Financial and Organisational Review of RIMA and the Microfinance Program in Rivers State

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ABBREVIATIONS AND ACRONYMS

The following Abbreviations and Acronyms were used in the report as follows:

ATM	-	Automated Teller Machines
CBN	-	Central Bank Of Nigeria
FCMB	-	First City Monument Bank
FECANNAR	-	Fecannar Global Konsult Limited
GDP	-	Gross Domestic Product
MDGs	-	Millennium Development Goals
MFBS	-	Microfinance Banks
MFIs		Micro Finance Institutions
NEEDS	-	National Economic Empowerment and Development
NGOs	-	Non-Governmental Organisation
		Strategy
RIMA	-	Rivers State Integrated Microfinance Agency
RVSG	-	Rivers State Government
SMEEIS	-	Small and Medium Enterprises Equity investment Scheme
SPV	-	Special Purpose Vehicle
TOR	-	Terms of Reference
TBFML	-	Treasure Base Funds Management Limited

1. Executive Summary

Executive Summary

The Rivers State Microfinance Agency was commissioned in November 2008, following the passing of the law establishing it. The agency staff were recruited and most had resumed work by January of the following year. Office accommodation was identified and leased and No.2 Evo Crescent, Port Harcourt and the agency seemed set to take off. However in May 2009, concerns of the efficacy of the operational model intended by the agency were raised and all operational activities were in effect totally suspended.

ReStraL was engaged in October 2009 to review the operations as at date, as well as recommend a suitable operating model for it going forward. ReStraL's methodology involved interviews with staff and management; focus group sessions with industry practitioners; best practice research and reviews and high level strategy engagement sessions with stakeholders.

Our report essentially details the status of the organization by December 2009 and our findings included the following:

A. **Financials**

As at November 2008, RIMA was advanced a total sum of N2.5billion by the Rivers State Government comprising N500 million interest free loan for the operational expenses of the agency and N2.0billion Investment Fund. Total earnings from Fixed Deposit placements during this period amounted to N199, 235, 363.99 – bringing the total funds available to RIMA since inception to N2, 699, 235, 364.00.

As at 30 September 2009, we noted that RIMA had Cash and Bank balances of N2, 115,068,877. The major component of the balances is the N2.0billion Investment Fund provided by the Rivers State Government. The balance amount of N115,068,877 was made up of confirmed balances (through the bank statements) of the FCMB operating account balance of N64,695,352, with that of Zenith Bank being at N49,877,399. The physical cash available in the office was N496, 136.00

The total amount expended during the period under review therefore amounted to N584, 166,487.00. It is pertinent to mention that Section 6(1) of the RIMA Law anticipates that the Working Capital provision will fund administrative and operational expenses for the agency's first two years. In this regard, the organization exceeded the N500m approved by N84 million, after its first year in operation. Though the Act does not specify any particular amount for this purpose, it is expected in approving the said sum to the organization such considerations influenced the eventual amount allocated.

While all the monies could be traced and accounted for, the judgment driving some of the expenditure, funding practices and financial income management practices was sometimes questioned. Our review of the spending practices during this period is captured in Section 3 of this report under "Accounting/Financial Due Diligence".

B. Human Resources and Manpower Capacity

The structure and manpower capacity of the agency was also reviewed. Our findings revealed poorly skilled workforce in general. Of the eight persons in management, only three appeared to have significant professional depth and competence. The general profile of staff was that most were inexperienced and had not worked elsewhere prior to RIMA or do not have relevant experience. There is therefore a weak pipeline in terms of both supervisory and back up capacity.

Currently there is no board, or Executive Management (the next senior person to the Managing Director is a Senior Manager). This has spawned a very CEO centric organization not sufficiently robust in terms of internal diversity of views and opinions, and the checks and balances that these produce. Please see our review of the structure, staff and leadership capacity in Section 4 of this report under "HR Capacity, Management and Leadership Practices"

C. Legal, Governance and Regulatory Policies

The RIMA Law was reviewed, as well as the regulatory and governance context within which RIMA currently operates. Critical issues that emerged from this process highlighted the following:

- The RIMA Law as passed has a lot of inherent conflicts i.e. clauses that directly contradict one another in the area of an operating model, equity holding, legal arrangements – all of which could result in confusion
- The Law prescribes loans only to Rivers indigenes, which not only contradicts the CBN policy framework on Microfinance banking which advises that the target market be residents – but also is capable of creating both social and economic dysfunctions
- The RIMA Law, which to some extent, promotes a retail lending model, requires RIMA to step into the role of most Microfinance banks without having the required structures and paraphernalia for operations. This route is questionable in the sense that RIMA can never truly metamorphose into an MFB as the CBN policy excludes the government from such ownership
- The Governance requirements by the Law requiring two organizations and two boards for both RIMA and a special purpose vehicle (SPV), Treasurebase Fund is unwieldy
- Other concerns affect how willing donor agencies would be to provide grants and support to RIMA in the face of part of the equity in RIMA possibly being held by profit making third parties and commercial organizations?

In addition, to the fact that the RIMA Board is yet to be constituted and that RIMA therefore has had no board governance to date – there are critical legal, governance and regulatory issues and concerns which have been highlighted in Section 5 of this report

D. Operating Model

The erstwhile operating model proposed for RIMA is a Retail one. This model required the establishment of an SPV called the Treasurebase Fund into which investments would be made by the government and third parties. The State Government in this regard has entered into an equity partnership with the First City Monument Bank (FCMB) Plc which by the

Memorandum of Understanding provides the latter with a 33% stake in the Treasurebase Fund reflecting the bank's intended equity contribution of One billion Naira.

The planned disbursement modalities included the loan applications being processed and disbursed directly by RIMA through pre-qualified MFBs; with MFBs and NGOs being vested with the responsibility for recovery. Proposed Interest rates for the facility would be 10%, with 6.5% apportioned to RIMA; and 2.5% and 1% to both the MFB and NGO. This model has been thoroughly analysed in Section 6 of this report "Operational Model (and Best Practices)", as well as the Section 7 covering "The Way Forward". The conclusion is that the model is unwieldy, not economically viable and in the long run unsustainable. It is also likely to introduce negative pricing distortions into the market capable of shrinking and hindering overall industry growth locally.

The report recommends that the Retail model be converted to a Wholesale one, in which RIMA's role would be to serve as a financial intermediary furnishing funds to MFIs for on-lending to the market. It has also been argued that the robustness of the local microfinance industry would go a long way to facilitating RIMA's objectives – in this regard, this report recommends that another prong of RIMA's responsibility be focused on some form of quasi regulatory role in the form of industry monitoring, supervision and capacity building support activities.

To address the possible potential conflicts with third party equity holders, as well as bolster the focus on performance and accountability, changes to the funding model have also been suggested. In this regard, the report recommends that RIMA should not be run through equity funding, but instead through debt. In this regard that the Treasurebase Fund arrangement with FCMB (which is yet to take off) be discontinued going forward. The Government's Funding of RIMA's investible funds going forward will be as a revolving loan arrangement – payable every 12 to 18 months with interest rate charges of 0.5% – 1% (this earnings will take the place of previously cited dividend earnings expected from the erstwhile equity arrangement).

It is expected that the Government in line with the CBN policy will be committed to making annual payments to RIMA (of 1% or less of the annual budget), but that this payment will be related to:

- RIMA's performance with the previous facility granted by Government; and
- The market's absorptive capacity as recommended by the RIMA board

This arrangement will allow as many third parties including bank's with SMEISS Funds participate in RIMA through the "soft" loan route without necessary having an equity stake in RIMA. It also removes the potential conflict of having the government's annual subventions – as described in Section 6(3) of the RIMA Law – fund the equity interests of third parties who may not necessarily be bound to also make annual injections capable of maintaining the original equity balances. Finally, donor funding and support will be much easier to attract to RIMA with such an arrangement that requires no direct benefit from such support going to profit making organisations.

E. The Way Forward

In Section 7 of this report titled "The Way Forward" we have also gone ahead to recommend immediate next steps to take in the implementation of the recommendations captured throughout the report and very broadly highlighted in this Executive summary.

Taking all of the above into the cognizance, this report has analysed the weaknesses with the status quo and gone ahead to recommend a different Operational Model capable of addressing the current weaknesses and gaps, while still meeting the socio-developmental needs of the government in both an economically viable and sustainable means.

2. The Microfinance Sector and RIMA

2.0 Micro-finance Sector

This section of the report contains:

1) Overview of Microfinance Sector in Nigeria
2) Policy Framework and Government Intervention in the Microfinance Sector
3) Objective Principles for Microfinance
4) Relevant Brief on Rivers State
5) The Financial Intermediation Structure of Rivers State
6) Background Information on Rivers State Integrated Microfinance Agency (RIMA)

2.1 Overview of Microfinance Sector

The Government of Nigeria recognized that robust economic growth cannot be achieved without well focused strategic programmes to reduce poverty through empowering her people and increasing their access to financial services. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

As part of its national agenda to drive the robust economic growth, the Federal Government through the Central Bank of Nigeria formulated and presented the Microfinance Policy Framework for Nigeria in 2005. The policy created a platform for the establishment of microfinance banks and defined CBN's regulatory and supervisory responsibilities in the microfinance sector in Nigeria. The Government encouraged private and other public sector players to participate in the emerging industry through enhancing the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. A key policy target of the federal Government as encapsulated in the Microfinance Policy Framework is *"To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015."*

As part of its economic empowerment program, the Rivers State Government (RVSG) set up the Rivers State Integrated Microfinance Agency (RIMA). The agency was established by the Rivers State Microfinance Agency law No 6 of 2008, in response to the Federal Government's agenda and to actualize the intentions of the state government to address some of the observed imbalance in the funding of micro businesses in the state. The mission is to build a network of strong, efficient and well funded Microfinance institutions in the state that will stimulate economic and social prosperity through the delivery of holistic and reliant Microfinance solutions to micro enterprises.

Industry experience has however revealed that Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the commercial (non-farm) activities and agricultural sector. Although the services have resulted in an increased level of credit disbursement and gains in economic activities, the effects were short-lived, due to a number of factors. These include:

- Poor corporate governance
- Incompetent management
- Weak internal controls
- Lack of well defined operations
- Inadequate regulatory/supervisory structures.
- Weak capital base
- Unsustainable nature of intervention programmes.
- Weak institutional capacity

Microfinance is differentiated from commercial lending by the concepts of joint liability or group lending; dynamic incentives that allow for an increase in size of loans over time; regular repayments schedules; and alternative collateral through forced savings – yet very little of these has been seen in the way the industry currently operates

2.2 Policy Framework and Government Intervention in the Microfinance Sector in Nigeria

Prior to the advent of licensed Microfinance Banks in Nigeria, the formal grassroots banking Institutions in Nigeria were the Community Banks under the supervision of The National Board for Community Banks. The community banks were caught in the throes of an inefficient economic system while there was also the issue of capital erosion as a result of accumulated losses.

In 2005, in the wake of a broader financial system reform agenda, the Central Bank of Nigeria through the Microfinance policy framework provided for the licensing of Microfinance Banks and the transformation of Community Banks into Microfinance Banks with improved capital base and stronger structural profile.

The CBN's regulation of the activities of the Microfinance Banks in Nigeria covers **licensing, policy framework, field examination and supervision from time to time, among others**.

These supervisory and regulatory powers are conferred on it by the provisions of Section 28 subsection (1) (b) of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56-60A of the Banks and Other Financial Institutions Act [BOFIA] 25 of 1991 [as amended]. The supervisory and regulatory guidelines empowers the CBN to regulate microfinance activities and the establishment and operations of Micro-Finance Banks [MFBs] that seek to take savings/deposits from members of the public and engage in microfinance intermediation services for their clients in Nigeria.

A Micro Finance Bank, has been defined by the CBN regulatory and supervisory framework for microfinance banks [MFB's] in Nigeria of December as *"any company licensed to carry on the business of providing micro-finance services such as savings, loans, domestic fund transfers and other financial services that economically active poor, micro-enterprises and small and medium enterprises need to conduct or expand their businesses as defined by these guidelines."*

A Micro Finance Client is defined by the CBN as –
A client of an MFB that generally possesses the following characteristics:

- *Have a monthly income of not more than twice the monthly per capita income of Nigeria or minimum wage, whichever is higher.*
- *Have a total productive assets [inclusive of those arising from loans but excluding the cost of land] of not more than five hundred thousand Naira [N500, 000.00] only*
- *Is not a regular employee of any organization*
- *Aged between 18 and 60 years*

A Microfinance Loan has been defined by the CBN *as "a facility granted to an individual or a group of borrowers whose principal source of income is derived from business activities involving the production or sale of goods and services. The maximum principal amount shall not exceed N500, 000 or/and as may be reviewed from time to time by the CBN."*

Generally, the microfinance loan should be granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, women, senior citizens and non-salaried workers in the formal and informal sectors. The said loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household. Ordinarily, the tenure of microfinance loans is 180 days [6 months]. However, in the case of crops with longer gestation periods, a maximum tenure of twelve [12] months shall be permitted. Microfinance loans may require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly or monthly basis in accordance with amortization schedule in the loan contract.

2.2.1. Ownership of Microfinance Banks

State Governments and public sector agencies are not permitted to set up microfinance banks. The CBN Microfinance policy states that "Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFBs."

Also, no individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one MFB under a different or disguised name.

2.2.2 Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs)

The CBN policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and are *not* to mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN.

NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified requirements for licensing microfinance banks.

2.2.3. The Roles and Responsibilities Of Governments and Donor Community

Despite the country's relative oil wealth, GDP per capita is about US$1,401 (2008), and poverty is widespread – about 54 percent of the population lives on less than 1 dollar per day. This has necessitated the intervention of both the Federal and State Governments in Nigeria to create various poverty intervention and empowerment initiatives to support in building the economic frontiers of the people especially the economically active poor within the society. One of these initiatives is the establishment of Microfinance Apex agencies by State Governments for the purpose of supporting Microfinance Institutions and the economic growth of Micro entrepreneurs in the States.

The CBN policy stipulates the roles and responsibilities of various stakeholders to include the following:

The Government

Government shall be responsible for:

a. Ensuring a stable macro-economic environment, providing basic infrastructure (electricity, water, roads, telecommunications, etc), political and social stability;
b. Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;
c. Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy; and
d. Setting aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents

Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP), RIMA etc in the development of the sub-sector. They shall be encouraged to perform the following functions:

a. Provision of resources targeted at difficult-to-reach clients and the poorest of the poor;
b. Capacity building;
c. Development of MFIs' activities nation-wide;
d. Nurturing of new MFIs to a sustainable level; and
e. Collaborating/partnering with other relevant stakeholders

Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include **grants, donations, technical assistance** etc.

The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of the CBN policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro-financing initiatives, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

Appraisal of existing microfinance-oriented institutions

More recently, the CBN has indicated that from the appraisal of existing microfinance-oriented institutions, the following were evident among the Microfinance Banks in Nigeria:

- Weak internal structure
- Existence of a huge un-served market
- Economic empowerment of the poor, employment generation and poverty reduction
- Need for increased savings opportunity
- A channel for the utilization of SMEEIS Fund

2.3 Underlying Objectives and Principles for Microfinance

Some of the underlying objectives for enabling the delivery of microfinance services and products include:

- An appreciation that the poor need access to appropriate financial services structured to meet their circumstances
- That the poor do have the capability to repay loans, based on the real cost of such facilities – as well as to generate savings
- Microfinance is an effective, world proven tool for poverty alleviation
- Microfinance Institutions (MFIs) must aim to provide financial services to an increasing number of economically active poor

- Microfinance can and should be undertaken on a sustainable basis to avoid longer term dysfunctions and imbalances
- That Microfinance NGOs and programmes need to develop performance standards that will help define and govern the microfinance industry toward greater reach and sustainability

2.4 Rivers State

Rivers State is located in the Niger Delta Basin of the country and was created in 1967. It has a landmass of 37,000 square km, with 23 Local Government Areas and Port Harcourt as its capital city. The State has a population of 5.69 million people according to the 2006 census estimates. The inland part of Rivers state consists of tropical rainforest; towards the coast the typical Niger Delta environment features many mangrove swamps.

The people of Rivers State are predominantly farmers, fishermen and retail traders. The farming, fishing and trading activities are carried out at a subsistence level, resulting in low income and poverty. The State is endowed with abundant natural resources such as oil and gas. This has resulted in high influx of foreigners and oil and gas related businesses into the State.

2.4.1 Ethnic Composition

The ethnic composition of Rivers State is very diverse. These include Kalabari, lkwerre, Okrika, lbani (Bonny and Opobo) Ekpeye, Ogba, Etche, Khana, Gokana, Eleme, Ndoni, Abua, Odual and others.

2.4.2 Administrative Structure

There are three arms of government in Rivers State and these are: The Executive; The Legislature; and The Judiciary. The State Executive Council is made up of the Governor, His Excellency, Rt. Honourable Rotimi Amaechi, the Deputy Governor, the Secretary to the state government, commissioners and special advisers. The State is divided into twenty-three Local Government Areas (LGAs).

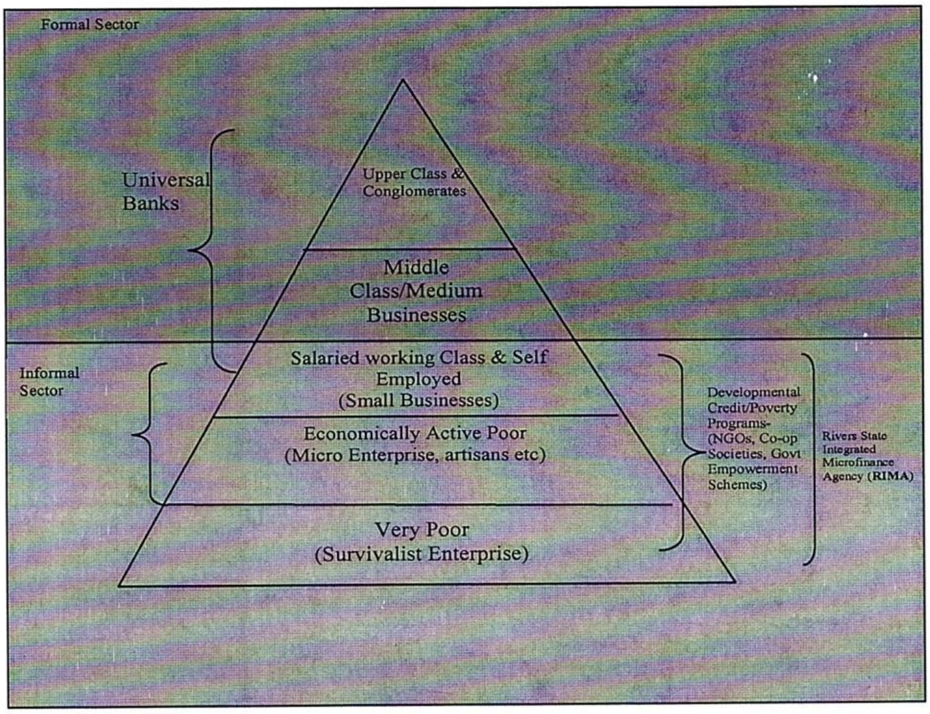
2.4.3 Economy

Rivers State is the second largest economy in the Nigeria after Lagos State. It has a GDP in US$ of US$21,073,410,422 which is larger than most national GDPs on the African Continent. TheState has two major refineries, two major seaports, airports and various Industrial Estates spread across it, particularly in the State capital.

The majority of the indigenous Rivers State population is deemed poor and trapped in the informal sector of the economy (illustrated in the diagram below) that is characterised by poverty. This economy is also characterized by the severe structural weaknesses that underlie a large, under-serviced, unmapped and poorly understood informal sector – which is the target of the Rivers State Integrated Microfinance Agency (RIMA).

The Financial Intermediation Structure of Rivers State is presented below:

Figure I: **The Financial Intermediation Structure of Rivers State**



2.5 Establishment of Rivers State Integrated Microfinance Agency (RIMA)

River State Integrated Micro Finance Agency (RIMA) is an Agency of the Rivers State Government established pursuant to the Rivers State Microfinance Agency Law, No. 6 of 2008. It is an integrated microfinance institution empowered to provide a variety of alternative financial, business and social support services to microfinance institutions, low income entrepreneurs of Rivers State origin with business activities domiciled in the State.

The Agency is empowered to disburse the Rivers State Microfinance Fund, screen and pre-qualify MFBs that fulfill certain eligibility criteria, provide institution building support in form of technical assistance/training to the MFBs' staff, undertake monitoring and recovery of the loans, achieve sustainability and good outreach in depth and breadth, measure the impact, evaluate and report efforts to the government.

As part of its economic empowerment programmes, the Agency is to support the economically active people especially indigenes of the state by providing loanable funds through the Microfinance Institutions (Microfinance Banks, NGOs, Co-operative Societies etc).

2.5.1 RIMA's Business Objective

RIMA's primary objective as it were, is to provide basic financial requirements to under-privileged Rivers indigenes who are involved in legitimate micro, small and medium scale activities in the state, who would typically not benefit from the services of the orthodox banking system due to their inability to provide the collateral, often required.

Furthermore, the Agency will ensure that microfinance funds are distributed all over the State through designated micro-finance banks by spreading its services to every Local Government Area in the State and targeting every commercially active micro-entrepreneur in the State.

The key result areas are:

- To assist majority of the enterprising poor Rivers people with viable but challenged businesses the opportunity to enable them achieve financial independence
- To ensure sustained growth of business enterprises in the state
- To drive social development across Rivers State, and;
- For the agency to be self reliant in its operations to ensure subsequent sustainability

2.5.2 RIMA's Strategic Intent

Rivers State Integrated Microfinance Agency's Vision and Mission Statements as well as the Core Values are highlighted below:

Vision Statement:
''To enable the majority of the enterprising poor of Rivers State origin with viable but challenged business activity in Rivers State achieve financial and <u>economic independence</u>, to <u>drive social development</u> across Rivers State and to be <u>self reliant in its operations</u> in order to ensure long term sustainability''.

Mission Statement:
''To build a network of strong, well regulated and effective MFIs (Microfinance Financial Institutions) in Rivers State that will <u>stimulate economic and social prosperity</u> through the delivery of holistic and relevant microfinance solutions to micro entrepreneurs''.

Core Values

Entrepreneurship; Resourcefulness; Empathy; Results-orientation and Accountability

2. 6. RIMA's Operations

The agency has its office (Leasehold) at 3 Evo Crescent, GRA, Port Harcourt. It commenced operations in November 2008 with staff of ten (10) most of who were mainly Heads of Departments.

A management consulting firm, Fecannar Global Konsult Limited was engaged to recruit the start-up personnel and to provide best practice operational procedures suitable for the institution. RIMA now (December, 2009) has a total of forty-four (44) regular employees which include Eight Heads of Department and the Managing Director.

2. 6.1. Strategic Partnership with First City Monument Bank Plc

A Memorandum of Understanding was signed between the Rivers State Integrated Microfinance Agency (RIMA) and First City Monument Bank Plc (FCMB) effective 18th of December, 2008, for the purpose of establishing a Special Purpose Vehicle (SPV) to be known as Treasure Base Funds Management Limited. The SPV shall be properly and adequately funded and in addition to its initial equity, shall generate and manage a pool of investment funds, which shall be disbursed to certain pre qualified and duly accredited Microfinance Banks, Co-operative Societies and Non-Governmental agencies involved in the business of micro-financing in the state for on lending to micro entrepreneurs.

The SPV is to have an authorized share capital of N3.0billion divided into 3.0 billion ordinary shares of N1.00 each of which:

- 2 billion (66.66% of the equity share capital of the Joint Venture) fully subscribed and paid up shares shall be registered in the name of and be beneficially owned by the Rivers State Government or through a duly authorized and accredited representative;
- 1 billion (33.33% of the equity share capital of the Joint Venture) fully subscribed and paid up shares shall be registered in the name of and be beneficially owned by the Commercial Bank or through a duly authorized and accredited representative.

The business and affairs of the JVC shall be managed by the Board of Directors consisting of 3 persons; 1 appointed by FCMB while the remaining 2 Directors (RIMA's MD as the Chairman of the JVC) represent the interest of the agency

The MoU equally states that the cost of (and related to) the incorporation of the JVC shall be borne, paid and or refunded by the JVC while the same applies to costs of each of the parties incurred in the preparation and execution of the agreement.

The MoU was jointly signed by the Managing Director/Chief Executive of Rivers State Integrated Microfinance Agency, Mr. Victor Halliday and FCMB Plc's Executive Director, Mr. Henry Semenitari respectively.

2.6.2 RIMA's Financial Base

The Rivers State Government released the sum of N2.5billion (Two Billion and five Hundred million naira only) in November 2008 to the agency. Of this amount, N2.0 billion was the State's contribution to the Joint Venture for the economic empowerment programme put at N3.0billion, while the remaining N500 million was given as a free interest grant for the structural and operational take off of the agency.

2.6.3 Relationship with Microfinance Banks (MFBs) in Rivers State

Microfinance Institutions (MFIs) are expected to play major roles in facilitating micro credit to the economic active poor indigenes of Rivers State. This is as a result of their closeness and proximity to the communities. The MFIs are to collaborate with RIMA towards the achievement of the goals and objectives of the program in disbursing loan-able funds, and ensuring recoveries as at when due. In order for the MFIs to play the role expected of them, RIMA pre-qualifies them through an assessment process using both objective and subjective criteria aimed at ensuring both the transparency and viability of the process.

RIMA has conducted pre-qualification assessment of MFBs. From 21 MFB's that applied for listing as an outreach for loan disbursement, 13 MFBs were recommended and finally certified. Also, with regard to potential beneficiaries from the Fund, RIMA has processed 6,000 applications received of which 1991 have been approved. However, it is pertinent to mention that no disbursements have been made due to government's directive putting loan disbursement on hold, pending the clarification of certain operational modalities within RIMA.

3. Accounting/Financial Due Diligence

3.0 Introduction

This section deals with the diagnostic review of RIMA's Financial and Accounting operations under the following headings:

1) Purpose of Financial Statements Review
2) Profit and Loss Accounts Review
3) Review of Major General and Administrative Expenditure Accounts
4) Review of Key Balance Sheet Items
5) Highlights of other issues on Accounting/Financial Due Diligence
6) Major Outsourcing Contracts

3.1 Accounting /Financial Due Diligence

3.1.1. Purpose of Financial Statements Review

We reviewed RIMA's financial statements and relevant supporting transactional documents from inception in October 2008 to 30th September 2009. The financial statements comprised - The Profit and Loss Account; Balance Sheet and the Notes to the Accounts. The objective of the review was to:

- Ascertain the financial condition of RIMA;
- Review appropriateness of observed expenditures and operation from inception to September 2009
- Assess the financial sustainability of RIMA based on the reported financial performance and
- Perform an assessment of financial controls

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3.1.2. Review of Profit and Loss Account

The Profit and Loss account expresses the results arising from current operations of RIMA. The essence is to show whether the Agency made profit or loss from its operations for the period under review expressed as the difference arising from total income generated from operations and the total recurrent expenditures (for the period under review). The Profit and Loss Accounts from December 2008 to September 2009 is as indicated below:

RIVERS INTEGRATED MICROFINANCE AGENCY'S PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30.09.2009	
	₦
EARNINGS:-	
INTEREST INCOME	199,250,989.00
INTEREST EXPENSES	0
NET INTEREST INCOME	199,250,989.00
COMMISSION & FEES	0
OTHER INCOME	600,000.00
TOTAL OPERATING INCOME	**199,850,989.00**
EXPENDITURE:-	
STAFF EXPENSES	78,334,499.00
GENERAL & ADMIN EXPENSES	142,651,997.00
PREMISES/PROPERTY EXPENSES	1,114,280.00
DEPRECIATION EXPENSES	20,224,092.00
TOTAL OPERATING COST	242,324,868.00
NET OPERATING INCOME/LOSS	-42,473,879.00
LESS: PROV FOR BAD & DOUBTFUL DEBT	0
NET PROFIT/(LOSS)	**-42,473,879.00**

Our approach involved reviewing RIMA's transactions on each of the Account items. Our findings and observations on each account are as presented below:

i. **Interest Income- N199,250,989CR**

RIMA earned a total interest income of N199, 250,989 from January to September 2009.This was earned from funds placement with three (3) banks (FCMB, Zenith and Finbank). The details of the three bank placements are shown below:

Date	Bank		Amount		Status
26.11.2008	FCMB		N2.0Billion		Still Running as at October 2009
24.11.2008	Zenith Bank, Bonny		N230million		Terminated on 14.01.09
27.04.2009	First Inland		N20million		Terminated on 09.06.09

The placements with Zenith and Finbank were one-off transactions which had been terminated as at the time of the review. The third placement of N2.0billion (representing the Government's targeted

equity contribution to the Treasurebase Fund) is still running and this is with FCMB. The monthly interest generated from the deposit placement is credited to RIMA's operating account with the same bank. The interest rates on the FCMB placement of N2.0 billion for the period in question ranged between 12.5 to 17% per annum (as at the time of the review it was 16% per annum).
The placement with FCMB has contributed over 98% of the Interest income earned to date.

Our Observations

a. Placement of N230m with Zenith Bank

Placement commenced on November 24th 2008. RIMA's instruction was dated 20th November, acknowledged on 26 November 2008 for the placement of N230 million but was not carried out by the Bank until 03 December 2008 (a clear 7days for which no interest was given to the agency). There is no evidence that RIMA's management made any demand for the interest lost during the seven days in question.

Ssubsequently, the management of the Agency transferred N230 million from the Zenith Bank,Trans Amadi Branch to the Zenith Bank branch in Bonny. Again, the rationale for requesting such an intra-bank movement is unclear.

Other observations include:

- The placement was made in the name of Treasurebase Microfinance Ltd- which was still an unregistered company at the time of the placement. This questions the procedures applied
- The placement was only at an interest rate of 10% per annum (net of all taxes).The 10% per annum interest rate for N230 million as at the time was low as our investigations reveal an industry average was well over 13% per annum[1]
- The facility was eventually liquidated on January 14, 2009. We found it unusual that the amount was credited to RIMA's account in three separate tranches in various amounts, eventually totaling N231, 814,795.36 which covered both the original placement as well as interest earned on it.

b. Placement with FINBANK Plc.

[1] ReStraL deposit placements with both GTB and Zenith during this period may assist in this regard: In November, 2008 a single placement of N9.1m with GTB was priced at 13%; while a single N2m deposit with Zenith Bank was priced at 12.5%. It is pertinent to note that the amounts involved were far smaller than the amount in question. Another source (informal but directly from Zenith) stated that official rate was 13%- 16% for amounts between up to N100million. Amounts above N100m according to the contact went above 16% between October to December 2008

Finbank placement of N20 million was also at 10% per annum interest rate. This we believe was also not competitive enough.[2]

c. Placement with FCMB

The N2 billion deposit placement with FCMB was dedicated for disbursement to microcredit beneficiaries when Treasurebase Funds Management Limited (Treasurebase Fund) commences operation.

The interest on the N2 billion deposit placement, which amounted to over N197m as at 30th Sept. 2009 was however credited monthly to RIMA's current account. This amount is expended by RIMA as part of its operational fund. We noted that the management of RIMA had no approval or consent of the State Government to expend the interest income from the dedicated equity fund.

Such interest having been derived from an Investment Fund, the immediate expectation is that any interest earned from such funds would be compounded as part of the Fund. Due approval from the Governor (in the absence of a board) ought to have been sought and obtained before appropriating such earnings. Though management claims that the basis for so accessing was the directive that they fund their day to day activities from their operational income – it is arguable that such funds can technically be termed "Operational Income" earned in the course of normal day to day business activities.

d. Breakdown of Interest Income from Bank

The analysis of the interest income generated by the agency from the three banks is presented below

[2] [2] ReStraL deposit placements with both GTB and Zenith during this period may assist in this regard: In November, 2008 a single placement of N7.5m with GTB was priced at 13%; while a single N5m deposit with Zenith Bank was priced at 13.5%. Again the amounts are significantly lower than the amount in question.

		Breakdown of Interest Income on Deposits			
Bank	Duration	Description	Amount	Int Earned	% of Int Income
Zenith	Jan 1st-31st, 2009	Deposit Account	230,000,000.00	1,814,795.36	0.91
FCMB	Feb 1st-28th, 2009	Call Deposit	2,000,000,000.00	14,794,520.55	7.43
	Mar 1st-31st, 2009	Call Deposit	2,000,000,000.00	27,945,205.48	14.03
	Apr 1st-30th, 2009	Call Deposit	2,000,000,000.00	27,945,205.48	14.03
	May 1st-31st, 2009	Call Deposit	2,000,000,000.00	28,341,205.89	14.22
	Jun 1st-30th, 2009	Call Deposit	2,000,000,000.00	24,657,534.25	12.38
	July 1st-31st, 2009	Fixed Deposit	2,000,000,000.00	22,996,623.01	11.54
	Aug 1st-31st, 2009	Fixed Deposit	2,000,000,000.00	22,931,506.84	11.51
	Sep 1st-30th, 2009	Fixed Deposit	2,000,000,000.00	27,616,438.36	13.86
Fin Bank	Jun 1st-30th, 2009	Fixed Deposit	20,000,000.00	192,328.77	0.10
Total				**199,235,363.99**	**100.00**

Summary of analysis

- Interest income from Zenith Bank placement amounted to N1,814,795.36 and represented 0.91% of interest income
- The income from FCMB placement totaled N197,228,239.86 and accounted for 98.99% of interest income
- The FinBank placement Interest income was N 192,328.77 and represented only 0.10% of interest income

ii. Interest Expenses -Nil

The Profit and Loss Account shows that the Agency did not incur any interest expenses after commencement of operation. This was due fact that it did not establish borrowing relationships or accept any liability or deposit requiring payment of cost or interest liability

iii. Commission and Fees-Nil

RIMA's is yet to earn any commission and fees, as it has not commenced income earning operations from its core business

iv. Other Income- N600,000CR

RIMA earned other income amounting to N600, 000. This relates to the sum of N20, 000 non refundable deposit from 30 Microfinance Banks that applied for pre-qualification for the disbursement of RIMA funds for onward lending to potential beneficiaries.

We observed that all the MFBs that paid the non refundable deposit of N20, 000 had been assessed, with the ones meeting RIMA's basic requirements and assessment criteria eventually becoming pre-qualified.

v. Staff Expenses-N78,334,499

The total staff expenses from December 2008 to September 2009 amounted to N78, 334,499. These expenses were for forty-four (44) permanent staff and management, and two non staff who are directly assigned to the Office of the Managing Director. While a breakdown of the Staff Salary Scale and its adequacy will be provided in the Section Four on Human Resource Capacity Assessment, a pertinent observation relating to relations of the Managing Director whose salary expenses are included in the above amount is captured below.

Our Observations

a) We observed that the Staff expenses is inclusive of the sum of N350,000 monthly payments (as allowances) to two (2) of the Managing Director's direct staff (Messrs Jim Halliday and Abbey George) since December 2008 who are not categorized as the Agency's direct employees. Monthly payments to them are as follows:

		N
Kalada Jim Halliday	Technical Assistant	250,000.00
Abbey George	Personal Assistant	100,000.00

b) Further enquiry from the HR Department revealed there were no staff files for these individuals. These persons did not also go through the formal recruitment process involving the consultant, Fecannar Global consult Limited. RIMA's Human Resources department was also not involved in any interview of these people before engagement.

7 c) Enquiries from the Managing Director indicated that he viewed his position as a political appointment, and in that context was entitled to personal staff. His office is not a political appointment and this assumption is erroneous.

d) Though not a staff of the organization, we observed the influence nevertheless wielded by Kalada Jim Halliday in the procurement of office furniture and generators, as well as for

e) leasehold enhancement; with cheques drawn in his personal name for cashing. The noted sums included the following;

Date	Amount	Asset Purchased
10.02.09	N1, 259,574	Photocopiers
11.02.09	N2, 586,000	MD's Residence Generator
22.12.08	N4, 055,000	Office Generator

f) It was observed that one of the Honda Civic cars purchased for the office is assigned to Jim Kalada Halliday who is not a Management staff. The MD explained that this was a departmental car assigned to him.

<u>Our Comments</u>

We consider the payment of monthly allowances by the Managing Director to people not employed as direct staff of the Agency without higher level approval, as inappropriate. Their salaries ought not to be captured as part of the organisation's monthly liability.

We also view large cash collections, for procurement of capital items and recurrent expenditures by Jim Halliday (or any other person) as an act of financial indiscipline in violation of typical practice, as well as laid down financial regulations of government. Also, the payment of money meant for suppliers or contractors should not be in personal names.

There is need to re-appraise the engagement of these two people by RIMA'S Managing Director in order to ascertain their usefulness to the Agency as well as to their Principal. Pending the determination of whether to properly engage them, it is imperative to suspend all forms of payments and allowances to them.

Direct Cabinet to disengage.

vi. General and Admin Expenses-N142,65,997

The Agency had incurred a total of **N142, 651,997** as general and administrative expenses as at 30th September 2009. The breakdown of this is presented in the table below and our findings on the key expenses highlighted thereafter

General & Admin Expenses as at as at 30 September 2009	
Training & Development	6,104,350.00
Office Rent	4,124,997.00
Vehicle Expenses	2,237,148.00
I.T Expenses	1,288,710.00
Utility Bill	280,484.00
Generator Repairs/Maintenance	8,966,655.00
Communication Expenses	1,238,662.00
Transport Expenses	4,513,533.00
Advert & Promotion Expenses	23,012,492.00
Other Entertainment Expenses	718,555.00
Stationery	3,454,820.00
Security Expenses	5,975,000.00
Subscription	245,000.00
Insurance Expenses	4,035,300.00
Bank Charges	535,107.00
Other General Expenses	5,827,948.00
Pre-incorporation Expenses W/off	28,793,236.00
Mgt Consultancy Fees	41,300,000.00
Total	**142,651,997.00**

Review of Major General and Administrative Expenditure Accounts

i. Generator Repairs and Maintenance-N8,966,655

The agency expended the sum of N8, 966,655.00 on the Repairs and Maintenance of three (3) generators - two of them for the office and one for the MD's residence. The first one was used in the office was purchased in December 2008 while the other two were acquired in March 2009 and brought into the agency's fixed assets schedule in the same month.

Our Observations

(a) From the monthly financial records provided by RIMA, over N1 million is spent (every month) on Diesel to power the Generators; however we could not review the consumption of AGO (Diesel) by each of the three generators as no records of these could be provided by the Admin Department. There is need to maintain records (bin cards) on delivery and consumption of Diesel by the 3 Generators

(b) We also noticed that the two Generators in the Office were vandalized by unknown persons in June 2009; with RIMA spending its funds for the repairs and replacement of spare parts as the generators were not insured. We advise the management to ensure the comprehensive insurance coverage of all the Agency's assets.

ii. Advert & Promotion Expenses-N23, 012,492

Our review of transactions on Advert and Promotion Expenses revealed that the sum of N23, 012,492.00 has been expended on this class of expenditure from inception to September 2009. We noted that in the April 2009 alone, over N15million was expended on Advert and Promotion expenses. On enquiry, we were informed that the payment related to various campaigns and capacity building programmes for stakeholders. Not having being involved with RIMA at the time, it is difficult to judge the optimisation of this investment

iii. Pre-Incorporation Expenses written off-N28,793,236Dr

The Agency's pre-incorporation expenses stood at N156, 063,928 as at February 2009. These relate mainly to:

Summary of Pre-operational Expenses:

Description	N
Management consultancy	47,500,000.00
Professional /Legal fee	57,517,000.00
Business Development	7,589,800.00
Bank Charges & COT	16,740,191.00
Stamp Duty	22,500,000.00
Other miscellaneous Exp	4,216,937.00
Total	**156,063,928.00**

The Management has decided to write off the pre-incorporation expenses over four years, of which N28.793million was written off between February and September 2009 (with a monthly write off N3, 199,248).

Our Observations

a) An amount of N10.5 million is included in the pre-incorporation expenses. This was the COT charge made by Zenith Bank on the N2 billion transferred to FCMB. The COT was charged at N5 per mille contrary to the agreed rate of N2 per mille with the Bank. RIMA was thus overcharged RIMA by N6.3million and this has not been reversed by the bank as at the time of carrying out this review. The Management of RIMA should ensure that Zenith Bank refunds the excess COT of N6.3 million to the Agency

b) The basis for the write off of Pre incorporation expenses for 4 years was not made known by the management; and there was no higher authority approval for the accumulation of expenses and the monthly write off.

c) The legal fees (paid both to the Lawyers and the CAC) were as follows:

#12m.

Legal Professional and Statutory Fees for RIMA and Incorporating Treasure Base Microfinance Agency	
Legal Professional fee (Oct. 08) – application uncertain	12,500,000.00
CAC filing fee for Treasurebase	30,017,000.00
Professional Legal fee (Jan 09) – Registration of Treasurebase	15,000,000.00
Total	**57,517,000.00**

While statutory charges are dictated by government agencies, the legal professional fees captured above for registering the company (i.e.N15million) appears to be on the high side and should have been negotiated downwards. Also please note that an amount N12.5m was also expended for purposes which were not immediately ascertainable during the period of our review (probably for the drafting of the RIMA bill?)

iv. Management Consultancy Fees-N41,300,000

Our review of Management Consultancy fees revealed that total amount of N41.3million relates to payments respectively made to:

- N9 million to Daatim Consult for Social Impact Assessment
- N32.25million to Bridgeway Consulting for consultancy on ATMs/POS for the communities
- N50,000 to I.E Bethel for an unconfirmed service

v. Depreciation Expenses-N20,224,092

From the consolidated financials produced by RIMA as at 30 September, 2009, the total depreciation charged for the Fixed Assets in the books amounted to N20, 224,092. The schedule of depreciation charged by RIMA and the applicable depreciation rates for the Fixed Assets categories are as indicated below:

Depreciation as at 30.09.2009			
	Cost	**Depreciation**	**Rate**
	N	**N**	
Motor Vehicle	67,895,000.00	12,000,312.00	25%
Generator & Plants	14,989,900.00	1,858,371.00	20%
Computer Equipment	13,039,960.00	2,471,316.00	331/3%
Office Equipment	14,759,774.00	2,320,075.00	331/3%
Furniture/Fittings	11,967,460.00	1,574,018.00	20%
	122,652,094.00	**20,224,092.00**	

<u>Our Observations</u>

a) From the schedule above, Management did not charge depreciation on the Leasehold Improvement. The leasehold improvement of N47.636million relates to cost of renovation, construction of gatehouse and staff canteen and improvement of RIMA office.

b) In view of high usage of the generators and the constant power outage in Nigeria as at today, depreciation rate of 20% per annum which is equivalent of 5 years of usage is considered too low. We recommend that the depreciation rate charged on Generators should be reduced from five years to three years in view of the high usage.

vi. Net Operating Income/Loss-N42,473,879Dr

We observed that RIMA made an operating loss of N42, 473,879 from January to September 2009. The major income for the period was the interest generated from placements with banks, while major expenses were staff expenses and the general and administrative expenses. RIMA is currently not generating any business income, other than the interest from the N2.0billion placement with FCMB.

3.2 Review of Balance Sheet Items

We conducted a review of the Balance Sheet of RIMA as at 30th September 2009 with particular attention to the major items. The review covered the Assets, Liabilities, Capital and Reserves. RIMA's Balance Sheet as at 30th September 2009 is presented below

RIVERS INTEGRATED MICROFINANCE AGENCY'S CONSOLIDATED BALANCE SHEET AS AT 30.09.2009

ASSETS	**N**
CASH AND BANK BALANCES	**2,115,068,877.00**
LOANS & ADVANCES	0
OTHER INVESTMENTS	0
PREPAID EXPENSES	23,240,836.00
OTHER ASSETS	6,573,890.00
PRE-OPERATIONAL EXPENSES	127,270,692.00
FIXED ASSETS	247,831,642.00
TOTAL ASSETS	**2,519,985,937.00**
Financed By:	
LIABILITIES	
SOURCED FUNDS	0
GRANTS	500,000,000.00
OTHER LIABILITIES	72,773,058.00
	572,773,058.00
CAPITAL & RESERVES	
CAPITAL FUND	2,000,000,000.00
REVENUE RESERVE	-10,313,242.00
PROFIT/LOSS	-42,473,879.00
	1,947,212,879.00
TOTAL LIABILITY	**2,519,985,937.00**

Our observations from the review of each of the balance sheet items are presented below.

3.2.1 REVIEW OF ASSETS

i. Cash and Bank balances-N2,115,068,877

We noted that RIMA had Cash and Bank balances of N2, 115,068,877 as at 30 September 2009.

The major component of the balances is the N2.0billion Investment Fund provided by the Rivers State Government. The balance sum is made up of confirmed balances (through the bank statements) of the FCMB operating account balance of N64,695,352, with that of Zenith Bank being at N49,877,399. The physical cash available in the office was N496, 136.00 at that date.

Our Observations

- RIMA signed a MoU with FCMB for the purpose of setting up the JV (Treasure Base management funds Ltd. The MOU revealed that the bank (FCMB) as a strategic partner in the relationship was to contribute N1billion. The bank is yet to do this despite RIMA's instructions dated 12 January 2009 to FCMB that their N1billion contribution be placed on Fixed deposit,
- The balance in RIMA's operating account with Zenith Bank Plc remained at N49,877,388.86 from June 2009 to date without any transaction thereon; while the balance to the credit of the Agency in its FCMB operating account as at 30 September 2009 was N64,695,351.58. Yet neither of these balances have been optimally managed by way of placements and financial earnings
    - The balances in the operating accounts with FCMB and Zenith Bank Plc would have earned RIMA at least N900,000 monthly if placed as fixed deposit at the rate of 10% per annum.
    - The investment of these funds would have helped the management in reducing the monthly losses it has been incurring

ii. Loans and Advances-Nil balance

The balance on loans and advances as shown in the balance sheet was nil. This is expected as the Agency is yet to commence funds disbursement to MFIs for the benefit of loan beneficiaries

iii. Other Investments -Nil balance

RIMA did not have any other investments outside the N2billion money market placement with FCMB. The balance sheet showed a nil balance as at 30th September 2009.

iv. Prepaid Expenses-N23,240,836

The balances standing on this account relate to Office Rent of N23, 145,836 and N95, 000 as advance payments for security services. We observed that RIMA paid the sum of N27, 500,000 for 5 years of rent in December 2008 for the present office at 3 Evo Crescent, GRA Port Harcourt. The Agency has charged the sum of N4, 354,164.00 to the Profit and Loss account – as utilised rent as at our review cutoff date of 30 September, 2009.

v. Other Assets - N6,573,890

Our review of Other Assets revealed that this account is made up of Staff Loans (N434, 992.00) and Advances (N4, 666,646.00) and a sub account classified as Internal Deferred Expenses (N1, 112,911.00). The Staff Advances refer to upfront Furniture allowance of N7.2million paid to the Managing Director for which a monthly apportionment is being expensed. The Internal Deferred Expenses are the un-utilised amounts from the monthly approved expenses by the Secretary to the State Government (SSG).

Our Observations

- We noticed that following the Government's instruction to suspend operation of bank accounts in July 2009, the agency prepares the schedule of its projected monthly expenses and forwards it to the SSG for approval This necessitated the creation of internal deferred expenses account to house the approved expenses
- Effective July, cheques to cover all monthly expenditures have been written in the name of RIMA's Head of Accounts, Vincent Nwakanma for cashing and safe keep. This is fraught with control risks since physical cash meant for the agency is expected to be kept in the hands of the Head of Accounts.

vi. Pre operational Expenses - N127, 270,692

The Pre operational expenses amounting to N127, 270,692 relate to various expenditures that the Agency made at the inception of operation prior to February 2009 (October 2008 to January 2009). As captured under sub section iii in our assessment of the P&L items, the total amount comprising pre-incorporation is N156 million (approximately), out of which approximately N28million has been amortised. The balance captured under the current heading represents the portion yet to be written off.

vii. Fixed Assets- N247,831,642 (Net)

RIMA expended N268, 788,227.00 as the costs of fixed assets acquired from inception to 30th September 30, 2009. The breakdown is as shown below.

SUMMARY OF FIXED ASSETS AS AT 30.09.2009

	₦
Leasehold Improvement	47,636,133.00
Motor Vehicle	67,895,000.00
Generator/Plant	14,989,900.00
Computer Equipment	13,039,960.00
Office Equipment	14,759,774.00
Furniture/Fittings	11,967,460.00
Computer software Development	8,000,000.00
A.T.M (Machine)	90,500,000.00
Total Cost	268,788,227.00
Less Accumulated Depreciation	-20,956,585.00
	247,831,642.00

Observations

- Included in the agency's fixed assets are items for which part payments had been made to Megatech Earth Digital Systems Limited for Software Development and for which the delivery time was agreed for July 2009. As at the time of our review in November 2009, the software was yet to be delivered and the Head of IT Department was unable to provide us with the status of work on the development of the software by the consultants. We noted that the software if completed and developed in accordance with agreement would have modules for Accounting package, Human Resources and Operations.
- Notable in this category of fixed assets with part payments for goods not yet delivered in terms of five ATMs and several PoS equipment. The contractor is Bridgeway Consulting/Smartswitch.
- The status of the aforementioned items have been recognized in the fixed assets summary as follows:

Fixed Asset	Vendor	Cost	Amount Paid (N)	Amt Outstanding(N)
Comp Software	Megatech Digital	8,000,000.00	4,800,000.00	3 ,200,000.00
A.T.M.Machines	Bridgeway Cons.	90,500,000.00	50, 500,000.00	40,000,000.00

- In accordance with accounting practice, the undelivered assets should be reclassified and taken out of the fixed assets schedule until physically received as fully completed.
- The management of FCMB confirmed the bank was not consulted for its input into the appropriateness of acquiring ATM machines and did not see the justification for RIMA to invest in the equipment. The viability of this transaction is therefore questionable even in immediate terms. Should RIMA go ahead to consummate the transaction or should steps be taken to truncate the contract or offload it onto a third party whose needs are more aligned to such equipment

viii. Assets Insurance

Our review of the adequacy of insurance on RIMA's fleet of vehicles revealed that they have been adequately insured. We however observed that other fixed assets like Leasehold, Generators, Office Equipment and Furniture and fittings were not insured against any indemnifiable risks that may occur

3.2.2 REVIEW OF LIABILITIES

i. Grants - N500,000,000

The amount of N500 million was provided to RIMA by the Rivers State Government as a "Working Capital" take off grant. The grant is an interest free loan and the establishing statute indicates that it is expected to be paid back after RIMA has been in operation for 2 years (see section 5 on **Legal, Governance and Strategy**) The amount was utilized for both operational expenses and asset acquisition.

ii. Other Liabilities - N72, 773,058

We reviewed the 'Other liabilities' and observed that this is made up of Accruals, VAT, and PAYE and Pension as follows;

a) Accruals of N65,559,804 which relate to earlier cited outstanding for Computer Software and ATM respectively), which RIMA is committed to (see summary of Fixed Assets in the previous sub section)
b) VAT of N6, 692,654 being deduction from Bridgeway Consulting/Smartswitch on the ATMs
c) PAYE and Pension payable as at 30 September 2009 amounting to N520, 000

<u>Our Observations</u>

- PAYE deductions on staff salaries is made at a flat rate of 10%.. This does not conform with the Personal Income Tax Act 1993 (as amended) which prescribes graduated rate of deduction on staff total emoluments as follows:
  - First N30,000 at 5%
  - Next N30,000 at 10%
  - Next N50,000 at 15%
  - Next N50,000 at 20%
  - Above N160,000 at 25%

- Remittances of taxes are also not made as at when due.in contravention of the Act which requires monthly payments of PAYE tax liabilities to be made on or before the 10th day of the month following the applicable month (e.g. January tax to be remitted by 10th of February).

- Capital Fund of N2.0 billion shown in the balance sheet is the N2.0billion capital contribution by the Rivers State Government to fund its microcredit to beneficiaries

iii. Revenue Reserve – (N10, 313,242)

This is the loss arising from the operations of RIMA for the month of December 2008 alone. RIMA's Management prepared the Trial Balance, Balance Sheet, Profit and Loss Accounts with the Notes to the Accounts for the first time in December 2008. The expenditures for the month was N10, 313,242 and since no income was generated, the loss for the month was N10, 313,242.

<u>Observation</u>

This balance has been shown as a stand alone balance by the Agency since December 2008 instead of consolidating it with the amount indicated as Profit and Loss on the Capital and Reserves side of the Balance Sheet. The management is advised to correct this entry.

iv. Profit and Loss - (N42, 473,879)

The balance of N42, 473,879 is the loss sustained by RIMA as at 30 September, 2009. Further review of this account revealed that the balance represents accumulated loss from operations since January 2009 but did not include the loss made in December 2008 indicated as Revenue Reserve above.

<u>Observation</u>

This also indicates that the total interest income generated from bank placements, being the only earnings made by RIMA was not enough to cover recurrent expenditures (staff salaries, administrative expenses etc) for the same period. RIMA will need to take deliberate measures to ensure its sustainability

3.3 SUMMARY OF RIMA'S EXPENDITURES

RIMA's total expenditure from inception to September 2009 amounted to N612, 580,270 comprising capital and recurrent expenditures highlighted below:

	N
Capital Expenditure	390,479,494
Recurrent Expenditure	222,100,776
Total	612,580,270

The breakdown **Capital expenditure** is as shown below:

	N
Fixed assets	233,394,076
Pre-operational exps	127,270,692
Prepaid rent	23,240,836
Other assets	6, 573,890
	390,479,494

The breakdown **Recurrent expenditure** is as shown below:

	N
Staff Salaries	78,334,499.00
General & Admin exps.	142,651,997.00
Premises/property expenses	1,114,280.00
	222,100,776.00

Observations

- The total expenditure as at 30 September 2009 amounted to N612, 580,270.00 - indicates expenses in excess of N112, 580,270 over the original take-off grant of N500million provided by the Government
- The free interest grant of N500 million provided by the State Government as operational fund for the agency had been completely utilized in the first year of operations and with the dearth in operations, it is not likely that a sustainable arrangement exists to have it paid back within the designated two year period
- Available records revealed that RIMA is presently dependent and surviving on the interest income from the dedicated fund of N2 billion placed with FCMB.

3.4 Highlights of Financial Control Issues

We conducted a review of financial controls as they relate to financial records; control and presentation; banking operations; human capacity of the Accounts department and the Procurement processes. Our findings are presented below:

i. **Financial Records, Control and Presentation**

As a State Government Agency with direct funding, RIMA is expected to prepare monthly management accounts in other to facilitate accountability and transparency. Our request to have RIMA's monthly management accounts could not be met for the first few days into our assignment – as attempts were only then being made to develop same. The lack of monthly management accounts evidenced poor record keeping and weak accounting procedures within the Accounting function.

ii. **Posting of Accounting Transactions using Excel**

We observed that accounting transactions of the agency were done using Excel and that ledgers are recoded manually. Book keeping on Excel is fraught with the possibility of omissions – as well as deliberate manipulation and is therefore unreliable. It may also be difficult to trace transactions posted from one month to another, and audit trails are difficult to establish.

iii. **Raising of Cheque Payment Vouchers**

We also observed that some cheque payment vouchers raised were not approved promptly by the Head of Accounts Department who has oversight responsibilities over Accounts staff. The cheque payment vouchers are designed in such a way that no single accounts staff will complete the entire entries documentation. However, in most cases the vouchers were checked and signed by the Head of Accounts months after the vouchers were raised.

iv. **Banking Operations**

RIMA financial transactions relating to banking operations were reviewed in order to establish that cheque payment vouchers were properly raised, payments approved and received by the actual beneficiaries. Statements from the two operating bank accounts (FCMB and Zenith) were also reviewed for the purposes of establishing the withdrawals, interests on fixed placements with banks credited to the accounts and closing balances thereon.

Our Observations

- We observed that RIMA has maintained two bank accounts for its day to day banking activities since the inception of the agency's operations (Zenith Bank Plc and First City Monument Bank Plc respectively). The FCMB account was opened in October 2008 while Zenith Bank Account relationship was established in November 2008.
- The two bank accounts were operated by the Agency up to June 2009 with Senior Executives as signatories. From July 2009, Secretary to the State Government, assumed an oversight role on the agency's financial activities on behalf of Rivers State Government and monthly expenditures relating to the operations of RIMA have been sighted and approved by him. Cheques were raised by the State Accountant General for withdrawals in the name of the Head of Finance and Accounts, Vincent Nwakanma. Such expenditures are funded through FCMB operational account. The implication of this situation is that cheques for RIMA's running costs are raised in the name Vincent Nwakanma and cashed monthly by him ahead of when actual expenditures occur. This practice gives room for financial indiscipline.
- As earlier stated in the report, it was noted that on some occasions cheques were written in the names of staff for payments due to contractors and suppliers i.e. the payments were disbursed in cash to the vendor. These payments were considered inappropriate as cheques should have been directly issued to suppliers for purchases made by the agency.

Such payments to staff noted by us were as follows:

Date	**Name of Staff**	**Amount**	**Remarks /Description on Vouchers**
10.02.09	Kalada Jim Halliday	N1,259,574	Cash collected for Photocopiers
11.02.09	Kalada Jim Halliday	N2,586,000	Collected for MD's house generator
22.12.08	Kalada Jim Halliday	N4,055,000	Office Generator
11.02.09	Kalada Jim Halliday	N885,000	Furniture for MD's guest[3]
20.04.09	Nuira Gbarayorks	N8,188,250	South South Economic Summit

[3] The description of this expense as stated in the agency's records was not clear. Enquiries however revealed that the sum was purportedly taken for Public relations

We noticed that one Ebenezer Finecountry, presumably a supplier had a cheque in the sum of N2, 500,000 (Two million and five hundred thousand naira only) written in his name on 31.10.2008 as Tenancy/Legal fee invoiced and payable to Kola Babalola & co. The payment was made **paid with an FCMB cheque No 07455103** At the same time various supplies of furniture and office equipment were supplied by him and cheques written in his name instead of the Corporate name of the vendor with no written order or instruction given to that effect.

Other substantial payments noted that were invoiced by other supplies but paid to **Ebenezer Finecountry** include:

- An amount of N4, 960,000 paid with FCMB cheque No 07455178.
- The sum of N248,000 relating to VAT deductions from supplies to the Agency paid with FCMB cheque No 07455189

The payment of monies for various transactions to same individual rather than the vendors or names on invoices without appropriate authorization raises concern about level of financial processes discipline.

- A debit of **N11, 731,201.50** was stated to be Commission on Turnover (at the rate of N5 per N1000) on Zenith Bank account in December 2008. Further enquiry revealed that it arose as a result of the transfer of N2.0billion from Zenith Bank to FCMB out of the N2.5billion given by the State Government to the agency.

  - A pertinent issue is the quantum of the COT charged
  - A second is the management of RIMA knowing that the sum of N2.0billion was meant for FCMB, should have been lodged the amount directly with FCMB. If this was done, the Agency would not have incurred the charges that resulted

The extracts of the monthly closing balances on the respective bank accounts are as indicated below (please note that since June 2009, there was no movement on Zenith Bank account).

Monthly Bank Balances (October 2008 to September 2009)

MONTH	FCMB	ZENITH	TOTAL
Oct-08	-83,957,186.51	0	-83,957,186.51
Nov-08	144,755,419.48	2,248,685,124.82	2,393,440,544.30
Dec-08	111,161,187.85	2,159,666.32	113,320,854.17
Jan-09	55,936,023.69	147,511,793.93	203,447,817.62
Feb-09	22,295,656.33	129,969,750.55	152, 265,406.88
Mar-09	20,914,218.95	123,985,003.16	144, 899,222.11
Apr-09	17,437,400.93	99,122,675.10	116,560,076.03
May-09	29,610,231.56	35,112,035.48	64,722,267.04
Jun-09	32,816,490.11	49,877,388.86	82,693,878.97
Jul-09	40,924,063.12	49,877,388.86	90,801,451.98
Aug-09	49,064,113.22	49,877,388.86	98,941,502.08
Sep-09	**64,695,351.58**	**49,877,388.86**	**114,572,740.44**

v. Human Resources Capacity of Accounts Department

We interviewed the staff of the Accounts Department to obtain a sense of the overall professionalism of the team.

<u>Our Observations</u>

- Although all the staff have first degree or equivalent, they are however not very professional in outlook, speech, carriage and exposure. They (probably other then the Head of Department) possess fairly limited I.T skills
- Practical accounting skills is largely absent and only one person in addition to the Head of Department had his or her ICAN
- This disposition of staff indicates there is a high level of slack (redundancy) in the system, for instance
  - The only other officer in the department who possesses an Accounting Professional qualification (ICAN) and a first degree is only assigned the preparation of bank reconciliations. He admits he can perform his only monthly task in 3 hours.
  - The Head of Accounts is not senior, mature or sufficiently experienced. He appears to have a challenge managing his subordinates. (Please see assessment of current management team in section four "HR Capacity, Management and Practices")

vi. Procurement process

It was observed that there is no visible and credible procurement procedure in place for major recurrent and capital expenditures in the agency. The transparency of the processes leading to award of contracts is doubtful as evidenced by the following engagements for which the Agency did not show evidence of competitive bidding process .

- Procurement of ATM machines
- Contractual engagements of service providers such as the Cleaning Service; the Security Service and the Horticulture Service

vii. Review of Major Contracts

RIMA engaged the services of contractors to provide various services for the Agency. These contracts include contract for services and supply of office equipments. We present below our review of the terms of the major contracts and our observations.

A. FECANNAR GLOBAL KONSULT LIMITED (outsourced drivers)

Fecannar Global Konsult Limited – the consultancy appointed to hire staff for the organization – was subsequently contracted to provide and maintain outsourced drivers for the agency on an on-going basis for a period of two (2) years commencing from the 14th day of January 2009. The contract provides that the contractor shall receive monthly the respective sum for the under listed categories of drivers

- Category A: Executive Drivers	N 60,000.00
- Category B: Regular Drivers	N 50,000.00
- Category C: Drivers (Motor Cycle)	N 40,000.00

Fecannar Global Konsult presently supplies twelve (12) regular drivers to the agency at the rate of N50, 000.00 each amounting to N600,000.00 per mount. The 12 drivers engaged for the organization are allocated to the various offices and sections of the agency. Three of them are attached to the MD and Corporate office; eight are attached to the Departmental Heads and one serves as a pool driver.

Observations:

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The CBN's regulation of the activities of the Microfinance Banks in Nigeria covers **licensing, policy framework, field examination and supervision from time to time, among others**.

These supervisory and regulatory powers are conferred on it by the provisions of Section 28 subsection (1) (b) of the CBN Act 24 of 1991 [as amended] and in pursuance of the provisions of Sections 56-60A of the Banks and Other Financial Institutions Act [BOFIA] 25 of 1991 [as amended]. The supervisory and regulatory guidelines empowers the CBN to regulate microfinance activities and the establishment and operations of Micro-Finance Banks [MFBs] that seek to take savings/deposits from members of the public and engage in microfinance intermediation services for their clients in Nigeria.

A Micro Finance Bank, has been defined by the CBN regulatory and supervisory framework for microfinance banks [MFB's] in Nigeria of December as *"any company licensed to carry on the business of providing micro-finance services such as savings, loans, domestic fund transfers and other financial services that economically active poor, micro-enterprises and small and medium enterprises need to conduct or expand their businesses as defined by these guidelines."*

A Micro Finance Client is defined by the CBN as –
A client of an MFB that generally possesses the following characteristics:

- *Have a monthly income of not more than twice the monthly per capita income of Nigeria or minimum wage, whichever is higher.*
- *Have a total productive assets [inclusive of those arising from loans but excluding the cost of land] of not more than five hundred thousand Naira [N500, 000.00] only*
- *Is not a regular employee of any organization*
- *Aged between 18 and 60 years*

A Microfinance Loan has been defined by the CBN *as "a facility granted to an individual or a group of borrowers whose principal source of income is derived from business activities*

involving the production or sale of goods and services. The maximum principal amount shall not exceed N500, 000 or/and as may be reviewed from time to time by the CBN."

Generally, the microfinance loan should be granted to the operators of micro-enterprises, such as peasant farmers, artisans, fishermen, women, senior citizens and non-salaried workers in the formal and informal sectors. The said loans are usually unsecured, but typically granted on the basis of the applicant's character and the combined cash flow of the business and household. Ordinarily, the tenure of microfinance loans is 180 days [6 months]. However, in the case of crops with longer gestation periods, a maximum tenure of twelve [12] months shall be permitted. Microfinance loans may require joint and several guarantees of one or more persons. The repayment may be on a daily, weekly, bi-monthly or monthly basis in accordance with amortization schedule in the loan contract.

2.2.1. Ownership of Microfinance Banks

State Governments and public sector agencies are not permitted to set up microfinance banks. The CBN Microfinance policy states that "Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFBs."

Also, no individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one MFB under a different or disguised name.

2.2.2 Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs)

The CBN policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and are *not* to mobilize deposits from the general public. The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN.

NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified requirements for licensing microfinance banks.

2.2.3. The Roles and Responsibilities Of Governments and Donor Community

Despite the country's relative oil wealth, GDP per capita is about US$1,401 (2008), and poverty is widespread – about 54 percent of the population lives on less than 1 dollar per day. This has necessitated the intervention of both the Federal and State Governments in Nigeria to create various poverty intervention and empowerment initiatives to support in building the economic frontiers of the people especially the economically active poor within the society. One of these initiatives is the establishment of Microfinance Apex agencies by State Governments for the purpose of supporting Microfinance Institutions and the economic growth of Micro entrepreneurs in the States.

The CBN policy stipulates the roles and responsibilities of various stakeholders to include the following:

The Government

Government shall be responsible for:

a. Ensuring a stable macro-economic environment, providing basic infrastructure (electricity, water, roads, telecommunications, etc), political and social stability;
b. Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;
c. Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy; and
d. Setting aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents

Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP), RIMA etc in the development of the sub-sector. They shall be encouraged to perform the following functions:

a. Provision of resources targeted at difficult-to-reach clients and the poorest of the poor;
b. Capacity building;
c. Development of MFIs' activities nation-wide;
d. Nurturing of new MFIs to a sustainable level; and
e. Collaborating/partnering with other relevant stakeholders

Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include **grants, donations, technical assistance** etc.

The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of the CBN policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro-financing initiatives, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

Appraisal of existing microfinance-oriented institutions

More recently, the CBN has indicated that from the appraisal of existing microfinance-oriented institutions, the following were evident among the Microfinance Banks in Nigeria:

- Weak internal structure
- Existence of a huge un-served market
- Economic empowerment of the poor, employment generation and poverty reduction
- Need for increased savings opportunity
- A channel for the utilization of SMEEIS Fund

2.3 Underlying Objectives and Principles for Microfinance

Some of the underlying objectives for enabling the delivery of microfinance services and products include:

- An appreciation that the poor need access to appropriate financial services structured to meet their circumstances
- That the poor do have the capability to repay loans, based on the real cost of such facilities – as well as to generate savings
- Microfinance is an effective, world proven tool for poverty alleviation
- Microfinance Institutions (MFIs) must aim to provide financial services to an increasing number of economically active poor

- Microfinance can and should be undertaken on a sustainable basis to avoid longer term dysfunctions and imbalances
- That Microfinance NGOs and programmes need to develop performance standards that will help define and govern the microfinance industry toward greater reach and sustainability

2.4 Rivers State

Rivers State is located in the Niger Delta Basin of the country and was created in 1967. It has a landmass of 37,000 square km, with 23 Local Government Areas and Port Harcourt as its capital city. The State has a population of 5.69 million people according to the 2006 census estimates. The inland part of Rivers state consists of tropical rainforest; towards the coast the typical Niger Delta environment features many mangrove swamps.

The people of Rivers State are predominantly farmers, fishermen and retail traders. The farming, fishing and trading activities are carried out at a subsistence level, resulting in low income and poverty. The State is endowed with abundant natural resources such as oil and gas. This has resulted in high influx of foreigners and oil and gas related businesses into the State.

2.4.1 Ethnic Composition

The ethnic composition of Rivers State is very diverse. These include Kalabari, lkwerre, Okrika, lbani (Bonny and Opobo) Ekpeye, Ogba, Etche, Khana, Gokana, Eleme, Ndoni, Abua, Odual and others.

2.4.2 Administrative Structure

There are three arms of government in Rivers State and these are: The Executive; The Legislature; and The Judiciary. The State Executive Council is made up of the Governor, His Excellency, Rt. Honourable Rotimi Amaechi, the Deputy Governor, the Secretary to the state government, commissioners and special advisers. The State is divided into twenty-three Local Government Areas (LGAs).

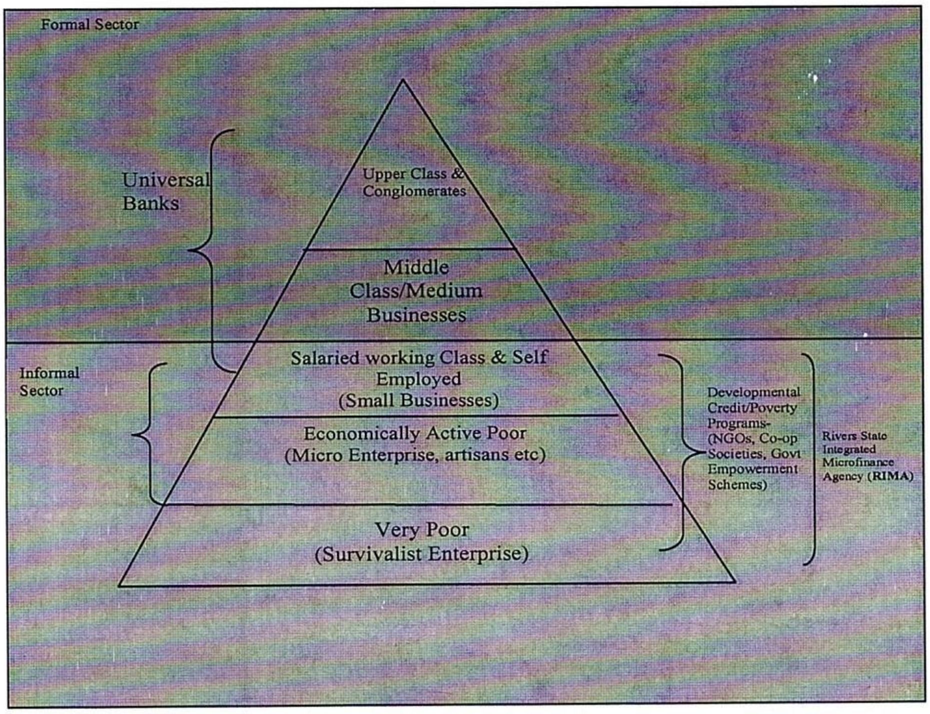
2.4.3 Economy

Rivers State is the second largest economy in the Nigeria after Lagos State. It has a GDP in US$ of US$21,073,410,422 which is larger than most national GDPs on the African Continent. TheState has two major refineries, two major seaports, airports and various Industrial Estates spread across it, particularly in the State capital.

The majority of the indigenous Rivers State population is deemed poor and trapped in the informal sector of the economy (illustrated in the diagram below) that is characterised by poverty. This economy is also characterized by the severe structural weaknesses that underlie a large, under-serviced, unmapped and poorly understood informal sector – which is the target of the Rivers State Integrated Microfinance Agency (RIMA).

The Financial Intermediation Structure of Rivers State is presented below:

Figure I: **The Financial Intermediation Structure of Rivers State**



2.5 Establishment of Rivers State Integrated Microfinance Agency (RIMA)

River State Integrated Micro Finance Agency (RIMA) is an Agency of the Rivers State Government established pursuant to the Rivers State Microfinance Agency Law, No. 6 of 2008. It is an integrated microfinance institution empowered to provide a variety of alternative financial, business and social support services to microfinance institutions, low income entrepreneurs of Rivers State origin with business activities domiciled in the State.

The Agency is empowered to disburse the Rivers State Microfinance Fund, screen and pre-qualify MFBs that fulfill certain eligibility criteria, provide institution building support in form of technical assistance/training to the MFBs' staff, undertake monitoring and recovery of the loans, achieve sustainability and good outreach in depth and breadth, measure the impact, evaluate and report efforts to the government.

As part of its economic empowerment programmes, the Agency is to support the economically active people especially indigenes of the state by providing loanable funds through the Microfinance Institutions (Microfinance Banks, NGOs, Co-operative Societies etc).

2.5.1 RIMA's Business Objective

RIMA's primary objective as it were, is to provide basic financial requirements to under-privileged Rivers indigenes who are involved in legitimate micro, small and medium scale activities in the state, who would typically not benefit from the services of the orthodox banking system due to their inability to provide the collateral, often required.

Furthermore, the Agency will ensure that microfinance funds are distributed all over the State through designated micro-finance banks by spreading its services to every Local Government Area in the State and targeting every commercially active micro-entrepreneur in the State.

The key result areas are:

- To assist majority of the enterprising poor Rivers people with viable but challenged businesses the opportunity to enable them achieve financial independence
- To ensure sustained growth of business enterprises in the state
- To drive social development across Rivers State, and;
- For the agency to be self reliant in its operations to ensure subsequent sustainability

2.5.2 RIMA's Strategic Intent

Rivers State Integrated Microfinance Agency's Vision and Mission Statements as well as the Core Values are highlighted below:

Vision Statement:
''To enable the majority of the enterprising poor of Rivers State origin with viable but challenged business activity in Rivers State achieve financial and economic independence, to drive social development across Rivers State and to be self reliant in its operations in order to ensure long term sustainability''.

Mission Statement:
''To build a network of strong, well regulated and effective MFIs (Microfinance Financial Institutions) in Rivers State that will stimulate economic and social prosperity through the delivery of holistic and relevant microfinance solutions to micro entrepreneurs''.

Core Values

Entrepreneurship; Resourcefulness; Empathy; Results-orientation and Accountability

2. 6. RIMA's Operations

The agency has its office (Leasehold) at 3 Evo Crescent, GRA, Port Harcourt. It commenced operations in November 2008 with staff of ten (10) most of who were mainly Heads of Departments.

A management consulting firm, Fecannar Global Konsult Limited was engaged to recruit the start-up personnel and to provide best practice operational procedures suitable for the institution. RIMA now (December, 2009) has a total of forty-four (44) regular employees which include Eight Heads of Department and the Managing Director.

2. 6.1. Strategic Partnership with First City Monument Bank Plc

A Memorandum of Understanding was signed between the Rivers State Integrated Microfinance Agency (RIMA) and First City Monument Bank Plc (FCMB) effective 18^{th} of December, 2008, for the purpose of establishing a Special Purpose Vehicle (SPV) to be known as Treasure Base Funds Management Limited. The SPV shall be properly and adequately funded and in addition to its initial equity, shall generate and manage a pool of investment funds, which shall be disbursed to certain pre qualified and duly accredited Microfinance Banks, Co-operative Societies and Non-Governmental agencies involved in the business of micro-financing in the state for on lending to micro entrepreneurs.

The SPV is to have an authorized share capital of N3.0billion divided into 3.0 billion ordinary shares of N1.00 each of which:

- 2 billion (66.66% of the equity share capital of the Joint Venture) fully subscribed and paid up shares shall be registered in the name of and be beneficially owned by the Rivers State Government or through a duly authorized and accredited representative;
- 1 billion (33.33% of the equity share capital of the Joint Venture) fully subscribed and paid up shares shall be registered in the name of and be beneficially owned by the Commercial Bank or through a duly authorized and accredited representative.

The business and affairs of the JVC shall be managed by the Board of Directors consisting of 3 persons; 1 appointed by FCMB while the remaining 2 Directors (RIMA's MD as the Chairman of the JVC) represent the interest of the agency

The MoU equally states that the cost of (and related to) the incorporation of the JVC shall be borne, paid and or refunded by the JVC while the same applies to costs of each of the parties incurred in the preparation and execution of the agreement.

The MoU was jointly signed by the Managing Director/Chief Executive of Rivers State Integrated Microfinance Agency, Mr. Victor Halliday and FCMB Plc's Executive Director, Mr. Henry Semenitari respectively.

2.6.2 RIMA's Financial Base

The Rivers State Government released the sum of N2.5billion (Two Billion and five Hundred million naira only) in November 2008 to the agency. Of this amount, N2.0 billion was the State's contribution to the Joint Venture for the economic empowerment programme put at N3.0billion, while the remaining N500 million was given as a free interest grant for the structural and operational take off of the agency.

2.6.3 **Relationship with Microfinance Banks (MFBs) in Rivers State**

Microfinance Institutions (MFIs) are expected to play major roles in facilitating micro credit to the economic active poor indigenes of Rivers State. This is as a result of their closeness and proximity to the communities. The MFIs are to collaborate with RIMA towards the achievement of the goals and objectives of the program in disbursing loan-able funds, and ensuring recoveries as at when due. In order for the MFIs to play the role expected of them, RIMA pre-qualifies them through an assessment process using both objective and subjective criteria aimed at ensuring both the transparency and viability of the process.

RIMA has conducted pre-qualification assessment of MFBs. From 21 MFB's that applied for listing as an outreach for loan disbursement, 13 MFBs were recommended and finally certified. Also, with regard to potential beneficiaries from the Fund, RIMA has processed 6,000 applications received of which 1991 have been approved. However, it is pertinent to mention that no disbursements have been made due to government's directive putting loan disbursement on hold, pending the clarification of certain operational modalities within RIMA.

3. Accounting/Financial Due Diligence

RIVERS INTEGRATED MICROFINANCE AGENCY'S PROFIT AND LOSS ACCOUNT FOR THE PERIOD ENDED 30.09.2009	
	N
EARNINGS:-	
INTEREST INCOME	199,250,989.00
INTEREST EXPENSES	0
NET INTEREST INCOME	199,250,989.00
COMMISSION & FEES	0
OTHER INCOME	600,000.00
TOTAL OPERATING INCOME	**199,850,989.00**
EXPENDITURE:-	
STAFF EXPENSES	78,334,499.00
GENERAL & ADMIN EXPENSES	142,651,997.00
PREMISES/PROPERTY EXPENSES	1,114,280.00
DEPRECIATION EXPENSES	20,224,092.00
TOTAL OPERATING COST	242,324,868.00
NET OPERATING INCOME/LOSS	-42,473,879.00
LESS: PROV FOR BAD & DOUBTFUL DEBT	0
NET PROFIT/(LOSS)	**-42,473,879.00**

Our approach involved reviewing RIMA's transactions on each of the Account items. Our findings and observations on each account are as presented below:

i. **Interest Income- N199,250,989CR**

RIMA earned a total interest income of N199, 250,989 from January to September 2009.This was earned from funds placement with three (3) banks (FCMB, Zenith and Finbank). The details of the three bank placements are shown below:

Date	Bank		Amount		Status
26.11.2008	FCMB		N2.0Billion		Still Running as at October 2009
24.11.2008	Zenith Bank, Bonny		N230million		Terminated on 14.01.09
27.04.2009	First Inland		N20million		Terminated on 09.06.09

The placements with Zenith and Finbank were one-off transactions which had been terminated as at the time of the review. The third placement of N2.0billion (representing the Government's targeted

equity contribution to the Treasurebase Fund) is still running and this is with FCMB. The monthly interest generated from the deposit placement is credited to RIMA's operating account with the same bank. The interest rates on the FCMB placement of N2.0 billion for the period in question ranged between 12.5 to 17% per annum (as at the time of the review it was 16% per annum).
The placement with FCMB has contributed over 98% of the Interest income earned to date.

Our Observations

a. Placement of N230m with Zenith Bank

Placement commenced on November 24th 2008. RIMA's instruction was dated 20th November, acknowledged on 26 November 2008 for the placement of N230 million but was not carried out by the Bank until 03 December 2008 (a clear 7days for which no interest was given to the agency). There is no evidence that RIMA's management made any demand for the interest lost during the seven days in question.

Ssubsequently, the management of the Agency transferred N230 million from the Zenith Bank,Trans Amadi Branch to the Zenith Bank branch in Bonny. Again, the rationale for requesting such an intra-bank movement is unclear.

Other observations include:

- The placement was made in the name of Treasurebase Microfinance Ltd- which was still an unregistered company at the time of the placement. This questions the procedures applied
- The placement was only at an interest rate of 10% per annum (net of all taxes).The 10% per annum interest rate for N230 million as at the time was low as our investigations reveal an industry average was well over 13% per annum[1]
- The facility was eventually liquidated on January 14, 2009. We found it unusual that the amount was credited to RIMA's account in three separate tranches in various amounts, eventually totaling N231, 814,795.36 which covered both the original placement as well as interest earned on it.

b. Placement with FINBANK Plc.

[1] ReStraL deposit placements with both GTB and Zenith during this period may assist in this regard: In November, 2008 a single placement of N9.1m with GTB was priced at 13%; while a single N2m deposit with Zenith Bank was priced at 12.5%. It is pertinent to note that the amounts involved were far smaller than the amount in question. Another source (informal but directly from Zenith) stated that official rate was 13%- 16% for amounts between up to N100million. Amounts above N100m according to the contact went above 16% between October to December 2008

Finbank placement of N20 million was also at 10% per annum interest rate. This we believe was also not competitive enough.[2]

c. Placement with FCMB

The N2 billion deposit placement with FCMB was dedicated for disbursement to microcredit beneficiaries when Treasurebase Funds Management Limited (Treasurebase Fund) commences operation.

The interest on the N2 billion deposit placement, which amounted to over N197m as at 30th Sept. 2009 was however credited monthly to RIMA's current account. This amount is expended by RIMA as part of its operational fund. We noted that the management of RIMA had no approval or consent of the State Government to expend the interest income from the dedicated equity fund.

Such interest having been derived from an Investment Fund, the immediate expectation is that any interest earned from such funds would be compounded as part of the Fund. Due approval from the Governor (in the absence of a board) ought to have been sought and obtained before appropriating such earnings. Though management claims that the basis for so accessing was the directive that they fund their day to day activities from their operational income – it is arguable that such funds can technically be termed "Operational Income" earned in the course of normal day to day business activities.

d. Breakdown of Interest Income from Bank

The analysis of the interest income generated by the agency from the three banks is presented below

[2] [2] ReStraL deposit placements with both GTB and Zenith during this period may assist in this regard: In November, 2008 a single placement of N7.5m with GTB was priced at 13%; while a single N5m deposit with Zenith Bank was priced at 13.5%. Again the amounts are significantly lower than the amount in question.

		Breakdown of Interest Income on Deposits			
Bank	Duration	Description	Amount	Int Earned	% of Int Income
Zenith	Jan 1st-31st, 2009	Deposit Account	230,000,000.00	1,814,795.36	0.91
FCMB	Feb 1st-28th, 2009	Call Deposit	2,000,000,000.00	14,794,520.55	7.43
	Mar 1st-31st, 2009	Call Deposit	2,000,000,000.00	27,945,205.48	14.03
	Apr 1st-30th, 2009	Call Deposit	2,000,000,000.00	27,945,205.48	14.03
	May 1st-31st, 2009	Call Deposit	2,000,000,000.00	28,341,205.89	14.22
	Jun 1st-30th, 2009	Call Deposit	2,000,000,000.00	24,657,534.25	12.38
	July 1st-31st, 2009	Fixed Deposit	2,000,000,000.00	22,996,623.01	11.54
	Aug 1st-31st, 2009	Fixed Deposit	2,000,000,000.00	22,931,506.84	11.51
	Sep 1st-30th, 2009	Fixed Deposit	2,000,000,000.00	27,616,438.36	13.86
Fin Bank	Jun 1st-30th, 2009	Fixed Deposit	20,000,000.00	192,328.77	0.10
Total				**199,235,363.99**	**100.00**

Summary of analysis

- Interest income from Zenith Bank placement amounted to N1,814,795.36 and represented 0.91% of interest income
- The income from FCMB placement totaled N197,228,239.86 and accounted for 98.99% of interest income
- The FinBank placement Interest income was N 192,328.77 and represented only 0.10% of interest income

ii. Interest Expenses -Nil

The Profit and Loss Account shows that the Agency did not incur any interest expenses after commencement of operation. This was due fact that it did not establish borrowing relationships or accept any liability or deposit requiring payment of cost or interest liability

iii. Commission and Fees-Nil

RIMA's is yet to earn any commission and fees, as it has not commenced income earning operations from its core business

iv. Other Income- N600,000CR

RIMA earned other income amounting to N600, 000. This relates to the sum of N20, 000 non refundable deposit from 30 Microfinance Banks that applied for pre-qualification for the disbursement of RIMA funds for onward lending to potential beneficiaries.

We observed that all the MFBs that paid the non refundable deposit of N20, 000 had been assessed, with the ones meeting RIMA's basic requirements and assessment criteria eventually becoming pre-qualified.

v. Staff Expenses-N78,334,499

The total staff expenses from December 2008 to September 2009 amounted to N78, 334,499. These expenses were for forty-four (44) permanent staff and management, and two non staff who are directly assigned to the Office of the Managing Director. While a breakdown of the Staff Salary Scale and its adequacy will be provided in the Section Four on Human Resource Capacity Assessment, a pertinent observation relating to relations of the Managing Director whose salary expenses are included in the above amount is captured below.

Our Observations

a) We observed that the Staff expenses is inclusive of the sum of N350,000 monthly payments (as allowances) to two (2) of the Managing Director's direct staff (Messrs Jim Halliday and Abbey George) since December 2008 who are not categorized as the Agency's direct employees. Monthly payments to them are as follows:

		N
Kalada Jim Halliday	Technical Assistant	250,000.00
Abbey George	Personal Assistant	100,000.00

b) Further enquiry from the HR Department revealed there were no staff files for these individuals. These persons did not also go through the formal recruitment process involving the consultant, Fecannar Global consult Limited. RIMA's Human Resources department was also not involved in any interview of these people before engagement.

7 c) Enquiries from the Managing Director indicated that he viewed his position as a political appointment, and in that context was entitled to personal staff. His office is not a political appointment and this assumption is erroneous.

d) Though not a staff of the organization, we observed the influence nevertheless wielded by Kalada Jim Halliday in the procurement of office furniture and generators, as well as for

e) leasehold enhancement; with cheques drawn in his personal name for cashing. The noted sums included the following;

Date	**Amount**	**Asset Purchased**
10.02.09	N1, 259,574	Photocopiers
11.02.09	N2, 586,000	MD's Residence Generator
22.12.08	N4, 055,000	Office Generator

f) It was observed that one of the Honda Civic cars purchased for the office is assigned to Jim Kalada Halliday who is not a Management staff. The MD explained that this was a departmental car assigned to him.

Our Comments

We consider the payment of monthly allowances by the Managing Director to people not employed as direct staff of the Agency without higher level approval, as inappropriate. Their salaries ought not to be captured as part of the organisation's monthly liability.

We also view large cash collections, for procurement of capital items and recurrent expenditures by Jim Halliday (or any other person) as an act of financial indiscipline in violation of typical practice, as well as laid down financial regulations of government. Also, the payment of money meant for suppliers or contractors should not be in personal names.

There is need to re-appraise the engagement of these two people by RIMA'S Managing Director in order to ascertain their usefulness to the Agency as well as to their Principal. Pending the determination of whether to properly engage them, it is imperative to suspend all forms of payments and allowances to them.

Direct Cabinet to disengage.

vi. General and Admin Expenses-N142,65,997

The Agency had incurred a total of **N142, 651,997** as general and administrative expenses as at 30th September 2009. The breakdown of this is presented in the table below and our findings on the key expenses highlighted thereafter

General & Admin Expenses as at as at 30 September 2009	
Training & Development	6,104,350.00
Office Rent	4,124,997.00
Vehicle Expenses	2,237,148.00
I.T Expenses	1,288,710.00
Utility Bill	280,484.00
Generator Repairs/Maintenance	8,966,655.00
Communication Expenses	1,238,662.00
Transport Expenses	4,513,533.00
Advert & Promotion Expenses	23,012,492.00
Other Entertainment Expenses	718,555.00
Stationery	3,454,820.00
Security Expenses	5,975,000.00
Subscription	245,000.00
Insurance Expenses	4,035,300.00
Bank Charges	535,107.00
Other General Expenses	5,827,948.00
Pre-incorporation Expenses W/off	28,793,236.00
Mgt Consultancy Fees	41,300,000.00
Total	**142,651,997.00**

Review of Major General and Administrative Expenditure Accounts

i. Generator Repairs and Maintenance-N8,966,655

The agency expended the sum of N8, 966,655.00 on the Repairs and Maintenance of three (3) generators - two of them for the office and one for the MD's residence. The first one was used in the office was purchased in December 2008 while the other two were acquired in March 2009 and brought into the agency's fixed assets schedule in the same month.

Our Observations

(a) From the monthly financial records provided by RIMA, over N1 million is spent (every month) on Diesel to power the Generators; however we could not review the consumption of AGO (Diesel) by each of the three generators as no records of these could be provided by the Admin Department. There is need to maintain records (bin cards) on delivery and consumption of Diesel by the 3 Generators

(b) We also noticed that the two Generators in the Office were vandalized by unknown persons in June 2009; with RIMA spending its funds for the repairs and replacement of spare parts as the generators were not insured. We advise the management to ensure the comprehensive insurance coverage of all the Agency's assets.

ii. Advert & Promotion Expenses-N23, 012,492

Our review of transactions on Advert and Promotion Expenses revealed that the sum of N23, 012,492.00 has been expended on this class of expenditure from inception to September 2009. We noted that in the April 2009 alone, over N15million was expended on Advert and Promotion expenses. On enquiry, we were informed that the payment related to various campaigns and capacity building programmes for stakeholders. Not having being involved with RIMA at the time, it is difficult to judge the optimisation of this investment

iii. Pre-Incorporation Expenses written off-N28,793,236Dr

The Agency's pre-incorporation expenses stood at N156, 063,928 as at February 2009. These relate mainly to:

Summary of Pre-operational Expenses:

Description	**N**
Management consultancy	47,500,000.00
Professional /Legal fee	57,517,000.00
Business Development	7,589,800.00
Bank Charges & COT	16,740,191.00
Stamp Duty	22,500,000.00
Other miscellaneous Exp	4,216,937.00
Total	**156,063,928.00**

The Management has decided to write off the pre-incorporation expenses over four years, of which N28.793million was written off between February and September 2009 (with a monthly write off N3, 199,248).

<u>Our Observations</u>

a) An amount of N10.5 million is included in the pre-incorporation expenses. This was the COT charge made by Zenith Bank on the N2 billion transferred to FCMB. The COT was charged at N5 per mille contrary to the agreed rate of N2 per mille with the Bank. RIMA was thus overcharged RIMA by N6.3million and this has not been reversed by the bank as at the time of carrying out this review. The Management of RIMA should ensure that Zenith Bank refunds the excess COT of N6.3 million to the Agency

b) The basis for the write off of Pre incorporation expenses for 4 years was not made known by the management; and there was no higher authority approval for the accumulation of expenses and the monthly write off.

c) The legal fees (paid both to the Lawyers and the CAC) were as follows:

Legal Professional and Statutory Fees for RIMA and Incorporating Treasure Base Microfinance Agency	
Legal Professional fee (Oct. 08) – application uncertain	12,500,000.00
CAC filing fee for Treasurebase	30,017,000.00
Professional Legal fee (Jan 09) – Registration of Treasurebase	15,000,000.00
Total	**57,517,000.00**

While statutory charges are dictated by government agencies, the legal professional fees captured above for registering the company (i.e.N15million) appears to be on the high side and should have been negotiated downwards. Also please note that an amount N12.5m was also expended for purposes which were not immediately ascertainable during the period of our review (probably for the drafting of the RIMA bill?)

iv. Management Consultancy Fees-N41,300,000

Our review of Management Consultancy fees revealed that total amount of N41.3million relates to payments respectively made to:

- N9 million to Daatim Consult for Social Impact Assessment
- N32.25million to Bridgeway Consulting for consultancy on ATMs/POS for the communities
- N50,000 to I.E Bethel for an unconfirmed service

v. Depreciation Expenses-N20,224,092

From the consolidated financials produced by RIMA as at 30 September, 2009, the total depreciation charged for the Fixed Assets in the books amounted to N20, 224,092. The schedule of depreciation charged by RIMA and the applicable depreciation rates for the Fixed Assets categories are as indicated below:

Depreciation as at 30.09.2009			
	Cost	**Depreciation**	**Rate**
	N	**N**	
Motor Vehicle	67,895,000.00	12,000,312.00	25%
Generator & Plants	14,989,900.00	1,858,371.00	20%
Computer Equipment	13,039,960.00	2,471,316.00	331/3%
Office Equipment	14,759,774.00	2,320,075.00	331/3%
Furniture/Fittings	11,967,460.00	1,574,018.00	20%
	122,652,094.00	**20,224,092.00**	

Our Observations

a) From the schedule above, Management did not charge depreciation on the Leasehold Improvement. The leasehold improvement of N47.636million relates to cost of renovation, construction of gatehouse and staff canteen and improvement of RIMA office.

b) In view of high usage of the generators and the constant power outage in Nigeria as at today, depreciation rate of 20% per annum which is equivalent of 5 years of usage is considered too low. We recommend that the depreciation rate charged on Generators should be reduced from five years to three years in view of the high usage.

vi. Net Operating Income/Loss-N42,473,879Dr

We observed that RIMA made an operating loss of N42, 473,879 from January to September 2009. The major income for the period was the interest generated from placements with banks, while major expenses were staff expenses and the general and administrative expenses. RIMA is currently not generating any business income, other than the interest from the N2.0billion placement with FCMB.

3.2 Review of Balance Sheet Items

We conducted a review of the Balance Sheet of RIMA as at 30th September 2009 with particular attention to the major items. The review covered the Assets, Liabilities, Capital and Reserves. RIMA's Balance Sheet as at 30th September 2009 is presented below

RIVERS INTEGRATED MICROFINANCE AGENCY'S
CONSOLIDATED BALANCE SHEET
AS AT 30.09.2009

ASSETS	**N**
CASH AND BANK BALANCES	**2,115,068,877.00**
LOANS & ADVANCES	0
OTHER INVESTMENTS	0
PREPAID EXPENSES	23,240,836.00
OTHER ASSETS	6,573,890.00
PRE-OPERATIONAL EXPENSES	127,270,692.00
FIXED ASSETS	247,831,642.00
TOTAL ASSETS	**2,519,985,937.00**
Financed By:	
LIABILITIES	
SOURCED FUNDS	0
GRANTS	500,000,000.00
OTHER LIABILITIES	72,773,058.00
	572,773,058.00
CAPITAL & RESERVES	
CAPITAL FUND	2,000,000,000.00
REVENUE RESERVE	-10,313,242.00
PROFIT/LOSS	-42,473,879.00
	1,947,212,879.00
TOTAL LIABILITY	**2,519,985,937.00**

Our observations from the review of each of the balance sheet items are presented below.

3.2.1 REVIEW OF ASSETS

i. Cash and Bank balances-N2,115,068,877

We noted that RIMA had Cash and Bank balances of N2, 115,068,877 as at 30 September 2009.

The major component of the balances is the N2.0billion Investment Fund provided by the Rivers State Government. The balance sum is made up of confirmed balances (through the bank statements) of the FCMB operating account balance of N64,695,352, with that of Zenith Bank being at N49,877,399. The physical cash available in the office was N496, 136.00 at that date.

<u>Our Observations</u>

- RIMA signed a MoU with FCMB for the purpose of setting up the JV (Treasure Base management funds Ltd. The MOU revealed that the bank (FCMB) as a strategic partner in the relationship was to contribute N1billion. The bank is yet to do this despite RIMA's instructions dated 12 January 2009 to FCMB that their N1billion contribution be placed on Fixed deposit,
- The balance in RIMA's operating account with Zenith Bank Plc remained at N49,877,388.86 from June 2009 to date without any transaction thereon; while the balance to the credit of the Agency in its FCMB operating account as at 30 September 2009 was N64,695,351.58. Yet neither of these balances have been optimally managed by way of placements and financial earnings
  - The balances in the operating accounts with FCMB and Zenith Bank Plc would have earned RIMA at least N900,000 monthly if placed as fixed deposit at the rate of 10% per annum.
  - The investment of these funds would have helped the management in reducing the monthly losses it has been incurring

ii. Loans and Advances-Nil balance

The balance on loans and advances as shown in the balance sheet was nil. This is expected as the Agency is yet to commence funds disbursement to MFIs for the benefit of loan beneficiaries

iii. Other Investments -Nil balance

RIMA did not have any other investments outside the N2billion money market placement with FCMB. The balance sheet showed a nil balance as at 30th September 2009.

iv. Prepaid Expenses-N23,240,836

The balances standing on this account relate to Office Rent of N23, 145,836 and N95, 000 as advance payments for security services. We observed that RIMA paid the sum of N27, 500,000 for 5 years of rent in December 2008 for the present office at 3 Evo Crescent, GRA Port Harcourt. The Agency has charged the sum of N4, 354,164.00 to the Profit and Loss account – as utilised rent as at our review cutoff date of 30 September, 2009.

v. Other Assets - N6,573,890

Our review of Other Assets revealed that this account is made up of Staff Loans (N434, 992.00) and Advances (N4, 666,646.00) and a sub account classified as Internal Deferred Expenses (N1, 112,911.00). The Staff Advances refer to upfront Furniture allowance of N7.2million paid to the Managing Director for which a monthly apportionment is being expensed. The Internal Deferred Expenses are the un-utilised amounts from the monthly approved expenses by the Secretary to the State Government (SSG).

Our Observations

- We noticed that following the Government's instruction to suspend operation of bank accounts in July 2009, the agency prepares the schedule of its projected monthly expenses and forwards it to the SSG for approval This necessitated the creation of internal deferred expenses account to house the approved expenses
- Effective July, cheques to cover all monthly expenditures have been written in the name of RIMA's Head of Accounts, Vincent Nwakanma for cashing and safe keep. This is fraught with control risks since physical cash meant for the agency is expected to be kept in the hands of the Head of Accounts.

vi. Pre operational Expenses - N127, 270,692

The Pre operational expenses amounting to N127, 270,692 relate to various expenditures that the Agency made at the inception of operation prior to February 2009 (October 2008 to January 2009). As captured under sub section iii in our assessment of the P&L items, the total amount comprising pre-incorporation is N156 million (approximately), out of which approximately N28million has been amortised. The balance captured under the current heading represents the portion yet to be written off.

vii. Fixed Assets- N247,831,642 (Net)

RIMA expended N268, 788,227.00 as the costs of fixed assets acquired from inception to 30th September 30, 2009. The breakdown is as shown below.

SUMMARY OF FIXED ASSETS AS AT 30.09.2009

	₦
Leasehold Improvement	47,636,133.00
Motor Vehicle	67,895,000.00
Generator/Plant	14,989,900.00
Computer Equipment	13,039,960.00
Office Equipment	14,759,774.00
Furniture/Fittings	11,967,460.00
Computer software Development	8,000,000.00
A.T.M (Machine)	90,500,000.00
Total Cost	268,788,227.00
Less Accumulated Depreciation	-20,956,585.00
	247,831,642.00

Observations

- Included in the agency's fixed assets are items for which part payments had been made to Megatech Earth Digital Systems Limited for Software Development and for which the delivery time was agreed for July 2009. As at the time of our review in November 2009, the software was yet to be delivered and the Head of IT Department was unable to provide us with the status of work on the development of the software by the consultants. We noted that the software if completed and developed in accordance with agreement would have modules for Accounting package, Human Resources and Operations.
- Notable in this category of fixed assets with part payments for goods not yet delivered in terms of five ATMs and several PoS equipment. The contractor is Bridgeway Consulting/Smartswitch.
- The status of the aforementioned items have been recognized in the fixed assets summary as follows:

Fixed Asset	Vendor	Cost	Amount Paid (N)	Amt Outstanding(N)
Comp Software	Megatech Digital	8,000,000.00	4,800,000.00	3 ,200,000.00
A.T.M.Machines	Bridgeway Cons.	90,500,000.00	50, 500,000.00	40,000,000.00

- In accordance with accounting practice, the undelivered assets should be reclassified and taken out of the fixed assets schedule until physically received as fully completed.
- The management of FCMB confirmed the bank was not consulted for its input into the appropriateness of acquiring ATM machines and did not see the justification for RIMA to invest in the equipment. The viability of this transaction is therefore questionable even in immediate terms. Should RIMA go ahead to consummate the transaction or should steps be taken to truncate the contract or offload it onto a third party whose needs are more aligned to such equipment

viii. Assets Insurance

Our review of the adequacy of insurance on RIMA's fleet of vehicles revealed that they have been adequately insured. We however observed that other fixed assets like Leasehold, Generators, Office Equipment and Furniture and fittings were not insured against any indemnifiable risks that may occur

3.2.2 REVIEW OF LIABILITIES

i. Grants - N500,000,000

The amount of N500 million was provided to RIMA by the Rivers State Government as a "Working Capital" take off grant. The grant is an interest free loan and the establishing statute indicates that it is expected to be paid back after RIMA has been in operation for 2 years (see section 5 on **Legal, Governance and Strategy**) The amount was utilized for both operational expenses and asset acquisition.

ii. Other Liabilities - N72, 773,058

We reviewed the 'Other liabilities' and observed that this is made up of Accruals, VAT, and PAYE and Pension as follows;

a) Accruals of N65,559,804 which relate to earlier cited outstanding for Computer Software and ATM respectively), which RIMA is committed to (see summary of Fixed Assets in the previous sub section)
b) VAT of N6, 692,654 being deduction from Bridgeway Consulting/Smartswitch on the ATMs
c) PAYE and Pension payable as at 30 September 2009 amounting to N520, 000

<u>Our Observations</u>

- PAYE deductions on staff salaries is made at a flat rate of 10%.. This does not conform with the Personal Income Tax Act 1993 (as amended) which prescribes graduated rate of deduction on staff total emoluments as follows:
  - First N30,000 at 5%
  - Next N30,000 at 10%
  - Next N50,000 at 15%
  - Next N50,000 at 20%
  - Above N160,000 at 25%

- Remittances of taxes are also not made as at when due.in contravention of the Act which requires monthly payments of PAYE tax liabilities to be made on or before the 10th day of the month following the applicable month (e.g. January tax to be remitted by 10th of February).

- Capital Fund of N2.0 billion shown in the balance sheet is the N2.0billion capital contribution by the Rivers State Government to fund its microcredit to beneficiaries

iii. Revenue Reserve – (N10, 313,242)

This is the loss arising from the operations of RIMA for the month of December 2008 alone. RIMA's Management prepared the Trial Balance, Balance Sheet, Profit and Loss Accounts with the Notes to the Accounts for the first time in December 2008. The expenditures for the month was N10, 313,242 and since no income was generated, the loss for the month was N10, 313,242.

Observation

This balance has been shown as a stand alone balance by the Agency since December 2008 instead of consolidating it with the amount indicated as Profit and Loss on the Capital and Reserves side of the Balance Sheet. The management is advised to correct this entry.

iv. Profit and Loss - (N42, 473,879)

The balance of N42, 473,879 is the loss sustained by RIMA as at 30 September, 2009. Further review of this account revealed that the balance represents accumulated loss from operations since January 2009 but did not include the loss made in December 2008 indicated as Revenue Reserve above.

Observation

This also indicates that the total interest income generated from bank placements, being the only earnings made by RIMA was not enough to cover recurrent expenditures (staff salaries, administrative expenses etc) for the same period. RIMA will need to take deliberate measures to ensure its sustainability

3.3 SUMMARY OF RIMA'S EXPENDITURES

RIMA's total expenditure from inception to September 2009 amounted to N612, 580,270 comprising capital and recurrent expenditures highlighted below:

	N
Capital Expenditure	390,479,494
Recurrent Expenditure	222,100,776
Total	612,580,270

The breakdown **Capital expenditure** is as shown below:

	N
Fixed assets	233,394,076
Pre-operational exps	127,270,692
Prepaid rent	23,240,836
Other assets	6, 573,890
	390,479,494

The breakdown **Recurrent expenditure** is as shown below:

	N
Staff Salaries	78,334,499.00
General & Admin exps.	142,651,997.00
Premises/property expenses	1,114,280.00
	222,100,776.00

Observations

- The total expenditure as at 30 September 2009 amounted to N612, 580,270.00 - indicates expenses in excess of N112, 580,270 over the original take-off grant of N500million provided by the Government
- The free interest grant of N500 million provided by the State Government as operational fund for the agency had been completely utilized in the first year of operations and with the dearth in operations, it is not likely that a sustainable arrangement exists to have it paid back within the designated two year period
- Available records revealed that RIMA is presently dependent and surviving on the interest income from the dedicated fund of N2 billion placed with FCMB.

3.4 Highlights of Financial Control Issues

We conducted a review of financial controls as they relate to financial records; control and presentation; banking operations; human capacity of the Accounts department and the Procurement processes. Our findings are presented below:

i. **Financial Records, Control and Presentation**

As a State Government Agency with direct funding, RIMA is expected to prepare monthly management accounts in other to facilitate accountability and transparency. Our request to have RIMA's monthly management accounts could not be met for the first few days into our assignment – as attempts were only then being made to develop same. The lack of monthly management accounts evidenced poor record keeping and weak accounting procedures within the Accounting function.

ii. **Posting of Accounting Transactions using Excel**

We observed that accounting transactions of the agency were done using Excel and that ledgers are recoded manually. Book keeping on Excel is fraught with the possibility of omissions – as well as deliberate manipulation and is therefore unreliable. It may also be difficult to trace transactions posted from one month to another, and audit trails are difficult to establish.

iii. **Raising of Cheque Payment Vouchers**

We also observed that some cheque payment vouchers raised were not approved promptly by the Head of Accounts Department who has oversight responsibilities over Accounts staff. The cheque payment vouchers are designed in such a way that no single accounts staff will complete the entire entries documentation. However, in most cases the vouchers were checked and signed by the Head of Accounts months after the vouchers were raised.

iv. **Banking Operations**

RIMA financial transactions relating to banking operations were reviewed in order to establish that cheque payment vouchers were properly raised, payments approved and received by the actual beneficiaries. Statements from the two operating bank accounts (FCMB and Zenith) were also reviewed for the purposes of establishing the withdrawals, interests on fixed placements with banks credited to the accounts and closing balances thereon.

Our Observations

- We observed that RIMA has maintained two bank accounts for its day to day banking activities since the inception of the agency's operations (Zenith Bank Plc and First City Monument Bank Plc respectively). The FCMB account was opened in October 2008 while Zenith Bank Account relationship was established in November 2008.
- The two bank accounts were operated by the Agency up to June 2009 with Senior Executives as signatories. From July 2009, Secretary to the State Government, assumed an oversight role on the agency's financial activities on behalf of Rivers State Government and monthly expenditures relating to the operations of RIMA have been sighted and approved by him. Cheques were raised by the State Accountant General for withdrawals in the name of the Head of Finance and Accounts, Vincent Nwakanma. Such expenditures are funded through FCMB operational account. The implication of this situation is that cheques for RIMA's running costs are raised in the name Vincent Nwakanma and cashed monthly by him ahead of when actual expenditures occur. This practice gives room for financial indiscipline.
- As earlier stated in the report, it was noted that on some occasions cheques were written in the names of staff for payments due to contractors and suppliers i.e. the payments were disbursed in cash to the vendor. These payments were considered inappropriate as cheques should have been directly issued to suppliers for purchases made by the agency.

Such payments to staff noted by us were as follows:

Date	**Name of Staff**	**Amount**	**Remarks /Description on Vouchers**
10.02.09	Kalada Jim Halliday	N1,259,574	Cash collected for Photocopiers
11.02.09	Kalada Jim Halliday	N2,586,000	Collected for MD's house generator
22.12.08	Kalada Jim Halliday	N4,055,000	Office Generator
11.02.09	Kalada Jim Halliday	N885,000	Furniture for MD's guest[3]
20.04.09	Nuira Gbarayorks	N8,188,250	South South Economic Summit

[3] The description of this expense as stated in the agency's records was not clear. Enquiries however revealed that the sum was purportedly taken for Public relations

We noticed that one Ebenezer Finecountry, presumably a supplier had a cheque in the sum of N2, 500,000 (Two million and five hundred thousand naira only) written in his name on 31.10.2008 as Tenancy/Legal fee invoiced and payable to Kola Babalola & co. The payment was made **paid with an FCMB cheque No 07455103** At the same time various supplies of furniture and office equipment were supplied by him and cheques written in his name instead of the Corporate name of the vendor with no written order or instruction given to that effect.

Other substantial payments noted that were invoiced by other supplies but paid to **Ebenezer Finecountry** include:

- o An amount of N4, 960,000 paid with FCMB cheque No 07455178.
- o The sum of N248,000 relating to VAT deductions from supplies to the Agency paid with FCMB cheque No 07455189

The payment of monies for various transactions to same individual rather than the vendors or names on invoices without appropriate authorization raises concern about level of financial processes discipline.

- A debit of **N11, 731,201.50** was stated to be Commission on Turnover (at the rate of N5 per N1000) on Zenith Bank account in December 2008. Further enquiry revealed that it arose as a result of the transfer of N2.0billion from Zenith Bank to FCMB out of the N2.5billion given by the State Government to the agency.

  - o A pertinent issue is the quantum of the COT charged
  - o A second is the management of RIMA knowing that the sum of N2.0billion was meant for FCMB, should have been lodged the amount directly with FCMB. If this was done, the Agency would not have incurred the charges that resulted

The extracts of the monthly closing balances on the respective bank accounts are as indicated below (please note that since June 2009, there was no movement on Zenith Bank account).

Monthly Bank Balances (October 2008 to September 2009)

MONTH	FCMB	ZENITH	TOTAL
Oct-08	-83,957,186.51	0	-83,957,186.51
Nov-08	144,755,419.48	2,248,685,124.82	2,393,440,544.30
Dec-08	111,161,187.85	2,159,666.32	113,320,854.17
Jan-09	55,936,023.69	147,511,793.93	203,447,817.62
Feb-09	22,295,656.33	129,969,750.55	152, 265,406.88
Mar-09	20,914,218.95	123,985,003.16	144, 899,222.11
Apr-09	17,437,400.93	99,122,675.10	116,560,076.03
May-09	29,610,231.56	35,112,035.48	64,722,267.04
Jun-09	32,816,490.11	49,877,388.86	82,693,878.97
Jul-09	40,924,063.12	49,877,388.86	90,801,451.98
Aug-09	49,064,113.22	49,877,388.86	98,941,502.08
Sep-09	**64,695,351.58**	**49,877,388.86**	**114,572,740.44**

v. Human Resources Capacity of Accounts Department

We interviewed the staff of the Accounts Department to obtain a sense of the overall professionalism of the team.

Our Observations

- Although all the staff have first degree or equivalent, they are however not very professional in outlook, speech, carriage and exposure. They (probably other then the Head of Department) possess fairly limited I.T skills
- Practical accounting skills is largely absent and only one person in addition to the Head of Department had his or her ICAN
- This disposition of staff indicates there is a high level of slack (redundancy) in the system, for instance
  - The only other officer in the department who possesses an Accounting Professional qualification (ICAN) and a first degree is only assigned the preparation of bank reconciliations. He admits he can perform his only monthly task in 3 hours.
  - The Head of Accounts is not senior, mature or sufficiently experienced. He appears to have a challenge managing his subordinates. (Please see assessment of current management team in section four "HR Capacity, Management and Practices")

vi. Procurement process

It was observed that there is no visible and credible procurement procedure in place for major recurrent and capital expenditures in the agency. The transparency of the processes leading to award of contracts is doubtful as evidenced by the following engagements for which the Agency did not show evidence of competitive bidding process .

- Procurement of ATM machines
- Contractual engagements of service providers such as the Cleaning Service; the Security Service and the Horticulture Service

vii. Review of Major Contracts

RIMA engaged the services of contractors to provide various services for the Agency. These contracts include contract for services and supply of office equipments. We present below our review of the terms of the major contracts and our observations.

A. FECANNAR GLOBAL KONSULT LIMITED (outsourced drivers)

Fecannar Global Konsult Limited – the consultancy appointed to hire staff for the organization – was subsequently contracted to provide and maintain outsourced drivers for the agency on an on-going basis for a period of two (2) years commencing from the 14th day of January 2009. The contract provides that the contractor shall receive monthly the respective sum for the under listed categories of drivers

- Category A: Executive Drivers	N 60,000.00
- Category B: Regular Drivers	N 50,000.00
- Category C: Drivers (Motor Cycle)	N 40,000.00

Fecannar Global Konsult presently supplies twelve (12) regular drivers to the agency at the rate of N50, 000.00 each amounting to N600,000.00 per mount. The 12 drivers engaged for the organization are allocated to the various offices and sections of the agency. Three of them are attached to the MD and Corporate office; eight are attached to the Departmental Heads and one serves as a pool driver.

Observations:

Cancel.

- Payment Disparity: Information gathered from enquiries revealed, the Contractor (Fecannar) pays N25, 000.00 per Driver per month as against the N50, 000.00 being paid by the Agency. The agreement did not indicate professional fee payable to the Contractor hence the Drivers receive 50% payment of the amount agreed between RIMA and Fecannar.
- Terms: It appears that the Drivers are discontented with their terms of engagement as, with every slight opportunity they have, they show disenchantment with the amount being paid to them.

B. MAGGIE-K GARDEN VENTURES (provision of horticulture service)

Cancel engage another

Maggie-k Garden Ventures, an enterprise with expertise in providing horticulture service to private and corporate organisations was engaged by RIMA on 15th March 2009 to plant and maintain flowers within the agency's premises.

There was no definite contract period in the agreement signed by both parties signifying an open ended engagement. On meeting specified terms Maggie-k Garden shall be paid N80, 000.00 per month. The Contractor's bill is payable at the end of each month and as at the time of the review in November 2009, the amount due for October 2009 had been paid. There was no outstanding liability as at the time of the review.

Observations:

- Flowers maintenance in a small premises, largely concreted, should not require a monthly contractor retainer arrangement
- Maintenance could be done by a low level contract staff
- N80, 0000.00 monthly payments translate to N960, 000.00 per annum. This amount is considered high for a Microfinance Agency.

C. SHARPLINK RESOURCES (outsourced cleaning)

Sharplink Resources was engaged to provide outsourced cleaning and maintenance service by RIMA for its Head office complex at 3 Evo Crescent, G.R.A II Port.Harcourt. The contractual engagement commenced on 2nd February 2009.

There was no definite contract period in the agreement signed by both parties signifying an open ended engagement. The contract provides that cleaners deployed by the contractor to RIMA at any point in time should not be in excess of Nine (9). The contractor shall be paid the sum of N40, 000.00 per cleaner per month. Currently, Sharplink Resources currently supplies Eight (8) cleaning personnel to RIMA on a monthly basis and is entitled to N320, 000.00 per month for their service.

Observations:

Cancel Engage 4 cleaners

- We consider the number of cleaning personnel engaged by the Contractor as too large for the maintenance of RIMA premises. Effectively, four personnel would be appropriate to handle the cleaning of the premises.
- The payment of N320, 000.00 monthly is considered high considering the size of RIMA's premises. This amount translates to N3.284million in a year.
- There is a need to review the subsisting contract in respect of cleaning services. Effectively, 4 cleaners should be able to handle the cleaning of the Agency's premises. A competitive bidding process should be applied.

D. KOZAK GLOBAL SERVICES LIMITED

RIMA outsourced the security service for its head office and the Managing Director's residence from Kozak Global Service Limited, an organization specialized in the provision of security guards to organizations. The contract was entered into on the 31st of August 2009 for a duration of one (1) year. The contract did not specify the minimum or maximum number of security personnel to be provided. It stipulated that the contractor shall be paid the sum of N40, 000.00 for each security personnel provided per month. Kozak Global Service Limited currently supply Twelve (12) security personnel to RIMA, which cost N480, 000.00 per month

Observations:

- The name on the Security Guards' uniform indicates E & A Security. It is not known if this is the trade name of KOZAK or if the company is engaging the services of another security outfit.
- The agreement between RIMA and KOZAK did not mention the issue of 'E & A Security'. We would have expected the Legal Department to have looked into this and ensure that KOZAK maintains the name on Guards uniform.

2. Supply the equipment and biometric POS terminals and 5000 smartcards, for the implementation of the scheme;
3. Supply and brand the smart cards, to be utilized for the scheme with the trademarks and logos of SmartSwitch, Net1 and RIMA;
4. Initialize and personalize the smart cards to be used for the scheme;
5. Perform the role of a technical partner or other service as may be agreed by the Parties;
6. Provide the necessary information, documentation, and assistance for the performance of their obligations under this agreement;
7. Carry out such other activities to ensure the effective and efficient execution of the Agreement

Bridgeway Consulting's responsibilities are to:

1. Facilitate the IT system integration and maintain the interface with SmartSwitch;
2. Shall monitor and manage the Accounts specifically created to manage monies received by SmartSwitch in respect of the scheme;
3. Shall aid RIMA in implementing a capacity building and financial wellness training;
4. Shall deliver to RIMA monthly and quarterly reports regarding execution of the scheme;
5. Carry out such other activities to ensure the effective and efficient execution of the Agreement.

The obligations of RIMA are to:

1. Provide a list of all qualified loans approved by RIMA;
2. Shall provide a list of all certified and approved Microfinance Banks involved in the scheme;
3. Ensure that all Microfinance Banks involved in the scheme adhere to the requirements for use of the SmartSwitch Platform;
4. Provide an enabling environment for capacity building and all other training sessions;
5. Provide Bridgeway Consulting and SmartSwitch with the necessary information, documentation, and assistance for the performance of their obligations under this Agreement;
6. Carry out such other activities to ensure the effective and efficient execution of this Agreement.

Observations:

Review

- As at the time of review, the contractors (SmartSwitch Nigeria Limited and Bridgeway Consulting) have not deployed the requested number of ATM Machines to Rivers State Microfinance Agency.
- The management of FCMB confirmed the bank was not consulted for its input into the appropriateness of acquiring ATM machines and did not see the justification for RIMA to invest in the equipment.
- The investment in the acquisition ATM machines for RIMA's operations cannot be justified because RIMA is not a deposit mobilising agency.
- Further investigation of the circumstances surrounding this contract is recommended, and if determined to be unnecessary the contract can be terminated or "sold" to a third party

F. FECANAR GLOBAL KONSULT LIMITED

2008 Fecanar Global Konsult Llimited was contracted on 22nd October to provide the following services to RIMA:

1. Finance / HR / IT and General Consulting
2. Preparing of Manuals / Policies
3. Training of Staff on manuals

The contract period was for 90 days period with the consultancy fee of N45 million detailed as follows:

Finance / HR / IT and General Consulting	N12million
Preparing of Manuals / Policies	N18million
Training of Staff on manuals	N15million
Total	**N45million**

The contract provides that the obligations **Fecanar Global Konsult Limited** include:

1. Acting as financial adviser to the project for the first ninety days of the client's operations.
2. To advise on the institutionalization of the necessary structures to ensure efficient disbursement of funds to target groups, individuals and organizations in furtherance of the

Rivers State Government's Programme for effective alleviation of Poverty, Creation of Jobs, Reduction of Social ills and Recovery of the Microfinance Loans in the State.

3. To suggest the Banks, NGOs and other Micro-Credit Institutions for the purposes of the management of the funds and disbursement to, and Recovery from, the Beneficiaries.
4. To write the appropriate Operational, Internal Control, Human Resource, Administration Information Technology, Accounting, Treasury and Credit policies and Manuals, including the staff handbook, for the client.
5. To provide recruitment services in respect of the initial key staff and other employees of the client.
6. To participate in the selection and implementation of an appropriate IT platform for the commencement and effective operations of the client
7. To prepare the client's organogram
8. To write the Job Description of the various Department
9. To organize and conduct, appropriate training of the staff on the manuals and policies of the client
10. To prepare and submit to the management of the client, one month post implementation overview.

The obligations of RIMA include;

1. To provide an enabling environment, including resources, information, documents and facilities for the consultants to meet their obligations herein
2. To pay the consultant's fees in the manner indicated in Section C
3. To ensure the availability of the management whenever required for meetings, interviews and decision making
4. to ensure the due process of recruitment of staff for vacant positions in the client's organogram

Observations:

- The contract has been concluded and all liabilities by RIMA have been fully met.
- Based on verbal discussions various staff, most people hired responded to the initial vacancy adverts in the newspaper and short listing was done by the consultant.
- The quality of a significant number of staff of the Agency is below par – and it is surprising that they emerged "the best" from such a selection process
- Recruitment should have been phased out. The Agency is currently overstaffed and ab ignition did not require a full complement of staff

G. DAATIM NIGERIA LIMITED

Daatim Nigeria Limited was contracted to conduct a research to ascertain the poverty level in Rivers State of Nigeria on Local Government by Local Government basis. The contract was effective 16th March 2009 with a delivery date duration of 60 days for a fee of N9 million.

The contract details were as follows:

1. The consultant was to undertake the study and produce its report to the respective 23 Local Governments Areas in Rivers State
2. The period from mobilization to the submission of the final report of the study shall be a duration of 60 days from the date of execution implementation
3. The modalities and logistics for undertaking the study shall be sole responsibility of the consultant
4. No failure on the part of the agency to exercise, and no delay in exercising any right, remedy, power and privilege under this agreement should operate as a waiver thereof and no single or partial exercise of any such right, remedy power or privilege shall preclude any other or further exercise or any right, remedy, power or privilege.
5. The consultant should under no circumstances without the express approval of the agency alter, vary or change any part of the terms of the agreement
6. The consultant warranted and represented to the agency that it would apply the best endeavours, skills and expertise in discharging any or all of its obligations under this agreement and agreed to indemnify and keep indemnified the agency against all losses, damages, liabilities or cost arising from non-performance or poor performance.

The obligations of RIMA under the contract include:

1. The Agency shall engage the services of the consultant for the purpose of undertaking the study
2. The Consultant shall be paid the sum of N9,000,000.00 (Nine million naira) less withholding tax of 10% the balance sum of N8,100,000.00 (Eight million, One Hundred Thousand Naira only) shall be paid in the following manner:
    - 50% (fifty percent of the fees as mobilization)
    - 30% (thirty percent) upon production and delivery of the initial preliminary report

- The balance of 20% (twenty percent) shall be paid upon the production and delivery of the final report of the study

3. This agreement shall be binding on the parties and their successors and assigns notwithstanding, any change in the name, style or constitution of the parties or any liquidation, absorption, amalgamation or reconstruction of the parties and notwithstanding, that any of the obligations may be invalid or in excess of the powers of the board of directors, attorneys, agents or other persons purporting to act on their behalf.
4. This agreement shall be governed and construed in accordance with Nigerian Law
5. This agreement shall take effect from the date of execution
6. Any dispute as regards to the interpretation of this agreement shall be referred to Arbitration in the first instance
7. The consultant hereby agrees to indemnify and to keep indemnified, the agency against any claims, actions and liabilities, losses, damages, cost or expenses incurred by reason of any claims or actions which may occur through the actions of the consultant.

<u>Observations</u>

The report submitted by the consultant for the services rendered is yet to be used by RIMA. ReStraL sighted the Interim report (summarily) and the immediate impression was that it was not a professionally done job as the recommendations lacked sufficient granularity and thoroughness. The contents of the report risk getting stale since it focused on baseline information, which now is possibly stale. RIMA is advised to advertise such consulting engagements as this in the National Dailies to provide it the benefit of selecting from a wide array of experts in the field.

4. RIMA – HR Capacity, Management and Practices

4.0 Introduction

This section deals with the assessment of the Human Resources capacity within the organization under the following headings:

I. Staffing Profile
II. Structure and Staff (Management and Non Management Staff)
III. Remuneration
IV. Leadership Style

I. Staffing Overview

The total staff strength of RIMA is currently 44 – excluding outsourced resources such as drivers, security etc. All staff, at take off, were recruited by a Recruiting/ Consulting agency known as Fecannar Global Consult Limited (Fecannar) who were involved in the set up of the organization. The staffing, as currently constituted, comprises the following functions and levels:

Function	#
Office of the Managing Director	5
Administration	6
Finance /Accounts	7
Human Resources	4
ICT	3
Internal Control	5
Operations	5
Risk Management	7
Total	**44**

Our Observations

1. The agency as it currently stands is too heavily staffed
2. To take off with a full complement of staff was a significant risk, as at the point of take off there was still lack of clarity over the appropriate operational model. A much wiser approach would have been to:

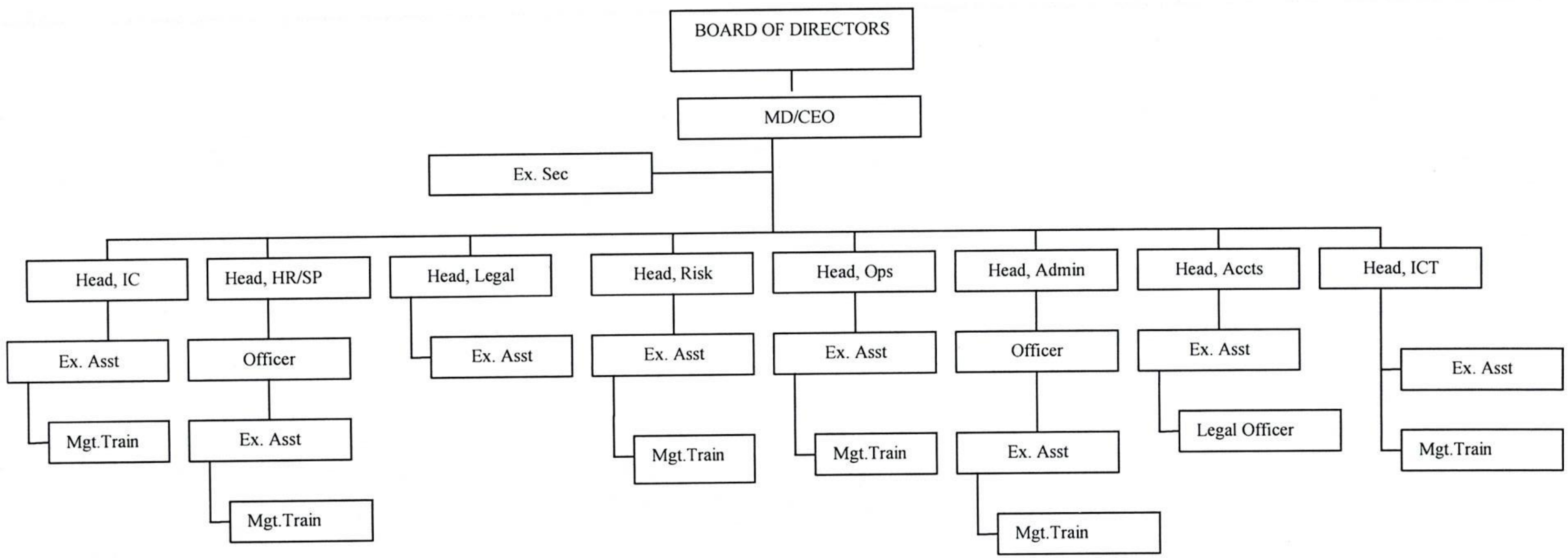
a. Agree the operational model and resolve governance issues to a large extent prior to the organisation's take off; Or
b. Do this immediately after take-off, to ensure that subsequent decisions could be situated properly in this regard
c. Focus on the recruitment of the Heads of key functions and departments and minimal support staff until there was a sufficient build up with which to gauge the work load and therefore resourcing needs in each unit

3. The disadvantages in the approach adopted included:
   a. Poor alignment regarding staffing decisions
   b. Inefficient use of resources by way of investment in salaries, infrastructure, equipment
   c. A possible erosion of the required focus on the most strategic issues as a result of the inefficiencies that breed from having too much redundancy within a system
   d. The possible de-motivation arising from sub-optimal utilization of staff

The sections below highlight our assessment of the staffing structure, the profile of staff so far engaged, remuneration and leadership practices

4.II. ASSESSMENT OF THE ORGANISATIONAL STRUCTURE AND STAFF

Find below the current Organogram of RIMA:



4.II.A. Structure

In reviewing the RIMA structure, the following issues were considered:

- Optimum number of people reporting to the Managing Director
- Alignment of structure with stated model or strategy
- Clarity in the allocation of responsibility and accountability
- Allocation of tasks to people with characteristics and skills suitable for those tasks

The current senior management team is represented as follows:

S/n	Name of Staff	Level	Department
1	Mr. Victor Halliday	Managing Director	MD's Office
2	Mr. Felix Hart	Senior Manager	Internal Control
3	Mr. Nuira Gbarayorks	Manager	Risk Management and Credit
4	Mr. Furosia Wilcox	Manager	Legal
5	Mr Belema Ekine	Deputy Manager	Human Resources and Strategy
6	Mr James Ataije	Deputy Manager	Administration
7	Mrs Elizabeth Odokuma	Assistant Manager	Information Technology (IT)
8	Mr Vincent Nwakanma	Assistant Manager	Accounts
9	Mr. Tonye Odubor	Dep Mgr(with FCMB)	Operations (FCMB Secondee)

Our observations with the structure are as follows:

- There is presently no Board of Directors and this has resulted in a lack of oversight regarding the activities of Management
- RIMA did not have at inception a planned organizational structure flowing from a well articulated strategic plan. For instance, the current structure in the context of current model being operated by RIMA, does not provide for an Inspectorate Department to ensure compliance and recovery of extended credit; However see the newly recommended model and structure presented in the section on "The way forward" for RIMA.

- All Heads of Departments report to the MD – irrespective of their level (position) in the organisation. This has resulted in eight (8) direct reports at this level, which is an unnecessary wide span of control in view of the Managing Director's strategic, external facing priorities. Our views are as follows:

  a. The level of seniority of those made Heads of Department is inconsistent. Some Head of Departments are Assistant Managers, others Deputy Managers and some Senior Managers. The danger with such arrangements is that the CEO does not have the benefit of a strong, experienced second level report capable of presenting him with a balanced, well considered and consistently high level judgement on issues

  b. While being on the same level of reporting to the CEO can be justified for people with similar levels or weight of responsibility, this is impossible to justify in the current arrangement as there is no desired consistency in terms of the weight of responsibility of all eight direct reports

  c. A suggestion to feature in the subsequent recommendations in this report is that all shared support functions report to a singular Head of Support services and these functions will comprise Accounts, Human Resources, Administration, IT etc. This will allow for more compactness and also provide certain functions with the benefit of more senior leadership (see assessment of managerial capacity below).

4.II.B. Management Staff

In this segment we have attempted to summarise the profiles as well as our initial observations regarding each person in the management team See below, the profile of the organisation's management team (the Managing Director has been assessed on a stand-alone basis in sub-section 4. IV).

Kindly note that while the consultants formed preliminary (prima facie) views of members of management, the discussions had were with a view to deriving from them their sense of what the organizational – as well as their functional issues were. As a result, we have been careful in providing an assessment of the individuals and have only overtly commented where significant deficiencies were observed which may impact or inform subsequent recommendations captured in this report.

Management	Engagement	Qualification/ Experience	Assessment
Mr. Gbarayorks-Head, Risk Management	Fecannar	• B.Sc Economics - 2^1 Uniport (1989) • MBA Financial Management Technology (FUTO) • 1992 to 2005 with All States Bank (operations, accounts, branch management) • 2005 to 2008 with Golden Choice MFI • Experienced in credit analysis, feasibilities, operations, branch management etc	No significant, contrary prima facie observations were made at this stage
Mr. Felix Hart-Head, Internal Control	Fecannar	• B.Sc. Business Administration – UST, RVSG (1984) • ACA (1991) • With Coopers & Lybrand (1986 to 1991) • FBN Merchant Bankers (1991 – 2005) • Parbod Breweries (2007 – 2008) • Experienced in auditing, accounting, credit and finance	No significant, contrary prima facie observations were made at this stage
Mr. Vincent Barikawa Head, Accounts	Fecannar	• HND Accounting, UST RVSG (1999) • PGD Business Admin (2002) • ACA (2007) • MBA (in view) • 2002 – 2005 with Obikwe & Co (set up Accounting system) • 2005 – 2008 with John Olulona as an audit supervisor and senior	While placement as Assistant Manager is defensible, more experienced and mature management oversight of the Accounting function is required. Mr. Barikawa ought not to be the Head of the function. At best, a Deputy Head role would have been suitable
Mrs. Elizabeth Odokuna-Head, ICT	Direct engagement by Head, HR	• B.Sc Computer Science& Maths, Uniport (1997) • M. Sc Computer Science • Ministry of Works (1997 – 2009)/ private engagements in IT as a	Appears capable, but is weak on organizational leadership and assertiveness. Will require senior managerial oversight

Management	Engagement	Qualification/ Experience	Assessment
		lecturer, web designer etc • 2007 – 2009 with Uniport as LAN officer	even if retained as the Head of Information Technology
Mr. Belema Ekine- Head, Human Resources and Strategy	Fecannar	• B.Sc Secretariat Admin, UST (1990) • Wilbros Brothers from 1991 – 1997 (HR Officer, Admin supervisor and Head, HR) • Micheletti from 2000 – 2002 • Pan African International Ltd. from 2002 – 2004 • First Aluminum from 2004 - 2007 • Private Consulting from 1998 – 2000/ 2007 - 2008 • Is a CIPMN facilitator • Joined RIMA as Head, HR – has had portfolio extended to cover strategy	No significant, contrary prima facie observations were made at this stage
Mr. Furosia Julius Wilcox- Head, Legal	Fecannar	• L.L.B from UST, RVSG (1994) • BL (1995) • Private Legal Practice from 1995 – 1999) • Politics from 1999 to 2007 (as Legal Adviser and subsequently Secretary to LGA)	Though with 14 year post Call experience at the bar, depth of relevant experience needs to be further assessed ad investigated to ascertain fit with position and level of responsibility. It is pertinent to note that most of his experience has been in politics or in the political sphere
Mr. Atanasius Ataje James Head, Admin	Fecannar	• B.A. in Business Education (option in Accountancy) in 1985 – UST, RVSG • Engaged as an account with different employers (though not chartered) in 1987 and 1996 – 1999 • Lectured at SBS, Rivers State from 1987 to 1989	Appeared largely ignorant regarding how most of the capital expenses such as cars and equipment were procured. Involvement appears to largely with regard to recurrent expenses e.g. stationary, cleaning,

Management	Engagement	Qualification/ Experience	Assessment
		• Self employed between 1990 and 1996 • Lectured with RVSG, School of Arts & Science in Accounting and Taxation from 1999 – 2008	security, maintenance Strength of leadership, competence and capacity for the job therefore questionable
Mr. Tonye Odubo- Head, Operations	FCMB Secondee	• Credit officer at FCMB • Deputy Manager at FCMB prior to secondment	He expected to resume as COO, and believes his placement as Head of Operations does not command the level of authority anticipated by FCMB

Overall Assessment

- Certain members of management lack the skills, levels of proficiency and leadership required and expected of them
- Certain members of the management team are incapable of operating at their current levels of placement within the system and require intermediate management oversight i.e. should have functional line supervisors between them and the CEO. In the case of the Accounts Department, for instance, the Head of Internal Control appears to act as a de fact, intermediate supervisor (this in turn may compromise his ability to provide effective, disinterested "control" role where the Accounts department is concerned)
- There needs to be agreement and consensus with FCMB regarding its representation on the management team
- There is a huge gap in placement and level between the Managing Director and the next immediate level of reports i.e. Managing Director to Senior Manager (no Director or GM intermediate levels). This poses a risk in terms of the potential for the overarching dominance of the CEO.

4.II.C. Non Management Staff

The consultants, while not engaged in a full blown staff audit exercise decided to test the quality of non management personnnel. In this regard, the full staff complement of both the Accounting and the Internal Control departments were engaged in direct interviews.

Our views are as follows:

i. There is likely over staffing, borne out by our review of the departments highlighted above. This has probably been compounded by the current suspension of operational activities in the organization

ii. Many "graduate" staff of the organisation were engaged with very weak or non-existent IT skills. This is surprising and a significant pointer to the quality of staff engaged.

iii. With regard to four staff interviewed from the Accounting department – other than the Head of Department – please note our observations:

   a. None of the staff had little or prior work experience and non showed any impressive aptitude or capacity to do the job
   b. The work load allocation indicates weak optimization of their time. One of them described his entire workload for a week in terms of work that can be done by competent hands in less than three hours
   c. In spite of the earlier reservations expressed regarding the Assistant Manager heading the department, the support available from his teammates/ subordinates amounts to having no effective back up that can effectively double up for him in his absence

iv. A review of the Internal Control activities was carried out with four of the department's staff being interviewed to assess their competencies. Our observations are as follows:

   a. Three (3) of the Internal Control Department staff interviewed never worked in an Accounts or Audit Department of any government or corporate organization
   b. No internal or external training on audit was seen to have been provided by the Agency to hone the shortfall in experience of the staff
   c. The Internal Control department does not also have audit programme in place to bridge the skill gap of staff. It is essential to have an audit programme so that staff would know what they are expected to do on any audit assignment at any point in time;

d. There was no adequate coverage of audit areas. Only two departments (Admin and HR) were audited for virtually 8 months and enquiries on their job experience on the assignment covered by them revealed that they were not really involved and lacked the basic understanding or knowledge relevant for the areas claimed to have been covered by them;

v. There is evidence of weak institutionalization and professionalism in the way some staffing decisions have been made. For instance the posting of an accounting graduate out of the Accounts department and his/ her replacement by a non-accountant from the Internal Control department whose background is in marketing

4.III Remuneration Structure

The current Salary structure being operated in RIMA is presented in the tables below. Also following the tables are the attendant perks and non monetary benefits.

Levels	Managing Director	GM/ DMD	AGM	Senior Manager	Manager
Basic	3,000,000	1, 200,0000	1,000,000	600,000	400,000
Benefits	15,300,000	8,970,000	7,120,000	5,800,000	4,270,000
Total Gross:	18,300,000	10,170,000	8,120,000	6,400,000	4,670,000

Levels	Deputy Manager	Assistant Manager	Officer	Executive Assistant	Management Trainee
Basic	250,000	200,000	150,000	100,000	100,000
Benefits	3,100,000	2,750,000	2,400,000	1,570,000	1,220,000
Total Gross:	3,350,000	2,950,000	2,530,000	1,670,000	1,320,000

i. MD's Non-Monetary Entitlements

- Two (2) Official Cars + Drivers with full maintenance and fueling
- Yearly Overseas Flight Tickets for self, wife and four (4) children
- Unlimited access to Tea, Telephone and Club Membership
- Three (3) Security Personnel
- Two (2) Domestic Helps
- 40 Kva Generator Set (Every 3 years); Including maintenance, fueling and management

ii. GM/DMD/AGM's Non-Monetary Entitlements

- One (1) official car + Driver and full maintenance and fueling
- Overseas Flight Tickets once every two (2) years for self, wife and four (4) children
- Unlimited access to Tea, Telephone and 2 Club Memberships
- Two (2) Security Personnel
- 27 Kva Generator Set (Every 3 years); Including maintenance, fueling and management

iii. Other Benefits to all Staff

- 13th month's payment – one month Basic Salary
- Leave Allowance -10% of Annual Basic Salary

iv. Deductibles

- Pensions is 7.5% of basic + housing + transport
- PAYE (about 10% of pensionable income)

Our Observations

1. According to the RIMA Law, Section 5(3), remuneration of staff should be comparable to that received by officers of equivalent rank in the civil service or as approved by the Board.
    - The pay structure is clearly in violation of the prescription by Section 5 of the Act. There was no indication it was approved by a board or any higher or superior authority. In terms of proper corporate governance, in the absence of a board, it should have been approved by a higher authority such as the Governor
2. There is a significant gap between the Managing Director's monetary remuneration and that of the next level of staff i.e. the proposed DMD/ GM full salary amounts to approximately 55% of the Managing Director's. This is not an equitable arrangement
3. The same comments made above regarding the non monetized portion of the Managing Director's pay – also applies to the package allocated to the Deputy Managing Director/ GM position
4. Starting with the highest position, the Managing Director's remuneration is not fully monetized and therefore it is difficult to assess its adequacy or otherwise. However, our deductions are that the monetary earnings amount to N18.3m, while the non monetary could total at approximately N20million a month. Please see assumptions made in the latter regard, below
    - Two (2) Official Cars + Drivers with full maintenance and fueling – *N25m for cars every 4 years/ N2m fueling and maintenance annually.....N8.25m annually (when amortised over 4 years)*
    - Yearly Overseas Flight Tickets for self, wife and four (4) children – *N3.0m.*
    - Unlimited access to Tea, Telephone and Club Membership – *N1.0m.*
    - Three (3) Security Personnel – *N1.5m.*
    - Two (2) Domestic Helps – *N1.0m.*
    - 40 Kva Generator Set (Every 3 years); Including maintenance, fueling and management – *N6m* for generator *every 4 years* / N4m fueling and maintenance......N5.5m *annually (with the cost of equipment amortised over 4 years)*

Below are the salary structure of two government agencies, the first at the state level and the second at a federal level, respectively, for comparison

State Agency		
Position	Salary	Coverage is fully monetized and covers the following:
Managing Director	N14,000,000.00	Basic, housing, appliance utilities, furniture, Leave, Lunch, fuel subsidy, Generator allowance, Telephone subsidy, Driver Allowance, Club membership, Professional membership, 13th month, Car (amortised)
Director	N8, 471, 875	Same as above
Senior Manager	N4,023,625	Basic, housing, appliance utilities, furniture, Leave, Lunch, Generator allowance, Telephone subsidy, Club membership, Professional membership, 13th month, Transport
Mid Management	N2,899,500	Basic, housing, appliance utilities, Leave, Lunch, Telephone subsidy, Club, 13th month, Transport
Intermediate Management	N1,577,000	Basic, housing, appliance utilities, Leave, Lunch, Telephone subsidy, Club, 13th month, Transport
Junior	N845,000.00	Basic, housing, appliance utilities, Leave, Lunch, Telephone subsidy, Club, 13th month, Transport

Federal Agency (running a band system)			
Bands	Lower limit	Higher limit	Comments
Executive management	16,000,000.00	25,000,000.00	Fully monetized total compensation – excluding official cars
Senior management	8,000,000.00	15,000,000.00	Fully monetized total compensation – excluding official cars
Middle management	3,270,000.00	7,900,000.00	Fully monetized total compensation
Junior management	1,400,000.00	3,500,000.00	Fully monetized total compensation

Our conclusions are that the CEO's salary can be benchmarked suitably with salaries of CEOs of some private sector companies in the Insurance companies, Oil servicing companies, Blue chip manufacturers etc . However, when compared to the total pay of CEO's of other public agencies and the general average earnings by CEOs of some prospering MFBs (in the region of N5million-N8 Million) he is quite generously paid.

5. The salary range of other levels appear fair and aligned with the general trend for well paying public agencies needing to attract human capital with relatively high levels of sophistication/ exposure

Our overall recommendation is that an independent evaluation be carried out and a Salary Structure recommended to the Board or in lieu of the board, to His Excellency, the Governor of the State.

4.IV. Assessment of the Current Leadership of the Organisation

In assessing the "Leadership" of RIMA, it is pertinent to note that there is no "Executive Management Team"; and as earlier indicated there is a significant seniority gap between the CEO and the next in line who is a Senior Manager. In essence therefore this is a one-man led organization. Our comments, observations and deductions are therefore made in this context:

- Our sense is that it is a very CEO centric organization – key decision making largely originates from him
- In assessing the way and manner in which he has dispensed of his fiduciary responsibilities:
    - The CEO appears also to have taken the lead in the procurement of some of the fixed assets of the organization (such as the purchase of some cars) without the involvement of the Head of Administration
    - There is significant degree of profligacy in the CEO's spending style and judgment. Please see our comments in Section 3 of this report on our Financial due diligence. It is important to note that all N500m provided as working capital for the organization at the commencement of its operations was exhausted in less than a year.
    - Of the amounts spent in the course of this period the only portion which the CEO has disclaimed as his direct responsibility is the amount of N50.5 million paid out (so far) for ATMs – which he claims was a directive of the State Governor's office. The Governor's office has since denied this. This expenditure is particularly surprising as RIMA is not a deposit taking financial institution and therefore has no customers to

service using ATMs. This investment therefore begs a question with regard to the quality of leadership and business judgment displayed

- The failure to exercise caution and a weighty sense of responsibility in seeking clearance from superior authorities or in presenting a budget for approval with regard to spending decisions including the salary structure; per diem allowances; renting and renovation of office leasehold; purchase of cars and assets in general. Of particular note, in this regard, was the failure to request clearance to access the interest earnings on the N2bn Government fund fixed with the FCMB as dedicated loan-able funds.

- There also appears to be some element of poor judgment in the managing of, or profligacy in the spending of the take-off loan of N500 million. In addition to the issues raised in Section 3 of the report, some questionable spending (in terms of their utility) can be seen with regard to the acquisition of certain assets for such a young, still unprofitable, organization. For example, in RIMA's schedule of Motor Vehicles purchased, N15million was spent on a BMW X5 Four Wheel vehicle (Registration AH 169 KPR) purchased from Coscharis for the MD on the 10^{th} of February, 2009 – in addition to three other cars assigned to the MD's office. The latter are a Nissan Teana (N5.5m); a Honda Civic (N3.59m for his PA's use) and a Hurricane Ranger Security Vehicle (N3.65m)
- Poor Internal Accounting process borne out by the manual Accounting processes where standard Accounting software (less than N100, 000) could have been purchased for this purpose. It is clear that Management Accounts were not produced on a monthly basis and that management decisions were not informed by proper accounting
- Weak concept of potential conflict of interest situation such as the decision to hire a number of relatives – paid for by the system – without proper disclosure and clearance from a superior authority
- While the feedback received, indicates that the Managing Director aims at achieving consensus and the buy in of the majority before committing to decisions – the value of this is compromised by the CEO centric nature of the organization which reduces constructive engagement and disagreements needed to promote healthy, robust decision making. This situation is further compounded by:
  - The lack of a proper strategy to drive decision making
  - The lack of critical management information such as monthly Management Accounts
  - No clear focus on developing internal business processes and planning tools to drive the organization

5. RIMA- Legal, Governance and Strategy

5.0. LEGAL; GOVERNANCE AND REGULATORY POLICIES

This section focuses on:

I. Legal: The Legal Issues Relating to the RIMA Law
II. Governance: Current Governance Considerations
III. Regulatory Policies: CBN Policies that relate to microfinance agencies and practices

LEGAL

The legal instrument establishing RIMA is the Rivers State Micro-Finance Law No.6 of 2008 ("RIMA Law"). It was largely cloned from the Law establishing the Lagos State Microfinance Institution ("LASMI Law"). However, there are some significant differences in both laws. Copies of both Laws have been presented as Appendices to this report. We present below a brief comparison of both laws

Similarities in LASMI and RIMA Laws:

S/N	Highlights
1	Both Laws establish an Apex Microfinance Institution
2	Both Laws provide a two year period within which to pay back the take off grants
3	Both Laws set up a Special Purpose Vehicle to manage a Fund intended for onward disbursement
4	Both Laws separate the decision making of the Fund from the executive authority of the Apex agency by establishment of an Investment Committee
5	Both Laws require that the Funds shall be operated as a Limited Partnership (RIMA S7.2 and LASMI S7.2). However see highlight #18 below
6	Both Laws require that the Apex institution be responsible for the corporate governance and management of the Fund (LASMI S4.6 and RIMA S4.5)
7	Both Laws indicate that Fund shall be a profit Centre within the Institution (LASMI S7.4 an RIMA S7.4)
8	Both laws indicate that both agencies are expected to be financially sustainable through generating profits from the operations of the Fund
9	Both laws provide unlimited scope for 3rd party donor involvement, though the RIMA law provides a ceiling of 1/3rd equity to the aggregate of 3rd party funding (RIMA S7.4 and LASMI 7.2)

S/N	Highlights
10	Both laws indicate that continuous – on going Government subventions will be provided on an annual basis (the RIMA law S6.3is more specific than LASMI S7.5 in this regard)

Dissimilarities in LASMI and RIMA Laws:

S/N	Highlights
11	• The RIMA Law indicates that RIMA is an agency under the Office of the Governor (RIMA S1.2.b) • The LASMI Act is not specific (however newspaper reports of its public conduct appear to indicate that it is an agency under the Ministry of Finance)
12	• The LASMI Law provides for an Executive Chairman to be supported on the board by a Managing Director (LASMI S2.3) • The RIMA Law separated the Office of the Chairman from the CEO, making the Managing Director the CEO and the only full time staff on the board (RIMA S2.2.b)
13	• LASMI LAW presents the loan beneficiaries as Nigerian residents (not indigenes) in Lagos State (LASMI 4.1 • RIMA Law present loan beneficiaries as strictly indigenes of Rivers State (RIMA S4.1)
14	• LASMI Law clearly stipulates a wholesale Operational Model with the Fund allocating monies to MFIs for on lending (Ss 7.4 and 9.2b) • The RIMA Law is unclear in this regard: - In sections 7.4 and 9.2.b it appears to recommend a wholesale operational model - In section 13 (1 and 2) it specifically appears to be advocating retail lending
15	• Under S6.4 of RIMA, upper limit of third party equity is not expected to exceed 1/3rd of the total equity • LASMI provides for no such limits (S7.2 and 7.3)
16	• Under both Laws the Fund is a Special Purpose Vehicle with an Investment Committee for implementing the allocation/ disbursement decisions; However: - Under the RIMA Law Operations i.e. the implementation of the decisions by the Investment Committee appears to have been assumed by management and staff of RIMA - The LASMI Law provides for a separate function for a Funds Manager(S7.6) - The LASMI Law also appears to have provided more clearly for the independence of the Fund from LASMI under Section 10 where it indicates very clearly that the Board and Investment Committee are to carry out their functions independently particularly with regard to operations and decision making

S/N	Highlights
17	• S5(3) of the RIMA Law appears to benchmark RIMA's salary structure with structures with equivalent rank in other public sector agencies or as may be determined by the Act. It does not require the ratification of the Governor • S3.3 of LASMI hints at no similar benchmark but leaves salary to the discretion of the board subject to the Governor's ratification
18	• As indicated in Highlight #5 above, both Laws appear to require a Limited Partnership as the legal arrangement for the Fund; however Section 3.10 of the RIMA Law also prescribes that the board shall "Incorporate a Limited Liability Company specially for the purpose of effectively implementing the provisions of the Law" • It would appear that this is with reference to the SPV that would manage the Fund, as RIMA is already statutorily established body as a result of its law

5. A. LEGAL ISSUES

I. Legally Prescribed Operational Model

The RIMA Law provides tactical recommendations affecting the Operational Model (see highlight #14 above). In certain areas it reflects similar intent to that of LASMI, which operates a wholesale lending model, however the law appears to contradict itself in Section 13.

This conflict needs to be revisited, in order to either eliminate all conflicts and to ensure consistency in the Law's prescription; or in the alternative, eliminate all references to an operational model leaving the board and other internal governance instruments to address this

II. Third Party Equity Involvement

The Law prescribes that third party equity involvement in the Fund must not exceed 1/3rd of the total equity of the fund. This has significant implications which need to be clarified upfront, in view of FCMB's involvement. These are as follows

- The RIMA Law under S6.4 does not limit the number of third parties that can be admitted into the fund subject to the upper limit of 33% of equity
- The Law in S6.3 indicates that annually there shall be a government subvention not exceeding 1% of the Capital Budget of the State allocated to the fund, however it does not indicate whether these funds will be treated as Working Capital (to be paid back or retired) or as equity (from which dividends would accrue)

- The Act in S6.2 indicates that RIMA is expected to be financially sustainable through the operations of the Fund, with a view to paying off the Take off grant provided at initiation and also ensuring dividends to stakeholders.
    - This questions the annual subvention being treated as mere Working Capital
    - It presupposes that such subventions are expected to be provided as part of the Fund
    - If indeed it is a part of the Fund, it can not be treated as a liability as RIMA is not a deposit collecting financial institution
    - It appears in all probability to be an injection into the Fund's equity. In fact a reading of Section 6.2 along with Section 6.1. appears to corroborate such a view
- If the above assumption is correct, the following become possibilities:
    - FCMB's equity stake will be diluted from its current percentage of 33% with each additional annual subvention
    - Where the bank does not proactively shore up its contribution, there state could attract other third party donors to provide funds up to the prescribed limits
    - To maintain its current holding of 1/3rd equity the bank will need to, in proportion with the state's subvention or other inflows, continue to shore up its own equity provisions
- Section 6.3 of the RIMA Law currently reads as follows: The Rivers State Government shall contribute an (a) initial equity as it considers appropriate for the Agency; and (b) amount not exceeding one percent (1%) of the Capital Budget of the State. Are the subsequent annual payments intended as –

    - Equity contribution? (Resulting in third party shareholder equity dilution)?
    - Loans? (thus subject to pay back, which would require payback specifications)
    - Working Capital? (Working capital in this case if extended to loan-able funds would distort the equity arrangement as the government would be contributing to the business fund over and above its formal equity stake relative to others. It is also pertinent to mention that based on S6(2) of the present law that the agency is expected to fund its administrative expenses from income generated through its operations)
    - Deposits? (RIMA is by law not set-up as a deposit collecting financial institution. Also a deposit, would imply eventual payback for a fee)
    - A grant? (the terms of which would be uncertain)

This matter needs to be pointedly clarified by the Law in order to avoid later confusion and conflicts

III. The Legal Arrangement Governing The Fund

Section 7.2 of the RIMA Law provides that "The Fund shall be registered and run as a Limited Partnership with the State Government as the Principal Partner and other eligible Partners as Limited Partners.

However Section 3.10 had earlier stated that the board is to "Incorporate a Limited Liability Company specially for the purpose of effectively implementing the provisions of the Law". This is with obvious reference to the Fund, as the agency has already been established by statute and therefore does not require CAMA incorporation,

A Limited Partnership arrangement, to which the Rivers State Government would have been the Principal Partner, would have placed the Government in a more vulnerable position with regard to exposure i.e. an unlimited liability, while the Limited Partners will have their exposure limited to the extent of their participation – similar to a shareholder in a limited liability company. The major disadvantage to the Limited partner is that it has no management authority and cannot participate in management decisions.

So far, the position is that the Fund has been registered with the Corporate Affairs Commission as a Limited Liability Company known as the Treasure Base Funds Management Limited. It is however obvious that the Law is conflicting in this regard.

The prescription of the Law needs to be clarified, and a singular position taken.

IV. Co-existence of RIMA and the Fund

The line of demarcation between Apex Agency and the fund is blurred and could result in subsequent conflicts and inefficiencies.

With the current arrangement, supported by the Act, the Fund is essentially managed by RIMA management and staff though approvals for allocation are expected to be given by the Investment Committee. This raises a poser "What is RIMA's role as an Apex Agency: Quasi regulatory-industry support or Operations?"

Please note as follows:

1. If the agency is to adopt a retail operational model, which is its current official position, this would be a clear case of conflict of interests – as it can effectively supervise what it is operating. An independent body would have to do this
2. If the model to be adopted is a wholesale model, as has been done in most parts of the world having Apex agencies, it could house the Fund, while ensuring that key and distinct functions address the larger supervisory, monitoring, strategy and compliance roles also needed to address the State's objectives. Such prudential supervision by RIMA of MFIs should ideally cover both the way the funds are allocated to MFIs, as well as how well it is carrying out its role of providing Technical Assistance to players in the industry

It is recommended that the RIMA Law allow for RIMA to serve both as an intermediary for the Fund's disbursement in a manner that would also foster the more strategic developmental roles that it could play in strengthening the State's microfinance sector.

V. Restriction of Loans to Indigenes of Rivers State

Rivers State is a busy cosmopolitan state with indigenes from various parts of the country present and carrying out trade and business within it. The Law Section 4.1 (see highlight #13 above), nevertheless requires that the Fund be accessed for the use of only Rivers Indigenes (this contrast distinctly from the same section in the LASMI Law).

While it is likely that historical, cultural, as well as political considerations may have informed this restriction, it must be highlighted in this report that a major risk to the success of Apex institutions world-wide has been the non existence of a sufficiently large and well established microfinance market. This limitation may inadvertently have excluded the viable segments of the active poor whose access to RIMA funds would boost micro-entrepreneurship at a macro level.

Also Section 13 (1) prescribes the setting aside by State Governments of an amount not less than 1% of the annual budget for on-lending activities of microfinance banks in favour of **their residents**

Though the Policy does not carry the force of law, it is nevertheless indicative of what is regarded as a viable economic model. It is therefore recommended, strictly on the basis of economic considerations, that all residents of the state access these fund, so long as an application meets the requirements and risk control prescriptive of MFBs. This would support the sustenance and drive the profitability of the Fund over the long run.

In addition, the risk in maintaining the status quo "of the funds being strictly for Rivers Indigenes" is that it has apparently communicated to the masses that the monies to be provided under the Fund is intended as welfare grants to citizens, for which payback is not required

5.B. GOVERNANCE ISSUES

With regard to the Internal Corporate Governance of the RIMA organization, the following are some observations of the status quo.

- Currently there is no board. In the absence of the board, it is not clearly that there has been any strong and direct oversight provided by the Governor's office – which is its Supervisory Authority in line with Section 1 of the RIMA Law. In the absence of a board, the Agency has so far largely being solely CEO led (*please see our summation under "Leadership Style" in the Human Resource Capacity section of this report for our observations in this regard*)
- No Investment Committee has been established as required by the Law. In effect, the Agency has begun to play the role of the Investment Committee further reinforcing some of the concerns expressed under "Co-existence of RIMA and the Fund" under the discussions around Legal issues above
    - Please see below under our review of the current Operating model, details around the profile of the Loan applications currently approved
- Some important observations regarding the current Organisational Structure (see Section 4 on Human Resource Capacity) are as follows:
    1. It does not provide for critical functions such as:
        - An Inspectorate function to ensure external compliance by MFIs and beneficiaries
        - An Industry Impact and Capacity function
    2. The CEO has an excessively wide span of control; and there is no Executive management team to drive the robust determination of strategic direction
    3. Management Competencies heading some departments is questionable (please see our assessment in the "HR Capacity" Section of this report); and will need to be addressed
    4. There is poor functional back up (which will subsequently impact succession planning) as most of the departments are staffed with very poor caliber of staff
- Internal Processes need to be improved on/ standardized/ modernized in various areas. For instance:

  - Monthly preparation and reviews of Management Accounts to assess the financial health of the organization
  - No sign of a budget development and approval process – prior to capital expense disbursements
  - The Accounting function should be automated and the current files migrated from a manual system to on-line/ electronic ones. This should be done immediately using an off the shelf software pending when Megatech Digital (the contracted software developer) deploy the package being expected
  - The Internal Control function appears currently to be serving in an oversight capacity to the Accounting function due to the questionable capacity of the functional Head of Accounts, in contrast to its expected role as an independent verifier of the Accounting policies and practices (as well as other internal operational processes) in the organization
  - No clear corporate strategy exists as at date
  - There is no evidence of a Corporate Performance Management system
  - A thorough reviews of HR practices is required with a view to standardizing the way in which Personnel and HR decisions are made with regard to deployment; job definitions, staffing determination etc

- A clear stakeholder management policy and strategy currently does not exist with regard to third party donors

5.C. REGULATORY POLICIES

The CBN has no rules, regulation and policies directly addressing Apex organizations, however a few provisions in its **MICROFINANCE POLICY, REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA** are indicative of the CBN's alignment with the roles, responsibilities and expectations of same. Please see some relevant sections from the Policy captured verbatim below. Our comments regarding each, has been captured in italics directly below.

11.7 of The Policy: Apex Associations of Microfinance Institutions

The establishment of an apex association of microfinance institutions to promote uniform standards, transparency, good corporate practices and full disclosures in the conduct of MFI businesses shall be encouraged.

The CBN clearly desires the establishment of an Apex body to promote sound practices. The method envisaged here is through the "voluntary association" of MFIs. The establishment of an apex organization by the State Government is therefore not contrary to CBN's intent for the Industry, as the subscription to apex funding also remains voluntary and driven by best practice standards

11.8 of The Policy: Linkage Programme

The policy recognizes the importance of the provision of wholesale funds for microfinance banks to expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between universal/development banks, specialized finance institutions and the microfinance banks to enable the latter source for wholesale funds and refinancing facilities for on-lending to their clients.

The CBN clearly is supportive of the provision of wholesale funding to MFIs

11.9 of The Policy: Establishment of a Microfinance Development Fund

In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a Micro Finance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building, and other promotional activities. The Fund would be sourced from governments and through soft facilities from the international development financing institutions, as well as multilateral and bilateral development Institutions

The CBN identifies the need for a Fund that would serve to refinance and build capacity within the Industry. These is a two-pronged objective, which RIMA can suitably address

The CBN policy stipulates the roles and responsibilities of various stakeholders to include the following:

The Government

Government shall be responsible for:

a. Ensuring a stable macro-economic environment, providing basic infrastructure (electricity, water, roads, telecommunications, etc), political and social stability;
b. Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;
c. Instituting and enforcing donor and foreign aid guidelines on microfinance to streamline their activities in line with this policy; and

d. Setting aside an amount of not less **than 1% of the annual budgets** of state governments for on-lending activities of microfinance banks **in favour of their residents**

It is pertinent to note that the presence of a provision for an annual subvention not exceeding 1% in Section 6(3) of the RIMA Law is in line with the CBN Policy

Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) etc in the development of the sub-sector. They shall be encouraged to perform the following functions:

a. Provision of resources targeted at difficult-to-reach clients and the poorest of the poor;
b. Capacity building;
c. Development of MFIs' activities nation-wide;
d. Nurturing of new MFIs to a sustainable level; and
e. Collaborating/partnering with other relevant stakeholders

RIMA by definition is such a Poverty Alleviation Agency.

Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include **grants, donations, technical assistance** etc.

The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of the CBN policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro-financing initiatives, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

With the presence of a professionally run Apex Organisation, such donors can repose the responsibility for the facilitation of the proper disbursing and utilization of such available funding or support to same.

For an organization requesting the support of donor agencies, there are concerns regarding how comfortable such agencies would be in channeling funds to RIMA, in view of the possible equity (and therefore profit making opportunities) that the current arrangement has with organizations such as FCMB. Under the "Way Forward" segment of this report, alternative partnership dynamics will be explored that would mitigate this potential concern

Appraisal of existing microfinance-oriented institutions

The CBN Policy indicates from its appraisal of existing microfinance-oriented institutions, the following were evident among the Microfinance Banks in Nigeria:

- Weak internal structure
- Existence of a huge un-served market
- Economic empowerment of the poor, employment generation and poverty reduction
- Need for increased savings opportunity
- A channel for the utilization of SMEEIS Fund

6. Operating Model (RIMA and Other Cases)

6.0 Introduction

This section of the report reviews the overall policy objective for the setting up of Rivers State Integrated Microfinance Agency (RIMA) vis-à-vis the operating model currently adopted by RIMA. It assesses the suitability of the current model in supporting and achieving the long term economic objectives of the Rivers State Government.

Presented in this section are:

I. RIMA's Operating Model
II. Current Status of RIMA's Implementation vis a vis its model
III. Relevant best practices operating models adopted by apex microfinance agencies around the world
IV. Lessons of Global Practices for RIMA's Operating Model
V. Best Practice Recommendations for the Rivers State Government

6.1 RIMA'S CURRENT OPERATING MODEL

RIMA has adopted a mass retail microfinance model which centers on making funds available to would-be beneficiaries directly. The proposed structure leverages on partnership with Microfinance Institutions (MFIs) to achieve its objectives by making the MFIs intermediaries between the beneficiaries and RIMA. The MFIs provide the window through which RIMA disburses funds to the ultimate beneficiaries.

<u>Current Pre-Qualification Requirements</u>

The model allows for RIMA to prequalify Microfinance Institutions through which funds will be disbursed to beneficiaries. The current criteria for selecting the MFIs are provision of the following requirements:

- Memorandum and Articles of Association
- The sum of N20,000 (non refundable registration fee)
- The adequacy of MFB's capital base
- Director's profile
- CBN's approval of board members
- Staff Strength
- Branch network

- Customer base
- Profit and Loss and Balance Sheet
- Cash flow Statement
- Sources of funds for the MFIs
- Value added Statement
- Availability of latest CBN report

Would-be beneficiaries are expected to apply to access the RIMA fund through the MFI's they operate accounts with. The MFIs will prequalify would-be beneficiaries using predefined criteria set by RIMA. Successful would-be beneficiaries' forms from the prequalification exercise are then forwarded to RIMA for further assessment and processing. RIMA's credit assessment of would-be beneficiaries is done using the following criteria

- Character of Applicant
- Duration at present residence.
- Monthly debt coverage
- Applicants experience in the line of business
- Repayment source
- Value and reliability of collateral
- Equity contribution by applicant
- Length of relationship with RIMA
- Ownership of business premises

On completion of the credit appraisal by RIMA for would-be beneficiaries, loans are approved for those that meet the requirements and disbursed through the MFI's to the beneficiaries.
These Microfinance Institutions (MFIs), comprising Microfinance Banks, Co-operatives associations and Communities groups are to benefit from the scheme by providing the platform for which the funds are accessed by the beneficiaries, as well as eventually recovered. By so doing, they earn a commission from the interest for themselves.

Fee / Earning Distribution

The proposed cost of funds to the ultimate beneficiaries is placed at 10% per annum which will be allotted as structured below:

Microfinance Institutions (MFIs)	2.50%
Non Governmental Organizations (NGOs)	1.00%
RIMA	6.50%

The role of the Non Governmental Organization in the process is to mobilize rural inhabitants to participate in the fund and also help with prompt recovery of the funds disbursed. RIMA intends to control the operation of this scheme by prevailing on MFIs to open accounts with their correspondent bank. RIMA will be a co-signatory to such accounts.

Disbursements will be made through the MFI's accounts with RIMA's correspondent bank; RIMA being the "A", with the MFI signing as the "B" category. With this RIMA is able to control its funds in the MFIs account.

6.1.1 **Benefits of Current Model**

RIMAs proposed operating model is designed to achieve the following:

- Provides avenue for RIMA to have firm control of the funds disbursement
- Ensures the funds reach the target people it is meant for
- It addresses the potential abuse, as well as excesses that could be perpetrated by the Microfinance Institutions if they are allowed handle disbursement of such funds.

6.1.2 **Challenges of Current Model**

The proposed RIMA operating model is faced with a number of challenges, of which those most paramount include:

- The Apex (strategic supervisory) role of RIMA will be eroded as it is actively involved in retail activities
- This model creates disparity in interest rates which would negatively impact the activities of other Microfinance Institutions not pre-qualified – thus shrinking the industry which will in the long run retard the economic growth in the State.
- The proposed compensation for the MFIs and other stakeholders is not sufficiently motivating to engage and sustain their participation.

- High risk exposure on disbursed funds, with the potential of very high default rates on repayment and thus the erosion of loan-able funds
- Cumbersome operational processes associated with RIMAs direct interface with the ultimate beneficiaries.
- The single digit interest rate charged by the scheme might not be adequate to sustain it
- Limited capacity to apply effective control and mobilize recovery of disbursed funds by RIMA itself
- Some of the pre-qualified MFBs are yet to obtain the full license from the CBN and this is inconsistent with the CBN regulations
- Bloated organizational structure and staff strength, resulting in high administrative and operational costs

The high risk facing disbursed funds makes the model unsuitable. RIMA requires an operating model that supports the Rivers State Government's economic empowerment program on a sustained basis. It should leverage practices and experiences of other Apex Micro Finance Agencies around the globe. Please see below for some best practice experience and overviews.

6.II REVIEW OF APPROVED LOAN APPLICATIONS

Currently in line with the above model, 1991loan applications (amounting to about N351million) have been approved by the Agency in the second quarter of the year based on the about 6,000 applications made and assessed prior to Governor's directive suspending disbursements.

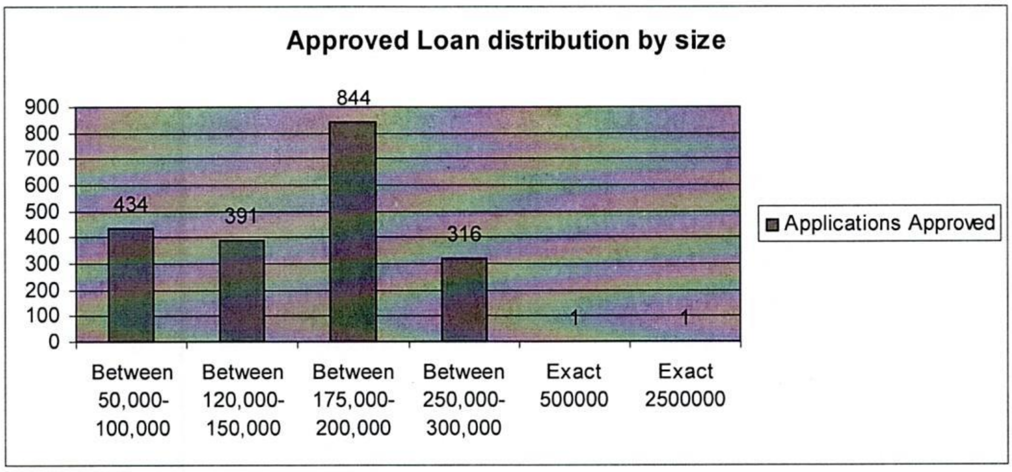
In analysing the loans approved by RIMA's Management Credit Committee (MCC), we present below the statistical breakdown of the approved loan applications applying the following classifications:

- Loan Size
- Locations/Local Government Area
- Gender

II.a. <u>Approved Loan Distribution by Size</u>

The total amount of the approved loans awaiting disbursement is N351, 085,000. The table below presents the approved loan distribution by size. A total of 1,987 approved applications were available for this analysis

Loan distribution by size		
Loan Size	Applications Approved	%
Between 50,000-100,000	434	21.8
Between 120,000-150,000	391	19.7
Between 175,000-200,000	844	42.5
Between 250,000-300,000	316	15.9
Exact 500,000	1	0.05
Exact 2,500,000	1	0.05
Total	1,987	100.0



Please note as follows:

- The loan size classification and review revealed that applicants requiring sums between N175, 000 and N200, 000 were given high consideration as the approved loans for that loan size category was 42.5 %. This was followed by loan size category between N50, 000 and N100, 000 as they accounted for 21.8% of the loans approved by the MCC.It was observed that loan sizes of N120, 000 - N150, 000 accounted for 19.7% of the approved loans while loan sizes of N250, 000 - N300, 000 comprised 15.9 %.
- Only one (1) application for N500, 000 was approved which represents 0.05% of total loans approved.
- An application for the sum of N2, 500,000 was approved by the MCC .This approval represents 0.05% of total approved loans. This was to one Ms Belema Suzzie Asseh from Degeme L.G.A, in the way forward. This contravenes the Central Bank of Nigeria's policy prescription on the size of micro loans . The policy categorizes micro loans as amounts

not in excess of N500, 000 (Five Hundred Thousand Naira). Please see section 2.2 of this report for definition of micro loans by the CBN.

Additional Perspectives/ Views

For additional perspective, using tables and charts, we have provided a breakdown of the approvals given along the following lines:

- Approved Loan distribution by Local Government Areas (LGAs)
- Approved Loan distribution by Gender

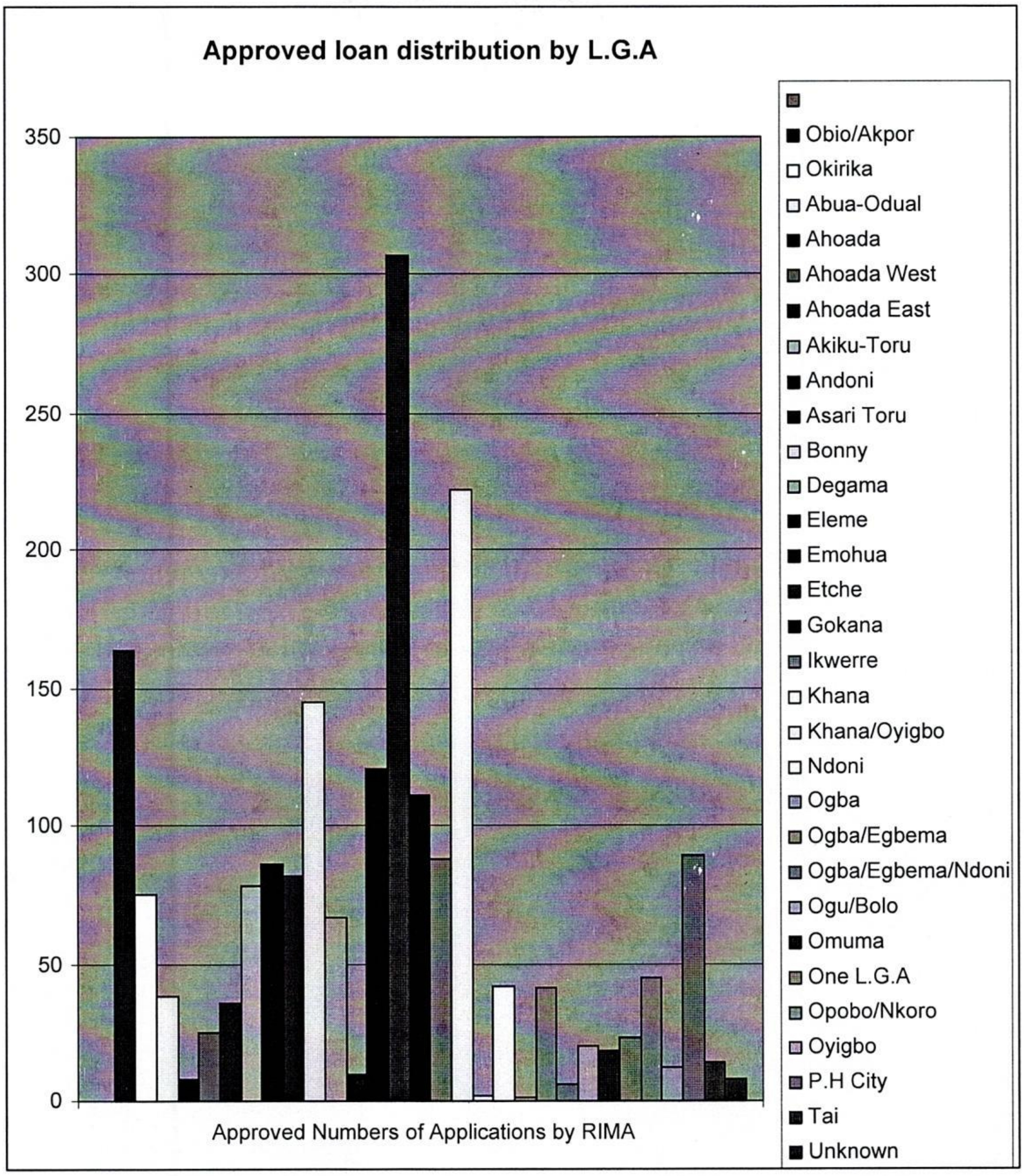
6.II.b By Local Government Areas (LGAs)

The table and graph below presents the approved loan distribution by LGAs. A total of 1,984 approved applications were accessible for this analysis.

The analyses reveal that two local government areas each has over 10% of the number of approved loan applications. They are Etche (15.5%) and Khana (11.2%). Four other L.G.As have above 5% of the number of loan approvals: Obio/Akpor (8.3%), Bonny (7.3%), Emohua (6.1%) and Gokana (5.6%). These six LGAs have 54% of the total number approved.

L.G.A	Approved Numbers of Applications by RIMA	%
Obio/Akpor	164	8.3
Okirika	75	3.8
Abua-Odual	38	1.9
Ahoada	8	0.4
Ahoada West	25	1.3
Ahoada East	36	1.8
Akiku-Toru	78	3.9
Andoni	86	4.3
Asari Toru	82	4.1
Bonny	145	7.3
Degama	67	3.4
Eleme	10	0.5
Emohua	121	6.1
Etche	307	15.5
Gokana	111	5.6
Ikwerre	88	4.4
Khana	222	11.2
Khana/Oyigbo	2	0.1
Ndoni	42	2.1

L.G.A	**Approved Numbers of Applications by RIMA**	**%**
Ogba	1	0.1
Ogba/Egbema	41	2.1
Ogba/Egbema/Ndoni	6	0.3
Ogu/Bolo	20	1.0
Omuma	18	0.9
One L.G.A	23	1.2
Opobo/Nkoro	45	2.3
Oyigbo	12	0.6
P.H City	89	4.5
Tai	14	0.7
Omitted	8	0.4
Total	1984	100.0

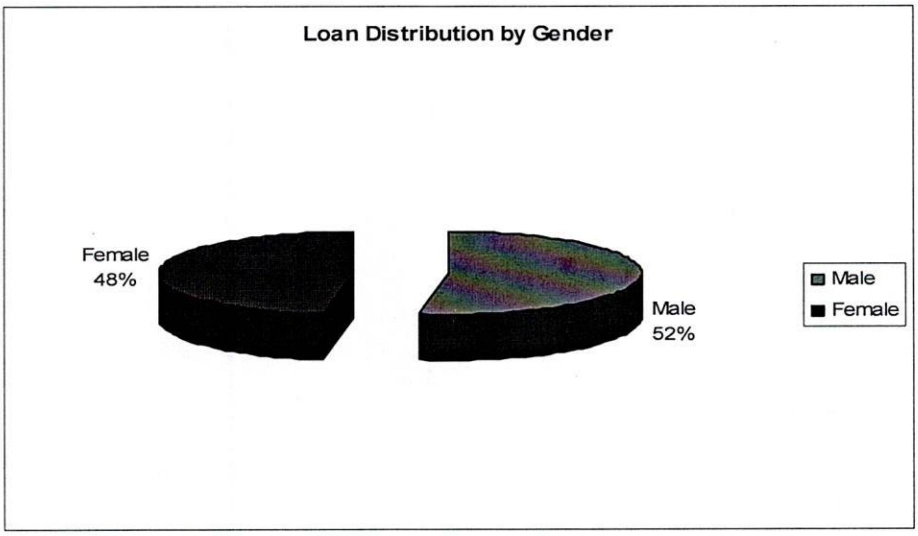

Approved loan distribution by L.G.A
350
300
250
200
150
100
50
0
Approved Numbers of Applications by RIMA
Obio/Akpor
Okirika
Abua-Odual
Ahoada
Ahoada West
Ahoada East
Akiku-Toru
Andoni
Asari Toru
Bonny
Degama
Eleme
Emohua
Etche
Gokana
Ikwerre
Khana
Khana/Oyigbo
Ndoni
Ogba
Ogba/Egbema
Ogba/Egbema/Ndoni
Ogu/Bolo
Omuma
One L.G.A
Opobo/Nkoro
Oyigbo
P.H City
Tai
Unknown

6.II.c. Approved Loan distribution by Gender

We present below the distribution of approved loans by gender. A total of 1989 approved applications were available for this analysis.

Loan Distribution by Gender		
Gender	Number	%
Male	1042	52.4
Female	947	47.6
Total	1989	100.0

The analysis of the approved loans by gender revealed that 1,042 or 52% of the approved applications were for male applicants while 947 or 48%. This indicates that the number of men that got approvals was more than women by 95.



We could not determine the ratio of approved applications to unapproved applications by gender as some of the relevant data required for this were not available

Views and Feedback from MFBs Regarding the above Model/ Practice to Date

ReStraL engaged with MFBs in assessing the current model, as proposed. Some of our conclusions were as follows:

- RIMA is not a bank and should allow the MFIs and MFBs do banking which involves customer due diligence and other investigations required to the granting of such a facility
- With the significant chances for default, RIMA's pricing of the facility is likely to be unprofitable and therefore unsustainable
- There are concerns that the injection of RIMA Treasurebase funds at a rate significantly less than the market rate will create serious industry distortions and weaken other microfinance industry operators
- Some of the MFBs do not consider the model attractive enough to participate in, for reasons including:
    - Their lack of input in the loan approval process
    - The requirement of a guaranty (in view of the fact that such guarantees by commercial banks currently will need to be 100% cash collaterised)
    - The low returns being offered in view of the risks inherent in the model, as well as the significant operational and administrative overheads which processing RIMA funds would require from them

The current proposed model is not sustainable. With the current operating model the major investments in the take-off of RIMA will fail to yield any returns to government or its donors. In fact fears expressed are that the organization could die within a year (barring additional government subventions) if RIMA fails to change its model.

There is a need to review the current model and propose a viable alternative that addresses the concerns raised, as well as some of the considerations earlier highlighted in the "Legal" and "Governance" sections

6.III.C PRACTICES AND EXPERIENCES OF OTHER APEX MICROFINANCE AGENCIES

We present below a summary of models and experiences of Apex Micro Finance Institutions in some developing countries of the world. Some of the highlighted agencies have experiences in both wholesale and retail models of operation.

6.III.C.i Lagos State Microfinance Institution (LASMI), Nigeria

LASMI is the Lagos State Government owned institution saddled with the responsibility of managing and administering the Lagos State Micro Finance Fund. The LASMI scheme approaches the market through a wholesale model by making funds available directly to MFIs, who then transact the retail end of the scheme by granting loans directly to microenterprises. LASMI charges MFBs, interest rate between 5-8 percent per annum and grants loans between 10 million to 400 million to MFBs, while the tenor is negotiable and usually between 1-4 years.

For an MFB to participate and access this fund, it must submit an application which will include the following items:

- Current rating certificate from a reputable rating Agency (the rating is currently done by LASMI itself as no rating agency currently operates at this level locally)
- A profile of Board of Directors and key Management Staff
- A Board resolution authorizing partnership with LASMI
- Relevant incorporation documents
- Current Financial Reports and Monthly Returns to Central Bank of Nigeria
- A Comprehensive Business Plan

Presently LASMI has only Five (5) Micro Finance Banks it has partnered with but currently evaluating some other MFBs for consideration for the scheme. Some of the key features of the LASMI Model are as follows:

- The LASMI model makes provision for a more supervisory role for the apex body which allows it focus more on institutional capacity building for the entire microfinance industry in Lagos State.
- The MFBs are allowed to function in terrains they are more conversant with, which supports retail micro financing.
- Engages MFIs after evaluation through the execution of an MOU

- The LASMI Fund is available to all residents of Lagos State
- The maximum loan-able amount is Five hundred thousand Naira (N500,000)
- Lending procedures and criteria for beneficiaries is based on the MFBs judgment and internally developed criteria. The MFBs are therefore able to take full responsibility for the funds lent to beneficiaries
- It ensures interest rate policy and management does not distort the market or weaken the MFB industry as a whole

An update on the LASMI (Lagos State Microfinance Institution) Programme to Date

The Lagos State Microfinance Institution (LASMI) formally launched by the Governor of the State on February 19, 2008. It was launched as a ₦5bilion Fund, with an initial take off grant of ₦350million.

In November 2009, an equivalent of USD 2.3 million was extended to LASMI, in order to enable more low-income borrowers to obtain loans. The Governor, in announcing this, indicated that the Lagos state government contributed an amount close to USD 1.2 million, while the partnering MFIs under LASMI matched that amount by also providing a similar amount.

These funds are to be disbursed by eight microfinance institutions that are registered under LASMI. This is an increase from the five which were in operation, as the sole channels, in the first quarter of the year. Feedback indicates that so far about 24,000 people have benefitted from the LASMI Fund, and that it boasts of a very high recovery rate in spite of the sometimes seemingly steep pricing of such facilities from the perspective of the poor.

Concerns, captured from media reports , have dogged the LASMI Fund regarding the diversion of the Fund to persons outside of the targeted market/households. It alleged that the microfinance banks have diverted the money to other users who are ready to pay 10 to 15 per cent interest rate on it. It was alleged that the accredited MFBs, when approached by the active poor, always claim the fund has been exhausted.

This is relevant learning which must be addressed in the RIMA strategy.

6.III.C.ii International Micro Finance Apex Agencies

Cases from South Africa, Kenya, Honduras, Bangladesh and Bolivia are presented below spanning three continents (Africa, Asia and South America) and highlighting factors that are conducive to the effective operation of Apex Institutions. These factors include a sufficiently sized market, the existence of sustainable MFIs, and the absence of political interference. The strengths and weaknesses of such models are assessed taking into cognizance the peculiarity of various cultures, values and the state of the polity.

6.III.C.ii.a South African Micro-finance Apex Fund (SAMAF), South Africa

South African Micro-finance Apex Fund (SAMAF) was established in 2004 to address poverty alleviation and provide sustained affordable access to financial services for the poor in South Africa. SAMAF's main functions are tailored to address poverty and unemployment through the provision of:

- Financial intermediation through access to affordable financial services.
- Institutional and client capacity building.
- Savings mobilization through co-operatives and other formations such as burial societies and stokvels.
- Development of sustainable micro-finance institutions to reach micro entrepreneurs and the poor in their areas of operation;
- Facilitation of training for micro entrepreneurs and financial co-operatives clients, using service providers.
- Provision of a back office service through a centralized information platform; and monitoring and evaluating the impact of SAMAF interventions on partner organizations (PO) and their clients.

SAMAF Operating Model

The SAMAF's intervention programme works through partner organizations to carry out its mandate to reach the targets at local level for impact and outreach.

The focus on partners' organisation model is efficiency for maximum outreach and sustainability through standardization of the operating models. By developing a standard operating model, SAMAF is able to manage the outputs of its client base more effectively.

SAMAF also provides a backroom service in which all the clients and their clients' details and transactions will be maintained by SAMAF. SAMAF manages the database, provide the operating system and maintains the operations. This ensures integrity, accuracy and reliability of clients' records and management information. In addition, SAMAF also sets performance criteria and is in a position to intervene through management, where corrective action is required

Once the level of capacity has been raised and consistent output reached, partner organizations are allowed to manage and be responsible for their operational reporting. In appraising partner organizations, SAMAF provides and applies clear guidelines which are divided into the following areas:

- Structure of the Partner Organisation
- Promoters and Directors of Partner Organisations
- Experience of Management
- Governance structure of partner organisations
- Human Resources policies and structure
- Location of business area and spread
- Capability and strength of Management Information Systems,
- Accounting System in operation and compliance with disclosure requirements.

Key Roles by SAMAF

a) SAMAF mobilises deposits
b) SAMAF ensures the standardization of operations for partner MFIs
c) Integrity, accuracy and reliability is ensured by providing a central database for transactions for itself and partner organizations
d) SAMAF set performance criteria for partner MFIs to ensure standard reporting
e) SAMAF relinquishes strict guidance of MFIs when capacity has been built and consistent output reached
f) It places emphasis on the beneficiaries' training

6.III.C.ii.b Palli Karma Sahayak Foundation (PKSF), Bangladesh

The *Palli Karma Sahayak Foundation* (PKSF), established in 1990 by the government of Bangladesh, works to develop the sustainability of local MFIs by providing technical assistance and loans. PKSF also works to expand the depth of outreach and promote a more competitive microfinance sector; it is regarded as one of the most successful apex microfinance organizations in the world.

PKSF's success is due to several key factors, including an environment that contains a large and sustainable array of MFIs, a well trained and educated staff, an ability to maintain sufficient levels of autonomy from government control, and sound operating policies and procedures such as intensive credit supervision and comprehensive external audits. The organization enjoys considerable level of autonomy from Government interference and operates sound policies and procedures

Key Roles by PKSF

- Main responsibility is to develop the sustainability of local MFIs
- Provides technical assistance to MFIs
- Provides loans to MFIs
- Intensive credit supervision and comprehensive external audit.

6.III.C.ii.c Programa de Apoyo a las Microfinanzas (PAM), Bolivia

Programa de Apoyo a las Microfinanzas (PAM), was created by the Bolivian government to allocate donor funds but is now defunct. It faced several challenges during its short history, including a clientele that already had access to other sources of funds, political intrusion from the government, and high transaction costs

Bolivia presents a situation in which the microfinance sector has developed without the assistance of apex organizations. The MFIs that have achieved sustainability and operational efficiency have done so with financial assistance from donors, but this assistance has been provided outside the channels of domestic apex organizations

As in the case of Bangladesh, Bolivian MFIs are regarded as some of the most successful in the world in terms of sustainability, outreach, and financial performance. Several of the domestic apex institutions created by the Bolivian government have not worked well and are now out of operation.

Key Features Regarding PAM's Demise

PAM defunct due to the following reasons

- MFIs did not patronize it as they had access to other source of funding
- Political intrusion from Government
- High transactional cost

6.III.C.ii.d The Kenya Rural Enterprise Program (K-Rep), Kenya

The *Kenya Rural Enterprise Program* (K-Rep) was established in 1984 under the Rural Private Enterprise (REP) Project and the Private Enterprise Development (PED) Project (Neill et al. 1994). K-Rep's primary objective was to act as an intermediary organization between donors and NGOs operating in the microenterprise sector by providing credit and technical assistance. However, K-Rep has since abandoned its role as an apex organization and now only provides retail-lending services for microenterprise activities.

The main reasons behind K-Rep's transition from an apex organization to a retail organization are twofold. First, most of the NGOs K-Rep worked with were already involved in other social welfare and relief programs and did not have the capacity to handle additional responsibilities such as on-lending K-Rep resources to local microenterprises. Second, K-Rep gradually grew concerned about achieving and maintaining financial self-sufficiency and the only way to do this was through providing loans directly to microenterprises.

K-Rep's activities as an apex organization were successful in increasing employment and growth in the number of businesses operating in the microenterprise sector. More importantly the K-Rep experience illustrated that not all NGOs can be effective in delivering credit because many of them lack the capacity to do so. As a result, K-Rep decided to reduce the number of NGOs it disbursed funds to. By limiting the number of NGOs it worked with, K-Rep was able to develop a select number of potentially sustainable NGO programs by building up their technical and managerial know-how to more effectively and efficiently deliver credit to micro entrepreneurs.

Key Features and Issues from K-Rep

- K-Rep had challenges in identifying suitable MFIs to work with
- Not all NGOs could be effective in delivering due to lack of capacity to do so
- K-Rep streamlined its operation by selecting few MFIs to work with and strengthening their capacity

6.III.C.ii.e Jose Maria Covelo Foundation (Covelo), Honduras

Jose Maria Covelo Foundation (Covelo) was established in 1984 and had to overcome a variety of challenges. Founded as a component of the Small Business II Project, Covelo was initially unable to effectively provide credit for several reasons.

First of all, due to the lack of a large market of sustainable MFIs, Covelo only had a handful of clients to work with. However, the number of sustainable MFIs Covelo works with is growing and collectively these MFIs have been able to reach a significant portion of the microfinance market. Secondly, due to the fact that other donor resources were available at subsidized rates and Covelo was only offering market rates, Covelo could not compete with the other donors and therefore could not attract as many clients. Thirdly, because of high operating costs and high staff turnover rates Covelo had problems achieving financial self sufficiency. Not until a year or so after implementing its retail-lending program in 1995 was Covelo able to break even. Covelo now handles both retail- and wholesale-lending functions though this can be problematic.

Key Features and issues from Covelo

- The market had distorted lending rates due to the presence of funds from other donors
- Experienced challenges due to its dual functions of wholesale and retail lending

6.IV. LESSONS FROM GLOBAL PRACTICES FOR RIMA'S OPERATING MODEL

6.IV.a. <u>Key Learning: Highlights</u>

Having reviewed the operating models of local and international Apex microfinance institutions, it is essential for RIMA to draw on lessons and issues from international best practices to enable it achieve the objectives for which it was set up by the Rivers State Government. Critical lessons should include:

- Not facing some of the challenges noted by the above examples such as weak (non-existent) MFI channels or competing donor agencies, RIMA should adopt a wholesale operating model. This will not only give RIMA the highest level opportunity for sustainability and impact but will enable it maintain focus and offer it the greatest potential to withstand or stand-off political and external pressures.
- RIMA should perform an interventional role to stimulate development through providing loan-able funds and institution building support to MFIs rather than attempting to become a competitor within an industry itself.
- Management is key to RIMA's effectiveness and sustainability. The ability of RIMA to provide funding to and help retail MFIs become more successful depends on RIMA's technical competence, compared to the individual MFIs themselves. RIMA must therefore come up with and retain highly competent management to draw upon that superior expertise and offer needed support to the MFIs. The actual availability of the necessary technical and personal qualifications among the RIMA management should therefore not be assumed, but rather should be investigated carefully at an early stage
- The success and sustainability of RIMA is dependent on the strength and capacity of its partners. RIMA should show significant concern for the continuous good health of not only its selected partners, but all other MFIs whose condition and performance can ultimately affect the state's microfinance industry and that of RIMA's partners. RIMA should express preference and greater partnership with MFI's with demonstrated commitment to capacity building strategies and "best practices". In this regard, RIMA should include sector capacity development as part of its own core mandate, covering technical assistance and training to all industry operators
- As an apex institution, RIMA needs to establish well defined eligibility criteria for its MFI clients, adhere to them strictly and work only with those organizations that meet and sustain its set criteria and performance standards. The Agency will need to strengthen its internal structures

and seek external support to enable it conduct periodic evaluation and effective oversight of MFI's and safety of RIMA's funds.

6.IV.b. Proposed Key Roles, Features and Responsibilities for RIMA

RIMA should therefore focus its attention on the under-listed functions:

- Support the effective disbursement of the Investment Fund (Treasurebase Fund)
- Conduct periodic impact assessment and measurements of microfinance intervention scheme to determine effectiveness
- Focus and develop both human and institutional capacity for the sector in Rivers State.
- Maintain a lean workforce which should focus more on ensuring the policy objectives of the Rivers State Government on Micro Finance is achieved.
- Workout and maintain a comprehensive and competitive interest rate regime for which funds will be given to MFIs and avoid distorting the market
- Prescribe selection criteria and guidelines for the granting of loans to MFIs' which should among others reflect the capital base of the MFBs .It should maintain the discipline and courage to faithfully follow the criteria.
- Manage the relationship that exists between third party donors, on behalf of the Government.

6.IV.c. Overview Assessment of Listed MFBs

In assessing RIMA's criteria for selecting MFB's and to enable us draw conclusions on their suitability, we conduct a limited review of the condition of the MFBs already selected by RIMA. Our review of the MFBs was based on the records provided to us by the MFBs and their respective CBN examination reports. The following were observed:

- It was observed that majority of the MFBs where relatively new in the business of micro finance banking and had subjected themselves to CBN examination.
- Our review and the CBN examination reports revealed gaps in the operations of all the MFBs in areas covering:
    - Corporate governance
    - Adequacy of IT infrastructure

- o Loan recovery rate
- o The size of their customer base\
- o Capacity building strategies
- o Violations of CBN guidelines, rules and regulations

At the time of our review it could not be ascertained the extent to which the MFBs have complied with issues raised by the CBN in the examination reports.

The summary of our evaluation of the MFBs is presented in the table

Review of MFI's in Rivers State

S/N	MFI	Yrs of Operations	Capital Base	Corporate Governance	CBN Approval	Staff Strength	Branch Network	Customer Base	Latest Inspection report from CBN	Portfolio at Risk	Adequacy of Information Technology	Capacity Building Strategy
1	Diobu MFB Ltd	12/1/2007 Converted from a Community Bank	26.6 Million	Fair	Provisional License	32	1	13548	None		Fair	Fair
2	Maxi-Trust MFB Ltd	Aug-08	32 Million but has been Eroded to 23.23 Million according to CBN inception Report	Fair	Final License	30	3	1501	Inception Report	33.68%	Good	Fair
3	Titare MFB Ltd	Sep-07	65 Million	Fair	No Evidence of application to CBN	14	1	2000	None			Fair
4	Minji-se Churchill MFB Ltd	Oct 1993 Converted from a Community Bank 05/14/2008	34.2 Million	Fair	License granted	13	1	2593	None		Good	Good
5	Goldenchoice MFB Ltd	May-07	20 Million with 389.3 million in deposit for shares account	Fair	Final License	90	6	14052	Available	27.96%	Good	Good
6	Premium MFB Ltd	Oct-08	34.5 Million	Fair	Final License	51	2	1407	Oct, 08; Maiden CBN Report	2.08%	Fair	Fair
7	Cosmopolitan MFB Ltd	Aug-08	50.1 Million	Fair	Final License	25	1	7785	Feb, 2009; Maiden Report	6.60%	Good	Good
8	Akpor-coe MFB Ltd	Jan-08	30.8 Million	Fair	Final License	18	2	2685	None			Fair
9	Neighbourhood MFB Ltd	Nov-07	50 Million	Fair	Final License	33	1	3700	Oct-08; Maiden CBN Report	19.69%	Fair	Fair
10	Garden City MFB Ltd	March, 2008	25 Million*	Fair	Final License	68	1	6122	Jully 2008, Maiden Inspection	25.00%	Fair	Good
11	Giti Com MFB Ltd	August, 2008	100 Million	Fair	Final License	64	4	5600	None			Fair
12	U & C MFB Ltd	Nov, 2006 Converted from a Community Bank	50 Million	Fair	Final License	38	2	3527	April, 2008 Post coversion report	18.60%	Good	Fair
13	Bonny MFB Ltd	Sept, 2008	20 Million	Poor	Final License	49	3	354	None			Good
14	Firstglobal MFB Ltd	Nov, 2006	60 Million	Fair	Final License	196	8	24500	Routine Examination May, 2009	22.10%	Good	Good

6.IV.d Review of RIMA's Evaluation Criteria for MFB Selection

Of the twenty one (24) Micro Finance Banks evaluated by RIMA, fourteen of them were adjudged viable for partnership while seven were adjudged not suitable. We reviewed the evaluation criteria employed by RIMA in selecting those to partner with.

The current criteria (as earlier presented) include:

- The Memorandum and Articles of Association
- The sum of N20,000 (non refundable registration fee)
- The adequacy of MFB's capital base
- Directors' profile
- CBN's approval of board members
- Staff Strength
- Branch network
- Customer base
- Profit and Loss and Balance Sheet
- Cash flow Statement
- Sources of funds for the MFIs
- Value added Statement
- Availability of latest CBN report

Our views are that RIMA appeared to have set easily attainable parameters on the ground that the application of stringent evaluation criteria could lead to the disqualification of most of the MFBs. This is probably reflective of the fact that the microfinance industry in Nigeria as a whole is just evolving and it could take some time for the players in the industry to install strong institutional structures.

RIMA needs to draw from global best practices in developing evaluation criteria in selecting its partner MFIs'

6.IV.e. Global Evaluation and Selection Criteria for MFIs

Various apex institutions around the world have adopted different approaches to evaluating partnering MFIs. We reviewed the criteria of several apex institutions around the world and these apex institutions have established explicit criteria for the initial selection of partner MFIs and another set of criteria for their continued participation in the programme. The criteria are aimed at ensuring the financial soundness of the retailing institutions or motivating them in that direction. Eligibility criteria also reflect an apex institutions legal mandate or philosophical inclination to assist particular economic groups or subgroups. The criteria further include parameters that reduce the practical as well as political difficulties of choosing and relating with the competing MFIs.

We present the summarised criteria used by a few of such Apexes in developing environments.

Country	Apex Institution	Criteria for Eligibility
Bangladesh	PKSF	**For initial loan disbursement:** o Experience in rural credit and focus on rural landless o Adequate governance and management structure o Good loan collection o Adequate staff resources **For subsequent disbursements:** o Satisfactory utilization of previous loan o High loan recovery rate (more than 98%) from sub-borrowers o Timely repayment of loans to PKSF o Meeting reporting requirements o Expansion potential
Bosnia-Herzegovina	LIDs	o Viable business plan o Accounting systems meeting international standards o Adequate internal controls o Average loan size below DM 10,000 o Less than 5% of portfolio overdue 30 days or more o Less than 3% write-off annually o Less than 5% of portfolio rescheduled o All costs covered by income from operations o 10% of assets funded by local resources other than retained earnings
Nepal	RMDC	o Minimum of three years experience in microcredit operations and micro-savings mobilization o Strict targeting of poor rural women (minimum of 80%

Country	Apex Institution	Criteria for Eligibility
		women members) o Minimum of 500 active clients o Minimum of 20% balance of savings relative to outstanding loan amount o Minimum 90% loan recovery rate o Minimum net worth of Rs 250,000 and financial resources of Rs 500,000 o Appropriate institutional and management capacity, competent Board of Directors, adequate in-house training capacity, and staff trained in microfinance, accounting, and financial management

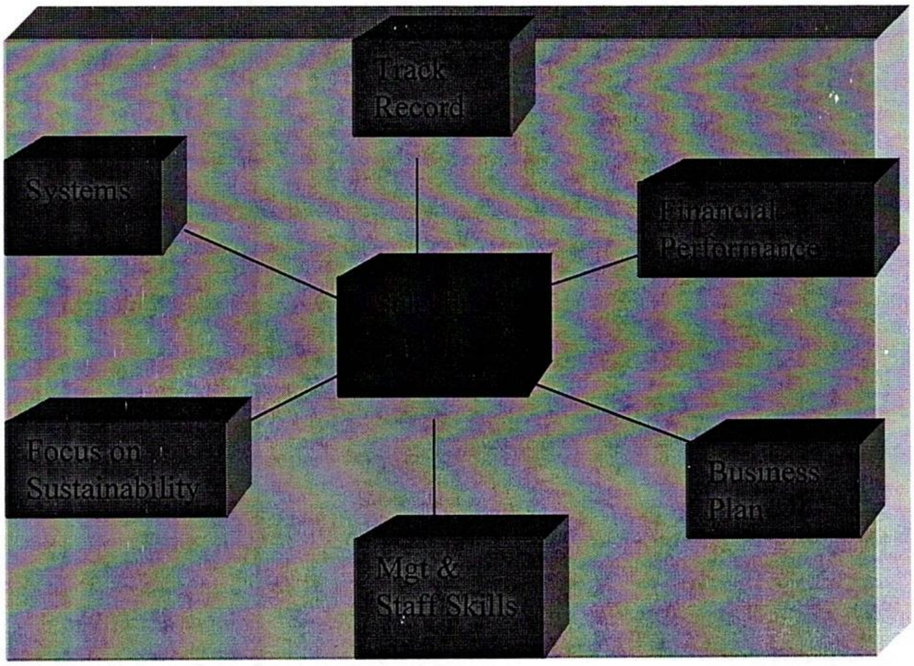
6.IV.f. Best Practice Criteria for Selecting Partner MFIs

The criteria that can be used in evaluating MFIs are in-exhaustive and should be structured in ways to reflect the following best practices.

- Demonstrate concern for sustainable financial performance. The MFI's procedures and financial ratios are important indicators of its potential for financial sustainability
- Management staff with a track record in the provision of financial services. High level of experience of the management of MFIs should not be compromised
- Directors Integrity and Corporate Governance. The antecedents of the management team should also be given attention.
- Effective controls and information system. The adoption of effective information systems and proven technologies, as well as control systems, are crucial to potential sustainability
- Explicit and current business plan. Partnering MFIs should develop practicable business plans and should demonstrate commitment to implementing it. The plan should be structured to lead to financial sustainability over a defined period of time. The plan should include explicit financial projections, based on realistic assumptions
- Full cost-covering interest rates strategies. Realistic time-bound targets, including interest rate adjustments, should be set in the business plan for achieving full cost coverage. The unit costs of lending services can be brought down over time, as scale grows.

- Capacity building to develop staff skills, attitudes, and incentives necessary for sound micro banking practices: The capacity building programmes of MFIs should be evaluated to ensure relevant skills are developed to help boost risk management skills necessary for financial sustainability.

The pictorial representation of the selection criteria is below.



6.IV.g .Suggestions and Recommendations to Strengthen the MFI Evaluation Process by RIMA

We recommend that the evaluation process by RIMA for the MFIs should be carried out in two phases comprising:

- Initial evaluation and
- Subsequent (Annual?) disbursements

Initial evaluation

The initial evaluation prior to selection and commencement of partnership will ensure that necessary and sufficient conditions are met by the MFIs being considered for partnership for the RIMA fund. The following should be included in the existing criteria for initial evaluation and should not be compromised:

The following should be included in the criteria for initial evaluation and selection:

- CBN Final License

- Minimum of 24 months operation after obtaining CBN final License
- Adequate Institutional structures and capacity including
  - Satisfactory governance and management structures
  - Effective internal business processes supported by the use of ICT
  - Transparency of Accounting processes
  - Quality of staff
  - Geographical Spread
  - Documented Business plan
  - Track record/ Strategy/ Risk profile (e.g. potential for conflict of interests)
- Shareholders' funds must be minimum of the CBN prescribed share capital base
- 100% commitment to Micro Finance Banking
- Demonstration of the in-house capacity to manage and monitor increased number of micro-credit beneficiaries
- Compliance with CBN prudential guidelines comprising
  - MFBs should maintain not less than 5% of their deposit liabilities in investment in Treasury Bills [TBs]
  - MFBs should maintain a minimum ratio of twenty percent [20%] of their deposit liabilities including 5% compulsory investment in the Treasury Bills in the liquid assets
  - Maintain a minimum Capital Adequacy Ratio [Capital/Risk Weighted Assets Ratio] of 10% and a ratio of not less than 1:10 between its shareholders fund unimpaired by losses and net credits.
  - The acquisition of fixed assets, equity investments, investment in long-term debentures and branch expansion should not be financed by share holders' funds, unimpaired by losses:
  - The maximum loan by MFBs to individual borrower or director related borrowers shall not exceed one [1%] percent, while a group borrower is restricted to a maximum of 5% of the MFB's shareholders' fund unimpaired by losses.
  - Aggregate insider-related lending shall not exceed 5% of the paid up capital of the MFB at any time
  - The aggregate value of equity participation of the MFBs in all permissible enterprises shall NOT exceed 7.5% of its shareholders fund unimpaired by looses without prior approval in writing by the CBN
  - Adequate provision made for all non-performing and performing risk assets

- The amount invested in fixed assets should not exceed 20% of its shareholders' funds unimpaired by losses

- Overall Financial well being (see some yardsticks below)

Yardstick:	Indicators/ Ratios
1. Financial/Portfolio Efficiency:	- Loan Loss Reserve Ratio i.e. Loan Loss Provision/Total Assets - Write-off index i.e. Value of loans written-off/Gross loan portfolio - Portfolio at Risk
2. Sustainability:	- Return on Equity i.e. Net operating income/Total equity - Return on Assets i.e. Net operating income/Total assets - Operational Self-Sufficiency i.e. Financial revenue/(Financial and operational expense + Loan loss reserves) - Increasing percentage of micro loans to total risk assets (excluding RIMA Funds)
3. Earning capacity of assets:	- Net Portfolio / Total Assets - Non-earning assets / Total Assets - Growth in Operating Income - Growth in Total Assets
4. Solvency:	- Capital Adequacy - Leverage - Working Capital
5. Liability Composition:	- RIMA funds / Total Liabilities - Total Client Deposits / Total Liabilities - Gross Loan Portfolio / Total Clients Deposits

Subsequent (Annual?) Disbursements

The annual evaluation procedure should cover all areas of the MFI's Institution and should draw lessons and information from the CBN examination reports, where available. The following qualitative and quantitative indicators should be included in the existing criteria for annual evaluation and should not be compromised:

- Continued fulfillment of and compliance with all of RIMA's initial selection criteria

- Satisfactory CBN examination reports where available
- Substantial compliance with exceptions in the most recent CBN examination reports
- Full correction of observed weaknesses and compliance with the recommendations contained in the initial evaluation reports done by RIMA
- Compliance with performance targets set and guidelines including:
    - Savings mobilization targets
    - Market (zonal) penetration performance
    - Pricing of disbursed funds relative to market
    - Annual evidence of intensive capacity building for staff
    - Annual evidence of capacity building of target markets
    - 100% participation at all RIMA facilitated capacity building programmes

RIMA's operating structure will require to be strengthened to provide the capacity to conduct appropriate continuous evaluation and oversight of the MFIs. RIMA could seek external support to enable it effectively conduct the evaluation of the MFI's

6.V. BEST PRACTICE RECOMMENDATIONS FOR THE RIVERS STATE GOVERNMENT

The Rivers State Government needs to apply the lessons and best practices of Governments and the international development and donor communities to the effective implementation of the Rivers State Micro Finance Project and sustainability of RIMA. Recommendations in this regard, include the following:

- **RIMA's operational autonomy**

RIMA is as vulnerable as any other state agency to pressures to give favors to the government's political allies or to win the support of particular groups. The Government should ensure RIMA is given autonomy and independence of decision making and adequately protected and shielded from external influence if it is to succeed.

- **'Over-subsidized' Interest Rates**

The State Government should allow RIMA charge lending rates that are sustainable in the long run and that do not weaken participating and non-participating MFIs. To be sustainable, MFIs must charge high interest rates to cover costs. When governments over-subsidise or influence interest rates, other independent MFIs can't charge enough rates to cover their costs. This will generally hurt the state and the poor more by making it hard for new MFIs to emerge and for existing ones to stay in business in the state without the coverage of RIMA's ('over-subsidized') funds. It will also ultimately decrease the number of the poor indigenes who access loanable funds. The Rivers State Government should therefore balance social and political dynamics and not over subsidise lending rates.

- **Disbursement pressure**

The Government should not create unrealistic disbursement pressure on RIMA. Government actions and pronouncements can put disbursement pressure and militate against rigorous evaluation, selection and monitoring. It is advisable that the funding of RIMA be modest and gradual and based on RIMA's verified capacity and that of the selected MFIs to effectively manage the funds and ensure good recovery rate.

- **Leadership**

A most critical responsibility of the Government to RIMA is probably providing RIMA with the strongest possible leadership able to give appropriate corporate governance and resist external pressures. The Government needs to ensure that Board members of RIMA are eminently qualified and can stand off external pressures

- **Statutory Provisions for Board Composition**

The State needs to give consideration to limiting present and future politicians' participation on the board and name private directors who are both powerful and committed to the RIMA's technical independence. The objective is to ensure the government's influence is outweighed or balanced by the presence of powerful private sector and non-partisan individuals on the board. The acceptance of this recommendation should be incorporated into the Board membership provisions in the RIMA Act.

7. RIMA-The Way Forward (Assessment and Recommendations)

7. THE WAY FORWARD

This section provides our recommendation for the way forward for RIMA, under the following headings:

I. Assessment of the Current Operating Model
II. General Principles and Guidelines to Facilitate the Smooth Operations of an Apex Organisation
III. Actual and Possible Challenges Regarding the Current RIMA Outlook
IV. Recommended New Operational Model
V. The RIMA Law: Recommended Reviews
VI. Transition Plan: Recommended Next Steps
VII. Critical Success Factors

Please note that this sub-section (1) – (IV) either directly summarise or reflect key highlights of our findings in Section 6 of this report. It is being presented to enable a reader of this section on "The Way Forward" understand the current issues without necessary recourse to the earlier parts of this report. This will also enable the separation and circulation of this section – independent of the rest of the report, if required.

7.I. AN ASSESSMENT OF THE CURRENT OPERATING MODEL AND STATUS

A donor information resource centre, CGAP Direct defines an Apex Institution as:

A second tier or wholesale organization that channels funding (grants, loans and guarantees) to multiple microfinance institutions in a single country or region. Funding may be provided with or without supporting technical services.

Please see below a summary of our understanding of the RIMA operating model, as currently proposed:

- Facilities are disbursed directly to beneficiaries by RIMA and are expected to be priced within the single digit range ($\leq$10%)
- Targeted beneficiaries are Rivers State indigenes whose applications for loans are collected (not necessarily properly screened or assessed) by pre-qualfied MFIs
- RIMA determines who will and who will not benefit from its funds
  - Assessment is based on RIMA's analysis of submitted documents without having any other form of interface with loan applicants

- RIMA communicates successful applications to selected MFIs
  - The total credit sum is paid into an account jointly owned by RIMA and the facilitating MFI at a designated bank
- The loans are drawn down by the successful applicants at designated banks, with the cheque for disbursement jointly signed by both the custodian MFI and RIMA (RIMA being the "A" signatory)
  - This is essentially to avoid funds diversion
- Thereafter, the custodian MFI is expected to take charge of the process of monitoring the facility and ensuring that it is properly serviced and eventually paid back
  - The MFIs are to be held accountable for loan performance and recovery – even when they have had limited input into the loan qualification/ approval process
  - MFIs are expected to guarantee all loans (bank guarantees)
- MFIs (largely MFBs) are not motivated by the arrangement:
  - No mobilization is made to MFIs to cover initial administration costs, in spite of the inundation by applicants and administrative overheads
  - In view of expected Guarantor responsibility, concerns over the high probability of credit default in view of RIMA's institutional incapability to properly determine credit worthy beneficiaries
  - Where such a facility is eventually paid back, the proposed income rate to MFIs of 2.5% is perceived by many as too low worsened by the fact that it is earned in arrears (i.e. after successful recovery) and high costs of collection (recovery) may have been incurred

<u>Assessment of the Current Model:</u>

- RIMA's proposed income rate at 6.5% to cover running costs is questionable, as percentage of loan recovery with the current model is extremely tenuous
- Ultimately, the overall viability of the proposed arrangement is questionable
- Though focused on low pricing, recoverability and disbursement to genuinely needy beneficiaries – it positions RIMA in a retail mode
    - This is a deviation from the typical wholesale intermediation role of apex organisations locally and internationally (LASMI (Lagos); SAMAF (South Africa); PKSF (Bangladesh) etc)
- MFBs who sign on, are not enthused by the model, as a result ingenious manipulating of the processes remain a high probability
- The financial sustainability of RIMA in the long run is questionable

For emphasis, it is important to stress that in the course of all the research done in developing this report (on both local and international Apex organizations) none have run a wholly retail strategy as is being conceived by RIMA.

The disadvantages and risks with the current proposed model are, amongst others, as follows:

1. RIMA is responsible for approving facilities for persons with whom it has no direct interface, and which for reason of its positioning it is incapable of truly determining their credit worthiness or of having first hand information that would enable it effectively package a proper credit facility for.

2. This will *prima facie* increase the risks associated with the facilities to be disbursed under such an arrangement. The risk(s) is also further heightened by the fact that:
    a. Microcredit operates without access to physical or cash collateral and therefore requires, *ab initio*, superior judgment in determining worthy beneficiaries
    b. Micro-credits are therefore largely driven by factors involving a proper, first-hand knowledge of the market structure of the applicant's industry; the applicant's personal recognizance based on direct observation; the effective credit structuring of the facility to ensure built in controls and reinforcements and so on – all of which the MFI and not RIMA is in a better position to provide

3. The approving authority and disbursing agents, in this case, do not work together at critical points. The dynamics of the relationship are largely "Master/ Servant" type, with the latter serving as an agent of the former – MFIs therefore have very little stake in the entire process
4. In the proposed arrangement, the approving authority delegates total responsibility for credit collection to its agents, who have also been presented with very little incentive to serve in this capacity
5. The role of credit creation and deposit mobilization (a core parallel requirement for a strong microfinance strategy) are in two very separate institutions, thus creating potential industry distortions and dysfunctions at a macro level
6. The Apex organization, by directly granting credit to intended beneficiaries, compromises its ability to serve as an Industry supervisor/ facilitator (i.e. it cannot effectively serve as a check on itself). Also this not only creates industry distortions (regarding its pricing model) but it also compels RIMA to develop credit as well as other finance related skills – a role better played by the MFIs
7. It is noteworthy that RIMA being Government owned, with the majority investment in the Treasurebase Fund, cannot become a financial institution in the true sense and should best limit its role to the management of the wholesale funds intended for on-lending, as well as playing other strategic roles.

    - Related to the above point is that RIMA cannot metamorphose into a MFB as Section 8.1.of the CBN Microfinance Policy, Regulatory and Supervisory Framework for Nigeria states that only individuals, groups of individuals, community development associations, private corporate entities or foreign investors can establish MFBs.

    - Though the CBN does not object to an organization disbursing funds as credit (the violation appears to be when an organisation accepts deposits from the public without having being licensed to do so). This latter restriction means that RIMA ,as a Government owned agency would never be able to serve the target market as a full-fledged retail organization, which further questions its foray into this terrain in the first place.

II. GENERAL PRINCIPLES AND GUIDELINES FOR THE SMOOTH OPERATIONS OF APEX INSTITUTIONS

The roles of Apex institutions typically involve the following:

Role	Thrust
1. The wholesaling of loan-able Funds	This typically requires the disbursement of funds to qualified microfinance institutions (MFIs) which would include MFBs, NGOs, cooperatives, domestic and foreign development finance organizations etc, for onward loan deliveries to targeted households and segments of the population.
2. The disbursement of grants and subsidies	Donor bodies and governments typically use Apex Organizations to deliver funding and assistance to the micro industry sector. Apex organizations are positioned to provide effective fiduciary oversight in ensuring successful targeted disbursement
3. The screening and certification of retail institutions	An on-going role of an Apex organization is to screen and qualify potential MFIs on a regular basis, as donor bodies and governments assume that they are better positioned and skilled to carry this function out effectively – and at a reduced cost. Thus ensuring that the management and distribution of funds at this point of the value chain aligns with the intended strategy, through the use of responsible and accountable retail channels that fulfill certain eligibility criteria
4. Institution building support	This entails the provision of technical assistance and / or training to staff of retail organizations. This is not only required to sustain the current deliverables expected of such organizations, but also assists in helping to build a critical mass of MFIs who would have the capacity to absorb apex funding. Through the economies of scale possible from a focus on a critical mass of organizations such support can also be provided at a cheaper cost, than if individually procured
5. Industry Oversight	Providing oversight consistent with the special demands of microfinance sector that complements the activities of the Central Bank and other regulators of the Financial Services sector. Apex organizations sometimes also facilitate the access by MFIs to commercial funding markets such as capital markets
6. Lobbying for appropriate policies and regulations	Related to the above, point is an active role in lobbying for the passing of or for changes to relevant policies and regulations, based on the observations and insights gleaned from the oversight obligations it manages

Role	Thrust
7. Monitoring and evaluation of donor support to MFIs	The Apex organization is meant to monitor and evaluate the adequacy of donations and subventions from both the government, as well as third party partners. Such support will include the quality of both financial and non financial resources required to achieve key industry objectives
8. Impact Assessment Reviews	Direct and indirect indicators showing the Return on Investment (ROI) in terms of the socio-economic impact on the lives of households through microfinance activities is an important dynamic for the activities of an apex organization, as well as the different parties whose interests it serves to intermediate. The Apex organization is expected to deploy strategies in this regard on an ongoing basis thus enabling effective strategic reviews

While the above, provides a list of roles and expected responsibilities of Apex organizations, there is a need however to assess the nature of challenges posed to or by most apex organizations.

The table below outlines generic challenges, indicating the status with RIMA regarding each of these. It also outlines challenges that may however be specific to RIMA based on the due diligence conducted in the earlier sections of this report.

III. ACTUAL AND POTENTIAL CHALLENGES TO THE CURRENT RIMA OUTLOOK

Some General Challenges include the following:

Generic Challenges	
Nature of Challenge	RIMA's Status
1. Non existence of a Sufficiently Large and well Established Microfinance market	Discussions with representatives of the already screened and accredited MFBs by RIMA at a Focus Group Session indicate some consensus regarding challenges presented by the available market. Direct feedback from participants was as follows: • In creating Risk Assets viable market segments are weak e.g. trade, farming etc • The hinterlands present a difficult terrain to traverse *This issue is set against the understanding the RIMA funds are expected to be accessed only by Rivers State indigenes, and as a result would not avail the cosmopolitan potential and variety which the state otherwise possesses*
2. Non existence of a sufficiently large number of sustainable MFIs	The state of MFBs in the state is a cause for concern. Key indicators are as follows: • Of the 39 MFBs in the state, only 13 (33%) passed the pre-qualification screening conducted by RIMA • Of the 13 pre-qualified by RIMA, only eight currently have received their final approvals from the CBN, the others only possess "Approvals in Principle (AIP)" • Most of the MFBs engaged at the consultants' focus group session admitted to possessing weak operational capacity in the areas of ICT (technology); processes ; managerial competencies and human capital in general There is a sense that the robustness of other potential MFIs such as NGOs and Cooperatives is also currently questionable. *There is no doubt that a significant proportion of RIMA's activities must be devoted to developing and nurturing technical and financial capacity for microfinance Institutions in Rivers State*
3. Lack of a	Where MFIs have ready access to commercial sources of funds, apex

Generic Challenges	
Nature of Challenge	RIMA's Status
critical mass of MFIs who do not possess access to commercial funding	organization services may become redundant. The reason is that although the pricing of funds from the Apex organization may be softer, commercial banks however provide more flexibility and more timely service which could compensate for the higher costs While MFIs particularly the MFBs, in Rivers State, may have been relatively easily serviced by credit lines in the past – the events occasioned by the global economic meltdown and the CBN's recent intervention in sanitizing fraudulent practices and minimizing risky and potentially toxic investments, has resulted in a drying up of credit and a withdrawal of credit lines, to all but the safest potential creditors. In addition, discussions with MFBs also indicate that their deposit mobilization is weak and currently cannot sustain their demands for finance. *The reality is that most MFBs have been contending with Commercial banks through channeling their funds to businessmen for export and LPO financing etc. Though receiving deposits and savings from the active poor, there has been relatively little incentive to cultivate and grow this funding channel due to the relatively low volumes provided vis a vis other means.* *In view of the above development, stifling access to such alternatives, the funding to be provided by RIMA is likely to be immensely attractive to MFIs in general, in spite of the attendant bureaucracy to be expected. The challenge will be to ensure that it is channeled to the use of the target market.*
4. Access to Easy Money impedes the development of Intermediation Services	Easy access to cheap funds discourages the development of financial intermediation services requiring relatively costly deposit mobilization services; Account Opening processes; technology and resources required for servicing multiple low income account holders As stated in the point above, currently only few MFBs in the state appear to be driving aggressive deposit mobilization strategies, instead there has been a heavy reliance on funding from commercial banks

Generic Challenges	
Nature of Challenge	RIMA's Status
	RIMA's role in fostering and encouraging robust microfinance services, supported by needed training, capacity development and access to needed resources is vital in this regard, as it will re-focus MFBs on their original missions while providing improved capacity and knowledge to truly operate in the microfinance sector
5. Apex funding Impacts the development of alternative access to commercial funding	The access to cheap apex funds discourages the development of strategies for alternative funding such as recourse to the capital market. This deprives such organizations of the obvious advantages from such strategies (e.g. increased funding); as well as inherent advantages derivable such as improved corporate governance, capacity development and long term robustness, growth and sustainability *This disadvantage as it relates to the Capital market in Nigeria is currently not significant due to the relative under-development of the Capital market in the first place, such that positioning and packaging of funds for the microfinance sector is still likely to be warily considered, if at all. However, with regard to the development of proper governance structures and capability, it is expected that RIMA through the attractiveness of its wholesale funds will be able to influence the industry in this areas.*
6. Political Pressure	When the government is involved in the establishment of an apex organization, there are often political pressures faced to disburse to favoured (and sometimes unqualified) MFIs – including NGOs, Cooperatives etc. *It is important that the Rivers State Government place the agency under capable management and empower it to operate autonomously*

Some **specific challenges** to RIMA are as follows

<table>
<tr><td colspan="2">Specific Challenges</td></tr>
<tr><td>Nature of Challenge</td><td>RIMA's Status</td></tr>
<tr><td>1. Perception of Fund by beneficiaries</td><td>There is an understanding, now deeply engrained in the psyche of most indigenes of the state that the RIMA fund is expected to be disbursed as a grant to indigenes. Thus the expectation is that no pay back is required. The understanding is that these funds are a compensation to Rivers indigenes for their contribution to oil revenue (i.e. their share of national cake)

A mass awareness campaign correcting this impression must be undertaken prior to fund disbursements. It is also critical that the process of screening and evaluating loan applications accurately identifies,recommends and ensures disbursement only to genuine and viable beneficiaries</td></tr>
<tr><td>2. Accountability</td><td>There is a threat of diversion of funds by MFIs. Feedback from the focus group session held with local MFBs indicates that currently, the RIMA scheme does not appear to be targeting the desired target groups. Feedback evidencing this is that the applications currently reviewed and approved by RIMA (though not yet disbursed) belong to persons that do not qualify as active poor and do not fall within the class of society theoretically being targeted(e.g. Civil Servants). A pertinent view in this regard, by the MFBs, is that the average amount applied for by most applicants was N500, 000.00.

The status quo however is that currently approximately 2000 applications have been approved by RIMA awaiting disbursement. These gross up at ₦351million. The table below presents an overview (see Section 6 for a detailed overview of the status quo).

<table>
<tr><td>Loan distribution by size</td><td></td><td></td></tr>
<tr><td>Loan Size</td><td>Applications Approved</td><td>%</td></tr>
<tr><td>Between 50,000-100,000</td><td>434</td><td>21.8</td></tr>
<tr><td>Between 120,000-150,000</td><td>391</td><td>19.7</td></tr>
<tr><td>Between 175,000-200,000</td><td>844</td><td>42.5</td></tr>
<tr><td>Between 250,000-300,000</td><td>316</td><td>15.9</td></tr>
<tr><td>Exact 500,000</td><td>1</td><td>0.05</td></tr>
<tr><td>Exact 2,500,000</td><td>1</td><td>0.05</td></tr>
<tr><td>Total</td><td>1,987</td><td>100.0</td></tr>
</table>

Please note that information regarding only 1,987 of the applications was</td></tr>
</table>

Specific Challenges	
Nature of Challenge	RIMA's Status
	available for this summary. Of the approved facilities: • Only one (1) application for N500, 000.00 was approved which represents 0.05% of total loans approved. • An application for the sum of N2, 500,000.00 was approved by the MCC .This approval represents 0.05% of total approved loans. The loan for 2,500,000 was to a Ms Belema Suzzie Asseh from Degeme LGA, and contravenes the Central Bank of Nigeria's policy prescription on the size of micro loans. The policy categorizes micro loans as amounts not in excess of N500, 000.00 (Five Hundred Thousand Naira).
3. Local and National Government policies	• There is consensus that being a young industry some pioneer concessions ought to be provided with regard to levies and taxes • Most MFIs are undercapitalized and have access to very limited funding (as a back-up mechanism). As a result onerous external pressures are difficult to absorb. • The Punch: December 16 2009, page 20 published that the CBN recently advised unit MFBs at zonal town hall meetings that all MFBs in Lagos are to increase their capital base to N50m, while those outside Lagos are required to retain the current N20m capital base. The reason for this difference is due to the rate of commercial activity in Lagos. It is not certain for how long this would remain the status quo • Should the Capital base of MFBs be suddenly increased a number of erstwhile pre-qualified MFBs may fail to meet the requirement. A RIMA strategy must therefore be to build in incentives that would encourage MFBs to maintain share capital over and above the official limits

IV. THE RECOMMENDED OPERATING MODEL FOR RIMA

IV.(I). Overview of the New RIMA: Key Changes

a) This report recommends that the new RIMA model be driven on a whole-sale intermediation basis. In other words, RIMA will engage with partners in channeling its funds to the microfinance sector.

b) This report also recommends that private sector equity participation such as the Treasurebase Fund ceases to exist as a RIMA fund; and that going forward, equity participation be no longer available. This will mean the cancellation of the subsisting contract with FCMB (which is yet to be operational) and the removal from the law of sections dealing with the Treasurebase Fund.

Instead all funds channeled to RIMA – outside of donor funding – will be taken up as loans for a period of 12 to 18 months, at a nominal interest rates between 0.5% and 1% which RIMA will be expected to pay back at an agreed time. The purpose of this recommendation is:

i. Avoid the current situation in which private sector third parties have an equity stake in what is essentially a government poverty alleviation agency and the challenges that this has posed, highlighted under **Section 5: Legal and Governance** under "Third party Equity Involvement" a sub section relating to the analysis of key legal issues
ii. Where banks with SMEISS Funding decide to participate in the scheme this can be accommodated as the SMEISS funds allow both debt and equity participation as a means of securing returns, and this report recommends debt for this purpose (as against dividend yields from equity)
iii. The Government's contribution to the Investible funds should also be converted to a loan, payable after every 12 to 18 months (maximum) – beginning with the initial tranche of N2billion. Please note the take –off Working Capital provision (of N500m originally) which was provided as a loan, should be converted to a grant towards the smooth initial take-off of the organization

c) Section 6.3. of the RIMA Law requiring a payment up to 1% of the annual budget to the RIMA Fund should be amended, as currently it reads as an open-ended subvention arrangement, not tied to performance in any way. Please note as follows:

i. Though the CBN Policy on Microfinance in Section 13 (1) prescribes the setting aside by State Governments of an amount not less than 1% of the annual budget for on-lending activities of microfinance banks in favour of their residents, this Policy nevertheless is prescriptive and should thus be implemented only when prevailing conditions validate the need

ii. By statutorily guaranteeing RIMA an annual inflow of 1% of the State's budget it may not promote long run accountability over time.

iii. All monies ploughed in by the state, excluding the original working capital grant should be loans payable within 18 months, at the interest rates recommended above. Such loans repayments would be re-volvable in the sense that the Government would plough it back as investible funds; while in addition approving new funds based on the level of performance

iv. It is recommended that new loans to be issued by the government bear in mind the needs of the microfinance sector, but should also consider the absorptive capacity of the channels and the market. This amount would be based on the recommendation of the RIMA Board on an annual basis

v. The loans will be paid from the funds recovered, and it is expected that there will be bad loans and defaults; however RIMA's ability to recover a significant amount of such loans as its pay-back to the Government (Principal (recovered) + Interest (on entire amount)), will go a long way to "informing" the future amounts to be made available by the government i.e. this will serve as an in-built performance incentive

d) Donor agencies are encouraged by Section 13.5 of the CBN Microfinance Policy to support the development of the microfinance industry in Nigeria through the provision of grants, donations, Technical Assistance etc. It is expected that RIMA will market and attract the support of such donor agencies.

   a. Please note that by excluding the equity arrangement under the Special Purpose Vehicle (Treasurebase Fund) involving profit oriented third party organizations, such donor support will be a lot easier to attract

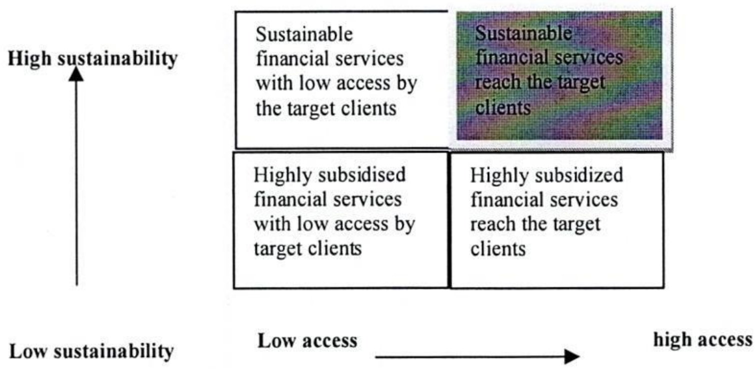
Therefore, there is a need going forward, to establish RIMA on sound economic principles. The approach to running the RIMA methodology, would be subject to continuous improvement, in the context of making necessary adjustments and changes that would ensure that RIMA eventually addresses the state microfinance and poverty alleviation objectives.

Key principles to guide our recommended operating model are as follows:

1. The importance of ensuring the proper channeling of the Fund to its intended recipients

2. The need to ensure the financial viability and sustainability of RIMA as an organization through the proper pricing of its funds and the deployment of effective recovery strategies
3. Enabling a sufficient availability of funds to meet the business and credit demands by the Rivers State Poor, while also ensuring convenience in the accessing of same
4. Driving the overall industry development and capacity building to support both the state's microfinance strategy, as well as RIMA's objectives. Development in this regard must target not only the players of the industry but the quality of the market as well (i.e. skills, know how etc)
5. Fostering the commercial viability of the state's microfinance industry; and through the provision of access to cheap apex funding encouraging the State's MFBs and MFIs to actively lend to the poor (diagram below highlights the twin performance measures for a viable microfinance sector)

Twin performance Measures: Access and Sustainability



As a result, of the above requirements, the recommended Operational Model for RIMA is presented below – in two parts, namely.

- **Proposed Operational Strategy**: The summary of our proposal in this regard is that the RIMA operational/ functional strategy changes from a retail one to a wholesale intermediation role. In this context, we have recommended highlights of a model that would provide for accountability by all the key players in the industry, as well as sustainability in the context of the desired social impact over the long run (section IV.II)

- **Proposed RIMA Operating Structure/ Organogram**: The summary of our proposal in this regard (presented below) is the need to revisit the current RIMA structure to ensure a separated but dual focus on both its regulatory and financial objectives (section IV.III)

Please see the segments following, for our detailed recommendations.

IV.(1I): PROPOSED OPERATING STRATEGY

The proposed operational strategy for RIMA, in facilitating the development of the microfinance sector in Rivers State, is broadly highlighted below.

1) RIMA will run a wholesale intermediation strategy, channeling funds through selected pre-qualified MFBs and MFIs.
   - While Cooperatives and NGOs will be encouraged and bolstered as potential MFIs, the primary focus at the take off of RIMA's activities will be Microfinance Banks (MFBs)
   - Over the long run, other MFIs should be encouraged but it must be highlighted that NGO MFIs usually find it difficult to operate as financial intermediaries beyond a certain scale, as they do not have the appropriate financial structures and neither do they have any equity capital – being typically set up as Societies or Trusts (resulting in capital inadequacy). Also, such organisations do not have the leeway to mobilise deposits
2) MFBs will initially access RIMA funds based on the size of their capital base, subsisting CBN approvals as well as other guidelines. While subsequent accessing of the Fund will be driven largely savings mobilization, market penetration, success in relation to targets. We have presented at the end of this sub section our detailed recommendations regarding viable pre-qualification standards (these were also captured in Section 6 of the report)
3) The RIMA funds will be provided to the MFBs and priced at single digit rates as per current Government thinking *(please note that this is not sacrosanct and should be driven by considerations including the sustainability of RIMA and the prevailing market dynamics).* It is however expected that the impact of these funds will significantly reduce the cost profile of the beneficiary MFBs funds for the strategy to be effective.
4) Qualified Microfinance Institutions will be dedicated to various zones and LGAs in the State to enable focus and penetration. This would in turn ensure easy evaluation and monitoring of performance on an on-going basis and relative to others
5) It is expected that the anticipated reduction in costs in the funds profile of selected MFB funds will be passed on to households and beneficiaries in various ways, including:
   - Investment in social infrastructure or capacity building for communities etc

- Increased presence in local communities, through investing in operational structures and systems that increase the convenience in accessing funds by beneficiaries in remote, less physically accessible zones of the state
- Possible overall lower interest rates relative to the market in general

6) It is also proposed that the Rivers State Government adopt the following position regarding its returns from the RIMA fund:

   a. Revenues from this programme not to be treated strictly as IGR, but subject to the approval of the House of Assembly should be channeled to the provision of social infrastructure projects in the areas of health, education, as well as scalable physical infrastructure projects. Such projects will be conceived in conjunction with the local communities and their impact monitored as part of RIMA's impact assessment strategy

   b. In addition to direct votes from the government's budget, it is also recommended that a fixed percentage of such earnings be ploughed into capacity building by way of training or the provision of public goods that would benefit all the players in the industry e.g. seminars, identifiable technology,etc. This is in recognizing that a critical part of RIMA's success is the development of capacity within the MFI industry of the state.

7) The above strategy is expected to ensure the following:

   - Avoiding the situation cited with LASMI, in which MFBs purportedly informed potential loan applicants that the monies from the LASMI Fund was no longer available and had been fully disbursed – while diverting same to other sources
   - Ease of adoption by MFBs as it does not distort normal daily operations of the MFBs (though stronger presence in assigned zones would be required)
   - Increases in the financing capacity of MFBs and MFIs, thus improving accessibility to funding for the active poor
   - While not restricting such MFBs to only beneficiaries from any particular location or state in the federation, it however places the onus for growing the grass root markets on qualified MFBs and MFIs
   - A prevention of possible industry distortions likely to occur if RIMA funds are separately managed (and therefore charged differently) from MFB funds garnered from other resources

- Avoidance of a prescriptive approach by which RIMA dictates the rates at which its funds are accessed – thus distorting the natural flow of market forces through policy positions not attuned with the on-going realities of the industry
- The insistence on counterpart funding playing a role in accessing apex funds will ensure that access to apex funding does not negatively impact the savings creation benefit expected of MFIs to households
- Both the skilled and unskilled poor are addressed through separate interventions

8) While no bank guarantees will be sought from MFBs, to ensure responsible handling of the funds, as well as high percentage levels of recovery less innocuous guarantees may be provided by way of some of the recommendations below, amongst other possibilities:
    a. Posting Insurance bonds
    b. Constitution of MFIs into a cooperative that provides to joint mechanism to ensure accountability
9) RIMA will hold regular stakeholder engagement sessions to drive stakeholder engagement, understanding and consensus around RIMA's priorities – also with a view to deriving needed feedback regarding less than effective parts of the value chain delivery process

Suggested MFB Pre-Qualification Criteria

<u>Initial Disbursement Evaluation</u>

The initial evaluation prior to selection and commencement of partnership will ensure that necessary and sufficient conditions are met by the MFIs being considered for partnership for the RIMA fund. The following should be included in the criteria for initial evaluation and selection:

i. CBN Final License
ii. Minimum of 24 months operation after obtaining CBN final License
iii. Adequate Institutional structures and capacity including
    - Satisfactory governance and management structures
    - Effective internal business processes supported by the use of ICT
    - Transparency of Accounting processes
    - Quality of staff
    - Geographical Spread
    - Documented Business plan

  - o Track record/ Strategy/ Risk profile (e.g. potential for conflict of interests)

iv. Shareholders' funds must be minimum of the CBN prescribed share capital base

v. 100% commitment to Micro Finance Banking

v. Demonstration of the internal capacity to manage and monitor increased number of micro-credit beneficiaries by way of quality of staff; proper accounting processes; the use of ICT; spread etc

vi. Compliance with CBN prudential guidelines currently comprising the following:

  - o MFBs should maintain not less than 5% of their deposit liabilities in investment in Treasury Bills [TBs]
  - o MFBs should maintain a minimum ratio of twenty percent [20%] of their deposit liabilities including 5% compulsory investment in the Treasury Bills in the liquid assets
  - o Maintain a minimum Capital Adequacy Ratio [Capital/Risk Weighted Assets Ratio] of 10% and a ratio of not less than 1:10 between its shareholders fund unimpaired by losses and net credits.
  - o The acquisition of fixed assets, equity investments, investment in long-term debentures and branch expansion should not be financed by share holders' funds, unimpaired by losses:
  - o The maximum loan by MFBs to individual borrower or director related borrowers shall not exceed one [1%] percent, while a group borrower is restricted to a maximum of 5% of the MFB's shareholders' fund unimpaired by losses.
  - o Aggregate insider-related lending shall not exceed 5% of the paid up capital of the MFB at any time
  - o The aggregate value of equity participation of the MFBs in all permissible enterprises shall NOT exceed 7.5% of its shareholders fund unimpaired by looses without prior approval in writing by the CBN
  - o Adequate provision made for all non-performing and performing risk assets .
  - o The amount invested in fixed assets should not exceed 20% of its shareholders' funds unimpaired by losses

vii. Overall Financial well being (see some yardsticks below)

Yardstick:	Indicators/ Ratios
1. Financial/Portfolio Efficiency:	- Loan Loss Reserve Ratio i.e. Loan Loss Provision/Total Assets - Write-off index i.e. Value of loans written-off/Gross loan portfolio

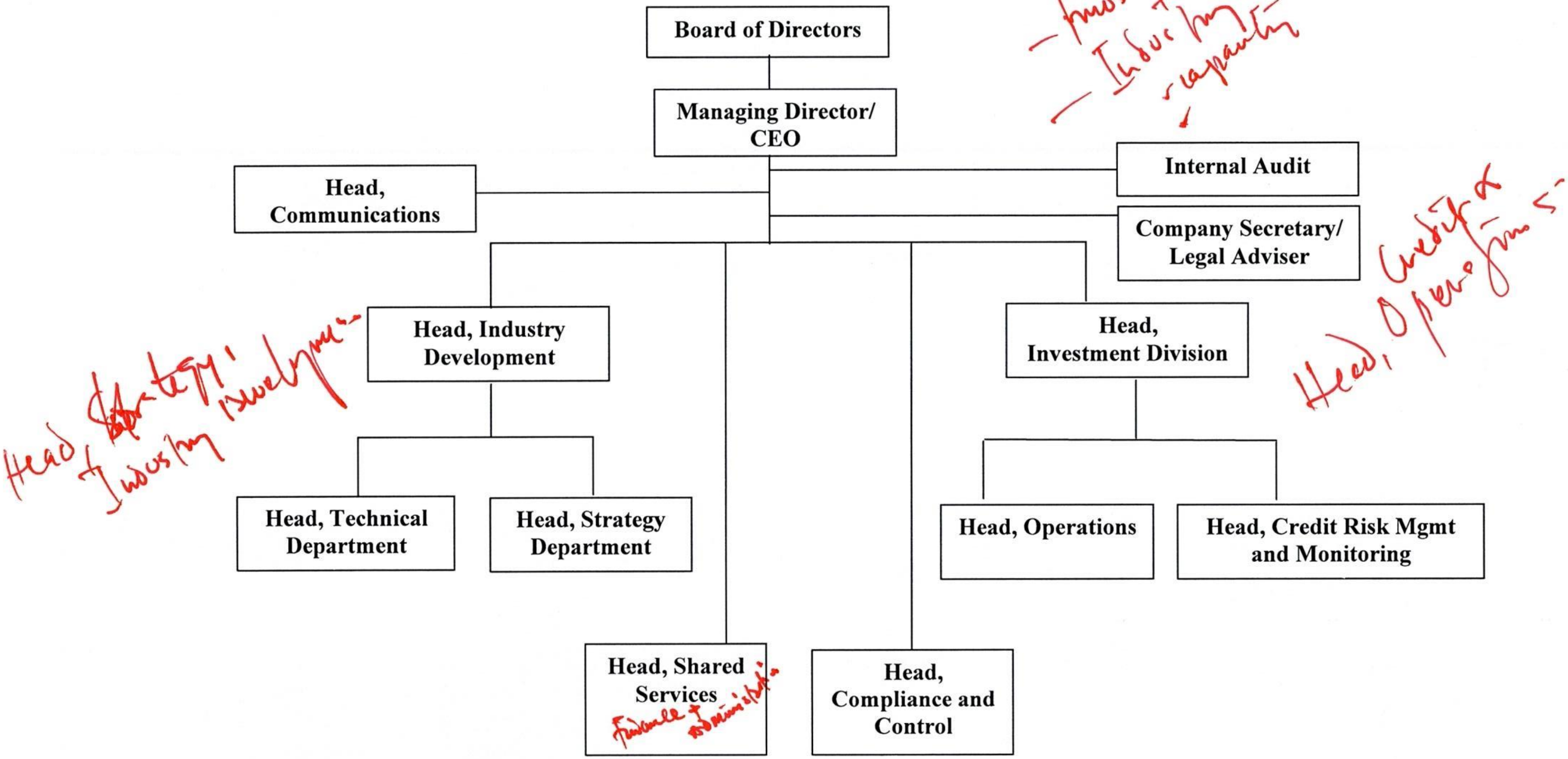
Yardstick:	Indicators/ Ratios
	- Portfolio at Risk
2. Sustainability:	- Return on Equity i.e. Net operating income/Total equity - Return on Assets i.e. Net operating income/Total assets - Operational Self-Sufficiency i.e. Financial revenue/(Financial and operational expense + Loan loss reserves) - Increasing percentage of micro loans to total risk assets (excluding RIMA Funds)
3. Earning capacity of assets:	- Net Portfolio / Total Assets - Non-earning assets / Total Assets - Growth in Operating Income - Growth in Total Assets
4. Solvency:	- Capital Adequacy; Leverage; Working Capital
5. Liability Composition:	- RIMA funds / Total Liabilities - Total Client Deposits / Total Liabilities - Gross Loan Portfolio / Total Clients Deposits

Subsequent Disbursements Criteria

For year on year funding – and possible increases in access allowed, the RIMA Board based on the recommendations of the Investment Committee will screen the performance of pre-qualified MFIs. Emphasis and incentives will be accorded performance in line with performance targets set and guidelines provided. Some of these will include:

- Continued *fulfillment of and compliance with all of RIMA's initial selection criteria*
- Satisfactory CBN examination reports where available
- Substantial compliance with exceptions in the most recent CBN examination reports
- Full correction of observed weaknesses and compliance with the recommendations contained in the initial evaluation reports done by RIMA
- 100% participation at all RIMA facilitated capacity building programmes
- Compliance with performance targets set and guidelines including:
    - Savings mobilization targets and Market (zonal) penetration performance
    - Pricing of disbursed funds relative to market
    - Annual evidence of intensive capacity building for staff
    - Annual evidence of capacity building of target markets

IV. (III): RECOMMENDED ORGANISATION (OPERATING) STRUCTURE



Overview/ Description of Key Offices and Staffing Requirements

Please see the table below for a description of each of the key offices[4] and the expected staffing – roles and numbers.

Office	Key Roles	Descriptions	#s	Total #s
I. Office of the Managing Director	1) The Managing Director/ CEO	He or she is the Chief Executive Officer of the organization and will be responsible for its day to day management – reporting directly to the board. A background in the financial services sector will be a requirement, with a minimum of 15 years work experience. A proven track of strong management skills – as well as strategic leadership competencies will be required. An interest in and an understanding of socio-economic planning and development will be an added benefit. Must be visionary, confident and entrepreneurial in thinking – able to build consensus and work through people	One (1) person	Three (3) persons
	2) Executive Assistant	He or she serves as the Personal Assistant to the CEO, providing technical support, follow up and implementation assistance, as may be required. He or she is expected to be a graduate, preferably with a Masters Degree – with no less than four to five years of relevant work experience and excellent analytical and documentation skills.	One (1) person	
	3) Administrative Assistant	He or she serves as the Confidential Secretary to the CEO, ensuring the smooth running of the CEO's office	One (1) Person	
2. Investment Division	1) Head, Investment Division	This is recommended as an Executive Director placement/ position. This position will manage the funds of the apex organization in line with the determined financial intermediation strategy of the organization. S/he will, supported by the CEO, be responsible for	One (1) person	Six (6) Persons

[4] Low skill and low level functions such as clerical or reception type responsibilities are not captured on this table. It is expected that such functions will outsourced or hired on a contract basis

Office	Key Roles	Descriptions	#s	Total #s
		marketing and attracting additional funding for the agency. The position must be manned by someone with strong financial skills – with a background in banking or corporate finance. He or she should be a strong technocrat with a "hands on" bias – able to oversee and drive the establishment of the needed financial processes and procedures for the management of the fund. A high level of integrity; strength of character and professionalism will be key characteristics for the occupant of this position		
	2) Head, Operations	This is a management position, responsible for disbursing funds to qualified MFBs and MFIs; maintain a database of all fund beneficiaries; monitor loan repayments and provide status updates on the portfolio's performance to management *S/he will head a team with two additional support staff*	Three (3) persons	
	3) Head, Credit Risk Management/ Inspection	This is a management position, responsible for articulating pre-qualification criteria for MFBs and MFIs, on an on-going basis in line with the Board's overall directives. The department will ensure Operations' disbursements align with provided criteria; monitor non-performing assets and facilitate/ support recovery – as and when required. This department will play an Inspectorate role, monitoring the activities and disbursements by MFBs and MFIs to ensure that it gets to the intended beneficiaries in line with the fund's prescriptive *The Head of this department will be supported by one additional staff, but will be expected to work with contract field officers or*	Two (2) persons	

Office	Key Roles	Descriptions	#s	Total #s
		independent consultants, who will be engaged on contractual terms for purposes of inspections and recovery efforts		
3. Industry Developme nt	1) Head, Industry Development	The Head of the Industry Development of the organization is a very senior management position. S/he will be expected to play a quasi regulatory/ support role primarily to qualified MFBs and MFIs, in the first instance. The office will drive the implementation of state's microfinance strategy and the monitoring of same to ensure impact. In addition to pure microfinance activities, the office will also drive other poverty alleviation strategies and projects targeted at local communities. He or she will also be expected to interface with other key MDAs to ensure the alignment of RIMA's strategy with that of other poverty reduction efforts in the state. S/he will be expected to have a background in strategy, consulting or developmental work or projects and should have worked in a previous comparable leadership capacity	One (1) person	Five (5) persons
	2) Head, Technical Department	The Head of the Technical Department will work directly with the Head, Industry in the area of Industry Capacity building of MFBs and MFIs. S/he must be a competent Organisational Development (OD) type individual. It is expected that this department have a staffing of two persons and that the team will work on an on-going basis with external resources with specific competences to address agreed industry gaps and needs	Two (2) persons	
	3) Head, Strategy Department	The Head, Strategy should have strong strategy skills and	Two (2) persons	

Office	Key Roles	Descriptions	#s	Total #s
		competencies. S/he will work with the Head, Industry Development in the formulation of the RIMA microfinance industry related policies and strategy. The department will also be responsible for both baseline and on going impact assessments and measurements – a function which will be reported on, on an on-going basis in the course of the year. Though the recommended manpower for the department is two persons, it is expected that external resources will be leveraged as and when required		
4. Company Secretariat/ Legal Team	1) The Company Secretary/ Legal Adviser	The Company Secretary is the Chief Administrative Officer to the Board. He or she will work with the CEO in ensuring the effective running of board affairs and compliance with various statutory/ legal requirements. S/he will also be available to provide on-hand legal advice to project teams	One (1) person	Two (2) persons
	2) Support personnel	An additional Legal Officer will support the Company Secretary in the delivery of the department's obligations	One (1) person	
5. Communications/ PR Department	(1) Head, Communications	This office will support the CEO in developing and implementing the organisation's stakeholder management and press strategy – using verbal, manual and electronic resources. He or she will also ensure effective internal communications within the organization; as well as serve as repository for all communication; information and industry related information for the organisation	One (1) person	Two (2) persons
	(2) Communications Support Officer	An officer level person to support the team in the implementation of its mandate	One (1) person	

Office	Key Roles	Descriptions	#s	Total #s
6. Shared Services	1) Head, Shared Services	Head, Shared Services will supervise all support services in the organization. S/he, to ensure resource optimization, will in addition to overseeing all support functions also drive the budgeting process; manage financial relationships with bankers to the organization; resource procurement activities i.e. of external specialist or consulting support for the various functions	One (1) person	Four (4) persons
	2) Accounts and Finance Unit	S/he will head the Accounting Unit of the organization – supporting the Head, Shared Services with book keeping; accounts management; vendor payment; payroll activities; cash flow management; Accounts preparations etc. *An additional person will serve in a support capacity in the unit*	Two (2) persons	
	3) HR and Admin Unit	The Head, HR and Admin Unit will support the Head, Shared Services with regard to HR Administration organization-wide	One (1) person	
	4) ICT Support Unit	The Head, ICT Support will support the Head, Shared Services in deploying general ICT support organization wide; maintaining a website, database as well as other IT support tools that are specifically required by the various functions	One (1) person	
7. Internal Control Department	Head, Compliance and Control Compliance Officer	This Department will ensure that the various functions of the apex agency are operating in line with due process as required by the various policy thrusts and directives approved by the board. One of the objectives of this department will be to ensure the development of operational policies and procedures by/ for all the various functions and offices in the agency The Head of the Department will be supported by at least one additional person	Two (2) persons	Two (2) persons
8. Internal	Head, Internal Audit	The Internal Audit unit is a statutory	Two (2)	Two (2)

Office	Key Roles	Descriptions	#s	Total #s
Audit Unit	Unit	requirement of all Government agencies. It will operate as an extension of the CEO's office and will audit the financial books of the apex agency making regular reports to CEO and the board; as may be required	persons	persons
	Internal Audit Officer	Though the Government requirements for audit units requires a multiplicity of staff and functions, a take off complement of two staff – comprising the Head and one additional person is hereby recommended		

Staffing Profile Summary

The above overview provides for a total of 26 staff, including the CEO's and at least one Executive Director - whose appointments will be statutory. To avoid unnecessary redundancy and effective optimization of resources, it expected that the recruitment of staff will be suitable phased to ensure that only the most important positions are filled at first, with such initial staff taking up the workload of other functions until a possible increase in workload overtime justifies additional intakes.

Though a public sector organization, the organization must carve for itself a distinct professional and results oriented culture, devoid of known civil service inefficiencies. As a result, the organisation's recommended profile should be that of a lean, well run, focused agency – characterised by the following qualities:

- A critical mass of technical staff with business, economics or finance background – possessing generic IT capabilities and strong communication skills
- A competitive salary structure, capable of attracting skilled staff from the private sector as may be required
- A strong Management Information System
- A strong Performance Management System
- Strong ICT work processes and support
- High Levels of Empowerment

- Presence of key policy and operational procedures to facilitate a strong culture and way of doing things
- High quality Management Team personnel
- Strong visionary leadership
- Strong governance structures and board oversight
- Access to needed funds – both for Investment as well as operational requirements in the area of Industry Development initiatives

V. THE RIMA LAW: RECOMMENDED REVIEWS

As deduced from our assessment of the 2008 RIMA Law (please see the Section 5 on Legal, Governance and Regulations) there are contradictions and conflicts in the Law, as well as prescriptions with doubtful strategic value to RIMA and the microfinance industry in Rivers State, in general.

As a result, it is recommended as follows:

- That the RIMA Law be redrafted to address the problematic issues raised above
- That in redrafting the law, specific regulations in support of the model and structure recommended in this report be included

See the outline below for specific recommendations:

Target Market and Model

1) Rivers State is a busy cosmopolitan state with indigenes from various parts of the country present and carrying out trade and business within it, yet S4.1 requires that the Fund be accessed for the use of only Rivers Indigenes. It is recommended that such funds be available to residents or people domiciled within the state who suitably qualify as active economic poor
2) To make RIMA an apex organization with a wholesale funding intermediation role partnering with pre-qualified MFIs to provide microfinance services to the active poor. In this context, the following should be amended:
    a. S13(1) which indicates that "any person who desires to obtain a loan from the agency must be of good character…." to any "MFI that desires apex funding must meet the pre-qualification criteria to be outlined by RIMA"
    b. S4(3) which indicates that RIMA maintain direct access to beneficiaries to ensure receipt of the funds
3) The Law should prescribe for RIMA's dual focus of financial intermediation services; as well as quasi supervisory objectives with regard to industry development interventions
4) To ensure that MFIs to be partnered and donors have clarity around the population segment targeted for the funds, the term "microfinance" should be clearly defined as the "provision of thrift, credit and other financial services and products of small amounts to the poor in rural, semi urban and urban areas for enabling them to raise their income levels and improve living standards

5) The law should require a spread of accessing channels for the RIMA fund across the state through partnerships with MFIs; however section 1(2)(b) which currently requires RIMA to have offices on all the local government areas of the state should be taken out

Board Related Provisos

6) The Law currently provides for five board members with one Executive member (i.e. the CEO). It is recommended that that the Head, Investment be a board member. As a result, the Law should provide for seven (7) board members with two being Executives.
    a. The revised number will provide more scope for the establishment of board committees
    b. This still relatively limited – yet robust number is to limit the possibility of politics and political interferences/ lobbying etc.
    c. Also in this regard, S10(4) prescribing a quorum of the board as comprising 1/3rd of its members should be amended to read, that a quorum would be constituted with five directors in sitting

7) In addition, the law should do/provide as follows:
    a. Amend S2(2)(a) requiring a part-time Chairman who is an indigene of Rivers State to simply being *a Chairman of impeccable character, repute and a track record of having worked on management teams or boards of a multinational or blue chip organisation*
    b. At least three of the board members should have worked in the Financial Services Industry in a senior management capacity, for not less than five years individually
    c. All appointees to the board shall be persons who have worked and risen in careers in viable private or public sector organizations
    d. The board shall perform in line with prescribed targets set, communicated and agreed to by the Governor of the state at the commencement of the year
    e. The board will meet at least once a quarter or as may be required (amend S10(1) requiring monthly board meetings)
    f. That bi-annual briefings be held between the board and the Governor (this is to lend credence to S1(2)(b) of the Law which indicates that the agency will be supervised by the Office of the Governor of the State
    g. All appointments to the board shall be by the Governor

8) An omnibus proviso should be inserted allowing the Governor approve for appointment onto the board, representatives of donor parties whose contribution to the Apex fund's equity is 15% and above. Although this privilege would lapse when and if such equity stake holding is diluted

Treasurebase Fund and Equity Participation

All reference to Equity should be expunged. See the basis of this recommendation under sub section IV (I) of this Section of the report (above). This will relate to sections such as the following:

- S8 of the current law establishing an Investment Committee should be amended to read that "An Investment Committee will be set up as a sub-committee of the board to comprise at least three members of the board, supported if required by external advisory support as may be determined by the board". S8(3) requiring a member of the committee to have cognate experience in public or private equity finance should be taken out as the new provision for external advisory support should address the requirement of specialist competencies – as the need may arise
- S7.2 of the RIMA Law currently provides that the Investment Fund shall be registered as a Limited Partnership, with the State Government as the Principal Partner and other eligible partners as Limited Partners. However, S4.10 also provides for the incorporation of a Limited Liability Company by the RIMA board (this is with obvious reference to the Fund, as RIMA is already a statutory body).
- All references to the Treasurebase Fund or a Microfinance Fund in Sections 7 to 9 of the RIMA Law

Returns to the Government

9) Section 6(1) provides that the State Government shall provide an interest free take off loan to cover the first two (2) years of the operational and administrative expenses of the organization
   a. It is recommended that Working Capital provision is no longer to be treated as a loan but as a take-off grant invested for purposes of the smooth take off of the business
10) Section 6(3) provides for an annual subvention not exceeding 1% of the State's budget. This should be amended to read, that "A provision will be made for the annual injection of Funds not

exceeding 1% of the State's budget to RIMA in line with the recommendations of the board of RIMA. This may however be less or up to 1% of the budget of the State".

a. See additional recommendations in this regard under sub section IV (I) of this Section of the report (above)

11) S6(5)(a&b) of the current Law states that the Agency shall pay dividend based on equity holding from its annual profits declared to the Rivers State Government through the Ministry of Finance and other Investors appointed. The commencement date for paying such dividends shall be subject to the profit turnover of the agency and shall not commence until two years after the repayment of the take off loan

    a. It is recommended that RIMA no longer operate on the basis of annual equity funding. Instead funding by the State government will be by way of revolving loans – with tranches payable within a maximum period of 18 months

    b. Such facilities shall be priced nominally between 0.5% and 1%. The interest returns will be captured as "Income to the Government" while the Principal portion will be ploughed back

12) Monies eventually paid to the Government as Interest income, should be dedicated with the approval of the House of Assembly to the development of social infrastructure projects in the rural communities of the State

Operational Dynamics

13) S4(7) indicates that the RIMA board shall ensure measurable improvements to the quality of life befitting microfinance entrepreneurs in the State by conducting impact assessment surveys and receive periodic reports from the service providers in order to ascertain their performance

    a. This clause should be maintained

    b. However to foster additional independent verification of such impact assessments, the law shall provide that with the approval of the Governor, a state-wide assessment of the impact of the Government's microfinance strategy will be conducted and presented to the Governor at the conclusion of every operational year and prior to approval of additional annual disbursements

        - It is recommended that such verification be co-sponsored and facilitated through willing multilateral developmental agencies such as the World Bank or DfiD

VI. TRANSITION PLAN: NEXT STEPS

Suggested transitional steps towards the recommended arrangement are in two stages 1) Operations and 2) Funding.

VI.A. NEXT STEPS: OPERATIONS

	Activities	Suggested Timing
I.	Establish a small think tank to present final recommendations from this report, for the Governor's eventual approval	Last week of January 2010
II.	Revise and amend the current Law establishing RIMA to rid it of its current conflicts and ambiguity; as well as to entrench the recommendations derived from this report	Beginning of February, 2010
III.	Revised RIMA Law to be submitted to State House of Assembly, as a bill, for passage	February, 2010
IV.	Review MOU between RIMA and existing partners to ensure alignment with the Law	February, 2010
V.	Once the revised RIMA law is passed, a RIMA Board should be constituted in line with the recommendations of this report	February 2010
VI.	Fresh staffing for the recommended and approved structure would require the commencement of a fresh recruiting process – to which existing staff would be recommended to submit themselves to if still interested in working with RIMA. Recruitment should be phased out and priority given to the speedy engagement of the senior management team	February to mid April, 2010
VII.	The RIMA Board and Management to engage in first strategy retreat and initiate preparation of strategic business plan	End of April, 2010
VIII.	Board Approval of strategic business plan and commencement of implementation	May 2010
IX.	Full take off of RIMA's Operations • Short-listing of MFBs by the end of May 2010 • Loan Disbursement to commence June 2010	Beginning of May 2010
X.	Stakeholder Communication and Engagement Sessions	May 2010

VI.B. NEXT STEPS: FUNDING

Our suggestions regarding next steps for Funding are based on the following indicators:

a) In spite of having a total of N2billion at its disposal, the first tranche of RIMA funds for on-lending was to be about N350 million (approximately 1/6th of the total available funds), leaving about N1.65billion
b) The absorptive capacity of the industry needs to be carefully monitored to ensure that no exaggerated estimates are made or driven, which eventually result in a high percentage of abuse or default in payback
c) The absorptive capacity of the industry needs to be grown. Such growth needs to feature in the following areas:
    i. Enhancement of the internal capacity of pre-qualified MFBs
    ii. Improvements in the capacity of MFBs in general, leading to an expanded pool of pre-qualified candidates
    iii. Attracting of new MFBs to the state
    iv. Growth in non-MFB microfinance institutions such as cooperatives and trade associations, both with regard to number and capacity
    v. Enhancement of RIMA's capacity in interpreting and accurately assessing the market
d) As a result of the investment in understanding and growing the industry which would be required in the first two years, this report questions the viability of insisting that all of the N2billion Naira currently set aside as investible funds be strictly used for this purpose.

<u>Recommendations:</u>

As a result, our recommendations are as follows:

(1) That the N500million of the N2bn currently set aside as investible funds be re-assigned to RIMA as a Working Capital grant in line with our recommendations in Section IV(1) of this section of the report. This will be in addition to the over N100m from interest earnings still available to the agency to fund its operations. This grant will be expected to cover a period of two years

(2) That the N1.5bn be channeled to RIMA as a revolving Loan Fund to drive its investments for on-lending purposes over the first 18 months, as follows:
    a. June 2010: N350 million

b. November 2010: N500 million

c. June 2011: N650 million

This is to allow recovery of most loans structured using 6 month tenures by the end of 2011 –

(3) RIMA will be expected to make its first loan repayment on the fund to the Government by the end of 2011 and thereafter this would be yearly

a. Please note that where the tenure of a facility is yet to expire, it is expected that this will be stated and evidenced in the report to the Government. Interest due on all such loans will however be due

b. Concerns about funds diversion will be alleviated by the Industry Impact Assessment and Independent monitoring recommended in the earlier parts of this report.

VII. CRITICAL SUCCESS FACTORS

Critical Success Factors that would facilitate the success of the recommended strategy and the long term effectiveness of RIMA will include the following:

1) A professional, well motivated board
2) A competent, disinterested Chairperson
3) Limited Government Involvement
4) Aligned and Professional Management and Staff
5) Stakeholder Engagement Sessions largely to re-educate people on the nature of the fund i.e. it is not a national or state freebie to be accessed by Riverians
6) Internal Checks and Balances/ Accountabilities to ensure continuous reviews and improvements

While not a critical success factor as such, a strong reinforcement to the State's microfinance strategy is the possible entry by professionally run MFBs from other states to Rivers state. This will provide local best practice benchmarks and facilitate the development of the industry in the State.

It is however important in this regard, to provide a brief overview of CBN's current policy articulating the requirements for the growth and expansion of MFBs, as this will enable the State determine how best to attract such investments where possible. They include the following:

a. Share capital for establishing a Unit MFB (i.e. which shall only operate and open branches within a specified LGA only) is N20 million [Twenty million naira]
b. The share capital for an MFB licensed to operate in a state and open branches in any LGA within the specified state is N1.0 billion (One billion naira)
c. Requirement for setting up an additional branch by a Unit MFB is that the minimum shareholders' funds must remain in excess of N20million for Unit MFB's (LGA coverage) after making provision for the cost of the new branch (this has been roughly estimated by the CBN at N20 million),
d. In the same way, the requirement for setting up an additional branch by a State MFB (i.e. having state-wide coverage) is that the shareholders funds shall be in excess of N1.0 billion after making provision for the cost of the new branch(es).

e. Per a newspaper publication (The Punch: December 16 2009, page 20), the CBN recently advised unit MFBs at zonal town hall meetings all MFBs in Lagos have been told to increase their capital base to N50m, while those outside Lagos are required to have a N20m capital base. The reason for this difference is due to the rate of commercial activity in Lagos

f. An MFB licensed to operate in a State shall be allowed to open a branch in another State, subject to opening branches in at least two-thirds of the local governments of the State it is currently licensed to operate and the provision of N20.0 million free funds for each branch to be opened in the new state

g. Where an MFB has satisfactorily covered a state and wishes to start operations in another state, it shall obtain approval from CBN and be required to again grow organically by having at least N20 million free funds unimpaired by losses for each branch to be opened in the new state.

h. While an alternative entry or expansion strategy of MFBs into Rivers State would have been for promoters of existing viable MFBs from other states to establish new MFBs in the Rivers State; this is not practicable as the CBN appears to have pre-empted plural ownership of MFBs. This is obviously to prevent circumvention of the policy on state coverage before growing to another state. The CBN therefore prohibits individuals, group of individuals, their proxies or corporate entities, and their subsidiaries, from establishing more than one MFB under a different or disguised name.

8. Appendices

1. Term of Reference
2. RIMA LAW- Rivers State Microfinance Agency Law, No. 6 of 2008
3. LASMI LAW-Lagos State Microfinance Institution Law, 2008
4. CBN Policy on Microfinance

TERMS OF REFERENCE

FINANCIAL AND ORGANIZATIONAL AUDIT OF RIVERS STATE INTEGRATED MICROFINANCE AGENCY (RIMA) AND THE MICROFINANCE PROGRAM IN RIVERS STATE

Introduction

The Rivers State Government wishes to conduct an audit of the Rivers State Integrated Microfinance Agency (RIMA), its corporate governance, management, organizational structure and operations to date with a view to ensuring compliance with national and state laws as well as with global best practice in microfinance. The audit should be conducted and concluded within a thirty-day timeframe during the months of July-August 2009. The audit should include a review of the RIMA law, RIMA's contractual relations with external parties and the operations and financial transactions of RIMA to date and make clear recommendations in the different areas.

Background

As part of its economic empowerment program, last October 2008 the Rivers State Government (RVSG) set up RIMA. RIMA is backed by law (Law n.6 of 3rd October 2008). Since its set up, RIMA set up an office, hired staff, selected MFIs with which to work and short-listed a number of beneficiaries. It has also entered into contractual relationships with FCMB and a Diamond Bank consortium. As of 2nd July 2009, the Board members have been announced and their swearing is imminent.

Scope of the audit

The scope of the audit is wide and should review:

a) The financial transactions of RIMA since its establishment in line with the provisions of the law with respect to RIMA's mandate and vis-à-vis the strategic plan drawn by RIMA; this section should also comment on all business processes and the entire operations in general and how investments to date fit into the overall strategy to promote good practice microfinance in Rivers State;
b) RIMA's model vis-à-vis global best practice in microfinance, including with respect to sustainability; the analysis should – among other things - assess the capacity building and risk management approach within the chosen model; this section should analyse also the various contractual relationships entered into, level of compliance with the provisions of the CBN laws and guidelines on microfinance and and offer recommendations as appropriate;
c) The corporate governance and management structure of RIMA, its staffing, staff's relevant qualifications and experience and map that against RIMA law's provisions; this section should recommend clear steps for eventual restructuring and any consequences for staff;
d) RIMA's operations to date and map it against its mandate; this section should make recommendations on how to re-focus RIMA's work in line with the law and global microfinance good practice;
e) The track record and experience of the MFIs selected by RIMA with a view to ascertaining their fitness to ensuring good practice microfinance services are delivered to a widespread and diverse selection of individuals, micro, small and medium enterprises (MSMEs) across all locations of the state; the review of MFIs should consider the following criteria: (a) model applied, (b) international rating, (c) presence and experience in Rivers State, (d) number of

years in operation, (e) loan recovery rate, (f) size of the customer base (in Nigeria and Rivers State separately), (g), capacity building approach embedded in their model, (h) ICT platform used, (i) sectors of coverage and relevance to Rivers State's economy, (j) Corporate Governance and Management structure, (k) the suitability of any (or all) of the MFIs to become candidate of the RVSG's investment up to 10% shareholding in any of those institutions;

f) The composition of the RIMA Board (announced but not sworn in) vis-à-vis the provisions of the RIMA law and make recommendations either on board composition's amendments or law's amendments based on good practice.
g) The law vis-à-vis good practice principles in microfinance and provide recommendations for eventual amendments based on any revisions to the model proposed;
h) All other material findings and recommendations incidental to this Audit

Requirements

- Financial and management audit expertise and prior experience of audits of this kind
- Knowledge and experience of good practice microfinance should be proved as part of the audit team's composition

Timeframe

The audit should be conducted within a thirty-day time frame during the months of July and August 2009. Comprehensive audit report should be submitted no later than 20th August 2009.

Contact

For further information please contact the Secretary to the Rivers State Government

RIVERS STATE

MICRO-FINANCE AGENCY LAW

NO. 6 OF 2008

Assented to this .... day of 2008

....

Rt. Hon. Chibuike Rotimi Amaechi
Executive Governor of Rivers State of Nigeria

GOVERNMENT OF RIVERS STATE OF NIGERIA

A Law to establish The Rivers State Microfinance Agency and for other Matters Connected therewith

{ } Commencement

BE IT ENACTED by the House of Assembly of *Rivers* State of Nigeria as follows: *Enactment*

ablishment of Rivers State Microfinance Agency

Establishment

.) There is established the Rivers State Microfinance Agency (referred to in this Law as "the Agency").

(2) The Agency shall:-

a. have its Head Office in Port Harcourt and offices in all the Local Government Areas of the state; and

b. Shall be supervised by the Office of the Governor of the State.

(3) The Agency –

(a) is a body corporate with perpetual succession and a common seal;

(b) may sue or be sued in its corporate name and may acquire, hold and dispose of real and personal property; and

(c) shall exercise the functions assign to it by this law.

) **Establishment and Composition of the Board of Directors.**

(1) The Governing Body of the Agency shall be a Board of Directors (referred to in this Law as "the Board").

(2) The Board shall consist of: - Board of Directors.

(a) a part time Chairman who shall be an indigene of Rivers State with an impeccable character and integrity with requisite academic qualifications and cognate experience in finance or banking and administration;

(b) a Managing Director who shall be the Chief Executive Officer and must possess relevant skill and experience commensurate with a comparable position in the financial service sector and at least 15 years post graduation experience in finance or banking;

(c) one representative from Ministry of Finance Incorporated not below the rank of an Assistant Director;

(d) two (2) other members who shall have experience in Financial Management or related fields, one of whom shall be a representative of an equity contributor if any.

(3) The Chairman and members of the Board shall be appointed by the Governor.

(4) Membership of the Board shall be restricted to professionals and technocrats from the Public and Private sector.

The Board shall appoint a Secretary who shall: -

Appointment of Secretary

i. have a qualification and experience that is appropriate for a person required to perform the functions of his or her office and shall be in charge of the secretariat of the Agency;

ii. act as secretary to the Board;

iii. be responsible for correspondence of the Agency;

iv. make arrangements for meeting of the Board;

v. prepare the agenda and take minutes of meeting of the Board; and

vi. perform other functions that the Board or Managing Director may assign to him or her.

)

enure of office, removal and remuneration of members of the Board

Tenure of Office

) The Chairman, Managing Director and other members of the Board shall hold office for a period of 4 years and may be eligible for re-appointment for a further term as may be determined by the Governor.

) A Board member shall be removed from office if he has –

(a) become incapable of discharging the functions of his office by reason of mental or bodily infirmity;

(b) been convicted of an offence which involves dishonesty and /or corruption;

(c) been involved in any act that may be considered inimical to the interest of the Agency;

(d) been declared bankrupt by a Court of Law.

Subject to the approval of the Governor, members of the Board shall be paid remuneration and allowance as may be determined by the Board upon the recommendation of the Managing Director/Chief Executive Officer.

Functions of the Board.

The Board shall : -

(1) Provide basic financial requirements to under-privileged Rivers indigenes who are involved in legitimate micro small and medium scale activities in both urban and rural areas and who cannot normally benefit from the services of the orthodox banking system due to their inability to provide collateral or security;

(2) Ensure that microfinance funds are distributed all over the State through designated micro-finance banks by spreading its services to every Local Government Area in the State and by targeting every commercially active micro-entrepreneur in the State;

(3) Monitor the records of the Rivers State Microfinance Fund established under this Law and maintain direct access to beneficiaries to ensure the receipt of funds;

(4) Collaborate with local and foreign development finance agencies to co-fund the Rivers State Microfinance Fund, attract people-centered development projects and implement and co-ordinate micro finance programmes;

(5) Provide corporate governance, register, monitor and manage the Rivers State Microfinance Fund;

(6) The Board shall submit its:-
   (a) quarterly reports to the Governor through the Ministry of Finance; and Quarterly Report
   (b) annual report to the State House of Assembly not later than 60 days after the end of each financial year.

(7) Ensure measurable improvements to the quality of life of benefitting microfinance entrepreneurs in the State by conducting impact assessment surveys and receive periodic reports from service providers in order to ascertain their performance;

(8) Ensure that the responsibility and objectives of the Agency are achieved;

9) Function in a transparent and open manner;

0) Incorporate a Limited Liability Company specially for the purpose of effectively implementing the provisions of this law.

.fice of the Managing Director and other Staff of the Agency

.) The Managing Director shall;

a be the Chief Executive Officer of the Agency;

b. be responsible for the management of the affairs of the Agency;

c. be responsible for co-ordinating the programmes and activities of the Agency;

d. be for the implementation of the policies and decisions of the Board and for the administration, organization and control of employees of the Agency; and

responsible

e. Perform other duties that may be assign to him or her by the Board.

) The Board shall employ such number of staff as required and may engage reputable and competent consultants in the Micro – Finance and allied development services for the purpose of effectively implementing the provisions of this law.

The staff of the Agency shall be paid remuneration and allowance as applicable to officers of equivalent rank in the public service of the state or as may at any time be determined by the Board.

Employment under this section must be in accordance with the provisions of section 14 (4) of the constitution of the Federal Republic of Nigeria 1999.

e-Off Loan and Equity

The State Government shall provide an interest free take-off loan to cover the first two (2) of the operational and administrative expenses of the Agency.

The Agency shall subsequently defray its operational and administrative expenses from income generated through its operations.

The Rivers State Government shall contribute an:-
(a) initial equity as it considers appropriate for the Agency; and
(b) amount not exceeding one percent (1%) of the Capital Budget of the State.

Meetings and other proceedings of the Board

(1) The Board shall meet for the conduct of its business at such times and places as the Board may decide after reasonable notice have been given but shall meet at least once every month. — Meetings of The Board

(2) The Chairman may, and shall on the request in writing of not less than three members of the Board, call an extraordinary meeting of the Board at such time and place as he may determine.

(3) The Chairman shall preside at all meetings of the Board and in his or her absence; any member of the Board elected by members present at the meeting. ~~shall preside~~.

(4) The quorum at a meeting of the Board shall consist of the Chairman or the person presiding and one third ($1/3rd$) of other members. — Quorum

~~E~~stablishment of the Investment Committee

) The Board shall set up a Committee to be known as Investment Committee (referred to in this Law as "Investment Committee") which membership shall be determined by the Board. Investment committee

) The Committee shall be headed by a chairman who shall be elected from among its members.

) A member of the Committee shall be appointed based on cognate experience in public or private equity practice ~~as a yardstick~~

~~Fu~~nctions of the Committee

~~Th~~e Committee shall be responsible for –

Evaluating all investment proposals and make recommendations to Board; and

~~Any~~ Taking decisions on –

) (a) the utilization and investment of the fund; and

(b) loan capital applications by the service providers.

Evaluating and reporting to the Board the Impact of the fund in respect of poverty reduction in the State

Advising the Board on Micro – Finance activities and programmes, with a view to raising awareness among the populace on the availability of micro – Finance facilities.

The Governor shall on the recommendation of the Board approve partners or third parties to invest in the Equity of the Agency at a percentage which shall not exceed one third ($1/3^{rd}$) of the State, Equity holding.

Equity Investor

(5) The Agency shall pay dividend based on equity holdings from its annual declared profit to:

Payment of Dividend

(a) Rivers State Government through Ministry of Finance Incorporated; and

(b) Other investors appointed under subsection 4 of this section.

(6) The commencement date for paying dividend subject to this section shall be dependent on the profit turnover of the Agency, and shall not commence until two (2) years after the repayment of the take – off loan.

Establishment of the Rivers State Microfinance Fund

(1) The Agency shall establish a Fund to be known as the Rivers State Microfinance Fund (referred to in this Law "as the Fund"), which shall provide operational funds to service providers who shall in turn grant loans directly to entrepreneurs.

(2) The Fund shall be registered and run as a limited partnership with the State Government as the Principal Partner and other eligible third party investors as Limited Partners.

(3) The rights, obligations and entitlements of all investors in the Funds shall subject to the provisions of this Law, be provided for in a partnership agreement that would be executed by all investing partners.

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(4) The Fund shall be a profit centre within the Agency and shall provide for a commercial fund, which is to provide wholesale debt capital to Microfinance service providers such as regulated microfinance banks and microfinance entrepreneurs.

(5) The Fund shall be derivable as follows:

(a) a once and for all amount, to be determined by the Governor shall be paid into the fund as take-off contribution;

(b) revenue generated through administrative charges, management fees and other levies;

(c) funds and other commercial funding raised by the Agency in the general course of business subject to conditions that may be laid down by the Board; and

(d) any other money accruing to the Agency from other lawful sources.

5) All the decisions at a meeting of the Board shall be determined by a simple majority of members present and voting, and where the votes are equal, the Chairman or the person presiding shall have a second or casting vote.

The Board may request the attendance of any person to act as adviser at any meeting of the Board and that person while so attending shall have all the powers of a member except that he or she shall not vote on any question and his or her presence at the meeting shall not count towards the constitution of a quorum.

The minutes of all meetings of the Board shall be kept by the Secretary appointed under section 2(4) of this law and shall be signed by the Chairman of the Board and kept in the custody of the secretary.

The fixing of the seal of the Agency shall be authenticated by the signature of the chairman and the Managing Director of the Agency.

Subject to this section, the Board may regulate its own procedure.

Duty to disclose

0) Any member of the Board who has any interest, whether direct or indirect, in any body whether corporate or incorporate, doing business or proposing to do business with the Agency, shall disclose in writing to the Board the nature of his interest and shall, unless the Board otherwise directs, be disqualified from taking part in all deliberations or decisions of the Board regarding the question of whether or not the Agency shall do business with that body.

1) Any member of the Board who fails to make the disclosure as required in this law ~~and its later discovered that he or she has interest~~, may be removed from the Board.

nnual Estimates and Accounts

) The Board shall prepare and submit to the Governor a detailed estimate of income and expenditure of the Agency for the next financial year not later than 60 days before the end of its financial year.

2) The Agency shall keep proper books of Accounts in respect of its transactions in such form as the External Auditor may approve.

3) The accounts shall be audited annually by an External Auditor appointed by the Board.

nnual Report

he Board shall after the end of each financial year but within ninety (90) ays after the termination of that year submit to;

he Governor through the Commissioner for Finance, who shall lay it before e State Executive Council;

ivers State House of Assembly

annual report dealing generally with the activities and operations of the gency within that year, which shall without prejudice to the generality of e foregoing include: -

copy of the audited account of the Agency together with the auditors report; d

e External Auditor's comment on the account of the Agency.

ithout prejudice to subsection (1) of this section , the Board may submit h other reports to the Governor on matters of expediency or urgency lating to its function under this law as the Board may from time to time etermine.

onditions for Grant of Loan

person who desires to obtain a loan from the Agency must be of good aracter and shall in addition to other requirements of the Agency, present a tter each from two guarantors who must be reputable and responsible tizens of the State;

cooperative society desiring to obtain a loan from the Agency must be gistered with Rivers State Directorate of Co-operative Development.

e Rivers State Directorate of Co-operative Development shall;

ecommend Co-operatives Societies who wish to obtain loan from the gency;

onitor Co-operative Societies who are beneficiaries of the loan and report findings to the Agency.

wer to make Regulations

e Board may make regulations generally for carrying into effect the rposes of this Law and especially for the following –

) rates of interest to be charged;

) form and conditions for application; and other matters that may be incidental to carrying into effect the purpose of this Law.

pretation

Law –

ernor" means the Governor of Rivers State.

o finance Service providers" includes Microfinance banks, domestic foreign development finance organization, non-governmental finance Institutions, Unions, Co-operative Societies and such other ies' set up with the objective of providing financial services to poor and ncome earners, ~~of micro-entrepreneurs~~.

e" means Rivers State of Nigeria.

ion and Commencement

aw may be cited as the Rivers State Microfinance Agency Law, 2008

This printed impression has been carefully compared by me with the Rivers State Micro-Finance Agency Bill No.6 of 2008 which has been passed by the Rivers State House of Assembly and found by me to be a true and correct printed copy of the said Bill.

....	....
RT. HON. TONYE EZEKIEL HARRY	**MR. E. A. OGELE**
SPEAKER	**CLERK**
RIVERS STATE HOUSE OF ASSEMBLY	RIVERS STATE HOUSE OF ASSEMBLY

A

BILL

FOR

A LAW TO ESTABLISH THE LAGOS STATE MICROFINANCE INSTITUTION AND FOR CONNECTED PURPOSES

THE LAGOS STATE HOUSE OF ASSEMBLY enacts as follows:

1. **Establishment of Lagos State Microfinance Institution.**

(1) There is established under this Law the Lagos State Microfinance Institution (referred to in this Law as "the Institution").

(2) The Institution -

(a) shall be a body corporate with perpetual succession and a common seal;

(b)

(b) may sue or be sued in its corporate name and may acquire hold and dispose of moveable and immovable property for the purposes of carrying out its functions under this Law.

2. **Establishment and Composition of the Governing Board.**

(1) The governing body of the Institution shall be a Board of Directors (referred to in this Law as "the Board").

(2) The Board shall be responsible for administering the affairs of the Institution and shall consist of-

(a) The Executive Chairman of the institution who shall possess relevant skill and experience commensurate to a comparable position in the financial service sector with particular bias in management accounting skill or private equity expertise;

(b) The Managing Director of the Institution;

(c) The Commissioner for Finance or his representative; and

(d) two (2) other members who shall be experienced and dedicated individuals.

(3) The members of the Board shall be appointed by the Governor and shall, with the exception of the Executive Chairman and Managing Director hold office on part time basis.

3. **Tenure of office, removal and remuneration of members of the Board.**

(1) The members of the Board shall hold office for a period of 4 years and may be eligible for re-appointment for a further term as may be determined by the Governor.

(2) A member shall be removed from office if he has-

(a) become incapable, by reason of mental or bodily infirmity, of discharging his duties;

(b) been convicted of an offence which involves moral turpitude;

(c) been involved in any act that may be considered inimical to the interest of the Institution or the State.

(3) Subject to the ratification of the Governor, members of the Board shall be paid such remuneration and allowance as may be determined by the Board upon the recommendation of the chairman.

4. **Functions of the Institution.**

The Institution shall -

(1) Provide basic financial requirements to under-privileged Nigerians who are involved in legitimate microfinance activities in both urban and rural areas and who cannot normally benefit from the services of the orthodox banking system due to their inability to provide collateral/security;

(2) To ensure that microfinance funds are distributed all over the State by spreading its services to every Local Government Area in the State and downward diffusion by targeting every commercially active micro-entrepreneur in the State;

(3) Monitor the records of the Lagos State microfinance fund established under this Law and maintain direct access to beneficiaries to ensure the receipt of funds;

(4) Collaborate with local and foreign development finance agencies to co-fund the Lagos State Microfinance Fund, attract people-centred development projects and implement and co-ordinate microfinance programmes;

(5) Register and monitor the funds;

(6) Provide corporate governance and manage the Lagos State Microfinance Fund;

(7) Ensure measurable improvements to the quality of life of microfinance entrepreneurs in the State by conducting impact assessment surveys and receive periodic reports from service providers in order to ascertain their performance.

(8) Promote the establishment of a microfinance institution in Lagos State.

5. **The Secretary and other Staff of the Institution**

(1) There shall be a Secretary who shall be appointed by the Board for the purpose of assisting the Institution in the discharge of it functions under this Law.

(2) The Institution shall appoint such number of professional and non-professional Staff including reputable and competent consultants in the Microfinance and allied development services for the purpose of effectively discharging its functions under this Law.

(3) The staff of the Institution shall be paid such remuneration and allowance as may be determined by the Board.

6. **Take-Off Grant**

(1) The State Government shall provide the take-off fund to run the operational and administrative expenses of the Institution. The funds will be given to the Lagos State Microfinance Institution as a loan to cover the first two (2) years of its operational and administrative functions.

(2) The Institution shall subsequently defray its operational and administrative expenses from income generated through its operations.

7. **Establishment and Composition of the Lagos State Microfinance Fund**

(1) The Institution shall establish a Fund to be known as the Lagos State Microfinance Fund (referred to in this Law "as the Fund") which shall provide operational funds to service providers who shall in turn grant loans directly to entrepreneurs.

(2) The Fund shall be registered and run as a limited partnership with the State Government as the Principal Partner and other eligible third party investors as Limited Partners.

(3) The rights, obligations and entitlements of all investors in the Funds shall subject to the provisions of this Law, be provided for in a partnership agreement that would be executed by all investing partners.

(4) The Fund shall be a profit centre within the Institution and it shall provide for a commercial Fund which is to provide wholesale debt capital to Microfinance service providers such as regulated Microfinance Banks.

(5) The Fund shall be derivable as follows:-

(a) an amount to be budgeted for an appropriated by the Lagos State House of Assembly;

(b) revenue generated through administrative charges, management fees and other levies;

(c) funds and other arms-length commercial funding raised by the Institution in the general course of business subject to such conditions as may be laid down by the Board; and

(d) any other money accruing to the Institution from any other sources

(6) The Fund shall be managed and administered on the basis of private equity principles by an experienced Fund Manager who shall be appointed by the Board.

8. **Establishment of the Investment Committee**

(1) The Board shall set up a Committee to be known as the investment Committee (referred to in this Law as "the Committee") which shall consist of at least five (5) members but the membership of the Committee shall not exceed seven (7).

(2) The Committee shall be headed by a Chairman who shall be elected from among its members.

(3) The Committee shall comprise of Part-time members as follows:-

(a) 3 members of the Board which shall include the Managing Director of the Institution and the Fund Manager;

(b) any person with cognate experience in private equity practice;

(c) not more than 2 persons with relevant professional qualification and experience currently serving in the financial sector; and

(d) a representative of the limited partners investing in the Fund.

(4) Member of the Committee shall hold office for a period not exceeding two (2) years and may be re-appointed for further terms as may be determined by the Governor.

(5) Subject to the ratification of the Governor, members of the Committee shall be paid such remuneration and allowances as may be determined by the Board.

(6) A member of the Committee shall be removed by the Board in he becomes incapable of discharging his duties or he is convicted of an offence involving gross misconduct or has been involved in any act inimical to the interest of the Institution or the State.

9. **Functions of the Committee**

The Committee shall be responsible for -

(1) Considering and approving all investment proposals forwarded to the Committee by the Board; and

(2) Any decision on -

(a) the utilization and investment of the fund; and

(b) loan capital applications by the service providers.

10. **Independence of the Board and Committee of the Institution.**

(1) The Board and Committee established pursuant to the provisions of this Law shall carry out their functions independently of each other particularly in the areas of their operation and decision making.

(2) Notwithstanding the provisions of sub-section (1) of this Section the Board shall be the apex authority supervising the implementation of the Microfinance activities of the Institution as enumerated under this Law.

11. **Meetings and other proceedings of the Board**

(1) The Chairman of the Board may at any time after reasonable notice has been given convene the meeting of the Board which shall be held at such time and place as may be determined by him.

(2) The Chairman shall preside at all meetings of the Board when he is present and in his absence, such other member of the Board present whom the members appoint shall preside.

(3) The quorum for a meeting of the Board shall be two-thirds of its members.

(4) All the decisions at a meeting of the Board shall be by a majority of votes of the members present and voting, being members who are entitled to vote at such meetings.

(5) The provisions of this section with respect to the proceeding at meetings shall apply to the Board and the Committee of the Institution except that the Committee shall hold meetings at least once a month or as often as may be required to enable it deliberate on loan capital applications of service providers.

12. **Annual Estimates and Accounts**

(1) The Institution shall prepare and submit to the Government an estimate of its income and expenditure for the next preceding year not later than 30th June of each year.

(2) The Institution shall keep proper accounts in respect of its transactions in such form as may conform to best commercial and accounting standards.

(3) The accounts shall be audited annually by an auditor appointed from the list of auditors provided by the State Auditor – General.

13. **Annual Report**

The Institution shall prepare and submit to the Executive Council through the Commissioner not later than the 30th June of each year a report on its activities in the subsequent year and shall include in such report a copy of the audited account of the Institution and the auditor's report on same.

14. **Power to make Regulations**

The Board may subject to the approval of the Governor make regulations generally for carrying into effect the purposes of this Law and especially for the following -

(a) rates to be charged as interest;

(b) form and conditions for application; and

(c) such other matters as may be incidental to the carrying into effect the purpose of this Law.

15. In this Law unless it is otherwise expressly provided for or the context otherwise requires -
"Commissioner" means the Commissioner for Finance in Lagos State.
"Executive Council" means the Executive Council of Lagos State
"Governor" means the Governor of Lagos State.
"Microfinance Service providers" includes Microfinance banks, domestic and foreign development finance organization, non-governmental Microfinance Institutions, Unions, Co-operative societies and such other societies setup with the objective of providing financial services to poor and low-income earners or micro-entrepreneurs.
"State" means Lagos State of Nigeria.

16. **Citation and Commencement**

This Law may be cited as the Lagos State Microfinance Institution Law and shall come into force on the ....day of 2008

....

BABATUNDE RAJI FASHOLA (SAN)
Governor of Lagos State

MICROFINANCE POLICY, REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

CENTRAL BANK OF NIGERIA,
ABUJA,

DECEMBER 2005

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ANNEX I : Distinguishing Features between Microfinance Banks and Universal Banks

LIST OF ACRONYMS

ACGS -	Agricultural Credit Guarantee Scheme
BOFIA -	Bank and Other Financial Institutions Act
CAC -	Corporate Affairs Commission
CAMA -	Companies and Allied Matters Act
CBN -	Central Bank of Nigeria
CBS -	Community Banks
FEAP -	Family Economic Advancement Programme
LGA -	Local Government Area
MFB -	Micro Finance Bank
MFBs -	Micro Finance Banks
MFIs -	Micro Finance Institutions
MSME -	Micro, Small and Medium Enterprises
NACB -	Nigerian Agricultural Cooperative Bank Limited
NACRDB-	Nigerian Agricultural Co-operative and Rural Development Bank Limited
NAIC -	Nigerian Agricultural Insurance Corporation
NAPEP -	National Poverty Eradication Programme
NDE -	National Directorate of Employment
NDIC -	Nigerian Deposit Insurance Corporations
NEEDS -	National Economic Empowerment and Development Strategy
NGO -	Non Governmental Organization
NMFCC -	National Micro Finance Consultative Committee
PBN -	Peoples Bank of Nigeria
ROSCAs-	Rotating Savings and Credit Associations
RRF -	Refinancing and Rediscounting Facility
SHGs -	Self Help Groups
SMEEIS-	Small and Medium Enterprises Equity Investment Scheme
VAT -	Value Added Tax

MICROFINANCE POLICY, REGULATORY AND SUPERVISORY FRAMEWORK FOR NIGERIA

1.0 INTRODUCTION

1.1 Robust economic growth cannot be achieved without putting in place well focused programmes to reduce poverty through empowering the people by increasing their access to factors of production, especially credit. The latent capacity of the poor for entrepreneurship would be significantly enhanced through the provision of microfinance services to enable them engage in economic activities and be more self-reliant; increase employment opportunities, enhance household income, and create wealth.

1.2 Microfinance is about providing financial services to the poor who are traditionally not served by the conventional financial institutions. Three features distinguish microfinance from other formal financial products. These are: (i) the smallness of loans advanced and or savings collected, (ii) the absence of asset-based collateral, and (iii) simplicity of operations.

1.3 In Nigeria, the formal financial system provides services to about 35% of the economically active population while the remaining 65% are excluded from access to financial services. This 65% are often served by the informal financial sector, through Non-Governmental Organization (NGO)-microfinance institutions, moneylenders, friends, relatives, and credit unions. The non-regulation of the activities of some of these institutions has serious implications for the Central Bank of Nigeria's (CBN's) ability to exercise one aspect of its mandate of promoting monetary stability and a sound financial system.

1.4 A microfinance policy which recognizes the existing informal institutions and brings them within the supervisory purview of the CBN would not only enhance monetary stability, but also expand the financial infrastructure of the country to meet the financial requirements of the Micro, Small and Medium Enterprises (MSMEs). Such a policy would create a vibrant microfinance sub-sector that would be adequately integrated into the mainstream of the national financial system and provide the stimulus for growth and development. It would also harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions, promote appropriate regulation, supervision and adoption of best practices. In these circumstances, an appropriate policy has become necessary to develop a long-term, sustainable microfinance sub-sector.

1.5 The purpose of this policy paper, therefore, is to present a National Microfinance Policy Framework for Nigeria that would enhance the provision of diversified microfinance services on a long-term, sustainable basis for the poor and low income groups. The policy would create a platform for the establishment of microfinance banks; improve the CBN's regulatory/supervisory performance in ensuring monetary stability and liquidity management; and provide an appropriate machinery for tracking the activities of development partners in the microfinance sub-sector in Nigeria.

1.6 This policy has been prepared in exercise of the powers conferred on the Central Bank of Nigeria by the provisions of Section 28, sub-section (1) (b) of the *CBN Act 24 of 1991* [as amended] and in pursuance of the provisions of Sections 56-60(a) of the *Banks and Other Financial Institutions Act [BOFIA] 25 of 1991* [as amended].

1.7 The policy paper has benefitted from wide consultations, through the conduct of a baseline survey on the activities of microfinance institutions (MFIs) in Nigeria, national and international consultative stakeholders' fora, as well as study tours to India, Pakistan, Indonesia, Philippines and Uganda.

2.0 OVERVIEW OF MICROFINANCE ACTIVITIES IN NIGERIA

2.1 The practice of microfinance in Nigeria is culturally rooted and dates back several centuries. The traditional microfinance institutions provide access to credit for the rural and urban, low-income earners. They are mainly of the informal Self-Help Groups (SHGs) or Rotating Savings and Credit Associations (ROSCAs) types. Other providers of microfinance services include savings collectors and co-operative societies. The informal financial institutions generally have limited outreach due primarily to paucity of loanable funds.

2.2 In order to enhance the flow of financial services to Nigerian rural areas, Government has, in the past, initiated a series of publicly-financed micro/rural credit programmes and policies targetted at the poor. Notable among such programmes were the Rural Banking Programme, sectoral allocation of credits, a concessionary interest rate, and the Agricultural Credit Guarantee Scheme (ACGS). Other institutional arrangements were the establishment of the Nigerian Agricultural and Co-operative Bank Limited (NACB), the National Directorate of Employment (NDE), the Nigerian Agricultural Insurance Corporation (NAIC), the Peoples Bank of Nigeria (PBN), the Community Banks (CBs), and the Family Economic Advancement Programme (FEAP). In 2000, Government merged the NACB with the PBN and FEAP to form the Nigerian Agricultural Co-operative and Rural Development Bank Limited (NACRDB) to enhance the provision of finance to the agricultural sector. It also created the National Poverty Eradication Programme (NAPEP) with the mandate of providing financial services to alleviate poverty.

2.3 Microfinance services, particularly, those sponsored by government, have adopted the traditional supply-led, subsidized credit approach mainly directed to the agricultural sector and non-farm activities, such as trading, tailoring, weaving, blacksmithing, agro-processing and transportation. Although the services have resulted in an increased level of credit disbursement and gains in agricultural production and other activities, the effects were short-lived, due to the unsustainable nature of the programmes.

2.4 Since the 1980s, Non-Governmental Organizations (NGOs) have emerged in Nigeria to champion the cause of the micro and rural entrepreneurs, with a shift from the supply-led approach to a demand-driven strategy. The number of NGOs involved in microfinance activities has increased significantly in recent times due largely to the inability of the formal financial sector to provide the services needed by the low income groups and the poor, and the declining support from development partners amongst others. The NGOs are charity, capital lending and credit-only membership based institutions. They are generally registered under the *Trusteeship Act* as the sole package or part of their charity and social programmes of poverty alleviation. The NGOs obtain their funds from grants, fees, interest on loans and contributions from their members. However, they have limited outreach due, largely, to unsustainable sources of funds.

3.0 JUSTIFICATION FOR THE ESTABLISHMENT OF MICROFINANCE BANKS

From the appraisal of existing microfinance-oriented institutions in Nigeria, the following facts have become evident:

3.1 Weak Institutional Capacity: The prolonged sub-optimal performance of many existing community banks, microfinance and development finance institutions is due to incompetent management, weak internal controls and lack of deposit insurance schemes. Other factors are poor corporate governance, lack of well defined operations and restrictive regulatory/supervisory requirements.

3.2 Weak Capital Base: The weak capital base of existing institutions, particularly the present community banks, cannot adequately provide a cushion for the risk of lending to micro entrepreneurs without collateral. This is supported by the fact that only 75 out of over 600 community banks whose financial statements of accounts were approved by the CBN in 2005 had up to ₦20 million shareholders' funds unimpaired by losses. Similarly, the NACRDB, with a proposed authorized share capital of ₦50.0 billion, has ₦10.0 billion paid up capital and only ₦1.3 billion shareholders' funds unimpaired by losses, as at December, 2004.

3.3 **The Existence of a Huge Un-Served Market:** The size of the un-served market by existing financial institutions is large. The average banking density in Nigeria is one financial institution outlet to 32,700 inhabitants. In the rural areas, it is 1:57,000, that is less than 2% of rural households have access to financial services. Furthermore, the 8 (eight) leading Micro Finance Institutions (MFIs) in Nigeria were reported to have mobilized a total savings of ₦222.6 million in 2004 and advanced ₦2.624 billion credit, with an average loan size of ₦8,206.90. This translates to about 320,000 membership-based customers that enjoyed one form of credit or the other from the eight NGO-MFIs. Their aggregate loans and deposits, when compared with those of community banks, represented percentages of 23.02 and 1.04, respectively. This, reveals the existence of a huge gap in the provision of financial services to a large number of active but poor and low income groups. The existing formal MFIs serve less than one million out of the over 40 million people that need the services. Also, the aggregate micro credit facilities in Nigeria account for about 0.2 percent of GDP and less than one percent of total credit to the economy.

The effect of not appropriately addressing this situation would further accentuate poverty and slow down growth and development.

3.4 **Economic Empowerment of the Poor, Employment Generation and Poverty Reduction:** The baseline economic survey of Small and Medium Industries (SMIs) in Nigeria conducted in 2004, indicated that the 6,498 industries covered currently employ a little over one million workers. Considering the fact that about 18.5 million (28% of the available work force) Nigerians are unemployed, the employment objective/role of the SMIs is far from being reached. One of the hallmarks of the National Economic Empowerment and Development Strategy (NEEDS) is the empowerment of the poor and the private sector, through the provision of needed financial services, to enable them engage or expand their present scope of economic activities and generate employment. Delivering needed services as contained in the Strategy would be remarkably enhanced through additional channels which the microfinance bank framework would provide. It would also assist the SMIs in raising their productive capacity and level of employment generation.

3.5 **The Need for Increased Savings Opportunity:** The total assets of the 615 community banks which rendered their reports, out of the 753 operating community banks as at end-December 2004, stood at ₦34.2 billion. Similarly, their total loans and advances amounted to ₦11.4 billion while their aggregate deposit liabilities stood at ₦21.4 billion for the same period. Also, as at end-December 2004, the total currency in circulation stood at ₦545.8billion, out of which ₦458.6billion or 84.12 per cent was outside the banking system. Poor people can and do save, contrary to general misconceptions. However, owing to the inadequacy of appropriate savings opportunities and products, savings have continued to grow at a very low rate, particularly in the rural areas of Nigeria. Most poor people keep their resources in kind or simply under their pillows. Such methods of keeping savings are risky, low in terms of returns, and undermine the aggregate volume of resources that could be mobilized and channeled to deficit areas of the economy. The microfinance policy would provide the needed window of opportunity and promote the development of appropriate (safe, less costly, convenient and easily accessible) savings products that would be attractive to rural clients and improve the savings level in the economy.

3.6 **The Interest of Local and International Communities in Microfinancing:** Many international investors have expressed interest in investing in the microfinance sector. Thus, the establishment of a microfinance framework for Nigeria would provide an opportunity for them to finance the economic activities of low income groups and the poor.

3.7 **Utilization of SMEEIS Fund:** As at December, 2004, only ₦8.5 billion (29.5%) of the ₦28.8 billion Small and Medium Enterprises Equity Investment Scheme (SMEEIS) fund had been utilized. Moreover, 10% of the fund meant for micro credit had not been utilized due to lack of an appropriate framework and confidence in the existing institutions that would have served the purpose. This policy provides an appropriate vehicle that would enhance the utilization of the fund.

4.0 THE MICROFINANCE POLICY

4.1 Policy Objectives

The specific objectives of this microfinance policy are the following:

i. Make financial services accessible to a large segment of the potentially productive Nigerian population which otherwise would have little or no access to financial services;

ii. Promote synergy and mainstreaming of the informal sub-sector into the national financial system;

iii. Enhance service delivery by microfinance institutions to micro, small and medium entrepreneurs;

iv. Contribute to rural transformation; and

v. Promote linkage programmes between universal/development banks, specialized institutions and microfinance banks.

4.2 Policy Targets

Based on the objectives listed above, the targets of the policy are as follows:

i. To cover the majority of the poor but economically active population by 2020 thereby creating millions of jobs and reducing poverty.

ii. To increase the share of micro credit as percentage of total credit to the economy from 0.9 percent in 2005 to at least 20 percent in 2020; and the share of micro credit as percentage of GDP from 0.2 percent in 2005 to at least 5 percent in 2020.

iii. To promote the participation of at least two-thirds of state and local governments in micro credit financing by 2015.

iv. To eliminate gender disparity by improving women's access to financial services by 5% annually; and

v. To increase the number of linkages among universal banks, development banks, specialized finance institutions and microfinance banks by 10% annually.

4.3 Policy Strategies

A number of strategies have been derived from the objectives and targets as follows:

i. License and regulate the establishment of microfinance Banks (MFBs)

ii. Promote the establishment of NGO-based microfinance institutions

iii. Promote the participation of Government in the microfinance industry by encouraging States and Local Governments to devote at least one percent of their annual budgets to micro credit initiatives administered through MFBs.

iv. Promote the establishment of institutions that support the development and growth of microfinance service providers and clients;

i. Strengthen the regulatory and supervisory framework for MFBs;

ii. Promote sound microfinance practice by advocating professionalism, transparency and good governance in microfinance institutions;

iii. Mobilize domestic savings and promote the banking culture among low-income groups;
iv. Strengthen the capital base of the existing microfinance institutions;

v. Broaden the scope of activities of microfinance institutions;

vi. Strengthen the skills of regulators, operators, and beneficiaries of microfinance initiatives;
vii. Clearly define stakeholders' roles in the development of the microfinance sub-sector; and

viii. Collaborate with donors, coordinate and monitor donor assistance in microfinance in line with the provisions of this policy.

5.0 MICROFINANCE BANKS

THE GOALS OF MICROFINANCE BANKS

The establishment of microfinance banks has become imperative to serve the following purposes:

(i) Provide diversified, affordable and dependable financial services to the active poor, in a timely and competitive manner, that would enable them to undertake and develop long-term, sustainable entrepreneurial activities;

(ii) Mobilize savings for intermediation;

(iii) Create employment opportunities and increase the productivity of the active poor in the country, thereby increasing their individual household income and uplifting their standard of living;

(iv) Enhance organized, systematic and focused participation of the poor in the socio-economic development and resource allocation process;

(v) Provide veritable avenues for the administration of the micro credit programmes of government and high net worth individuals on a non-recourse case basis. In particular, this policy ensures that state governments shall dedicate an amount of not less than 1% of their annual budgets for the on-lending activities of microfinance banks in favour of their residents; and

(vi) Render payment services, such as salaries, gratuities, and pensions for various tiers of government.

6.0 POLICY MEASURES AND INSTRUMENTS IN THE ESTABLISHMENT OF THE FRAMEWORK FOR MICROFINANCE BANKS

Private sector-driven microfinance banks shall be established. The banks shall be required to be well-capitalized, technically sound, and oriented towards lending, based on the cash flow and character of clients. There shall be two categories of Micro Finance Banks (MFBs), namely:

(i) Micro Finance Banks (MFBs) licensed to operate **as a unit bank**, and

(ii) Micro Finance Banks (MFBs) licensed to operate in a state.

The recognition of these two categories of banks does not preclude them from aspiring to having a national coverage, subject to their meeting the prudential requirements. This is to ensure an orderly spread and coverage of the market and to avoid, in particular, concentration in areas already having large numbers of financial institutions.

An existing NGO which intends to operate an MFB can either incorporate a subsidiary MFB, while still carrying out its NGO operations, or fully convert into a MFB.

(i) *MFBs Licensed to Operate as a unit bank (a.k.a. Community Banks)*

MFBs licensed to operate as unit banks shall be community- based banks. Such banks can operate branches and/or cash centres subject to meeting the prescribed prudential requirements and availability of free funds for opening branches/cash centres. The minimum paid-up capital for this category of banks shall be ₦20.0 million for each branch.

(ii) *MFBs Licensed to Operate in a State*

MFBs licensed to operate in a State shall be authorized to operate in all parts of the State (or the Federal Capital Territory) in which they are registered, subject to meeting the prescribed prudential requirements and availability of free funds for opening branches. The minimum paid-up capital for this category of banks shall be ₦1.0 billion.

7.0 ORGANIC GROWTH PATH FOR MFBs

7.1 This policy recognizes that the current financial landscape of Nigeria is skewed against Micro, Small and Medium Enterprises (MSMEs) in terms of access to financial services. To address the imbalance, this policy framework shall promote an even spread of microfinance banks, their branches and activities, to serve the un-served but economically active clients in the rural and peri- urban areas.

7.2 The level of spread and saturation of the financial market shall be taken into consideration before approval is granted to an MFB to establish branches across the Local Government Areas and/or States, in fulfilment of the objectives of this policy. Specifically, an MFB shall be expected to have a reasonable spread in a Local Government Area or State before moving to another location, subject to meeting all necessary regulatory and supervisory requirements stipulated in the guidelines. This is to avoid concentration in already served areas and to ensure extension of services to the economically active poor, and to micro, small and medium enterprises.

7.3 In order to achieve the objectives of an organic growth path, a microfinance bank licensed to operate as a unit bank shall be allowed to open new branches in the same State, subject to meeting the prescribed prudential requirements and availability of minimum free funds of ₦20.0 million for each new branch. In fulfillment of this requirement, an MFB licensed to operate as a unit bank can attain the status of a State MFB by spreading organically from one location to another until it covers at least two-thirds of the LGAs of that State. When an MFB has satisfactorily covered a state and wishes to start operations in another state, it shall obtain approval and be required to again grow organically by having at least N20 million free funds unimpaired by losses for each branch to be opened in the new state.

7.4 An MFB licensed to operate in a State shall be allowed to open a branch in another State, subject to opening branches in at least two-thirds of the local governments of the State it is currently licensed to operate in the provision of ₦20.0 million free funds and, if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines.

7.5 The regulations to be issued from time to time shall be such that would encourage the organic growth path of the MFBs at all times.

7.6. However, an MFB may wish to start operations as a State Bank from the beginning and therefore not wish to grow organically from branch to branch. Such an MFB may be licensed and authorized to operate in all areas of the state from the beginning subject to the provision of a total capital base of N 1 billion. In other words, the preferred growth path for MFBs is the branch by branch expansion to become State Banks. But anyone wishing to start as a big state institution from the beginning can do so subject to availability of N1 billion and proven managerial competence.

8.0 OWNERSHIP OF MICROFINANCE BANKS

8.1 Microfinance banks can be established by individuals, groups of individuals, community development associations, private corporate entities, or foreign investors. Significant ownership diversification shall be encouraged to enhance good corporate governance of licensed MFBs.

Universal banks that intend to set up any of the two categories of MFB as subsidiaries shall be required to deposit the appropriate minimum paid-up capital and meet the prescribed prudential requirements and if, in the view of the regulatory authorities, have also satisfied all the requirements stipulated in the guidelines.

8.2 No individual, group of individuals, their proxies or corporate entities, and/or their subsidiaries, shall establish more than one MFB under a different or disguised name.

9.0 PARTICIPATION OF EXISTING FINANCIAL INSTITUTIONS IN MICROFINANCE ACTIVITIES

9.1 **Universal Banks**: Universal banks currently engaging in microfinance services, either as an activity or product and do not wish to set up a subsidiary, shall be required to set up a department/ unit for such services and shall be subjected to the provisions of the MFB regulatory and supervisory guidelines.

9.2 **Community Banks**: All licensed community banks, prior to the approval of this policy, shall transform to microfinance banks licenced to operate as a unit bank on meeting the prescribed new capital and other conversion requirements within a period of 24 months from the date of approval of this policy. Any community bank which fails to meet the new capital requirement within the stipulated period shall cease to operate as a community bank. A community bank can apply to convert to a microfinance bank licenced to operate in a State if it meets the specified capital and other conversion requirements.

9.3 **Non-Governmental Organization - Micro Finance Institutions (NGO-MFIs):** This policy recognizes the existence of credit-only, membership-based microfinance institutions which shall not be required to come under the supervisory purview of the Central Bank of Nigeria. Such institutions shall engage in the provision of micro credits to their targeted population and *not* to mobilize deposits from the general public.

The registered NGO-MFIs shall be required to forward periodic returns on their activities to the CBN.

NGO-MFIs that wish to obtain the operating licence of a microfinance bank shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

9.4 **Transformation of the Existing NGO-MFIs:** Existing NGO-MFIs which intend to operate an MFB can either incorporate a subsidiary MFB while still carrying out its NGO operations or fully convert into an MFB.

NGO-MFIs that wish to convert fully into a microfinance bank must obtain an operating licence and shall be required to meet the specified provisions as stipulated in the regulatory and supervisory guidelines.

10.0 JUSTIFICATION FOR THE CAPITAL REQUIREMENTS

10.1 The present capital base of ₦5 million for community banks has become too low for effective financial intermediation. Indeed, to set up a community bank, at least ₦5 million is required for the basic infrastructure, leaving zero or a negative balance for banking operations. From a survey of community banks, an operating fund of ₦50 million is about the minimum capital (own capital and deposits) a community bank needs to provide effective banking services to its clients. However, it is recognized that since many community banks are based in rural areas, their promoters may not be able to effectively raise ₦50 million as shareholders' funds. Hence, the stipulation of ₦20 million as shareholders' funds for the unit microfinance banks. The banks are expected to engage in aggressive mobilization of savings from micro-depositors to shore up their operating funds.

10.2 A State coverage microfinance bank that would operate multiple branches would be expected to take off with funds sufficient to operate a full branch in at least two-thirds of the Local Government Areas in that State. Hence, a minimum paid-up capital of N1.0 billion shall be required to obtain the licence to operate a State coverage MFB. Expansion to another State shall be subject to the provision of ₦1.0 billion minimum shareholders' funds unimpaired by losses, *and* after opening branches in at least two-thirds of the Local Government Areas of the State it is currently licensed to operate in, *and* if in the view of the regulatory authorities, it has satisfied all the requirements stipulated in the guidelines.

10.3 The experience of other countries sheds light on the level of capitalization required for microfinance banks. In most countries, the level of capitalization depends on the geographical coverage of the banks, and for some countries, even for a particular scope of coverage (district or province), the population and volume of business of the area further determine the level of capitalization. The capitalization requirements in other countries were also considered in arriving at the capitalization levels for the two categories of MFBs in this policy.

11.0 FRAMEWORK FOR THE SUPERVISION OF MICROFINANCE BANKS

11.1 Licensing and Supervision of Microfinance Banks

The licensing of microfinance banks shall be the responsibility of the Central Bank of Nigeria. A licensed institution shall be required to add "microfinance bank"; after its name. All such names shall be registered with the Corporate Affairs Commission (CAC), in compliance with the *Companies and Allied Matters Act (CAMA) 1990*.

11.2 Establishment of a National Microfinance Consultative Committee

A National Microfinance Consultative Committee (NMFCC) shall be constituted by the Central Bank of Nigeria (CBN) to give direction for the implementation and monitoring of this policy. Membership of the Committee shall be determined from time to time by the CBN. The Microfinance Support Unit of the CBN shall serve as the Secretariat to the Committee.

11.3 Credit Reference Bureau

Due to the peculiar characteristics of microfinance practice, a credit reference bureau, which shall provide information on microfinance clients and aid decision making, is desirable. In this regard, the present Credit Risk Management System in the CBN shall be expanded to serve the needs of the microfinance sector.

11.4 Rating Agency

The CBN shall encourage the establishment of private rating agencies for the sub-sector to rate microfinance institutions, especially those NGO-MFIs which intend to transform to microfinance banks.

11.5 Deposit Insurance Scheme

Since MFBs are deposit-taking institutions and in order to reinforce public confidence in them, MFBs shall qualify for the deposit insurance scheme of the Nigeria Deposit Insurance Corporation (NDIC).

11.6 Management Certification Process

In order to bridge the technical skills gap, especially among operators of microfinance banks, the policy recognizes the need to set up an appropriate capacity building programme for MFBs. To this end, the CBN shall put in place a microfinance bank management certification process to enhance the acquisition of appropriate microfinance operational skills of the management team of MFBs. A transition period of twenty four (24) months shall be allowed for the take-off of the programme, with effect from the date of launching the policy.

11.7 Apex Associations of Microfinance Institutions

The establishment of an apex association of microfinance institutions to promote uniform standards, transparency, good corporate practices and full disclosures in the conduct of MFI businesses shall be encouraged.

11.8 Linkage Programme

The policy recognizes the importance of the provision of wholesale funds for microfinance banks to expand their outreach. Pursuant to this, the CBN shall work out the modalities for fostering linkages between universal/ development banks, specialized finance institutions and the microfinance banks to enable the latter source for wholesale funds and refinancing facilities for on-lending to their clients.

11.9 Establishment of a Microfinance Development Fund

In order to promote the development of the sub-sector and provide for the wholesale funding requirements of microfinance banks, a Micro Finance Sector Development Fund shall be set up. The Fund shall provide necessary support for the development of the sub-sector in terms of refinancing facility, capacity building, and other promotional activities. The Fund would be sourced from governments and through soft facilities from the international development financing institutions, as well as multilateral and bilateral development Institutions.

11.10 Prudential Requirements

The CBN recognizes the peculiarities of microfinance practice and shall accordingly put in place appropriate regulatory and prudential requirements to guide the operations and activities of the microfinance banks.

11.11 Disclosure of Sources of Funds

Licensed MFBs shall be required to disclose their sources of funds, in compliance with the *Money Laundering Prohibition Act 2004*.

11.12 Corporate Governance for Microfinance Banks

The board of directors of MFBs shall be primarily responsible for the corporate governance of the microfinance banks. To ensure good governance of the banks, the board of directors shall be responsible for establishing strategic objectives, policies and procedures that would guide and direct the activities of the banks and the means to attain same, as well as the mechanism for monitoring Management's performance. Thus, while management of the day-to-day affairs of the banks shall be the responsibility of the Management team, the board of directors shall, however, be responsible for monitoring and overseeing Management's actions. Consequently, the licensed microfinance banks shall be expected to operate under a diversified and professional board of directors.

12.0 REGULATORY INCENTIVES

12.1 The new window of opportunity for the emerging microfinance banks in bringing financial services to people who never had access to such services before, would require the support of government and those of regulatory authorities. The CBN shall collaborate with the appropriate fiscal authorities in providing a favourable tax treatment of MFBs' financial transactions, such as exemption from value added tax (VAT) on lending, or tax on interest income or revenue.

12.2 Similarly, the principle of exemption from profit tax shall be applied to any MFB that does not distribute its net surplus but ploughs it back and reinvests the surplus to finance more economically beneficial micro, small and medium entrepreneurship.

12.3 Furthermore, a Rediscounting and Refinancing Facility (RRF) shall be made available to MFBs for purposes of providing liquidity assistance to support and promote microfinance programmes. This would enable MFBs that have met the CBN prudential requirements to, on a sustainable basis, provide and render micro credits and other services to their clients.

13.0 THE ROLES AND RESPONSIBILITIES OF STAKEHOLDERS

The roles and responsibilities of stakeholders shall include the following:

13.1 Government

Government shall be responsible for:

(i) Ensuring a stable macro-economic environment, providing basic infrastructures (electricity, water, roads, telecommunications, etc), political and social stability;

(ii) Fostering adequate land titling and other property rights sufficient to serve the collateral needs of borrowers and financial institutions;

(iii) Instituting and enforcing donor and foreign aid guidelines on micro-finance to streamline their activities in line with this policy; and

(iv) Setting aside an amount of not less than 1% of the annual budgets of state governments for on-lending activities of microfinance banks in favour of their residents.

13.2 Central Bank of Nigeria (CBN)

The roles of the CBN shall include the following:

(i) Establishing a National Microfinance Consultative Committee;

(ii) Evolving a clear micro-finance policy that spells out eligibility and licensing criteria, provides operational/prudential standards and guidelines to all stakeholders;

(iii) Evolving a microfinance sub-sector and institutional policies aimed at providing regulatory harmony, promoting healthy competition and mainstreaming microfinancing with formal intermediation;

(iv) Adopting an appropriate regulatory and supervisory framework;

(v) Minimizing regulatory arbitrage through periodic reviews of the policy and guidelines;

(vi) Promoting linkage programmes between universal/development banks, specialized finance institutions and the microfinance banks;

(vii) Continuously advocating market-determined interest rates for government-owned institutions and promote the channelling of government microfinance funds through MFBs; and

(viii) Implementing appropriate training programmes for regulators, promoters and practitioners in the sub-sector, in collaboration with stakeholders.

13.3 MicroFinance Institutions (MFIs)

Microfinance service providers shall:

(i) Provide efficient and effective financial services, such as credit, deposits, commodity/inventory collateralization, leasing, and innovative transfer/payment services;

(ii) Undertake appropriate recruitment and retention of qualified professionals through transparent and competitive processes;

(iii) Adopt continuous training and capacity building programmes to improve the skills of staff; and

(iv) Strictly observe their fiduciary responsibility, remain transparent and accountable in protecting savers' deposits.

13.4 Public Sector Poverty Alleviation Agencies

The MFB policy recognizes the roles of public sector MFIs and poverty alleviation agencies such as the National Poverty Eradication Programme (NAPEP) in the development of the sub-sector. They shall be encouraged to perform the following functions:

i. Provision of resources targetted at difficult-to-reach clients and the poorest of the poor;
ii. Capacity building;
iii. Development of MFIs' activities nation-wide;
iv. Nurturing of new MFIs to a sustainable level; and
v. Collaborating/partnering with other relevant stakeholders.

13.5 Donor Agencies

Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They include bilateral and multilateral institutions, NGOs and missionaries with a pro-poor orientation. The services provided by donor agencies include grants, donations, technical assistance, etc.

The donor agencies, in conducting their microfinance activities, shall comply with the relevant provisions of this policy. The target clients for donors' support may include: MFIs, NGOs, regulators and other relevant agencies. However, for the purpose of leveraging the evolving micro financing initiative, donors are expected to direct most of their assistance to licensed MFBs to ensure an orderly resource injection, transparency and synergy.

14.0 CONCLUSION

14.1 There exists a huge untapped potential for financial intermediation at the micro and rural levels of the Nigerian economy. Attempts by Government in the past to fill this gap, through supply-driven creation of financing institutions and instruments, have failed, due to the poor capitalization of such schemes and restrictive regulatory and supervisory procedures, among other factors. The community banks were designed to fill the gap, but their low capital base and isolated mode of operation have not enabled them to make meaningful contributions to microfinancing.

14.2 The microfinance banks being established in line with this policy framework shall be adequately capitalized, appropriately regulated and supervised to address the need of financing at the micro levels of the economy. The two categories of microfinance banks shall be Microfinance Banks licensed to operate unit banks (a.k.a. community banks) and Microfinance Banks licensed to operate in a State.

14.3 Microfinance Banks licensed to operate unit banks shall require a minimum paid-up capital of ₦20 million and shall operate branches and/or cash centres. A Microfinance Banks licensed to operate in a State shall require a minimum paid-up capital of ₦1.0 billion and shall operate multiple branches within a State, subject to satisfactory prudential requirements and availability of free funds for branch expansion.

14.4 The existing community banks shall transform to Microfinance Banks within 24 months of approval of this policy, by increasing their shareholders' funds unimpaired by losses to a minimum of ₦20.0 million. Any community bank which does not meet the new capital requirement within the stipulated period shall cease to operate as a community bank.

14.5 The Central Bank of Nigeria shall supervise and regulate the microfinance banks. The Nigeria Deposit Insurance Corporation shall insure the deposits of microfinance banks.

14.6 The provisions of this policy shall be subject to review from time to time at the full discretion of the regulatory authorities.

ANNEX I

Distinguishing Features between a Microfinance Banks and Universal Banks

	Criteria	Microfinance Banks Licensed to Operate in as a unit bank in a LGA (a.k.a. Community Banks)	Microfinance Banks Licensed to Operate in a State	Universal Banks
A	Minimum paid-up capital/shareholders' funds	₦20.0 million (increased from ₦5.0 million)	₦1.0 billion	₦25.0 billion
B	Scope of Activities covered by Licence	To operate within a Local Government Area. Not to engage in sophisticated banking services, such as forex business	To operate within a State Not to engage in sophisticated banking services, such as forex business but can receive tenured loans and equity from abroad	To operate nationally and in international markets To operate forex transactions and domiciliary Accounts for customers
C	Limitation on credit to an individual or company	Credit subject to a single obligor limit of 1% for an individual/corporate entity and 5% for a group	Credit subject to single obligor limit of 1% for an individual/corporate entity and 5% for a group	Single obligor limit applies

D	Limitations on deposits from an individual or a company	No limit	No limit	No limit
	Criteria	LGA Microfinance (a.k.a. Community Banks)	State Microfinance Banks	Universal Banks
E	Access to public sector deposits	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes	Permitted for only micro-credit programmes on a non-recourse basis and for payment purposes	Permitted
F	Cheque writing accounts	Cheque issuing customized to the correspondence bank	Cheque issuing customized to the correspondence bank	Cheque issuing permitted
G	*Geographical coverage	In rural and urban areas	Must operate in both rural and urban areas within a State in a proportion prescribed by the CBN	All parts of Nigeria and foreign branches and subsidiaries

* The Central Bank of Nigeria (CBN) shall define the rural/urban areas for the purpose of this Policy.