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Microfinance NEWSLETTER

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A Newsletter of the International Year of Microcredit 2005

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The German Technical Cooperation Agency (GTZ) in collaboration with the Central Bank of Nigeria (CBN)

organises capacity building programme for Microfinance Banks

CBN 2007 Development Finance Officers' Conference
Holds at Zaranda Hotel, Bauchi

Diamond Bank Innovates
Rural Banking Strategy

ISSN 0331-7269

editorial

Credit Risk Management in Microfinance Banks

As the concept of microfinancing begins to gain ground in Nigeria (over 760 microfinance banks so far licensed to operate), it is becoming increasingly necessary to assess the ability of the financial institutions to identify, measure, monitor and control risks. Indeed, one of the key management issues that could seriously affect the growth of microfinance institutions around the world is their ability to mitigate risks. This is of particular concern to microfinance institutions due to their peculiar mode of operation which involves lending without collateral.

Lending to micro entrepreneurs is based on promise to pay. Such transactions entail risks to the financial institution in the sense that the promise may or may not be honoured. When borrowers fail to pay, the defaults constitute losses to the institutions, and these will eventually impact on the institutions' capital.

Credit risks in microfinance could arise from various sources such as lack of adequate information about the borrower and his debt capacity, poor loan monitoring, loan mismatch by the institution and natural occurrences. Early detection of the risks would give room for remedial action. Late detection leaves fewer options which are generally designed to protect the financial institution than the borrower.

Early warning signals of credit risks include liquidity problems evidenced by abnormal deposits or withdrawals, deteriorating prudential ratios, trade debts build up, poor asset maintenance and employee pressure. Others are; deteriorating product quality, inability and unwillingness to prepare timely financial statements, undue management changes, asset cannibalization and or sales.

Credit risk management determines the features of the loan products offered such as interest rate, duration, collateral and other covenants. The nature and scope of risk management principle will depend on the magnitude of the envisaged risks. Qualitative methods of assessing risk in microfinance involve objective assessment of the borrowers qualities in terms of **character** (reputation, willingness to pay, past repayment history, stability of residence, occupation, etc); **capital** (equity contribution and its ratio to debt); **capacity** (nature of cash flow and its ability to make instalmental repayments as they fall due); **collateral** (adequacy and realizability); **conditions** (economic conditions) and **compliance** (pattern of honoring obligations to tax authorities, workers' salaries etc). In quantitative methods, the observed characteristics of the loan applicant are used to determine the probability of default or of repayment. Such characteristics include income, assets, age, occupation, location and debt/equity ratio. The quantitative methods are more suitable for big firms and conglomerates. In microfinance, qualitative methods are often adopted, as the size of loans to individual borrowers do not often justify investment in complex risk analysis techniques that quantitative models entail.

Several approaches are relevant to institutions that intend to curtail risks. First, the Board of Directors should have a credit policy that sets limits on outstanding loans, geographical/sectoral coverage, single obligor limits, maturity and loan procedure. Second, there has to be strong credit analysis derivable from simple historical and projected cash flows. Third, is the need to diversify loan portfolio by avoiding undue concentration to either single borrowers, same geographical location or a group of borrowers with closely related economic activity. Fourth, there should be adequate client training prior to the loan disbursement by the institution. Fifth, the institution should understand its clients' needs to ensure that the loans granted are suitable to the needs. Sixth, is a strong credit review process that would promptly identify potential problem areas and be able to properly classify the assets with a view to making adequate provisions in line with the prudential standards set by the regulators. Seventh, is the ability to provide procedures including technical support that will enable a potential defaulter to redeem his image through interim resuscitation measures. In some cases, the financial institution could provide additional capital where it is perceived that the new capital injection will enhance reversal of default.

The adoption of appropriate risk management principles by licensed microfinance banks in Nigeria benefits both the lenders and borrowers. The lenders are better placed to remain in business as a going-concern, make profit for the shareholders and contribute their quota to financing and supporting increased economic activities. The borrowers benefit from continued and prompt service delivery as they have safe and secure place to keep their treasure, accumulate assets and receive financial assistance for expanding the scale and scope of their operations.

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The Nigerian **Microfinance** NEWSLETTER

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Synergy Resource & Technology Solutions Ltd.
0802 425 1007, 0803 305 1258

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

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news

GTZ In collaboration with CBN

Organizes Capacity Building Programme for Microfinance Banks(MFBs).

By Dr. M. A. Olaitan

A cross-section of participants at the capacity building programme organised by GTZ in collaboration with the CBN

The German Technical Cooperation (GTZ) in collaboration with the Central Bank of Nigeria (CBN) organised an international course on “Microfinance Banking” for microfinance banks (MFBs) from August 20 to 28, 2007. To achieve wider outreach, the training programme was held across the country in three locations, namely Kaduna, Kaduna State; Ibadan, Oyo State; and Owerri, Imo State.

The welcome address was presented by Mr. A. Sesan Bamisile, Director, Development Finance Department (DFD), CBN while Mr. Karl Bruening, Country Director, GTZ, Nigeria, presented the Goodwill Message. The training programme was declared open by Mr. Tunde Lemo, Deputy Governor (DG), Financial Sector Surveillance (FSS), CBN.

In his opening remarks, Mr. Lemo noted that since the launching of the Microfinance Policy, the CBN had made considerable progress in the licensing of MFBs. He also added that deposit money banks were sensitized on the need to be involved in microfinancing because of the enormous benefits to be derived. The DG drew the attention of the participants to the fact that one of the critical success factors for building a robust economy is the availability of appropriate financial

A Resource Person delivering a lecture during GTZ training

The Branch Controller, CBN, Ibadan Mr. Bashiru G. Adebayo, Delivering an Opeining Address at the Ibadan Traininng Programme

institutions with adequate capacity to operate in the microfinance sub-sector. He further stated that lack of requisite skills in microfinance has been the bane of the existing institutions serving the economically active poor. This had constrained their growth and undermined their capacity to operate efficently. It was on this basis, according to him, that the CBN collaborated with GTZ to organise the international training programme on microfinance banking. He informed the participants that the CBN would soon conclude arrangements for the commencement of the certification programme for the management and boards of MFBs. On the issue of depositor protection, Mr. Lemo said that the insurance cover for the deposits of MFBs would be provided by the Nigeria Deposit Insurance Corporation (NDIC).

The programme was organised to expose the operators of microfinance institutions and community banks to the principles and management skills of microfinance. The specific objectives were to:

- bridge the identified skills gap of microfiannce banks and other operators in the microfinance industry;
- gradually change the mindset, attitudes, and behavioral pattern of microfinance bank operators including deposit money banks in favour of the sector;
- learn from jurisdictions where microfinance policy had been successfully implemented;
- build the capacity of staff of microfinance banks to operate efficiently and effectively;
- understand the supervisory and transformation arrangements for microfinance institutions; and
- build the capacity of operators to enhance the successful implementation of the microfinance policy.

Mr. Karl Bruening, the Country Director, GTZ in his Goodwill Message informed the participants that his agency was implementing a number of programmes in Nigeria under the Employment Oriented Private Sector Development Program (EOPSD) with the main objective of enabling MSMEs in Nassarawa and Niger States to take advantage of improved environment, business development and support structures for employment generation, as well as to unleash their potentials for development. He stated that the objective of GTZ is to contribute its quota to the development and growth of Nigeria's microfinance sub-sector. His Agency, according to him had been involved in the formulation and implementation of the microfinance policy and the certification programme of the CBN. He further affirmed the Agency's commitment and continued support for the microfinance sub-sector.

There were four technical sessions during which eleven papers were presented in each location. Some of the modules treated during the training programme included:

- Corporate Governance In Microfinance;
- Conversion and Transformation of Community Banks and NGO-MFIs to Microfinance Banks: Experience of Card Bank of Philippines and K-Rep of Kenya;
- Planning Strategies and Positioning of MFBs in a New Environment;
- MIS Requirement for Microfinance Banks and
- Ways to Access Large Capital for Growth.

The classes were participatory and interactive. Three hundred and forty-eight participants comprising operators and consultants in the microfinance industry attended the course.

news

LAPO Disburses N4 Billion Loans In 2007 …targets One Million Clients

By Godwin Ehigiamusoe

▲ *A micro entrepreneur displays pottery and other crafts for sale*

Lift Above Poverty Organisation (LAPO), a microfinance institution with head office in Benin City, Edo State disbursed the sum of N4.0 billion from January to October 2007 compared with N1.9 billion disbursed during the same period in 2006. The Managing Director of LAPO, Mr. Godwin Ehigiamusoe attributed the result to the aggressive implementation of LAPO's growth strategy, development of more responsive products, increasing passion for microfinance services as a result of the new microfinance policy and dedication of the entire staff of LAPO. He noted that LAPO still maintained excellent portfolio quality with portfolio at risk (PAR) at 1.3%.

The Managing director stated that LAPO was targeting one million active clients by 2011 and that the organisation had fully automated its operations in its 103 branches and was confident of exce[illegible] the target in the envisaged time. He added that, to achieve this target, LAPO would effectively leverage on its excellent relationship with investors and the opportunities provided by the microfinance policy.

In another development, LAPO had been granted an operating license to deliver pro-poor microfinance services in Sierra Leone where it would, in addition to microfinance services, provide technical assistance to local microfinance institutions.

▼ *Leather works, a souvenir with high export potential being produced by micro entrepreneurs*

news

Central Bank Of Nigeria 2007 Development Finance Officers' Conference Holds At Zaranda Hotel, Bauchi

By Dr. M. A. Olaitan

His Excellency Alhaji Garba Mohammed Gadi, Bauchi State Deputy Governor delivering a speech during the DFO's Gala Nite Award at Zaranda Hotel, Bauchi

The 23rd Annual Conference of the Development Finance Officers (DFOs) of the Central Bank of Nigeria took place at the Zaranda Hotel, Bauchi on 1st and 2nd November 2007. *The theme of the conference was "The Implications of Financial Sector Reforms on Sustainable Financing of the Real Sector."* The conference attracted 305 participants from deposit money banks, development finance, microfinance and insurance institutions, pension commission, Nigerian Agricultural Insurance Corporation, Securities and Exchange Commission, relevant state ministries and agricultural development projects, the academia, non-governmental organizations and farmers.

The conference was declared open by the Executive Governor of Bauchi State, *Malam Isa Yuguda* who was represented by the Honourable Commissioner for Finance, *Alhaji Saidu Wanka.*

Five (5) papers were presented during the four business sessions, namely:

- The Implications of Financial Sector Reforms on Sustainable Financing of the Real Sector;
- Capital Market Reforms and Real Sector Financing: What Options?
- Improving Access of Real Sector to Financial Services under the Banking Sector Reforms;
- Opportunities for Real Sector Financing under the New Pension Scheme; and
- Insurance Industry Reforms and Implications for the Real Sector Development.

Some of the key issues emanating from the programme included among others, that:

- although the real sector drives other sectors of the economy, its performance in terms of production and growth rate had been low and this required robust government support to reverse;

Recipients of Awards posed for a group photograph during the DFO Gala Nite and Award held at Zaranda Hotel, Bauchi

respectively;

- Improved information dissemination and enlightenment programmes up to local government areas;
- Establishment of MSME Guarantee Scheme to enhance access to financial services by the real sector;
- Provision of incentives to encourage financial intermediaries to fund the real sector; and
- Improved partnership among microfinance institutions (MFIs), deposit money banks (DMBs) and micro, small and medium enterprises(MSMEs).

Diamond Bank Innovates
Rural Banking Strategy

By Emeka Onwuka, MD, Diamond Bank Plc.

Financial markets in Nigeria have not been able to adequately meet the demand for microfinance services. With a population of about 140 million, majority of the people live below the poverty line of less than $1/day. Such people can hardly afford banking services, and as such, remain largely under banked and/or unbanked.

With the launching of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in 2005, the microfinance market is presently attracting new participants due to the expanding informal market. Universal banks have been participating by promoting microfinance subsidiaries to expand their market share of the microfinance sub-sector. In addition, independent promoters have been floating microfinance banks to exploit the glaring critical mass at the 'bottom of the pyramid'.

Rural blacksmiths: Potential Customers being targeted by the Diamond Bank Rural Banking Strategy

The strategies being used by these institutions have focused on extending their reach to the micro level through the building of branches within their host communities. However, for the Diamond Bank Plc, a radical approach involving an innovative recourse to technology in meeting the banking needs of the local communities at their convenience had been adopted. In a strategic alliance with SmartSwitch, an indigenous switching company, Diamond Bank is deploying the Net 1 UEPS banking technology to provide banking solutions to the under banked and unbanked in the rural communities. The Net 1 banking system offers a cost effective platform of servicing the communities on a secure and affordable electronic platform.

Under this arrangement, the bank customers are issued with Net 1 cards which serve as their bank tellers. The cards capture and store account information and biometric identification details. Using the cards, microfinance clients can make deposits and withdrawals, check their balances, and fully manage their accounts. In addition to this, the terminals are mobile and as such, enable mobile banking, thereby taking banking services to the doorsteps of the communities. The device offers the advantage of mobility and convenience for the customers.

In furtherance of this strategy, Diamond Bank had entered into partnership with various community banks and microfinance institutions (MFIs) who are adopting the technology in meeting the financial needs of their customers. This has been to the benefit of the institutions who are able to extend their reach within their communities using the mobile banking terminals. It has also benefited the local communities who now have banking services brought to their doorsteps at little or no cost. Little wonder more converting community banks are on the line for the Diamond Bank partnership that would avail them the benefits of the innovative mobile banking technology for the rural communities.

Agriculture is a major focus of Diamond Bank in its rural banking strategy

Central Bank of Nigeria Sensitizes National Youths Service Corps (NYSC) Members on its **Development Finance Schemes and Products**

NYSC Corp's members posed for a group photograph during NYSC Sensitisation

In the bid to provide opportunities for serving youth corps members to engage in economic activities after primary assignment, the Central Bank of Nigeria carried out a sensitization programme on its schemes and programmes to NYSC members in all the orientation camps nation-wide. The exercise took place on October 24, 2007 in the 36 States of the Federation and the Federal Capital Territory (FCT).

The aims of the exercise were to:

- educate the serving Corps members on available financing opportunities for business development, under the schemes and products of the CBN during the service year.
- encourage the spirit of entrepreneurship in the serving Corps members.
- create a platform for interaction between deposit money banks and the Corps members.
- excite creativity on enterprise development amongst the serving Corps members.

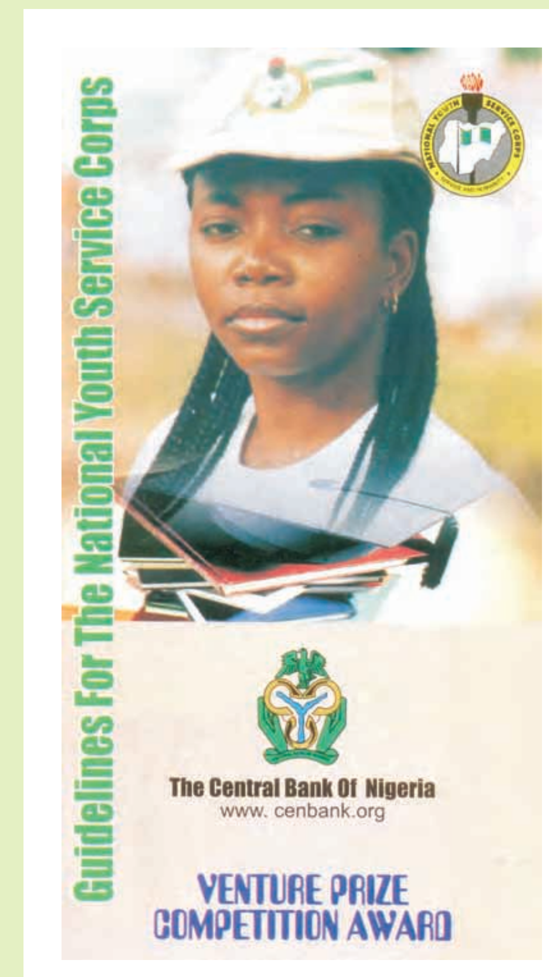
A total of 44,700 participans were sensitised nationwide. Twelve (12) banks collaborated with the Central Bank of Nigeria in the conduct of the excercise. They were: Guaranty Trust Bank, Oceanic Bank, Unity Bank, Wema Bank, United Bank for Africa, First Bank, Bank Platinum Habib, Diamond Bank, Spring Bank, Union Bank of Nigeria, Fidelity Bank, and Skye Bank.

A comprehensive paper on the development finance functions of the CBN was presented. The presentation highlighted the historical background of the involvement of CBN in development financing and the various schemes and products developed and managed by the Development Finance Department of the CBN. Some of the schemes and programmes managed by the DFD as highlighted in the presentation included:

- The Agricultural Credit Guarantee Scheme (ACGS) and its allied products: the Interest Drawback Programme (IDP), Trust Fund Model (TFM) and Self Help Group (SHGs) Linkage Banking.
- Small and Medium Enterprises Equity Investment Scheme (SMEEIS)
- The Microfinance Policy Regulatory and Supervisory Framework for Nigeria.
- Agricultural Credit Support Scheme (ACSS).

The Bank also used the opportunity to announce the Venture Prize Award Competition to the corps members highlighting the different categories of prizes.

Central Bank of Nigeria Institutes **NYSC Venture Prize Award Competition**



As part of its commitment to the principle of corporate social responsibility, the Central Bank of Nigeria (CBN) has introduced an Annual Venture Prize Award Competition among serving corps members with effect from the 2007/2008 service year with the aim of reducing dependence and search for white collar jobs. The initiative was designed to unleash the entrepreneurial spirit of the youth corps members during their service year and to encourage them to imbibe entrepreneurship concepts and ideas. The programme will also improve access of young entrepreneurs to finance and other auxiliary services.

The Maiden Award will commence in the 2007/08 service year for all the corps members who were called up for service in 2007. Every serving member of the National Youth Corps shall be eligible to participate in the competition, in the year of service. The Award shall cover all legal business activities in all the sectors of the economy.

The Award is in two categories with the following prizes;

i. State Awards

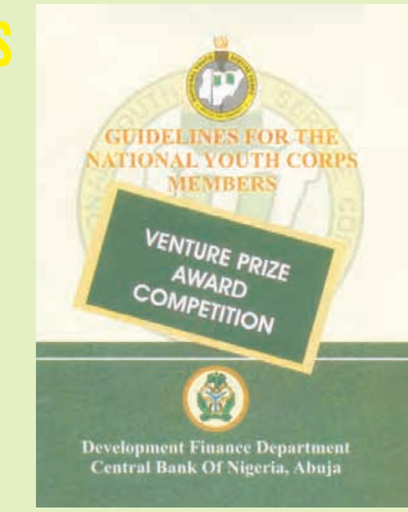
- 1st Prize: ₦200,000.00
- 2nd Prize: ₦150,000.00
- 3rd Prize: ₦100,000.00

ii. National Awards

- 1st Prize: ₦1000,000.00
- 2nd Prize: ₦750,000.00
- 3rd Prize: ₦500,000.00

Winners will be given Certificates of Merit, linked to banks to sponsor their projects and invited to participate at a course at any of the Entrepreneurship Development Centers (EDCs) being promoted by the CBN.

To participate in the competition, each member of the National Youth Service Corps is expected to submit a business proposal/ feasibility report which should include:



- Business plan and corporate direction (vision, mission & objectives, etc),
- Operational strategies (Uniqueness of the organization)
- Strategic plan and objectives
- Projected outreach, market share & marketing strategy,
- Financial projections/ strategy,
- Sustainability strategy,
- SWOT analysis
- Risk identification and mitigation strategies
- Economic and social justification-particular benefit to the society
- Environmental/infrastructural analysis, (Assessment of the likely impact of environmental factors on the proposal)
- Management structure, etc.

The business proposal shall be submitted to either the Head, Development Finance Office, in the branch of the CBN in the state of service, branch of CBN which is nearest to the corps members' state of service, or to the Director, Development Finance Department, Central Bank of Nigeria, Corporate Headquarter, Abuja.

The Competition will be announced at the beginning of each service year at the NYSC Orientation Camps and would be advertised in the media. The Awards shall be given at an event to be organized by the Central Bank of Nigeria. Entries must carry the corps member's NYSC call-up number and contact address including phone number.

National Microfinance Policy Consultative Committee Members Visit Bangladesh

By: Mr. Joe Alegieuno

Three members of The National Microfinance Policy Consultative Committee (NMPCC) made up of Mr. J. O. Olakanmi, National Planning Commission (NPC); Mrs. H. Ochonogor, Nigerian Deposit Insurance Corporation (NDIC); and Mr. Joe Alegieuno (CBN) undertook an exposure visit to Bangladesh from 26th to 30th November, 2007. The visit which was coordinated by the Association for Social Advancement (ASA), Bangladesh was made to the Building Resources Across Communities (BRAC), the Grameen Bank , ASA and the Central Bank of Bangladesh.

The purpose of the visit was to enable the members of the Committee to understand the mode of operations and activities of microfinance institutions in the country.

Highlight of the visit were as follows:

ASA: ASA which was founded in 1978 as a Non Governmental Organization commenced microfinance services in 1991. By 2001, ASA became fully self-reliant and had since then, not taken any donations or grants for its operations. The Orgnaization has a standardized branch structure

Bangladesh: Dhaka formerly Dacca is a city of over 12,000,000 people

equipped with minimal facilities and simple furniture, while staff were selected within a short time and given practical training before deployment. Expenditures were standardized and cost ceilings set. There were no office assistants, technical support or security guards in a branch. A typical branch office is manned by one branch manager, one computer operator (where required) and four loan officers.

Other operational features of the Association include the following:

- Self explanatory written working manual;
- Participatory process in decision making;
- Simple and least hierarchical organization;
- Easy and close communication among officials as well as between officials, and clients;
- Strong monitoring and supervision at all levels;
- Low cost culture practiced from top to bottom (it would be interesting to note that the organization has only three pool cars, notwithstanding it size);
- Loan officers switch groups after every six months;
- Simple and shorter loan processing (loans disbursement within seven days of membership);
- Savings and mini life insurance for clients;
- No group guarantee for providing loans;
- District managers and officers are based in the field;
- Central office staff visit field regularly;
- Recovery rate is 99.85% as at the end of 2006 report;

ASA had a total 2,931 branches in all the 64 districts of Bangladesh as at 2006. It had an operational self sufficiency of 252.22%, financial self-sufficiency of 160.73% and active membership of 6,455,979 out of which women constitutes 65%. Its cumulative loan disbursement as at December 2006 was equivalent of US$2,855.7 million while cumulative loans realized was US$2,504.2 million. It had a total staff of 18,400 out of which field staff makes up 18,226 or 99.0%

BRAC: BRAC, a development organization was founded in February 1972 after the liberation of Bangladesh. Its initial focus was resettling refugees returning from India after the liberation war. In 1973, it shifted its focus to long-term community development. Over the course of its evolution, BRAC established itself as a pioneer in recognizing and tackling the different dimensions of poverty. BRAC's unique approach to poverty alleviation and empowerment of the poor encompasses a range of core programmes in health, education, economic and social development. It also had supporting programmes, enterprises and commercial ventures that had been contributing towards making the organization self-sustaining. Profits from these projects were channeled to its poverty alleviation programmes. BRAC, had a chain of urban retail outlets called "Aarong" to market the various crafts produced by the rural artisans under the BRAC microfinance programme. Another example of support programme was the Dairy and Food Projects which provide a ready market for milk produced by villagers that had invested in cattle.

BRAC which launched its microfinance programme in 1974 had presence in the 64 districts of Bangladesh. It had, since inception, touched an estimated number of 110 million persons in Bangladesh.

BRAC's microfinance programme had five principal products namely:

I. Challenging the Frontier of poverty Reduction/Targeting Ultra Poor (CFPR/TUP) programme: This builds the foundations for a sustainable livelihood for the ultra poor household, by providing/transferring productive assets in kind, basic skills training and back-up support like health and legal services to them.

ii. The Income Generation for Vulnerable Group Development Programme (IGVGD): This helps the extreme poor to attain a basic level of food security by providing them with training to build up their self confidence and skills and supplying high quality inputs and credit up to (US$20) to give them the opportunity to start their own income generation activities.

iii. Economically Active Poor (Dabi): This organizes landless groups of women in rural areas and urban slums and provides them with financial services.

iv. Unnoti (Small and Medium Agro Farmers): This organizes farm and non-farm entrepreneurs into groups and provides them a range of financial services.

v. Progoti (Small entrepreneurs): This serves the financial needs of the more entrepreneurial, amongst BRAC members and non members to help the

reports

growth of micro enterprises (loan range US$715 to US$4,285).

BRAC had a total of 238,639 village organizations (groups) and membership of 6.82 million. Cumulative loans as at September 2007 was US$4,395.05 million with outstanding of US$501.20 million. It had a repayment rate of 98.02%, while the savings deposit of the village organizations amounted to US$190.06 million. BRAC's education programme had 32,000 primary schools with about 1 million pupils, 2,250 pre-primary schools and 8660 adolescent centres which was 100% subsidized by donor funds.

Micro-economic activities in downstream Dhaka , Narayaganj Bangladesh

GRAMEEN BANK: Grameen Bank was established in August 1976 when Dr. Muhammad Yunus, then Head of the Department of Economics at the University of Chittagong, started a project called Grameen Bank Project. The Grameen bank which now operates across the country had been replicated in more than 100 countries of the world. It is owned by the borrowers of the bank. The main goal was to make credit available to the rural poor, mostly women, in the struggle against poverty. In doing so, borrowers were given loans for income generating purposes, and housing. All loans were given without collateral and without legal instruments. Grameen Bank loans were paid on a weekly basis. Loans were given on individual basis, however, the groups supervised the loans and also advise on the size appropriate for the individuals members. In essence, Grameen Bank was initiated as a challenge to conventional banks which classified the poor as "not credit worthy".

In 2002, Grameen Bank introduced its Struggled-Member program, especially designed to lend money to the beggars to find a dignified livelihood. They were offered interest free loans. By the end of May 2007, cumulative members under this program reached 83,583. A total of Taka 92.62 million (US$1.35 million) has so far been disbursed.

In an effort to encourage members to educate their children, Grameen offers scholarships to children of its members. By May 2007, 49,208 students (both boys and girls) had received scholarships equal to US$ 45 million.

In May, 2007, Grameen had 2,422 branches, 252 area offices, 39 zonal offices, and 37 zonal audit offices. Through 122,767 centers, spread over 78,101 villages, over US$ 6,251 million had been disbursed to nearly 7.1 million borrowers, 96% of them being women. Out of this, housing loans totalled US$ 386.55 million to 647,130 members. Savings balance of the borrowers stood at US$398 million, while loan recovery rate was 98.4%.

The general hallmarks of Grameen operations were:

- Promotion of credit as a human right;
- Targeting of poor clients, particularly women;
- Lending without collateral or legally enforceable contracts, but on "trust";
- Provisions of loans for self employment and income generating services as opposed to consumption;
- Provision of door-to-door banking;
- Adoption of group approach for loan monitoring and recovery;
- Simultaneous disbursement of more than one loan to borrowers on need basis;
- Adoption of both obligatory and voluntary savings programmes for borrowers.

Small Enterprises Education and Promotion (SEEP) Network Annual Conference Holds In Washington DC, USA from Oct. 22-26, 2007.

By U. M Amedu

The Small Enterprises Education and Promotion (SEEP) Network Annual Conference took place at the United Nations House, Washington, DC, USA from October 22 to 26, 2007. It was attended by five members of the National Microfinance Policy Consultative Committee (NMPCC), the highest body responsible for taking policy decisions on the implementation of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria. The participating members of the Committee included: Professor Peter N. Umoh, Executive Director, Nigeria Deposit Insurance Corporation (NDIC); Mr. A. Sesan Bamisile, Director, Development Finance Department (DFD), Central Bank of Nigeria (CBN); Mr. Louis Ezeonyim, Deputy General Manager, Union Bank of Nigeria (UBN) PLC; Mr. Olufemi Adebiyi, Executive Director, Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and Mr. Uji M. Amedu, Deputy Director, Development Finance Department, CBN.

The Network is an international organization that promotes best practices in enterprise development and financial services among members and participants at its annual programmes. Members include international nonprofit organizations with programmes in microfinance and enterprise development. The network currently reaches over 23 million micro entrepreneurs and their families all over the world.

During the 2007 Conference which was attended by over five hundred participants, issues relating to gender and benefits for microfinance clients, innovative approaches to microfinance, limitations of finance-only solutions, women's leadership matters and diverse models from the workplace were addressed. Some of the key issues emanating from discussions at the programme included the essence of embracing microfinance as a poverty alleviation tool and of designing products and services that meet the needs of the micro customers in every material, cultural and religious respect. In addition, countries that embrace microfinance must take necessary steps/strategies to measure the effectiveness of the MFIs in meeting their social mission, which should not be sacrificed on the altar of financial sustainability. Also, regulators and operators of the microfinance sector were encouraged to be sensitive to gender issues since women who constitute about half (50%) of the population of the world, account for about 70 percent of the poor world-wide.

It was clear that women must be empowered by all those who champion the cause of microfinance and they should be given key positions of authority where they will be able to impact effectively on the lives of their fellow womenfolk. This was necessary because women were known to be more persuasive and intrusive in relating with their poor fellow women.

PHOTORAMA OF THE GTZ/CBN TRAINING PROGRAMME

Group photograph of participants during the training in capacity building

One of the Facilitators, Mrs. Doloris M. Torres Awards Certificate to a Participant at the Owerri Training Programme

A cross-section of participants

Micro-Financing: *Some Cases, Challenges and Way Forward*

By Jim Ovia, MD/CEO, Zenith Bank Plc

The world is today inhabited by an estimated 6.6 billion people; and about 2.5 billion of them are believed to be living on less than $2 a day. This group also constitutes much of the world's un-banked population, without access to financial services with which they could generate wealth. Because they lack the necessary collateral, they are unable to approach conventional banking institutions for credit facilities; and so are unable to muster enough funds to embark on business ventures that could improve their financial conditions. This handicap leads to further impoverishment and worsens global and national poverty levels.

In confronting this challenge, most countries of the world have adopted the concept of micro financing. Microfinance as oppose to conventional banking (see table 1) is the provision of credit and other financial services to people in the lower income group. Micro-credit usually involve very small loans of less than US$200 without any form of 'formal' collateral.

Professor Mohammed Yunus, the founder of the very popular Grameen Bank in Bangladesh is today believed to be the 'father' of modern micro finance. Yunus and his microfinance bank in 2006 won the Nobel Prize for peace, in recognition of the impact of the institution's micro credit activities in alleviating poverty and growing micro enterprises in Bangladesh and other developing economies.

(Table 1) Microfinance Banks vs. Conventional Banks

S/N	MFIs	Conventional banks
1.	Offer limited products with no collateral	Offer variety of credit products backed by collateral
2.	Offer low value credit facilities, with high turnover and transaction costs, leading to higher interest rates	Competitive transaction cost and interest rates
3.	Short loan repayment cycles with weekly payments that range from 6 months to one year	Offer loan facilities with diverse tenor and repayment cycles
4.	Little or no technology deployment	Sophisticated communication, information and technology system
5.	Little or no sophisticated credit scoring system	Highly sophisticated credit scoring models
6.	Less formalized; and regulation intensity differs from economy to economy	Keenly monitored by a formal regulatory body

The Micro-finance Industry

Across the globe, the major players in the microfinance industry include governments, philanthropists, social investors, multilateral institutions and commercial banks. Micro finance institutions (MFIs) provide services in the areas of deposits mobilization, savings, pension, insurance, diaspora remittances, etc. In most countries, microfinance customers are mostly the rural and urban poor, who borrow mainly to fund farming, petty trade, arts and crafts, and other small scale businesses.

The World Bank estimates that there are more than 7000 microfinance institutions serving some 16 million poor people in developing countries. As at 2006, there were an estimated 10,000 micro finance institutions worldwide, servicing about 64 million borrowers. This represents a 590.74 percent increase in the number of borrowers compared to the 2000 figure put at about 9.3 million (see table 2).

(Table 2) Number of Verified Poorest Clients and Institutions worldwide in 2006

Year	Total Poorest Clients Reported (%)	Total Number of Poorest Clients Reported	Number of Institutions Verified	Number of Poorest Clients Verified
2000	67	13,779,872	78	9,274,384
2001	66	19,327,451	138	12,752,645
2002	81	26,878,332	211	21,771,448
2003	86	41,594,778	234	35,837,356
2004	87	54,785,433	286	47,458,191
2005	88	66,614,871	330	58,450,926
2006	78	81,949,036	420	64,062,221

Source: IMF/State of the Micro-credit Summit Campaign Report 2006; (www.microcreditsummit.org)

Country Experiences:

Bangladesh

Many will argue that Bangladesh is the pioneer of modern microfinance. Over the past 31 years, people in rural Bangladesh have improved their living standards owing to the far-reaching microfinance services rendered by Grameen Bank, the foremost MFI in that country.

In mid-1970s, Professor Mohammed Yunus observed that commercial banks did not offer credit facilities to the rural poor as they were considered not creditworthy. To fill this gap, Yunus in 1976 took small loans from commercial banks and provided credit to women in the Chittagong district of Bangladesh, which marked the birth of Grameen Bank. It soon extended its services to other villages in Bangladesh. Grameen was given a full fledged banking status in 1983.

In its formative days, the bank received considerable government support, getting up to 60 percent of its capital from the Bangladeshi authorities. By 2003 however, the government held only 7 percent of the bank's equity. Today, Grameen is one of the most successful and effective microfinance institutions in the world.

The Grameen Strategy:

At inception, Grameen used the following methods to raise capital for its microfinance activities:

- issued bonds to commercial banks,
- borrowed from the Central Bank at subsidized interest rates, and
- received grants from international donor agencies such as the World Bank, Ford Foundation, etc

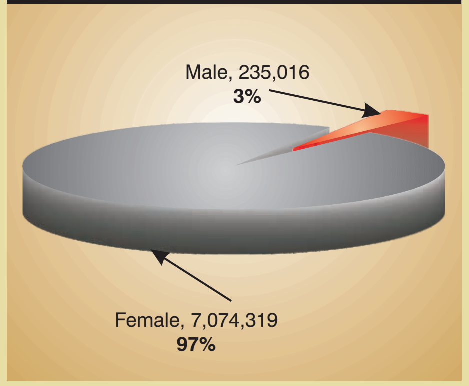
From the late 1980s, Grameen Bank diversified into various non banking activities, which included leasing of underutilized and unutilized fishing ponds, capacity building and support services for people from other developing countries that wish to adopt the Grameen microfinance model. By the mid-1990s, it had expanded into venture capital, textile, and the provision of internet services. The performance indicators of the bank are shown on (see table 3)

(Table 3) **Grameen Bank: Activity Profile as at September 2007**

Indicator	Millions US$
Cumulative Amount Disbursed Since Inception	6,502.27
Cumulative Amount Repaid Since Inception	5,820.65
Amount Disbursed in the Month of September	63.65
Amount Repaid in the Month of September	57.24
Outstanding Loan	500.68
Basic Loan	454.71
Flexible Loan	31.80
Housing Loan	3.32
Other Loans	10.85
Recovery Rate (%)	98.40

Source: www.grameen-info.org

Grameen Banks' Members by Gender as at September '07



The Grameen Bank example is indeed worthy of emulation and a great inspiration for investors in, and managers of emerging micro finance institutions in developing economies like Nigeria.

South Africa:

According to the South African Government Communication and Information System (GCIS), the country has approximately 2 million small businesses, representing about 98 percent of all registered firms. Small businesses employ up to 55 percent of the labour force. Approximately 87 percent of small businesses are survivalist and 41 percent are owned by women.

South Africa had set up a supporting framework for small, medium and micro enterprises, one of which is the South African Microfinance Apex Fund launched by the country's Department of Trade and Industry to provide affordable and sustainable access to financial services for the low income earners. The Fund also plays a key role in the development of South Africa's microfinance sub-sector through the facilitation of training for micro-entrepreneurs, mentoring, monitoring and regulation. Allocation to the Fund was R12.5 million in 2005/ 2006 while for the 2008/2009 fiscal year, R88.1 million is proposed. The fund also received financial support from external donors such as the EU Sector-Wide enterprise, employment and equity programme.

Other SME financing initiatives by the government include the Khula Enterprise Finance, an agency of the Department of Trade and Industry established in 1996 to facilitate access to credit by small, medium and micro enterprises (SMMEs). Through intermediaries, it provides financial support including loans, national credit guarantee scheme, grants, institutional capacity building, equity funds and mentorship. By 2008, the agency aims to ensure that 50 percent of its loan beneficiaries are women entrepreneurs.

Another micro credit vehicle in South Africa is the Small Enterprise Development Agency (SEDA) formed in December 2004 to develop business, technical and marketing skills of micro entrepreneurs. The clients of most South Africa's MFIs are mainly petty traders, dressmakers, traditional brewers, etc, in rural villages. South African Microfinance Institutions (MFI's) had been showing impressive performance as shown in table 4. and figure 1.

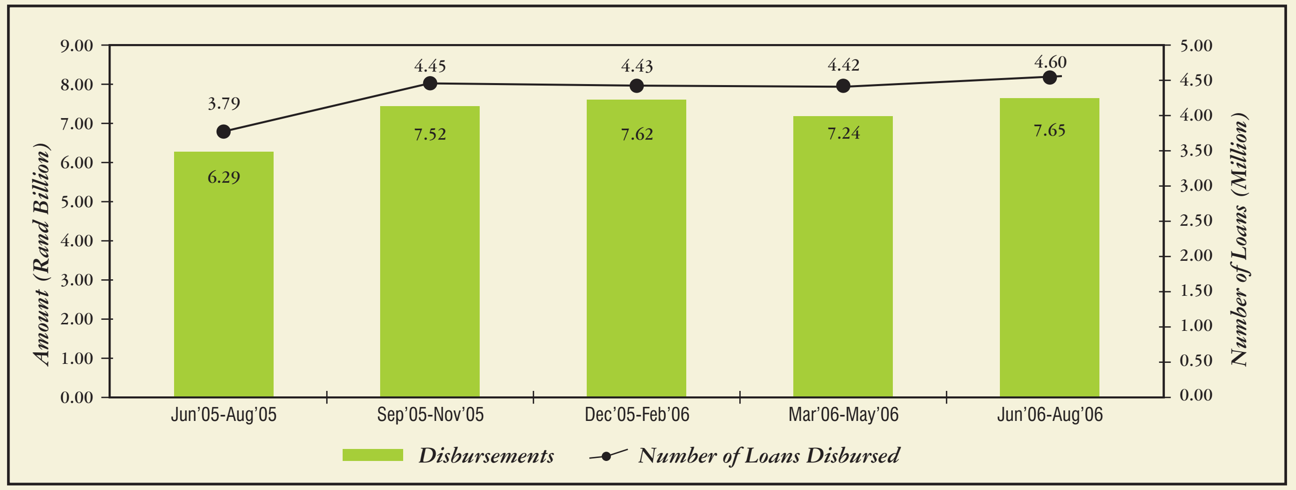
(Table 4) Selected South African MFIs, 2003

Name	Age	Officers	Staff	Active Borrowers	Women Borrowers	Average 1st Loan	Average Loan Balance	Average Balance/GNI Per Capita
Beehive	8	3	54	5,892	75%	$125	$111	3.93
FINCA	3	1	50	1,386	96%	$125	$151	5.34
Marang	2	19	145	15,836	95%	$120	$76	2.69
SEF	11	11	100	17,242	98%	$67	$82	2.89

Source: Pro-poor Micro-credit in South Africa by Ted Baumann; 2004

(Figure 1)

Microfinance Loan Disbursements and Number of Loans Disbursed in South Africa Jun'05 - Aug'06



Source: Micro Finance Regulatory Council (South Africa) www.mfrc.co.za

Brazil:

With a population of over 180 million people (half of which are rated as poor) and with an economy dominated, 60% by small scale businesses, Brazil had over the years, made efforts to grow its MFI sub- sector, but with limited success. Brazil's microfinance sub-sector is characterized by small number of subscribers and the prevalence of relatively small MFIs. As at 2002, just nine out of the over 100 MFIs in the country served about 79% of the total microfinance client base in the country. From a little over 70,000 in 2001, the clientele had increased to about 158,654 within one year, while the active portfolio of the industry more than tripled from R$43.4million to R$138.8million.

In 1997, the World Bank in collaboration with Banco Nordeste established the CrediAmigo microfinance agency in Brazil, an institution that has become the largest microfinance provider in the country. An analysis of 20 of the largest Brazil's MFIs showed that on the average, these institutions experienced annual average growth of 14% since 1999; eight of these 20 MFIs have a negative growth rate, indicating that they actually have fewer clients today than two years earlier.

Relative to its enormous size, the microfinance industry in Brazil has not developed impressively, unlike the case in Bangladesh. However, the future of MFIs in the country is bright, if the challenges currently hindering their growth could be addressed. Some of these challenges include policy and regulatory inconsistencies and macroeconomic instability, which the Brazilian government is already taking steps to tackle.

Indonesia:

The microfinance sector in Indonesia is one of the largest in the world, with estimated 1,955 microfinance institutions in operation as at June 2006, some of which are over 100 years old. Yet, nearly 40 million low-income earners in Indonesia still lacked access to financial services and over 70 percent live on less than $1 per day. This is mainly due to the fact that majority of MFIs in Indonesia have been characterized by low growth in outreach and inefficient systems occasioned by inadequate access to affordable capital. MFIs in Indonesia concentrate more on providing consumer credit and working capital for small businesses, mostly in the trade and services sectors. One of the largest microfinance oriented banks in Indonesia is the Bank Rakyat Indonesia (BRI). BRI is a bank that over the years, metamorphosed from a failed agricultural bank to a commercially viable microfinance institution with over 80% of its portfolio in microfinance sector. Though, a microfinance oriented bank, it has performed creditably well, over the years (see table 5)

Its most popular savings products are targeted at small rural and urban savers and characterized by flexibility. Clients are able to make withdrawals as often as they desire. There is no minimum balance and clients earn a positive interest rate. Other micro credit institutions in Indonesia include People's Credit Banks; village credit institutions (Badan Kredit Desa, BKD), savings and credit cooperatives, etc.

(Table 5) **Bank Rakyat Indonesia - Performance Indicators**

Basic Indicators	2005	2004	2003	2002	2001
Net Income $billion	0.43	0.41	0.29	0.17	0.12
ROA	5.04%	5.77%	4.11%	1.83%	1.62%
ROE	37.92%	42.76%	44.73%	38.81%	30.36%
CAR	15.29%	16.19%	19.64%	12.62%	13.32%
Liquidity	77.83%	75.69%	62.37%	56.55%	56.08%

Source: Bank Rakyat Indonesia Website; Development Finance Dept., CBN

Nigeria:

According to the Central Bank of Nigeria, the economy's vibrant informal sector has 80 million micro entrepreneurs who do not have access to financial services. This segment of the economy also employs over 70 per cent of the nation's workforce. Yet, micro-financing in Nigeria is still at its infancy. The country has in recent years taken steps to develop the sub-sector as a tool for economic empowerment and poverty alleviation for its over 70 million poor population.

The Development Finance Institutions (DFIs) were the first forms of governmental initiatives towards micro-financing in Nigeria. Between 1964 and 1993, a number of DFIs were incorporated at both the national and state levels. They include Nigerian Industrial Development Bank (NIDB, the Nigerian Bank for Commerce and Industry (NBCI), the Nigerian Agricultural and Cooperative Bank (NACB), the Federal Mortgage Bank of Nigeria (FMBN), the National Economic Reconstruction Fund (NERFUND), etc. However, owing to inadequate funding, high ratio of non- performing loans and poor management, many of these DFIs became moribund, giving way for the setting up of the Nigerian Agricultural Cooperative and Rural Development Bank (NACRBD) in the late 1990s and the Bank of Industry in 2001.

Following the launching of the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria in December 2005, about 600 micro finance banks (MFBs) have been licensed by the Central Bank of Nigeria. Further to this, a Microfinance Development Fund is also being facilitated by the CBN. This would provide wholesale funding, refinancing and guarantee facilities and support capacity building for microfinance banks in the country. The Fund would be self-sustaining as it would attract funds from diverse sources such as private capital, the capital market, foreign direct investments (FDIs), development finance institutions and donors. In order to sustain increased participation of skilled entrepreneurs in the utilization of financial services, the CBN is putting in place a scheme - Entrepreneurship Development Centre (EDC) - in each of the six geo-political zones in the country.

Challenges

Some of the key challenges confronting the growth of micro financing in the country include:

- Low capacity and lack of technical skills on micro financing
- Limited outreach to the poor. For example, of the estimated 70 million people in need of micro credits, CBN statistics show that only about 600,000 clients had access to MFI services in 2001; this grew to about 1.5 million in 2003
- Inadequate channeling of fund for real sector development especially agriculture and manufacturing. Currently, only about 14.1% and 3.5%, respectively is allocated to these sectors as against 78.4% funding for commerce
- Unstable macroeconomic environment is another challenge. While indicators such as inflation and exchange rates have improved in recent years, sustaining these gains will determine the progress or otherwise of the country's MFIs and other financial services institutions.
- Lack of sustainability and continuity in service delivery. An analyst has defined sustainability in micro-financing as "Coverage of administrative cost + Loan loss + Cost of funds + Inflation + Capitalization for growth from operating income".

Can MFIs be Profitable?

Studies by experts around the world showed that MFIs can be quite profitable. The following were some of the success stories:

- About 150-200 microfinance institutions worldwide are reported to have reached the stage of financial self-sufficiency, with loan portfolio estimated at $3.5 billion; annual growth rate of 20-30%; and profit margin of up to 21.8%
- About 12 out of the 29 microfinance institutions rated in Latin America in 2006 were discovered to be more profitable than global financial services leaders like Citigroup, HSBC, etc
- The most profitable microfinance institution had a Return-on-Equity (ROE) of 42.9%, compared to Citigroup's 19.7%.
- World average microfinance on-time repayment rate hovers around 98%, much higher than the commercial banking industry's average
- Profitability arises from high interest rate normally charged on microfinance loans and high repayment rates (Source: Development Finance Dept., CBN)

Micro financing is not charity as many erroneously believe, but profit-oriented enterprise that could generate massive wealth for the local economy and all stakeholders.

Growing The Micro-Finance Industry: Way Forward:

For this very important industry to grow in Nigeria and other developing economies, the following issues must be addressed:

- Public Private Partnership (PPP): It is encouraging that, in many developing economies, the private sector is getting more involved in micro financing. The future of the microfinance sub-sector depends on the provision of enabling environment by the government, but with the private sector as its key driver.
- Financial and skills empowerment: MFIs in Nigeria and other developing economies require empowerment through access to adequate funding and skills development on effective microfinance management among its workforce.
- Consumer Education: The populace, especially the target client base must be adequately educated on the basic principles of micro financing and effective utilization of micro credits. Micro financing is not philanthropy but a business

features

venture that could be mutually beneficial to the clients, the MFIs, and the larger economy.

- Effective Regulations: Micro financing in many developing economies is still highly haphazard and unstructured. Effective regulation and monitoring would help to bring order and harmony to the industry for greater efficiency and sustainability.
- Adequate use of ICT Tools: As is the case in banking, insurance, and other financial services sub-sectors, the effective deployment of ICT for management and service delivery would ensure an expedited growth of MFIs in developing nations.
- Using the capital market pool of resources: Most developing economies have not taken full advantage of capital markets in their quest for adequate funding. Resorting to the capital market would make available to MFIs, huge pool of funds which would boost their micro credit activities, while also compelling them to be more transparent and accountable in their dealings.

Conclusion

For the huge potential of micro financing in Nigeria to be realized, support from government, NGOs, donor institutions and of course, investment groups is required. Investors must be educated on the profitability of micro finance institutions, while MFIs' managers must learn the nuances of the business to minimize risks, as well as sustain the confidence of their clients. Good corporate governance and global best practices must be in place to ensure proper running and effective management of the MFIs. The CBN and the Nigeria Deposit Insurance Corporation (NDIC) must provide rigorous supervision and regulation to ensure that this is achieved.

As is the case in commercial banks, effective risk management mechanisms such as Know Your Customer (KYC) and credit ratings of borrowers should not be compromised, as these would ensure sustainability of the sub sector. No doubt, the microfinance industry would play a major role in economic development, especially in the growth of the productive sectors, including the SMEs which are the bedrock of economic advancement and poverty alleviation.

The Thrills, Challenges and Way Forward for Microfinance Banking In Nigeria

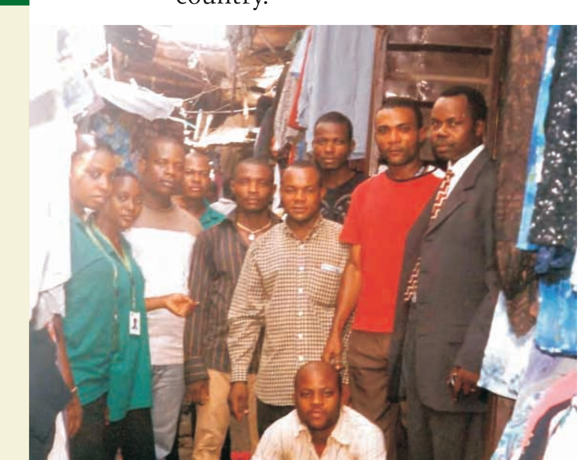
By Ifeoma C. Ana, MD/CEO Elim Microfinance Bank Ltd

The United Nations (UN) has defined people living on less than $1 a day as people living below the poverty line. Worried by this statistics, the UN declared the year 2005 as the International Year of Micro Credit with the aim of reaching the poor with financial products that would lift them above the poverty line. In addition, the UN took the bold step that was to change the global status of poverty by setting a target under the Millennium Development Goals (MDGs) to halve the world poverty level by the year 2015. All countries of the world were required to buy into this MDGs.

The main objective of microfinancing is to provide banking and credit services to the poor. The International Fund for Agricultural Development (IFAD) put the poverty rate in Nigeria at 72%. This may sound staggering to people, given the apparent "healthy status" of Nigerians. However, assuming that the minimum wage for Nigerian workers is N15,000 and that a worker has a wife and two children, that translate into N121 /day (15000/4/30) to take care of rent, school fees, transportation and feeding. With such a low income, no conventional bank would be willing to grant credit facility to

Ifelere Butcher Association Sabo, Beneficiaries Of Elim Group Loans Pose With Isaac Akinfala The Head Credit & Marketing Elim MFB

such category of people. The high rate of poverty also creates insecurity in the country. For example, the spate of armed robbery, drug abuse and violent crimes in the country is largely attributed to the high level of poverty and unemployment in the country.



2nd Hand (Okirika Sellers) In Tejuosho Pose With Some Elim MFB Staff Daily Contribution & Soft Loans Are The Key Products For These Customers

Also, many Nigerians languish in jail in Europe because

Nigeria?

- How much have the poverty alleviation programmes put in place by various governments, international bodies and NGO's achieved to reduce poverty levels in the country?

Obviously, going by the number of unemployed college and university graduates in Nigeria, destitute and social miscreants (area boys and girls) on the streets and highways of major cities, families in the rural areas that cannot afford to send their children to primary schools, there is still much to be done in poverty alleviation programmes of the country. This is where the challenges of Microfinancing in Nigeria lie because most of the efforts made by Government and internationally funded NGO's have not appreciably impacted on

Tejuosho Food Sellers Receiving Financial Recording & Management Briefing From Head Credit & Marketing Elim MFB, Isaac Akinfala

poverty alleviation in the country.

Effective and efficient micro banking in any nation and society can generate economic and social gains that may never be matched by any other project, no matter how gigantic. These gains could be more pronounced in Nigeria where international analysts have put the percentage of poor people at somewhere above 70%.

An effective microfinance practice could:

1. Provide gainful employment among people in the productive age say (18-65yrs);
2. Enhance business and employment opportunities among college and university graduates;
3. Accelerate full capacity utilization among industries.
4. Facilitates Access to loans among the poor and the low income earners;
5. Provide insurance, medical services, business advisory and financial management services among low income earners.

The challenges of microfinance banking in Nigeria can be categorized into the following:

- Lack of awareness on the existence microfinance institutions;
- Lack of trust by the poor themselves who believe that the microfinance banks are just like the unregulated financial houses.
- Low literacy level of micro entrepreneurs.
- Preference for gifts by the poor rather than economic empowerment.
- Inability of microfinance banks to attract investors.
- Insufficient support from governments and related stake-holders
- Undue competition rather than cooperation from the deposit money banks
- Lack of sufficient man power.

In order to achieve the desired microfinance impact in Nigeria, the following are recommended;

- The un-invested SMEEIS funds should be invested in microfinance banks, as the funds were actually set aside for low-medium scale entrepreneurs.
- There should be extensive campaigns/monitoring by CBN and NDIC to assure the public that the MFB's are safe.
- There should be strict adherence to the minimum professional qualification and banking experience specified for managers of MFBs by the CBN.
- The capacity building of the staff of MFBs should be regularly built to keep pace with emerging challenges in the sub-sector.
- Government agencies should grant development funds through MFB's rather than direct involvement.
- International bodies and donor agencies should endeavour to grant support.

MD/CEO Elim MFB Delivering Empowerment Lectures To Lagos Presbyterian Church Women Inside Elim Training Room

Effective Delivery of **Micro-Finance** through Entrepreneurial **Self-Help Groups**

By Biodun Omidiji

A Self-Help Group (SHG) is a group of people that meet regularly to discuss issues of common interest with a view to finding appropriate solutions. In essence, what makes SHGs workable is the existence of common interests, goals and aspirations. Self Help Groups may or may not be promoted by government.

The following stages are essential for the formation, stability and self-reliance of a typical SHGs:

1. **Formation stage-** This involves promoting and motivating potential members to form groups through visits, meetings and awareness workshops;
2. **Stabilization stage-** This involves members interacting and getting used to one another
3. **Growth- stage-** This is the stage when cohesion is achieved and strategies to pursue the objective of the SHG are mapped out
4. **Self reliance.** At this stage members have developed stable governance and begin to use own resources to execute corporate and or individual member projects.

Outlook of a typical Nigerian Self-Help Group

The features of a typical SHG include the following:

1. **Homogeneity:** The members may belong to the same trade, live within the same locality, or have the same economic background.
2. **Number of people:** A SHG should have a minimum of five (5) people and a maximum of twenty (20) people.
3. **Regular Meetings:** The gather regularly to discuss common

Putting heads together for common good

problems so as to guarantee functionality and efficiency.

4. **Regular contribution and saving:** This is either for joint income generating activity or in the form of rotating savings and credits.
5. **Linkage with financial institutions for financial services:** SHGs are linked with financial institutions where they can save and access credit/financial services.

In order to deliver micro finance services, micro finance institutions (MFIs) would find it more convenient and less expensive to grant loans to individuals already organized as SHGs. In other words, SHGs will enhance the process of disbursing credit to a larger number of people, at minimum cost and with greater impact.

Channeling funds through SHGs have been effectively used in countries such as India and Bangladesh. For example, the Rural Bank of Baroda in India advanced the sum of US$4,382,5000 in about 22 villages through SHGs and small scale industries for the purpose of agriculture, farm mechanization, and horticulture from 2002 to date. The Rural Bank supports SHGs after the groups have been able to contribute some amount of money and then open an account with the bank. The group members follow up each other for loan recovery. In case of default, the bank takes more of corrective measures to address the problem rather than imposing sanctions. The Grameen Bank also adopts a similar strategy to reach millions of women in rural areas who would not have had access to financial services.

In typical SHGs, members must be involved in economic activities which allow them to generate income above subsistence levels and also demonstrate traits for expanding their economic activities and employing labour. Functional SHGs must therefore be be endowed with entrepreneurship and skills to enable them operate successfully. This is because these play key roles in business identification, planning and management. In addition, Business Development Services such as business plan preparation, access to finance, counseling and mentoring create opportunities that will support individual and corporate success of members.

For SHGs to continue as a going-concern, it must be able to meet the needs of the members in terms of savings, credit and other services. Socially productive SHGs promote economic empowerment, improve access to better education for children, and enhance social status of members and their knowledge of business.

The Nigerian society is community-based. Therefore, getting people to form SHGs is not a challenge; the challenge lies in the members getting to trust themselves, to form a common front, have cooperative attitude towards issues and handle differences maturely. SHG has the potential of becoming a true people's institution which can take up other socio-economic development activities for the welfare and the development of the entire community. SHGs have vast advantages which microfinance banks can exploit in delivering effective financial services.

Solving Problems of Financial Exclusion of the Low-Income Rural and Urban Dwellers in Nigeria.

By: Mrs. Lois Juma

Financial exclusion refers to a situation where the poor, low-income and other disadvantaged groups are unable to access formal financial services, owing to their perceived vulnerability. Of the over 140 million Nigerians (2006 census), formal financial system provides services to only about 35% of the economically active population, while the remaining 65% are excluded from financial services. Most of those excluded from the formal financial system predominantly live in the rural areas. The most disadvantaged among these are the women, owing to adverse social, economic, religious and cultural inhibitions. Achieving economic growth and development on a sustainable basis can be enhanced by providing financial services to this segment of the productive population.

Over the years, the government had attempted to address financial exclusion through various initiatives. One of these is the rural banking programme which was introduced in 1977. Under the programme, banks were mandated to open a number of rural branches and bring banking services nearer to the rural dwellers. It was hoped that banking habits would be imbibed by the people and savings would also be mobilized. This scheme was not successful because it turned out to be costly and unprofitable for the commercial banks. Apart from the rural banking programme, some development finance institutions were established by government such as the Nigerian Agricultural and Cooperative Bank-1973 to provide agricultural loans to the small scale farmers; the Peoples' Bank of Nigeria-1989 to provide micro finance services to the rural and urban poor including farmers, small scale traders and artisans, and the community banks which commenced in the early 1990s to provide financial services to micro and small entrepreneurs. In 2000, the Family Economic Advancement Programme (FEAP) was merged with the Nigerian Agricultural Cooperative Bank Limited to form The Nigerian Agricultural Cooperative and Rural Development Bank. All these institution did not meet the expectations owing to lack of adequate government commitment and poor management.

In December 2005, the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria was launched. The aim was to provide an appropriate menu of financial services by diverse institutions to meet the need of the poor and low income groups. The policy provides for participation of the deposit money banks, Non-Governmental Organizations, newly licensed microfinance banks in microfinance provision. Though it might be too early to assess the performance of the policy, the huge nature of the number of those who are to be served under the policy necessitates the need for appropriate steps to be taken to substantially meet the expectations and the policy targets. Such steps include the following:

Policy Implementation: The new Micro Finance Policy is a positive development which must be properly implementated so that the objective of providing financial services to the poor, by micro finance institutions is realized and sustained in the long run. This can only be achieved if the causes of failures by other institutions are identified and addressed. The implementation of the policy should address the weak institutional capacity arising from incompetent management and boards, government interference, and weak internal controls. All stake holders including the Federal, State and Local Governments, Non Governmental Organizations and international development partners should be monitored to ensure that they perform the roles and responsibilities assigned to them in the policy.

Adequate Capitalization of Institutions: The problem of lack of adequate capital by microfinance institutions should be addressed. Government should ensure that the development finance institutions in existence are adequately capitalized

Microfinance, supporting economic activities in the rural areas

and run by qualified and independent managements. This would ensure that the right people benefit from the services for which the institutions were established. To avoid hijacking by elite folks and enable the poor to participate in the ownership of the institutions, the government should ensure that guidelines specifying ownership by the local communities are put in place, monitored and regulated by supervisors.

Appropriate focus in Lending: It has been a general consensus that women are more faithful in repaying loans than men, yet they remained the most constrained in terms of access to financial services. Micro-finance programmes across the world have tried to target women, and these have been very successful, particularly in Asia in such countries as Bangladesh, Indonesia and India, and as such, relevant microfinance services should target the women. When the women have access to financial services, especially credits, the fortunes of the entire household is usually turned around. Better health needs, education of children, better nutrition and improved standard of living are achieved.

Hours of Operation: The hours during which the formal financial sector operates are not congruent with the operational time of rural poor in Nigeria who are mostly farmers. In order to properly address the financial needs of rural farmers, the operating hours should be flexible in order to create room for business transactions at evening times when most farmers would have returned from their farms.

Appropriate Linkages: The financial needs of the poor are usually small in terms of loans and deposits. These are often not attractive to the formal financial sector as a result of the high transaction costs. Measures should be adopted to find possible linkages between the formal and the informal sector, and which provides wholesale loans for the later from the former for intermediation purposes. The experience of Ghana where some 'susu' collectors operate in conjunction with the banks is worth adopting. Group-based lending which has been used by some microfinance institutions can also be adopted by the formal sector to reduce transaction cost. Johnson and Rogaly (1997 p.39-40) confirmed that this can be a very effective way of providing financial service to the poor because of inherent transparency.

Insurance/Other Financial Products: The design of insurance/other financial products suitable for the poor is essential in tackling financial exclusion. Such products should target areas such as health, education, advisory-services and loan repayment.

Properly Manned and Functional Institutions: The sustainability and accessibility of any financial services for the poor depend on functional institutions manned by skilled, trained management and informed board members who can effectively identify beneficial linkages, actively pursue financial sustainability and good client relations (Howard 2006). The regulatory agencies should provide training opportunities for the institutions to enable them acquire necessary skills for product development and marketing.

Conclusion

The negative effects of financial exclusion on disadvantaged segments of the population adversely affects the national economy. Improved access of the poor to finance would turn their fortunes, and empower them to engage in meaningful economic activities that will produce beneficial impact on the nation. Investments in measures that will address their exclusion is therefore a price that the nation has to pay to bring them to the mainstream economy.

Microfinance Banks and the Challenges of Confidence Building

By: Mr. Simon AdemolaAkinteye

Mr. Simon Akinteye, MD/CEO IMFB

Microfinance banks (MFBs) have become established the world over as financial agents and active players in the financial intermediation process and more importantly, in the fight against poverty, capacity building and integration of the informal to the formal financial sector. The world owes this success to the visionary and populist legacy of the humble Bangladeshi Professor Mohammad Yunus and his Grameen Model.

Before the advent of MFB in Nigeria, the role was played by community banks, NGO's, traditional esusu, co-operative societies, state and federal poverty alleviation agencies. These institutions only provided short-term solutions to long-term problems. Against the background of the shortcomings of these institutions, the CBN in collaboration with the Federal Government of Nigeria, enunciated the Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on 15th December, 2005. With the commencement of microfinance banks licensing by the CBN in 2006, the financial landscape has been changing dramatically. Today, there are over 600 microfinance banks and more are being licensed.

These microfinance banks play in the financial terrain where there are established kingpins made up of universal banks, insurance companies, finance houses, leasing companies, mortgage banks (savings and loans) and cooperative societies. Each of these institutions have proved its mettle over time, weathered storms and crossed hurdles normally experienced in an active financial system. Microfinance banks, on the other hand, are the weakest in the spectrum of financial institutions in Nigeria. In terms of capital base, the requirement is smaller, N20 million and N1 billion for unit and state microfinance banks, respectively. In terms of manpower, the highest requirement which is that of the Managing Director is a minimum seven years' experience in banking related employment. So far, corporate governance is not yet well institutionalized and the antecedent of community banks is creating a measure of public suspicion.

MFBs in Nigeria today, face the challenge of building, nurturing and sustaining public confidence. For our purpose, the following are steps a MFB can take to retain and enhance the public's perception:

1. Adopting of bench mark best practices
2. Imbibing a holistic approach to best practices.
3. Employing best hands.
4. Expanding outreach.
5. Shoring up your capital base
6. Maintaining transparency.
7. Training and retraining staff
8. Taking business development very seriously.
9. Emphasizing savings mobilization.
10. Being customer focused and customer driven
11. Adopting good credit risk management strategies
12. Focusing on image building through:
    a. Branding
    b. People
    c. Products

IMFB Field Staff

Provision seller IMFB's client

d. Services
e. Posture

13. Forming strategic alliance with other institutions.

Without a strong positive public perception, a MFB would just manage to play at the periphery, a fate that befell the erstwhile community banks. Industry confidence is a function of time and individual performance of the microfinance banks.

LESSONS FROM VETERANS

Indonesia

Bank Rakyat Indonesia (BRI): One of the most established examples of large-scale full service microfinance banks is the Bank Rakyat Indonesia (BRI). The bank had demonstrated a strong staying power recording a profit level of N30 billion in its last financial year, with 80% of its assets in the micro portfolio and only 1.45% as non-performing loans (NPLs). BRI runs over 4,900 outlets (unit desas) across Indonesia, and employs over 40,000 dedicated officers who maintain strong personal relationship with the customers. The public confidence is manifested by a steadily-growing customer base. BRI had found answers to some of the toughest challenges in microfinance, including concentrated exposure to the agricultural sector.

In 2003, BRI launched its Initial Public Offer (IPO), selling a 42% stake, of which 29% were purchased by foreign investors. According to BRI spokesman, Sulaiman Arif Arianto, the success of the IPO was due to the stability of the institution over the years, tested board members, coupled with appropriate microfinance products.

Republic of Benin

The microfinance sub-sector in the Republic of Benin had a good take off and ride for about 10 years after which failure arose in 2005. Unnecessary government interference and the introduction of interest rate subsidy on government sponsored micro loans impaired the activities of the MFIs in the country. Specific issues that adversely affected the activities of the MFIs in Benin Republic included:

- Proliferation of informal sector financial services providers;
- Weaknesses of formal deposit-taking institutions;
- Lack of incentives for retail institutions to mobilize deposits;
- Permissiveness of the framework for microfinance institutions (MFIs);
- Existence of state-run initiatives that undermine the viability of strong MFIs;
- Increasingly fierce and unfair competition among MFIs;
- Lack of technical capacity of some MFIs;
- Problems tied to complying with law and regulation;
- Institutional crises within the major cooperative networks in the sector;
- Inadequate coordination among fund providers and ministries involved in the microfinance sector;
- Failure on the part of the authorities to honor the exemptions granted MFI's; and
- Distortion of the sector by a number of big lenders who engage in dishonest practices.

As part of the measures to revitalize the sector, a consortium of microfinance banks in Benin Republic under the umbrella of Consortium ALAFIA came together with the concept of "shared prosperity" enunciated by the country's president and came up with the following recommendations:

- Agreed to work together and not against themselves
- Held regular sessions to address systemic issues
- Put forward recommendations to the government on ways of improving the sub-sector among which were:
  - Developing a system to subsidize interest rates on micro-loans to the poorest of the population.
  - Establishing a micro-credit wholesale fund.
  - Setting up of an incentive scheme for very poor clients who pay their loans on time and in full.
  - Creating a MFI subsidy.
  - Drafting specific legislation that is simpler and more effective in order to obtain repayment of micro-credit from delinquent clients.

In Nigeria, the stakeholders must endeavour to retain a strong positive public perception for the MFBs. This is a job for each individual MFB, the industry at large, the government and regulators. Efforts of the first licensed 15 MFB's to come together under the umbrella of Association of Microfinance Banks in Nigeria (AMBIN) is laudable. This should be sustained, supported and recognized by government and the regulators. On individual level, each MFB should abide by the rules, so as to shore up the level of confidence the public has in the sector. This would in the end, boost the overall perception of the microfinance sub-sector both locally and internationally.

A paint retailer in her shop one of IMFB's valued customers.

A typical IMFB client in her makeshift shop