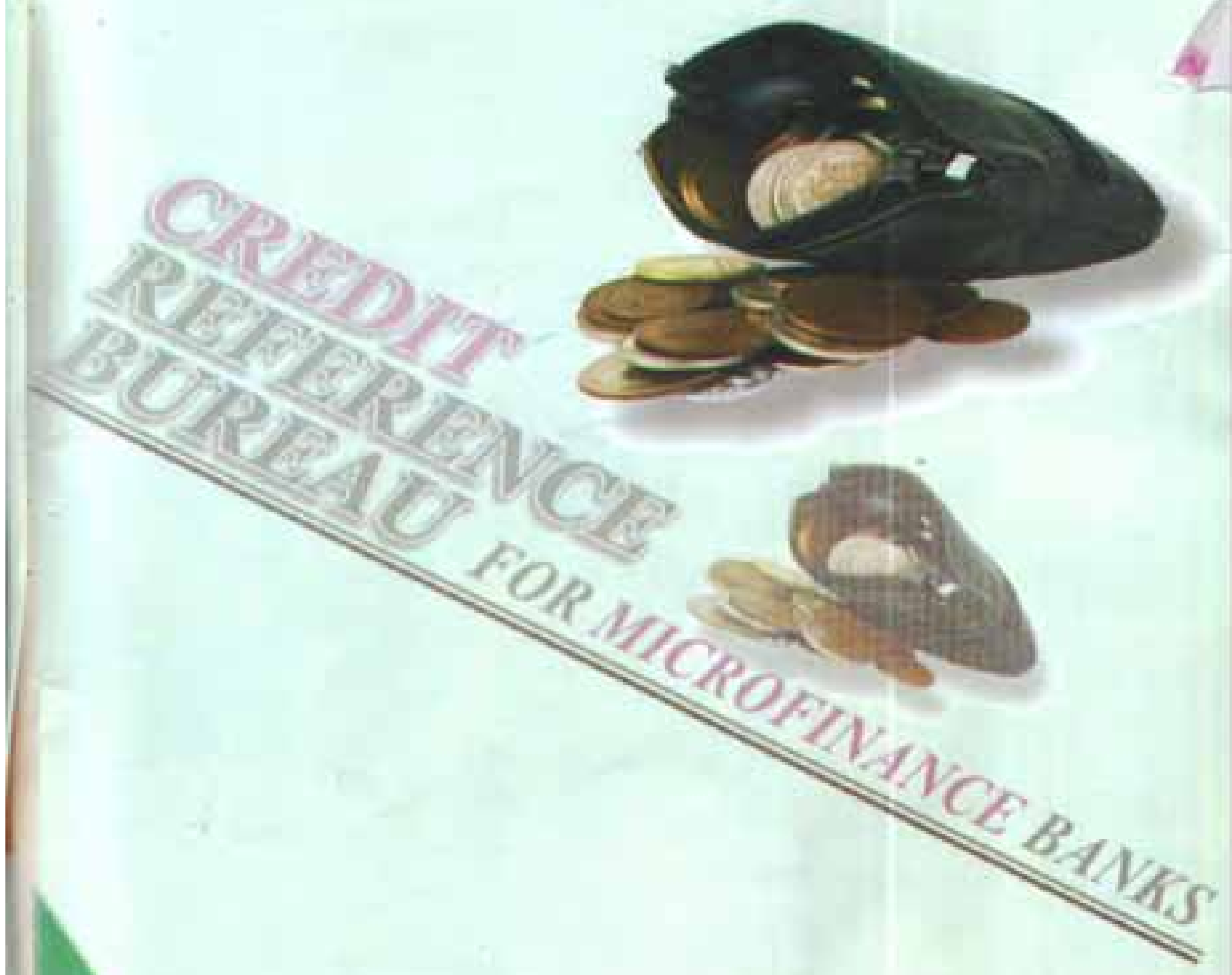
The natural starting point in setting up a credible CRB is to enact an enabling law to underpin the reporting mechanism. Without a law backing the reporting system, it would be difficult to get the cooperation of the MFBs and their clients who could shield themselves behind a veil of privacy to deny the mechanism of the needed information. The law would define the model, entry and exit from the CRB market, set standards and the regulation of CRB operations. It should also provide for procedures to verify information and avenues for dispute resolution.

However, it would appear that the intendment of the microfinance policy is to integrate the MFBs into the existing CRB arrangement. Even so, the law establishing the present scheme would need to be examined and necessary amendments made to ensure that it is suitable for MFBs. The point must be made however, that no matter how stringent the provisions of the underlying law of a CRB system may be, the efficiency and effectiveness of the scheme ultimately depend on the integrity, and professionalism of operators of the CRBs.

The goal for the Nigerian Microfinance Policy should be the passage of a law on CRB operations that will promote the development of CRBs to be self-sustaining and profitable organizations. The law should clearly define the oversight authority for CRBs with powers to register and license CRBs, issue supervisory regulations and ensure consumer protection and fair credit reporting.

Conclusion

The Federal Government and CBN have taken the right steps in putting in place mechanisms for the development of the microfinance sector. The eventual operations of CRBs for MFBs will deepen and strengthen the sector with gains to the financial sector and economy as a whole. Much work needs to be undertaken to realize the desired goal, but with the commitments that are already visible and the goodwill and dedication of all stakeholders, the goal will be achieved. ■



MICROFINANCE FOR WOMEN:

COUNTRY WOMEN ASSOCIATION (COWAN), EXPERIENCE

- Chief Bisi Ogunleye, Executive Director COWAN

BACK GROUND
COWAN AFRICAN RESPONSIVE BANKING (CARB) is based on the African Traditional Responsive Banking (ATRB) methodology where cooperation, sharing, trust, honesty, unity and savings are the bedrocks of efficiency, success and sustainability.

The product which has emerged for more than a decade of COWAN work is the African Traditional Banking (ATRB) programme, a unique savings-backed credit system which merges and refines traditional and formal, practices in a way which adapts to the financial needs and capacities to own and use financial services among poor people.

The ATRB is a unified product of the best African micro credit practices strengthened by its adaptation of traditional savings practices and is

COWAN clients frying garri

unencumbered by rigid commercial banking requirement and conditions.

The ATRB is a savings-backed credit institution serving poor women in urban and rural areas. Beneficiaries are COWAN members and affiliates and they access ATRB services through participation in the Daily Savings Programme, as members of community level-self-help groups. By saving continuously small amounts, poor women are able to:

- Build significant savings as financial assets.
- Leverage their savings by accessing working capital and investment credit to increase the productivity and profitability of their economic activities.
- Accumulate surplus capital beyond that which is necessary to amortize their loans.

Loan Procedure
Every beneficiary of the poorest of the poor loan is expected to save N900 deposit within a month to get N3, 000 loan. The N900 savings per month will continue for another four months, amounting to N3,600. Thus, the N3,000 plus the interest for four months will be amortized from the total saved.

In the fifth month, the beneficiaries will now save N1,500 for that month to get N5,000 loan in the second cycle. After saving for four months again amounting to N6,000, the loan and interest will be amortized from the savings of six thousand (N6, 000)

In the third cycle beneficiary will now save N100 per day, N3,000 per month which enables' her to get N10,000 loan. She will also save N3,000 for another four months totaling N12,000. (The loan and interest will be amortized from the savings of N12,000). Excess savings from loans circles1-3 is kept in COWAN Trust Fund for the beneficiary to

COWAN clients creating wealth

negotiate for entrepreneurship loan.
Wealth Creation:
ATRB policy is wealth creation through daily saving culture by beneficiaries. For example, a poor woman who has less than N1,000 capital of her own to start with, after enjoying the ATRB three

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d) offering guarantee for loans provided to MFBs by universal Banks and other sources.

ii) **Capacity Building**
a) training of self-help and other groups for livelihood, skill upgradation and micro enterprise development;
b) capacity building of staff of institutions involved in microfinance promotion e.g banks, NGOs and Government departments to deliver efficient and cost effective services; and
c) capacity building of MFIs , particularly support for the transformation of MFIs to MFBs.

iii) **Management Information System**
a) supporting systems management in regard to MIS accounting , audit and internal control in microfinance industry; and
b) building appropriate data base.

iv) **Studies And Publications**
a) promoting seminars, conferences for discussions;
b) granting support for research, and
c) documentation and dissemination of microfinance literature.

4.0 Funding Arrangements For The Nigerian MDF
In the short run, a MDF could be provided by Federal Government and Central Bank of Nigeria. In the long run, a mix of public and private sector should come into play. It is expected that funding would be sourced by the fund managers from the capital market, commercial sources, multilateral and bilateral institutions and development partners. Specifically therefore, promoters of the Fund should target the following investors; Federal Government; Central Bank of Nigeria; International Finance Corporation; African Development Bank; International Development Association; States and Local Government 1% of annual budget to be set aside for microfinance activities in their areas; Small and Medium Enterprises Equity Investment Scheme10% fund to micro enterprises; and other institutional investors.

5.0 Success Strategies Designed For MDF In Nigeria
i) **Diversified Ownership Structure**
A mixture of public and private partnership will be involved in the ownership and management structure of the fund. In this regard, the government will be the co-owner and will continue to use the fund to support development programmes, while the private sector, donors and international financial institutions would bring in their wealth of experience, skills and competences in the management of the fund's affairs.

ii) **Autonomy**
In order to build a sound institution, the fund should have full autonomy to recruit its staff, take decision on investment and other administrative matters as experience has revealed that wholly owned government development funds is susceptible to undue interferences that could jeopardize the success of the Fund. The autonomy in the administration and operations of MDF domiciled in the National Bank for Agriculture and Rural Development in India, Rural Employment Support Foundation in Bangladesh and Land Development Bank of the Philippines to mention a few success stories have demonstrated that indeed, autonomy of MDF is the path for competitive, open and transparent process.

iii) **Governance**
The success of any development programme depends on the caliber of the persons charged with responsibility for the Management. Members of the Board would have to be persons with clearly spelt out qualification, proven integrity, competence, track record and experience.

iv) **Sustainability**
Efficient operation of the Fund will enable it to access the capital market and international development agencies for further expansion of its operations on a sustainable basis. Grants are normally made on basis of existing funds or express performance indicators that shows that the Fund is able to cover all cost involved in administration. MFDFs should charge market interest rate on its services and behave competitively from the onset.

Services of the Fund could take the following forms:

- *Grants:* Providing support in form of free

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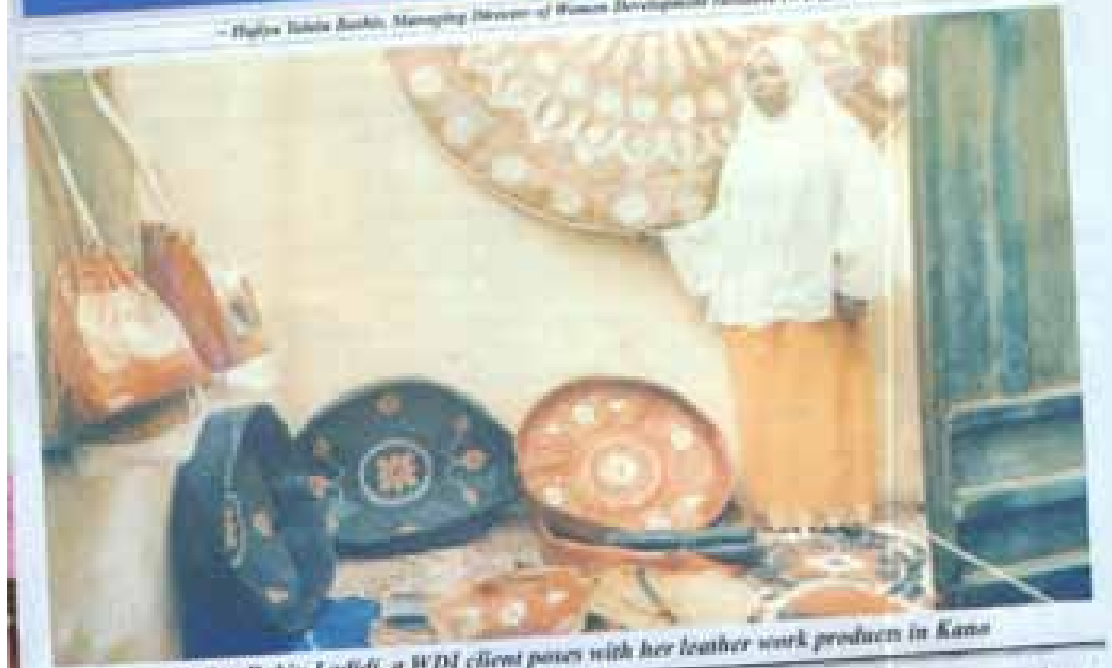
MICROFINANCE: OLD TRADE, NEW STRATEGIES WOMEN DEVELOPMENT INITIATIVE (WDI) EXPERIENCE IN KANO STATE

– Hajiya Salatu Bashir, Managing Director of Women Development Initiative (WDI), Kano



Hajiya Rabiu Ladidi, a WDI client poses with her leather work products in Kano

The concept and operation of micro-finance in Kano State dates back to Trans-Saharan trade, some 300 years ago. Big businesses were created through a business system that gave 'loans' to clients for 1 to 2 years, and sometimes longer. Today, these clients are big businessmen in their own rights.

The WDI was established in 1995, as a health NGO. During its business tours to the communities, the women finalised WDI's choice of focus and demanded for 'economic empowerment' as a critical issue pointing to the fact that addressing microfinance in Nigeria is addressing people's identified needs.

Operating microfinance in Nigeria would entail not only alleviating poverty and empowering people; it is also about giving people the opportunity to decide on what they want to be and write it in their own handwriting. It is about giving them an identity and making them in charge of their lives. In Kano State, the WDI meets its clients in their homes, and gives them support by way of loans. The interest charged are such as would cover the cost of loan administration and this has entrenched drive towards improved efficiency of loan utilization on the part of clients.

It is this bottom-up approach that WDI has chosen in its micro-finance strategy because of its overwhelming value. All the four products offered by WDIs: savings, group loans, individual loans and target loans are tailored towards identified needs of clients. The WDI employs door- to-door loan recovery method and takes into consideration, the economic and cultural needs of the clients.

Other services provided by the WDI include, training in business, leadership and entrepreneurship skills. The initiative also organizes trade fairs for networking and market promotion purposes.

Using its baseline data and subsequent impact assessment on random samples of its clients, results have shown that 57% of WDI clients have crossed the poverty line; 30% have improved their lives, while 12% are where the WDI met them. Another 1% was worse off. The