Draft for
Discussion and
Comments only

DRAFT NATIONAL MICROFINANCE DEVELOPMENT STRATEGY

LIST OF ABBREVIATIONS & ACRONYMS

ALCO –	Asset and Liability Committee
ANAN –	Association of National Accountants of Nigeria
ATM –	Automated Teller Machine
BDS –	Business Development Services
BOA –	Bank of Agriculture Limited
BOFIA –	Banks and Other Financial Institutions Act
BOI –	Bank of Industry
CAC –	Corporate Affairs Commission
CAR –	Capital Adequacy Ratio
CBN –	Central Bank of Nigeria
CBs –	Community Banks
CGAP -	The Consultative Group to Assist the Poor
CIBN –	Chartered Institute of Bankers of Nigeria
CSOs –	Civil Society Organizations
DFI –	Development Financial Institutions
DMBs –	Deposit Money Banks
EFINA –	Enhancing Financial Innovation and Access
ELAN –	Equipment Leasing Association of Nigeria
FCT –	Federal Capital Territory
FMBN –	Federal Mortgage Bank of Nigeria
FSS 20:20 –	Financial System Strategy 20:20
GDP –	Gross Domestic Product
GIRAFE –	Governance, Information, Risk, Activities, Funding/Liquidity, Efficiency/ Productivity
GIZ -	German International Cooperation
GNI -	Gross National Income
ICAN –	Institute of Chartered Accountants of Nigeria
ICT –	Information and Communication Technology
IFAD –	International Fund for Agricultural Development
IFC -	International Finance Corporation
KYC -	Know Your Customers
MDA-	Ministries, Department and Agencies
MCP –	Microfinance Certification Programme

MCPE –	Mandatory Continuing Professional Education
MDG -	Millennium Development Goals
MFBs -	Microfinance Banks
MFIs -	Microfinance Institutions
MSMEs –	Micro, Small and Medium Enterprises
MTSPs –	Microfinance Training Service Providers
NAICOM –	National Insurance Commission
NAMFB –	National Association of Microfinance Banks
NAMFI -	National Association of Microfinance Institutions
NDIC –	Nigeria Deposit Insurance Corporation
NEEDS –	National Economic Empowerment and Development Strategy
NGOs -	Non- Governmental Organizations
NGO-MFI –	Non-Governmental Organizations - Microfinance Institutions
NMDS	National Microfinance Development Strategy
NMRCC -	National Microfinance Regulatory Coordinating Council
OFISD –	Other Financial Institutions Supervision Department
PAR –	Portfolio at Risk
RUFIN –	Rural Finance Institutions Building Programme
SEC –	Security Exchange Commission
SRO –	Self Regulatory Organizations
SRO – Coop –	Self Regulatory Organizations for Financial Cooperatives
THE MIX –	The Microfinance Information Exchange
TNA –	Training Needs Assessment
UNDP -	United Nations Development Programme
USAID -	The United States Agency for International Development

PREFACE (TO BE INCLUDED AFTER DRAFT REVIEW AND WILL INCLUDE STRATEGY DEVELOPMENT PROCESS)

ACKNOWLEDGEMENT

The National Microfinance Development Strategy document is the product of the collaboration among the Central Bank of Nigeria (CBN), United Nations Development Programme (UNDP), local and international organizations involved in the microfinance landscape and various experts. The strategy development process was deeply engaging and involved participation of stakeholders across various social and economic institutions and sectors

The strategy presented in this document is thus the outcome of the consultative process, written submissions, and participation at round tables, workshops and technical sessions by the microfinance stakeholders. The strategy aims at strengthening and developing microfinance in Nigeria into a viable sub-sector of the financial system, with specific provisions for the economically active poor, the vulnerable groups such as the women and the physically challenged; and the institutions that support them.

We would like to especially thank the personnel of the collaborating institutions for their dedication at ensuring the successful outcome of the strategy development process. These personnel include those of the Development Finance Department (DFD) and Other Financial Institutions Supervision Department (OFISD) of the Central Bank of Nigeria, and the Private Sector Development Unit of the UNDP Office in Nigeria.

Much appreciation is due to development institutions, microfinance service providers, support institutions, community-based organizations (CBO)/cooperatives, public sector organizations, individuals and others who made written submissions and took out time to share experiences and knowledge at the round tables, workshops and technical sessions.

It is believed that this strategy document which represents the recommendation of stakeholders and experts and reflects best practices would be adopted and implemented by all stakeholders in the microfinance space in Nigeria.

While this report would have been impossible without the support of all the acknowledged stakeholders and others, any errors in representing the views of stakeholders remain the sole responsibility of the consulting team comprising, Victor O. Dike, Akintola Akin, Adebiyi Samuel, Bulus Gwachi , Steve Olusegun Ogidan and Thomas Timberg.

TABLE OF CONTENT PAGE

EXECUTIVE SUMMARY

It is no mere coincidence that the Central Bank (CBN) introduced Nigeria's first Microfinance Policy Framework in December 2005, barely three months after the United Nations General Assembly adopted 2005 as the International Year of Microcredit to "address the constraints that exclude people from full participation in the financial sector." The rationale was that no robust, people-based growth can be achieved without increasing the access of micro-enterprises and the economically active poor to factors of production, especially financial services. The latent entrepreneurial capacity of the poor, it was believed, 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.

After five years of operating this Policy, the CBN undertook a comprehensive review of developments in the sub-sector and discovered that although some improvements such as a heightened awareness among stakeholders and broad service provisioning (as opposed to the narrow microcredit focus) had taken place, a large percentage of Nigerians are still excluded from financial services. A study carried out by Enhancing Financial Innovation and Access (EFInA) in August, 2010 revealed that 39.2 million representing 46.3 per cent of the adults in Nigeria, was excluded from financial services. Among the 53.7 per cent that had access, 36.3 per cent derive their financial services from the formal financial institutions, while 17.4 percent exclusively patronized the informal sector. Also, the results of the survey revealed that Nigeria was lagging behind South Africa, Botswana and Kenya with 26 percent, 33 percent and 32.7 percent financial exclusion rate, respectively. This forms the background to the preparation of this National Microfinance Development Strategy (NMDS).

The NMDS is the product of wide consultations with all segments of microfinance stakeholders. Initiated by the CBN and supported by the United Nations Development Programme (UNDP), written memoranda were received in response to advertisements in the national media. There were also round table discussions, workshops and extensive desktop research with the aim of formulating a strategy that is most appropriate to the development of Nigeria's microfinance industry. Stakeholders who participated in the process of preparing this NMDS include regulators, microfinance practitioners, representatives of government ministries, departments and agencies (MDAs), donors and policy experts. There is a consensus about a number of issues relating to what the industry lacks and what is needed to satisfy those needs. These issues include:

1. Sector strategy framework and development perspective
2. The regulatory/supervision framework and its implementation
3. Sector capacity building Strategies
4. Support infrastructure and promotion of support services, including technology and mobile microfinance framework, and
5. Financial inclusion and service delivery

1. Sector Strategy Framework and Development Perspective

The NMDS is anchored on CGAP's key microfinance principles, which broaden the definition of microfinance from micro-credit to provision of an array of financial services, such as, savings, loans, insurance and remittance and also emphasize that access, as opposed to cost, should be prime in designing and implementing a poverty alleviation strategy. These principles also underscore inclusiveness and integration of microfinance with the formal financial system.

The NMDS is also contextualized with Vision 20:2020, which aims at making Nigeria one of the largest twenty leading economies by the year 2020. Consequently, a vibrant financial sector with inclusive provisions for the hitherto excluded economically active poor and micro/informal operators has become an absolute imperative. It is equally in alignment with Financial System Strategy 2020 (FSS 2020), which stated the need to strengthen the domestic financial markets through (among other measures) an integration of the informal financial sector into the formal financial sector; an improvement of access to finance; and the building of an integrated infrastructure for the financial industry in Nigeria.

Therefore, the Vision of this NMDS with a timeframe of five (5) years is "To have an effective and sustainable microfinance sub-sector that provides access to a range of financial and non financial services to the economically active poor thereby promoting tangible economic and social development" The primary strategic area of focus includes promoting awareness about microfinance and its benefits; establishing a legal/regulatory framework that assures system viability and fairness to all stakeholders; diversifying microfinance beyond mere savings and credit; contributing to rural transformation; and incorporating gender dimensions into all microfinance programmes.

The realization of this strategic focus requires a combined engagement of the government, CBN, SROs-Apex MFIs, Donors/Development partners, the operators, among others. Government would, in the main, ensure a stable macro-economic environment, provide rural basic infrastructure and support the emergence of wholesale funds, while the CBN has developed and should continuously review the Microfinance Policy Framework and Regulatory/Supervisory Guidelines with clearly stated objectives, targets and strategies as well as champion the emergence of a new National Microfinance Regulatory Coordinating Council (NMRCC) which will be an umbrella institution for all regulatory institutions whose activities directly and indirectly impinge on microfinance activities in Nigeria. The Council will have institutional governance support and guidance from existing institutions such as the CBN, NDIC, NAICOM, SEC, CAC and the newly proposed Self-Regulatory Institutions (SROs) for NGO-MFIs and the Financial Cooperatives. The Council shall ensure a harmonized regulation of activities of all microfinance institutions and operators in Nigeria. Donor Agencies and Development Partners that provide capital and support for the development of the microfinance industry in Nigeria shall operate within the relevant provisions of the revised microfinance policy framework and the underlying principles and objectives of NMDS, with particular emphasis on helping to ensure the emergence of a robust self-regulatory apparatus for the NGO-MFIs and the financial cooperatives.

2. The Regulatory/Supervisory Framework

The primary goal is to achieve a regulatory environment and framework that produce robust, efficient and sustainable microfinance institutions. Due attention is therefore imperative for issues such as Legal and Regulatory Practices, Prudential Guidelines and Supervisory Environment/Capacity, Non-Prudential Regulations and Self-Regulations, as well as other related sector- level risk management priorities, and regulatory structures/effectiveness.

Reviews in Legal/Regulatory Laws/Practices: It is generally appreciated that there would be need for new legislation to provide for the peculiarities of microfinance; but since this will definitely take a while, room shall be created within the existing laws and administrative rules to allow some of the changes contained in this strategy document. At least one independent, member-driven and supported Self-Regulatory Organization (SRO) is required to provide an effective regulatory and supervisory institutional framework for the NGO-MFIs. It should emerge from a transformation of existing Apex Institutions for NGO-MFIs and should run in parallel to CBN, and the proposed NMRCC which will have supervisory and regulatory leverage over the MFBs and the MFIs. When fully developed, the SRO and the traditional regulators shall work as partners and serve as the national entry point for microfinance Donor Assistance to Nigeria; ensure a uniform reporting and financial management standards for their members in order to achieve transparency, harmonised standards and smooth tracking of performance. The SRO, which will have national and State chapters reflecting the Federal structure, will develop and implement incentives such as preferential access to donor capital, access to network information and capacity, and awards/national recognitions.

With regards to Financial Cooperatives, there is presently a Cooperative Federation of Nigeria which serves as the Apex for cooperatives and credit unions. The extent to which it controls the cooperatives nationally is not well known. But cooperatives are largely controlled by the department of cooperative in every state. Farmers also have Apexes (factionalised apexes) to which most farmers cooperatives are affiliated and this has been an issue that is hot across the country. Ways shall be sought through which the Cooperatives would be strengthened to provide financial access in the rural areas and create the peer pressure that replaces collateral in microfinance. Bringing cooperatives into the mainstream of microfinance services provision would require far-fetched actions.

Special national and state-based wholesale funds are advocated for retailing by MFBs/MFIs, and they shall run on the basis of operating guidelines issued by the NMRCC. Existing Development Finance Institutions would halt and transfer their retail microfinance services MFBs/MFIs. Existing institutions/service providers such as the Nigeria Postal Service, Primary Mortgage Institutions, well established Department Stores, Mobile Telecom Operators, would be legally empowered to provide microfinance services, especially as agents of MFIs/MFBs. Furthermore, the current rule pegging unsecured lending limit at N50,000 in BOFIA will be amended to exclude MFBs, while the use of a broader range of collaterals such as social/peer pressure and third-party guarantees (inclusive of women guarantors), vehicles, informal housing, stocks, machinery, receivables, commercial papers, factoring, cash, etc will be institutionalized as acceptable collaterals, playing down the enforcement of criminal sanctions. Finally, all laws with notable effects on microfinance business, such as the leasing Bill (which at the time of preparing this NMDS is with the National Assembly – and with emphasis on micro-leasing), dispute resolution, harmonized national cooperative laws, etc, are to be revised to reflect fresh realities.

Prudential Guidelines and Supervisory Environment/Capacity: The CBN shall continue to ensure compliance of all MFBs with prudential guidelines. The need to examine each of these banks at least once a year and achieve an internationally comparable ratio between the number of operators and supervisors/regulators would require that the Bank either creates additional capacities or in the alternative outsource this service to competent hands, using a standardized template. The Bank shall, as much as possible ensure adherence to international standards; move more towards administrative sanctions for defaults; and increase the number of MFBs in Nigeria by promoting the new three-tier capital structure for MFBs as well as a conscious programme of support for NGO-MFIs willing to transform into MFBs.

Non-Prudential Regulations and Self-Regulations: The CBN and the new (proposed) SRO will ensure compliance by all MFBs and NGO-MFIs with non-prudential guidelines. Matters such as corporate governance, regular filing of statutory returns, transparency in dealings with clients, proper identification of the operators (MFB/MFI/FC), and subscription to services of credit bureaux will attract prime consideration.

Sector-specific Risk Management: Credit, liquidity and market risks that have now assumed greater prominence in an increasingly globalised environment where Nigerian MFBs/MFIs operate shall be well managed to ensure an expansion of product offerings, improve portfolio stability and increase market penetration and/or diversification. The sector-level risk management function, which this strategy prescribes, is embedded in the new, enhanced GIRAFE specifications published in 2008.

3. Sector Capacity Building Strategies

The adopted philosophy is to build and continuously update the knowledge, skills and attitudes of all microfinance stakeholders, whether they are regulators, operators (Board, Management and Staff), consumers/clients, and providers of infrastructural and support services. The capacity building strategy will be driven by the concept of Responsible Microfinance: which in this context means the Best Product, at the most competitive Price, to as Many People, as Fast as Possible. For regulators – whether at the CBN/NDIC or within the SROs, the need to strengthen and/or deepen individual understanding on what to regulate and supervise as well as to swell the pool of competent hands cannot be over-emphasised. This will require, among other things that research units of regulatory institutions focus on microfinance studies; facilitate periodic conveyance of policy level discussions that will promote awareness of microfinance as a sound commercial investment; and facilitate the development and installation of microfinance technology packages uniquely suited for Nigerian environment.

On the part of operators, the current Microfinance Certification Programme (MCP) instituted by the CBN and the NDIC, which has achieved a measure of success will be complemented by a Mandatory Continuing Professional Education (MCPE) to update relevant skills of the staff of each MFB in microfinance banking. High training priorities shall be (1) loan officer training, (2) management training, (3) training in back office operations, and (4) training on management information system (MIS) issues. All microfinance institutions in Nigeria shall endorse the six client protection principles, which are avoidance of over-indebtedness, transparent and responsible pricing, appropriate collection practices, ethical behaviour, mechanisms for redress of grievances and privacy of client data. The consumer education that this strategy advocates will not be mere financial literacy, but shall also include the principles of client protection.

Providers of support services will be required to have deep knowledge of the operations, methodology and concept of microfinance. Currently, blanket wide solutions are offered instead of microfinance specific solutions. Therefore, a structured capacity building programme will be put in place to certify and register these service providers to ensure that their services and support systems are calibrated to strengthen and enhance the sustainability of the microfinance institutions.

Apart from using funds from the national Microfinance Development Fund for wholesale financing purposes, a second window within this fund would be for capacity building purposes as enunciated in this NMDS.

4. **Promotion of Support Infrastructure and Other Services**

One major deficiency of the previous strategy for microfinance development which is now being corrected is the little or negligible attention paid to pertinent support and/or complementary services and their linkages with microfinance provisioning. Prominent among these are Credit Bureaux/credit information systems (for client identification), institutional ratings, insurance (or more specifically micro-insurance), leasing (or more specifically micro-leasing), the capital market, wholesale funding, apex associations and professional/business development services.

Credit Bureau: Strong awareness shall be created jointly by the credit bureaux, MF operators and the regulators on the need for a robust credit registry, which shall receive and share client information on mutual basis. The services of the credit bureaux shall be commercially priced, though subscribers may, in the short run, require price concessions/subsidy in order to access needed information. A standardized reporting template shall be designed on client credit information so as to ensure accuracy of data collection, processing and information dissemination.

Rating: Rating scores serve to guide investors, MF depositor clients as well as other funding institutions and stakeholders on the inherent health and or level of risk in the rated institution. However, the recent positive rating of a Microfinance Bank that soon got liquidated by the regulator, has so undercut the actual credibility of the rating agencies and their interest in getting into Nigeria; caution is therefore needed here. Therefore, CBN shall conduct accreditation and appointment of rating agencies and ensure that clearly set criteria/parameters and standards for rating are adhered to. All MF operators must subscribe to an internationally recognized assessment and rating facility (e.g. CGAP rating initiative) at least once in two or (maximum of three) years.

Insurance: Although the provision of insurance services is a significant risk mitigating tool, its penetration in Nigeria is still a far cry from the levels already attained in comparable developing countries. The situation is even worse for the micro-enterprise sub-sector. Because of the promises that micro-insurance offers as a veritable window for enhanced service delivery in the microfinance sub-sector, composite micro-insurance policies, covering credit, life (of the entrepreneur) and other perishable business risks shall be vigorously canvassed and promoted. Pertinent institutional collaborations shall commence for the development of appropriate capacity to develop and deliver micro-insurance products as well as disabuse the minds of the citizenry and/or build public confidence (especially of micro-entrepreneurs) about insurance. A strong enlightenment campaign, jointly driven by CBN, NAICOM, other regulators and the SRO would go a long way to boost market penetration.

Micro-leasing: Leasing is one of the key drivers of socio-economic activities in Nigeria, and it is now time to develop micro-leasing as a major microfinance strategy, especially for entrepreneurs with liquidity constraints. With leased assets collateralizing the exposure of the lender, leasing will henceforth represents an approach for overcoming one of the impediments to micro-credit access. The CBN, other regulators and microfinance operators would work more closely with the Equipment Leasing Association of Nigeria

(ELAN) and the National Assembly to ensure that the pending Leasing Bill is passed and appropriate products developed to suit the needs of micro-enterprises.

Second-tier Capital Market: The existing second-tier market of the Nigerian Stock Exchange (NSE) has been highly illiquid and inactive, while some of the firms listed on it at its inception have been de-listed. The Stock Exchange had previously muted the idea of a Third-tier Market specifically for micro-enterprises. The NSE expected this to materialise by further liberalising the listing requirements currently in place for the Second-tier market. It is noted that progress on this initiative is yet to be seen and there is the challenge that using the capital market to raise funds goes beyond mere simplification of listing requirements. MFIs and MFBs are possible candidates for second-tier market listing (and the third-tier market if it ever becomes operational) since these institutions are themselves SMEs. Concerted efforts by institutions such as the CBN, NSE and Securities and Exchange Commission (SEC) have become imperative, especially in the area of public enlightenment and the promotion of private equities and venture capital funds in order to open new opportunities for long-term funding for MFBs/MFIs

Apex Associations and other Service Providers: In addition to the transformation of Apex MF institutions into an SRO, the need for a harmonious linkage between microfinance operators, regulators and cognate professional service providers cannot be over-emphasised. The regulators will work together in ensuring that all cadres of professionals rendering services within the microfinance sub-sector – such as lawyers and accountants for example – are exposed to learning opportunities. The best platforms to be employed are the professional bodies such as the Nigerian Bar Association (NBA), the Institute of Chartered Accountants of Nigeria (ICAN), the Chartered Institute of Bankers of Nigeria (CIBN), etc.

5. Financial Inclusion and Service Delivery

A financial system where every member of the society has access to appropriate, desired financial products and services that enables them take up opportunities that improve their social standing and/or increase in their incomes will definitely be underpinned by a strong level of financial literacy and capability. A multi-faceted approach, combining the print and the electronic media and using instruments such as fliers, posters, jingles, documentaries, short mobile phone messages (SMS), as well as inter-institutional partnerships/networks is considered vital by the NMDS.

To ensure a fair deal for consumers of microfinance services, the existing rule which requires that service providers seek and secure approvals for their products and services as well as to properly display terms and conditions in their meeting places and/or banking halls would now be strictly enforced. Microfinance institutions must explain terms and condition of services being offered to customers and ensure that they (the clients) understand them before commitments are made. Microfinance institutions shall display telephone numbers and names of responsible officers to be called by aggrieved customers. While customers are responsible largely for their financial commitments, it will now form part of the responsibility of the lenders to ensure that customers are not pushed to over-borrowing.

Available evidences point to the need to specially slant microfinance services in favour of the female gender, the physically challenged and the rural dwellers. Not only are these people the most discriminated against in terms of access to finance, they (especially the

CHAPTER ONE

1.0 MICROFINANCE DEVELOPMENT STRATEGY – FRAMEWORK AND DEVELOPMENT PERSPECTIVE

1.1 INTERNATIONAL PERSPECTIVE OF MICROFINANCE

1.1.1 Introduction

The growing attention and emphasis on microfinance by international organizations, governments and key world economic stakeholders, indicates the consensus that microfinance is a critical instrument for the alleviation of poverty and driving the world's economic growth and development. Microfinance has evolved and expanded in the past decade from the relatively narrow field of microenterprise credit to the more comprehensive global concept of microfinance (which includes provision of a range of financial services to the active poor people, including savings, leasing, mortgage finance, money transfers, and insurance services).

Global practices in recent years have shown that poor and low income clients are bankable, and that deliberate and structured investments in microfinance help the active poor overcome the critical challenge of insufficient access to banking services offered through the formal financial system. To drive a sustainable global microfinance regime, governments, international development agencies and donors need to see its development as an integral part of a nation's formal financial system; and by extension the international financial system needs to give greater recognition to policy issues that influence and promote the development of national microfinance systems.

The increasing success of microfinance has confronted commonly held views about the risk in lending to the poor, demonstrating that it is certainly possible to offer credit services to poor clients and recover costs associated with lending to them. Several microfinance institutions with significant spread and reach have demonstrated long-term sustainability. Microfinance requires developing financial systems that serve the poor and can reach its full potential if it is integrated into a country's mainstream financial system and supported by permanent local financial institutions that provide financial and other non- financial services needed by the poor.

Microfinance as a poverty intervention instrument transverses culture and geography, with it gaining wider acceptance daily across more international borders and gradually being translated into policies and strategies to drive economic growth and development. International stakeholders in the microfinance sector have given microfinance a global and international focus through the setting up of best practice guidelines, strategies and models for microfinance that will guide the practice of microfinance in the world.

Globally, national microfinance strategies and policies have been fashioned in line with the objectives of the Millennium Development Goals (MDGs) to be achieved by 2015, aimed at addressing the world's main development challenges (See Box I). Building inclusive financial systems therefore, is a central goal of policy makers and planners across the globe. These concerns are reflected in the Millennium Development Goals (MDGs) and the international initiatives that have followed.

Box I. Millennium Development Goals and Microfinance

The Millennium Development Goals (MDGs) are eight goals to be achieved by 2015 that respond to the world's main development challenges. The MDGs are drawn from the actions and targets contained in the Millennium Declaration that was adopted by 189 nations and signed by 147 heads of state and governments during UN Millennium Summit in September 2000.

Goal 1: Eradicate extreme poverty and hunger: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day; Halve, between 1990 and 2015, the proportion of people who suffer from hunger

- Goal 2: Achieve universal primary education
- Goal 3: Promote gender equality and empower women
- Goal 4: Reduce child mortality
- Goal 5: Improve maternal health
- Goal 6: Combat HIV/AIDS, malaria and other diseases
- Goal 7: Ensure environmental sustainability
- Goal 8: Develop a Global Partnership for Development

Towards achieving the goals the United Nations General Assembly adopted 2005 as the International Year of Microcredit to "address the constraints that exclude people from full participation in the financial sector." At the World Summit at the United Nations in September 2005, Heads of State and Government recognized "the need for access to financial services, in particular for the poor, including through microfinance and microcredit." The Monterrey Consensus that Heads of State and Government adopted at the International Conference on Financing for Development in 2002 explicitly recognized that "microfinance and credit for micro, small and medium enterprises...as well as national savings schemes are important for enhancing the social and economic impact of the financial sector." They further recommended that "development banks, commercial banks and other financial institutions, whether independently or in cooperation, can be effective instruments for facilitating access to finance, including equity financing, for such enterprises...."

women) are ironically better microfinance clients, posting better repayment records than men and using the benefits of improved income more for household than for personal needs. The focus of this development strategy is therefore to ensure that women participate more in microfinance by removing some the inhibiting factors and also promoting gender friendly services from the stable of the microfinance institutions. Accordingly gender and rural dimensions will be incorporated in all microfinance programmes, legislations and policy changes to help minimize gender and rural inequalities and promote access to financial services.

The need for microfinance institutions to adopt appropriate technology to improve service delivery both to their clients and other stakeholders is now crucial. However, because the cost of doing this may be out of reach, the CBN would enlist the cooperation of other relevant stakeholders (especially the Donors/Development Partners) to deepen its current supportive efforts to the MFBs as well as extend same support to the SRO and the other microfinance institutions. Areas of immediate emphasis for technology adoption include loan tracking, impact tracking, credit scoring, financial reporting, smartcards, finger print readers, mobile phones and personal digital assistants.

6. Conclusion

This National Microfinance Development Strategy believes that now is the time to promote the development of a range of sustainable, competitive MFIs that offer various valuable financial services to micro enterprises and the poor as well as cater for the evolving market demand. This will not be realised by mere wishful thinking but by focussed and deliberate pursuit of appropriate strategy. Certain definitive actions are required. While some of these actions require mere administrative adjustments and therefore are amenable to immediate adoption, others, especially those requiring new legislation or amendments to existing legislation, may require medium time frame. In both cases however, the minimum imperatives include strong commitment of the government, which has repeatedly re-echoed the development of microfinance as an alternative to unemployment and/or underemployment; continued interest of donors to support the development of the microfinance industry in Nigeria; and the synergy among the direct and remote microfinance stakeholders – which are identified in the strategy document.

It should be noted here that access to credit, savings, or other financial services is only one of a series of strategies needed to reduce poverty and achieve the MDGs. Financial services need to be complemented by access to education, health care, housing, transportation, markets, and information.

To fast track achieving these goals, the United Nations General Assembly adopted 2005 as the International Year of Microcredit to "address the constraints that exclude people from full participation in the financial sector".

1.1.2. Key Principles of Microfinance

An international initiative towards achieving the MDGs is formation of the Consultative Group to Assist the Poor (CGAP), a multi-donor consortium dedicated to advancing microfinance. It is a consortium of 31 public and private development agencies working together to expand access to financial services for the poor, referred to as microfinance. CGAP envisions a world in which poor people everywhere enjoy permanent access to a range of financial services that are delivered by different financial service providers through a variety of convenient delivery channels. It is a world where poor and low-income people in developing countries are not viewed as marginal but, rather, as central and legitimate clients of their countries' financial systems. In other words, this vision is about inclusive financial systems, which is the only way to reach large numbers of poor and low-income people. As a way forward to realizing this vision, CGAP has come up with eleven key principles of microfinance based on decade-long consultations with its members and stakeholders. **See Annex A: CGAP- Key Principles Of Microfinance**

These principles broaden the definition of microfinance from micro-credit to provision of an array of financial services, such as, savings, insurance and remittance. They emphasize that access to microfinance and not cost of microfinance should be under focus in designing and implementing a poverty alleviation strategy. The strategy should aim at sustainability through a shift from a charity-based donor-dependent approach to a market-based for-profits approach that also restricts the use of donor funds to capacity building. The principles also underscore inclusiveness and integration of microfinance with the formal financial system.

1.2 MICROFINANCE IN NIGERIA

1.2.1 Introduction

Nigeria with a total population of about 140 million people[1] has approximately 70 percent (98 million) living below the poverty level estimated at US$1.25 day by the United Nations poverty line definition. GNI per capita is approximately US$1140[2] with life expectancy at 48[3]. The total adult population (18 years and above) is 84.7 million and about 70 percent of adults live in rural areas with 51% male and 49% female. Access to finance is especially difficult for the rural population as the rural financial market is weak and unable to meet the financial services needs of the rural economy.

According to the EFINA Access to Financial Services Survey 2010, 46.3% (about 39.2 million) of adult Nigerians are financially excluded, having no access to formal or informal financial services. 53.7% (45.5 million) of the adults have some form of access to formal or informal financial services. Financial products available to the banked segment include savings and current accounts, insurance, ATM cards, debit and credit cards, fixed deposit accounts, value cards, mortgage, other loan products (eg. overdrafts), Islamic financing Investments and interest free loans. The banking profile of the Nigeria adult population reveals that only 30% of the adult population currently have bank accounts, which is equivalent to 25.4 million people; 67.2% of the adult population have never been banked, which is equivalent to 56.9 million people and 2.4 million adults were previously banked.

Currently, 78.8 percent of rural adults are unbanked. The overall national percentage of unbanked is higher among women and rural residents. Similarly, 63.5% of adult males are unbanked; 76.8% of adult females are unbanked; 23.6% of the adult population earn N6, 000 or less per month – this is the equivalent of approximately USD2 per day for 20 working days per month. The salaried population has been more widely targeted by financial service providers with an estimated 71% (9.6 million) of salaried adults in EFINA's 2008 survey using banking services compared to only 15% (4.3 million) of farm workers.

The CBN Microfinance Policy Framework 2011 demonstrated that the aggregate microcredit facilities in Nigeria accounted for about 0.2 per cent of Gross Domestic Product (GDP) in 2005, and less than one per cent of total credit to the economy. This revealed the existence of a huge gap in the provision of financial services to a large number of the active poor and low income groups. The effect of not addressing this situation appropriately would further accentuate poverty and slow down growth and development.

The microfinance sector has continued to grow, attracting several players and service providers, offering diverse services. The service providers include microfinance banks, non-government organizations (NGOs) also known as NGO-MFIs, cooperatives societies, community-based development institutions, deposit money banks, development banks, insurance companies, government intervention programmes.

---

[1] 2006 Population Census of Nigeria

[2] World bank (2009)

[3] United Nations Population Division Report

Most recently telecommunications service providers initiated partnership with microfinance institutions (MFIs) to provide mobile banking for the unbanked segment of the population.

With respect to scale of operations, only a negligible percent of the services supplied by the deposit money banks and the finance companies involve microfinance. However given their large size and resources, their increased supply or support for microfinance is desirable.

Nigerian microfinance operations are often still not either financially or operationally sustainable and face great numbers of challenges among which are the following:

- 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
- Poor banking culture and low literacy level of the population
- High level of fraud and loan default
- Absence of reliable client/citizen identification system
- Dearth of requisite infrastructural facilities
- Security challenges

Rural financial institutions, agriculture finance providers and other informal sources of finance despite experiencing the above challenges, have greater constraints in the following areas:

- High transaction and administrative costs
- High levels of real and perceived risks
- Limited opportunities and windows for capacity building
- Poor information and social infrastructure
- Seasonality of client (farming) operations
- Geographical dispersion and remoteness
- Excessive welfare or political orientation and limited commercial focus

1.2.2 Stakeholders in the Microfinance Environment

The growing potential of microfinance and enhanced financial inclusiveness in poverty reduction, economic growth and development has increased the category of active players in the microfinance space in Nigeria in the past decade. The financial sector regulatory institutions and other stakeholder groups now support the development of microfinance and financial inclusiveness. A variety of private sector banking and non-banking institutions have also joined in providing inclusive solutions in recent years. This has also led to a deepening collaborative relationship among microfinance sub-sector stakeholders.

The stakeholders in the microfinance sub-sector in Nigeria can be classified as follows:

- Regulatory Environment Stakeholders
- Donor Agencies and Funds Providers
- Microfinance Institutions and Operators
- Microfinance Support Institutions
- Microfinance Beneficiaries

(i) The Regulatory Stakeholders

The regulatory environment is dominated by the Central Bank of Nigeria. Other key players are the federal and state department of cooperatives, associations of microfinance operators and state-owned microfinance apex agencies.

- The CBN provides the policy and the regulatory guidelines to drive microfinance in the country while also serving as the regulator to the sector. The CBN approves and grants licenses to microfinance banks in the industry and ensures such microfinance service providers play according to stipulated rules and regulations through its regulatory and supervisory responsibilities.
- The Federal and state department of cooperatives have statutory responsibilities for the registration and supervision of the activities of cooperatives at the state and national levels,
- Association of microfinance operators notably the National Association of Microfinance Banks (NAMFB) and National Association of Microfinance Institutions (NAMFI) are apex associations of microfinance institutions/banks that promote self-regulation, uniform standards, transparency and good corporate governance practices. The associations which are just evolving are expected to also serve as a platform for capacity building, product development and marketing, as well as resource sharing. Additional responsibilities are highlighted under the regulatory and supervisory section of this document.
- The state microfinance apex agencies are government/state owned organizations that attempt to stimulate economic growth within a state by providing institution building support and funds. The funds and support are channelled to specific areas within the state through microfinance operators to drive focused growth and development. These apex agencies provide guidelines that control the operations of the institutions they support and set eligibility and performance criteria for MFIs and MFBs. They provide funding to, and regulate the usage of such funds.

Other institutions that provide ancillary regulatory and supervisory support that impact on the microfinance sub-sector include National Insurance Commission (NAICOM), Nigeria Deposit Insurance Corporation (NDIC), Securities and Exchange Commission (SEC), Government Ministries and Agencies, among others.

(ii) Donor Agencies and Funds Providers

Foreign and domestic donor agencies and funds providers constitute a vital part of the microfinance environment. Donor agencies offer free or subsidized funds, donations or technical assistance for the development of the microfinance industry in Nigeria. They range from international organizations to civil rights organizations and corporate establishments using microfinance to achieve their corporate social responsibility objectives. The target clients for donors' support include: MFBs, MFIs, NGOs, deposit money banks, regulators and other relevant agencies. The donor community further assists in broadening and deepening supply of microfinance services through support for the development of microfinance products, training in microfinance technologies, and upgrading of performance standards, operating systems and procedures. Specifically, they make available funds and resources to identified microfinance operators and equip them with capabilities to manage the provided resources effectively to achieve economic development. While there have been criticisms of the subsidy-based intervention approaches of these stakeholder groups; they complement efforts of government in improving the standard of living within the area or states where they intervene. The interventions of foreign and local stakeholders have also involved efforts to close other perceived gaps in the sector. A mid-term review of the UNDP Project on the Development of Sustainable Microfinance Sector for Nigeria in September 2007, recommended that there was need for a national microfinance development strategy that will identify and address all policy and sub-sector related issues, detail stakeholders' roles and responsibilities, present strategic action plans/prioritization, and provide appropriate direction among others.

(iii) Microfinance Institutions and Operators

Microfinance institutions and operators are of diverse forms and structures. The operators comprise microfinance banks, non-governmental organizations (NGOs) called NGO-MFIs, cooperative societies, community-based development institutions, deposit money banks offering microfinance services, development banks, insurance companies, government intervention programmes and trade associations. Each of these categories of operators has unique service and value prepositions and target client definition or identified user groups.

(iv) Microfinance Support Institutions

These are the different infrastructure and support services providers to microfinance service providers and other stakeholders supporting the microfinance sub-sector through the provision of services, information and other resources that enable sustainable development of the sub-sector. These microfinance support institutions include professional service providers (accounting, audit, legal, and technology support), capacity building institutions and credit reference bureaux. This category of institutions also includes foundations, donors & development partners, consumer protection agency (financial literacy & consumer protection campaign groups/ advocacy initiatives) and rating agencies among others.

(v) Microfinance Beneficiaries

Microfinance clients are the economically active poor who have potential to generate income, have some skills but are excluded or underserved by the formal financial system. The clients are mainly operators in the microenterprise sector. Beneficiaries of microfinance also include people who are in low income earning jobs in both public and private sectors and others undertaking menial jobs. This vulnerable poor group usually relies on informal saving mechanisms, moneylenders, family and friends to help out with their financial needs and derive benefits from microfinance products and services.

1.2.3 Gender and Microfinance

In Nigeria, like in many developing countries, women face significant socio-cultural constraints in participating and benefiting from finance service. EFINA Access to Financial Services (2010) Survey showed that 76.8% of adult females are unbanked compared to 63.5% of adult males that are unbanked. This can be attributed, among other reasons to:

i. unequal access to productive resources, given the inequalities within the household and lack of property (especially land) that can be offered as collateral for loans and for generating capital;
ii. low levels of education which make it difficult for women to participate in training that requires a specific literacy level or vocational skills;
iii. low self confidence and inability to deal with formal banking institutions;

iv. time poverty and the unequal gender division of labour that prevent women from starting economic businesses;
v. limited mobility due to cultural factors and lack of access to appropriate means of transportation which constrain their ability to conduct businesses, attend training and search for markets and possible suppliers.

Microfinance has the potential to provide Nigerian women with the opportunity to build a pathway to empowerment. It can enable women own and control incomes and assets and contribute to family incomes, as well as, increase their role in economic decision making and standard of living of the family. Furthermore their increased economic role may lead to change in gender roles and increased status within households and communities. This situation does not however exist yet in Nigeria as the positive outcomes of microfinance are not automatic.

It is noteworthy that many aspects of gender inequality in Nigeria such as discriminatory cultural practices, land ownership laws, unequal division of domestic responsibilities, and educational biases cannot be dealt with through microfinance alone but a consortium of deliberate social and economic changes and policies. Secondly, while participation in microfinance programmes can increase income, they can also aggravate women's time deficiency through increased overall workload, as there is no respite from their domestic responsibilities. Thirdly, due to women's perceived subordinate position within the family, women's incomes from microfinance activities may be ultimately controlled by male family members. Furthermore, unless a gender-balanced approach is applied, women's access to microfinance could worsen gender related tensions within household and the incidence of domestic violence.

However, it is not only women who face constraints with access to finance. The group include those in rural areas, youths and the handicapped. Regional and social equity in access to finance is a key part of microfinance.

Microfinance will thus contribute more meaningfully if gender dimensions are incorporated and acknowledged in all new microfinance policies and strategies including in areas of legislation, legal and policy reforms to help minimise gender inequalities in education, employment, information, property rights, advocacy and women's access to, and control of resources.

1.3 ALLIGNMENT OF MICROFINANCE WITH NATIONAL DEVELOPMENT AGENDA

1.3.1 Nigeria possesses huge economic potentials waiting to be developed and translated into higher productivity, economic growth and development. Successive governments at both the federal and state levels have committed time, efforts and huge resources to harnessing these potentials and aligning them with international and global developmental objectives. Nigeria's national developmental plans and strategies reveal objectives fashioned along international developmental programmes such as Millennium Development Goals (MDGs) presented in **Box 1** above.

The National Economic Empowerment and Development Strategy (NEEDS) and vision 20:2020 national agenda are notable national developmental programmes providing underlying foundation for achieving economic development. A vibrant financial sector is imperative to achieving the objectives of the programmes and the sector operators therefore need to effectively play their fundamental role of efficiently allocating funds from the surplus spending units in the economy to the deficits spending units to drive the needed economic growth and development.

The informal sector with large participants and unstructured mode of operations comprising micro and small and medium enterprises and agricultural business have however been inadequately served. The imbalance in the services provided by financial service organizations has starved the informal economy of needed funds to drive growth and development. Financial service institutions are averse to risk and usually advance funds to perceived less risky ventures and engagements with short term maturity and high capacity to payback. The requirements attached to the process of accessing loans and advances are usually outside the reach of small businesses.

The Government of Nigeria has therefore identified microfinance as an effective tool for enabling the economically active poor expand their businesses, increase their revenues, and create employment. The government has also recognized that a vibrant microfinance sub-sector developed on well articulated policies and strategies will facilitate economic growth and development through enterprise development and improved productivity. The government accordingly initiated measures to promote microfinance in the country.

The CBN launched the first Microfinance Policy, Regulatory and Supervisory Framework for Nigeria on 15th December, 2005. The framework was structured along the objectives of the Millennium Development Goals and National Economic Empowerment and Development Strategy (NEEDS). Delivering on employment generation and poverty alleviation by MSMEs as stipulated in NEEDS would require additional channels for financial services delivery, which an improved Microfinance framework should provide. It should also assist the MSMEs in raising their productivity, capacity utilisation and contribution to aggregate national economic output.

The specific objectives of the 2005 microfinance policy framework of the CBN were the following:

- 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;
- Promote synergy and mainstreaming of the informal sub-sector into the national financial system;
- Enhance extension of financial service delivery by microfinance institutions to micro, small and medium entrepreneurs;
- Contribute to rural transformation; and
- Promote linkage programmes between universal/development banks, specialized institutions and MFBs.

Furthermore, after the launching of the CBN's microfinance policy, the government enunciated other reform programmes such as the Financial System Strategy 2020 (FSS 2020) and the Federal Government Seven Point Agenda. The FSS 2020 specifically identifies the need to strengthen the domestic financial structures and markets through:

- developing competence and skills for financial services industry;
- leveraging on the oil and gas sector to develop the non-oil sectors;

- integrating the informal financial sector into the formal financial sector;
- improving access (especially by the low income populace) to finance; and
- Building an integrated infrastructure for the financial industry in Nigeria.

The microfinance policy framework has been operational now for five years and has guided the operations of microfinance institutions in Nigeria. However, development in the microfinance sector suggests a review of the policy framework was needed to reflect lessons of experience, and appropriately and strategically integrate microfinance sub sector into the national development agenda and reforms to help accelerate economic development, reduce poverty and improve living conditions of the generality of Nigerians. The microfinance policy framework was revised by the CBN in March 2011, taking cognisance of several issues that culminated into the poor performance of microfinance institutions under the former 2005 policy framework as well as leverage on the outstanding accomplishments of the policy.

1.4 REGULATORY SUPPORT FOR MICROFINANCE IN NIGERIA

1.4.1 CBN EFFORTS

i. The Central Bank of Nigeria (CBN) has a broad objective of stimulating economic activities through monetary policies instruments. As the key institution saddled with the responsibility of regulating and supervising the activities of operators in the financial service sector in Nigeria, the CBN develops policies for the formal financial sector and the microfinance sub-sector in the bid to adequately mobilise all resources necessary for financial service delivery driven growth and development.

ii. The microfinance sub-sector in Nigeria had been confronted by numerous challenges since the launch of the Microfinance Policy Framework in December, 2005. Coming on the heels of the banking sector consolidation, many of those adversely affected found their ways into the new microfinance sub-sector. Thus, a significant number of the newly licensed MFBs were established or operated like 'mini-commercial banks'. The erstwhile community banks (CBs) that converted to MFBs also had operational challenges resulting mainly from weak institutional structures and cultures.

iii. An assessment of the microfinance sub-sector, following the 2005 policy framework revealed some improvements. These include heightened awareness among stakeholders such as government, investors, development partners, financial institutions (including rural and urban microfinance institutions) and technical assistance providers on microfinance and this led to the emergence of a total of 866 microfinance banks licensed by the CBN. It also revealed the need for capacity building for microfinance operators resulting in the CBN embarking upon the Microfinance Certification Programme (MCP) put in place for operators of MFBs and the IFAD-RUFIN capacity building initiative for MFIs, NGO's and other informal financial service providers. Accordingly, the rural economy, the economically active poor and entrepreneurs are increasingly benefiting from previously inaccessible financial services such as credit, savings, financial advisory services and payment services and these translate into higher productivity, income and increased employment; all with huge potential for economic growth and development consistent with national development agenda.

iv. Despite the above development, a large percentage of Nigerians are still excluded from financial services. Several factors have accounted for the persisting gap in access to financial services despite the 2005 CBN policy intervention. For instance, the distribution of microfinance operators in Nigeria is lopsided, as many of the operators are concentrated in a particular region of the country and mostly within metropolitan cities. Most of the rural areas are yet to be covered as investors perceive very low business volumes and doubtful of profitability in those areas. It was also noted that many of the licensed microfinance banks carried over the inefficiencies and challenges faced during the community banking era. Furthermore, the general dearth of knowledge and skills of microfinance operators affected the performance of the MFBs. Lastly, there are still inadequate funds for intermediation by the MFBs owing to lack of aggressive savings mobilization, inability to attract commercial capital, and the non establishment of the Microfinance Development Funds.

vi. The global financial crisis of 2007/2008 further impacted on the microfinance sector in Nigeria as credit lines dried up, competition became more intense and credit risk increased to the extent that many microfinance clients particularly those of MFBs were unable to pay back their loans owing to the hostile economic environment.

vii. Prior to the Microfinance Policy of the CBN and the consequent establishment of Microfinance Banks (MFBs) under the Microfinance Policy, the people that were unserved or under-served by formal financial institutions usually found succour in non-governmental organizations- microfinance institutions (NGO-MFIs), moneylenders, friends, relatives, credit unions, etc. These informal sources of funds have helped to partially fill a critical void, in spite of the fact that their activities were neither regulated nor supervised by the CBN and the fact too of the prohibitive cost of their intervention to this segment of the market.

viii. The revised policy framework took cognisance of this category of institutions, which have now become key players in the Nigerian microfinance landscape, but more emphasis is placed on MFBs because they are under the regulatory and supervisory purview of the CBN.

ix. The 2011 revised policy takes into consideration the impact of non-MFB MFIs and provides for their mainstreaming into the national financial system. The policy also seeks to harmonize operating standards and provide a strategic platform for the evolution of microfinance institutions particularly MFBs. The policy advocates that existing non-deposit taking service providers, which operate outside the purview of regulation and supervision, will be encouraged to make periodic returns on their operations to the CBN, for statistical purposes only.

x. The revised National Microfinance Policy Framework for Nigeria also aims to enhance the provision of diversified microfinance services on a long-term, sustainable basis for the economically active poor and low income groups. It also provides appropriate machinery for tracking and harmonizing the activities of development partners and other non-bank service providers in the microfinance sub-sector of the Nigerian economy.

1.4.2 Justification for Microfinance Policy

The justifications for the inauguration of the Microfinance Policy by the CBN among others include the need to address the challenges of the sub-sector which are not limited to:

i. Weak Institutional and Network Capacity

The prolonged sub-optimal performance of many erstwhile 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. The absence of a network platform which could help providers improve in areas such as information technology (IT), audit, product development and marketing constitute another major developmental constraint.

ii. Weak Capital Base

The weak capital base of existing microfinance institutions could not adequately provide a cushion for the risk of lending to micro enterprises.

iii. Poor Banking Culture and Low level of Financial Literacy

The primary target of the microfinance initiative include people who have never had any banking relationship in their lives, either due to poor financial literacy, remoteness from bank locations, or complete ignorance of what banking entails. Most of these people equate microfinance with micro-credit, seeing banks and other fund providers not as partners in business but mere sources of loans and advances.

iv. The Need for Increased Savings Opportunity

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 savings are risky, low in terms of returns and undermine the aggregate volume of resources that could be mobilized and channelled to deficit areas of the economy. The microfinance policy provides the needed window of opportunity and promotes the development of appropriate (safe, less costly, convenient and easily accessible) savings products and other delivery channels that would be attractive to rural clients and improve the savings level in the economy.

v. Increasing Interest of Local and International Investors in Microfinance

Many local and international investors have expressed interest in investing in the country's microfinance sector. Thus, the establishment of a Microfinance Policy Framework for Nigeria provides an opportunity for them to participate in financing the economic activities of low income groups and the poor.

vi. Urban Bias in Banking Services

Most of the existing banks are located in urban centres, and several attempts in the past at encouraging them to open branches in the rural areas did not produce the desired results. With a high proportion of the Nigerian population still living in the rural areas, it has become absolutely imperative to develop an institutional framework to reach the hitherto unserved population with banking services.

1.4.3 Microfinance Policy Targets

Based on the assessment of the microfinance environment, a number of microfinance policy targets were established by the CBN consistent with the national development agenda of the Government of Nigeria: These are:

i. To increase access of the economically active poor in Nigeria to financial services by 10 per cent annually, thereby creating millions of jobs and reducing poverty;
ii. To increase the share of microcredit as percentage of total credit to the economy from 0.9 per cent in 2005 to at least 20 per cent in 2020; and the share of microcredit as a percentage of GDP from 0.2 per cent in 2005 to at least 5 per cent in 2020
iii. To ensure the participation of all States and the FCT, as well as, at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities by 2015; and
iv. To eliminate gender disparity by ensuring that women's access to financial services increases by 15 per cent annually, that is, 5 per cent above the stipulated minimum of 10 per cent across the board.

The National Microfinance Development Strategy identifies with the revised Microfinance Policy, Regulatory and Supervisory Framework for Nigeria (2011) and the policy targets established by the CBN consistent with the national development agenda of the Government of Nigeria

CHAPTER TWO

2.0 MICROFINANCE DEVELOPMENT STRATEGY FRAMEWORK

For microfinance to sustainably target those that are excluded or underserved by the formal financial system and for the service providers and other stakeholders to effectively play their roles to contribute to Nigeria's national development agenda, appropriate strategic framework is required. It is essential that all stakeholders, policymakers, donors, practitioners and others understand what is implied in Nigeria by the term "microfinance", particularly given the challenging circumstances that exist at present (enumerated in chapter 1). Understanding and having common perspective of the concept of microfinance will lead to effectively and appropriately developing the microfinance sub sector in Nigeria.

The key targets of the microfinance development strategy are the economically active poor who have potential to generate income, have some skills but are excluded or underserved by the formal financial system. The clients include operators in the microenterprise sector and the vulnerable poor people who are in very low income earning jobs especially youths and women. The client group thus consists of those who live below the poverty line and are engaged in some form of business or economic activity, but who do not have access to, or are inadequately served by the formal financial sector. The strategy also targets the regulators, the operators and support-service providers.

The microfinance strategy focuses on building financial systems that serve the poor and is premised on the principle that microfinance can reach its full potentials if it is incorporated into Nigeria's overall formal financial sector and supported by permanent local financial institutions that provide financial and other non - financial services needed by the poor. The microfinance development strategy addresses the envisaged developments over a timeframe of five (5) years. It presents the key challenges in critical areas of the sector and the intervening actions required. The involvement of all stakeholders to place microfinance and financial inclusiveness at the heart of Nigeria's development agenda is critical to ensure that the proposed development strategy provides the benefits that are expected from the concerted vision and the developed mechanisms of reform.

Given the five-year time horizon of the strategy, it prescribes an assessment of implementation after five years and possible revision consistent with the implementation progress and the realities of vision 20: 2020 and the financial system strategy 2020.

2.1 Vision of Microfinance in Nigeria

The vision is to have a viable and sustainable microfinance market that will be achieved in a liberalized and market-oriented economy where the private sector plays the major role and the government provides enabling environment through the appropriate strategy and institutional policy framework.

The Vision

To have an effective and sustainable microfinance sub-sector that provides access to a range of financial and non financial services to the economically active poor thereby promoting tangible economic and social development.

Mission

To develop a viable microfinance sector that integrates sustainable financial services for the economically active poor and the institutions that provide and support them into the national mainstream financial system.

Specifically, the objective is to provide low income segment of the population and microenterprises access to financial services. This will empower the poor to make critical decisions about their work, their life and the welfare of their households.

2.2 The Strategy Framework

(a) Underlying Principles

In accordance with the vision, private microfinance institutions (MFIs) and other financial service providers will provide the economically active population financial services on a viable and sustainable basis while the government and other policy influencing institutions will provide a competitive and liberalized market environment.

The Nigeria microfinance development strategy is therefore built on the following principles:

- The poor people need a variety of financial services that are convenient, flexible, and affordable. In addition to credit they need savings, insurance, and cash transfer services.
- Microfinance and financial inclusiveness require developing financial systems that serve the poor and microfinance can reach its full potential if it is integrated into Nigeria's mainstream financial system
- Government will provide an enabling policy environment and maintain macroeconomic stability that will facilitate the increased participation of the private sector in microfinance and the provision of financial services to the financially excluded.
- Regulatory policy framework will deliberately promote the prevalence of financially sustainable microfinance institutions that can reach very large numbers of poor people.
- Access to financial services by the poorer people is a powerful tool to fight poverty and the economically active poor need microfinance to raise income, build their assets and invest in better nutrition, housing, health, and education.
- There will be market-oriented financial and credit policies including cost recovery interest rates on loans and deposits;
- Governments and the donor community will facilitate and encourage access to financial services, and not to provide them directly.
- The microfinance stakeholders will assist in capacity building of microfinance operators and will enable the appropriate supervisory and regulatory framework to make markets more efficient and institutions more viable.

(b) Development Strategy Objectives

The objectives of the strategy include the following:

- Increasing access to sustainable financial services by poor and low-income families, microenterprises and in particular women and the vulnerable. Credit demand of the active poor will be met through a variety of innovative financial products provided by the private microfinance market.

- Building the institutional capacity of microfinance operators to ensure operational and financial sustainability.
- Encouraging the development of businesses and services that support the microfinance industry (such as, legal, credit bureau, auditing, and business development services).
- Integrating the informal financial sector into the formal financial sector and supporting permanent local financial institutions that provide financial and other non- financial services needed by the poor.
- Building support for the rural economy. The rural finance service providing institutions (MFIs, MFBs, NGOs, cooperatives, etc) in structure and focus should be able to support agriculture value chain and other rural activities.
- Enhancing the legal and regulatory framework for MFIs as part of deliberate measures to strengthen and broaden the financial sector.

(c) Strategic Areas of Focus

To achieve these objectives, the strategic areas of focus for all stakeholders within the five year strategy period include the following:

i. Promoting awareness of microfinance and its benefits. The strategy emphasizes supporting investments that will cover awareness building programs on a broad range of microfinance services; information dissemination on service providers; basic literacy, numeracy, and skills training for women, ethnic minorities, and other disadvantaged groups and social mobilization for active participation in microfinance markets.

ii. Institutionalizing a legal and regulatory environment that supports the establishment of new MFIs and the integration of MFIs into the financial community.

iii. Capacity building through training and other support programs.

iv. Supporting industry development through formal and informal networking opportunities, increasing access to specialized funding and business opportunities with the banking industry to provide MFIs with needed customized banking services and promote partnering arrangements between the operators and banks.

v. Provision of diversified, affordable and dependable financial services to the economically active poor, which otherwise would have been excluded, in a timely and competitive manner, to enable them undertake and develop long-term, sustainable entrepreneurial activities;

vii. Creation of employment opportunities and increase in the productivity of the active poor in the country and enhancing their individual household income and uplifting their standard of living;

viii. Promotion of synergy and mainstreaming of the informal microfinance sector into the formal financial system

ix. Enhancement of service delivery to MSMEs by all microfinance institutions and rendering of specialized services such as payment of salaries, gratuities, and pensions by those licensed by the CBN;

x. Mobilization of savings for intermediation and contribution to rural transformation;

X. Promotion of linkage programmes between MFIs on one hand, and DMBs, DFIs and specialized funding institutions on the other;

xi. Provision of sustainable avenues for the administration of the microcredit programmes of government and high net worth individuals on a non-recourse basis;

xii. Promotion of an enabling platform for microfinance service providers to network and exchange views and experiences on their products and processes.

xiii. Incorporating gender dimensions in all microfinance programmes, legislations and policy changes to help minimize gender inequalities and promote women access to financial services

2.3 DEVELOPMENT STRATEGY ORIENTATION

In order to realise the vision and objectives of the strategy, actions are required in four strategic areas:

- Regulatory and Supervisory Framework
- Capacity Building Strategies for Microfinance
- Financial Infrastructure and other Support Services
- Financial Inclusion

2.3.1 Regulatory and Supervisory Framework

The development of the regulatory and supervisory strategies for the national microfinance development deals with critical actions in the following areas:

- ❖ Legal issues
- ❖ Regulatory guidelines - financial and prudential issues
- ❖ Supervisory environment and resources
- ❖ Sector level risk management priorities
- ❖ Non-Prudential and self-regulation
- ❖ Regulatory/Supervisory capacity, structures

2.3.2 Capacity Building Strategies for Microfinance

The capacity building strategies cover retail level institutional capacity building including staff and board development, corporate governance, etc; including capacity building of support services and infrastructure providers and Regulatory institution building.

2.3.3 Financial Infrastructure and other Support Services

The strategy development includes the following financial infrastructure and support services, credit bureau/information services, rating agencies, micro-insurance, micro-leasing and capital market. It also includes wholesale funding, apex associations and professional and business development services-external audit, legal etc

2.3.4 Financial Inclusion

The strategies for promoting financial inclusion are in the areas of gender, social intermediation, financial literacy and consumer protection. It further covers outreach, product development and the strategies for information and communication technology development in the sector.

CHAPTER THREE

3.0 THE REGULATORY AND SUPERVISORY FRAMEWORK STRATEGY

The strategic focus of regulation and supervision shall be to promote outreach (financial inclusion), system effectiveness, stability and sustainability. This implies that attention will be paid to strategies that stimulate a rapid development of the sub-sector and simplify the entry of new players as well as seamless transition from one institutional type to the other, including MFBs, NGO-MFIs Financial Cooperatives and community-based institutions, which shall embrace international best practices, without compromising on sustainability safeguards. Accordingly, the strategy aims at a regulatory environment and supervisory framework that produce robust, efficient and sustainable microfinance institutions. Consequently, the following major strategic issues are imperative:

3.1 Legal and Regulatory Issues

The Microfinance sub-sector is, no doubt, an integral component of the overall financial sector, but there is now a pressing need to decide a proper legislative platform for its operation. The choice is between a specific Microfinance Law and simply using the present financial institution regulatory framework – the BOFIA, the Companies Act, and cooperative legislation. The latter is the more feasible path at this time and in the immediate sense because of the complexity of getting a new law enacted. However, even if we stick with present legislation, changes can and have to be made in the details of regulation. In connection with the Financial Sector Strategy (FSS) 2020, a broad range of revisions in the legislation affecting Nigeria's financial sector is underway. It is essential that each piece of legislation be reviewed from the point of view of its impact on the microfinance sub-sector. For example, the CBN has just announced an important change in the regulations for Microfinance Banks, which to a lesser extent will impinge on deposit-money banks and CBN-regulated finance companies. The introduction of a new IT platform (FINCONET) for online returns, the engagement of new hands and the adoption of risk-based supervision are notable in this regard.

Parallel revisions in the legislation for cooperatives and the operations of NGO-MFIs are also desirable, especially to deal with consumer protection and/or regulatory arbitrage problems. The modification of some of the existing laws and regulations to provide for the peculiarities of microfinance will help to realise the globally acknowledged virtue of combating the challenges of poverty, unemployment, under-employment as well as contributing to enhanced aggregate economic growth. Therefore, the following specific strategies deserve serious attention:

3.1.1. Self Regulatory Organisations

To ensure that one of the goals of this strategy is realised, which is to boost outreach and ensure system sustainability, it has become imperative to create an effective regulatory and supervisory institutional strategy for the NGO-MFIs and financial cooperatives, outside of the current CBN regulatory framework. This requires the establishment of at least one independent, member-driven Self-Regulatory Organization (SRO), which will enhance the development of the sub-sector by implementing a set of non-prudential regulations and ensuring MFIs' self-enforcement and compliance (see the section on non-prudential regulations).

For the SRO, an existing institution, the Apex Association for MFIs, shall be nurtured (with appropriate technical and financial support from all key industry stakeholders) to grow into this responsibility, after clear specification of mandate and provision of necessary capacity building to perform on the mandate. The services and opportunities offered and membership benefits presented by the SRO together with the visible regulatory and key stakeholders' involvement shall serve as incentives for membership. The SRO (along with its State Branches) will be expected to institute a uniform reporting and financial management standards for the NGO-MFI members which, when embraced, will make for transparency, harmonised standards and tracking of performance. The SRO will also be encouraged to put in place an automated reporting format which the NGO-MFI members must use to report to it at specified regular intervals. The current state of public reporting for microfinance institutions in Nigeria is quite limited and needs to be improved. The issue of gender is so important that in reporting performance, MFIs would be required to disaggregate their data to show gender distribution of beneficiaries. Performance benchmarks shall also be defined based on the uniform reporting standards to facilitate MFI ranking/rating. (This rating will be additional to internationally recognized assessment and rating facility (e.g. CGAP rating initiative) to which the MFIs in Nigeria shall be encouraged to submit.

When fully developed, the SRO shall establish partnership with the CBN and support institutions such as Micro-credit Bureaux and Rating Agencies. It will engage in the development of generic products (such as loans, savings/deposits, payments, transfers, leasing, small mortgage finance and micro-insurance) that could be taken and adapted by members, and would be organised to serve as the national entry point for microfinance donor assistance to Nigeria.

The SRO will develop and monitor industry standards and undertake media enlightenment. To elicit expected response from the member MFIs, the SRO shall develop and implement incentives such as preferential access to donor capital, access to network information and capacity, and awards/national recognitions for top MFI performers. Furthermore, the SRO will establish a mechanism to disseminate consolidated information on the sector to member-institutions as a service in exchange for sustained commitment and submission of periodic reports to it. International NGOs and Development Partners shall be encouraged to make the emergence of this SRO a priority in their programme of support to the microfinance sub-sector of the Nigerian economy, while the government provides all the necessary policy support in tandem with the realisation of this strategic goal.

The administrative rules giving birth to this SRO shall be drafted by the CBN (drawing necessary inputs as may be required) and the rules shall explicitly provide for Memorandums of Understanding between the SRO and the CBN, primarily for information exchange. Furthermore, the existing National Consultative Committee on Microfinance shall be expanded to include the new SRO as well as other apex institutions whose operations impinge on microfinance. Such institutions include National Insurance Commission (NAICOM), the Securities and Exchange Commission (SEC), Federal Mortgage Bank of Nigeria (FMBN), Bank of Agriculture (BOA) – formerly Nigerian Agricultural Cooperative and Rural Development Bank, and the Bank of Industry (BOI).

The issue of financial cooperatives is a little different. There are different types of cooperatives and they are mainly registered and regulated by State laws; only a few of them by the Federal laws.

The cooperative system was largely created, at the initial stages, as channels through which the state could support farmers and also collect repayment (produce buying), but the cooperative system has since grown.

The Cooperatives are about four types depending on the State of registration, activities and constitution.

Farmer's Cooperatives: Mainly made up of farmers. Common in the South-West, the cooperative receive both loans and credit in cash and kind from sources and distribute to members. It also collects goods from members for bulk sale. Farmers cooperative naturally should be classified as clients of Microfinance Institutions rather than seen as financial intermediaries. They are best classified as self help groups.

Savings and Thrift Societies: this second category of cooperatives focuses more on financial intermediation amongst members only. These days they could provide opportunities for non members to save or borrow either directly or through other members. However this attracts penalty and there must be a strong member(s) making a case for this. It is usually not the practice.

Trade Cooperatives: This is usually for people in the same line of business and very common amongst market women. They are usually set up as an association to protect the interest of members and to support members in times of need. Some forms of intermediation do take place amongst members but members' needs are almost homogeneous and demands for support fall around trade cycles. Most of the times, the cooperative borrows from third parties (e.g. microfinance banks) to meet the needs of members. In this wise, this category of cooperatives are more like clients of Microfinance institutions.

Multipurpose Cooperatives: The activities of this type of cooperatives cut across the various activities of the cooperative from trading to financial intermediation including social intermediation. They are more commonly found in the South-East.

The Credit Union: as seen in the top diagram, this is an apex for cooperatives and the activities of the Credit Union are largely financial intermediation within and across the member cooperatives. The union intermediates unused funds of one cooperative through the others as loans and also access large loans which are channelled to members through their cooperatives. Depending on their size they could also be target of wholesale microcredit institutions like the CDF but they can safely be regarded as financial intermediaries.

Presently, there is a **Cooperative Federation of Nigeria** which serves as the Apex for cooperatives and credit unions. The extent to which it controls the cooperatives nationally is weak, albeit unknown. Furthermore, the **Apex Farmers' Cooperatives**, to which most farmers' cooperatives are affiliated, are currently factionalised. An immediate necessary action would therefore be to strengthen these Apex institutions as well as the Department of Cooperatives in every State of the Federation so that they can be veritable access through which outreaches could be made to rural areas. Their mode of operation would also allow peer pressure to replace the traditional collateral in microfinance. For now, much success may be elusive in seeking to bring these cooperatives into the mainstream of regulated microfinance. In any case, every nation keeps some level of informality for its economy to thrive, and at their present scope/scale of operations, the distortionary effect of the activities of financial cooperatives will certainly be insignificant.

3.1.2 Review the strategy of the DFIs in Nigeria

The dearth of necessary specialised microfinance skills as well as the limited branch network of some of the existing DFIs such as BOI and BOA would require that these banks limit their engagement in direct/retail microfinance services. Their modes of operation shall therefore be reviewed to reduce them to wholesale institutions, using existing MFBs and NGO-MFIs that are fully subscribed to the proposed SROs as retail outreaches.

3.1.3 Special Funds for Microfinance Development

Globally, there is a growing acceptance of microfinance as a tool for economic inclusion and poverty alleviation. Consequently, there are increasing flows of funds and grants across national frontiers from Donors, Development Partners and philanthropists in support of microfinance. Within Nigeria, virtually all the tiers of government in Nigeria have also introduced or are on the verge of introducing some special funds in support of microfinance activities. Some of these funds are currently operated in manners that distort/disrupt the microfinance market. A national Microfinance Development Fund shall be established, championed by the CBN. State equivalents shall also be encouraged. However, new administrative rules or regulations shall be introduced to streamline the establishment and operation of these funds so as to preserve the sustainability and efficiency of the emerging microfinance system. In particular, no microfinance intervention funds shall operate in a manner that distorts the market or reduces the incentives of MFBs/MFIs for savings deposit mobilisation. CGAP (2011) has just re-emphasised the virtues of deposit intermediation in terms of how it helps to reduce the cost of microfinance funding and reliance on unpredictable cross-border sources of funding[4].

3.1.4 Microfinance Agents

Access, as opposed to cost, has been confirmed as the number one challenge confronting the adoption and utilization of microfinance globally. In Nigeria, the problem is further exacerbated by infrastructural inadequacies, low level of financial literacy and limited outreaches of financial institutions. The good news is that there are several existing institutions and service providers that could be integrated into the microfinance network, thereby redressing, if not out rightly overcoming, the challenge of reach. Some of these existing institutions/service providers are the Nigeria Postal Service, Primary Mortgage Institutions, well established Department Stores, Mobile Telecom Channels and Operators, etc. Where necessary, the laws establishing these institutions would be modified and/or new laws put in place to allow them to provide microfinance services, especially as agents of MFIs/MFBs. The existing partnerships between some MFBs and some mobile telecommunication companies shall also be properly institutionalized.

3.1.5 Provision for Unsecured Lending

Because of the clear distinction between microfinance and conventional bank financing, the current rule pegging unsecured lending limit at N50, 000 in BOFIA would require amendment to exclude MFBs. Furthermore, the use of a broader range of collaterals such as social/peer pressure and third-party guarantees (inclusive of women guarantors), vehicles, informal housing, stocks, machinery, receivables,

[4] CGAP(2011): MIX Microfinance World: Sub-Sahara Microfinance Analysis and Benchmarking Report 2010.

commercial papers, factoring, cash, etc shall be institutionalised as acceptable collaterals while playing down the enforcement of criminal sanctions. The truth is that even if the existing rule does not recognise this, it is the current pervasive practice in most unregulated MFIs, and if it is working for them, there are no reasons to believe that it will not work if applied on a wider scale. An extended advantage of this strategic review is that it would encourage the development of other microfinance services/products apart from credit.

3.1.6 Distinction between NGO-MFIs and other NGOs

Unlike the generic NGOs, NGO-MFIs operate more like financial institutions, with major distinctions in the way they access capital and carry out routine operations such as the signing of cheques and the discharge of corporate governance responsibilities. For an NGO-MFI, corporate governance matters such as composition of Board/Board Committees (e.g. Audit) and Management/Management Committees (e.g. ALCO) – their qualifications, tenors, meetings and reports of meetings, filing of statutory returns, Board relationship/engagement with Management, etc are of utmost importance. This need not be so (or to the same extent) for a social NGO. An administrative procedure distinguishing between these institutions is therefore imperative and shall be put in place. However, where an NGO combines both financial and non-financial services under the same roof, the newly advocated SRO shall monitor and ensure that distinct records/account are kept for each line of activity.

3.1.7 Unregistered/unregulated small/micro MFIs which also take deposits from the public

This strategy recognises that all institutions that are unregistered/unregulated and yet engage in taking deposits from the public shall be regarded as illegal entities. Measures to detect, arrest and charge such operators for economic crimes shall be put in place. To facilitate their early detection, names of authorised/licensed MFIs/MFBs shall be published periodically for the information of members of the public.

3.1.8 Filling Other Legal/Statutory Gaps

Adequate interest shall be taken to ensure that other laws with notable effects on microfinance business, such as the leasing law (which is still stuck in the National Assembly) – with emphasis on micro-leasing, dispute resolution, harmonised national cooperative laws, etc, are also put in place. The possibility of extending deposit insurance services by the Nigerian Deposit Insurance Corporation (NDIC) to deposit-taking NGO-MFIs, which are in total compliance with the requirements of their SRO, shall also be explored. Microfinance stakeholders must take interest in the promulgation and application of these laws, not only in general terms, but also in terms of their contents.

3.2 Prudential Guidelines and Supervisory Environment/Capacity

This new microfinance development strategy recognises the reasons why many of the licensed MFBs collapse. They include:

i. High level of non-performing loans resulting in high portfolio at risk (PAR) which impaired their capital;
ii. Gross undercapitalization in relation to their level of operations;

iii. High Level of non-performing insider related credits and other forms of insider abuse;
iv. Poor corporate governance and incompetent boards;
v. Heavy investments in the capital market with the resultant diminution in the value of the investment after the melt-down;
vi. Poor asset – liability management owing to portfolio mismatch;
vii. Heavy investment in fixed assets beyond the minimum limit prescribed;
viii. Operating losses sustained as a result of high expenditure on staff and other overheads;
ix. Weak management, evidenced by poor asset quality, poor credit delivery and administration, inadequate controls, high rate of fraud and labour turn over;
x. Failure to meet obligations to customers etc.

Therefore, the primary goal of prudential regulations, which shall continue to strictly apply to licensed MFBs (and strongly indicative to other MFIs), will remain the achievement of a balanced growth, transparency, and control of the risks within the sub-sector. The strategies below, most of which are also embedded in the CBN Regulatory and Supervisory Guidelines, are considered to be of strategic importance and shall be enforced on a timely basis:

3.2.1 Capital Base

To encourage the entry of new players and, by implication, stimulate outreach and achieve inclusion, the CBN will operate three categories of MFB licences as stipulated in the revised Microfinance Policy:

i) Category One: These are Unit/One branch MFBs with liberty to serve customers irrespective of their location. The minimum eligible start-up capital base shall be N20 million (twenty million naira only).

ii) Category Two: These comprise MFBs that are licensed to operate as State MFBs. The minimum capital requirement shall be N100 million (one hundred million naira only).

iii) Category Three: These are MFBs licensed to operate as national microfinance banks, although State MFBs can attain this status through organic growth. The minimum capital requirement shall be N2 billion [two billion naira only].

3.2.2 Capital Adequacy

The need to ensure that MFBs are individually sound, thereby minimising high chances of financial contagion, has necessitated the specification of (i) Minimum Capital Adequacy Ratio (CAR) – i.e. Capital/Risk-Weighted Assets and (ii) Ratio of unimpaired Shareholders' Funds to Net Credits. Therefore, a minimum CAR of 15 per cent as well as 1:8 ratio of unimpaired shareholders' fund to net credits currently specified in the CBN's Regulatory and Supervisory Guidelines shall continue to apply.

3.2.3 Maintenance of Capital Funds

To avoid the likelihood of systemic distress, all licensed MFBs shall make mandatory transfers from net profits into a Reserve Fund before declaration of Dividend as may be specified by the CBN from time. The following current specifications shall be strictly adhered to: 50% net profit transfer when amount in Reserve Fund is less than 50% of paid-up capital, 25% net profit transfer when Reserve Fund is 50% of paid-up capital or more but less than 100%, and 12.5% net profit transfer when Reserve Fund is 100% or more of paid-up capital. No MFB shall declare dividend from its profit until its pre-operational expenses have been fully written off and has also satisfied the CAR and loan loss provisioning condition.

3.2.4 Provision for Classified Assets and Loan Re-structuring

Loan losses represent one of the causes of distress in the MFBs in recent times. Therefore there shall be strict enforcement of the five categories of provisioning as follows: 1 (one) per cent for performing assets, 5 per cent for pass and watch (1-30 days), 20 per cent for substandard (31-60 days), 50 per cent for doubtful (61-90 days) and 100 per cent for lost (more than 90 days and/or restructured). Only fully provided loans can be written off by an MFB whileall restructured microfinance loans shall be treated as non-performing loans and not more than two restructuring shall be allowed.

3.2.5 Past Due Credit

Micro-credit shall be regarded as past-due on the first day after an agreed principal or interest is unpaid. For a group credit, it becomes past due the day a member of the group defaults and other members fail to pay/cover-up.

3.2.6 Portfolio at Risk (PAR)

This is defined as any outstanding principal that has at least one instalment past due for one or more days. To align with prevalent international norm, only a maximum of 10 per cent PAR, recognised after 30 days, (as opposed to 2.5 per cent currently specified by the CBN) per MFB shall be allowed; and no interest accrual is allowed on any micro-loan that is past due or restructured.

3.2.7 Liquidity Ratio and Cash Reserve

Transactions at microfinance banks are usually more cash-oriented than in the traditional deposit money banks. Therefore, the Liquidity Ratio shall, as specified by the CBN, be a minimum of 20 per cent deposit liabilities – inclusive of 5 per cent compulsory investment in Treasury Bills. Investment in government Treasury Bills shall be a minimum of 5 per cent of deposit liabilities, and this shall also constitute part of cash reserve for the MFB.

3.2.8 Limits of Investment in Fixed Assets

An ideal microfinance model abhors heavy investment in fixed assets, but this was not the case with most of the first generation MFBs that were licensed by the CBN and the reason is not far-fetched – the bulk of the operators were those who lost out from the reform of the (then) commercial banking system. Their heavy investment in fixed assets such as luxurious office buildings and automobiles resulted in asset mismatch and liquidity crunch, which had deleterious effect on their operations. To avoid a future recurrence, the limit of investment in fixed assets which was fixed at 20% of unimpaired shareholders' fund, but was seriously flouted, shall henceforth be strictly monitored and enforced.

3.2.9 Unsecured Lending Limits

In recognition of some of the unique features of this type of business, microfinance operations shall be excluded from the BOFIA provision that pegs unsecured lending limit at N50,000.00, while administrative rules/legal provisions are relaxed to admit other forms of collateral as securities for micro-loans.

3.2.10 Single Obligor Limit

To avoid undue loan concentration and minimise vulnerability to shocks due to defaults, the single obligor limit shall remain fixed at one per cent of unimpaired Shareholders' Fund for an individual, 5 per cent for a group, and 5 per cent for insider-related lending and shall be strictly enforced.

3.2.11 Portfolio Restriction and Investments in Enterprises

As specified by the CBN, no MFB shall be allowed under the existing policy to give less than 80 per cent of its portfolio to micro-enterprises, or more than 20 per cent to SMEs. The maximum equity holding in permissible enterprises shall be 7.5 per cent. This is also to be strictly enforced.

3.2.12 Asset Revaluation

All asset revaluation surplus shall be cleared with CBN, and must be discounted by 55 per cent before adding value to the books.

3.2.13 Penalties for Regulatory Infractions

In line with emerging global best practices, the strategy for sanctions meted out for infractions shall move from financial to non-financial/administrative penalties such as the prohibition of declaration of dividends; restriction on investment and/or lending, removal from office and prosecution of culpable personnel, suspension of the opening of new branches, etc.) In transiting to this new regime of sanctions, existing financial sanctions shall be made equitable, reflecting the various sizes of the MFBs.

3.2.14 Supervisory Environment and Resources

Regulation is only as good as the supervision that follows. Currently, the CBN supervisory capacity, especially for the MFBs, is grossly deficient and lags seriously behind the current market size, and if the envisaged entrance of new players under this NMDS materialises, the tendency for the operators to continue to take advantage of this loophole may create further jolts in the system. Since microfinance institutions (especially the MFBs) which are permitted to take significant public monies need to be supervised on the basis of clear, risk based, and effective standards, and since this supervision requires expert supervisory personnel with a high level of capacity and authority to act quickly in the case of threatened institutional crisis, then as a short-term measure, CBN should consider hiring consultants and training them in the use of standardised templates to supervise the microfinance institutions. This move shall be complementary to the Bank's new initiatives of hiring more hands and the adoption by the MFBs of an electronic way of reporting on regular basis. In the medium term, CBN shall consider whether to completely outsource its MFB supervisory functions or to develop adequate capacity in-house to ensure that all MFBs are effectively and comprehensively examined at least once a year. This is without prejudice to special inspection that may be organised on an 'in case of need' basis. In this regard, the bank will explore the establishment of a new microfinance supervision department for enhanced effectiveness and to cope with the potentially increasing number of MFBs and give the due attention to this important sub-sector of the financial system

3.3 Non-Prudential Regulations and Self-Regulations

While the non-prudential issues discussed in this section are complimentary to the prudential list for MFBs, they represent the primary focus for the NGO-MFIs and their SRO shall ensure strict adherence. The apex Financial Cooperatives shall also be encouraged to take their cue from these non-prudential provisions.

3.3.1 Commencement, expansion, exits

Licensing of MFBs remains the prerogative of the CBN and shall be issued from time to time by the Bank, but the underlining principles shall be simplification of entry, expansion and exit. Already, the three-tier capital structure represents a major step towards attracting new entrants/investors, the Bank (CBN) shall ensure that other administrative and licensing fees and procedures are transparent and alluring to fresh investors and existing MFIs that may wish to convert.

For NGO-MFIs, registration and regular filing of returns with Corporate Affairs Commission (CAC) is mandatory. Similarly, regular reporting of operations to the SRO shall be incentivised to the point of necessity. For the financial cooperatives, registration under National Cooperative Society Act 10 of 1993 plus membership of the Apex Cooperative Association (SRO-Coops) as well as the filing of regular returns shall be encouraged. In all cases, regulatory proposals shall be based on a quantified cost-benefit regulatory analysis of the comparative gains and burdens they entail. Furthermore, consideration will be given to the signing of MOUs between CBN, the SRO and CAC for NGO-MFIs and between the CBN and the Apex Associations for Financial Cooperatives, primarily for information exchange and experience sharing. As stipulated under the new licensing arrangement for the MFBs, all microfinance institutions are expected to grow organically; therefore there shall be procedures for orderly branch opening/relocation and exit, either at the instance of the MFB/MFI/Financial Cooperative owners or at the instance of the regulators.

3.3.2 Corporate Governance and Staff Issues

Strengthening corporate governance is viewed as a key instrument for ensuring best practices and sound operational structures within MFB's/MFI's. Therefore, the broad corporate governance principles set out by the CBN for licensed MFBs and as discussed later in this document for other MFIs would apply. Issues such as the composition of Board/Board Committees (e.g. Audit) and Management/Management Committees (e.g. Asset & Liability Committee - ALCO), – the qualifications and tenors of members, meetings and reports of meetings, filing of statutory returns, relationship and engagement with Management, etc; shall apply. Each institution shall put in place an Internal Control System – timely internal audit; reliable information and communication systems; policies and manuals, fraud detection and control strategies, etc. Each MFI shall be expected to design and implement appropriate procedures for staff matters – organogram, staff recruitment/performance assessment/training/ discipline, etc.

3.3.3 Support Institutions

The role of, and subscription to support institutions such as deposit insurance, rating agencies, credit/micro-insurance, credit bureaux (for simplified appraisal of the character and payment history and capacity of individual borrowers) and staff registry/clearing house for all microfinance staff (to minimise hibernating opportunities for fraud-prone personnel), is considered very critical to the success of the microfinance system. Since it is necessary to make this subscription mandatory for all MFIs (inclusive of MFBs), initial subscription to these support institutions (especially to the credit and staff registries) shall be incentivised and donor institutions will be sensitized to make the provision of this incentive one of their priorities.

3.3.4 Relationship with Customers/Consumers & Consumer Protection

Arrangement shall be put in place to ensure and monitor adherence to the KYC (Know Your Customer) rule. All MFIs and financial cooperatives shall be mandated to commit their institutions to the principles of fair treatment; transparency in transactions/products – especially with regards to loan costs, documentation, privacy, etc; customer education/capacity building; and recourse mechanisms for effective resolution of errors, complaints and disputes; etc. In terms of an institutional framework for consumer protection, the CBN OFISD (or the newly proposed Microfinance Supervision Department) and the emerging SRO will be required to set up internal units to monitor and enforce consumer protection issues in the MFBs/MFIs.

3.3.5 Fiscal Incentives

At the moment, only MFBs pay income tax from their profit, while NGO-MFIs and Financial Cooperatives are exempted. In implementing this strategy, equity in tax treatment is advocated for all microfinance institutions, implying the need for some tax incentives for MFBs, especially to compensate for their non-economic (albeit social and environmental) engagements. All properly quantified social and environmental activities should be treated as CSR and therefore tax-exempt.

3.3.6 Transformation of NGO-MFIs into MFBs

A window of technical support for advisory and technical assistance shall be opened outside of the MDF, jointly funded by the CBN, other regulators, SROs and willing Donors, to assist NGO-MFIs that are willing to transform into MFBs. This window may be housed in the microfinance development function/department of the CBN and will convene on an 'in case of need' basis. Membership shall be from the CBN/Regulator, the SRO and contributory Donors. The activities of this window will help to prevent some of the weaknesses that characterised the conversion of Community Banks to MFBs in the recent past.

3.3.7 Identification of an MFI

Whether they are MFBs, NGO-MFIs or Financial Cooperatives, microfinance institutions in Nigeria shall henceforth be properly identified. In the same manner that KYC is important, so it is even more important to know the Vendor. When legal identity is clear, it becomes very easy to know natural persons who are liable for the institutions activities. Therefore, a generic identity logo shall be introduced (duly serialized in a controlled manner) and shall only be obtainable from the regulator or the SRO. Members of the public shall be educated on the importance/use of this logo by legitimate MFIs/MFBs.

3.4. Sector- level Risk Management Priorities

Unlike in the past when the vast majority of MFIs are either NGOs or simple cooperatives, most of which had very simple and low risk capital structure in addition to not being exposed to material market risks, the situation has since changed remarkably. Not only do we now have many MFIs that borrow in foreign (or hard) currency, we also have cross-institutional interactions with clear financial contagion implications. Credit, liquidity and market risks have also assumed greater prominence and must be well managed to ensure an expansion of product offerings, improve portfolio stability and increase market penetration and/or diversification. Credit risks are traceable to financial losses attributable to credit loan portfolios, interest receivables and inter-bank balances. Liquidity risks derive from an MFI's inability to meet its financial liabilities such as the settlement of borrowings, payment to suppliers, or even ensuring that the MFI has sufficient liquidity to meet its liabilities as and when due without incurring unnecessary losses or risking damage to its reputation. Market risks, on the other hand, relate to optimising capital structure and diversifying funding sources. It is now imperative that the SRO in agreement with its member-MFIs as well as apex financial cooperatives set limits for these risks and effectively monitor to ensure adherence to these limits.

To mitigate credit risks, each MFI shall, among other things, ascertain the credit worthiness of borrowers, monitor all advances on a continuous basis, ensure social and moral pressure of the community members on borrowers (apart from other security measures already advocated in this strategy document), as well as perform active follow-ups on credit beneficiaries. To contain liquidity risks, MFIs shall be required to pay attention to working capital and liquidity management. Access to short-term financing from highly rated financial institutions and the Microfinance Development Fund shall also be created (in the same way that the Central Bank performs 'Lender of Last Resort/Refinancing service to deposit-taking banks). To mitigate market risks, MFIs would have to optimise their capital structure and diversify their funding sources.

Furthermore, part of the sector-level risk management function, which this strategy document is prescribing, is embedded in the new, enhanced GIRAFE specifications (where **G** is Governance; **I** is Information; **R** is Risk Management; **A** is Activities, **F** is Funding and Liquidity; and **E** is Efficiency and Profitability. As would be seen in Annex B, the increasing risk factors associated with Governance, Activities and Funding/Liquidity have been further highlighted and, in some cases, assigned greater weights[5]. Credit and liquidity risk elements are now clearly brought out in the enhanced GIRAFE, in addition to the traditional **R**, which is still no less important. With regards to this **R**, the priority elements/focus shall be Procedures & Internal Controls as well as Internal Audit. Each MFI would have to develop and continually update its manuals of operations, which must conform with international best practices. The loan policies (including provisioning clauses) must be well documented, while fraud detection and control measures must also be in place.

3.5 Regulatory Structures and Effectiveness

The strategy supports the continuation of a legally-empowered regulatory and supervisory commission for MFBs and the adoption of a properly streamlined self-regulatory apparatus for NGO-MFIs. Financial cooperatives would also be enjoined to take a cue from the SRO-NGO-MFIs. For purposes of operational and regulatory effectiveness, the proposed/new National Microfinance Regulatory Coordinating Council will have institutional governance support and guidance from other existing institutions such as the CBN, Federal/State Department of Cooperatives. NDIC, NAICOM, the new/proposed SRO, SEC, and CAC. This Council shall act also like a clearing house for all regulatory activities pertaining to microfinance institutions and operators in Nigeria.

Given the variety of players it may be desirable to re-invigorate the existing National Microfinance Coordinating Committee with regular meetings and an independent secretariat, so that it will function as a centre for performance tracking and information sharing among regulatory stakeholders and representatives of the

[5] Planet Rating (2008): www.planetrating.com

operators. Without any special statutory backing, this body would also monitor the progress in implementing the strategy and serve the proposed Regulatory Council in an advisory capacity. In the past, the track record of advisory organs in Nigeria is not too solid, but going forward, efforts will be made to ensure that this Committee functions both at a senior and working level and has independent access to resources and staff. In other words, the mandate of the existing Committee shall be expanded to serve as technical advisors to the new NMRCC.

Given the high number of licensed MFBs and the expected numerical growth arising from the improved national development programmes and agenda, the planned strategy for the CBN to establish a microfinance supervision department within its organizational structure becomes of added significance for enhanced supervisory effectiveness and to cope with the potentially increasing number of MFBs.

3.6 Clients Training: Financial Education and Literacy:

The typical microfinance clients are self-employed, household-based entrepreneurs and low-income persons that do not have access to formal financial institutions and suffers lack of business skills. Micro entrepreneurs face many hurdles in getting start-up financing, and they sometimes lack the skills necessary to manage the financial aspect of their business. They are unable to choose business lines and in large number of cases they indulge in particular business by default. As a result, many micro entrepreneurs cannot grow and develop their business beyond a micro enterprise, while even few fail to earn their livelihood. The Nigerian Microfinance Development Strategy underscores the importance of capacity development as part of professional activity of Microfinance Institutions along with extending micro credit, and for overall growth of client, MFIs and the nation. This is further elaborated in chapter four.

3.6.1 Clients Protection

The consumers of microfinance shall benefit from Client Protection Principles. The Client Protection Principles describe the minimum protection microfinance clients should expect from providers. These Principles are distilled from the path-breaking work of providers, international networks, and national microfinance associations to develop pro-consumer codes of conduct and practices. While the Principles are universal, meaningful and effective implementation in Nigeria will require careful attention to the diversity within the provider community and conditions in different markets and geo-political contexts. Over the past several years, consensus has emerged that providers of financial services to low-income clients should adhere to the following six core principles:

- **Avoidance of Over-Indebtedness**. Providers will take reasonable steps to ensure that credit will be extended only if borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care that other appropriate non-credit financial products (such as insurance) are extended to clients.
- **Transparent and Responsible Pricing.** The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and will be adequately disclosed in a form understandable to clients. Responsible pricing means that pricing, terms, and conditions are set in a way that is both affordable to clients and sustainable for financial institutions.
- **Appropriate Collections Practices.** Debt collection practices of providers will not be abusive or coercive.
- **Ethical Staff Behaviour.** Staff of financial service providers will comply with high professional conducts and ethical standards in their interaction with microfinance

clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.

• **Mechanisms for Redress of Grievances.** Providers will have in place timely and responsive mechanisms for complaints and problem or dispute resolution for their clients.

• **Privacy of Client Data.** The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions, and such data cannot be used for other purposes without the express permission of the client (while recognizing that providers of financial services can play an important role in helping clients achieve the benefits of establishing credit histories).

3.6.2 All microfinance institutions in Nigeria shall be required to endorse the client protection principles. Institutions and individuals that endorse the Client Protection Principles are committing to be a part of an industry-wide process to translate the Principles into standards, policies, and practices appropriate for different types of microfinance clients, products, providers, and country contexts. By endorsing these Principles, providers of financial services, networks, apex associations and individuals working in microfinance institutions are committing to a process of implementation of the principles into their own organization's operations and institutional culture.

3.6.3 For MFBs and MFIs, this shall begin with an examination of their own practice to identify areas for improvement and active promotion of the principles to staff. For networks, endorsement is a commitment to engage with its affiliated organizations to promote and support the Campaign and Coalition and to implement the principles. Individuals endorsing the Campaign are signalling their intention to honour the principles personally and to work within their own organizations to implement them.

3.6.4 Donors, development partners and investors shall also play an important role in ensuring the success of this initiative. By endorsing the principles, investors and donors commit to work to support providers that adequately protect their low-income clients, and to identify practical ways of incorporating the Client Protection Principles into their due diligence, monitoring, and governance roles.

CHAPTER FOUR:

4.0 CAPACITY BUILDING STRATEGIES

4.1 Introduction:

4.1.1 Microfinance as a development tool is an emerging phenomenon in Nigeria. Like all other sectors of the economy, it cannot be efficient and effective if the capacity issues are not adequately addressed. No sector of the economy can develop to optimal capacity without capacity enhancement of the operators. Microfinance sub-sector is peculiar because of the multifaceted nature of the key stakeholders who need capacity, namely operators, regulators, clients and even the general public. Again, promoting the development of professionally managed, financially sustainable MFIs/MFBs is crucial to the advancement and growth of the sub-sector.

4.1.2 A number of microfinance operators emerged from down scaling commercial banking. Unfortunately, the mind-set, the know-how and institutional capacity to successfully engage in microfinance markets is not widely held in formal financial institutions. While appropriate knowledge and practices in smaller and simpler institutions, such as NGOs, are more established, these institutions continue to rely on external sources to finance their human resource development.

4.1.3 This microfinance development strategy will therefore focus on the establishment and continuous development of high quality human resource and institutional development services and programmes that allow institutions to build and continuously update the knowledge, skills and attitudes of their staff according to the evolving needs of the markets. Capacity building for Nigeria Microfinance Sub-sector will be driven by the concept of Responsible Microfinance: This will be seen in The Best Product, At the Lowest Price, to as many people, as fast as possible.

4.1.4 Since the promulgation of the First Microfinance Policy in 2005, Micro finance institutions have expanded the frontiers of institutional finance and have brought the poor, especially women and disadvantaged groups, into the formal financial system and enabled them to access credit and fight poverty. Though some significant strides have been made in up-scaling the purveyal of micro finance, it is observed that microfinance has had an asymmetric growth across Nigeria with diverse rates of interest being charged to the clients, which are areas of concern.

4.1.5 In order to bridge the technical skills gap, especially among operators and the directors of MFBs, the CBN put in place the Microfinance Certification Programme (MCP) to ensure the acquisition of appropriate microfinance operational skills by staff and management of MFIs in general and MFBs in particular. If the capacity of the operators is improved, Microfinance service delivery could be done at a lower cost. The CBN shall therefore facilitate a window within the proposed microfinance development fund for capacity building besides the subsidy in the Microfinance Certification Programme. In addition, provisions shall be made for Mandatory Continuing Professional Education (MCPE) to upscale relevant skills of the staff of each MFB in microfinance banking under the CIBN programmes.

Capacitation therefore is needed for various target groups as follows:

i. Clients need Financial Education.
ii. Microfinance Institution staff, management and boards need to improve their professional and technical skills
iii. Regulators need to increase their capacity to regulate.
iv. Support institutions need to learn how to do their jobs better.

v. The sub-sector needs to develop technologies and tools to be effective and to do so

vi. The sub-sector needs to benefit from monitoring and evaluation and research on what works in Nigeria.

vii. The concerned public needs to understand Microfinance to determine their and the government's policy response.

4.2 Types of Capacity Building: Under the Nigeria Microfinance Finance Development Strategy, four categories of capacity building shall be focussed. These are:

4.2.1. Capacity Building for the Sub-Sector

All over the world, as an emerging sector the microfinance is essentially a service industry. Training is a significant activity and there is a continuous need for more training due to the dynamics of the sub-sector especially in terms of deficiencies in staff performance, service delivery and advancement in technology. For this reason, it is imperative that a conscious effort be made at identifying the training needs of the organization on a sector- specific basis in order to keep pace with the dynamics of the system and increased competition. Three-level conception of needs assessment will be focussed. Training needs assessment as consisting of three levels of analysis: organization analysis, operations analysis, and man analysis. Operations analysis is more commonly known as task or work analysis and man analysis is usually referred to as individual or person analysis. These three levels of analysis will in turn utilize many different types of data collection strategies. The CBN will champion on a consistent basis the conduct of Need Analysis. The purposes for conducting the microfinance sub-sector needs assessment shall include finding and disseminating information about: 1) microfinance optimal performance, 2) microfinance actual performance, 3) how key sources feel, 4) what is causing the problem, and 5) solutions to close gaps between optimal and actual performance. The training needs assessment may address any or all of these purposes.

Generally needs assessment has three purposes: 1) to identify gaps between current results and desired ones, 2) to prioritize gaps, and 3) to select the most important ones to be addressed. Needs analysis, in contrast, is the process used to highlight the causes of the gaps. After the TNA, designing a training and development programme will follow. This involves a sequence of steps that can be grouped into five phases: needs assessment, instructional objectives, design, implementation and evaluation. CBN will continue to facilitate research on

- The microfinance sub-sector and its goals and objectives.
- The jobs and related tasks that need to be learned in the sub-sector.
- The competencies and skills that are need to perform the job.
- The individuals who are to be trained.

The final phase in the capacity building and development programme is evaluation of the program to determine whether the training objectives were met. The evaluation process includes determining sector reaction to the training programme, how much participants learned and how well the participants transfer the training back on the job. The information gathered from the training evaluation is then included in the next cycle of training needs assessment. It is important to note that the training needs assessment, training objectives, design, and implementation and evaluation process will be a continual process for the microfinance sub-sector. Again, the microfinance Development Strategy will emphasis three levels of needs assessment:

microfinance organizational analysis, microfinance task analysis and operators individual analysis.

Microfinance Organizational analysis shall look at the effectiveness of the MFIs/MFBs and determine where training is needed and under what conditions it will be conducted. The analysis will identify:

- Environmental impacts.
- State of the economy and the impact on operating costs.
- Changing work force demographics and the need to address cultural or clients' orientation barriers.
- Changing technology and automation.
- Increasing global/world market places.
- Organizational goals (how effective is the organization in meetings its goals), resources available (money, facilities; materials on hand and current, available expertise within the organization).
- Climate and support for training (top management support, employee willingness to participate, and responsibility for outcomes).

- The information needed to conduct the sector analysis shall be obtained from a variety of sources including:
  - Microfinance sub-sector goals and objectives, mission statements, strategic plans.
  - Staffing inventory, succession planning, long and short term staffing needs.
  - Skills inventory: both currently available and short and long term needs, organizational climate indices: labour/management relationships, grievances, turnover rates, absenteeism, suggestions, productivity, accidents, short term sickness, observations of employee behaviour, attitude surveys, and customer complaints.
  - Analysis of efficiency indices: costs of labour, costs of materials, quality of products, equipment utilization, production rates, costs of distribution, waste, down time, late deliveries, and repairs.
  - Changes in equipment, technology or automation.
  - Annual report and Returns.
  - Plans for reorganization or job restructuring.
  - Audit exceptions; reward systems.
  - Planning systems, Delegation and Control systems.
  - Employee attitudes and satisfaction.

For the Nigerian microfinance sub-sector, a preferred starting point in TNA is a stakeholder analysis, which helps identify the best sources of information regarding training needs. Informants can report on whom they would like to see trained, what type of training is needed, or even who could potentially be a trainer. Involving many stakeholders allows the information to be triangulated and avoids bias caused by too much focus on any one type of respondent. Training will have two sets of objectives. First, the general objectives or aims, encompassing the changes expected to take place, or competencies that will improve. The second are learning objectives, describing what participants should be able to do at the end of the course. Good learning objectives derive from the results of the training needs assessment, and cover all the different areas of learning the training activities have to offer. Learning objectives should be timely and context-specific, measurable, achievable, and realistic. The training needs assessment usually provides the necessary information for selecting participants or identifying the target group.

4.2.2. Capacity Building for the Institutions:

a) Training for Operators of Micro finance institutions differentiated by types: A number of key strategic principles shall underpin all activities in the capacity building initiatives for operators:

- Linking operators with existing local training service providers
- Bringing training closer to MFIs at local level instead of costly and often inaccessible regional or national training that requires heavy travel costs
- Twin trainers with practitioners for materials development and course implementation in order to ensure that services meet the needs of MFIs
- Employing a value-neutral approach to all service provision with respect to the "best" methodology, legal structure, etc.
- Seeking replicability of materials and modules
- Providing MFBs/MFIs opportunities to learn from each other through their Apex Associations
- Requiring cost efficiency and a high level of cost recovery
- Ensuring delivery of short, practical, and relevant courses in response to the expressed preferences of MFBs/MFIs
- Collaborating with other donors' programmes and avoid duplication.

b) Institutional Capacity Building for Staff and Board Members

Implementation of capacity building programmes for MFBs has become very paramount for the regulators especially the Central Bank of Nigeria (CBN). In 2009, CBN instituted a microfinance certification programme (MCP). The main objective of the Microfinance Certification Programme (MCP) is to enhance knowledge base and impart microfinance skills and competencies on a sustainable basis in the fledgling microfinance sub-sector, thereby creating a critical mass of knowledgeable and highly skilled operators required to develop and drive the nascent microfinance banks towards the achievement of the policy objectives of expanding access to finance, empowerment of the poor and the low-income groups, employment generation and economic development.

CBN plans to revoke the licenses of MFBs that do not have a specified number of Management staff certified by 2013. There clearly has been an enormous volume of training offered over the last few years and the results are clear in a cadre of informed people working in the field. Nonetheless, there is an acute shortage of qualified people. This is confirmed by the managements of microfinance institutions and regulators – and further evidenced by the large number of trainees who failed the certification examinations recently conducted by the CBN.

This severe shortage is a product both of the rapid growth of the industry and the tendency of many of those trained to go onto other fields. It does however raise serious questions about the quality of training provided which needs to be better validated through post training impact studies and in depth work with workers in microfinance.

The CBN will therefore ensure that a good number of operators are certified before the cut off date to reduce the antecedent high staff mobility resultant from the limited number of certified persons by extending the cut-off date and the subsidy by the regulatory body for another two years.

The following areas of capacity building shall however be given emphasis in the provision of capacity building assistance to the MFBs/MFIs.

a) Efficient deposits and savings mobilization
b) Financial and project management
c) Portfolio/Risk management
d) Loan analysis and administration
e) Use of information technology
f) Development and establishment of microfinance technology, innovative product/service lines

The Microfinance Certification Programme shall be extended to the Board of Directors of the MFBs (usually, the owners of the business) who are yet to be trained on the very key issues of the intent, methodology and concept of microfinance. This also addresses the challenge of poor corporate governance within MFBs which has continued to be the critical issue of concern.

While the current certification programme meets the short-term need of the sector, a long-term response to inadequate human capital, is in massive involvement of institutions of higher learning. Universities and other similar institutions shall be encouraged and incentivized to develop appropriate curricula for microfinance operations.

To enhance the capacity of the operators, the Microfinance Development Strategy shall:

i. Encourage academic institutions to conduct research and studies in the area of microfinance with emphasis on the Nigerian context
ii. Encourage the Research Units of Regulatory Institutions to focus on microfinance studies
iii. Facilitate the conveyance of policy level discussions that will promote awareness of microfinance as a sound commercial investment.
iv. Identification of best practices in microfinance that will work in Nigerian local environments and tools to monitor the social aspect of MFBs operations
v. Facilitate the development and installation of microfinance technology packages uniquely suited for Nigerian environment.

4.2.3. Capacity Building for Support-Institutions

a) Capacity Building for Providers of Infrastructural and Support Services: Infrastructural and support service providers include legal, information, and regulatory and supervisory systems for microfinance banks. Some vendors are already in place providing support services to MFBs. These support service providers include credit bureau service, information technology vendors, and management consultancy service providers. These services providers are required to have deep knowledge of the operations, methodology and concept of microfinance. However, since the programme is new in the country, general solutions are offered instead of microfinance specific solutions. To address this issue, a structured capacity building programme shall be put in place to certify and register these service providers to ensure that their services and support systems are calibrated to strengthen and enhance the sustainability of the microfinance institutions and services the programme. Capacity shall be built by support service providers in the areas of:

i. Support for management, monitoring, and evaluation of MFBs/MFIs outreach parameters.
ii. Development of an enabling environment for healthy interface between players in the financial system and MFBs;
iii. Support for institutional development; and
iv. Development of an IT-based financial management system for MFBs

b) Capacity Building for Regulatory and Supervisory Bodies and Their Staff:

Currently some focused trainings are being delivered within the regulatory institutions, CBN and NDIC. However, there exists very huge capacity gap at the level of regulators both in the number of staff and capacity to understand what to supervise and regulate.

4.2.4 Capacity Building for the Clients:

Capacity Building for clients shall be supported and conducted by the SRO as well as the apex organizations. The clients' protection principles have been discussed under the Regulatory Strategy.

4.3 Funding Capacity Building Initiatives:

Funding is crucial to any capacity building effort. Microfinance Certification Programme has shown the light on what is feasible. The Microfinance Development Fund shall provide support for capacity building for the sector on an ongoing basis. Similarly, donor agencies shall be encouraged to support in the capacitating of Regulators and the Operators.

4.4 Capacity Building and Measuring Social Performance: Microfinance institutions (MFIs) and Banks are increasingly seeking to pursue a 'double bottom-line' – to achieve and demonstrate social as well as financial performance. Most MFBs/MFIs have social objectives and therefore seek to design their programmes to meet these objectives, and collect information to monitor whether these objectives are being met. Social objectives relate to who an MFI/MFB reaches (which is determined by its mission) and how clients (and sometimes non-clients) benefit. The potential impacts of microfinance relate to most of the Millennium Development Goals (MDGs), and MFIs may choose to measure benefits that relate to these, or relating to other social objectives. The increasing interest in social performance is motivated primarily by three concerns:

4.5 Knowing MFBs/MFIs market

In an increasingly competitive environment MFBs/MFIs should be concerned to understand the specific needs of different groups of potential clients. Rather than providing a limited pre-defined range of services (supply-driven), MFIs shall be encouraged to use market research methods to adapt their services to the needs of their target clients (demand-driven). To achieve their social objectives Nigerian MFBs/MFIs shall ensure that they specifically design their programmes towards these ends.

4.6 Monitoring MFBs/MFIs Social Performance

Information about whether an MFB/MFI is achieving its social goals is important for an MFI both as a validation of their work, and to allow for improvements in their interventions. MFIs can cost effectively collect information from their clients to improve both social and financial performance. However, where too much information is collected, or collected in a complex or time-consuming way, the quality of the data may be affected and the on-going operationalisation of the monitoring jeopardized. To this end, the Apex Associations shall be encouraged to ensure that their members mainstream social performance monitoring into their operations.

4.7 Reporting to external stakeholders

Donors and other external stakeholders are increasingly concerned to monitoring the effectiveness of their funding towards their social objectives. Simple systems can be developed to report on social performance indicators, and often these can be integral to the MFIs own monitoring systems. Simple tools can be used that allow MFIs to understand the specific needs of poor clients, monitor their poverty outreach on an on-going basis. MFIs that want to achieve social objectives must plan their work along these lines, and monitor and reward social performance. If the NMDS is to drive the sector and capacity, we must measure!

A basic framework for an appropriate basic framework for social performance system is as follows:

4.8 What are the MFIs/MFBs social performance goals?

MFIs/MFBs need to clearly define their social goals. This may relate to the type of clients being reached, for example, poverty level, as well as the impacts or benefits the services will bring to the clients or the wider community. These goals will be determined by an understanding of the needs of the specific groups of clients that MFI seeks to reach.

4.8.1 Who are the clients?

If an MFB/MFI does not reach the clients that it seeks to serve, it is unlikely to achieve its social objectives. Knowledge of how effectively an MFI reaches its target clients is important market information in ensuring the delivery of appropriate services and ultimately the financial success of the MFI. MFIs can conduct a one-off assessment of their clients, for example through a poverty assessment, but much more useful is the establishment of a system that provides ongoing information about all or a sample of new clients.

4.8.2 Client status monitoring

Knowledge about the changing status of clients who remain in the programme or who exit is useful operational information and can be used to manage performance and make adjustments in service delivery. MFIs need to understand on an on-going basis who is accessing services, in what way are they using these, and what benefits the clients are getting. Again this is in part good business sense – the needs of clients may change over time, for example those who take enterprise development loans may need different structured products or support services as their businesses grow.

4.8.3 Client impact

Changes in client status tell the MFB/MFI about what is happening, but do not necessarily imply impact. To understand impact it is necessary to go beyond just describing changes in status. For example income levels may increase, but how does this compare to the general population? To make conclusions about impact, follow-up analysis should compare clients to non-clients, or understand the processes of change taking place and how these relate to broader factors in clients' lives.

4.9 Priority Areas:

High training priorities shall be (1) loan officer training, (2) management training, (3) training in back office operations, and (4) training on management information system (MIS) issues. Other areas where training shall focus are:

- MFI growth planning and strategic development/management.
- Product adjustments and product development and marketing (for example, group lending, savings, insurance, and cooperatives).
- Alternative methodologies (group lending, Islamic finance, credit cooperatives, etc.).
- Risk management, internal controls, and audit.
- Financial management, accounting, standards, and reporting. Corporate governance.

4.10 The Role of RUFIN:

The capacity building for MFBs/MFIs as well as financial NGOs shall continue to be strengthened in the rural areas in particular through the Rural Finance Institution Building Programme (RUFIN). RUFIN has been conceived to fill the gap of providing capacity for rural microfinance institutions and clients. The programme is designed to strengthen Rural Finance Institutions to bring financial services to the poor and facilitate the participation of rural people and their institutions in microfinance policy implementation in Nigeria. The activity is designed to orient policies and work along the policy line to effect necessary policy changes and service the agricultural and rural sector effectively, as well as promote sectoral initiatives that could create the necessary conditions for rapid poverty reduction and economic growth. The programme gives priority to the development of target-group member-based rural microfinance institutions. The idea is to promote effective participation of the rural poor in rural financial services and begin to solve the historical limited access to finance and working capital by poor rural people. The four key partners of RUFIN at the National level are (a) Bank of Agriculture (BOA) Ltd, (b) Central Bank of Nigeria, (c) National Poverty Eradication Programme (NAPEP) and (d) Federal Department of Cooperative (FDC) of Federal Ministry of Agriculture & Rural Development. The National Programme for Agriculture and Food Security (NPAFS) is the implementing Agency. Rural poor households, particularly women headed households constitute the major target group of the programme. Youth and physically challenged are also specially targeted.

The Programme is structured on three components namely:

I. Capacity Building & Technical Support to Bank and Non-bank Micro-finance Institutions: This consists of two sub-components, namely (a) Capacity Building of Bank and Non-Bank Financial Institutions; and (b) Promotion of Access to refinance and Linkage facilities.

II. Targeted Development & Strengthening Institutional Environment for Microfinance Development. This consists of three sub-components consisting of the following: (a) Improvement of the policy, legal and institutional framework for cooperatives and RMFI; (b) Implementation support, regulation and supervision of MFB; and (c) Research and documentation of policy dialogue.

III. Programme Coordination and Management.

4.11 Professional and business development services - External Audits, Legal and Credit Information System:

The sub-sector is faced with severe challenges principal among which is the dearth of capacity and competence of staff and management of the institutions. To integrate their activities into concrete microfinance practice, the sub-sector requires experts in areas such as capacity building, business development services, process engineering or mapping, product development, research and development, development of business plan and market research/feasibility studies, monitoring and evaluation, debt recovery and debt factoring out sourcing of services and information technology.

The key imperative to building an enduring professional body is to entrench professionalism and build competent and resourceful human capital to support the sub-sector and also to access the necessary resources and support services that would engender efficient and sustainable service delivery.

4.11.1 The Regulatory Intervention

The CBN shall champion the development of a comprehensive roster or data bank of microfinance support professional bodies and practitioners in Nigeria, including established/reputable business development service (BDS) providers that shall be harnessed to support the development of the sub-sector.

4.11.2. Development of a microfinance curriculum

The subsisting curricula of professional bodies shall be reviewed to determine their relevance and adaptability to microfinance operations and practice. The regulator should use moral suasions or legislative channels to encourage the inclusion of microfinance courses and modules in the curricula of professional bodies, especially those relevant to the microfinance sub-sector. This will broaden the scope and sector-specific capacity of professionals in the sub-sector to be better equipped to render the needed support for the sub sector.

There is also the need to develop a comprehensive and standard BDS curriculum for the MFB sector, and the CBN should facilitate, through outsourced professionals or whatever appropriate channels, the identification of BDS needs of microfinance institutions and SMEs and develop a standard curriculum. This helps to equip the microfinance operators to deliver effective microfinance services to their clients. Some of the professional bodies and support service institutions or organizations that are critical to the microfinance sub sector in Nigeria include:

- Chartered Institute of Bankers of Nigeria CIBN
- Chartered Institute of Accountants of Nigeria (ICAN) & Association of National Accountants of Nigeria (ANAN),
- Alumni membership of relevant /accredited microfinance training service providers (MTSPs) and or specialized microfinance training institutions
- Extension service providers – especially in the agricultural sector.

CHAPTER FIVE

5.0 SUPPORT INFRASTRUCTURE AND OTHER SERVICES

The financial infrastructure and other support services are critical for the sustainable development in the evolving microfinance sector in Nigeria. In the recent past, concerted efforts have been made by both public and private sectors to provide adequately for this, though a lot still needs to be done to strengthen the entire architecture of the system. There is need for deliberate and structured efforts at driving comprehensive capacitating of the operators in the system.
The scope of the financial infrastructure typically includes the legal framework, the information infrastructure, and the regulatory and supervisory systems that support the financial sector, all of which are indispensable in achieving the development of an efficient and sustainable microfinance sub sector. Many governments in developing economies have tended to focus their energies and resources on creating institutions or special programs for disbursement of funds to the poor with little attention paid to building formidable financial infrastructures that support, strengthen, and ensure the sustainability of such institutions or programs. They are not sufficiently deliberate in their approach to promote and encourage the participation of private sector institutions in the development of the microfinance sub sector.

The other major financial infrastructure-related challenges confronting the sub sector (as has also been highlighted in the other sub segments of the sub sector above) include the lack of **(i)** a requisite legal framework conducive for the emergence and sustainable growth of small-scale financial institutions, **(ii)** effective regulatory and supervisory systems for microfinance as the case is in countries where the microfinance sub sector is approaching a level of maturity, and **(iii)** emphasis on the development of accounting and auditing standards and practices.

These are important for the development and expansion of market-driven microfinance services because to serve clients who are outside the frontiers of formal and semiformal finance sector, MF institutions must have access to resources, infrastructures and funding far beyond what external agencies and governments typically can provide. Also, the MF institutions cannot be safely funded with commercial sources in the long term, especially public deposits, unless appropriate performance standards and regulation and supervision regimes are developed and enforced, and measures are introduced to protect public deposits.

It is pursuant to the foregoing and in line with the need to develop a strategy for the financial infrastructure and other support services for microfinance in Nigeria that the following postulations are put forward.

5.1. Credit Bureaus/Credit Information System and Client Identification

Credit bureaux are institutions that warehouse large amounts of data about the past and present status and financial performance of potential borrowers. Under the proper conditions and with proper authorization they make that information available to potential creditors or others. To quote one definition: credit bureau is "an agency that contains information on the credit history of consumers so that creditors can make decisions about granting of loans."

Availability of accurate and timely information about clients and their businesses is a prerequisite for effective delivery of financial services to the targeted clientele base. The whole idea of "knowing your customers" is more or less about the microfinance institutions developing a comprehensive data base of information on the entirety of the clients' business and credit history. Essentially, the core preoccupation or mandate of credit bureaux is the generation and supply of complete, timely and accurate credit information on borrowing clients of financial institutions to aid quality decision making. Efficient delivery of this support service also serves to minimize the potential risk exposure of MF institutions to lenders as well as contributes to improvement in the turnaround time for credit processing/borrower evaluation, which invariably enhances the overall process of access to credit in the sub sector. Invariably, this serves to engender identification of alternatives to conventional tangible security such as reputational security and ultimately, this serves to significantly improve the overall performance of the economy.

Because of the potential for damage particularly to credit clients they are frequently regulated and because of the value they give to the financial system as a whole and to microfinance in particular, they are frequently promoted as part of financial sector development.

Under the amended BOFIA, responsibility to register, regulate and supervise credit bureaus was given to the CBN. The CBN accordingly enacted a set of regulations and adopted a manual for their implementation and proceeded to register three credit bureaux which are now operational. These serve commercial banks, microfinance banks and others. According to the regulations all loans both from commercial and microfinance banks – with no specified minimum size are required to be vetted with two credit bureaux However, the modalities for this vetting and the operation of credit bureaus are still working out in practice. Their databases are far from complete, their operations far from seamless, and they are not commercially sustainable at present. The CBN and the credit bureaux are thus engaged in a process of perfecting their operations.

5.1.1 CBN roles to strengthen the credit bureaux.

1. Study the present status of the credit bureaux and their operation.
2. Decide on measures to make those credit bureaux more functional.
3. Implement those measures.
4. Conduct a programme of public enlightenment to spread knowledge of credit bureaux and their workings.

5.1.2 Other measures to strengthen Credit Bureaux:

a. Public enlightenment campaign

The Credit Bureaux and the CBN should drive the promotion/public awareness and carry out aggressive enlightenment campaign on the roles and importance of credit information to building and enduring financial system. Ostensibly this initiative will quite naturally elicit desirable acceptance of the imperatives of sharing client information among MF operators.

b. Standardized format for reportage

Credit Bureaux have responsibility to design standardized reporting template on client credit information so as to ensure accuracy of data collection, processing and information dissemination in the system. This will significantly strengthen the entire financial system as a result of access to accurate and timely client information.

It is imperative for microfinance institutions to create a loan register or data base that provides information on clients in terms of application for repayment of previous and/or current loans, and potentially other financial liabilities (such as utility bills, mobile phone bills, and other forms of payment instalment due). The creation of a loan register would require the adherence of all microcredit providers (both MF banks and NGOs) to supplying the credit bureau with updated data of clients' information.

5.1.3 To leverage on the services of Credit Bureaux, microfinance institutions need to:

a. Build a data base of information on microfinance clients

Up-to-date information on clients and mapping of the financial services needs of the economically active poor in relation to current market supply dynamics is critical to successful delivery of microfinance services. It is therefore imperative for microfinance institutions to invest in gathering/generating a pool of data of information about the clients and the market environment as this serves as a veritable tool in determining the appropriate and desirable service delivery channels that meet the clients' needs. The microfinance institutions can individually embark on this or collaborate among themselves or seek support from other stakeholders (government, development partners, researchers) to drive the achievement of this goal.

b. Technology platform for reporting/information sharing:

Microfinance institutions should develop robust enough technological infrastructures that would not only drive the efficient delivery of their services but also generate and store data about the clients and their businesses thereby engendering seamless reporting process. Invariably, technology infrastructure serves to ensure the integrity and accuracy of capturing and reporting of client data and information.

c. Develop competencies of their Staff

As explained in detail in chapter four (4) above, microfinance operators should capacitate their human resource base to generate competent and knowledgeable work force especially those with dexterity and competencies in the use of the ICT tool. A versatile technology infrastructure that provides seamless interconnectivity between stakeholders in the entire system enhances the generation and dissemination of information and data to credit bureaus and regulators. Operators' proficiency will be better achieved by regularly engaging both in-house and external training of operators, and ultimately the quality of service delivery and customer satisfaction would consequently be achieved.

5.2 Credit Information System and Client Identification

Mapping of microfinance clients

A significant segment of the microfinance sub-sector remains unserved due to the fact that majority of the operators do not seem to know what their core target market really is – the low income, active poor bracket of the population. This has resulted in under performance on the part of many of the microfinance operators who dissipate resources and energies competing with commercial banks for customers. Expectedly, this drift has adversely limited the performance of the institutions and dwarfed the effectiveness of their outreach to core microfinance clients. Operators and BDS providers will be encouraged to conduct client profiling exercises, develop a market research template and expose operators to it, as well as, conduct orientation to entrench a better understanding of the core target market by

MF operators. This will help in mapping microfinance clients and targeting them with appropriate product offering.

5. 3. Ratings Agencies/institutions:

Ratings services provide requisite information about the financial health of the microfinance institution to the interested investing public. Ratings scores serve to guide investors, depositor clients, as well as, other funding institutions and stakeholders on the inherent health and/or level of risk in the rated institution. More often than not, rating scores aid funding partners in deciding the scale and scope of the intervention that they would be amenable to invest in such a rated institution.
The core objective of rating institutions is to ascertain or assess the health and viability of microfinance institutions, and usually one critical indicator for rating institutions is the quality of the performing assets (credit portfolios) of the institutions. Credit ratings are usually used to determine a bank or financial institution's credit risk, and the rating provides an evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting," or being unable to meet its obligations. Basically the outcome of the rating enhances decision on viability of the institution to contemplate more investments or otherwise. It also serves to provide regulators with information for prompt intervention (when and where inevitable) to protect clients from impending loses arising from institutional failures and distresses.

In the case of microfinance institutions credit ratings are available from a number of international sources and several Nigerian microfinance banks and institutions have paid for and received such ratings. The CBN is committed to promoting credit rating for Nigerian microfinance institutions. This is both to promote second tier lending to these institutions and hold them to higher standards of performance.

5.3.1 Subscription for rating by Operators

The adoption and use of rating facilities and services for microfinance institutions attests to their professionalism and diligence. It is therefore necessary for institutions to subscribe to an internationally recognized assessment and rating body (e.g. CGAP rating initiative. The MIX market, etc), or engage private sector raters (that are nationally and internationally recognized). These raters offer a well-designed and independent evaluation and rating services to microfinance institutions. This type of independent evaluation should be institutionalized by microfinance institutions, with a reasonable frequency (at least every 2 to 3 years). The resultant certification forms the basis for donor agencies, banks and guarantee companies determine the creditworthiness of MF institutions and consequently, as well as eligibility to access funding intervention.

5.4 Actions to be taken by Regulators

a. Accreditation of rating agencies

The accreditation and appointment of rating agencies shall remain the prerogative of the central bank who shall endeavour to set criteria/parameters and standards for rating and enforce compliance or adherence with same. This engenders public confidence and serves as a panacea for attracting investors into the sector. It also helps in gauging the health of operators and provides an early warning signal in the event of potential distress.

b. The regulators (CBN) will continuously assess and act on measures to promote credit ratings for microfinance institutions. In particular, it will develop domestic and perhaps cheaper forms of or windows for ratings microfinance institutions in keeping with its risk base supervision approach. Credibility of these ratings is especially a critical consideration given the context of concerted efforts being made to open up the frontiers of the sub sector for international investors/funds.

c. The regulators to design concrete implementation strategies for the decisions to be taken in this direction

d. Guidelines and timelines for conduct of ratings exercises
The CBN shall set guidelines and timelines for the conduct of rating for the operators in the sector. This is to encourage best practice, benchmarking of institutional performance and invariably better safeguard for the sub sector.

The regulators shall review activities and capacitate rating agencies to strengthen their skills and competences. This will ensure the availability of qualified rating agencies and eliminate the propensity for compromises by service providers which may affect the sector in the long run.

5. 5. Insurance:

Insurance penetration in Nigeria is still a far cry from what it ought to be when compared with the developed countries of the world. The provision of insurance services is a significant risk mitigating tool for risks that microfinance institutions and clients in Nigeria typically face.

5.5.1 Micro insurance:

Micro insurance is "a developing field of microfinance that provides health insurance and other insurance products to micro entrepreneurs and employees in the informal sector." In practice, micro insurance is usually issued and sometimes reinsured by standard insurance companies and then marketed through microfinance institutions which have exposure to microfinance clients. It is often connected with microfinance and serves as a means to reduce the risks of microfinance lenders.

Provision of micro insurance in particular is a veritable window for enhanced service delivery in the microfinance sub sector. More focus on the development of micro insurance at the grassroots level, will be canvassed as a way to further boost insurance penetration in Nigeria. It has been noted that the market at the grassroots was key to the development of insurance. More concentration on that aspect of the market would contribute to the growth of insurance in the country. Worthy of note is the past initiatives in Nigeria to promote micro insurance and of particular mention is the remarkable contributions made by some key stakeholders including the German International Cooperation (GIZ) who funded the conduct of a major study and have established a unit dedicated to working primarily with NAICOM and NIA to promote the development of micro insurance in Nigeria. Also, a national workshop on the promotion of micro insurance was recently hosted for which the CBN was a co-sponsor along with the World Bank, IFC, GIZ, NAICOM, NIA,, and NAMFB.

5.5.2 Implementation of initiatives for the development of micro insurance:

a. The CBN, all stakeholders in the insurance sector, the microfinance institutions and the development partners should cooperate and support this initiative.
b. The CBN shall collaborate with the relevant insurance regulatory bodies to develop guidelines for the development of micro-insurance in Nigeria and shall champion the establishment of a process which shall seek to integrate insurance with the overall operations and activities of microfinance institutions. This will ensure that the activities of microfinance clients and operators are adequately protected against impending risks.
c. The insurance industry needs to significantly increase and improve on its current distribution channels and networks, if insurance penetration is to be deepened and to reach the bottom of the pyramid. Developing appropriate micro insurance products and evolving effective delivery channels would build public confidence on insurance products and services thereby ameliorating the subsisting pervasive negative image in the sector.
d. A vast majority of microfinance clients are largely vulnerable to multi-faceted risks, a fact that exacerbates their access to finance in Nigeria. Microfinance institutions (MFI/MFBs) must therefore invest in building their capacity to develop micro insurance products and acquire the technical skills to deliver such products as integral part of the bouquet of products and services they offered. They should seek to leverage on collaboration and synergize with insurance service providers to better serve their customers and broaden the scope of their service delivery.

   Insurance services will provide adequate cover for transaction relationships with the largely vulnerable clientele base that are typical of the sub sector. This translates to enhancing the health and viability of microfinance institutions and ultimately serves to protect clients from impending loses arising from business failures and distresses. Evidently, this is a critical building block for entrenching the culture of value for both clients and the institutions and ultimately the development and growth of the sub sector.

5.6 Micro - Leasing

Leasing has been noted as one of the key drivers of socio-economic activities in Nigeria, and if well developed, micro-leasing as one component unit of leasing has the phenomenal capacity of transforming the microfinance sub sector and the nation's overall quest for rapid economic development and growth.

Micro leasing is being promoted in Nigeria by a number of agencies especially ELAN, and in cooperation with the CBN and various donors. A major national workshop was held last year and various follow through initiatives are underway. Micro leasing is imperative to address the increasing challenges faced by the active poor who have limited budget and are faced with the option of using their meagre resources to purchase needed equipment to generate income. Micro leasing therefore provides the poor clients more enhanced access and cushion for asset acquisition and ownership since the assets often serve to collateralize the exposure, reducing levels of risks in the event of default. Moreover, the cost to the institutions of loan facility monitoring under micro-lease facilities is relatively lower than is the case with other known forms of risk exposures.

5.6.1 Implementation of initiatives for the development of micro leasing:

a. The CBN shall collaborate with relevant stakeholders in the leasing sub sector such as the equipment leasing association of Nigeria (ELAN) and national association of microfinance banks for synergies to develop a formidable framework for the overall development of micro leasing for the microfinance sub sector.

b. Microfinance institutions shall be supported through capacity development to seek creative ways of developing and delivering micro-leasing products in their basket of microfinance products as a veritable tool for enhancing the sustainable development of the sector.

5.7 Second Tier Capital Market

The existing second-tier market of the Nigerian Stock Exchange (NSE) has been highly illiquid and inactive, while some of the firms listed on it at its inception have been de-listed. MFIs and MFBs are possible candidates for second-tier market listing, but more concerted efforts by institutions such as the CBN, NSE and Securities and Exchange Commission (SEC) are needed, especially in the area of public enlightenment as well as the promotion of private equities and venture capital funds in order to open new opportunities for long-term funding of MFBs/MFIs – since these institutions are themselves SMEs.

The Stock Exchange had previously muted the idea of a Third-tier Market specifically for micro-enterprises. The NSE expected this to materialise by further liberalising the listing requirements currently in place for the Second-tier market. It is noted that progress on this initiative is yet to be seen and there is the challenge that using the capital market to raise funds goes beyond mere simplification of listing requirements. It is unlikely that a Third-tier market, which may also offer funding opportunities for some categories of MFBs/MFIs will be realised, albeit useful, until the present challenges confronting the Second-tier, especially that of illiquidity, are overcome.

5.7.1 Implementation of initiatives for access to the Second Tier Capital Market

CBN, the Securities and Exchange Commission (SEC) and the Nigerian Stock Exchange will initiate the re-activation of the second-tier securities market and ensure its liquidity

The CBN will collaborate with other regulatory agencies including SEC to provide support MF operators that desire to raise funds in the capital market or that wish to exploit other benefits available in the market

5.8. Wholesale Fund for Microfinance

There is a huge landscape for microfinance services, and permeating this horizon will certainly require strong liquidity standing by the MFBs/MFIs. This is the justification for the creation of a wholesale fund that can be retailed to target-beneficiaries by grass-root financial institutions. Expected sources of contribution to the wholesale fund are the CBN, Development Finance Institutions, Poverty alleviating institutions, State and Local Governments, etc.

5.8.1 Implementation of the Wholesale Funds for the Microfinance sub sector:

a. The Central Bank of Nigeria (CBN) shall facilitate a pool of innovative intervention funding sources that would provide medium to long term funds for on-lending within microfinance institutions' network towards supporting sustainable microfinance delivery.
b. The Federal Government will also explore the possibility of floating a special microfinance bond at the capital market, the proceeds of which shall accrue to the wholesale fund. When created, this fund shall be managed by a body of experts/trustees. Alternative funding channels between domestic commercial banks and microfinance institutions need to be enhanced in order to engender the sector's commercialization and sustainability in the long run.
c. Clear policy position that will declare the modalities for the administration of intervention funds to discourage the subsisting practice where some of such funds are currently operated in manners capable of distort/disrupt the microfinance market.
d. The CBN should evolve a concise mechanism for pre-qualification to access such funds within its control and the modalities should be aligned to best practice standards, set performance benchmarks, as well as prescribed government interventions and plans at the policy level.

5.9. Apex Associations:

It is imperative to encourage the formation of an apex association body in the sector that shall provide a platform for cross fertilization or exchange of ideas, conduct of peer review exercises, setting up of acceptable performance standards in the sector, provision of a common front for advocacy on matters of common interest, conduct of capacity building programmes for members, and of research and surveys for the development of the sub sector. Typically, apex associations also serve to provide a common front for interface with important stakeholders in the sector as well as pursue a coordinated position on policy and legislative matters affecting the sector.
The core objective of apex associations is to identify platforms for collaboration that would promote synergies in resource and information sharing, pursuit of collative objectives, self regulation and engendering accountability, networking, etc so as to strategically build a self sustaining, independent and effective apex association.

This National Microfinance Development Strategy intends that these Apex institutions shall constitute SROs, especially for the NGO-MFIs and the Financial Cooperatives.

5.9.1 Mandate of Apex Associations

The apex associations of MFBs, MFIs and Financial Cooperatives shall entrench professionalism, observance of ethical standards as well as sound and healthy practices among members. This shall be attained by organizing workshops, seminars and by publishing and circulating bulletins and periodicals among members, as well as, establishing codes of conduct guiding each association and its members. The apex body will enforce compliance by members and apply appropriate sanctions as a deterrent against infractions. Apex associations and professional bodies shall convene round table dialogue among stakeholders to explore common grounds for harnessing the inherent potentials for collaboration among them.

5.9.2 Apex body or SRO shall pursue objectives of common interest that promote the development and growth of its members. It shall constitute a powerful advocacy/ lobby force at the national level so as to support dialogue with policy makers for required policy and regulatory reforms towards promoting a more effective and responsive engagement and support to the microfinance sub sector in the delivery of microfinance services including fostering collaborative relationships among members. The network could assume the responsibility for setting reporting standards (including reportage to credit bureau/registry), and building consensus among stakeholders on the direction, growth and development of the microfinance industry.

5.10 External Auditors:

5.10.1 One core imperative in the development of the microfinance sub sector is to enshrine a virile reporting system that measures and evaluates performance and ensures that appropriate attention is given to transparent reporting and proper disclosures as well as enforcement of strict adherence or compliance with best practices and accounting standards in the conduct of the institutions' business operations.

The institutions must emphasize professionalizing the development of accounting and auditing practices. These are important for the development and expansion of market-led microfinance services to enable them serve clients who are outside the frontiers of formal and semiformal finance landscape.

5.10.2 Engagement of External Auditors:

a. The CBN shall in conjunction with the relevant accounting bodies set uniform accounting standards for microfinance operators across the microfinance sub sector and the CBN should set the criteria (prequalification) for engagement /appointment of External Audit firms

b. The regulator shall design standard external audit template that highlights the core activities covered and time lines for regularization by the institutions of external audit's exceptions should be set, especially those touching on the identified core activity areas, including benchmarks and timelines for the conduct of audit of microfinance institutions to engender uniformity/harmonized standards

c. The CBN shall prevail on the various accounting bodies in Nigeria, like ICAN and ANAN to train, re-train their members to deepen their knowledge on the additional accounting requirements unique to microfinance operations and practice and certify such members (auditors) for microfinance work and on the other hand hold them accountable, inter alia by banning failed auditors from microfinance audit work.

5.10.3 Board Audit Committees:

CBN shall encourage the delivery of the special training curriculum for microfinance institutions' Board audit committees and the independence of the internal auditors.

5.10.4 Asset and Liability Committee at Management and Board levels:

There shall be a regulatory requirement for distinct Asset and Liability committee at both Management and Board levels to be set up in the institutions to reinforce more efficient and effective controls and management of the institutions

5.11 Legal:

Undertake a comprehensive training of operations and credit officers of microfinance institutions on basic loan contract engagements that would sufficiently expose them to the modalities for streamlined administration of loan contract relationships with the customers of microfinance institutions. Also, to pursue the development and delivery of a formidable legal and legislative framework that engenders delivery of microfinance in Nigeria

The regulator shall cause to be undertaken a comprehensive revision of the provisions of any component of subsisting legislation and regulatory framework that is/are potentially capable of inhibiting or being injurious to the delivery of microfinance in Nigeria. The regulator shall enforce the prudential guidelines requiring microfinance institutions to adequately provide insurance cover on depositors' funds

5.11.1 The budgetary allocation by State Governments

The regulator shall cause a clear enforceable legal framework to be developed that provides appropriate legal backing to the 1% budgetary allocation by State Governments to support the development of the microfinance sector and enshrine sustainable microfinance sub sector an appropriate legal framework conducive for the emergence and sustainable growth of small-scale financial institutions shall be developed.

CHAPTER SIX

6.0 FINANCIAL INCLUSION AND SOCIAL INTERMEDIATION STRATEGY

6.1 FINANCIAL INCLUSION

Various efforts have been made in the past to ensure that every Nigerian or at least a majority of Nigerians have access to financial services. While success have been achieved in extending banking services to several areas in the country, a large population of the people do not have the much needed services as expected. As noted in chapter one, about 70% of Nigerians reside in rural areas and 78.8% of this rural population do not have bank accounts or access to formal financial services. Women as noted have been more affected by lack of access to financial services and as the research conducted by EFInA revealed 76.8 of women do not have bank accounts.

There is a long history of efforts by different past governments and the regulator at ensuring that a larger population of people is included in the financial intermediation process. Such efforts include;

1. Nigerian Agricultural Credit Bank - 1973-2000
2. Rural Banking Program - 1977 – 2000
3. Agric Credit Guarantee scheme - since 1977
4. Nigeria Agricultural Insurance Company - Since 1988
5. Peoples Bank - 1989 – 2001
6. Community Banks - 1990 - 2005
7. Self – Help Group Linkage Program - 1991
8. Family Economic Empowerment - 1994 – 2001
9. Trust Fund Model - Since 2001
10. National Poverty Eradication Program(Microcredit) Since 2001
11. Small and Medium Equity Investment Scheme – 2001
12. Agricultural Credit Support Scheme - Since 2006
13. Microfinance Policy Framework - Since 2005

Other policies were also made by the apex bank to support creation of rural branches for banks, sectoral lending etc.

Many of these programs failed to achieve the desired financial inclusiveness due to many factors, including low capitalisation, poor governance, inappropriate legal framework, low capacity of operators and regulators. Some modest achievement were, however, made with the Agricultural Credit Guarantee Scheme, Self Help group linkage, Trust Fund Model and the Interest drawback program

Ensuring financial inclusion of the rural population, particularly women, becomes very necessary for the country not to slow down its development and to make remarkable advancement towards achieving the Millennium development Goals. Agriculture and rural economic activities contribute more than 55% of non-oil Gross Domestic Product (GDP). Women account for 70% of value addition in the rural economy.

Financial inclusion is a state of financial system where every members of the society have access to appropriate, desired financial products and services so that they can effectively and efficiently manage their financial resources, get needed resources to finance their businesses, financial leverage to take up opportunities that will lead to increase in their incomes. This can only be achieved based on the level of financial literacy and capability of the consumers of financial services and access to financial products and services.

Financial inclusion should therefore be viewed from the continuous improvement in financial literacy and customers capability, quality and range of financial products and services particularly as it meets the needs of different consumer segments, gender and class, platforms and costs of providing the services and number of people within the society who have access to these range of financial products and services. The national strategy will take all these into consideration.

6.2 Financial Literacy Strategy

The objective of this strategy is to create and/or improve the level of awareness and to educate consumers and potential users on access to financial services being created through various programmes of microfinance by Microfinance Banks, NGO microfinance Institutions and other microfinance services. It also aims at making consumers aware of their rights and responsibilities as users of financial services so that through the knowledge gained attitude and behaviours will change.

6.2.1 This strategy will target the consumers, service providers of microfinance services, market women, community leaders and the general public. It will involve the promotion of awareness and understanding of microfinance services through the use of printed educational materials that will be distributed by the service providers in the banking halls and during group meetings of customers. This will include description of services being offered and opportunities available to customers through the use of the services.

6.2.2 The electronic media will be used to educate the public through awareness adverts and jingles both on Radio and Television. Similarly, discussions programmes involving consumers, service providers and policy makers would be held on radio and television while information will be disseminated through mobile telephone Networks and common questions and answers would be done through websites of the regulatory agency and service providers. Posters would be printed and pasted in public places including local government council offices, hospitals and religious houses as part of the strategy for the community people.

6.2.3 An annual National Microfinance week will be created that will have programmes including public lecture on topical issues, road shows and public debates and this will incorporate the annual Microfinance awards.

Support will be provided for development of academic modules on microfinance which will be incorporated in the school syllabus on Banking and Finance, Economics and other related courses in the university, polytechnics and other tertiary institutions. Training materials would be developed for the use of Microfinance Institutions to train clients and potential customers.

In order to achieve all of these partnerships will be created with other relevant stakeholders including the media, government ministries and other relevant institutions and agencies.

6.3 Consumer Protection

Most targets of microfinance banks are not informed on issues of banking, insurance ATM and other services usually provided by Microfinance institutions. Oftentimes they just respond to conditions imposed by the service provider which may not necessarily meet their needs. In order to ensure that service providers do not take undue advantage of the customers' financial literacy levels, Service providers should seek and secure approvals of their products and services from the regulatory body. The conditions and services must be displayed in the meeting places and or banking halls and confirmed as approved by the regulatory body. Regulatory body will only approve products and services with conditions that do not infringe on the customer right and that is fair in business dealings.

6.3.1 Secondly, banking is a trust business. While customers make deposit (savings) with microfinance institutions or banks, they do so with the confidence that the amount deposited will be available to them as and when they need it or that it will be a basis for borrowing to meet their financial obligations. The customers do not know what the microfinance institutions do with or the risks they take with moneys deposited with the Microfinance Banks or institutions. It is the duty of the regulatory body to ensure that Institutions collecting deposit from the General public are sound financially and to define limits to the risks that microfinance institutions take with customer deposits. That is why compliance with the regulatory strategies prescribed in Section 2 of this Strategy document is of utmost importance.

6.3.2 The National Deposit Insurance Corporation shall ensure that all depositors of microfinance banks are fully protected in the event of insolvency or liquidation of Microfinance Banks and all Microfinance Institutions should insure depositors by paying no more than 1% of deposit liability to NDIC so that deposits of customers with them will be equally covered. All deposit taking microfinance Institutions should comply with this rule.

6.3.3 Not all Microfinance clients need credit. Efforts should be made that the MFB/MFI do not create over indebtedness for the poor or induce them into services not required by them. The strong marketing strategy adopted by the Service providers and the poor financial literacy levels have led to over indebtedness and high gearing levels of the customers. This in turn lead to inability to repay as and when due. While customers are responsible largely for their financial commitment, it will form part of the responsibility of the lenders to ensure that customers are not pushed to over-borrowing by the lenders actions. Customers must be asked to provide information on other financial obligations to other institutions or lenders and the information should form part of the borrowing capacity assessment.

While Microfinance high interest rates and charges are attributed to the cost of providing services and inflation, the interest being offered to savers who mandatorily have no access to their savings during periods of loan are very low and do not reflect the same trends attributable to the interest on loans. Policies will be put in place to ensure an equitable spread between deposits and lending rates.

6.3.4 Microfinance Banks and Institutions must explain terms and conditions of services being offered to customers and ensure that they understand them before they commit themselves. Circumstances in which condition and terms change during service period must also be in writing and be part of the service contract. Such changes cannot be imposed but must be negotiated. This will ensure that banks do not change the conditions of products and services to the detriment of customers unduly.

6.3.5 To ensure operators do not fall back on their position to engage the customers in any form of intimidation and that issues are resolved to the satisfaction of customers promptly, respect for customer rights will be promoted. Microfinance Banks and Institutions will be required to display telephone numbers and names of responsible officers to be called at the counter by aggrieved customers. Service providers will also be required to have Complaints boxes which must be checked daily by senior officers. Complaints received must be lodged in a book along with responses provided. This record will form part of the regulators review and customers affected would be sampled to ensure that issues were amicably resolved.

6.3.6 Customers do have a right to their privacy and the data collected from them should not be used for any other purposes without their permission or as provided under existing laws. This will be promoted in accordance with the laws and banking policy guidelines in Nigeria. Microfinance banks and institutions will be required to protect customer data through restricted access within their organisation. Only authorised staff will have access to the information and the use of the information in reports must be controlled while permission must be sought before use in publications. These data include pictures customer transactions and documents. Microfinance Banks and Institutions do help customers to create credit history through enlistment with Credit bureau. Customers must be aware that their information will go into the credit bureau database and their consent should be part of the agreement.

6.4 Gender

Microfinance was primarily designed as a toll for addressing poverty and research has show that the incidence of poverty in households are mainly borne by women who have to remain with their children no matter the situation. Similarly research has shown that the best microfinance clients are women, posting better repayment records than men and using the benefits of improved income more for household than personal needs. Coincidentally statistics show that 85% of women do not have bank accounts and access to finance even though they dominate microenterprise.

The focus of strategy is therefore to ensure that women participate more in microfinance by removing some the inhibiting factors and also promoting gender friendly services by the Microfinance Banks and Institutions. Targeting women will also mean improved financial outlook for the Microfinance banks and institutions.

6.4.1 Women in most parts of the country do not have land ownership rights and their use of lands is temporary. Microfinance service providers avoid lending to them because they do not have ownership rights over the land being cultivated or use and such lendings are classified high risk. The regulator will promote recognition of user rights for women so that their cultivation will also stand as collateral for lending. Other more flexible collateral arrangements for microfinance borrowings are discussed under the

Regulatory and Supervisory framework. Inhibitions such as male guarantee for women borrowers would be discouraged and stringent account opening documentation would be reduced.

6.4.2 Timing of meetings is crucial to women participation in microfinance. Microfinance banks and Institutions will be encouraged to fix meetings at periods that are convenient for women to participate and in locations closer to their business so that transaction cost of meetings are minimized and they can actively participate.

6.4.3 Development of tailored financial products targeted at women would be promoted and supported. These products will be based on researched and identified needs of women and will include both savings and credit products. Recognition will also be given to Microfinance Banks and Institutions that have increased their outreach significantly towards women.

6.4.4 Gender issues also include other disadvantaged groups in the society, young entrepreneurs, disabled, artisans, people in specialised enterprises etc. Similar support as provided to women will be extended to them to promote overall inclusiveness.

6.4.5 This development strategy will ensure the integration of gender elements in all microfinance programmes, regulation and policies to help reduce gender inequalities and promote women access to financial services

6.5 Product Development

Microfinance Clients are diverse both in their needs and in their social sophistication. Their needs are largely driven by the nature of their business and related cash flow requirements. They also have social obligations that require financial commitment. These include payment of school fees, observation of festivals and other social consumption. Products currently offered are generic and largely address primary financial needs.

6.5.1 Support will be encouraged for Microfinance institutions and banks to develop demand-driven products by building the capacity of their staff to develop products in-house and for institutions specialised in developing pro-poor financial products.

Cost of developing products could be very high and time consuming. Costs need to be written off over time. Microfinance banks should be careful not to invest on products that will not be very attractive to clients or not profitable.

As such cost benefit analysis should be done before embarking on product development. Seasonal variations of customers (targeted clients) business should also be considered. The process of product development therefore should involve the customers.

6.5.2 Microfinance Institutions should also develop flexible products that allow customers to migrate from one product to another based on their changing needs as well as products that are linked with social needs of the clients i.e. linking financial products to Children education, health, housing, protection etc., thus promoting livelihood.

6.5.3 To this end donors are encouraged to support the development of pro-poor financial products, especially through the platform of the Self-Regulatory Organisation (SRO) advocated under Section 2. Such products have the potential to reduce poverty, promote gender equality and redress economic imbalances. Donor support should also aim at encouraging specialised products, designed with the needs and constraints of women taken into consideration.

6.6. Outreach

The Nigerian market is largely underserved. There is a high concentration of microfinance banks and institutions in the major cities and commercial centres of the country while the rural areas are largely underserved. Despite the client mobilisation efforts of licensed microfinance banks, 46.3% of the population remain without any form of access to finance and 78.8% of rural adults unbanked.

Three factors are responsible for the seemingly low outreach of Microfinance institutions.

1. Weak capital base. The loan capital of microfinance banks and institutions as presently constituted is rather small compared with the demand for services. They could only serve a few customers.
2. Microfinance Institutions have not developed sustainable products and services to work in underserved areas. Existing products and services may not be sustainable in the way they are presently packaged.
3. The operational and staffing structures are inadequate and too expensive in many cases as such the banks focus on the urban and semi-urban centres.

6.6.1 Though the country microfinance programmes were traditionally donor-funded for a long time, microfinance banks were licensed beginning from 2005. There have also been various State led funded microfinance programmes at the various tiers of government. The donor funded programmes have been limited in funding while the state programmes have been unsustainable. Microfinance Banks efforts at mobilising savings and deposits have not created sufficient funds to significantly improve the outreach levels of microfinance services.

6.6.2 With limited funds available and lack of opportunity for portfolio refinancing, the outreach capacity of Microfinance Banks and Institutions will remain inadequate, leaving many potential clients unserved. The establishment of a microfinance fund will provide necessary access to additional capital for microfinance banks. Establishment of suitable guarantee scheme for microfinance banks and institutions by regulators will encourage Commercial banks to lend to the Microfinance Banks and Institutions. Access to finance by MFIs/MFBs will lead to greater outreach.

6.6.3 Acquiring operational systems needed for extending outreach and for efficient monitoring of performance are necessary for microfinance banks and institutions to increase outreach to presently underserved areas. However, these are not sufficient without the strategic operational tactics to achieve breadth and depth of outreach. They require quality technical assistance to develop it. Such technical support should be geared towards human capacity development.

6.6.4 Microfinance Banks have been cautious in extending services to clients without any form of collateral to secure credit. Current practices will be reviewed in order to encourage a broader range of mechanism to secure credit. The review will include a study, across cultural areas, of potential alternative forms of collateral such as community pledges, informal housing and properties etc. The use of alternative collateral mechanism will encourage provision of microfinance services apart from credit and consequently expand outreach.

6.6.5 Potential customers have difficulty in entrusting their resources with the microfinance banks based on perceived sophistication of the banks compared with their own little resources. In order to be more attractive to clients, particularly in the rural areas, service providers need to drop their sophistication and adopt the most appropriate operating model, characterised by reduced operational costs and improve sustainability outlook. Regulators and capacity building efforts will support the creation of this awareness in the minds of service providers

6.7 Technology

Experiences across the globe have shown that technology contributes significantly to improving the efficiency of Microfinance Banks and Institutions in tracking client information, performance measurement, reporting, cost management and delivery of services. These include systems for automated loan tracking, impact tracking, credit scoring, financial reporting, smartcards, finger print readers, mobile phones, personal digital assistants etc. Appropriate technology will reduce credit risks, operating costs and improve access to finance.

6.7.1 The regulator will take an inventory of available reliable and tested systems that could be used by microfinance banks to improve their operational efficiency. This will be assessed based on reliability, security, local maintenance support and costs and be followed by provision of support to Microfinance Banks and Institutions to secure the best option available. Support from donors for Microfinance Institutions or through the National Microfinance fund may be necessary to make available the necessary resources and to acquire necessary skills for the application of the technology.

6.7.2 Systems that allow for uniform reporting, comparison of performance, transparency in reporting on outreach and impact, and dissemination of timely information to the Regulatory Authorities should be promoted and encouraged to ensure compliance with standard industry practices.

6.7.3 Microfinance Banks and Institutions will be encouraged to invest in systems that allow for data analysis and presentation of gender disaggregated data, market demand segments, product demand preferences by location etc. so that they can develop product and services to address deficiencies and gaps in the markets.

6.7.4 Modern communication technology offers lots of opportunities in reaching the underserved markets, particularly the rural areas. Mobile phones could be used to provide services including fund transfers and this could be understood by an average microfinance customer. They could also be used for financial literacy programmes. Partnerships and policy approvals will be developed to allow the use of mobile phones and other similar technology.

6.7.5 In making the choice of technology cost benefit analysis should be done by the microfinance banks and institutions and ensure that there is back-up and regular maintenance. Technology is not static, constant upgrades must take place to avoid obsolescence. All these should form part of the criteria when deciding on the choice of technology.

6.8. Social Intermediation

Social intermediation within the context of microfinance seeks to promote the issues of peer pressure, self selection, leadership and monitoring in financial intermediation on one hand and on the other, the linkage of microfinance to other social needs of health and risk mitigation of the microfinance clients.

6.8.1 Group formation and self selection of group members by borrowers increase group cohesiveness while the group lending methodology increases peer pressure. Both have contributed immensely to microfinance success. Through regular interactions of group members leadership skills are developed. With little available collateral, the use of peer pressure is important to microfinance lending programmes. Group methodology will be promoted and encouraged.

6.8.2 Continuous aware will be created and sustained about the needs of microfinance clients as the poor need more than credit and savings for sustainable livelihood. They are faced with other challenges that impact on their income and socio economic life. These include health, insurance against death and disasters or unexpected emergencies.

6.8.3 Microfinance banks and institutions will be supported to develop products that link financial services to health and insurance schemes for their customers. In the event of illness when customers cannot work such schemes will ensure that they are able to take care of health and possibly guarantee their income during period of illness.

In the event of death, family members will be able to receive benefits and outstanding loans will be protected. Microfinance institutions should not just seek to protect the loans but to create benefits for the customers. Involvement of group members reduces the incidence of false claims and enhances customer disclosure of information. Products design should take the input of members as important.

6.8.4 The Apex body need to secure the cooperation of the insurance regulatory body and other stakeholders to properly structure the supervision of these products by the microfinance banks and institutions.

CHAPTER SEVEN

IMPLEMENTATION STRATEGY

7.0 Introductory

The implementation of the national microfinance development strategy requires the concerted efforts of all stakeholders in the microfinance landscape. A wide variety of stakeholders are involved – thousands of intermediaries, millions of small and microenterprises, hundreds of support service vendors, numerous regulators and over one hundred and forty million Nigerians – the process to achieve effective implementation for the attainment of envisioned future requires structured approach and methodology..

The Central Bank of Nigeria as the designated agency to lead the implementation of this strategy on behalf of the Federal Government of Nigeria and more broadly the people of Nigeria, has a difficult task as the CBN does not have statutory jurisdiction over some of the stakeholders in the microfinance sub-sector. The situation is not, however, unique. In many countries, the Central Bank has taken the central promotional role for microfinance, connected both with its general responsibility for the development of the financial system, and the specific problems of regulatory arbitrage which it often faces without statutory authority over all actors in the microfinance subsector. Many of the micro and small financial agents operating in the microfinance space are either not regulated or are impossible to regulate because of their size and informality while some service providers are regulated by other regulators than CBN (e.g cooperatives, insurance, capital market operators). The police and other security agencies and the judiciary (courts, and prosecutors) have a critical role in enforcing and applying penalties and sanctions on all violators of the law and regulatory directives. Regulatory arbitrage is clearly one of the major problems in microfinance regulation including implementing a sustained strategy. International experience however shows that the different central banks have taken coordinating strategy consistent with the realities of their national environment

---

7.1 Action Plan and Responsibilities

This section presents the required strategic actions and responsibilities of the stakeholders and defining primary and secondary responsibilities for implementing the strategic actions. It provides the timeframe for action implementation within a short term and the medium term. These are presented in table 1

7.2 Resources

A very essential component of the implementation of the strategy is the provision of adequate resources for the required strategic actions. Part of the strategy for implementation is for each implementing stakeholder to appreciate that while resources for implementation need be sought and provided, more important is the implementation capacity to use the resources effectively. Implementing the strategic actions require skilled personnel and funds. Budgetary requirements include human and material resources, information infrastructure, Institutional capacity development and public infrastructure among others.

While some of the designated stakeholders have the required resources, others will need to source for the needed resources as an issue for priority. In this situation, the coordinating structure should be able to address these capacity constraints.

7.3 Monitoring and Evaluation

It is essential that the coordination of the implementation of the present strategy be closely connected with a monitoring and evaluation process which includes all four standard levels of monitoring and evaluation – inputs, outputs, outcomes, and impacts. None of these is sufficient in itself and all must primarily be quantitative. For public relations purposes it is useful to have nice anecdotes and success stories, but any serious effort to improve the lot of the poor and the economy through microfinance centers around accurate quantitative statistics. Many of these should emerge on a more or less costless basis from the accounts of financial institutions, but some of them will require independent collection.

To be specific, it is necessary to monitor the resources that agencies input into their microfinance programs. This may have some relation to their budgets, but what is needed is close attention to their annual and quarterly financial reports. Unfortunately, many agencies in Nigeria are somewhat lax in preparing and publishing these accounts – but the process itself is a priority one in the general improvement of governance in Nigeria, and the microfinance effort might as well assist in it.

It is equally important to monitor both the quality and quantity of outputs. It should be noted that this is not the output of the financial institutions, financial services, but those of promotional agencies. It is important to monitor the quantity of training and capacitation to see if it is meeting the need. But more important, and more difficult is the quality. However, this itself can be monitored quantitatively through examinations and sample impact assessments. These in turn should enable feedback to further capacitation needs assessments.

Outcomes, as noted are financial services (loans, savings, remittances, levels of financial education). However, they are not limited to the quantity, price, and distribution of such services. They also include questions about their cost (administrative, financial, bad debt) and their quality (volume and handling of consumer complaints).

Finally, impact on clients and the economy more generally can partially be assessed through the financial agencies but also require periodic sample assessments of their clients, ideally with controls.

To the extent that the task of monitoring and evaluation is critical it needs specific locations, independence from various contending stakeholders, and specialized and designated staff and resources. In general, only the Central Bank has the authority, capacity, and resources to undertake this task. It has not been seriously undertaken yet and would require a decision at the highest level and the commitment of considerable financial resources. Though the statistics collected by the Nigerian Bureau of Statistics have some role, in no country that the report knows of are significant or useful financial statistics collected by the national statistical agency. Once the statistics are available, promptly and accurately, they are of course generally available and used by many others including statistical agencies. Nonetheless, besides the decision to commit real resources the collection of regular microfinance statistics will require coordination with other regulatory agencies including those for cooperatives and the corporate sector, as well perhaps as those responsible for economic crimes.

7.4 Strategy Implementation Environment

The environment required for the attainment of the vision and objectives that build sustainable microfinance sub-sector in Nigeria requires the following arrangements:

i. **Government**

Government shall be involved in:

- Development of a reliable national citizen identification system that facilitates the know-your-customer principle and discourages fraudulent behaviours among microfinance clients
- Ensuring a stable macro-economic environment, providing rural basic infrastructure (electricity, water, health facilities, roads, telecommunications, etc), political and social stability;
- Creating an efficient land administration system to facilitate ease of transfer of land titles and other property rights to serve the collateral needs of borrowers and financial institutions;
- Promoting policy in support of consumer protection and financial literacy for microfinance clients;

- Providing specialized or wholesale funds and complying with the policy requirement for Federal, State and Local Governments to set aside an amount not less than one (1) per cent of the annual budgets for microcredit initiatives.

ii. Central Bank of Nigeria (CBN)

The CBN shall:

- Sustain the emergence of a sustainable microfinance sub-sector through appropriate institutional and regulatory/supervisory framework;
- Establish a new microfinance supervision department for MFBs in the CBN for increased regulatory and supervisory effectiveness
- Promote the development of wholesale funding to Microfinance Banks;
- Develop and support appropriate capacity building programmes for regulators, directors/operators and practitioners in the sector, in collaboration with other stakeholders;
- Promote financial literacy and consumer protection in partnership with relevant public and private sector MSME development institutions as well as Civil Society Organizations (CSOs); and
- Undertake periodic reviews of the Microfinance Policy and the Regulatory Guidelines to address pertinent emerging issues.

iii. Apex Associations of Microfinance Institutions/Banks

The Apex Associations of MFIs/MFBs shall:

- Promote self-regulation;
- Transform into Self-Regulatory Organisations(SROs)
- Ensure uniform standards, transparency and good corporate practices in the conduct of microfinance business;
- Offer network platforms for peer comparison, capacity building, generic product development and marketing, as well as resource sharing;
- Ensure that members of the Associations render returns on their operations to their respective regulators ; and
- Work with other stakeholders for the promotion of financial literacy and consumer protection.

iv. Public Sector Poverty Alleviation Agencies

Public Sector Poverty Alleviation Agencies shall play the following roles:

- Provision of non-commercial (social security) resources targeted at difficult-to-reach clients and the poorest of the poor;
- Capacity building;
- Nurturing of new MFIs to a sustainable level; and
- Collaborating/partnering with other relevant stakeholders.

v. Donor Agencies and Development Partners

Donor Agencies and Development Partners that provide capital and support for the development of the microfinance industry in Nigeria shall operate within the relevant provisions of the revised microfinance policy framework and the underlying principles and objectives of the national microfinance development strategy. The donor community shall also support the sector by providing required technical assistance and institutional capacity development to microfinance operators and other stakeholders.

ANNEX A:

CGAP KEY PRINCIPLES OF MICROFINANCE

The Consultative Group to Assist the Poor: Key Principles of Microfinance

CGAP is a consortium of 28 public and private development agencies working together to expand access to financial services for the poor, referred to as microfinance. These principles were developed and endorsed by CGAP and its 28 member donors, and further endorsed by the Group of Eight leaders at the G8 Summit on 10 June 2004.

1. Poor people need a variety of financial services, not just loans. Like everyone else, the poor need array of financial services that are convenient, flexible, and affordable. Depending on circumstances, they want not only loans, but also savings, insurance, and cash transfer services.
2. Microfinance is a powerful tool to fight poverty. When poor people have access to financial services, they can earn more, build their assets, and cushion themselves against external shocks. Poor households use microfinance to move from everyday survival to planning for the future: they invest in better nutrition, housing, health, and education.
3. Microfinance means building financial systems that serve the poor. In most developing countries, poor people are the majority of the population, yet they are the least likely to be served by banks. Microfinance is often seen as a marginal sector, a "development" activity that donors, governments, or social investors might care about, but not as part of the country's mainstream financial system. However, microfinance will reach the maximum number of poor clients only when it is integrated into the financial sector.
4. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Most poor people cannot get good financial services that meet their needs because there are not enough strong institutions that provide such services. Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund. A financially sustainable institution can continue and expand its services over the long term. Achieving sustainability means lowering transaction costs, offering services that are more useful to the clients, and finding new ways to reach more of the unbanked poor.
5. Microfinance is about building permanent local financial institutions. Finance for the poor requires sound domestic financial institutions that provide services on a permanent basis. These institutions need to attract domestic savings, recycle those savings into loans, and provide other services. As local institutions and capital markets mature, there will be less dependence on funding from donors and governments, including government development banks.
6. Microcredit is not always the answer. Microcredit is not the best tool for everyone or every situation. Destitute and hungry people with no income or means of repayment need other kinds of support before they can make good use of loans. In many cases, other tools will alleviate poverty better, for instance, small grants, employment and training programs, or infrastructure improvements. Where possible, such services should be coupled with building savings.
7. Interest rate ceilings hurt poor people by making it harder for them to get credit. It costs much more to make many small loans than a few large loans. Unless micro lenders can charge interest rates that are well above average bank loan rates, they cannot cover their costs. Their growth will be limited by the scarce and uncertain supply of soft money from donors or governments. When governments regulate

interest rates, they usually set them at levels so low that microcredit cannot cover its costs, so such regulation should be avoided. At the same time, a micro lender should not use high interest rates to make borrowers cover the cost of its own inefficiency

8. The role of government is to enable financial services, not to provide them directly. National governments should set policies that stimulate financial services for poor people at the same time as protecting deposits. Governments need to maintain macroeconomic stability, avoid interest rate caps, and refrain from distorting markets with subsidized, high-default loan programs that cannot be sustained. They should also clamp down on corruption and improve the environment for micro-businesses, including access to markets and infrastructure. In special cases where other funds are unavailable, government funding may be warranted for sound and independent microfinance institutions.
9. Donor funds should complement private capital, not compete with it. Donors provide grants, loans, and equality for microfinance. Such support should be temporary. It should be used to build the capacity of microfinance providers; to develop supporting infrastructure like rating agencies, credit bureaus, and audit capacity; and to support experimentation. In some cases, serving sparse or difficult-to-reach populations can require longer-term donor support. Donors should try to integrate microfinance with the rest of the financial system. They should use experts with a track record of success when designing and implementing projects. They should set clear performance targets that must be met before funding is continued. Every project should have a realistic plan for reaching a point where the donor's support is no longer needed.
10. The key bottleneck is the shortage of strong institutions and managers. Microfinance is a specialized field that combines banking with social goals. Skills and systems need to be built at all levels: managers and information systems of microfinance institutions, central banks that regulate microfinance, other government agencies, and donors. Public and private investments in microfinance should focus on building this capacity, not just moving money.
11. Microfinance works best when it measures and discloses its performance. Accurate, standardized performance information is imperative, both financial information (e.g., interest rates, loan repayment, and cost recovery) and social information (e.g., number of clients reached and their poverty level). Donors, investors, banking supervisors, and customers need this information to judge their cost, risk, and return.

Annex B:

GIRAFE Microfinance Rating Methodology

OLD GIRAFE

Rating Domains	**19 Rating Factors**
Governance	Decision-making, Planning, Management, HR Management
Information	MIS Systems, Portfolio Data, Financial & Accounting Data
Risk Management	Procedures & Internal Controls, Internal Audit
Activities	Portfolio Management, PAR, Write-Off, Risk Coverage
Funding & Liquidity	Funding Strategy (including ALM), Liquidity Management
Efficiency & Profitability	ROA, Productivity, Operational Expense Ratio, Financial Self-Sufficiency Ratio

NEW GIRAFE (from 2008)

Rating Domains	**17 Rating Factors**
Governance	Decision-making, Planning, Management, HR Management
Information	Information System Design & Data Quality **(revamped)**
Risk Management	Procedures & Internal Controls, Internal Audit
Activities	Financial Services Management **(revamped)**, Credit Risk **(revamped)**, Risk Coverage
Funding	Market Risks/ALM Management **(revamped)**, Liquidity Risk **(new)**, Funding Strategy & Capital Adequacy **(revamped)**,
Efficiency & Profitability	ROA, Revenue Quality **(new)**, Operational Efficiency **(revamped)**, Asset Optimization **(new)**

Note: Some old factors such as "Financial Self-Sufficiency" have simply been eliminated, but most old factors (not figured separately as a full rating factor in the new GIRAFE) have been folded into newly revamped rating factors.

RATING SCALE CHANGES

Rating Domains	**Old Weightings (%)**	**New Weightings (%)**
Governance	**20**	**24**
Information	**12**	**10**
Risk Management	**12**	**10**
Activities	**25**	**20**
Funding	**7**	**14**
Efficiency & Profitability	**24**	**22**

Source: Planet Rating (2008)

Annex C:

Glossary of Microfinance Related Terms[6]

ActiveClients:
The number of clients with loans outstanding on any given date. An institution's official statistics on active clients are usually recorded as the number of clients with loans outstanding on the date its financial statements are filed.

Active Loan Portfolio:
The total amount loaned out less the total amount of repaid loans; i.e., all money that is "on the street" or owed to the institution in the form of loans on the date the report is filed.

Assessment:
Also called evaluation, Assessments include instrumental appraisals, rating exercises, and other activities that may determine how well an institution performs financially, operationally, and managerially.

Benchmarking:
Peer group benchmarking puts performance measurements in context by comparing an institution with similar institutions based on a common factor, such as region, size or methodology. A benchmark can also refer to the standard against which all similar institutions are compared.

Bridge financing:
Interim financing used to solidify a position until more permanent financing can be made. The ACCION Latin America Bridge Fund provides bridges from microfinance institutions to local capital markets.

Capital Adequacy:
A quantitative and qualitative measure of an institution's level of equity versus the risk it incurs. This measurement shows a program's ability to absorb loan loss.

Capital markets:
The market for trading long-term debt instruments (those that mature in more than one year).

Collateral:
Asset pledged by a borrower to secure a loan, which can be repossessed in the case of default. In a microfinance context, collateral can vary from fixed assets (a car, a sewing machine) to cross-guarantees from peers.

Commercial Financial Viability:
See Financial Self-Sufficiency

Commercialization:
In a microfinance context, commercialization refers to the move by MFIs to provide services on a financially self-sufficient basis and under prevailing commercial principle and regulations.

Credit Bureau:
An agency that contains information on the credit history of consumers so that creditors can make decisions about granting of loans.

Credit Rating:
Usually used to determine a bank or financial institution's credit risk, a credit rating is an evaluation of an individual's or company's ability to repay obligations or its likelihood of not defaulting.

Credit Scoring:
Measures the risk associated with each credit applicant/ micro borrower. Credit scoring is an automated system that assigns points for various credit factors,

---

[6] http://www.accion.org/page.aspx?pid=257

providing lenders with the ability to grade prospective clients and to calculate the risk of extending credit. In a microfinance context, the credit scoring method is modified to take into account a micro entrepreneur's experience, character and capacity to repay. The final credit score is an overall measure of the credit worthiness of the credit applicant.

Credit Union:

A nonprofit, cooperative financial institution owned and run by its members. Members pool their funds to make loans to one another. The volunteer board that runs each credit union is elected by the members. Most credit unions are organized to serve people in a particular community, group or groups of employees, or members of an organization or association.

Default:

Failure to make timely payment of interest or principal on a loan, or to otherwise comply with the terms of a loan.

Development Finance:

Term that encompasses all financial services provided to low-income clientele in less developed nations - including micro loans, micro savings, micro insurance, etc.

Disbursement:

The actual transfer of financial resources. The disbursement of a micro loan reflects the transfer of the loan amount from the lending institution to the borrower.

External Audit:

A formal, independent review of an institution's financial statements, records, transactions and operations. External audits are usually performed by professional accountants in order to lend credibility to financial statements and management reports, to ensure accountability for donor funds, or to identify internal weaknesses in an organization. The external audit process is key to transparency.

Financial Systems Approach:

See Financial systems section/ "ACCION's approach".

Financial Self-Sufficiency (FSS):

Total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. In a microfinance context, an institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses and funds.

Fixed Assets:

Long-lived property of a micro entrepreneur or firm that is used in that business' production (i.e., a sewing machine is a fixed asset for a micro entrepreneur who makes clothing). Fixed-asset lending is a type of microfinance product that disburses loans expressly for the purpose of purchasing these fixed assets, which aid in production volume and income.

Fixed-Asset Lending/ Loan:

Microfinance product in which loans are disbursed expressly for the purpose of purchasing fixed assets, which aid in production volume and income.

Governance:

Process by which a board of directors, through management, guides an institution in fulfilling its corporate mission and protects its assets.

Greenfielding:

Greenfield or greenfielding refers to starting a new microfinance organization where none existed before.

Group Lending:

Lending mechanism which allows a group of individuals - often called a solidarity group - to provide collateral or loan guarantee through a group repayment pledge.

The incentive to repay the loan is based on peer pressure - if one group member defaults, the other group members make up the payment amount.

Housing Finance:

A specialised loan product that allows households of both micro entrepreneurs and wage-earners to finance home improvements or additions. Loans tend to be longer-term, and in larger amounts, than traditional microenterprise loans. In the case of micro business owners, home improvement loans can enhance at-home businesses.

Informal Sector/ Economy:

A subset of the economy consisting of self-owned enterprises and the enterprises of informal employers, in both urban and rural areas. The businesses of the informal sector are not registered with any taxation or regulatory bodies. The main features of the informal sector are ease of entry, self-employment, small-scale production, labor-intensive work, lack of access to organized markets, and lack of access to traditional forms of credit.

Loan Guarantee:

See Collateral.

Loan Loss Rate:

Total write-offs divided by active portfolio. The loan loss rate is an indicator to measure unrecovered loans.

Loan Loss Reserve:

A provision set aside to cover potential losses. Microfinance organizations often establish a loan loss reserve equal to 2-5% of the value of their active portfolios.

Loan Products:

Types of loans with particular sets of terms and conditions, and often for a particular use. Within the field of microfinance, loan products include fixed-asset lending, home improvement loans and solidarity group lending.

Microcredit:

A part of the field of microfinance, microcredit is the provision of credit services to low-income entrepreneurs. Microcredit can also refer to the actual micro loan.

Microenterprise:

A small-scale business in the informal sector. Microenterprises often employ less than 5 people and can be based out of the home. Microenterprise is often the sole source of family income but can also act as a supplement to other forms of income. Examples of microenterprises include small retail kiosks, sewing workshops, carpentry shops and market stalls.

Micro entrepreneur:

Owner/ proprietor of a micro enterprise.

Microfinance:

Banking and/or financial services targeted to low-and-moderate income businesses or households, including the provision of credit.

Microfinance Institution (MFI):

A financial institution - can be a nonprofit organization, regulated financial institution or commercial bank - that provides microfinance products and services to low-income clients.

Micro insurance:

A developing field of microfinance that provides health insurance and other insurance products to micro entrepreneurs and employees in the informal sector.

Microloan:

A loan imparted by a microfinance institution to a micro entrepreneur, to be used in the development of the borrower's small business. Microloans are used for working capital in the purchase of raw materials and goods for the microenterprise, as capital for construction, or in the purchase of fixed assets that aid in production, among other things.

Operational Self-Sufficiency (OSS):

A measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues.

Opportunity Costs:

In the context of microfinance, opportunity costs include the time or anything "forgone" a borrower spends on applying and filling out the paperwork for a loan.

Performance Standards:

Normative levels set for specific performance measurements, like portfolio quality or leverage. In the field of microfinance, there are several entities and projects attempting to set universal performance standards for MFIs.

Portfolio at Risk:

Measurement of the total outstanding balance of loans past due - not late payments or payments not yet due - divided by the active portfolio. A more rigorous manner of assessing portfolio quality than portfolio past due/ delinquent portfolio.

Portfolio Outstanding:

See Active Portfolio.

Portfolio Past Due/ Delinquent Portfolio:

Total amount of loan payments that are due but have not yet been paid divided by active portfolio.

Regulation and Supervision:

The creation and enforcement of a set of rules and standards for financial institutions, including MFIs. These rules are usually set by a country's central bank or superintendence of banks, or by other banking agencies.

Remittances:

1. Money sent by expatriate migrant worker to family in home country. 2. A payment in cash, check or electronic transfer.

Savings Mobilisation:

Programs intending to mobilize the capital of the poor and to provide savings accounts, as well as credit services, to micro entrepreneurs and low-income households.

Securitization:

The process of pooling a group of assets, such as loans or mortgages, and selling securities backed by these assets. Securitization is one way microfinance institutions can access capital markets, improve liquidity and lend more money, all while managing risk.

Small & Medium Scale Enterprises (SMEs):

Enterprises employing 5 to 10 workers (small-scale) or between 10 and 50 workers (medium-scale).

Solidarity Group:

See Group Lending.

Stepped Lending:

The process by which borrowers who repay loans on time are eligible for increasingly larger loans. Stepped lending keeps initial risk at a minimum while allowing micro entrepreneurs to grow their businesses and increase their incomes.

Subsidized Rates of Interest:
Loan interest rates that are kept artificially low (below market rates) by the lending institution; often subsidized by donations.
Supervision:
See Regulation and Supervision.
Sustainability:
An organization's ability to cover costs. There are varying degrees of sustainability, ranging from not sustainable to financially sustainable (see Financial Self-Sufficiency and Operational Self-Sufficiency).
Transformation:
In a microfinance context, transformation refers to the process by which a nonprofit community organization or an NGO becomes a regulated financial institution.
Transparency:
The degree of a financial institution/MFI's openness as determined by a sequence of financial information-gathering and testing. A transparent microfinance organization gathers and reports accurate financial information on its own, to be verified and analyzed by external parties. These external authorities ensure that the MFI's performance complies with appropriate industry standards.
Village banking:
Lending methodology in which clients - typically women - form groups of approximately 10-30 individuals that are autonomously responsible for leadership, bylaws, bookkeeping, fund management and loan supervision. The group pools funds to use for business loans, savings, and mutual support, and members cross-guarantee individual loans.
Working Capital:
Defined as the difference between current assets and current liabilities, excluding short-term debt.
Write-off:
Charging an asset amount to expense or loss. A microfinance institution writes off loans not expecting to collect them, while continuing to attempt collection.

Table 1 **Implementation Plan and Stakeholder Responsibilities**

REGULATORY AND SUPERVISORY STRATEGIES					
S/N	**Strategic Actions**	**Objectives**	**Primary Responsibility**	**Secondary Responsibility**	**Time Frame: Short (S) or Medium(M) Term**
1.1	Create SRO for MFI's	Promote self regulation and enable NAMFI to become SRO for NGO MFIs	CBN/Regulatory Agencies, NAMFI	MFIs,	S
1.2	Strengthen Apex Coops and eliminate factionalization	Promote self regulation, create and empower SRO for Cooperatives	CBN, , Federal Department of Cooperatives	State Departments of cooperatives	S
1.3	Review strategy of DFIs and restrict them to wholesale financing	Strengthen MFBs/MFI and use them as retail outlets for DFIs	CBN, DFIs	Federal Ministry of Finance	S
1.4	Create a regulatory framework & operating guidelines for microfinance funds	Enhance out reach and access of MFBs/MFIs to Funds and avoid market distortion	CBN	Federal and State Governments	S
1.5	Issue regulatory directive on security for microloans. Make clear that micro lending do not have to be secured	Ease access to micro loans to the low income/active poor and enable MFBs operate more flexibly.	CBN, SRO	MFBs, MFIs	S
1.6	Make legal distinction between NGOs with financial sector activities and others	Make distinction in laws and regulations	CBN,CAC	National Assembly, Federal Government	S/M
1.7	Promote actions and relevance of microfinance agents through legislation and regulation	Integrate microfinance agents into the microfinance network and empower National Postal Service, PMI's, department stores, mobile telecom operators etc to act as microfinance delivery channels	CBN, National Communications Commission	Federal Government, National Assembly, Microfinance Agents, MFIs, MFBs	S/M
1.8	Shift focus for punishing	Improve compliance with	CBN	MFBs	S

	regulatory infractions by MFBs from financial to non-financial administrative sanctions	regulations by MFBs			
1.9	Create Microfinance Supervision Department in CBN and in the interim outsource supervision or hire audit consultants in the short term.	Improve CBN supervisory capacity, enable CBN cope with high number of operators and improve supervisory effectiveness	CBN	NDIC	S
1.10	Consider MOU between SROs and various regulators to deal with regulatory transition and arbitrage.	Improvement in Regulatory effectiveness	CBN	SROs, other regulators	S
1.11	Establish a National Microfinance Regulatory Coordinating Council	Act as a clearing house for all regulatory activities pertaining to microfinance and operators in Nigeria	CBN	NDIC, NAICOM, SEC, CAC, SRO, Federal Department of Cooperatives	S/M
1.12	Incentivize MFBs/MFIs participation in support institutions such as deposit insurance, credit bureaux, microinsurance, and professional certification.	Improvement in service delivery, financial sustainability and institutional capacity of microfinance providers	CBN	MFBs/MFIs	S
1.13	Develop and implement regulations to provide consumer protection and insure against money laundering for microfinance institutions.	Develop and implement regulations for sustainable service delivery	CBN	MFBs/MFIs, SRO, EFCC, Police	S/M
1.14	Provide tax equitable incentives for microfinance institutions	Enact and implement tax incentives for microfinance institutions	CBN	Federal Inland Revenue Service, National Assembly	M

		institutions to compensate for their social & environmental operations			
1,15	Create a technical support window to assist transition of MFIs to MFBs.	Expand the scope of regulated service providers and facilitate transition of more MFIs to MFBs	CBN	Donors, SROs, Federal and State Departments of Cooperatives	S/M
1.16	Develop a generic identification logo for MFIs	Establish the framework for identification of MFIs and improve public awareness for Microfinance	CBN	MFIs, CAC, Trademark authorities	S
1.17	Expand the national microfinance consultative committee to bring in other major stakeholders	Have a centre for information sharing and exchange among stakeholders and monitor the progress in implementing the strategy and serve the proposed National Microfinance Regulatory Coordinating Council in advisory capacity.	CBN, other regulators	SROs, Other Stakeholders	S
1.18	Promote and enforce Consumer Protection Principles and set up Consumer Protection unit in CBN(OFISD) and SROs	Achieve high level protection of consumers and MFBs/MFIs compliance with Consumer Protection Principles	All regulatory authorities – CBN, SRO-NGO-MFIs, Apex Financial Cooperatives	MFBs, MFIs, Financial Cooperatives	S

Capacity Building Strategies					
S/N	**Strategic Actions**	**Objectives**	**Primary Responsibility**	**Secondary Responsibility**	**Time Frame: Short (S) or Medium(M) Term**
2.1	Implement Training Needs	Ensure that Training	CBN/SROs	MFIs	S

	Assessment for the Sub-sector.	Activities in the microfinance industry are driven by the gaps existing in the sub-sector			
2.2	Extend and improve Microfinance Certification Programme of CBN.	Expand critical mass of knowledgeable practitioners in the sub-sector	CBN	Support Institutions	S
2.3	Promote academic institutions involvement in Microfinance Training and research and encourage the Research Units of Regulatory Institutions to focus on microfinance studies.	Facilitate in-depth study of the subsector and deepen intellectual base of microfinance in Nigeria	CBN, Government, National Universities Commission	Universities	S/M
2.4	Implement Capacity Building Programme for Support Institutions.	Facilitate the improvement in the capacity of the support institutions	CBN, Support Institutions, SROs	Government, Donors	S
2.5	Support for management, monitoring, and evaluation of MFBs/MFIs outreach parameters.	Increase outreach and ensure effective M&E	CBN, RUFIN	MFBs/MFIs	S/M
2.6	Development of an IT-based financial management system for MFBs	Expand outreach through the deployment of appropriate technology	CBN/NDIC/ SRO	MFBs	S/M
2.7	Facilitate the conveyance of policy level discussions that will promote awareness of microfinance as a sound commercial investment.	Broaden the scope of practice and increase access to finance in the lower cadre of the society	CBN/RUFIN/NDIC	Donors , Other Stakeholders	S/M
2.8	Identification of best practices in microfinance that will work in Nigeria local environments	Facilitate knowledge sharing among key stakeholders	CBN,Donors,MF operators	Other Stakeholders	S/M

	and tools to monitor the social aspect of MFBs operations				
2.9	Facilitate the development and installation of microfinance technology packages uniquely suited for Nigerian environment.	Use technology to expand outreach, deepen the depth and widen the scope of microfinance.	CBN, MFBs	MFIs	S/M
2.10	Provide support for capacity building for the sub-sector on an ongoing basis and encourage donor capacity building efforts	To increase access to loanable funds by the MFBs	CBN, Microfinance Development Fund, regulators		S/M
2.11	Encourage MFIs to use market research methods to adapt their services to the needs of their target clients (demand-driven).	Facilitate appropriate services and products for the sub-sector	Regulatory Institutions	MFIs	S/M
2.12	Encourage Apex Associations to ensure that their members mainstream social performance monitoring into their operations.	To promote self regulation and enhance the use of microfinance for improving standard of living of consumers	CBN, SROs	MFBs,MFIs	S
2.13	MFIs to implement a social performance matrix.	Ensure the achievement of poverty alleviation with the use of microfinance as a development strategy	SROs, CBN	MFIs	S/M
2.14	Implement identified high training priorities, i.e - loan officer training, management training, training in back office	Ensure specific capacity building for critical segment of the microfinance work force	All Regulators and operators	Donor Community	S/M

	operations, and training on MIS issues, etc				
Financial Infrastructure and Other Support Services					
	Strategic Actions	**Objectives**	**Primary Responsibility**	**Secondary Responsibility**	**Time Frame: Short (S) or Medium(M) Term**
3.1	Promote public awareness and carry out aggressive enlightenment campaign on the roles/importance of credit information.	Enhance sustainability of microfinance operations	Credit Bureaux, MFI, CBN		
3.2	Develop the requisite technological infrastructure for MFIs	Drive the efficient delivery of services and engender seamless reporting process by MFIs	Regulators,MFIs	SRO	S/M
3.3	Capacitate MFIs' human resource base to generate competent and knowledgeable work force with dexterity in the use of the ICT tool.	To create a critical mass of knowledgeable operators for the microfinance sub sector	MFIs	Regulators	S/M
3.4	Design standardized reporting template on client credit information for Operators	Enhance financial sustainability of operators through ensuring accuracy of data collection, processing and information sharing and dissemination.	CBN, Credit bureaux	Regulators,SRO	S
3.5	Conduct client profiling exercises, develop a market research template and expose operators to it	Entrench a better understanding of the core target market by MF operators.	MFIs, BDS providers	Regulators,SRO	S

3.6	Conduct accreditation and appointment of rating agencies and support capacity development	Sanitise and regulate operations of rating agencies and build market confidence. Set guidelines and timeline for conduct of rating for the operators in the sector	CBN	Rating Agencies MFBs,MFIs	S/M
3.7	Create regulatory guidelines for the development of micro-insurance and champion any required enabling legislation	Integrate insurance with operations of microfinance institutions.	NAICOM,CBN	MFIs/MFBs	S/M
3.8	MFIs shall partner with insurance companies to develop appropriate insurance products and deliver them.	Integrate insurance with operations of microfinance institutions and improve social intermediation	MFIs, NAICOM	Insurance service providers	S
3.9	Build public confidence on insurance products and services to ameliorate the subsisting pervasive negative image that the sector has earned for itself.	Integrate insurance with operations of microfinance institutions.	NAICOM,NAI, Insurance service providers and other stakeholders	CBN	S/M
3.10	Encourage the development and provision of micro-leasing products	Expand the range of Microfinance services	ELAN, CBN, SROs, Other regulators	All stakeholders	S/M
3.11	Maintain a list of relevant microfinance support service professionals/ practitioners.	Facilitate delivery of quality support services, provide capacity improvement for service providers and linkage between microfinance operators and service	CBN, SRO	Support service providers	S

		providers			
3.12	Review existing curricula of professional bodies to determine their relevance and adaptability to MF practice.	Improve service delivery capacity of MF operators and the quality of support services delivery to the subsector	CBN, SRO	Professional Bodies(ICAN,CIBN,NIA,NBA etc)	S/M
3.13	Encourage the inclusion of microfinance courses in the curricula of professional bodies.	Improve service delivery capacity of MF operators and the quality of support services delivery to the sub-sector	CBN, SRO	Professional Bodies(ICAN,CIBN,NIA,NBA etc)	S/M
3.14	Develop a comprehensive and standard BDS curriculum for the MFB sector.	Ensure the relevance and impact of BDS services being provided to the sub-sector	CBN/RUFIN	RUFIN	S
3.15	Set uniform accounting standards for all microfinance operators and set criteria for engagement of External Audit firms for MFIs.	Improve quality and transparency of reporting of MFIs	CBN , Nigeria Accounting Standards Board(NASB).	MFBs, MFIs , other regulators	S
3.16	Create a standard external audit template that highlights the core activity areas that must be covered and time lines for regularization by MFIs of audit queries/exceptions.	Improve quality and transparency of reporting	CBN, SRO	MFBs, MFIs	S
3.17	Study the present status of credit bureaux and their operations in relation to MFIs	Enhance quality of credit information reporting and reduce risks in the subsector	CBN	MFIs, Credit bureaux	S

3.18	Set standards for rating agencies for MFIs.	Encourage use of international credit rating agencies by MFI	CBN	MFIs, Rating Agencies	S/M
3.19	Provide for the establishment and standards for private wholesale microfinance funds.	Enhance access to funds and sustainability of microfinance operations	CBN, Government, SRO		S/M
Financial Inclusion Strategies					
S/N	**Strategic Actions**	**Objectives**	**Primary Responsibility**	**Secondary Responsibility**	**Time Frame: Short (S) or Medium(M) Term**
4.1	Incorporate gender dimensions in all microfinance programmes, legislations and policies inequalities	Minimise gender inequalities in education, employment, information and property rights and promote access of women, youths and the disadvantaged to financial services	CBN ,Other Regulators, National Assembly, Federal Ministry of Justice	MFBs, MFIs, SROs	S/M
4.2	Sensitize state and local governments and provide technical assistance and guidance in implementing their microfinance programmes	Encourage the participation of all States and the FCT, as well as, at least two-thirds of all the Local Government Areas (LGAs) in microfinance activities	CBN, SROs,	State and local governments, MFBs,MFIs	S/M
4.3	Promote the use and awareness of microfinance services through a variety of media – print, audio visual, social.	Promoting financial literacy and consumer education and protection and increase access of the economically active to financial services	CBN, Donors	MFBs, MFIs Other stakeholders	S

4.4	Sponsor an annual microfinance week with national microfinance conferences but with an orientation toward the general public.	Overall development of the sub sector	CBN, SROs	MFIs, MFBs, Microfinance Clients, Other Stakeholders	S
4.5	Specifically monitor and promote the extension of microfinance services to women, rural people, and very low income recipients, youth, the elderly, and the handicapped.	Enhance reach and improve financial inclusiveness and reduce gender inequalities	CBN, SROs	MFBs, MFIs,NGOs and Civil Society Groups	S

References

1. Tunde Lemo, Keynote address at the Rural Finance Workshop Organised by Community Development Foundation, 2008
2. O. A. Afolabi, Creating Environment for Rural Finance in Nigeria, Rural Finance Workshop, Organised by Community Development Foundation, 2008
3. The constraints and Challenges Associated with Developing Sustainable Microfinance Systems in Disadvantaged Rural Areas in Africa, UNCDF, 1999.
4. Henry Oketch and Stephen Mirero, Summary proceedings of Workshop on The challenges of planning and Managing Growth for Africa's Microfinance Institutions, International Network of Alternative Financial Institutions(Africa Region),Ethiopia, 2004
5. David Hulme and Paul Mosley, Finance against poverty, Routledge, London & New York, 1996
6. Report on Rural Microfinance in Nigeria, Community Development Foundation, Lagos, 2008.
7. The National Strategy For Microfinance, Egyptian Banking Institute, Central Bank of Egypt, Egypt, 2005
8. The Microfinance (Deposit Taking Microfinance Institutions) Regulations, Central Bank of Kenya, Nairobi, 2008
9. Republic of the Philippines National Microfinance Strategy, National Microfinance Council, Manila
10. Nicholas Gyabaah, Ghana's National Financial Literacy and Consumer Protection in Microfinance sector, Ministry of Finance and Economic Planning, Accra, 2009
11. EFInA key Findings on Banking and Informal savings, Lagos, 2010
12. Gonzalez-Vega, Claudio; Schreiner, Mark; Meyer, Richard L.; Rodriguez-Meza, Jorge; and Sergio Navajas. (1997) "BancoSol: The Challenge of Growth for Microfinance Organizations", pp. 129-170 in Hartmut Schneider (ed.) Microfinance for the Poor?, Paris: OECD.
13. Gonzalez-Vega, Claudio; Meyer, Richard L.; Navajas, Sergio; Schreiner, Mark; Rodriguez-Meza, Jorge; and Guillermo F. Monje. (1996) "Microfinance Market Niches and Client Profiles In Bolivia", Economics and Sociology Occasional Paper No. 2346, The Ohio State University.
14. Ledgerwood, J & White, V. 2006 ' Transforming Microfinance Institutions: providing full services to the poor' The World Bank, Washington DC
15. Robinson S. M ,2001 'The Microfinance Revolution, Sustainable Finance for the Poor The World Bank, Washington DC

16. Rutherford, S 1999 The poor and their money : an Essay about Financial Services for Poor People. Manchester: University of Manchester

17. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) (2000). A Risk Management Framework for Microfinance Institutions. Frankfurt: GTZ.

18. Parameswaran, Siddhart & Raper, Nicholas (2003). Microfinance: Financial Services for the Poor. Paper presented to the Institute of Actuaries of Australia, 2003 Biennial Convention. Australia.

19. World Bank (2009) Good practices for consumer protection and financial literacy in Europe and Central Asia: A diagnostic tool.

20. IFAD (2001) Rural Poverty Report: The challenge of ending rural poverty. Oxford University Press Inc., New York.

21. Microfinance policy, regulatory and supervisory framework for Nigeria issued by the Central Bank of Nigeria - December 2005, Revised 2011

22. Regulatory and Supervisory Framework For Microfinance Banks [MFBs] in Nigeria issued by the Central Bank of Nigeria- December 2005 Asian Development Bank (ADB). 2000. Rural Asia Study: Beyond the Green Revolution. Manila: ADB

23. UNDP Microfinance Assessment Report by MicroStart Feasibility Mission - September, 1997

24. McGuire, Paul B., John D. Conroy, and Ganesh B. Thapa. 1998. *Getting the Framework, Right: Policy and Regulation for Microfinance in Asia*. Brisbane: Foundation for Development Cooperation

25. Ledgerwood, J. 1999. *Microfinance Handbook: An Institutional and Financial Perspective*. Washington DC: The World Bank. p. 21.

26. Gonzalez-Vega, C. 1998. Do Financial Institutions Have a Role in Assisting the Poor? M. Kimenyi et al. (ed) *Strategic Issues in Microfinance*. London: Ashgate. p. 17.

27. Sam Daley-Harris, "State of the Microcredit Summit Campaign Report 2004."

28. Microcredit Summit Campaign, (Washington, D.C. 2004)

29. http://www.microcreditsummit.org/pubs/reports/socr/2004/SOCR04.pdf

30. UNDP. "Unleashing Entrepreneurship: Making Business Work for the Poor." United Nations Commission on the Private Sector and Development. (New York: United Nations, 2004). http://www.undp.org/cpsd/documents/report/english/fullreport.pdf

31. Elizabeth Littlefield and Richard Rosenberg. "Breaking Down the Walls between Microfinance and the Formal Financial System." (Washington, D.C.: CGAP, 2004) Available at http://www.cgap.org/docs/BreakingDownWalls.pdf.

32. CGAP staff. "Microfinance Means Financial Services for the Poor." Donor Brief No. 11. Washington, D.C.: CGAP 2003. http://www.cgap.org/docs/DonorBrief_11.pdf

33. United Nations. International Year of Microcredit 2005. http://www.yearofmicrocredit.org July 2005.

34. Robinson, Marguerite S. Mobilizing Savings from the Public Basic Principles and Practices. 2004. Kampala, Uganda: SPEED-USAID

35. Joanna Ledgerwood Microfinance Handbook. An Institutional and Financial Perspective.
36. Sustainable Banking with the Poor series. (Washington, D.C.: World Bank, 1999)

37. Profile of M/SMEs in Egypt Update Report, draft submitted to the Small & Medium Enterprise Policies Project (SMEPol), 2005

38. Mahmoud El Gammal, et al, Beyond Credit: A Taxonomy of SMEs and Financing Methods for Arab Countries, The Egyptian Center for Economic Studies Working Paper Series No. 57, May 2001

39. Alia El-Mahdi. "GPN Global Labor Market Database: Egypt." Posted to GPN on 10 October 2003. Global Policy Network. http://www.globalpolicynetwork.org / July 2005
40. Mona Amer et al., The Egyptian Labor Market in an Era of Reform (Cairo: An Economic Research Forum Edition, The American University in Cairo Press: 2002). From: EQI. "Profile of M/SME in Egypt, Update Report." Submitted to Small and Medium Policies, SMEPoL. June 2005.

41. UNCDF Microfinance Sector Development Approach: March/April 2003 http://www.uncdf.org/english/countries/egypt/microfinance/UNCDF_Egypt_MF-Country%20Assessment.pdf. August 2005

42. "Increasing M/SME Accessibility to Finance: Credit and Credit Guarantees in Egypt", Egyptian Ministry of Finance, 2005.

43. "Community Development Finance Institutions", UK Social Investment Forum, www.uksif.org/z/z/z/sgei/cdf/cdfis.shtml, July 2005 and "What are CDFIs?" the Coalition of Community Development Financial Institutions, www.cdfi.org July 2005
44. http://www.accion.org/micro_glossary.asp August 2005