NIGERIACOMPANION REPORT

UNCDF MICROFINANCE PROGRAMME IMPACT ASSESSMENT 2003

Presented by:

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December 2003

Acronyms

AIMS	Assessing the Impact of Microenterprise Services Project
ASA	Association for Social Advancement
CBN	Central Bank of Nigeria
CCF	Country Cooperation Framework
CDMR	Community Development and Microfinance Roundtable
CGAP	Consultative Group to Assist the Poor
CO	Credit Officer
CPA	Certified Public Accountant
EU	European Union
GBF	Growing Business Foundation
GF-USA	Grameen Foundation, USA
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GNI	Gross National Income
IIA	Independent Impact Assessment
IFC	International Finance Corporation
IGP	Implementation Grant Programme
JDPC	Justice, Development and Peace Committee
IMF	International Monetary Fund
LADEC	LAPO Development Centre
LAPO	Lift Above Poverty Organisation
LDCs	Less Developed Countries
LTSP	Local Technical Service Provider
MBB	MicroBanking Bulletin
MDG	Millennium Development Goals
MFI	Microfinance Institution
MF	Microfinance
MIS	Management information systems
n.a.	Not applicable
NGO	Non-governmental Organization
NUSHO	National United Self-Help Organization
OPA	Organizational Programme Assessment
PAR	Product Attribute Ranking
PaR	Portfolio at Risk
PIA	Programme Impact Assessment
PRSP	Poverty Reduction Strategy Paper
ROAR	Results Oriented Annual Report
ROSCA	Rotating Savings and Credit Association
RR	Resident Representative
SEAP	Self-Reliance Economic Advancement Programme
SME	Small and Medium Enterprise
SUM	Special Unit for Microfinance
TA	Technical Assistance
TOR	Terms of Reference
TSP	Technical Service Provider
USAID	United States Agency for International Development
UN	United Nations

UNDAF	United Nations Development Assistance Framework
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNCDF/SUM	United Nations Capital Development Fund

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PROJECT DATA SHEET

Project and Project Area:

Country	Nigeria
Project Title	MicroStart Nigeria
Project Number	NIG/99/015
Project Sites:	Nigeria
Project Sector and Focus	
Sector	Economic Management (010); Employment code (015)
Sub-Sector	Employment/livelihood/policy and planning(014) Employment Promotion (0120)
Primary Type of Focus:	Capacity Building, Institution Building
Primary Type of Intervention:	Promoting Poverty Eradication and Sustainable Livelihood, Enhancement of Income-earning Potential
Primary Target Beneficiaries	NGOs, Productive and Credit Associations & Organisations
Development Objective	To contribute to poverty alleviation through improved access to appropriate financial services offered by microfinance institutions on a sustainable base to low income entrepreneurs
Immediate Objectives	(i) Strengthen the institutional, organizational and technical capacity of at least six organisations to provide microfinance services to micro entrepreneurs; (ii) Increase the financial capacity of participating institutions to provide microfinance services to microentrepreneurs; (iii) Contribute to the development of knowledge, expertise, and information in microfinance in Nigeria; (iv) Participate in the coordination and collaboration between the different actors in the microfinance sector as appropriate regulatory framework; and (v) Enhance the local capacity to provide technical assistance on a sustainable basis and ensure the continuity of the initiatives taken in the pilot programme
Project Period	
Approval Date	June, 1999
Starting Date	January, 2000
Project Execution	
Executing Agent	National Planning Commission
Implementing Agent	National Planning Commission
Project Financing	**$1.61 million**

PART I – INTRODUCTION

1.0 Background

The Microfinance Programme Impact Assessment (PIA) is a component of the United Nations Capital Development Fund (UNCDF) Independent Impact Assessment (IIA) which seeks to assess whether UNCDF has effectively implemented its new policies and whether its projects and programmes, under the main programming areas – local governance and microfinance – have had the desired impact on the individuals, households, communities and institutions targeted. The independently conducted impact assessments also provide UNCDF with an opportunity to assess the relevance and effectiveness of the organisation's operational policies *in supporting its overall goal of poverty reduction*. The assessments were requested by UNCDF Executive Board in its decision 99/22.

The microfinance goal of UNCDF, as stated in the organisation's Strategic Results Framework (sub-goal 2), is:

> *"To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment."*

Enterprising Solutions Global Consulting, a private sector international development firm specialising in microfinance and small/medium enterprise, was contracted by UNCDF to undertake the Microfinance PIA which concerns itself only with UNCDF's microfinance operations implemented by the Special Unit for Microfinance (SUM) of UNCDF. SUM's specific objectives are:

- To increase the number of sustainable microfinance operations that provide quality financial services to poor and low-income customers, particularly women; and

- To increase the number of UNDP country offices which consistently apply international best practises in microfinance.

The Microfinance PIA seeks to assess four key impact areas: client impact, institutional sustainability, policy and replication and UNCDF positioning, based on assessments of four "case study" countries: Haiti, Kenya, Nigeria, and Malawi.[1]

This report compiles the data gathered for the Nigeria assessment and is divided into five sections: [2]

[1] Haiti replaced Nicaragua as an assessment country.

[2] Due to the large amount of information that underpins the overall Microfinance PIA, four companion reports – one per country – have been compiled as supplementary documents to the main report. The country focus format serves to facilitate the dissemination of the specific information and findings of the numerous sub-reports that form this document to UNCDF/UNDP country offices as well as for use by programme managers in the SUM.

- Part 1: Introduction – Provides background on the assessment, the project being assessed and the country context;

- Part 2: Client Impact Assessment – Presents the four sub-reports from the quantitative impact survey, the loans and savings use studies, empowerment studies and the client satisfaction focus group discussion;

- Part 3: Institutional Sustainability – Presents the CGAP appraisal of LAPO, a selected MicroStart MFI;

- Part 4: Policy Impact and Replication – Presents a review of evidence of UNCDF policy impact and replication in Nigeria; and

- Part 5: Strategic Position of UNCDF in Nigeria – Assesses past and future positioning options.

A summary analysis of the findings is presented in the main report.

2.0 Nigeria Project Description and Accomplishments

The MicroStart project (NIR/99/015) in Nigeria was UNCDF/SUM's main programmatic activity in microfinance from 1999, and was extended until March 2002. The main development objective of this project was to contribute to poverty eradication through improved access to appropriate financial services offered by microfinance institutions on a sustainable basis to low income entrepreneurs.[3] The immediate objectives under this broad objective were to:

- Strengthen the institutional, organisational, and technical capacity of at least six organisations to provide microfinance services to microentrepreneurs;
- Increase the financial capacity of participating institutions to provide microfinance services to microentrepreneurs;
- Contribute to the development of knowledge, expertise, and information in microfinance in Nigeria;
- Participate in the coordination and collaboration between the different actors in the microfinance sector as appropriate regulatory framework; and
- Enhance the local capacity to provide technical assistance on a sustainable basis and ensure the continuity of the initiatives taken in the pilot programme.

The total amount budgeted for the project was US$1.61 million, funded entirely by UNDP. The final amounts spent are given in the table below.[4]

[3] MicroStart Nigeria Phase I p.34.
[4] MicroStart Nigeria Budget Revision "M" Approved 6/19/2003.

Table 2 highlights the project's effectiveness. It shows a nine-fold increase in outreach and impressive improvement in all efficiency indicators. It should be noted that the figures are self-reported and in some cases only include the branches which have introduced the new credit methodology. Nevertheless, it illustrates a clear trend towards more efficient savings and credit operations.

Table 1: Actual Expenditures of MicroStart Nigeria

Description	Amount (US$) (Budgeted)	Amount (US$) (Actuals)
Personnel		
Monitoring and Evaluation (In-country travel)		10,130
Mission costs	30,000	2,757
Contract A (Subcontract – MicroStart TSP)	500,000	500,000
Contracts		
Contract B (Subcontract – MicroStart TSP)		193,662
Contract C (Provision for Audit)	20,000	5,954
Training		
Other Training	30,000	30,522
Miscellaneous		
Reporting Costs (Reporting (Evaluation)		36,362
Information		500
Sundries	30,000 (borrower baseline and impact survey)	2,296
MicroCapital Grants		
MicroCapital Grants (credits)	1,000,000	827,817
Budget Total	1,610,000	1,610,000

Table 2: MicroStart Achievements

#	Indicator	Achievement as of Dec 2002	Dec 2001	Dec 2000
	Number of Branches	54	22	9
	Savings Activity as of September 2002			
1	Total Number of savers or families covered (as each from a family)	45,801	16,830	5,199
2	Total Value of Savings Accumulation	69,437,343	19,102,463	3,320,817
	Portfolio Report as of September 2002			
1	Total Number of client/borrowers or family covered (as each from a family)	37,084	13,445	3,402
2	Total Value of Loan Disbursement	465,481,000	124,311,500	20,655,500
3	Average Loan Size per Client	7,726	6,960	6,072
	Portfolio Quality as of June 2002			
1	Portfolio at Risk (PAR1)	16.36%	4%	0.13%
	Portfolio at Risk (PAR1) without SAP	4.67%		
	Profitability as at June 2002			
1	Operational Self-sufficiency	116.99%	163.58%	70.30%
2	Financial Self-sufficiency	94.84%	96.79%	45.45%
	Operating Efficiency and Productivity as at June 2002			
1	Cost per Unit of Money Lent	15.32%	12.4%	17.5%
2	Administrative Efficiency	10.69%	27.51%	34.75%
3	Operational Efficiency	11.42%	25.74%	32.66%
4	Borrowers per Credit Officer	265	213	136
5	Portfolio per Credit Officer	1,327,169	1,038,942	680,672
6	Administrative Cost per Active Loan	561	1,211	1,930

Source: MicroStart Project UNDP, Nigeria Workplan January -December 2003 ASA Technical Service Provider. The following are the performance indicators reflecting growth pattern since 2000 (savings, loan and portfolio amounts noted are in Naira). The programme commenced operations (August 2000). Baseline indicators for most variables were not available.

3.0 Country Context

3.1 Demographic and Social Indicators

Nigeria is bordered by Niger to the north, Chad and Cameroon to the east, the Gulf of Guinea to the south, and by Benin to the west. It covers an area of 923,768 square kilometres (356,669square miles). Its name is derived from that of its major river, the *Niger*. Nigeria is the largest country in Africa with a population of 133 million.[5] It also has a high population density of about 144 persons per square kilometre, lending itself nicely to microfinance which thrives on high density to drive its services.

Initially composed of a number of ethnically based kingdoms and states, the area of modern Nigeria was brought under British rule in 1906. It became an independent state on October 1, 1960. Upon independence, Nigeria was divided into three regions the North, ruled by the Hausa and Fulani; the West, governed by the Yoruba; and the East, controlled by the Ibo. In 1966, the country was further divided into a number of small states. Under the 1978 constitution, state governors were to be elected. From 1983 through 1990, however, the ruling military council appointed all state governors. Nine new states were created in 1991.

More than 70% of the population in Nigeria lives below the poverty line and 40% of the people live in absolute poverty, earning less than US$1/day. The 2001 UNDP Human Development Report ranks Nigeria as 136 out of 162 countries in the world. Human and social indicators, such as life expectancy at birth of 46.1 years (2001), further reveal the impact of poverty and the lack of basic services experienced by the people of Nigeria.

3.2 Macroeconomic Context

Nigeria has the potential to generate considerable income, possessing the seventh largest reserves of crude oil and natural gas and being the sixth largest exporter of crude oil in the world. Despite such latent wealth, it remains one of the poorest countries in the world with a GNI per capita of only US$290 in 2001, less than the Sub-Saharan Africa average of US$470 and much lower than the average in its peer group of Low-Income Countries of US$430 (see Table 3).

The country continues to have a predominantly agrarian economy. In 2000, agriculture constituted of 29.5% of the economy, manufacturing 4.1%, services 24.5% and industry 41.9%.[6] The economy is highly dependent on oil for its revenues (80% in 2001) which makes it vulnerable to external shocks such as a fall in oil prices. This preponderant dependence on oil in the economy is one of its primary weaknesses. Although Nigeria has tried to attract non-oil related foreign direct investment, it has not been very successful because of political instability, extensive corruption, weak rule of law and complex rules and regulations at all levels of government.[7]

Nigeria is currently exploring the possibilities of developing a free-trade area with other West African states such as Ghana, Mali, Togo, Benin, Niger and Burkina-Faso. In

[5] See Appendix 4 for comparative sector overview.
[6] World Bank website, Nigeria at a Glance.
[7] EU Strategy Paper.

addition, it is also assessing the opportunity of developing a second monetary union in the area with the Anglophone West African countries such as Sierra Leone, Ghana, the Gambia, Guinea and Liberia.

Table 3: Nigeria – Key Indicators

Poverty (2001)	Nigeria	Sub-Saharan Africa	Low-Income
GNI per capita (Atlas Method, US$)	290	470	430
GNI (Atlas method, US$ billions)	37.1	317	1,069
Key Economic Ratios and Long-term Trends – Nigeria			
Average Annual Growth	1991-01	2000	2001
GDP	2.4	3.8	3.9
GDP per Capita	-0.3	1.3	1.5
% Change	1991	2000	2001
Consumer Prices	20.2	6.9	18.9
Implicit GDP Deflator	20.2	25.4	6.0
Overall Surplus/Deficit (% of GDP, incl. current grants)		2.4	-3.0
Conversion Rate *(local/US$)*	12	101.7	111.6

Source: World Bank website, **Nigeria at a Glance**

Between 1991 and 2001, the Nigerian economy averaged a growth rate of only 2.4%. This is sluggish when compared to the population growth rate of 2.8% (1991-2001). The consequences are fairly obvious: not surprisingly, during the same period, the GDP growth rate per capita was -0.3%.

3.3 Nigeria's Financial Sector

The financial system in Nigeria is fairly diverse. It is comprised of banking and non-banking financial institutions including commercial banks, merchant banks, community banks, development finance institutions, licensed finance companies, mortgage institutions, insurance companies, discount houses, pension schemes and *bureaux de change*. According to a World Bank study, commercial banks dominate the financial sector, accounting for 93% of non-central bank assets and bank deposits representing the major forms of financial savings. In 2000, there were 89 commercial and merchant banks, over 1,000 rural-oriented community banks, the Peoples Bank (closed down in 2001), seven development finance institutions (DFIs), 229 licensed finance companies, about 195 primary mortgage institutions, over 100 insurance companies, five discount houses, various pension schemes, and over 100 *bureaux de change*.[8]

Since the Government commenced active deregulation of the economy in September 1986, the commercial banking sector has continued to experience rapid growth, especially in terms of the number of institutions and product innovations in the market. Moreover, with the enactment of the CBN and BOFI Decrees, commercial banks have been operating under a changed environment, which seeks to minimise the risks associated with innovation and deregulation. However, the lack of efficient rural financial markets in Nigeria has compounded the inability of the financial system to support real sector development and contribute to economic growth.[9]

[8] *Nigeria: Financial Sector Review* Volume 1, May 2000 Financial Sector Unit, Economic Management and Socio-Political Department, Africa Region, World Bank p.6.
[9] Ibid.

Nigeria's formal financial system is shallow, with an M2/GDP ratio of 13% (1998) and a low level of credit to the private sector at 17.8% of GDP (2001).

There is, however, a vibrant assortment of informal finance providers such as *esusus*, *ajo*, *adashi, akawo*, and ASCAs, which fulfil many consumption-smoothing and cash-flow lubricating needs for their clients:

- *Money Lenders*, for example, provide loans to individuals in distress and charge high interest rates (20% per month or more);
- *Cooperative Thrift and Credit Societies and Union* provide credit and savings services to farmers, such as cocoa growers, who grow cash crops;
- *Traditional Savings and Credit Groups* serve predominantly rural areas and cater primarily to salaried workers. They generally have a short lifespan and do not adequately meet credit needs for income generation; and
- *Itinerant Money Collectors* assist depositors in building up their savings over a short period, usually 30 days.

As indicated in other studies, these groups are limited in their potential to become a serious force in the delivery of financial services on a large scale. Some of the common constraints faced by ROSCAs and ASCAs, for example, are that of limited funding, absence of formal structures of governance and internal capacity.[10]

3.4 The Political Situation

Nigeria is a country in transition. The impact in the political sphere has been the most significant, particularly the change to democratic rule in 1999 after 16 years of military dictatorship. Under military rule, Nigeria was very much a *pariah* in the global political scene, and was widely ignored by international development agencies, resulting in per capita aid of only US$1.40.

Although as a democratic state it would clearly be more conducive to foreign investment, Nigeria is characterised by political instability stemming from large pockets of social, political and ethnic conflict which serve as a disincentive to economic and financial investment. Such social and political unrest have a serious impact on microfinance and have led to the closure of several operations and MFIs in the affected areas.

[10] Ford Foundation Study p.9.

PART 2: CLIENT IMPACT ASSESSMENT

Introduction

What follows are the four main reports undertaken as part of Impact Area 1. Each report explains the methodology used, presents the findings and provides an analysis of the data based on the applied methodology. A summary assessment is found in *The 2003 Impact Assessment of UNCDF Programmes and Projects*.

1.0 Quantitative Impact Assessment

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October 2003

I. Research Objective

A key component of the UNCDF PIA for Microfinance is Client Impact Assessment which seeks to answer the following question:

> *Has participation in UNCDF-supported microfinance programmes produced positive changes in the lives of programme participants and in the communities where they live?*

The impact of participation in microfinance programmes occurs at four distinct levels the individual, the household, the enterprise and the community. This research was conducted so as to assess impact of the UNCDF-supported microfinance programmes at each of these levels, relating the investigation specifically to the following questions at the following levels of impact, as per the TOR.

IMPACT DOMAINS

Individual Level

- What is the nature and magnitude of changes in people's lives (women's in particular), and in communities served by microfinance services, in terms of empowerment as a result of increased access to the financial services supported by UNCDF?

- Are current and ex-clients satisfied with the level of access to, type, quality, and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?

Household Level

- What is the nature and magnitude of changes in people's lives (women's in particular) in terms of poverty reduction as a result of increased access to the financial services supported by UNCDF?

Enterprise Level

- Has increased access to financial services supported the development of clients' productive enterprises?

Community Level

- Has increased access to financial services generated employment?(only in cases where this was an explicit objective)

II. Methodology

The research methodology used to answer these questions was a "mid-range" impact assessment. Unlike more rigorous "academic" methodologies, mid-range methodologies explicitly accept some level of reduction in statistical validity so as to accommodate field and resource constraints and to satisfy programme requirements for effectiveness and usefulness. The ultimate aim of mid-range methodologies is not to "prove" causality between impact and programme participation, but to establish "plausible association" between the two.

Mid-range methodologies satisfy the criterion of statistical plausibility by adhering to key methodological principles for conducting impact research. They satisfy the criterion of usefulness by employing assessment tools of proven value in evaluating a variety of kinds of impacts at an assortment of levels, which are also both practical and cost-effective to implement. As agreed by UNCDF and Enterprising Solutions, the survey focused on collecting a categorical type of data which will reflect direction of change as opposed to measuring the exact amount of change. However, when interval level data was reasonably available, it was collected.

III. Sample Group

Broadly speaking, the sample was composed of the treatment group and the control group. The target population for the treatment group was "two-year clients", and included both current clients and ex-clients. The distribution of current clients to ex-clients in the treatment group was roughly proportional to the percentage of clients who dropped out of the programme over the relevant time period. The control group consisted of pipeline clients, or new programme clients who either, have not received their first loan, or have received their first loan but have yet to finish their first loan cycle.

The survey design and sampling methodology followed well-established principles of impact surveys set by the SEEP/AIMS impact assessment project. As recommended in the AIMS methodology, survey sampling at LAPO followed the standard practise of geographical clustering. This was followed by the selection of branches based on their ages to match the need for adequate numbers of mature clients, who had been in the programme for more than 16 months, and pipeline clients.

Preliminary analysis of LAPO's operations revealed that LAPO currently works in two states in Nigeria – Edo and Delta. Upon analysing the geographical spread of the branches across these two states, the branches seemed to be clustered in three centres: Benin City, Delta North and Delta South. Taking into account the age of the branches and the numbers of mature and new clients in these three clusters, five branches were selected for the survey – Ikpoba, Upper Sokpoba, Evbutubu, Sapele and Asaba II. Adhering to the basic principles for sampling and surveying laid out in the Enterprising Solutions Global Consulting Client Impact Research Methodology Guide, the target for numbers to be sampled was set at 400 with the ratio of treatment to control group set at the agreed level of 3:2.

A total of 471 members of LAPO were interviewed for this survey which was conducted from May 31 to June 11, 2003.

IV. Tools

Research Tools:

The main tool used for this research was based on the classic SEEP/AIMS Impact Survey tool, modified slightly to localise the variables according to the context. The final survey instrument (see Annex 1) also included some key questions for exited clients from the SEEP/AIMS Client Exit Survey tool to identify why clients had left the programme and to provide insight into their opinions about the relative strengths and weaknesses of the programme. The main modules included:

- Client and household profile;
- Loan use and individual income;
- Enterprise level: income, profit, improvements and assets;
- Individual level: savings and enterprise skills;
- Family level: assets;
- Family welfare and coping;
- Client satisfaction with programme, and
- Reasons for exiting the programme.

Each survey lasted 30 to 40 minutes.

Analysis Tools:
Data was analysed at three levels:

Descriptive Analysis**:**
The key demographics and independent variables of the sample were tabulated to get an overview on the client population and create stratification categories. This included client age, gender, civil status, and education level, among others. In addition, the analysis categorised the number of loans taken out and the number of loan/savings products used by the sample population.

As part of the first level of analysis, summary descriptives of key outcome variables in the aggregate, and broken down by key stratification categories, were created and compared. Descriptive statistics were analysed for interval level variables (from which means can be calculated and variances estimated) to include the mean, median, range, and standard deviation. Descriptive statistics were analysed for categorical level variables (where answers fall into two or more pre-coded categories) to include the number and relative percentage of responses in a particular category. In both cases, key outliers were identified, and where relevant, the summary descriptives adjusted for the outliers.

Means Analysis **:**
The second level of analysis was to compare mean values of key interval level variables and the relative frequency of occurrence of key categorical level variables, each broken down by key stratification categories. As in typical statistical analysis, t-tests and chi-squares were used to analyse the data for statistical significance (see Annex 2 for all t-tests and chi-squares).

T-tests assess whether the difference in observed means between two samples is random or statistically significant. The value of .10 is used in this report as the threshold for statistical significance. A level statistical significance of .10 means that there is only a 10 % chance that the observed relationship is the result of random chance or, in other words, a 90 % chance that the observed relationship is statistically meaningful.

Chi-square tests whether a particular categorical outcome variable is dependent on another categorical variable. In this case, the question is whether different impact outcomes are dependent on whether one belongs to the treatment or control groups.

Statistical significance means that the former is indeed dependent on the latter, while statistical insignificance means that the two are independent of each other.

Regression Analysis:
The third level of analysis tested for causality or "plausible association" between key outcome variables (dependent variable) and several explanatory (independent) variables through the statistical procedure of multiple regression (see Annex 3 for the Regression Model). It tested specifically the degree of change in the dependent variable given a one-unit change in an independent variable while holding constant and controlling for the other independent variables in the model. Multiple regressions allowed for simultaneously testing the impact of each of the preceding dependent variables on the client's net enterprise returns.

V. Descriptive Statistics

Members of the treatment and control groups in the LAPO survey are, for the most part, similar in terms of their demographic profiles. Survey respondents in both groups are overwhelmingly female (99%) in both treatment and control groups – reflecting overall client composition. In terms of age distribution, 70% of survey respondents in both the treatment and control groups are between the ages of 26 and 45 with a significant but much smaller percentage in both groups between the ages 46 and 55, 17% and 10% respectively, and 9% and 15% respectively between the ages 18-25. The average years of schooling were 8.6 years in the treatment group and slightly more in the control group, at 9.4 years. The overwhelming majority of both groups (85% of the treatment group and 81% of the control group) were married or living with a companion. Likewise, approximately 90% of both groups (87% of the treatment group and 92% of the control groups) live in urban areas with the remainder living in suburban areas. Finally, half of the members of both groups (49% vs. 52%) operate enterprises in the trade sector, followed in frequency by those operating in the agro business sector (32% vs. 22%), service sector (15% vs. 21%) and manufacturing sector (3% vs. 1%).

VI. Findings and Analysis

The data analysis and findings from the impact survey are discussed below. The findings are presented according to the household, individual, enterprise and community levels of analysis, preceded by findings on the overall poverty targeting by LAPO.

Poverty Targeting: 90.7% of LAPO clients (new and mature) are "poor" and "very poor" living below $2 / day indicating that LAPO is most certainly reaching the poor.

Household Level Impacts

Changes in Household Income: Although a high percentage of both groups experienced an increase in household income over the last 12 months, the treatment group (mature and ex-clients) is more likely to have increased household income over the last 12 months compared to the control group (new members). Membership in the treatment group, associated with higher household incomes, is corroborated by the results of the regression analysis. When the regression model is regressed on the income scale (incscale), the coefficient for "new clients" indicates that the increase in household income over the last 12 months is indeed higher in the treatment group than in the control group.

"Increased enterprise returns" are by far the major reason given for increased household income over the last 12 months, followed by "starting a new business". There is no statistically significant difference between the treatment and control groups in terms of "increased enterprise returns", however, the difference between the treatment and control groups for "starting a new business" is statistically significant. Not surprisingly, a higher percentage of the control group reported that their household income increased over the last 12 months due to starting a new business. The only other statistically significant finding is that more treatment group members report that their household income increased because a household member started a new job, although the percentage giving this response in both groups is very small.

Contributions to Household Income: Evidence shows that contributions to household income are not dependent on participation in LAPO. The percentage in both groups reporting an increase in their contribution to household income is quite high: 83% of control group members compared to 82.2% of the control group. Although this finding may be confusing given the increase in overall household income, a possible explanation for this is that the respondents may not have fully understood the question and/or the data are not picking up some intervening variable that may play a part in this finding.

The chi-square test indicates no relationship between programme participation and contribution to household income. This is confirmed by the regression analysis. When regressed on the full impact scale (impscale), the coefficient for "new clients" is statistically significant, indicating, as with the chi-square test, that the amount contributed to household income over the last 12 months is independent of whether one belongs to the treatment or control group, and is therefore independent of participation in LAPO.

Children's Education: The evidence indicates no statistically significant difference between the treatment and control groups in terms of the percentage of primary school aged children who attend school (over 90%). In contrast, a higher percentage of secondary school aged children in the treatment group attend school than in the control group. This suggests that membership in the treatment group (programme participation) is associated with higher levels of secondary school attendance relative to the control group (non-clients).

Household Asset Acquisition: Relative to the control group, a higher percentage of treatment group members acquired the following assets: motorcycles, fridges, cars, plots of land, grinding machines, generators, radios, and furniture. In all cases, the differences are statistically significant at .10 or better. None of the differences by themselves are large, but neither are they trivial (in most case, the overall percentage of persons, both clients and non-clients, who acquired the asset over the last two years is relatively small except in case of purchases of a fridge, TV, radio, and/or video machine). The evidence suggests that membership in LAPO is associated with a higher rate of acquisition of certain household assets.

Investment in Real Property: Relative to the control group, a higher percentage of treatment group members made the following real property investments: repairs, improvements, or additions to their existing houses, the purchase of a new, in some cases bigger, house, and land. In all cases, the differences are statistically significant at .10 or better. As in the case of asset acquisition, none of the differences by themselves are huge but neither are they trivial. The evidence thus suggests that membership in LAPO is associated with a higher rate of investment in real property.

Vulnerability and Coping:

Food Security: Taking both chi-square tests and logit regression into account, one can confidently conclude that programme membership is not associated with food security. In fact, evidence suggests that members of the control group were less likely to have experienced a hungry season over the last 12 months than the treatment group, and of those who did, in both groups, it lasted a shorter amount of time on average for control members than for treatment members. Both differences are statistically significant at .10 or better, although the absolute differences in both cases are small, and somewhat trivial. Additional insight into this relationship is found in the logit regression results where the coefficient for "new clients" is statistically insignificant, indicating no relationship between membership in one group or the other and food insecurity. With nearly a quarter (25%) of both groups having experienced a hungry season over the last 12 months, what the data does suggest is that LAPO is reaching a poor and vulnerable segment of the population. In terms of coping strategies, there is little difference in how the treatment group and control group coped with the hungry season. Primary coping strategies in both cases include gifts from friends or family, eating less, and loans from friends or family. The only statistically significant difference is that a higher percentage of the treatment group coped in part using LAPO loans.

Sickness and Disease: In terms of coping with sickness and disease, paying for medical expenses out of current income was the most frequent response for both groups, followed, in order, by gifts or handouts from friends or family, withdrawing savings, and loans from friends or family. The treatment group was more likely to pay for medical costs with gifts or handouts and loans from friends or family, and LAPO loans. This last option was not common by members of the control group as 34 had yet to receive their first LAPO loan. Nevertheless, evidence suggests that the control group was less likely to withdraw savings to pay for medical care than the treatment group, with the finding being just under statistically significant at 0.12.

Emergencies and Crises: Among both groups, large or unexpected expenses were paid out of current income and gifts or loans from friends or family or as a last resort, by the withdrawal of savings. The treatment group also tended to use LAPO loans, with this difference being statistically significant. Again, the last result may be explained by the fact that 34 members of the control group had yet to receive their first LAPO loan.

In summary, one can claim that while there is no evidence that programme participation is associated with greater food security relative to non-participants, there is evidence that clients are using programme loans and savings to cope with medical and other emergency or unexpected expenses. Although not the intended use for programme loans, the important coping mechanism which loans provide, can be considered a programme benefit as the alternative quite often is to use other less efficient or a more costly coping mechanism that imperils long-term productivity (e.g., selling productive assets). That the treatment group is more likely than the control group to draw on savings to pay for health needs also demonstrates the value of access to a savings mechanism. Overall, LAPO clients appear to have more options to meet their cash flow needs as a result of programme participation.

Enterprise Level Impacts

Enterprise Profits: We can conclude that the treatment group and control group differ in terms of the change in enterprise profits over the last 12 months: 86.9% of treatment group members report an increase in enterprise profits compared to 80.1% of the new clients, which is statistically significant. Thus, participation in the programme appears to be associated with slightly higher enterprise profits. The regression results support this finding, as seen by the negative and statistically significant coefficient of "new clients" when income scale (incscale) is the dependent variable.

"Increased demand for products" is by far the most common response given for increased enterprise profits. Other important reasons are expanding the enterprise facility, adding new products, improving the quality or desirability of products, and accessing more credit. Comparing the treatment to the control group, statistically significant findings in terms of increased enterprise profits were due to improved quality or desirability of product, access to more credit, purchase of a marketing site; and increased demand for products.

Enterprise Assets: Programme membership appears to be associated with higher levels of investment in some enterprise assets; however, it is not associated with higher investment levels in other enterprise assets. The most common acquisitions/investments made in enterprise assets were two: minor investments in the marketing stall followed closely by small accessories such as light fittings, display cabinets, etc.. The control group purchased small accessories more frequently than the treatment group (significant at .00), while the treatment group was more likely to make minor investments in the marketing stall (significant at .05) and purchase a structure for the stall (significant at .01).

Community Level Impacts

Job Creation: The evidence indicates that programme participation does not lead to higher levels of job creation. On average, the control group had 0.17 full-time employees compared to 0.12 for the treatment group, a statistically insignificant difference. In any case, the number of full-time workers employed by the members of both the treatment and control groups is negligible.

Individual Level Impacts

Empowerment: None of the empowerment indicators show a statistically significant difference between the treatment and control group. Rather, the indicators suggest that all respondents are "empowered" according to the indicators used. A reasonable interpretation is that this reflects a self-selection phenomenon among LAPO clients; that is, persons joining LAPO tend to be those who are already relatively empowered.

From a gender perspective, in both the treatment and control groups, the greatest amount of decision-making power women have, relative to their husbands, is with regards to how to spend LAPO loans, followed in order by, how much to save, how much to spend on food, and how much to spend on children. Both groups appear relatively disempowered on the last item, although the control group appears to be slightly more empowered than the treatment group. Both groups also appear to be marginally disempowered when it comes to making decisions on how much to spend on food. In other words, husbands in both groups appear to be the main decision makers, for the most part, when it come deciding how much to spend on children and food.

Decisions regarding how much to save appear to be more or less equally shared by wives and husbands in both treatment and control groups. However, women in the treatment group appear to have greater say regarding spending than women in the control group – the difference between the two is statistically significant at 0.016.

Women in both the treatment and the control groups appear to have greater say in deciding how to spend LAPO loans, with the treatment group being slightly more empowered than the control group, although the difference is not statistically significant.

On balance, the evidence presented above points strongly to none or very limited impact of programme participation on empowerment. The conclusion of no impact is supported by the results of the regression analysis, which, in all three cases, also fails to find any relationship between programme participation and levels of empowerment as measured by the composite empowerment scales.

Access to Financial Services:

Savings: Evidence suggests that the treatment group and control group do not differ in terms of changes in amounts saved over the last 12 months: 88.4% of control group members report an increase in the amount saved over the last 12 months compared to 88.2% of the new clients, a statistically insignificant difference. This finding is corroborated by the results of the regression analysis.

In terms of use of savings, treatment group members are more likely to have current savings set aside for emergencies or major investments/purchases than control group members (71.3% vs. 58.5%) with the difference being statistically significant at .00. The mechanisms used by LAPO clients to save appear to be many, with the most common being "contributions," esusu collectors, and commercial banks. Many clients do not have any non-programme savings. Treatment group members were more likely to have savings in "contributions" and with esusu collectors than control group members. This suggests that the treatment group is more likely and able to save than the control group. The findings also suggest that there is a strong demand for voluntary savings products, given that so many of LAPO's clients are going elsewhere to save.

Credit: Among both groups, "contributions" are the major potential source of credit outside of LAPO, followed by esusu collectors. The fact that LAPO clients and non-clients do not appear to be borrowing much from other sources suggests perhaps an absence of viable alternatives to LAPO, or alternatively that LAPO meets the credit demand of its customers.

Client Satisfaction: On balance, LAPO clients are satisfied with LAPO loan products and policies, savings policies, staff and management, and with LAPO in general. The satisfaction level in each of the areas is the same or approximately the same for both mature and exited clients.

Client Exit: The main reasons cited by clients for leaving LAPO were the following:

Problems with Loan Policies and Procedures. This is clearly the most frequently mentioned reason as to why clients leave LAPO. It is mentioned: as the most important reason why clients leave LAPO in 40.4% of responses; as the second most important reason why clients leave LAPO in 40.3% of cases; and overall in terms of 37.6% of total responses.

Clients' Personal Reasons. This was the second most frequently mentioned as the most important reason why clients leave LAPO (28.6%). However, it was much less frequently mentioned as the second (11.9%) and third (4.7%) most important reasons for leaving, thus, overall, it constitutes the third most important category for leaving the programme (17.5%).

Problems with Group Lending. Overall, problems with group lending are the second most important reason clients leave LAPO (27.8%): third most mentioned as the most important reason why clients leave (25%), second as the second most important reason (31.3%) and first as the third most important reason (27.8%).

Clients' Business Reasons. Relatively unimportant as a reason for leaving the programme, accounting for only 8.2% of overall responses, it is mentioned as the most important reason for leaving just 3.6% of the time, the second most important reason for leaving 10.4% of the time, and the third most important reason for leaving 14% of the time. Problems with savings policies and procedures and community and economic reasons had negligible impact on client's reasons for leaving the LAPO programme.

Within the above-mentioned categories, no single reason was mentioned more than 11 times as either the most, second-most, or third most important reason for leaving. The reasons mentioned at least 10 times as the most important reason for leaving are "moved out of the area" (13), "group disbanded" (13), and "loan amount too small" (10). Only "loan length too short" was mentioned at least ten times as the second most important reason for leaving, and no reason was mentioned at least ten times as the third most important reason for leaving.

Leaving a programme because of having moved or because a group disbanded are understandable. Findings show, however, that dissatisfaction with loan amount is also a strong enough motivator for clients to leave the programme; 'loan length' appears to be an important contributing factor but is perhaps less often the driving motivation. The inability or unwillingness to attend group meetings, though not among the most frequently mentioned first, second, or third most important reasons for leaving, is the second most mentioned reason for leaving with 17 (8.8%). It is second only to dissatisfaction with 'loan length' (18), and is followed in order by 'moved out of the area' (16), dissatisfaction with 'loan amount' (15), dissatisfaction with the 'repayment schedule' (11) and "group disbanded" (11).

Overall, 65.4% of the reasons given for leaving the programme are because of dissatisfaction with loan policies or procedures and problems with group lending. Of note is the fact that few clients left the programme because they wanted individual loans.

VII. Conclusion

LAPO is clearly among those microfinance institutions serving the poorest people in Nigeria. There is also considerable evidence of its impact on clients. Specifically, participation in LAPO appears to increase household income, enrolment of secondary school by children, household asset acquisition, investment in household property, enterprise profits and investment in some enterprise assets. LAPO, perhaps unintentionally, also provides opportunities for its clients to cushion themselves through loans against vulnerabilities caused by sickness and disease, emergencies and crises. Unfortunately, there is limited evidence of LAPO's impact on empowerment of its clients along the dimensions measured in this empirical survey.

LAPO appears to be successfully fulfilling client credit demands. But there remains room for improvement in terms of more successfully meeting demands for savings products and services. Nevertheless, overall, there is a high level of satisfaction among clients for LAPO products and services. Among the main areas for programme improvement, loan policies and procedures and issues related to group lending stand out. The fact that both items can presumably be controlled suggests both a threat and an opportunity for management: a threat in that if the sources of dissatisfaction are not addressed, they could lead to greater client exit in the future; an opportunity in that management should be able to take action to increase client satisfaction through improving loan policies and procedures and aspects of group lending. Addressing client needs in both these areas should further enhance LAPO's client retention rate and thereby increase the numbers of poor benefiting from the LAPO programme.

ANNEX 1: IMPACT SURVEY

TO BE COMPL ETED BEFORE GOING TO INTERVIEW

Survey form number__________ Branch ________________________
Name of Client __________________________ Interviewer Name______________________

Date (m/d/y) ____________ Data entered into computer by __________________

Data cleaned by________________________

(Note: 98 = all cases not applicable)

Sample Group

[___] 1. Sampling Group {1=Treatment Group/Old Client (20-30 months); 2= Treatment Group/Ex-Client; 3= Control Group/New Client (less than 3 months in the programme)}

[___] 2. Location (1=Rural; 2=Urban; 3= Suburban)

AT THE START OF THE INTERVIEW:
INTRODUCTION: Good day. My name is … and I work for a research firm that has been hired by LAPO's donors. This survey is conducted by the firm and is not paid for by LAPO. The purpose of the survey is to better understand the market in which micro entrepreneurs work.
We want to assure you that the information you give us will be completely confidential and will be used exclusively for our statistical research. The information you give us will not be associated with your business specifically and will not affect your cooperation with LAPO and your ability to get loans in the future. The survey asks several questions about your household and your business. We are trying to understand the changes that have taken place over the past years. The survey will take about 30 to 40 minutes to complete. Is this ok? May we continue? Thank you.

LAPO Participation

All Clients (Old, New and ex-clients)
_________ 3. Date joined LAPO (month/year)

_________ 4. Number of loans taken

_________ 5. Amount of last loan taken

_________ 6. Type of borrower (1=Group; 2= Individual)
Current Clients Only:
[___] 7a. Number of loan products used during last 12 months in LAPO

[___] 7b. Number of savings products used during last 12 months in LAPO

_________ 8. Amount of compulsory savings in LAPO (to be completed in the office or client passbook if available)

_________ 9. Amount of voluntary savings in LAPO (*98=Not applicable*)

Ex-Clients Only:
_________ 10. Date left LAPO (*month/year*) (*98=Not applicable*)

_________ 11. Reason for leaving LAPO (1=Voluntary; 2=Involuntary; 98=Not applicable; 99=Don't know)

_________ 12. Amount of savings withdrawn when left LAPO (*98=Not applicable)*

Demographic Information

______13. Gender of respondent (*1=Male; 2=Female*)

______14. How old are you? (*In years*)

18-25 5. 56-65
26-35 6. Over 65
36-45 99. Don't know
45-55

______15. How many years of formal schooling have you completed? (*99=Don't know*)

______16. Currently are you . . . ? (*Read answers.)*

1. Married 4. Single/divorced
2. Living with companion 5. Single/widowed
3. Single/never married

Access to Financial Services

17. Apart from LAPO in which of the following do you currently have a savings account? (***Read answers***. *Multiple responses possible.*)

[___] 1. Other microfinance institution (similar to LAPO) (*1=Yes; 0=No*)
[___] 2. Commercial banks (*1=Yes; 0=No*)
[___] 3. Contribution (*1=Yes; 0=No*)
[___] 4. Esusu Collectors/Ajo (*1=Yes; 0=No*)
[___] 5. None (*1=Yes; 0=No*)
[___]6.Other (*1=Yes; 0=No*)
(specify)____

18. In which of the following do you currently have a loan? (***Read answers.*** *Multiple responses possible.*)

[___] 1. Other microfinance institution (similar to LAPO) (*1=Yes; 0=No*)
[___] 2. Commercial banks (*1=Yes; 0=No*)
[___] 3. Contribution (*1=Yes; 0=No*)
[___] 4. Family and friends (*1=Yes; 0=No*)
[___] 5. Esusu Collectors/Ajo (*1=Yes; 0=No*)
[___] 6. Moneylenders (*1=Yes; 0=No*)
[___] 7. None (*1=Yes; 0=No*)
[___] 8. Other (specify)____
(*1=Yes; 0=No*)

Household Level

[___] 19a. Over the last 12 months, has your overall household (those who live together with you and share the same food at least once a day) income . . .?

1=	2=	3=	99=
Decreased	Stayed the same	Increased	Don't know

If decreased, go to Question 19b. If increased, go to Question 19c. If stayed the same, go to 20

19b. Why did your income decrease? (***Do not read.*** *Multiple responses possible..*)

[___] 1. Household member has been sick/died (*1=Yes; 0=No*)
[___] 2. Household member lost a job (*1=Yes; 0=No*)
[___] 3. I have been sick (*1=Yes; 0=No*)
[___] 4. Natural disaster (such as flood, earthquake) (*1=Yes; 0=No*)
[___] 5. Poor agricultural season (*1=Yes; 0=No*)
[___] 6. Decreased enterprise returns (*1=Yes; 0=No*)
[___] 7. Other (specify) ______________________ (*1=Yes; 0=No*)
Go to Question 20.

19c. Why did your income increase? (***Do not read***. *Multiple response possible*.)

[___] 1. Increased business returns (*1=Yes; 0=No*)
[___] 2. Undertook new business (*1=Yes; 0=No*)
[___] 3. Good agricultural season (*1=Yes; 0=No*)

[___] 4. Household member took paid job (*1=Yes; 0=No*)
[___] 5. Salary increase in existing job of household member (*1=Yes; 0=No*)
[___] 6. Increase in remittances (*1=Yes; 0=No*)
[___] 7. Other (specify) ______________________ (*1=Yes; 0=No*)

[___] 20. Over the last 12 months, has the amount you have contributed to household income . . . ?

1= Decreased	2= Stayed the same	3= Increased	99= Don't know

21. How many persons in your household (those who live together with you and share the same food at least once a day) are:

Read across rows.	Number	Number who attend school regularly	Number who contribute to household income
Adults -18 years of age or older	21a.	___	21b.
Children-Secondary school age (ages 13 -17)	21c.	21d.	21e.
Children-Primary school age (ages 6-12)	21f.	21g.	21h.
Children-Under primary school age (below ages 6)	21i.	21j	___
Total	21k.	21l.	21m.

[___] 22. In a **typical month**, how much does your household spend for all goods and services? (*Read income ranges corresponding to the number of persons in the household.)*

Number in household	1	2	3	4
1	0-2,300	2,300-4,600	4,600-6,900	6,900-
2	0-4,620	4,620-9,200	9,200-13,800	13,800 -
3	0-6,900	6,900-13,800	13,800-20,700	20,700 -
4	0-9,200	9,200-18,400	18,400-27,700	27,700 -
5	0-11,500	11,500 -23,100	23,100-34,600	34,600 -
6	0-13,800	13,800 -27,700	27,700-41,500	41,500
7	0-16,100	16,100 -32,300	32,300-48,500	48,500 -
8	0-18,400	18,400 -36,900	36,900-55,400	55,400 -
9	0-20,700	20,700 -41,500	41,500-62,300	62,300 -
10	0-23,100	23,100 -46,200	46,200-69,300	69,300 -
11	0-25,300	25,300 -50,600	50,600-75,900	75,900 -
12	0-27,600	27,600 -55,200	55,200-82,800	82,000 -
13	0-29,900	29,900 -59,800	59,800-89,700	89,700 -
14	0-32,200	32,200 -64,400	64,400-96,600	96,600 -
15	0-34,500	34,500 -69,000	69,000-103,500	103,500-

23. In the last two years has someone in your household been able to purchase any of the following assets?

Item (Read across by row item by item.)	Was this item or more of this asset acquired in the last 2 years? (1=Yes; 0=No; 99=Don't know)
Motorcycle Fridge	a. b.
Car	c.
Plot of land	d.
Grinding machine	e.
TV	f.
Generator	g.

Radio	h.
Video	i.
Other (specify)	j.

24. During the last 24 months, have you done any of the following? (***Read answers***. *Multiple responses possible.)*

[___] 1. Made repairs or improvements to your existing house (such as roof, walls, floor) (*1=Yes; 0=No*)
[___] 2. Added to your existing house (such as room, kitchen, toilet) (*1=Yes; 0=No*)
[___] 3. Purchased a house (*1=Yes; 0=No*)
[___] 4. Purchased land (*1=Yes; 0=No*)
[___] 5. Moved to a bigger house (*1=Yes; 0=No*)
[___] 6. Moved to a smaller house (*1=Yes; 0=No*)

Coping Strategies

[___] 25a. In the last 12 months, was there a time of the year when it was more difficult to feed yourself and your family? (*1=Yes; 0=No)*
If answer is No to Question 25a, go to Question 26.
[___] 25b. How many weeks did this period last? (If the answer is given in months or days, convert to weeks and write in the answer.)

25c. How did your household cope? (**Don't read**. Multiple responses possible.)
[___] 1. Loan from friends or family (*1=Yes;0=No*)
[___] 2. Gift from friends or family (*1=Yes; 0=No*)
[___] 3. LAPO loan (*1=Yes; 0=No*)
[___] 4. Other loan at cost (*1=Yes; 0=No*)
[___] 5. Sold assets (*1=Yes; 0=No*)
[___] 6. Withdrew savings (*1=Yes; 0=No*)
[___] 7. Ate less or ate less well (*1=Yes; 0=No*)
[___] 8. Other (Specify) ____________________
(1=Yes; 0=No)

[___] 26a. During the last 12 months, has your household experienced an unusually large expense (such as a birth, marriage, or death) or experienced an unexpected economic crisis (such as a natural disaster, loss of job, eviction)? (*Yes=1; No=0*)
If answer is No to Question 26a, go to Question 27.

26b. How did you cope? **(Don't read**. Multiple response possible.)
[___] 1. Out of current income (*1=Yes; 0=No*)
[___] 2. Gift or handout from friends or family (*1=Yes; 0=No*)
[___] 3. Loan from friends or family (*1=Yes; 0=No*)
[___] 4. LAPO loan (*1=Yes; 0=No*)
[___] 5. Other loan at cost (*1=Yes; 0=No*)
[___] 6. Sold assets (*1=Yes; 0=No*)
[___] 7. Withdrew savings (*1=Yes; 0=No*)
8. Other (Specify) ____________________

[___] 27a. During the last 12 months, was there an occasion in which you or a member of your household needed medical attention? (*1=Yes; 0=No*)
If answer is No to Question 27a, go to Question 28.

27b. Where did you get the money to pay these medical costs? (***Don't read***. *Multiple responses possible.)*
[___] 1. Out of current income (*1=Yes; 0=No*)
[___] 2. Gift or handout from friends or family (*1=Yes; 0=No*)
[___] 3. Loan from friends or family (*1=Yes; 0=No*)
[___] 4. LAPO loan (*1=Yes; 0=No*)
[___] 5. Other loan at cost (*1=Yes; 0=No*)

[___] 6. Sold assets (*1=Yes; 0=No*)
[___] 7. Withdrew savings (*1=Yes; 0=No*)
[___] 8. Free health care (such as government or NGO clinic) (*1=Yes; 0=No*)
[___] 9. Did not get medical help because could not afford it (*1=Yes; 0=No*)
10. Other (Specify) ____

Enterprise Level

28. What is the major business supported by your LAPO loan? (***Don't read .*** *One response possible.*)
[___] 28a. Sector
[___] 28b. Enterprise

Sector	Business type
1. Manufacturing	1. Wood
	2. Textile
	3. Metal
	4. Food
	5. Drink
	6. Other (specify) _________________________
2. Agro business	7. Growing & selling
	8. Processing
	9. Buying & selling
	10. Other (specify) ________________________
3. Trade	11. Wholesaler
	12. Retailer
	13. Hawking
	14. Other (specify) ________________________
4. Service	15. Education
	16. Transport
	17. Restaurant
	18. Repairing
	19. Tailoring
	20. Other (specify) ________________________

[___] 29a. During the last 12 months, have total profits (total sales minus total expenses) for this business…. ?

1=	2=	3=	99=
Decreased	Stayed the same	Increased	Don't know

If decreased, go to Question 29b. If increased, go to Question 29c.If stayed the same go to 30

29b. Why did your business profits decrease? (***Read answers*** *. Multiple responses possible.*)
[___] 1. Poor sales (1=Yes; 0=No; 99=Don't know)
[___] 2. Increased competition (*1=Yes; 0=No; 99=Don't know*)
[___] 3. Decrease in demand (*1=Yes; 0=No; 99=Don't know*)
[___] 4. Could not collect credit (*1=Yes; 0=No*)
[___] 5. Eviction (*1=Yes; 0=No*)
[___] 6. Increased input costs (*1=Yes; 0=No*)
[___] 7. Natural or other disasters (*1=Yes; 0=No*)
8. Other (specify) ______________________
Go to Question 30.

29c. Why did your business profits increase? (***Do not read*** *. Multiple responses possible.*)
[___] 1. Expanded size of enterprise facility (*1=Yes; 0=No; 99=Don't know*)
[___] 2. Added new products (*1=Yes; 0=No*)
[___] 3. Improved quality or desirability of products (*1=Yes; 0=No; 99=Don't know*)
[___] 4. Access to more credit (*1=Yes; 0=No*)
[___] 5. Lower input prices (*1=Yes; 0=No*)
[___] 6. Sold in new markets/locations (*1=Yes; 0=No*)
[___] 7. Purchased new productive assets (such as machinery, equipment, tools) (*1=Yes; 0=No*)
[___] 8. Purchased marketing site (such as shop, kiosk) (*1=Yes; 0=No*)
[___] 9. Increased demand (*1=Yes; 0=No; 99=Don't know*)
10. Other (specify)______________________

30. During the last 12 months, did you purchase or invest in any of the following assets for your major business activity? (***Read answers*** *. Multiple responses possible.*)

[___] 1. Purchased small tools/accessories (such as cooking utensils, hoes, plows, baskets, basins, barrels) (*1=Yes; 0=No*)
[___] 2. Purchased major tools (such as stoves, equipment, machinery) (*1=Yes; 0=No*)
[___] 3. Purchased own means of transportation (such as bicycle, pushcart) (*1=Yes; 0=No*)
[___] 4. Invested in a storage structure (such as granary, stock room) (*1=Yes; 0=No*)
[___] 5. Made a minor investment in your marketing site (such as by purchasing a chair, table, shed) (*1=Yes; 0=No*)
[___] 6. Invested in structures for your marketing site (such as kiosk, shop) (*1=Yes; 0=No*)
7. Other (specify) ______________________

31. How many people do you currently employ in your major business other than yourself?
[___] 31a. Paid, full-time
[___] 31b. Paid, part-time

Individual Level

[___] 32. Do you currently have any savings that you keep in case of emergencies or because you plan to make a major purchase or investment? (*Yes=1; No=0*)
If answer is No to Question 32, go to question 34.

[ ]33. Over the last 12 months, has the total amount you have been able to save . . . ? (*Includes savings of all kinds* .)

1=	2=	3=	98=	99=
Decreased	Stayed the same	Increased	Not applicable	Don't know

Please indicate the extent to which you agree with the following statements.

[___] 34. I am confident that the future life for me and my family will be better than today.

1=	2=	3=	4=	5=	99=
Strongly disagree	Disagree	No opinion	Agree	Strongly agree	Don't know

[___] 35. I feel good about myself.

1=	2=	3=	4=	5=	99=
Strongly disagree	Disagree	No opinion	Agree	Strongly agree	Don't know

[___] 36. I feel respected by my spouse, family, and friends.

1=	2=	3=	4=	5=	99=
Strongly disagree	Disagree	No opinion	Agree	Strongly agree	Don't know

[___] 37. I actively participate in my local community.

1=	2=	3=	4=	5=	99=
Strongly disagree	Disagree	No opinion	Agree	Strongly agree	Don't know

38. In your household, who decides (Ask only of currently married respondents. If not married, go to Question 41.)
[___] a. How much to spend on schooling for children
[___] b. How much to spend on food
[___] c. How much to save
[___] d. How to spend LAPO loans. (*Ask only of current clients* .)

1=	2=	3=	4=	5=	98=
Husband only	Mostly husband	Husband and wife equally	Mostly wife	Wife only	Not applicable

Survey completed for new Clients!!!

Client Satisfaction--This section only for Old Clients and Ex-Clients

[__] 39. Which best describes your satisfaction with LAPO's loan products and policies? (***Read response.***)
1. Very satisfied
2. Satisfied
3. No opinion
4. Dissatisfied

5. Very dissatisfied
99. Don't know

[__] 40. Which best describes your satisfaction with LAPO's savings policy? ***(Read response.)***
1. Very satisfied
2. Satisfied
3. No opinion
4. Dissatisfied
5. Very dissatisfied
99. Don't know

[__] 41. Which best describes your satisfaction with the LAPO's staff and management. ***(Read response.)***
1. Very satisfied
2. Satisfied
3. No opinion
4. Dissatisfied
5. Very dissatisfied
99. Don't know

[__] 42. Which best describes your overall satisfaction with the LAPO. (***Read answers***.)
1. Very satisfied
2. Satisfied
3. No opinion
4. Dissatisfied
5. Very dissatisfied
99. Don't know

End of Survey for Current Clients – Thank the client for their time.

Exit Interview—For Ex-Clients Only

43. Please tell us the three most important reasons why you left LAPO, beginning with the most important. (***Do not read answers***.)

Category	Reason
43a.	43b.
43c.	43d.
43e.	43f.

Problems with loan policies or procedures
1. The loan amount is too small
2. The loan length is too short
3. I do not like the repayment schedule
4. The loan became too expensive (interest, fees)
5. The disbursement of the loans is not efficient
6. I am unwilling to borrow due to other conditions (obligatory savings, obligatory training, etc.)
7. I did not like treatment by staff or had personal conflicts with staff
8. I do not like joint loan guarantees
9. I prefer individual loans
10. I found a similar financial institution that gave me better terms.

Problems with savings policies or procedures
11. I want more access to savings
12. I am afraid to lose savings because of defaults

Problems with group lending
13. I was asked by group to leave
14. My group disbanded
15. I had personal conflict with other members of the group
16. I was unhappy about group leadership
17. I was unable or unwilling to attend all the group meetings (take too much time; have schedule conflicts, etc.)
18. I did not like the rules and/or the pressure established by group

Client's business reasons
19. I have enough working capital now for business.

20. My business is seasonal. I will borrow again when I need it.
21. I have sufficient savings and wish to use them
22. I am graduating to a financial institution that offers bigger loans.
23. I am unable to repay loans due to the weak condition of business
24. I decided to close the business.
25. I sold the business.

Personal reasons
26. A death or illness in my family
27. I cannot continue because spent the money on a crisis (e.g., illness or death) or on a celebration (e.g., wedding) in my fa mily.
28. My spouse or other family member doesn't want me to continue.
29. I am pregnant, breast feeding, or have another person to care for (lack of time or ability to continue at same level).
30. My spouse (or other adult income earner) left me so I do not have the ability to continue the business
31. I am moving out of the area
32. I am tired and need a rest
33. I need to participate in harvest activities

Community and economic reasons
34. My business was ruined by robbery, fire, flood, hurricane, etc.
35. A major new competitor moved into the area and many of my customers now buy from the competition
36. Poor economic conditions have left my customers with less money with which to buy my goods or services
37. Other (specify) ____
98. Not applicable

We have come to the end of the survey. Thank you very much for your time and cooperation in completing this survey.

ANNEX 2: Frequencies, T-Tests and Chi-Squares

1. DEMOGRAPHIC AND PROGRAMME INFORMATION

1A. Client Information

	Number %	Treatment Group	Control Group
Gender			
Female	471 98.9%	296 98.7%	175 99.4%
Male	5 1.1%	4 1.3%	1 0.6%
Age			
18-25	43 9.0%	16 5.3%	27 15.3%
26-35	168 35.3%	84 28.0%	84 47.7%
36-45	168 35.3%	125 41.7%	43 24.4%
46-55	81 17.0%	63 21.0%	18 10.2%
56-65	14 2.9%	10 3.3%	4 2.3%
Over 65	1 0.2%	1 0.3%	0 0.0%
Years of Schooling			
0	21 4.4%	16 5.3%	5 2.8%
2	5 1.1%	2 0.7%	3 1.7%
3	4 0.8%	2 0.7%	2 1.1%
4	2 0.4%	2 0.7%	0 0.0%
5	1 0.2%	1 0.3%	0 0.0%
6	180 37.8%	122 40.7%	58 33.0%
7	4 0.8%	3 1.0%	1 0.6%
8	10 2.1%	7 2.3%	3 1.7%
9	32 6.7%	22 7.3%	10 5.7%
10	9 1.9%	6 2.0%	3 1.7%
11	13 2.7%	7 2.3%	6 3.4%
12	146 30.7%	79 26.3%	67 38.1%
13	3 0.6%	1 0.3%	2 1.1%
14	4 0.8%	3 1.0%	1 0.6%
15	17 3.6%	10 3.3%	7 4.0%
16 Surprisingly well-education clients	22 4.6%	14 4.7%	8 4.5%
Civil Status			
Married	404	265	139

	84.9%	88.3	79.0
Living with companion	4 0.8%	1 0.3	3 1.7
Single/never married	36 7.6%	15 5.0	21 11.9
Single/divorced	7 1.5%	4 1.3	3 1.7
Single/widowed	25 5.3%	15 5.0	10 5.7
Location			
Rural	1 0.2%	1 0.3	020.0
Urban	422 88.7%	260 86.7	162 92.0
Suburban	53 11.1%	39 13.0	14 8.0
Number of Loans			
0	34 7.1%	0 0%	34 7.1%
1	193 40.5%	50 16.7%	143 100.0%
2	88 18.5%	88 29.3%	0 0.0%
3	123 25.8%	123 41.0%	0 0.0%
4	37 7.8%	37 12.3%	0 0.0%
5	1 0.2%	1 0.3%	0 0.0%

1B. Enterprise Information

Enterprise Sectors

Enterprise Type	Total N=466	Treatment Group N=298	Control Group N=168
Manufacturing	11 2.3%	9 3.0%	2 1.2%
Wood	4 0.8%	3 1.0%	1 0.6%
Textile	5 1.1%	4 1.3%	1 0.6%
Food	4 0.8%	4 1.3%	0 0.0%
Drink	1 0.2%	0 0.0%	1 0.6%
Agro Business	133 27.9%	95 31.7%	38 21.6%
Growing & selling	3 0.6%	3 1.0%	0 0.0%
Processing	6 1.3%	5 1.7%	1 0.6%
Buying & Selling	120 25.2%	85 28.3%	35 19.9%
Trade	240 50.4%	148 49.3%	92 52.3%
Wholesaler	9 1.9%	8 2.7%	1 0.6%
Retailer	212 44.5%	129 43.0%	83 47.2%
Hawking	20 4.2%	10 3.3%	10 5.7%
Service	82 17.4%	46 15.3%	36 20.5%
Education	2 0.4%	0 0.0%	2 1.1%
Transport	14 2.9%	8 2.7%	6 3.4%
Restaurant	47 9.9%	27 9.0%	20 11.4%
Repairing	5 1.1%	1 0.3%	4 2.3%
Tailoring	14 2.9%	11 3.7%	3 1.7%

Enterprise Sectors

	Manu	Agro-Bus	Services	Trade	Total
Treatment Group	9	95	148	46	298
	3.0%	31.9%	49.7%	15.4%	100%
Control Group	2	38	92	36	168
	1.2%	22.6%	54.8%	21.4%	100%
Total	11	133	240	82	466
	2.4%	28.5%	51.5%	17.6%	100%

Chi-Square: 7.48
Statistical Significance: .05

2. HOUSEHOLD LEVEL IMPACTS

2a. Change in HH Income over Last 12 Months

Change in Income over Last 12 Months—Treatment Group vs. Control Group

	Decreased	Stayed Same	Increased	Total
Treatment Group	16	25	258	299
	5.4%	8.4%	86.3%	
Control Group	9	26	140	175
	5.1%	14.9%	80.0%	
Total	25	51	398	474
	5.3%	10.8%	84.0%	

Chi-Square: 4.58
Statistical Significance: .086
Factors Explaining Changes in Household Income

Why Did Your HH Income Decrease?

Reason	Number N=16	%
Household member has been sick	6	24.0
Household member lost a job	5	20.0
I have been sick	4	16.0
Natural disaster	0	0.0
Poor agricultural season	2	8.0
Decreased enterprise returns	9	36.0

Why Did Your HH Income Increase?

Reason	Number N=396	%
Increased enterprise returns	360	90.5
Undertook new business	81	20.4
Good agricultural season	26	6.5
Household member took a paid job	14	3.5
Salary increase in existing job of HH member	64	16.1
Increase in remittances	63	15.8

Why Did Your HH Income Increase? (Comparison between Treatment and Control Group)

Reason	% Treatment Group N=257	% Control Group N=139	T-value	Stat. Sig.
Increased enterprise returns	90.3	90.7	-0.23	.81

Undertook new business	17.8	25.0	-1.71	.09
Good agricultural season	7.4	5.0	-0.90	.36
Household member took a paid job	4.7	1.4	-1.66	.09
Salary increase in existing job of HH member	17.1	14.3	-0.70	.48
Increase in remittances	17.8	12.1	-1.47	.14

2b. Change in amount contributed by respondent to household income over the last 12 months

Change in Amount Contributed to Household Income over Last 12 Months —Treatment Group vs. Control Group

	Decreased	Stayed Same	Increased	Total
Treatment Group (Mature and Ex Clients)	14	37	249	300
	4.7%	12.3%	83.0%	100%
Control Group	6	25	143	175
	3.4	14.4%	82.2%	100%
Total	20	62	392	474
	4.2%	13.1%	82.7%	100%

Chi-Square: .745
Statistical Significance: .689

2c. Poverty Assessment

Note: Poverty is measured by daily per capita household expenditures and adjusted for purchasing power parities (very poor < $1 per; $1 < poor < $2; $2 < vulnerable non-poor < $3; non-poor > $3).

Poverty Level as Measured by Daily per Capita Household Expenditures and Adjusted for Purchasing Power Parities — Treatment Group vs. Control Group

	Very Poor	Poor	Vulnerable Non-Poor	Non-Poor	Total
Treatment Group (Mature and Ex Clients)	174	102	16	7	299
	58.2%	34.1%	5.4%	2.3%	100.0%
Control Group	114	41	13	8	176
	64.8%	23.3%	7.4%	4.5%	100.0%
Total	288	143	29	15	475
	60.6%	30.1%	6.1%	3.2%	100.0%

Chi-Square: 7.554
Statistical Significance: .056

2d. Children's Education

% of Children Attending School	Treatment Group	Control Group	T-value	Stat. Sig.
Primary school	94.0%	96.0%	-.63	.52
Secondary school	94.0%	87.1 %	1.94	.05

2e. Asset Acquisition

Percentage of Clients Who Acquired Assets over Last 24 Months

Asset	(%) Treatment Group N=300	(%) Control Group N=176	T-value	Stat. Sig.

Motorcycle	6.3	4.5	2.74	.10
Fridge	23.0	19.9	2.59	.10
Car	9.3	3.4	25.75	.00
Plot of land	10.3	6.3	9.61	.00
Grinding machine	7.3	2.8	17.86	.00
TV	29.3	26.7	1.55	.21
Generator	3.0	0.6	13.31	.00
Radio	27.0	22.7	4.47	.03
Video	36.3	35.2	0.23	.62
Jewellery	1.0	1.7	1.76	.18
Sewing Machine	2.7	2.3	0.28	.59
Fan	4.0	2.8	1.74	.18
Work equipment	6.3	5.7	0.32	.56
Furniture	7.0	2.8	15.75	.00
Build House	1.7	2.3	0.87	.35
GSM Phone	1.7	1.7	0.00	.95

2f. Investment In Real Property

Percentage of Clients Who Invested in Real Property over Last 24 Months

Investment Type	% Treatment Group N=300	% Control Group N=176	T-value	Stat. Sig.
Repairs or improvements to home	40.7	36.9	2.76	.09
Added to home	7.7	1.7	34.16	.00
Purchased house	0.7	1.7	4.61	.03
Purchased land	7.0	2.8	15.75	.00
Moved to bigger house	7.3	3.4	12.98	.00
Moved to smaller house	0.3	0.6	0.58	.44

2g. Vulnerability And Coping

Percentage of Clients Who Experienced A "Hungry Season" during Last 12 Months

	% Treatment Group N=300	% Control Group N=176	T-value	Stat. Sig.
Experienced a Hungry Season	26.7	23.3	2.75	.10
	Mean Treatment Group N=78	Mean Control Group N=41	T-value	Stat. Sig.
If yes, how many weeks did it last?	6.64	6.29	4.57	.03

How Did Your Household Cope with Hungry Season?

Coping Strategy	Number N=121	%
Loan from friends or family	35	28.9
Gift from friends or family	86	71.1
LAPO loan	15	12.4
Sold assets	4	3.3
Withdrew savings	18	14.9
Ate less or ate less well	62	51.2

Hungry Season Coping Strategies: Treatment Group vs. Control Group.

Payment Method	% Treatment Group N=82	% Control Group N=66	T-value	Stat. Sig.
Loan from friends or family	24 29.3%	12 29.3%	0.00	1.00
Gift from friends or family	57 69.5%	30 73.2%	-0.41	.67
LAPO loan	14 17.1%	2 4.9%	1.91	.06
Sold assets	4 4.9%	0 0.0%	1.43	.15
Withdrew savings	13 15.9%	5 12.2%	0.53	.59
Ate less or ate less well	41 50.0%	22 53.7%	-0.38	.70

Percentage of Clients with Member of Household Needing Medical Attention during Last 12 Months

	% Treatment Group	% Control Group	T-value	Stat. Sig.
Required medical attention	37.3	37.5	-.036	.97
How Paid				
Current income	24.3	26.1	-.349	.72
Handout friend or family	17.0	22.7	-2.009	.04
Loan friend or family	7.7	4.0	1.689	.09
LAPO loan	4.7	0.6	2.565	.01
Other loan at cost	0.7	0.0	-	-
Sold assets	1.3	0.0	-	-
Withdrew savings	8.7	5.1	1.527	.12
Free health care	0.0	0.0	-	-
No medical care	0.0	0.0	-	-

Percentage of Clients with Member of Household Needing Medical Attention during Last 12 Months

Where Did You Get the Money to Pay Medical Costs?

Payment Method	Number N=178	%
Out of current income	118	66.3
Gift or handout from friends or family	90	50.6
Loan from friends or family	30	16.9
LAPO loan	15	8.4
Other loan at cost	2	1.1
Sold assets	4	2.2
Withdrew savings	35	19.7
Free health care	0	0.0
Did not get medical help	0	0.0

Sources of Money to Pay Medical Costs: Treatment Group vs. Control Group.

	% Treatment Group N=112	% Control Group N=66	T-value	Stat. Sig.
Percentage requiring medical attention	37.3%	37.5%	-0.04	.97
Payment Method				

Out of current income	72 67.9%	46 70.8%	-0.38	.69
Gift or handout from friends or family	50 44.6%	40 60.6%	-2.07	.04
Loan from friends or family	23 20.5%	7 10.6%	1.71	.09
LAPO loan	14 12.5%	1 1.5%	2.58	.01
Other loan at cost	2 1.8%	0 0.0%	1.08	.27
Sold assets	4 3.6%	0 0.0%	1.55	.12
Withdrew savings	26 23.2%	9 13.6%	1.55	.12
Free health care	0 0.0%	0 0.0%	Na	Na
Did not get medical help	0 0.0%	0 0.0%	Na	Na

How Did Your Household Cope with Unusually Large Expense or Unexpected Economic Crisis?

Coping Strategy	Number N=162	%
Out of current income	99	61.1
Gift or handout from friends or family	108	66.7
Loan from friends or family	32	19.8
LAPO loan	20	12.3
Sold assets	5	3.1
Withdrew savings	33	20.4

Coping Strategies for Unusually Large or Unexpected Expenses or Crises: Treatment Group vs. Control Group

Coping Strategy	% Treatment Group N=109	% Control Group N=41	T-value	Stat. Sig.
Out of current income	66 60.6%	33 62.3%	-0.20	.83
Gift or handout from friends or family	69 63.3%	39 73.6%	-1.30	.20
Loan from friends or family	26 23.9%	6 11.3%	1.89	.06
LAPO loan	19 17.4%	1 1.9%	2.87	.01
Sold assets	5 4.6%	0 0.0%	1.58	.12
Withdrew savings	23 21.1%	10 18.9%	0.32	.74

3. ENTERPRISE LEVEL IMPACTS

3A. Enterprise Profits

Change in Enterprise Profits over Last 12 Months—Treatment Group vs. Control Group

	Decreased	Stayed Same	Increased	Total
Treatment Group	16 5.4%	23 7.7%	259 86.9%	298 100%
Control Group	11 6.3%	24 13.6%	141 80.1%	176 100%
Total	27 5.7%	47 9.9%	400	474 100%

Chi-Square: 4.665
Statistical Significance: .097

Change in Enterprise Profits over Last 12 Months—Mature Clients vs. Ex-Clients

Why Did Your Business Profits Decrease?

Reason	Number N=14	%
Poor sales	9	64.2
Increased competition	6	42.9
Decreased demand	8	57.1
Could not collect credit	2	14.3
Eviction	0	0.0
Increased input costs	2	14.3
Natural or other disasters	4	28.6

Why Did Your Business Profits Increase?

Reason	Number N=393	%
Expanded size of enterprise facility	170	43.3
Added new products	155	39.3
Improved quality or desirability of products	104	26.3
Access to more credit	113	28.5
Lower input prices	50	12.7
Sold in new market locations	40	10.1
Purchased new productive assets	1	2.5
Purchases marketing site	17	4.3
Increased demand for products	231	58.5
Public relations	7	1.8

Reasons for Enterprise Profit Increases: Treatment Group vs. Control Group

Reason	Treatment Group N=254	Control Group N=139	T-value	Stat. Sig.
Expanded size of enterprise facility	107 42.1%	63 44.7	-0.61	.54
Added new products	98 38.3%	57 41.3%	-0.58	.55
Improved quality or desirability of products	76 29.6%	28 20.1	2.04	.04
Access to more credit	86 33.5%	27 19.4%	2.97	.00
Lower input prices	37 14.4%	13 9.4%	1.41	.15
Sold in new market locations	30 11.7%	10 7.2%	1.39	.16
Purchased new productive assets	6 2.3%	4 2.9%	-0.39	.73
Purchased marketing site	15 5.8%	2 1.4%	2.05	.04
Increased demand for products	135 52.5%	96 69.6%	-3.31	.00
Public relations	5 1.9%	2 1.4%	0.35	.72

Change in Enterprise Profits over Last 12 Months—Controlling for Enterprise Sector

Enterprise Sector	Decreased	Stayed Same	Increased	Total
Manufacturing	3	0	8	11
	27.3%	0.0%	72.7%	100%
Agro Business	1	10	121	132
	0.8%	7.6%	91.7%	100%
Trade	18	25	196	239
	7.5%	10.5%	82.0%	100%
Services	5	8	69	82
	3.7%	13.6%	82.7%	100%
Total	27	43	394	464
	5.8%	9.3%	84.9%	100%

Chi-Square: 18.68
Statistical Significance: .01

Investment in Enterprise Assets: Treatment vs. Control Group

Asset	Number, N=476	%
Small accessories	138	29.0
Major tools	56	11.8
Means of transportation	27	5.7
Storage structure	14	2.9
Minor investment in marketing site	159	33.4
Structure for marketing site	61	12.8

Asset	% Treatment Group N=300	% Control Group N=176	T-value	Stat. Sig.
Small accessories	72 24.0	66 37.5	-3.16	.00
Major tools	31 10.3	25 14.2	-1.26	.20
Means of transportation	19 6.3	8 4.5	0.81	.41
Storage structure	9 3.0	5 2.8	0.09	.92
Minor investment in marketing site	110 36.7	49 27.8	1.97	.05
Structure for marketing site	48 16.0	13 7.4	2.73	.01

3C. Job Creation

Job Creation: Number of Full-Time Employees

Number of Employees	Treatment Group (%)	Control Group (%)
0	281 (93.7%)	160 (90.9%)
1	10 (3.3%)	8 (4.5%)
2	7 (2.3%)	5 (2.8%)
3	1 (0.3%)	2 (1.1%)
6	0 (0.0%)	1 (0.6)
8	1 (0.3%)	0 (0.0%)
Mean Number Employees	0.12	0.17

t-value: -.910		
Statistical Sig.: .363		

4. ACCESS TO FINANCIAL SERVICES

4A. Savings

Change in Amount Saved over Last 12 Months—Treatment vs. Control Group

	Decreased	Stayed Same	Increased	Total
Treatment Group	7 3.3%	18 8.4%	190 88.4%	215 100%
Control Group	2 2.0%	10 9.8%	90 88.2%	102 100%
Total	9 2.8%	28 8.8%	280 88.3%	317 100%

Chi-Square: .569
Statistical Significance: .752

Current Savings Set Aside for Emergencies or Major Investments/Purchases

Group	Total N=476	Treatment Group N=300	Control Group N=176	T Value	Stat. Sig.
With savings	317 66.6%	214 71.3%	103 58.5%	2.87	.00

Savings Mechanisms Used by LAPO Clients

Types of Savings	% Treatment Group N=300	% Control Group N=176	T-value	Stat. Sig.
Other MFIs	2.0	1.1	0.71	.48
Commercial Banks	22.3	17.0	1.38	.17
Contribution	65.3	51.1	3.01	.00
Esusu Collectors	59.3	48.9	2.23	.03
None	26.3	31.8	-1.28	.20
Other	2.7	1.1	1.12	.26

4B. Credit

Other (Non-Programme) Loans Taken by LAPO Clients

Sources of Loans	% Treatment Group N=300	% Control Group N=176	T-value	Stat. Sig.
Other MFIs	0.0	0.0	n.a.	n.a.
Commercial Banks	2.3	2.3	0.04	.96
Contribution	23.0	21.0	0.50	.61
Family & Friends	6.7	3.4	1.51	.13
Esusu Collectors	13.7	14.8	-0.33	.73
Money Lenders	0.3	0.6	-0.38	.70
None	52.0	61.4	-1.98	.05

5. INDIVIDUAL LEVEL IMPACTS

5A. Empowerment

Mean Responses to Indicators of Empowerment—Treatment and Control Group

Indicator of Empowerment	Mean Score Treatment Group (Number)	Mean Score Control Group (Number)	T-value	Statistical Significance
Confidence in the future	4.46 (297)	4.52 (176)	-1.069	.286

Self-esteem	4.41 (300)	4.41 (176)	-0.085	.933
Respected by spouse, family, & friends	4.34 (297)	4.41 (176)	-1.556	.120
Participate in local community	3.96 (300)	3.95 (175)	0.149	.881

Key: 1=Strong disagree; 2=Disagree; 3=No opinion; 4=Agree; 5=Strongly agree

Intra-Household Decision Making —Treatment and Control Group

Indicator of Empowerment	Mean Score Treatment Group (Number)	Mean Score Control Group (Number)	T-value	Statistical Significance
Amount spent on children	2.09 (264)	2.29 (139)	-1.881	.061
Amount spent on food	2.62 (271)	2.56 (144)	0.622	.534
Amount saved	3.11 (264)	2.88 (142)	2.408	.016
How to spend LAPO loans	3.91 (244)	3.76 (131)	1.275	.203

Key: 1=Husband only; 2=Mostly husband; 3=Husband and wife equally; 4=Mostly wife; 5=Wife only

6. CLIENT SATISFACTION

Mean Client Satisfaction Scores—Mature Clients

Indicator of Client Satisfaction	Mean Score Treatment Group (Number)	Mean Score Urban Clients (Number)	Mean Score Suburban Clients (Number)	Urban vs. Suburban Clients T-value (Sig. Level)
Loan products and policies	4.0 (299)	3.9 (265)	4.4 (40)	3.021 (.003)
Savings policies	4.2 (299)	4.1 (263)	4.6 (40)	4.153 (.000)
Staff and management	4.2 (299)	4.1 (263)	4.5 (40)	2.459 (.015)
Overall	4.2 (297)	4.2 (262)	4.6 (39)	3.364 (.001)

Key: 1=Very dissatisfied; 2=Dissatisfied; 3=No opinion; 4=Satisfied; 5=Very satisfied
Note: There were too few responses by ex-clients to analyze their responses.

7. CLIENT EXIT

Most Important Reasons Clients Left LAPO —By Category and Individual Reasons

Category	Most Important N=84 %	Second Most Important N=67 %	Third Most Important N=43 %	Total Number Mentioned N=194 %
Problems with Loan Policies or Procedures	34/84 40.4%	27/67 40.3%	13/43 19.4%	73/194 37.6%
Loan amount too small	10 11.9%	4 6.0%	1 2.3%	15 7.7%
Loan length too short	5 6.0%	11 16.4%	2 4.7%	18 9.3%
Do not like repayment schedule	4 4.8%	3 4.5%	4 9.3%	11 5.7%
Loan was too expensive	0	2	0	2

	0.0%	3.0%	0.0%	1.0%
Loan disbursement not efficient	5 6.0%	3 4.5%	0 0.0%	8 4.1%
Unwilling to borrow due to other conditions	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Conflicts with staff	5 6.0%	0 0.0%	2 4.7%	7 3.6%
Do not like joint loan guarantees	3 3.6%	0 0.0%	1 2.3%	4 2.1%
Prefer individual loans	2 2.4%	3 4.5%	3 7.0%	8 4.1%
Found other institution that offered better terms	0 0.0%	1 1.5%	0 0.0%	1 0.5%
Problems with Savings Policies or Procedures	0/84 0.0%	2/67 3.0%	2/43 4.7%	4/194 2.1%
Want more access to savings	0 0.0%	1 1.5%	1 2.3%	2 1.0%
Afraid to lose savings because of defaults	0 0.0%	1 1.5%	1 2.3%	2 1.0%
Problems with Group Lending	21/84 25.0%	21/67 31.3%	12/43 28.0%	54/194 27.8%
Asked by group to leave	2 2.4%	0 0.0%	2 4.7%	4 2.1%
Group disbanded	10 11.9%	1 1.5%	0 0.0%	11 5.7%
Personal conflict with group members	2 2.4%	4 6.0%	1 2.3%	7 3.6%
Unhappy with group leadership	1 1.2%	3 4.5%	2 4.7%	6 3.1%
Unable or unwilling to attend group meetings	5 6.0%	7 10.4%	5 11.6%	17 8.8%
Did not like group rules or group pressure	1 1.2%	6 9.0%	2 4.7%	9 4.6%
Client's Business Reasons	3/84 3.6%	7/67 10.4%	6/43 14.0%	16/194 8.2%
Have enough working capital for business	2 2.4%	4 6.0%	1 2.3%	7 3.6%
Have enough working capital for business	2 2.4%	4 6.0%	1 2.3%	7 3.6%
Bus iness is seasonal—do not need loan now	1 1.2%	0 0.0%	0 0.0%	1 0.5%
Have sufficient savings and wish to use them	0 0.0%	0 0.0%	1 2.3%	1 0.5%
Graduating to bigger institution offering bigger loans	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Unable to pay due to weak condition of business	0 0.0%	3 4.5%	3 7.0%	6 3.1%
Decided to close the business	0 0.0%	0 0.0%	1 2.3%	1 0.5%
Sold the business	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Personal Reasons	24/84 28.6%	8/67 11.9%	2/43 4.7%	34/194 17.5%
Death or illness in family	3 3.6%	0 0.0%	0 0.0%	3 1.5%
Not enough money; loans spent on crisis	4 4.8%	1 1.5%	0 0.0%	5 2.6%
Spouse or family opposition	4 4.8%	0 0.0%	1 2.3%	5 2.6%
Pregnant, breast feeding, have other person to care for	0 0.0%	2 3.0%	0 0.0%	2 1.0%

Spouse left so cannot continue	0 0.0%	1 1.5%	0 0.0%	1 0.5%
Moved out of area	13 15.5%	2 3.0%	1 2.3%	16 8.2%
Tired and need a rest	0 0.0%	2 3.0%	0 0.0%	2 1.0%
Need to participate in harvest	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Community and Economic Reasons	0/84 0.0%	1/67 1.5%	2/43 4.7%	3/194 1.5%
Business ruined by robbery, fire, or natural disaster	0 0.0%	1 1.5%	0 0.0%	1 0.5%
Major new competitor moved into the area	0 0.0%	0 0.0%	2 4.7%	2 1.0%
Poor economic conditions have left customer with less money	0 0.0%	0 0.0%	0 0.0%	0 0.0%
Other	0/84 0.0%	0/67 0.0%	6/43 14.0%	6/194 3.1%

ANNEX 3: REGRESSION METHODOLOGY AND MODEL

Introduction

Analysis using chi-square and difference in means t-tests allows us to test relationships between two variables. What such tests cannot tell us is whether the observed relationship is also influenced by other intervening factors (i.e., age, gender, degree of programme participation, etc.) for which we have not controlled. Multiple regression allows us to test the same relationships while simultaneously controlling for such other intervening factors.

In an impact assessment, the question of primary concern is whether there is a statistically significant difference in key impact variables between the treatment and control groups. Multiple regression analysis allows us to test whether a relative difference in impact exists between the two groups while controlling for variables that we hypothesise might also influence impact and mediate the relationship between membership in the treatment or control group and key impact variables.

Because the impact surveys have many impact-related questions, it is not feasible to do regression analysis on each "impact" variable. Instead, we rely on other analytical methods, in this case chi- square and difference in means t-tests. Regression analysis is reserved for variables deemed to measure certain key dimensions of impact and allows us to perform an even more in-depth analysis of these variables to further validate findings.

Regression Model for Client Impact Survey:
The Client Impact Survey prepared for the UNCDF Programme Impact Assessment (PIA) was designed to capture six key impact indicators:

1. Change in household income;
2. Change in the amount contributed to household income;
3. Change in enterprise profits and assets;
4. Change in the household savings;
5. Empowerment; and
6. Food security.

The methodology used to analyse the six key impact indicators is presented below.

DEPENDENT VARIABLES

The outcome variables we wish to measure are called the dependent variables in regression analysis. Regression analysis of each of the six dependent variables was complicated by the fact that each one is measured in the survey using categorical variables. As this is a multi-country research project, there were some differences in the scales of some of the impact indicators, for example, impact indicators 1-5 above were measured using five-point scales at PRIDE Malawi and Haiti, while indicator 6 was measured using a categorical question with four categories. In standard regression methodology, it is inappropriate to run ordinary least squares regression on categorical variables. The exception is if there are six or more categories, which does not apply to any of the key impact indicators in the three surveys. After considering all of the options, and considering time constraints, the decision was made to take the following approaches to standardise the analysis and the regression model:

Creating Dependent Variable from Summed Scales

It is possible, and methodologically acceptable, to convert categorical scaled variables into interval variables by summing up the values of two or more scales and then running regressions on the summed scales. It was decided, therefore, to follow this approach for the dependent variables 1-5 above to create five dependent variables. These are described below:

Impact Scale (impscale). Equals the summed total of the following scales:
Change in household income over the last 12 months;
Change in contribution to household income over the last 12 months;
Change in enterprise profits over the last 12 months; and
Change in amount saved over the last 12 months.

Note: In LAPO, each of the above was measured using 3-point scales.

Income Scale (incscale). Equals the summed total of the following scales:
Change in household income over the last 12 months; and
Change in enterprise profits over the last 12 months.

Note: These two scales more directly measure the impact of programme participation on the respondent's income, thus it was determined that it made sense to create another dependent variable that was the sum of these two scales and to analyse them separately.

Empowerment Scale (empscale). Equals the summed total of the following scales:
Do you agree or disagree that :
The future for you and your family will be better than today?
You feel good about yourself nowadays?
You feel respected by your spouse, family, and friends nowadays? and
You now actively participate in your local community?

In your household, who decides:
How much to spend on schooling for children?
How much to spend on food?
How much to save? and
How much to spend (programme) loans?

Note: Each of the above is a three point scale. The questions were asked of all respondents.

It may be argued that the last four scales making up the summed Empowerment Scale measure a different dimension of empowerment from the first four scales; the last four scales directly attempt to measure intra-household decision making. In contrast, the first four scales appear more to measure respondents' attitudes about themselves. Thus it was decided to create two additional summed scales and analyse the two dimensions of empowerment separately.

Attitude Scale (attscale). Equals the summed totals of the following scales:

Do you agree or disagree that the future for you and your family will be better than today?
Do you agree or disagree that you feel good about yourself nowadays?
Do you agree or disagree that you feel respected by your spouse, family, and friends nowadays? and
Do you agree or disagree that you now actively participate in your local community?

Intra-household Decision Making Scale (ihhscale). Equals the summed totals of the following scales:
In your household, who decides how much to spend on schooling for children?
In your household, who decides how much to spend on food?
In your household, who decides how much to save? and
In your household, who decides how to spend (programme) loans?

Dichotomous Dependent Variable

A dichotomous variable is a categorical variable with two possible responses indicating whether a particular outcome is observed. Typically the responses are 1 and 0; 1 if the particular outcome is observed and 0 if the outcome is not observed.

For the food security variable, the food security question for LAPO was already a dichotomous variable so it was analysed using the logit regression procedure. Logit is a method used to run regressions on dichotomous dependent variables that take the value of 1 if a particular outcome is observed and 0 if a particular outcome is not observed. Logit is used to test how the explanatory variables affect the probability that the particular outcome, as measured by the dichotomous dependent variable, occurs.

In interpreting the logit coefficient, a positive sign indicates that the variable is associated with a higher probability that the respondent experienced a "hungry season" (gone without or with less food for a period of time) over the last 12 months and a negative sign indicates a lower probability that the respondent experienced a hungry season over the last 12 months.

INDEPENDENT (EXPLANATORY) VARIABLES

In addition to the dependent variable, regression analysis includes one or more independent or explanatory variables. The purpose of the regression is to determine the level of association between the explanatory and dependent variables, or in other words, the degree to which each explanatory variable explains the variation in the dependent variable, while controlling for the remaining explanatory variables. Explanatory variables are included in the regression model if one has reason to believe either that they are important in explaining the variation in the dependent variable, or to use as "control" variables, which implies a hypothesis that they mediate the relationship between the explanatory variables of principle interest and the dependent variable.

The regression model uses the following 13 explanatory variables taken from the survey data:

1. Number of programme loans taken.
Hypothesis: The larger the number of loans taken, the greater the impact.

Note: The length of time in the programme and the size of the last loan were considered also as explanatory variables. However, both were strongly correlated with programme loans, such that introducing both or either into the regression model would have introduced significant multicolinearity. (Multicolinearity makes it difficult to impossible for the statistical programme to separate out the unique impact of the collinear variables on the dependent variable, in which case, variables that may in fact be statistically significant are instead reported by the statistical programme to be statistically insignificant). After some exploratory analysis, it was decided that the number of loans was the best of the three alternatives.

2. Number of loan products used over the last 12 months.
Hypothesis: The larger the number of loan products used, the greater the impact.

3. Household size.
Hypothesis: The fewer the number of people living in the household, the greater the impact.

4. Years of schooling completed.
Hypothesis: The more years of schooling completed, the greater the impact.

5. Location (whether urban, peri-urban, or rural).
Hypothesis: No *a priori* hypothesis. Used primarily as a control variable.

Location is a dummy variable that takes on different values depending upon the programme, as follows:
LAPO: 1=urban; 0=peri-urban.

6. Female.
Hypothesis: No a priori hypothesis. Used primarily as a control variable.
Dummy variable coded as follows: 1=Female; 0=Male.

7. Age.
Hypothesis: No *a priori* hypothesis. Used primarily as a control variable.

In each of the three surveys, age is measured as a categorical variable. The decision was made to convert it into a dummy variable as follows: 1=less than or equal to 35 years; 0=greater than 35 years.

8. Married.
Hypothesis: No *a priori* hypothesis. Used primarily as a control variable.
Dummy variable coded as follows: 1=married or living with partner;
0=single, divorced, widowed.

9. Agro Business.
Used primarily as a control variable. Dummy variable coded as follows: 1=Enterprise in the agro business sector;
0=Enterprise not in the Agro Business sector.

10. Trade.

Used primarily as a control variable. Dummy variable coded as follows: 1=Enterprise in the trade sector; 0=Enterprise not in the trade sector.

11. Service.
Used primarily as a control variable. Dummy variable coded as follows: 1=Enterprise in the service sector;
0=Enterprise not in the service sector.

Note: The dummy variable for the manufacturing sector was excluded and used as the base case to which the other three sectors are compared (see below).

12. New clients (control group).
Hypothesis: New clients experience less impact compared to the treatment group (mature clients and ex-clients). Dummy variable coded as follows: 1=New clients;
0=Control group (mature clients and ex-clients).

To test whether there is a difference in impact between the treatment and control group, the dummy variable for new clients is the key variable of interest. A statistically significant coefficient of the dummy variable for new clients indicates a statistically significant difference in impact between the treatment and control groups.

Note: We experimented by creating a separate dummy variable for ex-clients and re-running all of the regressions with dummy variables for both new clients and ex-clients. The coefficient for ex-clients was insignificant in all cases, so the decision was made just to include the dummy for new clients.

Explanation of Dummy Variables
Dummy variables are very useful for estimating the relationship between qualitative or categorical variables and the dependent variable. They typically have the value 0 or 1 and so possibly a better name is "binary variable". They can be included as explanatory variables in the regression equation and the estimated coefficients and standard errors can be used in hypothesis testing. For qualitative variables with only two levels, the approach is to create a dummy variable to take the place of the original qualitative variable. One level is coded as “1” and the other is coded as “0.” The decision as to which level to code “1” and which to code “0” is largely arbitrary. The level which is not coded is the category to which all other categories will be compared. Take, for example, the variable “New Clients.” In the regression analysis presented here, new clients are coded as “1” and the control group of mature and ex-clients are coded as “0.” The regression calculation will compare the impact of belonging to the control group on the dependent variable relative to the impact of belonging to the treatment group, which is considered the base case, on the dependent variable. A negative, statistically significant sign of the new client dummy indicates that new clients experienced less impact, as measured by the dependent variable, than the treatment group of mature and ex-clients, and a positive, statistically significant sign of the new client dummy indicates that new clients experienced more impact, as measured by the dependent variable, than the treatment group.

If a variable has more than one level, then dummy variables are created for N-1 of the levels. Again, the omitted level is considered the base case to which the others are compared. The example in this analysis is that of enterprise sector. Respondents’ enterprises are classified as belonging to the manufacturing, agro business, trade, or service sectors. Dummy variables are created for agro business, trade, and service sectors, with manufacturing serving as the base case to which the other three enterprise sectors were compared. A positive and significant coefficient means that the sector has either greater or negative impact, respect ively, than the manufacturing sector.

Note on R-square: An R-square statistic is reported for each of the regression equations. R-square measures the portion of the variation in the dependent variable explained by the regression model.

Table 1: Regres sion Coefficients for LAPO Survey data

	Impscale	Incscale	Empscale	Attscale	Ihhscale	Food Security
Number loans	-0.16 (.81)	0.09*** (.09)	0.07 (.21)	0.10 (.41)	-0.01 (.89)	0.01 (.96)
Number loan products used	0.04 (.55)	0.02 (.75)	-0.06 (.26)	-0.32 (.20)	-3.40** (.03)	-5.41 (.70)
Number in household	0.03 (.66)	0.02 (.71)	0.42* (.00)	0.5 (.21)	-0.01 (.82)	0.05 (.37)
Urban	.40** (.02)	-0.03 (.58)	0.01 (.82)	-.07 (.76)	0.08 (.16)	0.63 (.14)
Age (35<=)	.11*** (.10)	0.04 (.44)	-1.45* (.01)	0.08 (.65)	-1.18* (.00)	-0.48*** (.09)
Married	0.09 (.18)	0.40* (.00)	N A	NA	NA	-0.76** (.02)
Years of School	-0.02 (.73)	.03* (.01)	0.06 (.24)	.01 (.21)	-0.05 (.42)	-0.48*** (.09)
Agro Business	.29** (.04)	0.23** (.03)	0.07 (.15)	-0.26 (.64)	0.06 (.27)	0.34 (.69)
Trade	0.07 (.38)	0.02 (.71)	-0.03 (.62)	-0.22 (.69)	-0.05 (.37)	0.42 (.61)
Services	-0.04 (.54)	-0.02 (.72)	-0.02 (.62)	-0.27 (.63)	-0.02 (.70)	.06
New clients	-0.01 (.93)	-0.09*** (.08)	-0.04 (.44)	0.12 (.67)	0.05 (.36)	-.02 (.97)
R-square	.04	.05	.08	.01	.06	.06

2.0 Client Empowerment Report

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October 2003

CLIENT EMPOWERMENT ANALYSIS – LAPO, NIGERIA

I. Objective of the Client Empowerment Study

The purpose of the client empowerment tool is to determine if clients have grown more confident and gained self-esteem while participating in the LAPO programme. With this tool the hypotheses tested include:

- Whether clients increased self esteem and confidence; and
- Whether clients increased their decision *making power both in the household and in their enterprises.*

II. Research Methodology

In assessing the client empowerment levels, we used the SEEP/AIMS Client Empowerment tool, an in-depth individual interview designed specifically for clients who have participated in a lending programme for more than two years. The tool requires the client to identify differences between their past (prior to joining LAPO) and present behaviour. The main purpose is to determine if the client has grown more confident and gained more self-esteem while participating in the programme. The tool assesses the client's confidence on three levels: as an individual, as an entrepreneur, and at the household level. It attempts to understand if and how participation in the programme has produced changes in client self-perception and confidence. The technique concentrates on identifying outward manifestations of empowerment as seen in behavioural changes.

The researchers interviewed 17 women in seven different groups from three different branches of LAPO. Each interview group consisted of one to four members.

III. Group Composition

Most of the clients targeted were in their second to third year of participation in LAPO. The groups targeted were mainly all-female, The majority of the participants have borrowed between N10,000 (US$ 80) and N30,000 (US$ 240) and most are on their third loan; a few of those interviewed had received only one to two loans.

Most of the group members are involved in petty trading, hawking, dealing with groceries, second hand clothes, restaurants, etc.

IV. Analysis of Results and Main Findings

Individual level

Self-Perception

In assessing their feelings before participating in LAPO, it was clear that most of the respondents suffered from feelings of inadequacy as they struggled to make ends meet for their households. They felt this way because they saw their spouses struggle to meet basic household needs and felt they were "worthless" because they were unable to help. Involvement in business activities and contributing to the household income has increased their confidence and instilled in them a sense of belo nging to their households.

One client pointed out:

> *" I now feel good because I now have money to pay school fees for my children as well as buy clothes for them and enough to run my business"*

Another client from Upper Sokhomba noted:

> *"I used to feel unhappy all the time since I was in a big mess of debt and it was difficult for me to feed my children, but now I see very positive progress in my life and that of my family and I do thank LAPO for their support."*

Most of their dreams centred on improved living standards for household members, both through improved education for their children and abundant and quality food for their households. Most of the participants still have the same aspirations and dreams as when they began with LAPO, though some of them have been successful in partially achieving some of the goals they had set for themselves when they took out their first loan.

Decision Making

The improved financial situation has given the women a voice to participate in decision-making, primarily on household issues such as the kind of food to buy for the family. For some, participating in LAPO enabled them not only to imagine eating some types of food but actually to make the decision to purchase the food they desire for their household. It was pointed out that in some cases decisions are made jointly on key issues affecting the household such as major investments in the acquisition of assets.

Apparently, prior to joining LAPO, the women did not make decisions on investments because of their own limited financial base; rather, the men in their families usually used to control financial decisions. Since joining LAPO, decision-making, specifically on business issues, has improved for some women. While initially their spouses used to take keen interest in what was happening in the business, now they leave the women to take charge of all key decisions related to their own businesses. However, this does not imply that the husbands are relinquishing their family responsibilities, rather that the spouses are now working more harmoniously together, with greater specialisation of roles and division of labour arising from the new-found respect by the men of their wives' abilities.

Involvement in LAPO has not only given the women financial empowerment but also social freedom to participate in informal activities among the local women as measured by the rise in active female participation in informal groups within their communities i.e. contributions, welfare groups and church activities.

Household Perception

Initially most clients felt ignored by their husbands. According to one client:

'My husband just get out without telling me where he is going, and comes back when he feels like'.

The general mood in the household was that of fear and unhappiness prior to the women joining LAPO. Now, there is a reported "sense of joy and pride" among the husbands in seeing their wives running their businesses successfully and contributing to household expenses with participation in LAPO.

Women feel proud to be consulted by the family members on normal household issues. One respondent from Ikpoba branch noted that:

"I did not used to feel very important to my family, but presently, I not only feel important, but feel useful and proud about my contributions in the family."

Community Perception

Initially most participants felt ignored by community members, and although they participated in activities such as "contributions" they were able to save only small amounts. At present, most feel increased respect due to their family members' achievements, such as children finishing school and their business successes. They also are able to help people in the community more now.

One client from Ikpoba Hill branch pointed that:

"I used to keep a close friend who I can discuss progressive issues, general well-being issues of life to gain good advice, but presently upon participation in LAPO programme, I have expanded the number of friend, mainly my union members of whom I have cordial relationship with them"

Another client from Upper Sokhomba said:

"Now I have a lot of friends who come to seek advice from me, so many friend including, neighbours, co-businesswomen and even customers".

Increased recognition and respect from their neighbours is evident through:

- More active participation by most members in community activities, church activities, ROSCAs;
- Being approached by neighbours, friends and even customers for advice and consultation;
- Invitation to attend functions or ceremonies; and
- Being appointed to key positions in local associations i.e. landlords/landladies associations.

Enterprise Level
Most of the women aspired to be active in the market and able to run their businesses without facing a shortage of capital. Their concern initially, prior to joining LAPO, was

the loss in time spent going to buy business-related stock from their suppliers; it used to be very costly for them since they would miss some market days. Presently, the women are pleased that they have enough capital to buy stock for up to two weeks. Having to make fewer trips for supplies allows them to maximise their incomes by attending all of the market days/venues. Their next target, they now say, is to acquire assets (i.e., grinding machine, blow-dryer, etc.) since most are comfortable with the working capital they have available.

Risks and Challenges
The clients pointed out that the initial threat to their businesses was meeting household basic needs such as food and school fees. Most pointed out that they are now able to deal with emergencies comfortably by using their savings. This was clear through increased contribution in their contributions (ROSCAs) and daily saving collections.

V. Pictorial Portrait

The participants were requested to give a picture of themselves on how they used to be before participating in the programme, compared to their present situation. These are some of the descriptions of pictures:

A house:
One participant gave a picture of an old dilapidated house to illustrate the past. For the present, she drew a portrait of a beautiful house with potted flowers to signify peace and tranquillity within the house, with big, grilled windows to signify full financial security status, and lastly, with chairs with wheels to signify her present freedom of movement, a relief from the past where she used to ask permission from her husband on every move

Fish:
One of the clients drew a picture of a very small fish to represent the past, and a big fish representing her current situation, signifying her healthy family that now has plenty and different types of food to eat.

Hen:
A picture of a small hen before joining LAPO, but after joining LAPO she drew a very big hen with lots of young chicks to signify the growth in her business and enough food in her family to make her children grow big.

Lizard:
Another participant drew a small, skinny lizard as a portrait before joining LAPO and a huge lizard upon participation in LAPO to signify that her family has enough food and has grown health-wise and that her business has grown as well.

Cup:
An illustration showed a small cup with little contents indicating that she never used to have enough of "life's contents", and presently, a big cup filled with some contents indicating that the household now has enough to meet their needs and that the big size indicates the growth of her business.

A Woman:
One participant drew a picture of a young woman dressed simply for the past. For the present, the picture was of a very mature woman, healthy and fulfilled. She is also dressed gorgeously, proud, happy, indicating that now four of her children are in the university and she has no reason to be unhappy. She has also expanded her business, opened a new shop and is planning to expand her level of operations further. She now sees herself simply as a "big woman".

VI. Conclusion

The findings exemplify some examples of increased empowerment as a result of participation in LAPO. Clients participating in this study seemed to have developed a sense of self-confidence as a result of participation in LAPO. What is interesting to note here is that most clients have become more ambitious and now dare to dream for bigger things having met their initial goals. They now aspire to build big businesses and become big suppliers in town. This indicates that exposure to LAPO may have instilled in them a sense of competition and eagerness to achieve more since LAPO has enabled them to achieve their initial goals. There is also a trend towards women making more of their business-related decisions by themselves with increased participation in LAPO. However, they continue to consult with their spouses when it comes to major business decisions.

Participation has also given most of them a sense of freedom. This, according to the women, is possible because they have the "money power" and the fact that their husbands appreciate what they do.

While the overall impact of LAPO on its clients covers a variety of dimensions, economic, social, familial, and individual among others, it is heartening to note that at least on the question of empowerment, LAPO's impact (in so far as one can make a plausible association between programme participation and empowerment) is noticeable and appears to be positive.

3.0 Loans and Savings Use Studies

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December 2003

I. Research Objective

The aim of the Loan and Savings Use study is to understand how clients utilise their LAPO savings and loans received, and to determine any possible changes in the patterns of sources and uses of over time.

This research used a case-study approach and randomly picked clients who were at different stages of participation in the programme, and from different branches.

II. Research Methodology

The research used a modified version of the SEEP/AIMS Loans and Savings Use Over Time tool. Ten case studies were conducted from June 3rd to June 10th, 2003 to develop an in-depth understanding of sources and uses of savings and loans.

III. Loan and Savings Use Tool

The Loans and Savings Use tool is part of the SEEP/AIMS assortment of client impact assessment tools. This tool is an in-depth individual interview conducted through a semi-structured guide and based on client recall. It aims to:

- Document loan use over time;
- Illuminate client decision-making about use of loan funds, profits and savings; and
- Explore the relation between a client's household and enterprise.

IV. Group Composition

The sample was composed of randomly selected mature clients including those who had taken two or more loans from LAPO. The rationale behind this selection is that when clients use the financial products over a longer period, they can provide deeper and more textured information on their use over time. The final sample included:

- Five clients who joined LAPO in the first half of 2001;
- Four who joined in the second half of 2001; and
- One client who joined in early 2002.

All of the clients were female. Eight of the women were involved in micro businesses and two in agro-businesses. Only one client was in her first loan cycle while the rest were in their third loan cycle.

V. Key Domains of Analysis within each Level:

Loan Use

The research revealed that most of the loans had been used by clients either for business expansion and/or relocation to improve trade. Six of the clients in the sample used their loans to increase stocks and wares in their businesses; one used her loan to facilitate relocation to a more strategic place and two clients used the loans to acquire business assets, such as a grinding-machine and an electric sewing machine. One client claimed to have used part of her loan to pay for the transportation of farm produce from the village to the market. The final client used part of the loan to expand her market stall (kiosk) to accommodate bigger stock purchased as a result of loan investment.

Most clients used their first loans for re-stock ing their businesses.
Subsequent loans were used either for asset acquisition to improve business performance, relocation or for further investment in business stock.

The respondents claimed that the income arising from the investment of the loans were used mainly for consumption, such as purchasing food, medicines and paying children's school fees. Most of the respondents prided themselves in being able to supplement their household income and support their husbands in meeting family expenses.

When probed on how they would have met the above-mentioned investment and consumption expenses in the absence of the LAPO loan, the women's responses ranged from:

- Borrowed from family and friends;
- Made do with smaller capital due to lack of other sources of capital;
- Cut down on household expenditures to be able to save not only enough for the business but also to pay school fees; and
- Utilised past savings from local contribution?

My business was really going (under) so, LAPO coming was a saviour, however, if it was not there, I would have continued to borrow from other expensive sources, since I needed to salvage my business from going under.

Savings Use

LAPO offers a voluntary saving product alongside the mandatory savings required from each client. The findings revealed, however, that only two of the clients from this study had taken advantage of the voluntary savings in LAPO consistently. Most used other savings vehicles such as:

- ROSCAs or "contributions" as they are called in Nigeria;
- Daily saving collectors;
- Saving in form of stock (i.e. palm oil and sell when price is high); and
- Saving with commercial banks in their husband's accounts.

A number of the respondents pointed out that they once saved with LAPO but no longer do so because of the in accessibility of the savings at short notice.

Most of the respondents used their savings to invest back into their business, to pay school fees for their children, to buy clothes for their children, to meet medical needs of household members and to purchase goods such as a radio.

Even though LAPO does not offer many attractive savings products, it appears that the capacity to save among clients has increased as a result of improved business due to the infusion of capital from the LAPO loan.

Clearly, clients depend on their savings in case of emergencies. Alternatives for dealing with crises ranged from taking out expensive loans (e.g. from moneylenders), disposing of assets and/or borrowing from relatives and friends.

DECISION MAKING

According to most of the respondents, decisions on use of loans and savings were made jointly with their spouses. Only two clients mentioned that they decided by themselves on how to use LAPO loans. Three of the clients claimed that over time their spouses have allowed them to invest their own money.

> *My participation in LAPO has tremendously increased both my income and my business volume; it has also increased my family respect from society.*

VI. Conclusion

The in-depth research of a select few clients supports the fact that the majority of LAPO clients are micro entrepreneurs and belong to petty trading dealing in wholesaling or the hawking of basic household supplies and groceries.

It was quite evident that most of the clients have benefited positively from LAPO intervention and were able to clearly identify the changes in their lifestyles, households and businesses. Of note is that loan investment tends towards asset acquisition as the clients grow in the programme. In light of this finding, LAPO may consider revisiting its loan graduation strategy to match it more closely with client business needs.

In terms of savings, it is interesting to note that most clients save actively through informal "contribution" systems, savings collectors, and even commercial banks. Since most choose to save outside LAPO, it may be advisable for LAPO to review its savings products to understand what features are unattractive to clients and then develop appropriate ways of addressing client needs.

4.0 Client Satisfaction Study

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Executive Summary

Background

This qualitative study is part of the UNCDF Microfinance Programme Impact Assessment of the Lift Above Poverty Organisation (LAPO) – Nigeria. This study falls into Impact Area 1 of the PIA and specifically examines clients' satisfaction with the programme.

Methodology

This study used qualitative research methods, in particular Focus Group Discussions (FDGs) using Participatory Rapid Appraisal (PRA) techniques with people who are clients of LAPO. Two PRA techniques were used: Product Attribute Ranking and Relative Preference Ranking.

Summary of Conclusions and Recommendations

The purpose of this study was to explore clients' preferences – what they like and dislike about the Regular Loan product and the processes that LAPO offers. The study also aimed to explore clients' perceptions about LAPO relative to competing MFIs or other informal providers of financial services. In this regard we made use of qualitative research techniques to obtain information from clients.

The respondents identified twenty-five (25) product attributes. Of these eight were most often cited (mentioned by at least four FGDs).

The Regular Loan product is well received by clients and most of its product attributes are liked by the clients. However, there are four product attributes that clients dislike. These are: Interest on savings, Loan size, Access to other loans and Bonus (lack of bonus). Mature borrowers tend to have a different perception to that held by newer borrowers on some aspects such as weekly repayment and interest on savings. Portfolio quality of a branch seems to be correlated more with the selection of clients and the businesses they operate than with specific product and process attributes of the LAPO programme.

LAPO is the most preferred institution among the financial service providers in the locations it is operating in. Apart from informal financial service providers, cooperatives and community banks, there are no other MFIs operating in these areas. Both mature and newer borrowers held similar perceptions on the relative preference for LAPO. Portfolio performance had no effect on the perception of participants regarding the relative preference ranking for LAPO. This finding emerged through both the Relative Preference Ranking sessions as well as the Financial Sector Trend Analysis.

The triangulation of results from the two techniques that were used yielded a similar pattern. Consequently, we are convinced that the findings are true reflection of the situation at the LAPO. Based on these findings, we recommend the following:

Product and Process Attributes

1. LAPO should regularly review the lending rate to reflect the changes in the interest rate structure in Nigeria and among competitors in particular. In addition, it should keep its borrowers well informed of the ruling interest rate.

2. Access to other types of loan products at same time was perceived as important by the participants and since most of them were dissatisfied it should be a source of concern. Therefore, we recommend that LAPO clearly explain the reasons for not making available other types of loans.

3. LAPO should review the loan sizes for second, third and fourth stages. Flexible loan amounts may be considered for clients in their fourth or higher loan cycles and could be matched more closely to what the cash-flow from the business can sustain. This may help retain clients whose pace of business growth has outstripped the pace of which LAPO increases loan amounts. In addition, we recommend that LAPO review the communication system with a view to improving communication between the institution and its clients.

4. From the evident popularity of the daily savings collectors and esusus, it is clear that the target clientele of LAPO demand access to quality savings products. The fact that Voluntary Savings was mentioned in so few (less than four of eight) sessions indicates a lack of awareness among clients of the total range of products. Thus, LAPO should develop an effective means of communicating information to its clients regarding all available products and service.

5. LAPO should also consider some form of incentives for group leaders and for other clients who perform well in loan servicing.

Outreach and Marketing

It is recommended that LAPO develop a strong marketing strategy and disseminate information of its products and services widely across the target client population.

ACKNOWLEDGEMENTS

I would like to extend my gratitude to LAPO management for valuable logistical support. In particular I wish to express gratitude to Mr. Stanley Garuba, the Head, Research and Impact Assessment for coordinating the study. The Branch Manager at Upper Sokponba Branch Mr. Stoney Oviawe, the Branch Manager at Sapele Branch Mr. Johnson Igbinosa and his staff Ms. Edith Ehigiator, Ms. Rosemary Matthew and Mr. Frank Abiodum for assisting with logistics. I also wish to thank our hard working interpreter Mr. Peter Imariagbe, our note taker Mr. Monday Idahosa and our driver Mr. Owie Bello.

Lastly, but not the least, I would like to thank the respondents who patiently and tirelessly worked with us during the fieldwork. I hope that the product of this exercise will greatly contribute towards the betterment of their livelihoods.

David Musona

I. Introduction and Background

1.1 Background

This qualitative study is part of the UNCDF Microfinance Programme Impact Assessment 2003 of the Lift Above Poverty Organisation (LAPO). This study falls under the Impact Area 1 of the PIA and specifically examines clients' satisfaction with the programme.

1.2 Research Objective

The purpose of this study is to explore clients' opinions – what they like and dislike – about specific programme features and LAPO's Regular Loan in particular. The study also aims to explore clients' perceptions about the programme relative to competing programmes or other informal providers of financial services.

1.3 Outline of the Report

The first section of the report provides background and states the research problem. Section Two discusses the interview and data collection methodology. Section Three analyzes the data and discusses the findings. The report concludes with a summary of the findings and recommendations for LAPO on its programme and the Regular Loan.

II. Methodology and Data Collection

2.1 Terms of Reference

The brief from the client specified that this study should use qualitative research methods with existing clients of LAPO.

2.2 Techniques Chosen

MicroSave Participatory Rapid Appraisal tools were used in this study. These qualitative techniques were specifically stated in the Terms of Reference (TOR) and were deliberately chosen to answer the research question: *"Are current clients satisfied with the level of access to type, quality and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?"*

A total of sixteen (16) sessions were held involving a total of sixty-three (63) women. Each of the tools and techniques used are explained below.

1. Product Attributes Ranking

Product Attribute Ranking is a qualitative technique used for investigating what respondents view as key product attributes. The respondents are asked to list the attributes of LAPO's Regular Loan product and processes they like and dislike. Preferences are noted on cards and then through the *Simple Ranking* exercise, respondents rank each of the cards, arranging them from most-liked to most-disliked. A total of eight (8) sessions were done using this tool.

2. Relative Preference Ranking

Relative Preference Ranking is a qualitative technique used for determining how respondents perceive the most popular financial service providers and their perceptions of the attributes of the financial services that are provided. Respondents were asked to identify financial service providers (formal and informal) in their area. The respondents were asked to rate the financial institutions on the basis of their product attributes and processes again using the above-mentioned bottle cap method. The tool was intended to show how attributes of competitor's products and processes have affected the client satisfaction at LAPO. A total of eight sessions were done.

3. Financial Sector Trend Analysis
Financial Sector Trend Analysis is a qualitative technique used for determining the relative usage and popularity of the financial services/financial institutions that serve the target clientele of LAPO over a fixed period of time. Respondents identify financial institutions/services in their areas. They then place them in a matrix with a time scale from the year 2000 to 2003 using 0 to 4 bottle caps to indicate the usage level of the different financial services, with explanations for the changing dynamics of usage of different institutions.[11] This tool was used to understand the competitive environment in which LAPO is operating and how potential competitors could have affected clients' satisfaction. A total of five (5) sessions were held.

2.3 Group Composition

Participants in each FGD were chosen on the basis of the following criteria:

- Similar socio-economic background;
- Same age group; and
- Similar sector of business.

Other characteristics included: Participation in loan cycle 2 or 4 and a combination of clients from high and low performing branches (determined by repayment rate) (see Table 1). This categorisation was necessary to understand the perceptions of newer borrowers (2nd loan cycle) and to understand the perceptions of mature borrowers (4th loan cycle). Secondly, participants were selected from high performing (low Portfolio-at-Risk) branches and low performing branches (high Portfolio-at-Risk) to assess if client satisfaction had any correlation with performance of branches.

As mandated by UNCDF, the selected branches were among those that had received UNCDF assistance. Both are located in the low-income urban areas. In terms of portfolio quality, Upper Sokponba Branch had a better portfolio with a low Portfolio-at-Risk compared to Sapele Branch which had a high Portfolio–at–Risk.

Table 1: Group Characteristics for PAR and Relative Preference Ranking FGDs

FGD No.	Group Name	Branch Name	Loan Cycle	Loan Recovery Rate (%)	Number of Participants
1	Osayomwanbo	Upper Sokponba	4	95	8
2	Igho-Retin	Upper Sokponba	4	95	7
3	Osakpamwan	Upper Sokponba	2	95	6
4	Oghosasere	Upper Sokponba	2	95	10
5	God's Will	Sapele	4	63	6
6	Mercy	Sapele	4	63	7
7	Happy Progress	Sapele	2	63	8
8	Social Sister	Sapele	2	63	11
TOTAL					63

[11] In all cases the scale of 0 to 4 was such that 0 was the lowest score and 4 the highest.

Table 2: Group Characteristics for Financial Sector Trend Analysis

FGD No.	Branch Name	Number of Participants
1	Ovbutubu	6
2	Sapele	9
3	Sapele Road	6
4	Sapele Road	8
5	Ikpoba Hill	8

III. Analysis of Results and Main Findings

3.1 Introduction and Approach

The results of each FGD have been summarised according to the technique used. At the end of the section on each technique we present a conclusion on the related findings.

3.2 Product Attribute Ranking

As mentioned earlier, the respondents were asked to describe, using their own vocabulary, what is "good" or "bad" about the main loan product that LAPO offers, the Regular Loan, and to rank these attributes in order of satisfaction.

Overall, respondents identified twenty-five (25) product attributes (Annex 1); of these eight were most often cited (mentioned by at least four FGDs), as shown in Table 2 below. Access to Loan was ranked as the most satisfying product attribute followed by Instalment Repayment. Interest Rate was placed third in terms of preference. Bonus (more precisely the lack of bonus) was the most disliked product attribute, closely followed by Loan Size and Access to Other Loans.

Table 2: Simple Ranking of Product Attributes

Session/Product Attribute	1	2	3	4	5	6	7	8	Average Ranking	Overall Ranking
Access to Loan	5	1	1	1	2	-	5	5	2.85	1
Instalment Payment	-	-	2	2	-	1	9	1	3.00	2
Interest	3	4	4	6	-	3	1	2	3.28	3
Weekly Repayment	2	2	3	4	4	2	7	4	3.50	4
Interest on Savings	-	-	8	-	10	5	4	-	6.75	5
Access to other Loans	-	-	-	10	5	8	10	6	7.80	6
Loan Size	-	7	9	9	8	11	13	7	9.14	7
Bonus	6	8	11	-	-	10	12	-	9.40	8

Of the eight product attributes mentioned in Table 2, the four most preferred attributes and four least preferred attributes are discussed below, beginning with respondents' perceptions about the attributes and ending with our analysis of the same.

The four most preferred attributes were access to loan, instalment payment, interest rate on loans and weekly repayment system.

Access to Loans

The respondents find the easy access to the Regular Loan to be the most-liked product attribute. Participants indicated that it was easier to get a Regular Loan because entry procedures are not cumbersome and do not require collateral. In addition the registration fee of Naira 250 (US $2) is affordable.

The easy access to the Regular Loan was mentioned in seven out of the eight sessions held using this tool. However, there were some differences between the branches as well as between newer clients and mature clients. While newer borrowers at the high-performing branch ranked this attribute relatively higher than the mature borrowers at the same branch, at Sapele the low-performing branch, the mature borrowers that identified this attribute ranked it higher than the poorer/newer borrowers. It can be hypothesized that the selection of clients at this branch may be deteriorating as newer clients seem to value access to LAPO loans less than the previous generation of clients at the same branch. This sentiment therefore likely contributes to the lower repayment rate.

Despite these differences, in general participants of LAPO perceived this attribute to be important. Therefore, it is reasonable to conclude that easy access to the Regular Loan is a major attraction for participation in the LAPO programmeme.

Instalment Payment

The Regular Loan at LAPO is repaid in weekly instalments over a period of eight months. The respondents ranked this attribute as the second most preferred attribute of the loan product. The primary driver of their satisfaction was the size of the instalments, which they stated was convenient and made loan servicing easy.

There was little difference between newer and mature borrowers at both high and low performing branches in terms of ranking the attribute. However, one of groups of the Sapele Branch, involving newer borrowers, ranked this attribute comparatively lower despite the fact that they liked the attribute. It should be noted that this group identified a total of thirteen attributes of which they liked ten. Instalment payment was ranked ninth in the list.

Overall, this product attribute is viewed positively by LAPO clients.

Lending Interest Rate

Respondents ranked the Regular Loan lending interest rate as the third most favoured attribute due to the fact that the rate is affordable. Presently, the lending interest rate for Regular Loan is 3 percent per month.

The perception of mature and newer borrowers was different at both branches. At the Upper Sokponba Branch, the overall perception of mature borrowers was more favourable compared to the newer borrowers. At Sapele Branch it was the opposite, with the perception of mature borrowers being less favourable compared to that of newer borrowers.

Our assessment is that the lending interest rate is competitive and borrowers perceived it as an important attribute of the Regular Loan. The differences in perception between mature and newer borrowers are probably due to inadequate or lack of information. We observed that newer borrowers at Upper Sokponba Branch appeared not to know what the lending interest rate is. At the Sapele Branch it was the opposite, with mature borrowers unsure. This suggests a possible lack of information provided by LAPO. We recommend that LAPO regularly review the lending rate to reflect the changes in the interest rate structure in Nigeria and among competitors in particular. But most of all, it should keep the borrowers well-informed of the ruling interest rate.

Weekly Repayment
Respondents perceived weekly repayment favourably and explained that the weekly repayment system is convenient and encourages borrowers to work hard.

Nevertheless, the perception of respondents at the two branches differed – respondents at Upper Sokponba Branch perceived weekly repayment more favourably than the respondents at Sapele Branch. This finding from Sapele suggests that clients' businesses in this area are perhaps not doing well which consequently lends insight into why the branch is experiencing low repayment rates. At both branches the perceptions of the mature borrowers were remarkably different from that of newer borrowers. Mature borrowers perceived weekly repayment more favourably than newer ones most likely because newer borrowers had weaker businesses with inadequate capacity to meet the weekly repayment obligation.

Our assessment is that weekly repayment is an important attribute and we recommend that it should be retained.

Apart from the foregoing preferred attributes, the sessions identified four least-preferred attributes: bonus, loan size, access to other loans and interest on savings. We discuss them below, beginning with the least favoured attribute.

Bonus
Presently, LAPO does not pay a bonus to any clients. For this reason, it was cited as the lowest preferred attribute in six sessions across the branches. Clients believe that LAPO should demonstrate its appreciation to group leaders for the administrative duties they perform on a voluntary basis. It also should reward clients who perform well in loan servicing as an encouragement for good performance through a bonus of some sort. There was no difference in the perception of mature and newer borrowers.

The lack of bonus is creating a growing discontentment among group leaders, in particular, and clients in general. We therefore recommend that LAPO introduce some form of bonus or a reward system for group leaders and for other clients who perform well in loan servicing.

Loan Size
Loan size was mentioned as a disliked attribute in seven out of the eight sessions conducted. In three sessions, it was the most disliked product attribute. Participants expressed their dissatisfaction with loan size particularly from the second cycle onward. They argued that the second stage and subsequent stages loan sizes should be increased to enable borrowers to purchase adequate stocks to expand business. Only three sessions advocated an increase to the loan size even at the first loan cycle.

In this case, the difference in perception between mature and newer borrowers was insignificant. Both are dissatisfied with loan size. The Assessment Team observed that some participants appeared unaware that the loan size menu had flexibility built in through a range of lower and upper limits for each loan cycle. Communication between LAPO and clients seems to be inadequate in this matter.

It would be useful in general for LAPO to review the loan sizes for second, third and fourth stages. In addition we recommend that LAPO review the marketing of its products and the terms and conditions with a view to improving communication between the organization and the clients.

> *"To us it seems that there is no enough increments on loan amount from one stage to another (This no cost us for body at all)"*
> *(RPR at Sapele (FGD6), client)*

Access to Other Loans

Access to other loans was mentioned in five sessions. Participants complained that although they are told by LAPO that they can access other loans at the same time as having a Regular Loan, such access is confined to participants higher in the loan cycle. Even then, mature borrowers complained that most of the other loans are not available to them either. They alleged that LAPO tells them that funds are inadequate. Clearly this is causing considerable dissatisfaction among clients and needs reviewing.

Overall access to other loans was perceived as important by the participants. Since most clients are dissatisfied, we recommend that LAPO clearly explain the reasons for not making other loans available.

Interest on Savings

This attribute was mentioned by only one group at the Upper Sokponba Branch, implying that this attribute was not very important consideration for most branch participants. However, participants in three of the four focus groups at Sapele expressed some minimal satisfaction with interest on savings and would like to see it increased. One session alleged that LAPO does not pay interest on savings. Again, this misconception is probably due to lack of information.

In general, mature borrowers ranked interest on savings less favourably than newer borrowers.

Conclusion

As can be seen from the foregoing analysis, the perceptions of mature and newer borrowers varied according to many product attributes. Clients' businesses seem to be among the main drivers of portfolio quality at the branch level. Generally the Regular Loan product that LAPO offers is well received by the clients and appears to respond to their needs. However, some product attributes require refinement to make them more responsive to clients needs. These are: simultaneous access to other loans, loan size and bonus and incentives.

3.3 Relative Preference Ranking

Participants were asked to identify all the financial service providers in the area (both formal and informal) and product attributes identified in the Product Attribute Ranking session at the respective FGD were used for the Relative Preference Ranking (RPR) where clients were asked to rate the attributes of the institutions' products and processes. Below, we discuss the findings from the eight sessions conducted at Upper

Sokponba and Sapele Branches. For easy of presentation the findings are categorised by the loan stage of the respondents per branch. Reasons for the preferences are shown in Annex 2. It may seem confusing that many of the preferences which contributed greatly to the satisfaction of clients above were not discussed under Product Attribute Ranking (PAR) discussion earlier. This is explained by the fact that in and of itself these attributes may not rank high in the preferences of clients and/or were not mentioned in more than four FGD sessions and therefore did not feature in the Product Attribute Ranking discussion earlier. However, these attributes of the LAPO programme when compared to other financial service providers in the area seem to be held in higher satisfaction by clients.

Relative Preference Ranking at Upper Sokponba Branch

Four Relative Preference Ranking sessions were conducted at Upper Sokponba Branch, of these two were with mature borrowers (borrowers in the 4th stage) and two with newer (borrowers in the 2nd stage). As can be seen from Table 3 below, relative preference ranking sessions with mature borrowers at Upper Sokponba Branch ranked LAPO as the most preferred institution. LAPO scored higher in five of eight product attributes. Meeting (Association) was ranked second, scored higher in just three product attributes, and Contribution was in the third position.

Table 3: Relative Preference Ranking – Mature Borrowers at Upper Sokponba Branch [12]

Attributes	Meeting	Contribution	Commercial Banks	LAPO	Community Banks	Money Lender
Loan Disbursement	3	2	1	5	1	1
Wkly Repayment	2.5	2	1	5	1	1
Interest on loan	5	4	1	4	1	1
Access to loan	2	1	1	5	1	1
Repayment Period	3	1	1	5	1	1
Bonus	3	4	1	1	1	1
Loan Size	5	-	-	2	-	1
Fairness	5	-	-	5	-	1
TOTAL	28.5	14	6	32	6	8
AVERAGE	3.56	2.33	1	4	1	1

The sessions with newer borrowers yielded similar results as can be seen in Table 4 below. LAPO was again ranked as the most preferred institution. LAPO scored higher in thirteen of eighteen product attributes. Esusu was ranked second, scored higher in just one product attribute, and Contribution was in the third position. Surprisingly Meeting was ranked fourth.

Table 4: Relative Preference Ranking – Newer Borrowers at Upper Sokponba Branch[13]

Attributes	LAPO	ESUSU	Daily collector	Contribution	Money Lender	Meeting
Access to loan	5	2	1	1	1	1
Instalment Repayment	5	2	1	1	1	1
Interest	4.5	3	1	1	1	1
Weekly payment	5	2	1	-	-	-
Mandatory payment	5	2	1	-	-	-
Regular meeting	5	2	1	-	-	-
Interest on savings	1	1	1	-	-	-

[12] Average scores of combined Osayomwanbo and Igho – Retin Groups (see Annex 3)
[13] Average scores of combined Osakpamwan and Oghosasere Groups (see Annex 3)

Loan size	1	1	1	1	1	4
Bonus	1	1	1	-	-	-
Deposit	5	5	3	-	-	-
Voluntary savings	5	2	1	-	-	-
Disbursement	5	-	-	2	1	1
Union due	5	-	-	1	1	1
Access to other loan	1	-	-	1	1	1
Grace period	1	-	-	1	1	1
Loan period	5	-	-	1	1	1
Group guarantee	5	-	-	5	1	3
Repayment frequency	5	-	-	4	1	1
TOTAL	69.5	23	13	19	11	17
AVERAGE	3.86	2.09	1.18	1.72	1	1.54

Overall both mature and newer borrowers at Upper Sokponba Branch had the same perception in respect of relative preference for LAPO as the preferred provider of financial services in the area.

Relative Preference Ranking at Sapele Branch

As can be seen from Table 5, relative preference ranking sessions with mature borrowers at Sapele Branch ranked LAPO as the most preferred institution. LAPO scored higher in ten of sixteen product attributes. Cooperatives were ranked second, scored higher in just three product attributes, and Esusu was in the third position.

Table 5: Relative Preference Ranking – Mature Borrowers at Sapele Branch[14]

Attributes	LAPO	Money lender	Meeting	Co. ops	ESUSU	Daily collector	Community Bank
Voluntary savings	5	1	3	5	5	3	5
Training	5	1	1	-	-	-	-
Access to loan	5	1	1	-	-	-	-
Regular meetings	5	1	1	-	-	-	-
Weekly repayments	5	1	1	1	3	1	1
Access to other Loans	1.5	1	1	3	1	1	4
Mandatory savings	5	1	1	-	-	-	-
Mandatory payment	5	1	1	-	-	-	-
Loan size	3.5	1	3	5	1	1	5
Initial deposit	5	1	2	1	1	2	4
Interest on loan	4.5	1	1.5	1	5	1	2
Flexibility	1	-	2	1	1	1	1
Interest on savings	4	-	3	3	1	1	3
Office environment	2	-	1	3	1	1	5
Instalment payment	5	-	3	2	2	1	2
Bonus	1	-	4	5	1	1	1
TOTAL	62.5	11	29.5	30	22	14	33
AVERAGE	3.90	1	1.84	2.72	2	1.27	3

As the table above illustrates LAPO's programme features of offering voluntary savings, easy access to loans, weekly repayments contribute to its attractiveness as a financial institution for the poor who have limited access and options.

The two sessions with newer borrowers yielded similar results as can be seen in Table 6 below. LAPO was again ranked as the most preferred institution. LAPO scored higher in ten of fourteen product attributes. Meeting was ranked second, scored higher in just two product attributes, and Cooperatives were in the third position.

[14] Average scores of combined God's Will and Mercy Groups (see Annex 3)

"Moneylender interest is very high and scaring like river Niger (Moneylender own n.a. River Niger)"
(RPR at Sapele (FGD7), client)

Table 6: Relative Preference Ranking – Newer Borrowers at Sapele Branch [15]

Attribute	Commercial banks	LAPO	meeting	Co. ops	Money lender	Daily Collector	Contribution
Advance payment	1	1	5	5	5	-	-
Instalment payment	1	5	2	3	1	1	1
Access to loan	1	3	1	1	3	1	1
Access to other loans	1.5	5	3.5	3	3	1	1
Training	1	5	1	1	1	-	-
Interest on loan	1.5	5	2	1.5	1	1	1
Interest on savings	5	4	3	3	1	-	-
Registration fees	4	5	2	1	1	-	-
Loan size	4.5	1.5	5	5	5	2	2
Bonus	5	1	3	3	1	-	-
Initial deposit	3	5	1	2	3	-	-
Weekly repayment	1	5	4.5	1	1	1	1
Mandatory savings	2	5	3	3	1	-	-
Collateral	1	5	1	1	1	1	1
TOTAL	32.5	55.5	37	33.5	28	8	8
AVERAGE	2.32	3.96	2.64	2.39	2	1.14	1.14

Just like at Upper Sokponba Branch mature and newer borrowers at Sapele Branch had the same perception in respect of relative preference for LAPO.

"The savings we make in LAPO makes us happy because the money is still our own (The savings we make in LAPO make body sweet us)"
(from RPR at Sapele (FGD7), client)

A comparison of the findings at Upper Sokponba Branch to the findings at Sapele Branch indicates that LAPO is the clear favourite financial provider for the target clientele it is serving.

Conclusion

The Relative Preference Ranking (RPR) indicates that LAPO is the most preferred institution at both Upper Sokponba and Sapele branches. LAPO was ranked first in all the eight RPR sessions held. The duration of membership did not affect the perception, both mature and newer borrowers held same perceptions and neither was relative preference of LAPO as the favoured provider a function of the portfolio performance of branch. The findings are consistent, when triangulated with the results of the Product Attribute Ranking – LAPO clients are generally satisfied with the Regular Loan product.

3.4 Financial Sector Trend Analysis

Research Objective:

The objective of the financial sector analysis is to shed light on the dynamics of the microfinance market in the Edo and Delta states of Nigeria where LAPO currently operates. This research seeks to determine which financial services have been available

[15] Average scores of combined Happy Progress and Social Sister Groups (Annex 3).

in these areas and how the level of usage has changed over the last ten years. Furthermore, the investigation seeks to help identify trends in the market – which players are increasing or losing market share (only as perceived by clients) and to the extent possible, the reasons behind these changes.

Table 7 lists the service producers mentioned and their average usage levels through the five sessions on Financial Sector Analysis. (See Annex 2 for the complete scores of each of the groups).

Table 7: The Financial Sector Trend Analysis

	Service Provider	Now	Five years ago	Ten years ago
1	Daily savings Collector	4.5	4.5	4.5
2	Contribution (esusu)	4.6	4.6	4.6
3	Commercial Banks	2.6	3.0	3.8
4	MFI – LAPO	4.8	5	-
5	Moneylenders	2.4	3.0	3.8
6	Peoples Bank	2	2	5
7	Community Banks	1	1	1
8	Associations	4	4	4
9	Plan-Well	-	-	5

The four most popular financial service providers, along with the reasons behind their usage levels, are discussed below. It should be noted here that the institutions discussed below are those mentioned in all five sessions; thus the average score is a function of their scores from all sessions. Although Associations received a ranking of 4, it was mentioned in only three of the sessions. Given its similarity with Contributions (Esusu), it seemed more appropriate to discuss it under Contributions rather than independently.

i) Microfinance Institutions (MFIs)

LAPO emerged as the most popular financial services provider. This is not too surprising, as according to most clients, no other MFIs exist in Benin City and Sapele. Part of the appeal is the ease of accessing loans, the instalment-based repayment system and the lack of a collateral requirement. One client summed it up as:

"It is quite easy to get money from LAPO. We also like its gradual repayment system, its reasonable interest rates and no request for collaterals".

Grievances regarding LAPO are the following: Loan size is too small and repayments are too frequent.

The respondents recommended that for loan amounts less than ₦20000 (US$16), weekly repayment is acceptable. For amounts above ₦20000 (US$16), fortnightly repayment arrangements would be preferred. This schedule would enable clients to have enough time to use the loan amount and generate returns before repayment.

One of the clients pointed out that:

"LAPO has come as a messiah to the poor people. Heard about it for so long, though became member some few years ago but has been very good, Whoever has opportunity to join LAPO is lucky".

Contribution (Esusu)

Esusus or "contributions" are rotating savings and credit associations formed by interested members with the objective of saving through regular contributions to a fund. They are usually composed of like-minded people from similar backgrounds, such as from the same tribe, neighbourhood, market or similar type of business. Esusu's activities are often embedded in other community and social activities. These Contributions are quite common among market women and even among the existing LAPO groups. They are a traditional form of sourcing finance informally and continue to be popular mainly for their flexibility because they can be combined with other social activities. Similar to the Esusu is the Association. It is based on the same principle as Esusu and has similarly maintained its popularity.

Daily Savings Collectors

These are traditional savings collectors identified with market traders and other business people. They are used even by people saving with formal commercial banks. Daily savings collectors are popular due to their close proximity to clients as they operate in the same market where clients conduct their businesses and so minimize clients' transaction costs arising from traveling to the credit provider. There is considerable flexibility in the amount saved as well, making them even more attractive.

On daily savings collectors one respondent pointed out that:

"They are famous, but you must have been saving with them before you can access loan from them. They also take a low service charge in line with the amount contributed by individuals, however, there could be risk if duped by some operators".

The market share for daily savings collectors has continued to remain the same over time, partly because few of the new financial service providers offer the much-needed savings service.

Commercial Banks

These are formal financial institutions regulated by the Central Bank of Nigeria. According to clients, their popularity has been declining over the last ten years due to high competition amongst one another and the entry of other financial service providers such as LAPO.

Commercial banks offer a wide range of products targeting mainly middle income and corporate clients. Most LAPO clients do not utilise banks because of high entry barriers, such as steep minimum requirements, tough collateral requirements and high transaction costs. Other clients operate accounts with banks solely for saving purposes. Most clients pointed out that commercial banks target a different type of clientele from the other financial service providers, and did not see them as being in direct competition with LAPO.

Conclusion

It is quite clear from the FDGs that LAPO is emerging as a market leader in microfinance in the Edo and Benin City regions of Nigeria. LAPO faces little serious competition from any other institutionalised source of microfinance, with the only other institutional source of finance, the commercial banks, continuing to lose market share among the target clients of MFIs due to their minimum balance requirements and stringent requirements for accessing loans.

While informal mechanisms of microfinance such as daily savings collectors, contributions (esusus) and associations continue to play an active role in intermediating savings, they pose little threat to LAPO as they are not institutionalised and have a limited funding base (local savings only). However, it should be noted that these providers are popular among the microfinance target clientele for their savings products and flexible saving policies. This indicates that there is considerable demand for savings products and suggests that LAPO should review its voluntary savings product to make it more attractive to its clients

IV. Summary of Main Findings and Recommendations

The purpose of this study was to explore clients' preferences – what they like and dislike about the Regular Loan product and processes that LAPO offers. The study also aimed to explore clients' perceptions about LAPO relative to competing MFIs or other informal providers of financial services. In this regard we made use of qualitative research techniques to obtain information from clients.

The Regular Loan product is well received by clients and most of its product attributes are liked by the clients. However, there are four product attributes that clients dislike these are Interest rate on savings, Loan size, Access to other loans and Bonus (lack of bonus). Mature borrowers tend to have a different perception to that held by newer borrowers on some product attributes. Product attributes do not appear to play a great part in the repayment rates which seem to be affected mainly by the selection of clients and the businesses they undertake.

LAPO is the most preferred institution among the financial service providers in the locations it is operating in. Apart from informal service providers, cooperatives and community banks, no other MFIs operate in these areas. Both mature and newer borrowers held similar perceptions on the relative preference for LAPO.

The triangulation of results from the three techniques that were used has yielded a similar pattern. This convinces us that the findings are true reflection of the situation at the LAPO. While there is fairly high satisfaction rate, as seen through its increasing market share and the fact that clients consistently ranked multiple product attributes very highly, there remains some room for improvement.

Based on these findings, we recommend the following:

Product and Process Attributes:

1. LAPO should regularly review its lending rate to reflect the changes in the interest rate structure in Nigeria, and among competitors in particular. In addition it should keep the borrowers well-informed of the ruling interest rate.

2. Access to other loans was perceived as important by the participants. Since most of them were dissatisfied with the current level of loan access, it should be a source of concern. Therefore, we recommend that LAPO clearly explain the reasons for not making available other loans.

3. LAPO should review the loan sizes for second, third and fourth stage loans. Flexible loan amounts may be considered for clients in fourth or higher loan cycles and could be matched more closely to what the cash-flow from the business can sustain. This may help retain clients whose pace of business growth has outstripped LAPO's loan amount increase rate. In addition, we recommend that LAPO review its communication system with a view of improving communication between the institution and its clients.

4. From the evident popularity of the Daily Savings Collectors and esusus, it is clear that LAPO's target clientele demand access to quality savings products. The fact that Voluntary Savings was mentioned in so few (less than four of eight) sessions indicates client's lack of awareness of the total range of products. Thus, LAPO needs to develop an effective means of communicating information to its clients regarding all available products and services.

5. LAPO should consider some form of incentives for group leaders and for other clients who perform well in loan servicing.

Outreach and Marketing

It is recommended that LAPO develop a strong marketing strategy and widely disseminate information about its products and services across the target client population.

At present, client satisfaction at LAPO is quite high. However, LAPO, like any market participant, needs to be vigilant of the opportunities to enhance client satisfaction and thereby increase its market share. As is the case with all prudent organisations, it is essential that LAPO not change all of its product attributes at once but stagger changes over time. It should also conduct a pilot-test of the new attributes before implementing them.

ANNEX 1

PRODUCT ATTRIBUTES IDENTIFIED

Session/Product Attribute	1	2	3	4	5	6	7	8	Total
Loan Disbursement	1	1	-	1	-	-	-	-	3
Weekly Repayment	1	1	1	1	1	1	1	1	8
Interest	1	1	1	1	-	1	1	1	7
Repayment Period	1	1	-	1	-	-	-	-	3
Access to Loan	1	1	1	1	1	-	1	1	7
Bonus	1	1	1	-	-	1	1	-	5
Fairness	-	1	-	-	-	-	-	-	1
Loan size	-	1	1	1	1	1	1	1	7
Instalment Payment	-	-	1	1	-	1	1	1	5
Voluntary Savings	-	-	1	-	1	1	-	-	3
Mandatory Payment	-	-	1	-	1	-	-	-	2
Regular Meetings	-	-	1	-	1	-	-	-	2
Interest on Savings	-	-	1	-	1	1	1	-	4
Registration fee	-	-	1	-	-	-	1	-	2
Group Guarantee	-	-	-	1	-	-	-	-	1
Union Due	-	-	-	1	-	-	-	-	1
Access to other loans	-	-	-	1	1	1	1	1	5
Grace Period	-	-	-	1	-	-	-	-	1
Training	-	-	-	-	1	-	1	-	2
Mandatory Savings	-	-	-	-	1	-	1	-	2
Initial Deposit	-	-	-	-	1	1	1	-	3
Flexibility of loan access	-	-	-	-	-	1	-	-	1
Office Environment	-	-	-	-	-	1	-	-	1
Advance Payment	-	-	-	-	-	-	1	-	1
Collateral	-	-	-	-	-	-	-	1	1

ANNEX 2

Group: 1
Branch: Upper Sokponba Road
Loan Cycle: 4th
Loan Performance: 95% or higher repayment rate (Low portfolio at Risk)
Number of Participants: 8 all females
Observations: Participants were reluctant to participate because had just finished their weekly scheduled meeting and were anxious to get back to their businesses

Product Attribute	Rank	Why Liked	Why Disliked	Satisfaction (Low 1 – 5 high)	Implication for Programme
Loan Disbursement	1	LAPO disburses loans quickly. This helps clients' businesses of avoid cashflow problems	___	5	Positive effect
Weekly Repayment	2	Small weekly repayment instalments are affordable and facilitate timely repayment	___	5	Positive effect
Interest	3	__	Participants complained that Regular Loan interest is too high and suggested that it should be reduced to 2.5% from 3%	3	Negative effect
Repayment Period	4	Participants expressed their happiness with the repayment period of eight months but suggested that larger loan amounts should have a longer repayment period so that businesses can afford repayment instalments	__	5	Positive effect
Access	5	Participants were happy with the easy of access to loans at LAPO but felt that this attribute was not very important	__	5	Positive effect
Bonus	6	_	The lack of bonuses for voluntary group leaders and for other clients who perform well in loan servicing discourages good performance	1	Negative effect

Group: 2
Branch: Upper Sokponba Road
Loan Cycle: 4th
Loan Performance: 95% or higher repayment rate (Low portfolio at Risk)
Number of Participants: 7 all females

Product Attribute	Rank	Why liked	Why disliked	Satisfaction (Low 1-5 high)	Implications on the Programme
Access to Loan	1	It is easier to get a loan at LAPO because entry procedures are not cumbersome		5	Positive effect
Weekly Repayment	2	The pressure for weekly payments encourages clients to work hard.		5	Positive effect
Fairness	3	LAPO is fairer in disbursing loans compared to other institutions such as "meetings" who have a tendency of favouring office holders.		5	Positive effect
Interest	4	LAPO interest rate is lower than that of other institutions such as "meetings" and moneylenders		5	Positive effect
Loan Dis bursement	5	It is easier to get a loan and the disbursement process is fast.		5	Positive effect
Repayment Period	6		The repayment period is short and should be extended from 8 months to 1 year as it is difficult to service the loan within the 8months period.	5	Negative effect
Loan Size	7		Too small especially for first loan amount. The amount should be increased to about N15,000 from the N10,000 because the present amount cannot procure adequate stocks.	2	Negative effect
Bonus	8		Necessary to encourage clients to work hard. The bonus could be any token to reward customer loyalty. Other sources of finance, such as meetings, do give bonuses to their clients.,.	1	Negative effect

Group: 3
Branch: Upper Sokponba Road
Loan Cycle: 2nd
Loan Performance: 95% or higher repayment rate (Low portfolio at Risk)
Number of Participants: 6 all females

Product Attribute	Rank	Why liked	Why disliked	Satisfaction (Low 1 - 5 high)	Implications on the Programme
Access to Loan	1	Easier to get a loan compared to other sources of micro credit. Do not require collateral and the process is fast		5	Positive effect
Instalment Payment	2	Paying in small instalments is convenient and makes loan servicing easy		5	Positive effect
Weekly Repayment	3	It is easier to service a loan on weekly basis because the amounts to pay are small and affordable		5	Positive effect
Interest	4	Interest rate at LAPO is low and affordable compared to other sources of micro credit such as moneylenders		4	Positive effect
Savings	5	Happy with the voluntary savings because it enables clients to accumulate capital for future investment. But would like to have interest paid by LAPO on the savings. It appears the participants were not aware of the fact that LAPO pays interest on voluntary sav ings.		5	Negative effect
Mandatory Payment	6	It helps to ease repayment. Otherwise it would be difficulty to repay the loan amount if it accumulates		5	Positive effect
Regular meeting	7	This makes clients understand the procedures and conditions of LAPO. The social interaction made possible by meetings is important. Helps to establish useful social networks. The meetings do not affect clients adversely because they meetings start and end on time, lasting approximately one hour per week.		5	Positive effect

Interest on Saving	8		Participants wished interest on voluntary savings would be introduced to make savings more attractive. Their perception is that no interest is paid on voluntary savings, although it is.	1	Negative effect
Loan size	9		Participants felt that the loan size was too small, especially the second loan. The increment from first to second loan is also too small.	1	Negative effect
Registration fee	10	It is easier to register with LAPO compared to other micro credit suppliers. Participants also stated that the refund of registration fee on the exit of any member makes it attractive. But this is a misconception as the registration fee is non refundable.		5	Negative effect
Bonus			LAPO does not give bonuses to clients. Bonuses are important to encourage clients to work hard. It also reflects the bond between clients and the organisation. Bonuses should take into account the length of time a member has been in LAPO and should be given at the end of the year.	1	Negative effect

Group: 4
Branch: Upper Sokponba Road
Loan Cycle: 2nd
Loan Performance: 95% or higher repayment rate (Low portfolio at Risk)
Number of Participants: 10 all females

Attribute	Ranking	Why liked	Why disliked	Satisfaction (Low 1 -5 high)	Implications on the Programme
Access to loan	1	Easier compared to other institutions because does not require collateral and procedure is less cumbersome and does not require guarantee		5	Positive effect
Instalment Payment	2	Paying bit by bit helps to offset the loan amount easily without defaulting		5	Positive effect
Loan Repayment period	3	Repayment period is liked because it gives sufficient time for the business to raise funds for repayment		5	Positive effect
Repayment frequency	4		Felt that one week was not good and suggested that the frequency should be increased to two weeks. This would facilitate use of loan capital to generate revenue to service the loan. Presently the frequency forces them to use part of the loan capital to service the loan	5	Negative effect
Disbursement	5	Done promptly and without bias. There is no preferential treatment.		5	Positive effect
Interest on loan	6	Smaller at LAPO compared to other institutions such as moneylenders who charge as much as 100%		5	Positive effect
Group Guarantee	7	Increases cooperation among members and group influence helps people to repay loans with		5	Positive effect
Union due	8	Serves as a savings for the members and helps them to service delinquent loans		5	Positive effect

Loan size	9		The loan size for second the loan is small. It is not enough to buy merchandise. Clients suggested that the second loan should be increased to N25,000	1	Negative effect
Access to other Loans	10		Does not exist for clients in the lower stages. Suggested that the facility should be extended to lower stages	1	Negative effect
Grace Period	11		State that it does not exist. Suggest three weeks(this is misconception grace period does exist)	1	Negative effect

Group: 5
Branch: Sapele
Loan Cycle: 4^{th}
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 6 all females

Product Attribute	Rank	Why liked	Why disliked	Satisfaction (Low1-5 High)	Programme implications
Regular Meetings	1	As result of regular meetings the members are able to know each other and receive support material and socially		5	Positive effect
Access to Loan	2	Unlike other sources of finance, access to LAPO loans is relatively easier because does not require collateral and registration fee of N250 is reasonable.		5	Positive effect
Training	3	Helps the members to know (the do's and don'ts of) LAPO. Helps to acquire business management skills and learn how to manage funds		5	Positive effect
Weekly Repayment	4	It makes it easier to repay the loan amount because it is paid in bits and thus facilities business cashflow.		5	Positive effect
Access to other Loans	5		Clients are aware of the existing facility but suggested that other loans should be available even to clients in the lower loan cycles.	2	Negative effect

Mandatory Savings	6	They liked the easy access to the funds at the end of the membership		5	Positive effect
Mandatory Payment	7	This encourages loan servicing.		5	Positive effect
Loan Size	8		Some participants complained that the size of the first loan is small. While others said that it was okay	4	Positive effect
Initial Deposit	9	They liked this attribute because the deposit is affordable and can be withdrawn upon leaving LAPO		5	Positive effect
Interest on Saving	10	It is alright compared to other institutions		5	Positive effect
Voluntary Savings	11	It accords the opportunity to save for bigger amount of money in addition to your capital. Is often reinvested into business.		5	Positive effect

Group: 6
Branch: Sapele
Loan Cycle: 4th
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 7 all females

Product Attribute	Rank	Why liked	Why disliked	Satisfaction (Low 1-5 High)	Programme implication
Instalment Payment	1	Makes loan servicing easier		5	Positive effect
Weekly Repayment	2	This encourages hard work among members		5	Positive effect
Interest	3	At LAPO interest charge is lower compared to other MFIs		4	Positive effect
Initial Deposit	4	Since this deposit is refundable it is good but clients would like subsequent deposits to take into account the previous deposits		5	Positive effect
Interest on Voluntary Savings	5	Encourages members to save more.		4	Positive effect
Voluntary Savings	6	Encourages thrift. Also is valuable source of funds for future emergencie s		5	Positive effect
Flexibility of loan access	7		LAPO is not flexible and fails to accommodate urgent requests for loans to finance urgent opportunities	1	Negative effect

Access to other Loans	8		Presently other loans are only available to clients in higher loan cycle. Suggested that other loans should be available even to clients in lower loan cycles	1	Negative effect
Office Environment	9		Presently, LAPO office at Sapele Branch is uncomfortable and portrays a poor image	2	Negative effect
Bonus	10		Presently LAPO does not offer bonus. However participants suggested that LAPO should introduce bonus system	1	Negative effect
Loan Size	11		The first stage loan is alright but the subsequent loans are inadequate. Suggests that subsequent loans be incre ased i.e. 2nd N15, 000, 3rd N25,000 and 4th N30,000	3	Negative effect

Group: 7
Branch: Sapele
Loan Cycle: 2nd
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 8, all females

Product Attribute	Rank	Why liked	Why disliked	Satisfactio n (Low 1-5 High)	Programme Implication
Interest on Loan	1	Other institutions charge higher interest rates. This facilitates borrowers to service loans.		5	Positive
Registration fee	2	The amount charged by LAPO is low and affordable. The registration fee is important because it determines the commitment to LAPO programme by the members		5	Positive effect
Initial Deposit	3	The initial deposit is refundable upon leaving LAPO.		5	Positive effect
Interest	4	Although small clients are happy. Participants suggested that interest rates in saving should be increased.		4	Positive effect
Access to Loan	5	Loans are easily accessible compared to other institutions		5	Positive effect

Mandatory Savings	6	Since the fund belongs to the clients, they would like it the programme to continue as it affords the opportunity to save.		5	Positive effect
Weekly Repayment	7	Paying in instalments makes loan servicing easy.		5	Positive effect
Training	8	Builds social capital among members. Is a source of information about LAPO programme policies and procedures.		5	Positive effect
Instalment Payment	9	It is easier to repay the loan amount because loan is paid in instalments.		5	Positive effect
Access to other Loans	10		Access to other loans cumbersome.	1	Negative effect
Advance Payment	11		Presently clients are not allowed to make advance payment. Participants suggested that they be allowed to repay beyond the mandatory payment whenever cashflow permits. This would prevent the hardship experienced in servicing loans during periods of poor business. Clients who complete repayment before eight months (loan term) should be allowed to take a follow up loan	1	Negative effect - Ve
Bonus	12		Bonuses should be given to encourage borrowers but in particular to encourage and motivate group coordinators who work on voluntary basis.	1	Negative effect
Loan Size	13		Presently the loan size for second and subsequent loans is too small. Participants suggested that loan size should be increased to enable borrowers to purchase enough merchandise and expand business. Participants argued that the loan size for the first loan cycle is appropriate and that there is need to keep loan size small at this level as clients have no credit history with the institution.	1	Negative effect

Group:	8
Branch:	Sapele
Loan Cycle:	2nd
Loan Performance:	63% (High portfolio at Risk)
Number of Participants:	11 all females

Product Attributes	Rank	Why liked	Why disliked	Satisfaction (Low 1–5 High)	Programme Implication
Instalment Pay ment	1	The repayment of loans in instalments enables members to service loan comfortably.		5	Positive effect
Interest	2	Interest charged on LAPO loans is lower compared to other lenders such as moneylenders.		5	Positive effect
Collateral	3	LAPO does no t request collateral for the loans.		5	Positive effect
Weekly Repayment	4	It is more convenient to pay regularly. Weekly repayment encourages members to work hard		5	Positive effect
Access to Loan	5	LAPO is sincere in its dealings with members loan processing is fast		5	Positive effect
Access to other loans	6	Although clients are happy that they can access other loans, access is confined to participants in higher loan		5	Positive effect
Loan Size	7		Loan size is too small and should be review ed. First loans should be Naira 15,000, Second loans Naira 20,000.	2	Negative effect

ANNEX 3

Group:	1 (Osayomwanbo Group)
Branch:	Upper Sokponba Road
Loan Cycle:	4th
Loan Performance:	95% or higher repayment rate (Low Portfolio-at-Risk)
Number of Participants:	8 all females
Observations:	Participants were reluctant to participate in the focus group as they had just finished their weekly scheduled meeting and were anxious to get back to their businesses

Group 1: Relative Preference Ranking

	Meetings	Contribution	Commercial Banks	LAPO	Community Bank
Loan Disbursement	4	2	1	5	1
Weekly Repayment	3	2	1	5	1
Interest	5	4	1	3	1
Access to loan	2	1	1	5	1
Repayment Period	3	1	1	5	1
Bonus	5	4	1	1	1

Group: 2 (Igho – Retin Group)
Branch: Upper Sokponba Road
Loan Cycle: 4th
Loan Performance: 95% or higher repayment rate (Low portfolio at Risk)
Number of Participants: 7 all females

Group 2: Relative Preference Ranking

	LAPO	Meeting	Moneylender
Access to Loan	5	2	1
Weekly Payment	5	2	1
Bonus	1	1	1
Loan Size	2	5	1
Repayment Period	5	3	1
Disbursement	5	2	1
Interest	5	5	1
Fairness	5	5	1

Group:	3 (Osakpamwan Group)
Branch:	Upper Sokponba Road
Loan Cycle:	2nd
Loan Performance:	95% or higher repayment rate (Low portfolio at Risk)
Number of Participants:	6 all females

Group 3: Relative Preference Ranking

	LAPO	ESUSU	Daily Collector
Access to Loan	5	2	1
Instalment Repayment			
	5	2	1
Interest	4	3	1
Weekly Repayment	5	2	1
Mandatory Payment	5	2	1
Regular Meeting	5	2	1

Interest on Savings	1	1	1
Loan Size	1	1	1
Bonus	1	1	3
Deposit	5	5	3
Voluntary Savings	5	2	1

Group:	4 (Oghosasere Group)
Branch:	Upper Sokponba Road
Loan Cycle:	2nd
Loan Performance:	95% or higher repayment rate (Low portfolio at Risk)
Number of Participants:	10 , all females

Group 4: Relative Preference Ranking

	Contribution	LAPO	Moneylender	Meeting
Interest	1	5	1	2
Disbursement	2	5	1	1
Union Due	1	5	1	1
Loan Size	1	1	1	4
Access to other Loan	1	1	1	1
Grace Period	1	1	1	1
Loan Period	1	5	1	1
Access to Loan	1	5	1	1
Group Guarantee	5	5	1	3
Repayment Frequency	4	5	1	1
Instalment Payment	1	5	1	1

Group:	5 (God's Will Group)
Branch:	Sapele
Loan Cycle:	4th
Loan Performance:	63% (High portfolio at Risk)
Number of Participants:	6 all females

Group 5: Relative Preference Ranking

	LAPO	Moneylender	Meetings
Voluntary Savings	5	1	1
Training	5	1	1
Access to Loan	5	1	1
Regular Meetings	5	1	1
Weekly Repayment	5	1	1
Access to other Loans	2	1	1
Mandatory Savings	5	1	1
Mandatory Payment	5	1	1
Loan Size	4	1	1
Initial Deposit	5	1	1
Interest on Loan	5	1	1

Group: 6 (Mercy Group)
Branch: Sapele
Loan Cycle: 4th
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 7 all females

Group 6: Relative Preference Ranking

	Co-ops	Esusu	LAPO	Meetings	Daily Collector	Comm. Bank
Flexibility	1	1	1	2	1	1
Access to other Loans	3	1	1	1	1	4
Voluntary Savings	5	5	5	5	3	5
Interest on Savings	3	1	4	3	1	3
Weekly Repayment	1	3	5	1	1	1
Initial Deposit	1	1	5	3	2	4
Office Environment	3	1	2	1	1	5
Interest	1	5	4	2	1	2
Instalment Payment	2	2	5	3	1	2
Bonus	5	1	1	4	1	1
Loan Size	5	1	3	5	1	5

Group: 7 (Happy Progress Group)
Branch: Sapele
Loan Cycle: 2nd
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 8 all females

Group 7: Relative Preference Ranking

	Com. Banks	LAPO	Meetings	Co-ops	Moneylender
Advance Payment	1	1	5	5	5
Instalment Payment	1	5	1	1	1
Access to other Loans	1	1	1	1	5
Access to loans	1	5	5	5	5
Training	1	5	1	1	1
Interest on Loans	2	5	1	2	1
Interest on Savings	5	4	3	3	1
Registration fee	4	5	2	1	5
Loan Size	4	1	5	5	5
Bonus	5	1	3	3	1
Initial Deposit	3	5	1	2	3
Wkly Repay	1	5	4	1	1
Mandatory Savings	2	5	3	3	1

Group: 8 (Social Sister Group)
Branch: Sapele
Loan Cycle: 2nd
Loan Performance: 63% (High portfolio at Risk)
Number of Participants: 11 all females

Group 8: Relative Preference Ranking

	C Banks	LAPO	Meetings	Co-ops	Daily Collector	Moneylender	Contribution
Loan Size	5	2	5	5	2	5	2
Access to other Loans	2	5	2	1	1	1	1
Wkly Repay	1	5	5	1	1	1	1
Access to loan	1	5	1	1	1	1	1
Collateral	1	5	1	1	1	1	1
Instalment Payment	1	5	3	5	1	1	1
Interest	1	5	3	1	1	1	1

ANNEX 4: Financial Sector Trend Analysis

Product orService	Group	Now	5 Years Ago	10 Years Ago
Daily savings collector	1	5	5	5
	2	5	5	5
	3	-	-	-
	4	5	5	5
	5	3	3	3
Average		4.5	4.5	4.5
Contribution (esusu)	1	5	5	5
	2	5	5	5
	3	5	5	5
	4	3	3	3
	5	5	5	5
Average		4.6	4.6	4.6
Commercial banks	1	3	4	5
	2	2	2	2
	3	5	5	5
	4	2	2	5
	5	1	2	2
Average		2.6	3	3.8
LAPO	1	4	-	-
	2	5	-	-
	3	5	5	-
	4	5	5	-
	5	5	5	-
Average		4.8	5	-
Moneylenders	1	3	4	5
	2	5	5	5
	3	2	2	5
	4	1	1	1
	5	1	3	3
Average		2.4	3	3.8
Peoples bank	1	-	-	-
	2	-	-	-
	3	2	2	5
	4	-	-	-
	5	-	-	-
Average		2	2	5
Community banks	1	-	-	-
	2	-	-	-
	3	1	1	1
	4	-	-	-
	5	-	-	-
Average		1	1	1
Associations	1	-	-	-
	2	-	-	-
	3	5	5	5
	4	5	5	5
	5	2	2	2
Average		4	4	4
Plan - Well	1	-	-	-
	2	-	-	-
	3	-	-	-
	4	-	-	5
	5	-	-	5
Average		-	-	5

PART 3 – INSTITUTIONAL ASSESSMENT LAPO

INTRODUCTION

This institutional appraisal was conducted in June 2003 by Enterprising Solutions Global Consulting, L.L.C. The purpose of the appraisal was to assess the institutional and financial sustainability of LAPO and investigate the impact of UNCDF/UNDP MicroStart support to LAPO since 2000. The review is part of a larger Programme Impact Assessment (PIA) exercise, selecting programmes in four countries as "case studies" to assess the outcomes and indications of impact of UNCDF's microfinance programme interventions. The findings will feed into a subsequent Organisational Performance Assessment (OPA), which will assess UNCDF's organisational effectiveness, efficiency, relevance and sustainability in formulating and managing its microfinance programmes.

This appraisal was carried out using the CGAP Appraisal format which is the industry standard for appraising – not rating – institutions. It is particularly appropriate for MFIs that wish to do self-appraisals as it is a relatively simple performance assessment tool, with an Excel spreadsheet that can be easily learned by MFI staff. Additional sections were added to the appraisal format for the PIA which focus on gender and the technical assistance provided under the MicroStart programme. For a comparative analysis of the performance of LAPO against other institutions, the reader can refer to data presented in the MicroBanking Bulletin.

The intended audience for this document include UNCDF staff, the UNDP country office, LAPO staff, Board and other donors.

Engaging discussions took place during the debriefing and we trust that the recommendations of this and other assessments will provide guidance for LAPO to form an operational plan to address one-by-one, in order of importance, the areas identified where improvements are required.

ACKNOWLEDGEMENTS

We would like to express our deep appreciation to LAPO staff and board members for their assistance during our mission. LAPO staff maintained an open and helpful attitude during our stay, answering our many questions about their current and past operations and their plans for the future.

Special acknowledgement goes to LAPO Executive Director, CEO Godwin Ehigiamusoe. Thanks also go to the Board members, who managed to make their way to the LAPO office to meet with us regardless of their busy schedules.

We wish to thank the UNDP office for assistance in arranging meetings and responding to our numerous requests for information. Last but not least, we wish to thank UNCDF for giving us the opportunity to undertake this analysis.

IA 2 Institutional Sustainability Team – LAPO
Enterprising Solutions Global Consulting, LLC
June 2003

Acronyms

AIMS	Assessing the Impact of Microenterprise Services Project
ASA	Association for Social Advancement
CBN	Central Bank of Nigeria
CCF	Country Cooperation Framework
CDF	United Nations Capital Development Fund
CDMR	Community Development and Microfinance Roundtable
CGAP	Consultative Group to Assist the Poor
CO	Credit Officer
CPA	Certified Public Accountant
EU	European Union
GBF	Growing Business Foundation
GF-USA	Grameen Foundation, USA
GF-USA	Grameen Foundation, USA
GNI	Gross National Income
IA	Impact Assessment
IFC	International Finance Corporation
IGP	Implementation Grant Programme
JDPC	Justice, Development and Peace Committee
IMF	International Monetary Fund
LADEC	LAPO Development Centre
LAPO	Lift Above Poverty Organisation
LDCs	Less Developed Countries
LTSP	Local Technical Service Provider
MBB	MicroBanking Bulletin
MDG	Millennium Development Goals
MFI	Microfinance Institution
MF	Microfinance
MIS	Management information systems
n.a.	not applicable
NGO	Non-governmental Organisation
NUSHO	National United Self-Help Organisation
OPA	Organisational Programme Assessment
PAR	Product Attribute Ranking
PaR	Portfolio at Risk
PIA	Programme Impact Assessment
PRSP	Poverty Reduction Strategy Paper
ROAR	Results Oriented Annual Report
ROSCA	Rotating Savings and Credit Association
RR	Resident Representative
SEAP	Self-Reliance Economic Advancement Programme
SME	Small and Medium Enterprise
SUM	Special Unit for Microfinance
TA	Technical Assistance
TOR	Terms of Reference
TSP	Technical Service Provider
USAID	United States Agency for International Development
UN	United Nations
UNDAF	United Nations Development Assistance Framework

UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNCDF	United Nations Capital Development Fund

KEY COUNTRY PARAMETERS RELEVANT TO ASSESSMENT

Parameter	12/2002
GDP/capita:	$365
GDP Annual Growth:	2.4%
HDI:	136
Population:	133 million
Population Density:	144
Number of Provinces/Regions/States:	32 states
Annual Inflation:	13%
Annual Depreciation:	1.9%
End of Period Official Exchange Rate/US$:	120
Deposit Rate (Year average):	16.5 (communication LAPO)
Commercial Bank Lending Rate (average):	18-24%
Interbank Rate:	16%

1.0 Executive Summary

1.1 Key Data

Table 1: Summary of Key Data

	Key Data	Dec. 00	Dec. - 01	Dec. - 02	Dec. – 03	Dec. – 04
		ACTUAL			PROJECTED	
1.	Number of active loans	10,124	13,859	15,474	35,200	51,400
2.	Total outstanding loan balance (US$)	423,226	665,637	1,011,395	3,520,000	5,757,800
3.	Average loan balance (US$)	41.8	48	65.4	100	112
4.	Number of voluntary savings clients	10,566	15,480	16,611		
5.	Total balance of voluntary savings accounts (US$)	153,233	186,822	240,065		
6.	Loan loss rate	2.6%	1.7%	1.6%		
7.	Portfolio-at-risk delinquency rate (more than 30 days late)			6.4%		
8.	Administrative efficiency	46.1%	53.3%	51%		
9.	Portfolio yield	19.1%	30.3%	42.1%		
10.	Operational self-sufficiency	88.4%	61.5%	85.1%		
11.	Return on assets	-2.9%	-17.1%	-5.9%		
12.	Adjusted return on assets	-10.1%	-21.2%	-10.6%		
13.	Year-end free market exchange rate	109.6	111.6	120		
14.	Per capita GDP (US$)	308	319	331		

Source: CGAP Appraisal spreadsheet based on financial statements and portfolio reports.

1.2 Major Conclusions and Recommendations

Since its founding in 1987, the Lift Above Poverty Organisation (LAPO), a Grameen-style poverty-focused microfinance institution (MFI), headquartered in Benin City, Nigeria, has played an important role in the delivery of financial services to the poor, particularly women. LAPO received long-standing support from the Grameen group and the Ford Foundation, and more recently UNDP/UNCDF's MicroStart and the USAID Implementation Grant Programme which is implemented by Grameen Foundation USA (GF-USA). It grew to a sizeable broad based NGO offering a select number of non-financial services such as health, consulting and awareness programmes to support its credit operations, and successfully serve its mission to overcome the multiple dimensions of poverty in Nigeria.

The organisation has made significant improvements in the past three years since MicroStart's introduction of ASA of Bangladesh as the international technical service provider. Under the guidance of ASA, the number of LAPO branches has increased from 11 to 23 (as of June 2003). For LAPO's MicroStart funded branches, the administrative efficiency, excluding full headquarter cost allocation, is reported to have improved from 70% to 5% over the period 2000-2002 – an extraordinary result. Moreover, LAPO has replicated the ASA methodology in non-MicroStart branches and new branches that are starting up with support from USAID and GF-USA. The client base grew from 8,849 to 16,611 members and 15,454 borrowers, all of whom are women, and most of whom are quite poor. The simplification of products and standardisation of procedures introduced by ASA was particularly appropriate given the need for management to improve oversight of operations and its management systems.

Milestones already reached include: achieving a critical mass in terms of the absolute numbers of clients reached as well as an applaudable depth of outreach. LAPO is clearly among those microfinance institutions serving the poorest people in Nigeria. There is considerable evidence of its impact on clients. Specifically, participation in LAPO appears to increase household income, attendance of secondary school by children, household asset acquisition, investment in household property, enterprise profits and investment in some enterprise assets (see client level assessments undertaken under this same assessment).

Other milestones reached are the intention to separate financial from non-financial services, introduction of a proven credit methodology, internal audit function, and office premise solution. Moreover, staff is very dedicated and clients were satisfied with LAPO services and the LAPO staff. In addition, LAPO demonstrated vision and an ability to make things happen through its securing of access to commercial loans to finance growth and covering cash flow needs.

Notwithstanding the above admirable achievements, significant work remains. In order to successfully implement the aggressive growth strategy being pursued, LAPO must ensure full implementation of the Implementation Grant Programme capacity building work, and address the pertinent issues identified during this assessment. More specifically, LAPO must enhance its financial management capacity to ensure it is at a level of competence that is in keeping with the growth needs as the organisation expands its operations. Additionally, the institutional assessment undertaken by Enterprising Solutions Global Consulting, LLC indicates that LAPO suffers from a lack of adherence to procedures at headquarters and branch level, especially the older branches, and could benefit from improved internal controls. Furthermore, it would be timely to intensify the governance: invite board members that provide active financial oversight and can help the rapidly growing financial institution to surmount challenges to come. Some examples of discrepancies include:[16]

- The interest on savings is not consistently calculated nor recorded; in 2000 no interest was calculated on savings and no credit was passed in the financial statements; interest on savings is not given to clients who drop out of the organisation, nor does it appear on members' cards;
- There is no fixed asset register in the organisation for either the branches or head office. This means that there is no record of fixed assets;
- None of the balance sheets reviewed for the three years balanced; an external audit agreed that it has been difficult to confirm the accuracy and validity of transactions due to lack of documentation; and
- Clients and COs are to sign their CO Register and also the client's passbook, which is held by the group leader respectively. But at the time of the mission, a number of instances were encountered where this did not happen. Moreover, there is no systematic process in which branch managers regularly reconcile the credit officers' reg isters to client membership cards.

A number of these problems were previously identified in an assessment undertaken by MicroRate in March 2002. Although one can say that the MicroStart assessment was a driving force in the capacity building programme, LAPO has made tremendous strides since 2000 and concrete actions seem to have been taken (and continue to be taken) under the Implementation Grant Programme. It should be underscored that this mission encountered a number of areas were LAPO is exposed to high risks.

We recommend a detailed analysis to identify the actual causes of the many identified discrepancies, *and to rectify them*. In addition, we recommend that the organisation's corporate culture and human resources reflect the capacity to ensure that policies are *adhered to*. As these type of issues were part of the technical assistance, we recommend an updated analysis be carried out to confirm that the institutional strengthening has addressed the range of discrepancies and lack of accountability. Finally, we recommend that LAPO take immediate measures to establish its current portfolio quality via a *comprehensive audit at each branch on a loan-by-loan basis preferably conducted by an independent party*.

The focused technical assistance under the USAID Implementation Grant Programme consolidation phase and MicroStart Phase II activities are ongoing and LAPO is, with this help, expected to soon be at a crucial juncture to move forward with full confidence to achieve sustainability. Financial sustainability is desirable not only to faster expand outreach but also to elicit more profound poverty impact.

[16] This is not an exhaustive list of problems encountered. Chapter II documents a full list of observations from this review.

Although the client impact assessment (see separate document for full details) found evidence of positive impact among LAPO clients on income, assets and welfare, global impact assessments have demonstrated a strong correlation between clients' length of time in programmes and poverty impact; sustained service delivery maximises the poverty alleviation potential.

Nigeria is Africa's largest country. One out of every four Africans is a Nigerian. Nigeria's informal market is a very dynamic one and the market for microfinance in Nigeria is sometimes described as limitless. LAPO is known as one of Nigeria's premier MFIs.

UNCDF has selected to support an organisation with potential, drive and the strong poverty orientation required to make a significant impact on poverty reduction. The LAPO branches after conversion to the ASA methodology under the MicroStart programme have demonstrated dramatic operational improvements and have also provided LAPO with valuable experience in establishing highly cost-effective branch level operations.

In principle, if the internal controls installed under the USAID-Implementation Grant Programme institutional strengthening are functioning, and if the main cost driver – head office – is strategically managed, the institution could reach financial sustainability in the not too distant future. Moreover, if LAPO has consolidated its operations and thoroughly internalised the range of prudent measures recommended, the organisation is poised to have a dramatic impact on tens of thousands of very poor women.

USAID should be commended for taking the risk of investing in an indigenous institution in Nigeria, rather than fully funding a U.S. NGO start-up from scratch. In the same vein, LAPO needs to recognise that if it does not make intensive use of USAID/GF-USA, UNDP and UNCDF/SUM's assistance to fully address its weaknesses, it is highly likely that it will not find other donors willing to do so in the future.

N.B. It should be noted that the timing of the assessment was when a USAID-Implementation Grant Programme international financial consultant was still in the process of addressing many of the problems and concerns raised in this report. If time is allowed to enable LAPO to implement the recommendations and new systems put into place by the consultant, which were only completed in the first week of September 2003, the overall picture may be different. Therefore, this document illustrates past trends and identifies the key issues until June 2003. Future appraisals can compare progress made against the areas for improvement identified in this document. Further, this report can serve as checklist of areas needing strengthening, some of which are immediate and being addressed, and some of which to be incorporated into a plan.

2.0 Institutional Factors

2.1 Legal Structure

Lift Above Poverty Organisation (LAPO) started activities in 1987, although it only officially registered as a Company Limited by Guarantee (not-for-profit) in 1993 under the Company and Allied Matters Decree (1990). The Memorandum and Articles of Association are not very detailed and might need to be amended and updated as current practise seems to deviate from some of the stipulations (e.g. loan approval authority, powers to borrow, etc.).

LAPO holds 95% of the shares of Iyobo Lapo Community Bank, Ltd., which it acquired and began restructuring in 2000. The bank is supervised by the National Board for Community Banks and the Central Bank of Nigeria. In March 2002, LAPO received a license to operate the Community Bank. The close relation with a regulated Community Bank allows LAPO to indirectly familiarise itself with the art of savings mobilisation and other financial services.

The legal and regulatory framework for Nigeria is currently fairly inclusive of all types of institutions engaged in microfinance. Still, one reason LAPO is keen on formalising as a regulated financial institution is that it may ease access to funds in the capital market and public savings. At the same time, however, since the organisation does not perceive any of the other current existing legal institutional forms as being more conducive to effective service delivery, it does not intend to transform into a regulated financial institution at this juncture. It will wait, working with the Central Bank, until such time that a legal and regulatory framework more attuned to the specifics of microfinance is created.

The Central Bank of Nigeria is currently studying the various types of legal forms that microfinance institutions can take. LAPO foresees itself transforming from a non-profit Company Limited by Guarantee to one that will facilitate increased access to commercial loans and sustained programme growth. The legal identity under which LAPO will formally register will be influenced by the Central Bank's findings and recommendations. One of the options currently being considered by LAPO is that of a Non-Bank Financial Company. LAPO would then spin off its other affiliate programmes (Iyobo Lapo Community Bank Ltd, LADEC, LAPO Health, LAPO Services) as distinct entities with separate boards of directors.

2.2. History

LAPO is a Grameen-style poverty-focused microfinance institution, with long-standing support from Grameen and the Ford Foundation. Mr Godwin Ehigiamusoe is the founder and Executive Director. Formally employed by the government as a cooperative officer in a rural area, he experienced inadequacies in government and formal financial institutions in regards to meeting the needs of the poor. Mr. Ehigiamusoe started to reflect on how the poor could improve their socio-economic situation without the government and turned to two friends from the local church. Together they began lending to four groups of women in three communities, who were expected to repay their loans in five instalments on market days.[17] This experience led to the creation of the "Lift Project" in 1987 which later developed into LAPO, and, as has already been mentioned, was formally registered in 1993.

From the outset, LAPO found that credit alone would not be enough to overcome the multiple dimensions of poverty. It therefore offers a selected number of non-financial services to support the credit operations (i.e., health, gender awareness and general development training). Since 1994/1995, more emphasis has been put on building the institution. The minutes of the 1998 Board meeting record an institutional decision to work towards separating the credit from the non-financial services.

Grameen Foundation-USA received a $1.3 million award from USAID's globally competitive Implementation Grants Programme (IGP) to support LAPO's consolidation and expansion. USAID engaged MicroRate to undertake a joint review of LAPO as part of the due diligence for its grant. Despite the risks, given the need to develop promising, indigenous, institutions in Nigeria, the review concluded that there was potential in LAPO based on the work begun by ASA/MicroStart and that LAPO would need external TA to address the financial management issues. Furthermore, the GFUSA grant agreement reflected the importance USAID viewed of having ASA continue providing technical assistance. It was also agreed that the targets in LAPO's business plan (that were the basis for the IGP grant) would also serve as the targets for the ASA technical assistance.

A division of labour between USAID and SUM followed, based on the issues USAID had agreed to fund through the IGP. USAID recommended that the business plan for LAPO encompass a two-stage approach. The first stage, or consolidation phase, is designed to strengthen LAPO institutionally through, among others, the provision of technical assistance to strengthen its operations, finance and accounting, and audit departments by professionalising its manuals, systems and procedures. This first stage would also train senior management staff on Microfinance Best Practices as well as provide the Executive Director and senior staff with the opportunity exposure to the experience of MFIs outside Nigeria which have successfully scaled up their operations. All the measures are designed to ensure transparency and accountability and effectively monitor LAPO's financial and operating performance as it undertakes the expansion stage under Phase II. (See more details in Section 2.12 on Technical Assistance.) It should be noted that much of this work was in process and incomplete at the time of this appraisal (June 2003).

Together with USAID and other donor support, MicroStart has made a dramatic impact on the operations of LAPO. The number of branches increased from 11 to a current 23 branches. Although only six of the new branches were funded by MicroStart, all new branches were opened using ASA's methodology, including the new branches started with funds from the USAID-funded IGP. The client base grew from roughly 8,000 to 16,611 members and 15,454 borrowers (December 2002). Table 2 provides an overview of the donors that have provided funds for technical support, operating expenses and/or loan capital. The current main donor is USAID.

[17] In West Africa, usually here is a market in a town every so many days; other days, neighbouring towns have their market day.

Table 2: Donor Support Organised Chronologically

Source	Date	Amount (US$)	Local Currency	Status
1. FORD West Africa	1991-94	$220,000		Multiple until 1998
2. Grameen Trust	1992	$25,000		Still providing training support
	2002	$24,000		
3. UNDP	2000	$150,000		MicroStart since 2000 and since 1997 the other UNDP credit programme
4. Eze/EED	2002	$540,205	64,824,556	Multiple, still ongoing
5. Development & Peace	2001	$179,268	21,512,161	Social development
6. USAID IGP grant	2003	$1.3 million		Managed by GF -USA
7. CGAP	2002	$35,000		Awarded under innovation grants

2.3 Ownership and Board of Directors

2.3.1 Ownership

Ownership and governance are critical to the success of an MFI. As with many NGO-governed MFIs, the current ownership and governance structure of LAPO is not necessarily conducive to continued healthy growth.

In the case of LAPO's subsidiary, Iyobo Lapo Community Bank, Ltd. the ownership structure is clearer. The majority shareholder is LAPO and the bank is governed not only by its own Board, but also by the National Board for Community Banks and the Central Bank of Nigeria. The remaining shareholders are three individuals and one organisation.

Over the years, LAPO has managed to build a structure that has played, and has the potential to continue to play, an important role in the delivery of financial services to the poor. Nevertheless, LAPO is aware of the need to attract different types of funding in lne with the stage of growth of the organisation, and is considering different institutional forms to attract equity investors and/or depositors in the future. For example, more will have to be done in terms of the accuracy of reporting on lending operations and the proper allocation of costs to be able to attract depositors and investors confidently. Further research is also required regarding the most appropriate types of equity and ownership over the long run.

2.3.2 Board and Governance

Board formation started in the mid-1990s, coinciding with the increased emphasis on institution building. LAPO is currently governed by a Board of Directors of 11, consisting of: the executive director, a business woman, an accountant, a university lecturer, a teacher, and six clients (see Table 3). The Board oversees not only LAPO's microfinance services, but also its Microinvestment services (the department for the larger asset loans), social services (health, LADEC), and consulting arm.

Although the Board of Directors seems to be effective for a general development NGO, the current composition is not optimal for a microfinance institution. Firstly, there is no banking expertise, and too few specific skills appropriate to MFIs can be drawn upon. Secondly, while client representation contributes to empowerment and adds a certain balance, too many client owners can contribute to a weakness in the ownership structure. [18]

[18] Though some guidelines strongly discourage any client representation in the Board.

Table 3: LAPO Board Composition

Name	Skill Area/Current Affiliation
Executive Director	
Chairman Mrs. Osar-Emokpae (since beginning, 1996)	MD of advertising company, linguist
Mr. Obazelee (since beginning, 1996)	Chartered Accountant, trained in economics (government)
Ms. Osaghae (since 1999)	University lecturer (Sociology)
Ms. Omoruyi (since beginning, 1996)	Teacher, interested in community development
Six clients, elected by GA and changing every two years	

The six client members are elected by clients through the "client unions" within each branch, the so-called branch councils (see 2.11). The Executive Director nominates the other four members of the Board based on their relevant experience and expertise. Final appointment in both cases is confirmed by the General Assembly. It is unclear how succession and new Board membership are handled in practise, although the by-laws provide for a limited term.

According to the Memorandum and Articles of Association, the Board is supposed to meet at least twice a year. In reality, 10 meetings have been recorded since 1996. Formal minutes are taken at these meetings. The Board met in July 2002, March 2002, July 2001 and June 2000 which is less frequent than stipulated. There are two permanent board committees, a Finance and a Programme sub-committee, although neither committee has formally reported back to the Board.

A review of Board meetings minutes highlighted the following as major topics for discussion: fund raising issues, salary matters and the Board size. During the last three meetings, no in-depth discussion took place on financial statements.

The relationship between Board and management is cordial. There appears to be an even balance and distinction between management and the supervisory role of the Board. However, although individual capacities of the board members are admirable, it is doubtful whether Board members as a group have the skills to monitor performance of the MFI as it seeks to become a larger and potentially regulated financial institution.

Although the Board has generally been effective in governance and oversight of LAPO, it missed major inaccuracies in the annual financial statements. More active involvement of the CPA Board member in scrutinising financial statements (see also chapter 5) is encouraged.

2.4 Alliances

2.4.1 Overview of Strategic Alliances

LAPO's main alliances at present are with:

- The Technical Service Provider, the Association for Social Advancement (ASA);
- UNDP, as the donor responsible for initiating the MicroStart programme and providing financial support since 2000;

- USAID, and Grameen Foundation-USA, which has provided support since October 2003 and is currently the main donor, providing $1.3 million for technical assistance, training, demonstration visits and loan funds;
- Ford Foundation-funded impact research;
- Government and authorities which provide complementary services; their cooperation is essential for legal permits and assistance with defaulting or delinquent borrowers;
- The network organisation Community Development Microfinance Roundtable (CDMR);
- Grameen Trust, which, from the outset, has supported LAPO; and
- INAFI.

The LAPO Development Centre (LADEC) programme has built extensive relations with the various training institutions in the country.

LAPO is exploring relationships with commercial banks to access lines of credit. It has taken and repaid a two million Naira loan to People's Bank, and is still repaying a six million Naira loan to UBA at 15.5%. It is trying to continue relationship building with commercial banks, but the banks have been reluctant to extend loans beyond 24 months.

Sections 2.4.2 and 2.4.3 elaborate on the alliance with MicroStart in general and the Technical Service Provider.

2.4.2 MicroStart

The purpose of the MicroStart Programme is to build a new generation of MFIs with transparent track records and solid institutional and financial performance, enabling them to reach poor clients while operating on a sustainable basis, targeting so-called "breakthrough organisations". Since its inception in 1997, MicroStart has become operational and/or is being established in 20 countries. A central thrust of the MicroStart Programme is the contracting by UNDP Country Offices of a Technical Service Provider (TSP), often a leading microfinance institution, to provide technical assistance to selected local MFIs. These TSPs subcontract to a local institution to build local capacity to provide technical assistance services.

The programme is overseen by the MicroStart Advisory Board, a public-private partnership comprised of NGO representatives, the private sector, government, UNDP, donors and other U.N. agencies active in microfinance. MicroStart Nigeria serves eight MFIs, of which LAPO is considered to be one of the strongest organisations. This assessment will not detail the umbrella MicroStart programme; the programme will be elaborated upon further in the complementary Impact Area 3 and 4 reports.

2.4.3 Technical Service Provider

The Association for Social Advancement (ASA), serving over 2 million active clients in Bangladesh, was selected as the Technical Service Provider (TSP) in Nigeria based on an international competitive bidding process. ASA is known for its highly efficient credit delivery and recovery system and its "no-nonsense" loan repayment discipline. In very young organisations, basic operating systems for managing transactions are often poorly designed being either too cumbersome, not providing relevant information, or simply lacking in appropriate controls. ASA's paper-based system focuses on establishing these systems correctly before moving on to computerisation of data collection. For more details on the type of technical assistance provided, please refer to section 2.12.

2.5 Leadership

At the moment, leadership is principally provided by the founder and Executive Director, Mr. Godwin Ehigiamusoe. Mr. Ehigiamusoe is a charismatic leader who over the years has established himself in Edo State, and Nigeria at large, as an advocate in the fight against poverty and the promotion of self-reliance, empowerment and democratisation. His management style is one of openness, and he encourages staff to take on responsibility. The capacity of middle management needs to be enhanced in order to be graduated to a senior management team that can provide the required management leadership and capabilities as LAPO expands its operations.

Current leadership strengths are seen in LAPO's vision and drive. Leadership weaknesses include a lack of high-level financial skills and an eagerness for rapid growth, not tempered sufficiently by realistic programming to put the building blocks in place for healthy institutional growth. Actions are being taken to strengthen financial skills, for instance two senior managers attended Boulder, a key course to familiarise people with the specifics of microfinance and industry wide key performance indicators. Leadership and staff also demonstrate an openness and willingness to learn. In addition, two staff members have completed the Micro Fin course offered in Lagos in November 2003.

Given the very limited exposure that Nigerian MFIs and their staff have had to best practise microfinance over the past decade, the learning curve for staff is quite high and there is evidence that exposure to best practises has increased staff awareness and fluency with these principles.

2.6 Human Resource Management

2.6.1 Introduction

LAPO had 140 staff members at the end of 2002. Table 4 provides an overview of total staff, turnover, number, percentage, and compensation and benefits of loan officers. The total number of people on the payroll in the microfinance department was 120 at the end of 2002. Across the board, the staff seems to have advanced degrees, but the skills acquired academically do not always match the positions held.

Table 4: Human Resources Statistical Summary

	LAPO Credit Section		LAPO Overall	
	2001	2002	2001	2002
Number of total staff, end of period	94	120	114	140
Number of staff who left during period	6	8	6	8
Turnover rate (staff who left as a percentage of average number of staff)	6.4%	6.6%	7%	5.7%
Number of loan offices, end of period	75	94	70	92

Loan officers as a percentage of total staff	75%	77%	66%	67%
Number of administrative staff, end of period	19	26	20	27
Number of female staff			68	78
Average annual loan officer compensation (US$)[c]	650	800		
Average loan officer compensation as multiple of per capita GDP	2.35	2.42		
Average loan officer compensation as multiple of average outstanding balance per loan	16	12		
Staff training expenditures as a % of annual administrative budget (excluding financial and loan-loss costs)	10%	7%		

[a.] Administrative staff include management, finance, bookkeeping, internal control, and management information system (MIS) staff. It does not include loan officers, cashiers, and others who spend most of their time dealing with clients.
[b.] Line staff include loan officers, cashiers, and other staff with direct and continual client contact.
[c.] Includes annual compensation such benefits as the "thirteenth -month" premium, accrued severance pay, typical incentive bonuses, etc., as well as employer social security contributions.

2.6.2 Structure

LAPO has an Administration department, and clear personnel policies set out in the "Administration Policies and Procedures" manual, including recruitment, promotion, firing, performance appraisal procedures, etc. The promotions policy stipulates that staff be promoted every three years, although performance is also considered.

Each branch consists of three credit officers, though there are branches with as many as five. There are no accountants or cashiers in the branches; those functions are taken on by the branch managers.

The clients/loan officer ratio varies between 200 and 400, indicating widely varying productivity, depending largely upon the length of time a branch has been open.

2.6.3 Recruitment

Headquarters is in charge of all recruiting for regional managers, branch managers and credit officers. This is done through advertising the vacancy in local newspapers. Applications are screened, and selected candidates undergo an interview or a written test, or both. The probation period is six months. Many of the staff working in LAPO were found to be recruited immediately after finishing their diploma or degree, which is not a problem at the loan officer level, but can be a problem at higher echelons in the organisation.

2.6.4 Formal Training

LAPO highly values training its staff. Loan officers go through a three-day induction at headquarters followed by six weeks on-the-job training, accompanying a credit officer in a branch. The total training period for new staff is six months. LAPO attaches importance to training, as shown in LAPO's budget for 2003, where the allocation was 3.7 million Naira (up from 3.1 million Naira in 2002). Managers are trained in-house, by the Technical Service Provider or through formal training sessions.

2.6.5 Loan Officer Profile

Credit officers are teachers, high school graduates, or have grown from within the organisation. The driving force for most loan officers is poverty alleviation and many appear not only to be committed to the social mission but also the sustainability goal of the organisation.

2.6.6 Salary

Although LAPO's salaries are low, wages used to be better than government salaries. However, the government recently increased the remuneration to its employees. LAPO recently approved a new salary structure, with a larger number of scales, thereby enabling a broader range for growth, in line with the growth of the organisation. Secondary benefits are housing, transportation and medical allowances, a joint savings scheme aimed at providing retirement and savings benefits to eligible employees, and access to staff loans. There are no additional perks such as performance-based bonuses; however, there are training opportunities.

2.6.7 Turnover and General Level of Job-Satisfaction

The turnover rate is around 6%. Among the people that left the organisation, were senior programme officers, as well as receptionists. People left for such reasons as studies, for better salaries elsewhere, or for being fired. Salaries have been very low in the past, not only at LAPO but in many sectors in Nigeria, and are still on the low side, but staff seems to be motivated by the overriding organisational objective of poverty alleviation. Taking care of staff is mentioned as an explicit objective by management and there is a staff welfare committee. The organisation is still on its way to translating this objective fully into the organisational culture.

2.6.8 Atmosphere

LAPO is a seemingly well-developed organisation and the Executive Director promotes an open, broad-based management culture. Morale is average and improving. The general work atmosphere is one of dedication, but it does not always foster productivity or high portfolio quality. For instance, a lot of attention is paid to monitoring, in terms of submission of reports on achievements, planning meetings, etc., but the effectiveness of these activities is constrained by monitoring inappropriate key performance indicators or not reacting to what is reported (see also section 2.8). For instance, Annex 2 is a monthly report on the larger loans from microinvestment, done in a similar format as most of the planning and monitoring. From the report, however, one cannot read the outstanding loan balance. Furthermore, an alarmingly low rate of 62% repayment was not perceived as such at a management meeting, and no "rescue' operations were set in motion.

2.6.9 Dependence on Outside Consultants

LAPO will need considerable amounts of technical assistance in various skill areas. For instance, areas that need immediate improvement are internal controls, financial skills in general and cost allocation, pricing and asset-liability management in particular. At the time of the mission, some of these issues were in the process of being addressed under the technical assistance included in the USAID IGP support programme that was approved at a very opportune time. If, at the end of the year, an international audit firm shows sound financial results, this will have been mainly due to this technical assistance at a critical time in the organisational development of this promising MFI. The IGP grant could perhaps not have made a larger difference in microfinance in Nigeria than by funding the capacity building for this leading MFI. .

2.7 Organisational Structure

LAPO's organisational structure consists of departments for operations, finance and administration. The LAPO system consists of microfinance, Micro Investment, social services (LAPO health, LADEC), and the Iyobo LAPO Community Bank. In addition, there are two semi-autonomous units: Audit and Internal Controls. The status of Micro Investment services is not always clear; being part of the microfinance section or a separate unit; LAPO is growing fast and hence changing its organisational chart in line with the growth. The organisation could be more specific in distinguishing subsidiaries, from departments, and sections and consistent use of terminology, once a more stable organisational structure has emerged.

Figure 1: LAPO Microfinance Services

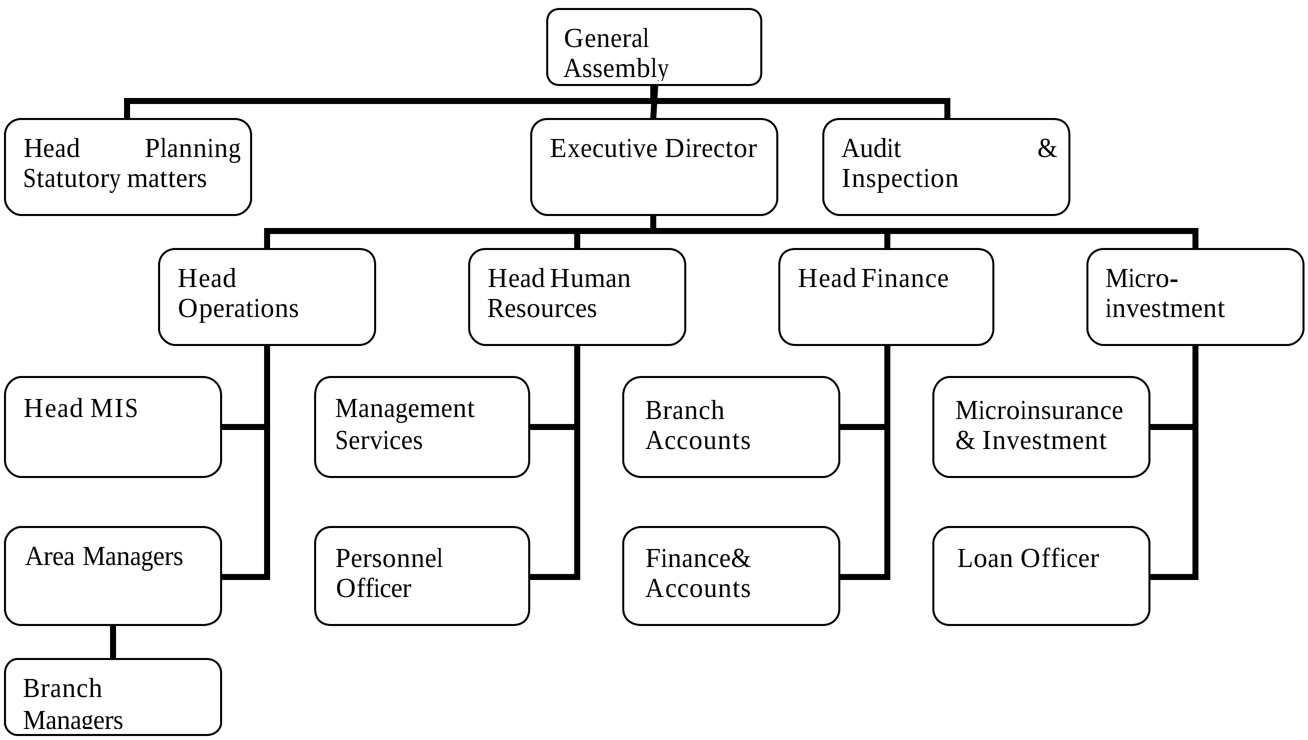
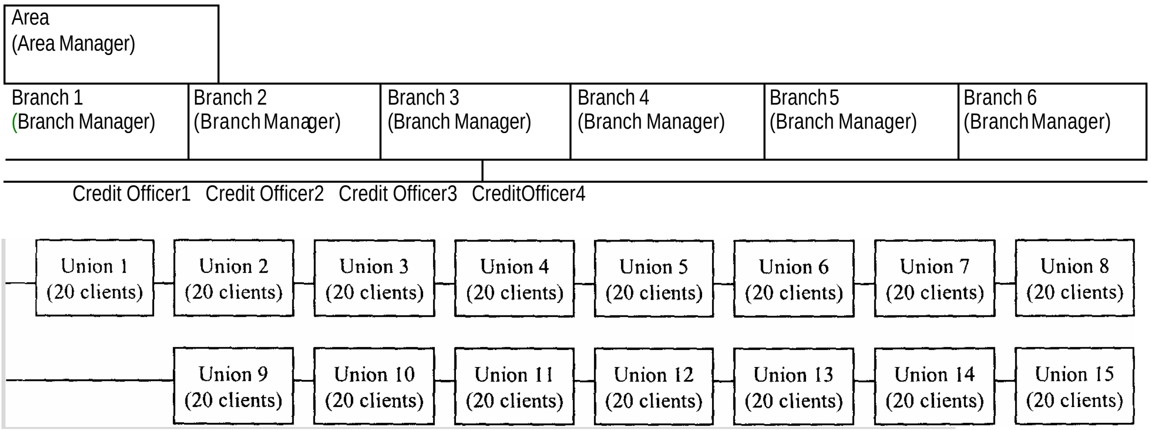


Figure 1 shows the organisational chart for the microfinance services as presented in the March 2002 business plan. It shows a General Assembly and the executive director, supported by a planning officer, an internal auditor, and four sections (operations, human resources, finance, and microinvestment).

Figure 2: Organisational Structure of a LAPO Area Unit at Full Capacity



Lines of authority are not always clear and accountability is not enforced. In principle, credit officers report to their branch manager who in turn reports to the area manager. An area manager supervises four to five branches and is supposed to reduce some of the workload from the Head of Operations. Area managers report to the Head of Operations, who reports to the GM Financial Services. Credit officers supervise an average of 15 "unions", comprising of 20 clients each (see Figure 2). The area managers and GM Financial Services monitor the credit officers, currently based primarily on the number of clients. At the time of the mission, there was room to improve oversight activities by the area managers, and it is recommended that their frequency of visits to all branches be monitored, especially their visits to the more remote branches. Apparently, area managers are now held accountable for branches in their area. This should be confirmed.

The branches are treated as profit and cost centres, though the true determination of costs does not take place due to the fact that sizeable headquarters' costs are not sufficiently allocated. Branches currently contribute 10% of their branch's operating costs (staff, salary and office expenses) to headquarters. LAPO is taking steps to try to figure ways to control to high headquarter costs.

To truly benefit from the advances made through the introduction of the ASA methodology, it is imperative that headquarters takes bold steps. Currently, operational decisions, i.e., loan approval, disbursement, etc. are decentralised. While this is laudable, at the time of the mission, insufficient internal controls were in place and there was inadequate oversight, notably in the old branches, but also in some of the ones under the MicroStart programme. As a result, headquarters is often unaware of what is going on at the branch level, both in terms of problems as well as innovations. However, the unique idea of the Executive Director spending a week at each of the branches, in the role of credit officer or branch manager, could help address a number of these issues. The increasing role of managers and earlier mentioned institutional strengthening programme will have undoubtedly led to improvements.

Operational procedures are generally standardised. However, practises in the field do not always conform to the institutional policy as articulated by headquarters and outlined in manuals.

Management holds weekly meetings; branch managers hold quarterly review sessions with management; the management team of LAPO system meets fortnightly; and general staff meetings are held monthly.

Loan officers indicate that management usually takes measures according to their recommendations, based on their experience with the clients. They are less satisfied, however, with remuneration and career possibilities within the institution.

2.8 Management Information System

The overall management information system (MIS) was inadequate at the time of the mission. Given the Nigerian reality which severely limits access to electricity and communications (internet, phone lines), LAPO resorts to utilising a manual system at branch level and EXCEL-based loan tracking at headquarters level, which in itself is not a problem, as some top-end MFIs have demonstrated. However, the information system is inadequate for current operations and growth in the medium term and the information generated by the MIS is inconsistent and unreliable. Improvements are said to have been made during the summer months with the technical assistance that took place, with the acquisition of M2 MIS for loan tracking and ACCPAC accounting software. Again, this should be verified.

In general, management has reporting systems and evaluates actual performance against plans; but it does not always use the correct performance indicators nor act upon the reports to guide operations. For instance, a key parameter looked at by management in all departments is planned versus actual loan disbursements. In microfinance this is not a good prime indicator. Measuring outstanding loan balance and portfolio at risk are more valuable in measuring organisational performance. Regarding swiftness in corrective measures, for instance, LAPO's Micro Investment arm could report a very high percentage of total overdue asset loans to the bi-weekly management meetings of all LAPO departments, without realising the urgency of this and without taking appropriate corrective measures.

In general, information flows within the organisation to various sections, however, operational and financial managers do not make optimal use of the information, and the information flow between board and management is insufficient. This is a critical component of a management information system, which will not automatically be solved by automation.

The new branches funded under MicroStart have fully shifted to the ASA methodology. In the older branches, portfolio reports are not always prepared on a timely basis and do not translate into tight delinquency management. For example, although a write-off occurred in September 2002, a substantial portion of the arrears for older branches appears from years ago, and may not be recoverable. LAPO has begun a process to age the portfolio-at-risk in some of the branches that have high delinquency. This is a very important step. Furthermore, since 2003, the report prepared at headquarters for management shows a line where the portfolio- at -risk and repayment rate are mentioned explicitly, so in principle a key correct indicator could be used by staff and management to assess its own performance.

Management received assistance from the Grameen Fund-USA to install the loan tracking software (see also 2.13). At the time of the mission, a test system had been purchased awaiting a generator to arrive from Lagos for testing to begin. Two branches have been selected as test sites and a testing team of LAPO personnel had been set up. Management has a comprehensive plan to ensure the transition is as smooth as possible and could benefit from a rollout plan for the implementation of the system – (though perhaps drafted, the roll-out plan was not readily available during discussions with the MIS officer) including:

- A plan detailed by management for roll-out after the system testing;
- A project plan regarding the testing, i.e. the design of the test data, type of testing (system or parallel testing), branches to test with live data, type of networks to be put in place, etc.; and
- The level of support, including when it will be provided and how much it will cost.

2.9 Internal Control System, Audits and Supervision

2.9.1 Internal Control Systems

At the time of the mission, in general, procedures existed for operations but were not always adhered to. Standards and procedures for the separation of functions, review of transactions, data security, fraud controls, etc. are described in the accounting manual and policies and procedures manual. Verification, however, is not done in a regular, systematic manner. Reconciliation is done on a monthly basis. In general, no proper checks and balances are in place.

The work carried out under the institutional strengthening may have improved the situation. A consultant worked with LAPO to review the structure and functions of the Internal Audit and Control Unit. A new Head of Unit was appointed. Two additional accountants were employed. A **manual of Internal Audit Procedures** was developed with emphasis on internal control, compliance, audit reports, detection and audit of fraud. As Enterprising Solutions did not the opportunity to visit the MFI again after September 2003 to assess the situation following the completion of the USAID-IGP institutional strengthening of the consolidation phase, below, we present the situation as it was at the time of the mission. Some issues may now have been addressed and can be checked against the list below.

Duties were not suitably segregated to ensure effective controls. For instance, in some branches, credit officers both disburse and receive cash, while also being the primary record keepers. The accounts are cash based and all branches, including head office, manage their own cash and prepare their own records. Each branch has its own bank account and receives and disburses cash to clients. The credit officers receive cash from clients and receipts are recorded on each client's membership card. Thereafter, the credit officer updates the daily register at the group meetings. The credit officer makes disbursements to clients at the same group meeting. At end of day, the credit officer carries the cash to the office where it is recorded in the cashbook and banked daily. A key control in the ASA methodology, the quarterly check of credit officer records with client passbooks, is not done. The branch manager records cash received and paid out in the cashbook and weekly registers. At the end of the month, the branch manager reconciles the cashbook and prepares the income statement and balance sheet to send to head office. The branches do not carry any petty cash, and all payments to creditors, etc. are effected from the daily client receipts.

The area manager, operations manager and internal auditor visit the branches once or twice a month to check the branch records and ensure that controls are adhered to at all times.

The head office carries minimum amounts of petty cash to settle small purchases; all other payments are made by cheque. The accountant prepares the payment vouchers based on invoices received. Payments are approved by internal audit, and the chief accountant subsequently prepares checks and effects payment once authorised by the finance manager.

LAPO has designed policies and procedures around the following functions:

- Finance and accounting;
- Human resources; and
- Administration.

A number of controls mentioned in the manuals were tested in three branches and the results were as follows:

- Some of the branch managers were unaware of the content of the finance and administration manuals and reportedly were not provided with copies;
- The credit officers record client receipts in their registers but the client does not receive proof of payment. This practise is open to abuse and fraud because there is no evidence that branch managers reconcile the credit officers' registers to client membership cards;
- The monthly income statement and balance sheet at branch level is not always completed in full by the branch managers;
- The interest on savings is not consistently calculated and raised in the books, i.e., in 2000 no interest was calculated on savings and no credit was passed in the financial statements;
- Interest on savings is not given to clients who drop out of the organisation, nor is it raised on members' cards. This is contrary to the organisation's policy and could have legal implications as the organisation is obliged contractually to pay out the interest to its clients;
- LAPO's annual budget only covers certain items of the income statement and balance sheet; others are not covered at all. The budgeting is not complete and it is impossible for management to monitor items which were not covered in the budget at all;

- Management does not receive management accounts on a monthly basis to understand the financial position and the result of operations of the organisation. This is a major weakness;
- The policies and procedures manual do not reflect what is being applied in the organisation, i.e.:
    - According to the manual, staff and the organisation should each contribute 2% to staff savings account each month. LAPO makes no contribution and the staff is contributing up to 5% per month to the savings account;
    - Interest should be calculated on a monthly basis, credited to the savings account and split amongst the staff *pro rata*. To date no splits have been made and the rules for splitting the interest are not in place. This could have an adverse effect on staff morale, and the organisation should ensure that it is rectified;
    - The initial deposit carries 8% interest, and savings 6% interest, calculated monthly and payable back to the client on dropping out, according to the manual. In practise the rate is 4% on both the deposit and compulsory savings by the client;
    - Unearned interest on loans is to be accounted on a monthly basis. This is not done because unearned interest is not reflected even in the annual financial statements. It is said the amount is lumped together and can be easily segregated, but it is recommended to report this amount explicitly.

Note: The manual should be used both as a training guide and a source of reference, but if the information is incorrect it will lead to non-uniform policies and procedures that are difficult to monitor and manage.

There is no fixed asset register in the organisation for neither the branches nor head office. This means that there is no record of all fixed assets in the organisation (i.e. the cost, date of purchase and depreciation of each fixed assets, etc). In short, there is no evidence that the fixed assets of the organisation are safeguarded. There is also no evidence that total fixed assets in the organisation are reconciled to the general ledger on a monthly and annual basis. According to policy, fixed assets should be depreciated every month and charged to the income statement and balance sheet. Again, this is not done because neither of the two reports are prepared on a monthly basis. Finally, there is no allocation of head office and consulting costs to branches, and the branch chart of accounts is not comprehensive enough to incorporate the balance sheet.

Reported improvements made since, and systems installed include:

- Daily cash position;
- Reporting calendar for monitoring submission of reports;
- Trial balance reporting;
- Income statement and balance sheet reporting;
- ORSA (Operations Risk Self Assessment) management and reporting system;
- Set up of an effective Internal Audit function with comprehensive manual of audit procedures;
- KIM (Key Indicator Management) analysis and reporting system;
- Operations monitoring by Head Office;

- Comprehensive Manual of Operations procedures;
- Comprehensive Finance & Accounting procedures manual incorporating various policies and procedures;
- ACCPAC accounting software system; and
- M2 MIS loan tracking system.

In addition there was training carried out on financial analysis, bookkeeping and accounting at the branches, monitoring procedures from Head Office Operations and Audit, and on format and deliberations at quarterly review sessions.

2.9.2 External Audit

LAPO is audited by a small firm of chartered accountants called Andrew Ejoh and Company, registered with the Accounting Board of Nigeria. The firm has two partners (chartered accountants), a manager (chartered accountant), two senior accountants/clerks and five junior accountants/clerks. The firm has a sizeable number of companies under audit, some with a turnover of over a billion Naira per annum.

External audit reports were prepared and the auditors presented management letters for the years 1999 and 2001. There is no evidence that the management letters for the year 2000 and 2002 were compiled, and no evidence that the 2000, 2001 and 2002 letters were presented to management. The management of LAPO confirmed receipt of the 1999 management letter but there is no evidence of follow up or corrective action taken. According to the external auditors, the following areas in the organisation need strengthening:

- The board needs to recruit members with strong related experience, and should be expanded not reduced;
- The management of the organisation has the correct academic qualifications, but now needs personnel with practical experience, especially in areas such as finance;
- There are no linkages between finance and operations. Reporting in operations is not pulled into the organisation's financial results (i.e. finance is not compiling management accounts on a monthly basis for the whole organisation);
- The internal audit department needs to be expanded and experienced personnel brought in to supervise and manage the department. There is no internal audit charter, no annual plans, no budgets and internal audit procedures are not documented. The internal audit work papers and reports are not used by external audit. There should be some liaison between external and internal audits to such an extent that internal audit working papers and reports be used by external auditors and finally, the external audit should have input on the audit charter and annual work plan; and
- Cash is not managed well. Branches are not monitored well on cash management to such an extent that cases of fraud are emerging and the situation will worsen if not addressed.

A review of the organisation's audited financial statements for the years 1999, 2000, and 2001 was undertaken by the evaluation team, and produced the following :

1999

- The retained income in the income statement is different from the balance sheet by ₦2.79 million;
- The donor loan funding in notes to the balance sheet is different from donor funding on the face of the balance sheet by ₦331,000;
- There is no evidence that the audited annual financial statements for the year 1999 has been approved by the board; and
- Opening balance for special grants in 1999 of ₦8.30 million had no corresponding closing special grants in 1998. Grants have been inconsistently accounted for (i.e., some grants are expensed in one year and capitalised in another).

2000

- Total grant funding shown in the notes to the income statement differs from grant funding reflected on the face of the income statement by ₦5,87 million; and
- The provision of interest on savings and long-term loans is inconsistent (i.e., in 1999, total savings and long-term debt added up to ₦12,74 million and interest paid amounted to ₦438,000. In 2000, the organisation had savings and long-term liabilities of ₦18,59 million and interest paid on such liabilities was zero. It is possible that the interest was paid/provided for and incorrectly classified or there was no provision at all. In that case, the liabilities of the organisation were understated and the provision still needs to be raised);

2001

- There are differences between the audited 2000 financial statements and the comparative figures for 2000 as reflected in the 2001 audited financial statements. The differences are as follows:
- Donors funding: ₦14,842 million; Directors current account: ₦17,461 million; Operating grants: ₦358,000; Loan loss reserve: ₦358,000, Other savings: ₦302,000; and Accrued expenses: ₦302,000. These anomalies were not noticed by the external auditors and were approved by the board; and
- The audited and signed financial statement reflects a loan taken by the executive director of ₦10,201 million. It was clear from our discussions with the director that he had no knowledge of such a loan. The external auditors confirmed knowledge of the transaction and the reason given was that the figure was a balancing figure for the balance sheet.

None of the balance sheets reviewed for the three years balanced, and the external audit agreed that it has been difficult to confirm the accuracy, completeness and validity of transactions due to lack of documentation. Nevertheless, the auditor's report for the three years reflect the following opinion "that the financial statements are in agreement with the books, which, in our opinion, have been properly kept, and give a true and fair view of the state of affairs of the organisation."

The external auditor's integrity, competence and independence is suspect, and in our opinion, the firm should be changed. Even if some of these issues have recently been addressed through the financial consultancy under the IGP grant, a full independent external audit by a recognised accounting firm is highly recommended.

2.9.3 Internal Audit

A department of three staff members, a manager, one senior and a junior internal auditor perform the internal audit function. The manager is newly appointed and reports to the executive director.

The department draws monthly schedules of branch visits. According to the internal audit manager, branches are not informed of the visits, the area of testing or the procedures to be performed.

Reports are compiled following each visit and at end of the month all the reports are consolidated with the final report sent to the executive director for review. The general areas of audit are bank and cash, expenses and payroll. The general procedures normally performed by the surprise audit include a cash count at the branch and head office level, a review of bank reconciliations, and vouching of expenses and payroll.

At the time of the mission, there were no working papers which detail the area covered, the procedures performed and the results of the testing by internal audit even though internal audit working papers provide external auditors with information such as the competence, independence and quality of work done. According to the external auditors, the lack of working papers, clear audit procedures and findings are the reasons they do not rely on the work of internal audit.

According to the internal auditors, each branch should be visited once a month. In the Warri branch, a branch with the highest write-offs and delinquencies, the audit team reportedly last visited in March 2003, more than three months earlier.

It should be mentioned though that a number of improvements are being made to this critical organisational unit and efforts increased in ensuring internal controls are working smoothly.

2.9.4 Fraud Control

Despite one notable fraud prevention measure – rotating branch officers – LAPO's procedures at the time of the mission did not minimise chances for fraud. Moreover, money is disbursed in cash, which, in principle, exposes the institution to high fraud risk, and the current cash handling systems do not reduce risk of fraud. According to LAPO and the financial consultant, there is now a new Manual of Audit procedures with clear guidelines on "Detection and Audit of Fraud" which lists the types of fraud common in MFI's operations.

There are reported incidences of fraud regarding staff in Warri and Lokoja-Abuja Kogi-State. In both cases, cash has been taken by staff and not transferred to the Branch Offices. Management's verdict in the Warri case – a three-month suspension without pay of the staff involved – was neither effective nor serious enough. The charge was fraud and the only verdict should have been dismissal.

In the Warri branch, where serious political unrest, fraud and non-payments were experienced, the weekly arrears column in the register was last completed in January

2003. It is disturbing how the delinquency figure reported to head office was arrived at, as there was no evidence at all of tracking.

2.9.5 Public and Prudential Supervision

LAPO is not subject to supervision by the bank superintendency nor a similar agency that supervises financial institutions. It does not have to report on its financial services activities and is not obliged to deliver the report of independent auditors of the annual financial statements. The lack of supervision is not abnormal for an MFI that only on-lends donor funds, but the lack of accurate information at the time of the mission and the lack of accountability of client voluntary savings is worrisome. For the immediate future, what may be required are internal controls to safeguard savings, something currently being worked, and not necessarily to advocate sector-wide regulation in such a nascent industry.

It is, however, important to start the dialogue and familiarise key decision makers, in particular in the Central Bank of Nigeria, with the intricacies of microfinance supervision. The microfinance industry in Nigeria is not regulated by any public agencies. According to executive management, the government is currently engaged in serious discussions with other players in the industry to draft a regulatory framework for the industry. It is desirable that any developments lead to an appropriate legal and regulatory environment and not constrain the sector.

2.10 Financial Manager

LAPO's finance manager has the right academic qualifications (i.e., HND – BSc. in accounting and a post-graduate diploma in banking and finance) and has been with the organisation since 1997. However, there are serious weaknesses in the accounting department that are a direct result of the finance manager's lack of previous experience in a similar position and lack of experience in the performance of financial functions such as the compilation of management accounts. The following problems were found in the finance function:

- The receipts and payment report compiled by operations is passed on to accounts for consolidation and review. There is no evidence that the report is reviewed by the finance manager and the report is not consolidated to the monthly financial results;
- There is no evidence that the finance manager reviews bank reconciliations for head office nor for the branches;
- The finance manager has not effected corrective action on the 1999 external management letter, and to date has not received the 2001 management letter;
- The internal audit department approves all head office expenses and performs testing on head office transactions, but there is no evidence that the finance manager is a recipient of the internal audit report, and no evidence exists that corrective action on head office-related findings is effected; and
- There is no evidence that the finance manager reviews nor authorises payment vouchers relating to purchases and payroll. As a fast growing financial institution, LAPO will need to assess whether its current staff can be trained to manage considerable amounts of money and increasingly complicated financial matters. It may be that LAPO will have to recruit new staff to meet the competency requirements of a large MFI.

LAPO's Health section has an accountant who diligently follows daily, weekly and monthly accounting procedures. It is recommended the accountant be moved to the LAPO Financial Services department immediately, and perhaps become chief accountant.

Recently, steps have been taken to enhance the capacity of the finance and operations managers through attendance at the Boulder Institute and MicroFin courses.

2.11 Gender Dimensions

LAPO shows a strong awareness of the special needs of women in Nigeria. Not only do women comprise 98% of its clients, LAPO also provides training on gender awareness as one of its key non-financial services. Women are also fairly well represented among staff, and there are a number of women in senior positions, as well as on the Board of Directors.

LAPO is a recognised advocate of empowerment of women in Edo State and at the national level. It promotes participatory management and encourages its members to become involved in the various committees such as the General Assembly, the Branch Councils and the Board. The Branch Council is made up of LAPO group leaders who are elected by the members and serves as a vehicle for articulating the needs and views of clients about LAPO's activities. See also sections 3.1.1, 3.2.2, 3.3.2 and 4.1 regarding gender sensitivity.

2.12 Technical Assistance

Since May 2000, LAPO has been receiving technical assistance under the MicroStart programme. The technical assistance began when ASA deployed two experts: Aminur Rashid (Team Leader) and Abu Hasnat Chowdhury (Team Member), on January 17, 2000. In June 2000, a Nigerian national Enyinnah A. Nnamdi was deployed as Local Technical Service Provider (LTSP).

ASA's approach to technical assistance is articulated in a paper prepared by ASA's Managing Director.[19] The approach notes that many promising MFIs lack a cost-effective methodology at the branch level. As the branch is the building block of the organisation, it requires the initial attention of technical assistance. Re-engineering branches for cost-effectiveness once an organisation has grown and faces competition is costly and thus not a viable option. The paper notes that most promising MFIs also have shortcomings in management and governance. ASA's stated approach is to engage management and governance to focus on these issues once demonstration of best practises is taking place within their organisation.

Lack of management skills and institutional capacity to deliver a sustainable microfinance to its clientele is evident among all the Nigerian MFIs. The ASA methodology ensures branch level sustainability within just one year of operation and

[19] See "Fostering Successful Technical Assistance Partnerships", by Md. Shafiqual Haque Choudhury, paper for UNCDF/SUM and UNDP Africa Global Meeting May 2001. http://www.uncdf.org/english/microfinance/reports/thematic_papers/index.html.

institutional sustainability within three to five years. Considering the above, MFIs decided to practise this methodology in the Nigerian context through the opening of pilot branches in new areas, while keeping their own methodology to compare the results. Key technical assistance inputs provided to all eight MFIs are outlined below:

- A week-long basic training programme for the executives/management staff of the eight selected MFIs, carried out from May 29 to June 2, 2000. Two participants from each MFI took part;
- Financial plans for all of the model branches were prepared during the period of June-July 2000. In order to help the MFI prepare the plans, the ITSP and LTSP team members visited the participating MFIs for two to three days each;
- A four-day basic training programme for the model branch staff was organised from July 24-27, 2000. Two staff (Branch manager and one credit officer) from each of the MFIs attended the training;
- All eight MFIs were fully convinced of the ASA methodology of microfinance services and decided to change from their existing microfinance methodologies. To facilitate the transformation process, a three-day long training session was organised in June 2001 for the executives of each MFI;
- During the month of May 2002, a basic training was provided to the Branch Managers, Mid-level and Senior Managers on preparation of financial plan for branch. The training was held on a regional and branch basis in seven different locations;
- At the same time, training on MIS and financial ratio analysis was provided to mid-level and Senior Managers;
- The ITSP helped in the process of preparing the credit manual and different related tools in consultation with MFIs with regard to cost-effective micro-financial management, which primarily focuses on appropriate financial products and services, as well as cost effective micro-finance operation in the context of Nigeria;
- TSP team members have made a total of 194 monitoring visits to the eight selected MFIs, with each visit ranging from two to five days; and
- In addition, as LAPO is seen as one of the more promising Nigerian MFIs, a senior ASA staff person was deputised to work with LAPO's Executive Director for one month. For Phase II, as of August 2003, ASA has placed a senior ASA full-time staff person to work with LAPO on institutional and managerial issues.

Implementation of the USAID assistant commenced in 2003 and the major activities that have been or are about to be undertaken include:

- Technical assistance provided by an international financial consultant from Kenya to help LAPO develop its operations, accounting and finance, and audit departments in line with international best practises(this took place over a 5-month period, with periodic breaks, from 27 January to 6 September 2003);
- Installation of an accounting and portfolio tracking system;
- Microfinance training, including training on MicroFin, in Boulder, Colorado, for the finance and operations department managers;
- Exposure programme for two weeks in India for the LAPO Executive Director and Manger of Operations at Cashpor Financial and Technical Services in

Northern India and share Microfinance LTD (From September 13 to 27, 2003); and
- Installation of electric generators and computer equipment at the head office and two branches.

2.13 Findings from Earlier Evaluations

USAID/MicroRate Assessment
As mentioned previously, USAID engaged MicroRate to review LAPO as part of the due diligence for its Implementation Grants Programme. The USAID due diligence team that visited LAPO in mid-March 2002 noted a number of basic weaknesses in the institution, including: i) a weak MIS that is not able to track key performance indicators quickly; ii) the need for strengthening the level of technical and financial skills of LAPO senior and mid-level management staff; and iii) the need to make the LAPO microfinance programme a separate and distinct legal entity from the other LAPO non-microfinance subsidiaries. Main findings of the review were as follows:

- LAPO had benefited significantly from the MicroStart programme in Nigeria, as ASA had introduced measures to simplify products and procedures and cut costs;
- LAPO has highly efficient branch staff, offset by high head office expenses;
- LAPO has an unknown and probably poor portfolio quality; and
- Cash handling by staff poses a security risk.

3.0 Services, Clientele, and Market

3.1 Services

3.1.1 Loans

LAPO has a credit manual, referred to as the "LAPO Operations Procedures Manual", dated June 2003 which outlines the official loan policy.

LAPO financial services consist principally of loans and savings. The major type of loan product is referred to as the "Regular Loan", and is given out for a period of eight months at a rate of 3-3.5% flat per month. Clients are also charged 2% for what is known as the insurance cover (risk premium), through groups/unions.[20] From staff interviews it appears that the current initial loan size is pegged at between ₦8,000 and ₦10,000 (approximately US$80, at current official exchange rates). The size of repeat loans increases from ₦3,000 to ₦5,000 over and above the initial loan. However, the manual states initial loans should start at ₦7,000 to =₦8,000, with ₦1,000 =₦2,000 increases. The period of the last repayment to the disbursement of the new loan is very short. The maximum regular loan amount loaned to a long-standing client cannot be more than ₦50,000 (roughly $400 dollars). The loan process is described below.

[20] Groups of five members each, combine with three to six similar groups to form "unions" of between fifteen and thirty members.

Eligibility and Conditions

The initial cost to clients is relatively low. The process begins with the formation of self-selected groups comprised of five members each. Three to six such groups form unions of between fifteen and thirty members. Each group elects a chairperson, secretary, and one cashier and decides on the homestead of a fellow group member at which to meet on an agreed day of the week. Once the groups and unions are formed, a membership fee of ₦ 250 needs to be paid for the registration pack. For a client to qualify for a loan, she must have been with LAPO for a period of six weeks, during which she is given pre-loan training. The pre-loan training actually covers all the information regarding the organisation, the loan terms and conditions.

The client is also expected to save at least 10% of the proposed loan and there is a compulsory minimum saving. The manual does not stipulate the amount to be saved, but states that savings are deposited weekly at a set minimum amount for the mandatory portion, which is usually decided at the Annual General Meeting of the assembly members. In 2002, this amount was ₦20 per week, but it was increased in April 2003 to ₦40 per week. The 10% deposit of loan amounts could be expressed clearer in the policy manual. The policy states that LAPO pays 4-6% interest on these deposits, calculated yearly. The client cannot withdraw from the forced savings unless she wants to drop out.

Loan Application

Once members have accumulated savings equal to 10% of the loan amount sought, deposited another 2% for what is known as the insurance cover (risk premium), and all group members seconded the loan request, the group members fill in an application form, which is to be approved by the group leader. Two passport photographs are also required for proper identification.

Loan Approval

The credit officer submits the loan application with his/her recommendation. The branch manager verifies the application through group/household visits and approves the loan application.

Loan Disbursement

Approximately six group members are expected to co-sign the loan application form, thereby attesting to the integrity and capacity of the applicant to pay. The spouse's signature is not emphasised, in contrast to the provision stated in the procedures manual. All loans are guaranteed by the group, with the cumulative savings of the group also pledged as security for the loans granted. Disbursement is in cash, which is convenient to clients, though very risky as it facilitates fraud and can be dangerous security wise.

Loan Administration

After the expiration of the moratorium of two weeks, repayment of the regular loan is made weekly and divided into 31 instalments accordingly. Each instalment is paid during the weekly meeting.[21] Deposits are also accepted during the meeting. Loans are

21 At some rural branches they meet monthly instead of weekly

guaranteed by the group, and the cumulative savings of the group are also pledged as security for the loans granted.

Repeat loans, in practise, range from and additional ₦3,000 and ₦5,000 of the initial loan size, though the LAPO operations manual specifies a maximum addition of ₦3,000. Clients are given repeat loans only when they have demonstrated an excellent repayment record and regular attendance at meetings. It is, however, worth mentioning that the period between the last repayment of the first loan cycle and the disbursement of repeat loans is usually very short– two weeks at a maximum.

Also, it should be noted that the operations procedures manual is not always followed in practise. Both the institutional assessment team as well as the results from the client impact assessment showed deviations.

Besides the Regular Loan, other types of loans offered by LAPO are presented in Table 5:

- *Christmas Business Loan*: This type of loan is being transferred to Micro-investment. It is normally given during the Christmas season when volume of business seems to be high and has to a large extent the same terms as the regular loan, though repaid over a shorter period of time;
- *Emergency Loan*: This has also gradually being phased out as a different loan product with its own distinct loan terms; instead a regular loan can now be given for emergency situations;
- *Asset Loan*: This loan is managed by a separate department known as Microinvestment services. The loan is given to individuals who secure the credit with collateral. It charges 5% interest per month for a period of six months. The repayment is done monthly at the head office; and
- *Farming Loan*: This is a new product being piloted in four communities. Product features include a two-phase disbursement schedule: 60% at the start of the farming season and 40% at weeding time. Another feature is that 30% of the principle and interest is paid in monthly instalments during the farming season, while the balance of 70% is paid at harvest.

The loan products are not clearly segregated. Regarding client satisfaction with the current products and services offered by LAPO, and LAPO in general, the reader is referred to the client level assessment reports. Overall, client satisfaction at LAPO is quite high and the client surveys show significantly higher client impact in the case of LAPO than the other case study countries.

The dropout rate could not be calculated. It appears to be higher than usual over the past year because of communal and political clashes, or feelings of discontentment regarding the assistance so far received from LAPO. According to staff and selected clients, other common reasons why clients leave include: the small loan size, the weekly repayment schedule and client moves (clients who move from one area to another). The client impact assessment specifically researched why people exit and provides empirical information.

Table 5: Terms of Loan Products over the Years

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Initial loan size (₦)	850	1000	1500	3000	4000	5000	5000	8000	8000	10000
Moratorium	1wk.	1wk.	1wk.	1wk.	1wk	1wk.	1wk.	1wk.	2wks.	2wks.
Loan period(months)	10	10	10	10	10	10	10	10	8	8
Int.Rate(p.a)	10%	15%	24%	24%	24%	24%	36%	36%	39%	39%
Loan products	R.L Jt.Pr.	R.L Jt.Pr	R.L Jt.Pr	R.L Jt.Pr	R.L Jt.Pr	R.L Jt.Pr Ast.L Em.L CBL	R.L Jt.Pr Ast.L Em.L CBL	R.L Jt.Pr Ast.L Em.L CBL	R.L Jt.Pr Ast.L Em.L CBL	R.L XBL
No. of clients	1000	1200	3300	9000	5800	7155	8849	10124	13859	15290
Length of stay before disbursement	2mths	1mth.	1mth.	1mth.	1mth	1mth.	1mth.	1mth.	6wks.	6wks.

Note: R.L- Regular loan; Jt.Pr-Joint project; Em.L- Emergency loan; CBL: Christmas Business loan; Ast.L- Asset loan; Interest rate; Year 2001 and 2002; MicroStart branches 36%; Old LAPO branches 42%; Average: 39%.

LAPO recently began to monitor its dropouts by issuing client exit forms soliciting the reasons clients are leaving the programme. It is not clear, however, if management investigates these reasons, and takes these factors into account regarding future programme design. This lack of investigation in discrepancies seems to be a tendency throughout the programme.

3.1.2 Voluntary Savings

There are two types of savings, namely compulsory or mandatory savings (described above) and voluntary savings, though they are, to a large extent, mixed together.

The amount saved voluntarily varies from member to member. Members are able to withdraw savings that are in excess of the 10% of loan requirement – the mandatory savings balance. Voluntary savings offer 6% yearly interest; however interest is calculated together with the compulsory savings. That is, both savings balances are added together and interest is calculated on the total sum. Voluntary savings are supposed to be captured separately in members' passbook. The mission observed that LAPO is inconsistent in the actual crediting interest on savings to clients' accounts.

3.1.3 Other Financial Services

IYOBO LAPO Community Bank – A subsidiary of LAPO, the IYOBO LAPO Community Bank is located on the premises of the LAPO head office and provides general financial services similar to commercial banks. The IYOBO LAPO Community Bank extends loans between ₦250,000 and ₦2,000,000 (roughly US $16,000 at the current exchange rate), hence the missing middle category above microfinance. The bank charges 5%-6% on the monthly declining balance, which is usually not held for more than a few months. The bank also provides normal banking services, which include the operation of savings and current accounts for customers. The IYOBO LAPO Community Bank provides temporary overdraft facilities for periods up to two weeks, at 21% per annum. Presently, it serves 82 customers with loans. Projection of deposit mobilisation is attached in Annex 3. In addition, LAPO likes to demonstrate that community banks can service a lower income segment than they usually do. Hence, the bank has started a microfinance loan product and currently offers the same Regular loan as LAPO does with the same terms and conditions. One can say that the Community Bank enhances the LAPO core loan and deposit services in the following manner:

- Clients can graduate to the bank where they can benefit from a wider range of services;
- Asset loan clients already benefit from the Community Bank services; and
- It offers the possibility for mainstreaming microfinance services.

Credit for Shares – This is a new project, begun in 2002, is in its pilot phase. Some forty clients who are well-known to the organisation were selected and loaned ₦20,000 to buy shares from public limited liability companies. Though these shares were bought in the client's name, they remain in the care of LAPO. The organisation engaged the services of a stockbroker, at a fee, to handle the procurement and management of the shares. The interest rate charged is 10% per annum to be repaid over two years in monthly instalments. At the end of the repayment schedule, clients would own their share certificates. LAPO hopes to have reached 450 clients through this programme by 2004.

3.1.4 Non-Financial Services

LAPO has constituted what is referred to as the Social Development Department to cover the whole gamut of non-financial services. Headed by a General Manager, the department basically covers three major areas known as the LAPO Development Centre (LADEC), LAPO Health, and LAPO Consultancy Services. LADEC provides services that range from sensitisation, to research, to publications. It creates awareness on democracy and governance (D&G), gender, education and leadership training (GELT), and business education. It is presently focused on an impact assessment of LAPO's intervention and the maintenance of a Resource Centre. Various publications are published to disseminate the results of its research, including "Support", "Dialogue" and a television programme known as "Bridging the Gap".

LAPO Health provides health education on different topics such as family planning, personal hygiene and reproductive health issues, among others. See Table 6 for an example of activities in the first half of this year. LAPO Consultancy Services provide training to organisations, institutions and individuals on issues ranging from "formation of NGOs", "facilitating the development of community development plans", to "microfinance". Whereas LAPO may be well placed to provide training on NGO development and community development plans, it is premature to be training other MFIs.

None of the non-financial services are tied to LAPO's financial services or are a pre-condition for loans. However, pre-loan training is offered by the operations department for all potential clients. Also, clients do not pay for these services as the non-financial services depend on grants and donations. A skills acquisition programme that was fee-based did not attract any patronage.

In reality, LAPO's non-financial services enhance the financial services delivery as the empowerment of women through increased awareness of their rights enables them to make decisions regarding their money. It also enhances a holistic approach to development, more so as LAPO operates a "credit plus" approach. The non-financial services are provided through already existing structures such as the unions and the branches. It is the Branch Manager that provides the information on which group of clients can be assessed at any point in time. The Credit Officers also ensure that all the clients are aware of upcoming awareness and training programmes.

The non-financial services department is managed separately. It makes its own decisions and designs its own programmes. However, LAPO's current accounting system cannot clearly separate the financial from the non-financial operations, though it is envisaged that the services will be delivered in a more distinct manner.

Table 6: Non-Financial Services January to June 2003

Services	*GELT	Democracy and Governance	Health
No.of clients reached	626	474	640
Operational Expense(₦) *	172,480	343,610	492,415

* Gender, Education and Leadership Training

3.2 Outreach

3.2.1 Branch Structure

LAPO provides its credit services through its branch offices, which are in turn supervised by area offices. At the end of 2002, LAPO had 22 branches in four geo-political zones: Edo, Delta, Kogi, and the Federal Capital Territory (see Annex 1). These areas are characterised by low industrial activity, widespread poverty, subsistence farming, commerce, food processing and vending, petty trading, craftwork, and many other types of micro-enterprises. Like most MFIs in the MicroStart programme – except for SEAP which operates exclusively in urban areas and NUSHO and JDPC exclusively in rural areas – LAPO operates in both urban and rural areas. Currently, an average of 30-40 unions are serviced by a branch office and four to six branches constitute an "Area".

Table 7: LAPO Points of Sale

	2002	2001
Area Offices	4	4
Branch Offices	22	18
Employees per branch	4	4
Loan Officers per branch	3	3

3.2.2 Loans

Table 8: Outreach Summary

Regular Loan	2002	2001
1. No. of active loans at end of period	15,290	13,859
2. Percentage of clients who are women	95%	95%
3. Average balance per loan(₦)	90,516,407	53,708,214
4. Average balance per loan as a percentage of per capita GDP		

3.3 Clientele

3.3.1 Market

LAPO describes its market as covering those women who fall below the bottom 50% of the population and are living below the poverty line. The population of Nigeria is 133 million of which 70% are estimated to live on less than $1 a day. As such, the market is huge, with demand for financial services far exceeding the supply. LAPO has a competitive advantage in exclusive focusing on the poor, experience in poverty lending, central location, strong client loyalty and a participatory approach to microfinance through the branch council structure and complementary social development programmes.

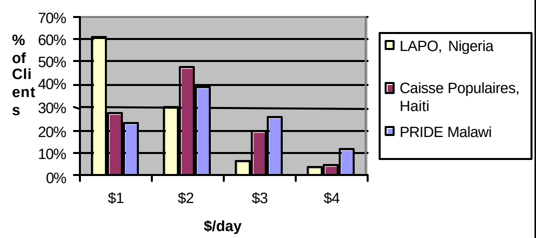
The product mix offered since the outset of the programme has changed over time. Anecdotal evidence suggests that some of the changes were client-driven, but a systematic market analysis and client feedback mechanism are not in place. Though LAPO does not currently conduct formal demand studies, it is in the process of building a feedback tool (a questionnaire that would be given to each client after each loan cycle) into its framework to be able to appraise the relevance and suitability of loan and savings products. This feedback is expected to contribute to the reappraisal and redesign of such services. Meanwhile the organisation has what it calls a participation form which is given to every potential client to collect baseline data, facilitating the measurement of the LAPO intervention on each client at the end of the loan cycle or when a client quits. The organisation also plans to conduct studies on client satisfaction.

An external threat to the LAPO market is the ethnic clashes that are forcing LAPO to withdraw or limit its operations in certain areas. Other factors that can impede its financial service operations include government regulatory policies (if incorrectly designed), and inflation, which was 13% for 2002 and could increase further as a result of an increase in fuel prices caused by the deregulation of oil prices. However, the overriding factor is on the opportunity side: an unlimited market and LAPO's increasing ability to penetrate its market.

3.3.2 Clients and Poverty Targeting Sub-Sector

About 85% of LAPO clients are involved in petty trading, while the remaining 15% are involved in food processing, farming and catering. These clients belong to the lower 50% of the population and live below the poverty line.

Figure 3: Poverty Targeting



Income Levels

Though presently there is no agreed, nationally defined poverty line, LAPO identifies any one earning less than ₦2,000 a month as being poor. Based on the participation form given to each potential client, the level of poverty is measured based on the level of education, marital status, type of housing and level of income. Each of these indicators has been assigned a weighted score. Hence, after a thorough investigation, the client is categorised as: least poor, less poor, average poor, poor or very poor. The client impact research conducted for the UNCDF Microfinance PIA found evidence that LAPO's poverty targeting is highly successful, with 90.7% of its clients categorised as "poor" or "very poor". Figure 3 demonstrates the depth of outreach of LAPO compared to other case study country MFIs.

Women

As mentioned, the market segment targeted by LAPO is female clients. Though, LAPO's group lending methodology is particularly appropriate for poor women, no systematic product development is taking place to develop products that meet the specific needs of female clients.

3.3.3 Competition

LAPO does not feel it faces serious competition in the geographic zones it services as, presently, apart from the commercial banks, no other MFIs provide financial services in the area where LAPO operates. The only competition is from informal and loose groups of moneylenders, thrift collectors and traditional savings groups like *esusus*:

- *Money Lenders*: Provide loans to individuals in distress and charge significantly higher interest rate (20% per month or more)

- *Cooperative Thrift Credit Societies and Union*: Provide credit and savings services to farmers, such as cocoa growers, who grow cash crops.

- *Traditional Savings and Credit Groups:* Predominantly in rural areas and catering primarily to salaried workers. They generally have a short lifespan and do not adequately meet credit needs for income generation.

- *Itinerant Money Collectors*: Assisting depositors to build up their savings over a short period, usually 30 days.

LAPO expressed alertness to new market entrants and considers its competitive advantage to be based on its exclusive focus on the poor and women, its experience in poverty lending, and its strong client loyalty.

4.0 Strategic Objectives

4.1 Mission and Objectives

Though LAPO does not have a specific mission statement for microfinance that is consistently promoted, its vision and key objectives are expressed as poverty alleviation and increasing outreach. The broad underlying aim, as formulated in the business plan 2001-2005, and voiced among staff, is to assist beneficiaries to break out of poverty by providing access to credit and awareness on pertinent issues. As with Grameen, LAPO serves solely the poorest of the poor, although the Community Bank and Microinvestment serve a higher income segment. As a poverty-focused programme, LAPO targets almost exclusively women.

Social development services are found to be essential complementary services to microfinance services in order to overcome the low self-esteem of the poor, and women in particular. LAPO plays an important role in the wider debate of poverty alleviation in the country and is a strong proponent of empowering women and advancing gender issues. High importance is paid to operating as a learning organisation and to being innovative. LAPO's management and staff think of themselves as helping the poor, increasing self-reliance, building the asset base of their clients, and providing innovative financial services.

LAPO is proud to demonstrate that a multi-purpose microfinance institution can deliver financial services in a sustainable manner (as opposed to a minimalist programme).

4.2 Objectives for the Near to Medium-Term

4.2.1 General Direction

LAPO's vision for the next five years is to reach institutional sustainability and extend its services both in new areas within the states it presently covers, as well as to other states where it does not currently have a presence, including the West in the rural areas of Lagos and even the Northeast (see map in Annex 1).

LAPO's business plan for 2001-2005 aspires to reach 330,000 people. These projections were revised downwards, to 53,000 clients and 121% financial sustainability by 2005, in a business plan prepared in March 2002. This plan also outlines a consolidation phase, followed by an expansion phase. The change has not fully trickled down to all staff, as some still use the old figures as goals for the future. Though LAPO's planning has become more realistic, the hurdles the institution will have to surmount to achieve even its revised goals are still, at times, underestimated. At the same time, management is on top of a number of broad issues, thinking ahead and anticipating what is needed on the funding side. For instance, it intends to leverage commercial resources and possibly mobilise deposits in the future.

4.2.2 Key Indicators of Scale and Outreach

The business plan for 2001-2005 originally envisaged loan growth from 15,474 to over 100,000 and an outstanding loan balance of $6.7 million by the end of 2004, further increasing to 337,000 and an outstanding loan balance of 16 million by the end of 2005. Again, these projections were revised to 53,000 clients by 2005.

Table 9: Projected Performance (in US$)

	ACTUAL			PROJECTED		
	Dec-00	Dec-01	Dec-02	Dec-03	Dec-04	Dec-05
Outstanding loan balance	423,227	665,637	1,011,396	3,520,000	5,756,800	6,809,600
Number of active loans	10,124	13,859	15,474	35,200	51,400	53,200
Outstanding savings balance	153,234	186,822	240,066	1,348,475	4,198,308	13,004,583
Number of savings clients	10,566	15,480	16,611	56,800	134,000	337,000
Number of staff	64	94	120	241	241	241
Number of branch offices	11	16	20	30	70	175

4.2.3 Key Changes

Major expected changes include:

- Methods of financing;
- Improved processes;
- Introduction of a new accounting software and possibly loan tracking system;
- Continued innovation; and
- Possibly a changing institutional form.

4.2.4 Business Planning and Financial Modelling

The planning or global budgeting process is driven by the Head of Operations. LAPO has a five-year strategic business plan and LAPO generates overall annual budgets and management reports which compare actual results with targets and budgets. However, the organisation's financial projection model could be improved. For example, it does not necessarily include all aspects and components of the organisation's operations. Also, the projections are not based on realistic assumptions (regarding costs, growth rates, and the like) given the institution's past experience and the experience of similar MFIs elsewhere. Rather, they seem to be driven by a desire for rapid expansion. It should be noted, that LAPO is gearing to adopt MicroFin as its business planning and financial modeling tool.

4.2.5 Challenges

The main challenge facing LAPO's institutional development and organisational structure in light of its near and medium-term strategic objectives is to avoid collapse by too rapid growth, as has happened with a number of MFIs that pursued equally aggressive growth plans. LAPO's existing staff will need to be trained on new skills, and people with specialised expertise will need to be recruited to meet the needs of a maturing organisation.

5.0 Financial Performance

5.1 Income Statement and Balance Sheet

LAPO accounts for some of its transactions on an accrual basis and some on a cash basis; specifically, interest received from clients is accounted for on a cash basis, but expenses on an accrual basis.[22] Average figures used in the calculation of ratios are calculated on a monthly basis. It must be underscored, however, that it is impossible to rely on the financial statements of the organisation because even the external auditors admit that they could not find sufficient supporting documents to justify some of the transactions reflected in the financial statements.

Table 10 demonstrates an increase in income from lending of over 100% and a reduction in operating losses, unadjusted, of 45% during the year 2002.

Moreover, the organisation has made significant improvements in the past three years since the introduction of ASA as the international technical service provider. Operating income has grown by 600%; operating expenses by 500%; portfolio outstanding by 200%; and operating losses have increased by 36% since 1999 up to 2002. Operating costs have increased with the formation of new branches, personnel and head office staff. It should be highlighted that there is still a significant discrepancy between the actual portfolio yield and the effective yield LAPO should theoretically achieve if all loans were being paid on time (see section 5.7).

[22] Hence, it is unnecessary to reverse interest on non-performing loans.

Table 10 Income Statement (in Nigerian Naira)

	Account	Dec – 01	Dec – 02
	Operating Income		
1.	Interest and fee income from loans	17,115,072	38,364,556
2.	Income from other finance-related services	3,213,526	5,111,255
3.	Income from investments	113,276	697,763
4.	Total operating income	20,441,874	44,173,574
	Operating Expenses		
5.	Interest and fee expense	799,631	1,180,999
6.	Loan loss provision expense	2,297,478	3,753,635
7.	Administrative expense, personnel	13,761,561	20,904,895
8.	Other administrative expense	16,390,186	25,567,108
9.	Total operating expenses	33,248,856	51,406,637
10.	Net operating profit (loss)	(12,806,982)	(7,233,063)
	Non-Operational Income		
11.	Cash donations for financial services	24,099,175	54,137,820
12.	Other non-operational income (if any)		
13.	Non-operational expenses		
14.	Total consolidated profit (loss)	11,292,193	46,904,757

The assessment found that the audited balance sheets do not balance. The problems encountered range from inconsistent disclosure of grants (i.e., some grants are expensed in one year and capitalised the next) to serious duplications of amounts. It should be noted, that apparently, improvements have been made in this regard. The policy on accounting for grants is now clearly stated in the Finance & Accounting Procedures Manual and was adopted by the Finance Department.

Table 11 shows improvements in terms of solvency, but a deterioration on the asset side. Liquidity is tight (cash and bank holdings decreased from 14% to 6% of assets) and the portfolio quality has not improved as evidenced by a high loan loss provision. Moreover, even though the provision appears prudent, there is no way to assess whether it is high enough, given the fact that the organisation currently cannot measure portfolio quality. It should be mentioned that improvements are being made, but until such time as a comprehensive audit at each branch on a loan-by-loan basis by an independent party has taken place, the true state of portfolio quality can not be provided. At the time of the mission, additionally, the loan portfolio could not be reliably aged and the notion of zero tolerance or tight delinquency management was not engrained within the organisation.

These issue should not be taken lightly as also recommended by MicroRate & GMRA reports. Any portfolio uncertainty is extremely risky, especially with the accelerated portfolio growth which has reached a high of 200%, and which could ratchet again because of the market potential in Nigeria. Management should fully complete the process of corrective action. In this connection, it is recommended to extend the consolidation phase to the extent that donors have the flexibility to relax performance targets for its implementing agencies. In this way, LAPO could fully internalise the newly installed systems put in place under the recently completed technical assistance part of the consolidation, get to the bottom of the major inaccuracies, and comfortably advance on the expansion path.

Table 11: Balance Sheet (in Nigerian Naira)

	Account	Dec – 01	Dec – 02
	Assets		
15.	Cash and due from banks	18,338,674	10,964,538
16.	Reserves in central bank		
17.	Short-term investments in market instruments		
18.	Total loan portfolio	74,285,124	121,367,542
19.	(Loan loss reserve)	(4,917,183)	(8,670,818)
20.	Other short-term assets	1,569,036	1,136,869
21.	Long-term investments	7,861,301	24,111,115
22.	Net fixed assets	32,529,976	36,449,283
	Total	129,666,928	185,358,529
	Liabilities		
24.	Savings accounts, compulsory	20,849,387	28,807,880
25.	Savings accounts, voluntary		
26.	Time deposits		
27.	Loans, commercial	4,000,000	2,000,000
28.	Loans, central bank		
29.	Loans, subsidised		
30.	Other short-term liabilities	854,974	335,548
31.	Other long-term liabilities		
32.	Total	25,704,361	31,143,428
	Equity		
33.	Paid-in equity from shareholders		
34.	Donated equity, prior years, cumulative	41,544,863	65,644,038
35.	Donated equity, current year	24,099,175	54,137,820
36.	Prior years' retained earnings (losses), not including cash donations	3,953,412	(8,853,570)
37.	Current year's retained earnings (losses)	(12,806,982)	(7,233,063)
38.	Other capital accounts		
39.	Total equity	56,790,468	103,695,225
40.	Total liabilities and equity	82,494,829	134,838,653

5.2 Adjustments for Inflation and Subsidies

Table 12 provides an overview of the shadow prices used to calculate some of the adjustments to the financial statements.

Table 12: Shadow Prices (%, except where otherwise indicated)

	Dec - 00	Dec - 01	Dec – 02
Inflation rate	6.9%	18.4%	13%
GDP deflator	12.1%	1.9%	3.0
Interbank lending rate	15%	15%	13%
90-day certificate of deposit rate	17%	16.5%	20.5%
Prime rate paid by commercial bank borrowers	22%	22%	17%
Marginal commercial rate available to the MFI	22%	22%	17%
Per capita GDP (US$)	308	319.4	330.9
Exchange rate (local currency/US$)	109.6	111.6	120

The current annual percentage rates that LAPO pays on its long-term commercial loans are 15.75%. According to the organisation, this rate is a preferential rate that was received in its long-term commercial borrowing; it is unlikely that this is the average that other organisations could raise in the open market. The marginal commercial rate of 17% on a reduced inter-bank lending rate of 13% is a reasonable fit.

Table 13: Adjustments for Inflation and Subsidies

		Dec – 00	Dec -01	Dec – 02
1.	Unadjusted operating expenses in local currency	11,801,698	33,248,856	51,406,637
2.	Inflation adjustment	1,536,910	4,618,861	5,947,918
3.	Subsidised cost of funds adjustment	3,515,933	3,979,189	3,549,869
4.	In-kind donation adjustment	8,640,000	3,456,000	1,728,000
	a. Personnel			
	b. Other			
5.	Adjusted operating expenses	25,494,541	45,302,906	62,632,424
6.	Adjusted operating profit (loss)	(15,067,084)	(24,861,032)	(18,458,850)

According to ASA, the international technical service provider, LAPO will continue using its services for the coming three years, into phase two of the programme, with the local service provider continuing to provide any additional services. During the start-up phase, LAPO utilised the technical expertise on a daily basis until the branches could operate independently. Now the visits have been reduced to semi-monthly. Currently, both the local and international service providers perform visits, but this situation will change when sufficient skills transfer between the two has been achieved. The visits will cost the LAPO an estimated average of ₦ 144k per month.

5.3 Profitability

Table 14 demonstrates a negative return on equity and assets resulting directly from the current losses. The situation could worsen if corrective action is not taken to improve the quality of the outstanding portfolio. Operational self-sufficiency is showing a decline from 1999, but has improved since the 2001 results. It is difficult to determine the future profitability of the organisation as the budgets prepared are selective and do not reflect reasonable future profitability.

Table 14: Profitability

		Dec - 00	Dec – 01	Dec – 02
1.	Return on assets	-2.9%	-17.1%	-5.9%
2.	Adjusted return on assets	-10.1%	-21.1%	-10.6%
3.	Adjusted return on equity	-16.6%	-41.9%	-20.9%
4.	Operational self-sufficiency (excluding cost of funds)	96.7%	67.8%	95.1%
5.	Operational self-sufficiency	88.4%	61.5%	85.9%
6.	Financial self-sufficiency	61.1%	48.8%	72.5%

It is important to note that it is common for operational and financial self-sufficiency to show temporary dips in a rapidly growing MFI. This happens as new branches are opened, with performance increasing as the branches become profitable.

It should also be noted that these figures are different from the figures reported by the TSP. Because of ASA's approach in Phase I of rebuilding the organisation from the bottom up, the TSP has reported progress on MicroStart branches only. As such, issues of concern such as high or increasing headquarters expenses do not enter into the picture. At a more general level, looking only at MicroStart branches can give a wrong impression of the institutional strength of MFIs in Nigeria. The review team does not understand why the mid-term external evaluation did not look beyond the reported figures and came up with the following finding: "excellent progress toward MFI sustainability is evidenced by progressive increased operational self-sufficiency from 70.30% in 2000 to 163.58% in 2001 to 239.18% in February 2002". If LAPO is said to be a market leader and LAPO had in 2002 not yet reached 100% operational self-sufficiency, these figures do not reflect the actual state of the microfinance industry in Nigeria.[23] It should be mentioned that this issue is being addressed in Phase II, as ASA is reporting on the whole institution from a baseline of 30 June 2003.

5.4 Efficiency

Administrative efficiency has increased from 46% to 51%. The current structure is skewed, with head office costs currently making up more than 60% of the organisations total costs. This situation needs to be addressed with the cost structure tightly controlled and reduced.

Administrative costs per loan have increased, and could escalate if costs are not controlled. There is a decline in the carrying capacity of loan officers, with active loans per officer decreasing from 158 to 127, which could be due to increased recruitment in anticipation of future expansion. It should be noted that as the portfolio quality improves, this ratio will improve as chasing bad clients is very time consuming and always a costly activity.

Table 15 : Efficiency

		Dec - 00	Dec – 01	Dec – 02
1.	Administrative efficiency	46.1%	53.3%	51%
2.	Operational efficiency	88.4%	61.5%	85%
3.	Administrative cost per active loan	1,065	2,176	3,003
4.	Personnel costs as a percentage of total administrative costs	38%	46%	45%
5.	Number of line staff as a percentage of total staff, end of period	49	75	94
6.	Number of active loan clients per staff member, end of period	158	147	127
7.	Number of active loan clients per loan officer, end of period	207	185	163
8.	Outstanding portfolio per loan officer, end of period	946,646	1,516,022	946,699
9.	Number of clients per branch office, end of period	920	866	817

It should be noted that these figures are also significantly different from the figures reported by the TSP. Again, this is because the TSP reports progress on MicroStart branches only; as such, issues of concern like high or increasing headquarters expenses do not enter the picture. At the branch level, performance is thus more positive than reflected in Table 15. This is because by introducing the ASA lending methodology branches have made astonishing progress in operating in a more efficient manner. For LAPO's MicroStart branches, administrative efficiency is reported to have improved from 70% to 5% over the period 2000-2002.

5.5 Loan Portfolio Analysis

5.5.1 Portfolio Data

Although head office receives delinquency figures from branches, at the time of the mission it was clear from the few tests conducted by the assessment team that the figures are often inaccurate; either tracking at branch level is ineffective or figures

[23] It should be noted that for the year 2003, it is possible that LAPO will reach 100% operational self-sufficiency.

from the branch office are not correctly transferred to headquarters. There is a tendency among branch managers to omit the weekly calculation of clients in arrears, thereby sending a lower figure to head office or showing zero arrears. Hence, the figures presented in Table 16, are reported figures and need to be validated as soon as possible. As mentioned, a comprehensive audit is acutely needed branch per branch, and possibly loan by loan, to properly assess the quality of the portfolio.

Table 16: Portfolio Data

		Dec - 00		Dec - 01		Dec - 02	
	Loan product 1:						
1.	Total principal balance outstanding, end of period	46,385,643		74,285,124		113,603,822	
2.	Number of active loans (clients), end of period	10,124		13,859		15,290	
3.	Average principal balance per client	4,582		5,360		7,430	
4.	Average principal balance outstanding over the period	43,514,742		60,335,384		93,944,473	
5.	Loan losses written off over the period			279,827		5,774,459	
6.	Increase in loan loss reserve over the period	1,118,406		1,016,169		1,456,157	
7.	Loan loss rate	2.6%		1.7%		1.6%	
8.	Total outstanding balance associated with loans that are:	Amt	%	Amt	%	Amt	%
	On time (never refinanced)					113,319,064	93.4
	On time (refinanced)						
	Late (at least 1 payment)					3,797,672	3.1
	1–30 days					3,797,672	3.1
	31–60 days					468,840	.4
	61–90 days					1,640,942	1.4
	91–180 days					5,704,274	4.7
	181–360 days						
	1 year or more						
9.	Portfolio-at-risk delinquency rate (more than 30 days late)					6.4%	

At the time of the mission, LAPO did not systematically analyse nor age the portfolio outstanding on a monthly basis, though some branches estimated the portfolio at risk. Without regular and detailed reporting on the age of the portfolio, management cannot effectively manage delinquent clients and the write-offs will not be in accordance with policies. Coupled with the above factors, bad debts are not considered in the loan loss reserve account. This practise overstates the provision and portfolio outstanding. Most significantly, it becomes impossible to rely on the loan reserve. These problems were identified in the IGP technical assistance and an action plan was drafted to be implemented in the third quarter, hence after the review mission with the financial consultant providing training on a range of issues including zero tolerance and aging policy.

The technical assistance programme is sizeable, and was put in place in response to some of these encountered weaknesses – a highly appropriate and commendable programmatic decision. As an independent assessor, however, we have to note that awareness of the value of time could be enhanced. It has been over a year since MicroRate shed light on a very important weak spot – the actual value of the portfolio (the main asset of a lending organisation) was unknown. As a result, the LAPO leadership is directing an institution of which it does not know the size; it may be close to the reported asset base, but it may not. The delay in resolving this issue, since it was first observed in March 2002, has implied foregone income, further accumulation of losses, delays in solidifying the organisation and at least one year of missed opportunity to increase outreach, all of which are not to be underestimated.

5.5.2 Delinquency Management and Measurement

The branch managers are not consistently completing the weekly registers in full. This is a major weakness which could result in undetected fraud or unmanaged delinquencies (i.e., in Sapele and Warri-2 branches, amounts of ₦6 million and ₦ million in arrears were calculated in the weekly registers while the branches reported ₦ 1 million and zero arrears, respectively, in the head office books). One of the branches in Benin City had a balance reported during the time of the previous branch manager; but the amount is no longer reported since the new branch manager assumed responsibilities. The IGP technical assistance is addressing this area of portfolio management.

At the time of the mission, there was no evidence that management consistently follows up on arrears and no arrears/delinquency management system is in place. As mentioned, this is an area in which improvements have been made over the past few months.

5.5.3 Provisioning

According to policy, LAPO operates a loan loss reserve of 2% as a general provision, and a specific provision with respect to loans known to be bad and irrecoverable over and above the general provision. At the time of the mission, there was no evidence in the monthly reports nor in the annual financial statements that the provisioning policy is adhered to. Again, improvements have reportedly been made in this area.

5.5.4 Refinancing

The current methodology does not allow for the refinancing nor the rescheduling of loans. According to the branch managers interviewed, clients are not permitted to skip repayments. Clients form groups of 25 to 30 members, and each member of the group guarantees repayment for any member who is in default. In the event that a member is in default, first the group has to honour the instalments; secondly any arrears are deducted from the member's savings.

5.5.5 Collection

According to policy, when a member misses a payment the credit officer reports to the branch manager, who in turn will visit the group and the member concerned to understand the non-payment. In the event that the member cannot pay, the group members are expected to assist, failing which, the member's savings will be used. This policy is not evident everywhere in practise because arrears and delinquencies are not always tracked nor accurately recorded. The assessment team observed cases with no clear plan of action from management on recorded arrears. Management should take corrective action by first ensuring that arrears at the branch level are accurately recorded, then by prioritising the follow up of arrears. Reportedly, improvements have been made in this regard, since the PIA assessment mission.

5.5.6 Crises

The situation in the Warri branch is a crisis. Management cannot accurately calculate the amount of arrears as they are not recorded in the weekly tracking registers. The

MicroRate & GMRA mentioned that the organisation cannot properly and accurately measure the portfolio quality, adding that growth without accurate portfolio information is unadvisable. The situation at the time of the mission had not changed since those reports.

5.6 Liquidity Management

Liquidity has not been an issue in LAPO, and this position is unlikely to change in the near future. Liquidity will be even better, however, if LAPO pursues a path of controlled rather than rapid growth with an emphasis on controlling portfolio quality.

5.7 Interest Rate Analysis

LAPO is operating in an environment where there are no statutory limitations on the percentage of interest microfinance institutions can charge. The government of Nigeria is currently working on a regulatory framework for the industry; however, the industry is still young and has not yet begun self-regulation.

LAPO sets interest rates to achieve the best possible return, without overcharging their clients, and ensuring the product cash flows are designed in such a way as to reduce cash flow mismatch risk (see Table 17 for APR).

Table 17: Annual Percentage Rate

No.	Details	Normal Loan	Asset Loan
1.	Loan	10,000	100,000
2.	Membership Fee	250	
3.	Deposit	1,000	10,000
4.	Interest (fixed), (declining)	24%p.a.	6% p.m.
5.	Compulsory Savings (N40p.m.)	605	
6.	Period (12) Months		
7.	Repayment p.m.	1,073.33	11,927.70
8.	Theoretical Interest p.m.	6.33%	7.98%
9.	APR	95.91%	95.76%

There are generally two groups of products: normal and asset loans. For normal loans LAPO currently charges 24% per annum. The client pays a ₦ 250 membership fee; a 10% deposit of the loan is taken, as well as a compulsory saving of ₦40, and finally a 2% premium for insurance. The asset loans are long-term and the interest rate ranges between 6% and 8% per month. No premium, membership fee nor compulsory savings apply.

Table 18 provides a comparison between actual and theoretical yield.

Table 18: Comparison of Actual and Theoretical Yield

		Dec - 02
	Loan product 1	
1.	Theoretical interest yield (APR)	75.9%
2.	Loan product as a percentage of total outstanding year-end net loan portfolio	93.6%
3.	Line 1 times line 2	71.0%
	Loan product 2	
3.	Theoretical interest yield (APR)	95.8%
4.	Loan product as a percentage of total outstanding year-end net loan portfolio	64.0%
5.	Line 1 times line 2	61.3%

6.	Weighted theoretical interest yield	66.2%
7.	Actual yield on portfolio	42.1%
8.	Yield gap ratio	63.7%

Given commercial bank rates that varied at the time of the mission from 18 to 24%, LAPO's interest rates on its loans seem reasonably priced. The gap between theoretical and actual yield on the portfolio is more than 63%. This difference is fairly substantial and needs to be reduced as a matter of urgency. If all the interest was accounted for and the organisation was able to reduce the interest gap ratio, LAPO might well have achieved operational sufficiency.

The high gap could be caused by poor portfolio quality. Generally, a large yield gap should be investigated, since it signals delinquency, fraud, or accounting problems.

5.8 Liabilities and Cost of Funds Analysis

The composition of LAPO's liabilities is shown in Table 19.

Table 19: Composition of Liabilities

Liability 1	United Bank PLC
Creditor	United Bank PLC
Commercial or non-commercial liability (explain if necessary)	Commercial
Balance outstanding (US$ equivalent)	16,667
Currency in which repayment is due	Naira
Interest rate 15.75	15.75%
Amortisation schedule 24 months	24 months
Details of external guarantee, if any, backing the credit extended to the MFI	
Other relevant information	
Liability 2	Member's savings, repayable as and when the member needs the funds.

The percentage of commercial liabilities has increased since 2001, from 15.5% to 28.1%.

Table 20: Commercial Liabilities

	Dec - 00	Dec – 01	Dec - 02
1. Commercial liabilities		4,000,000	2,000,000
2. Donor and government guarantees	14,732,890	24,099,175	54,137,820
3. Net commercial liabilities	(14,732,890)	(20,099,175)	(52,137,820)
4. Total assets	72,026,610	129,666,928	185,358,529
5. Line 3 as a percentage of line 4	(20.5%)	(15.5%)	(28.1%)

LAPO's funds (liabilities and equity) are being subsidised. The cost of funds was 4.2% in 2002, as evidenced in Table 21, whereas if the MFI would have had to source its funds commercially, it would have had to pay in the order of 17% (see Table 12).

Table 21: Cost of Funds Analysis

	Dec - 00	Dec -01	Dec - 02
1. Interest and fee expenses		799,631	1,180,999
2. Average funding liabilities	18,594,429	21,721,908	27,828,634
3. Line 1 as a percentage of line 2		3.7%	4.2%

LAPO currently depends on donor funding although this is dwindling. Management recognises that in terms of growth, donor funding will not be sufficient. The organisation has begun a process of raising funds for its future growth. LAPO intends to raise future funding from savings, the community bank and donor organisations. The Nigerian government has created a financial institute that could finance development institutions in the future. LAPO is currently positioned as one of the organisations that could receive funding because of its poverty alleviation mandate.

5.9 Capital Management (solvency)

LAPO's current capital structure is able to sustain a reasonable level of business risk. Table 22 demonstrates a relative low equity multiplier, leaving room for leveraging at an appropriate time in the future. Even if the reported value of assets overestimates the true value because of underreporting of the provision for bad loans, and additional reduced equity for when portfolio losses will be booked in the future, the equity multiplier remains strong enough for LAPO to take on more loans.

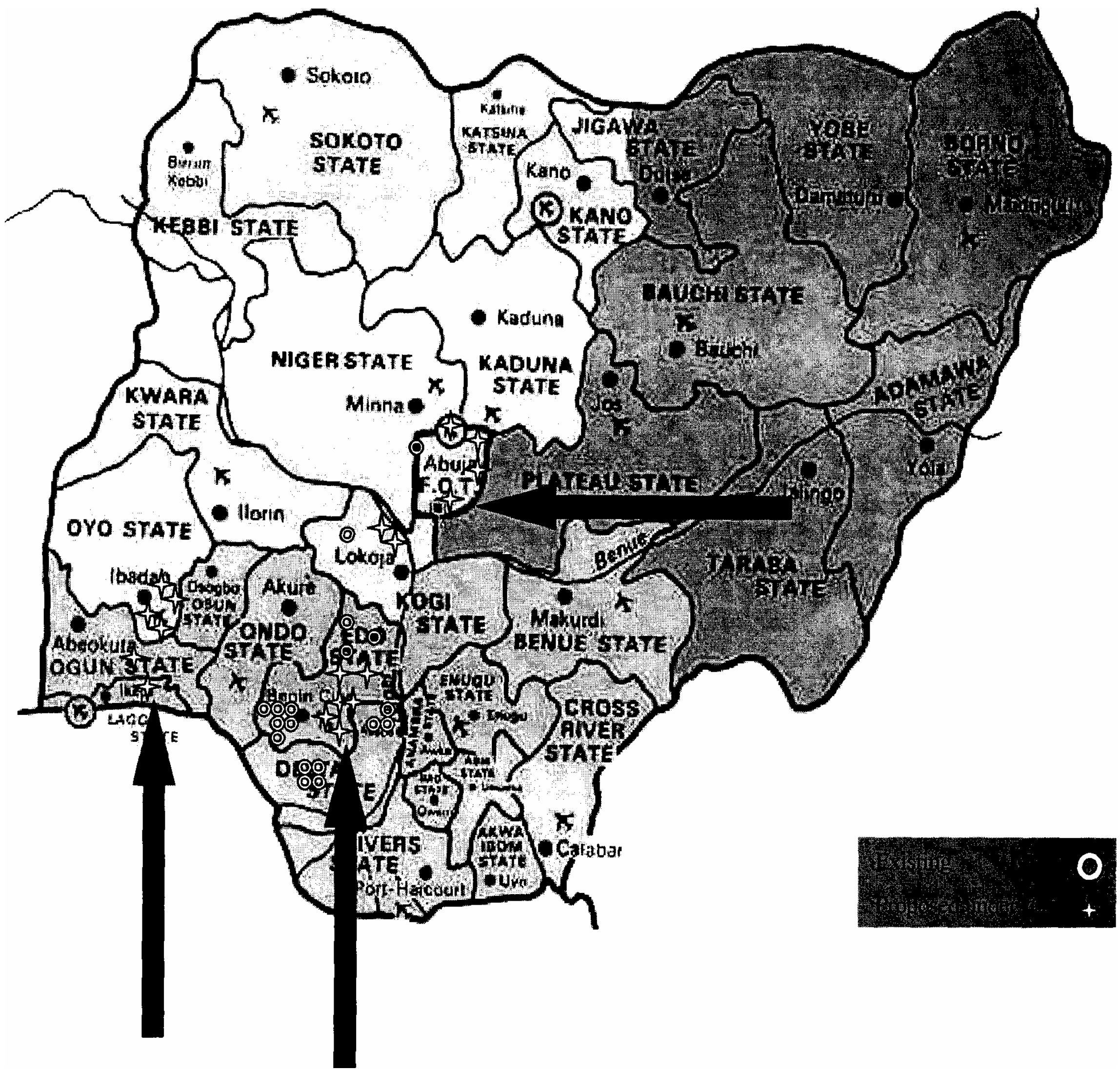
Table 22: Equity Multiplier

	Dec – 00	Dec – 01	Dec – 02
1. Total assets, end of period	72,026,610	129,666,928	185,358,529
2. Total equity, end of period	45,498,275	56,790,468	103,695,225
3. Line 1 divided by line 2	158.3%	228.3%	178.8%

LAPO's current equity comes from donations. The organisation has not yet yielded a profit and as such is still unable to grow through retained earnings, though this could change in the near future.

The fact that LAPO's institutional structure does not allow the donors to exercise ownership or place a representative on the board of directors, and there are no other owners that scrutinise their investment, explains why issues such as inconsistencies in the financial statements have been allowed to drag on.

Annex 1: Location of LAPO Microfinance (Existing and Proposed Branches)



ANNEX 2: Example of Key Performance Monito ring form

S/N	ITEMS TARGET	TARGET	ACTUAL	VARIANCE	% PEFORMANCE
1.	No of clients	50	29	21	58
2.	No of loans	60	29	31	48
3.	No of Assets	10	1	9	10
4.	Disbursement	1,600,000	1,270,000	330,000	79
5.	Cash guarantee	160,000	91,000	69,000	57
6 a.	R.P Micro Investment	32,000	23,200	8,800	73
b.	R.P Branches	333,333.33	279,480	146,468	84
7	COS	133,333.33	229,802	96,468	172
8.	Repayment	1,282,449	788,173	494,276	62
9.	Shares	266,666			
10.	Income	506,667	537,382	30,715	106
11.	Expenditure	347,569	250,528	97,040	72

ANNEX 3: Savings/Deposits Projections of Iyobo-LAPO Community Bank
(in local currency)

Description	2002	2003	2004	2005
Savings	6,000,000	9,000,000	12,000,000	16,000,000
Deposits (Time)	2,000,000	4,000,000	7,000,000	11,000,000
Sub Total	8,000,000	13,000,000	19,000,000	27,000,000
Current Account	6,000,000	11,000,000	18,000,000	21,000,000
Total	14,000,000	24,000,000	37,000,000	48,000,000
Total (US$) Exchange Rate US'$-=N112	$125,000	$214,286	$330,357	$428,571

Source: LAPO Business Plan.

PART 4 – POLICY IMPACT AND REPLICATION

1.0 Introduction and Research Objective

The policy and replication assessment seeks to measure outcomes and impact against the potential policy and replication impact areas outlined in the UNCDF Strategy for Policy Impact and Replication.[24] This report assesses the extent to which UNCDF-supported pilot operations *exert a wider influence and leverage on policy* and provides a tested *model for replication and adoption of best practice* by national government, other development agencies or private entities.

UNCDF's microfinance goal, as stated in the organisation's Strategic Results Framework (sub-goal 2), is:

> "*To increase access of the poor, especially women, to financial services on a sustainable basis through strengthened microfinance institutions and an enabling environment.*"

UNCDF realised that to mainstream microfinance initiatives on the scale needed worldwide requires a broader look into the policy, regulatory and institutional support environment most appropriate for each country it works in. On one level, this amounts to little more than influencing the macroeconomic framework to minimise inflation and avoid policies such as rigorously enforced interest rate controls, or large directed, subsidised credit programmes that compete with MFIs. But on another level, it also reflects the need to ensure that outdated practises and policies, such as legislation which limits the organisational forms that can enter the market, and gender obstacles in terms of property rights, inheritance laws and other discriminatory practices, are suitably changed so as not to exclude any segment of the population, especially the poor.

UNCDF advocates an enabling environment which removes potential roadblocks for microfinance institutions and, where appropriate, offers incentives to the industry. This does not necessarily mean recommending new laws for microfinance, as is sometimes suggested. Rather, regulators may want to consider, for instance, making amendments to the current standard banking law (e.g., laws that govern collateralisation of loan portfolios) to enable banks to offer microfinance services using innovative lending technologies. Especially in countries where the microfinance industry is in its infancy, as is the case of Nigeria, and in many LDCs where UNCDF invests, experience has shown that the best approach is to allow institutions to operate under existing policy frameworks where possible, while supporting the development of frameworks to suit the needs of microfinance.

Regarding the institutional support environment, a conducive sector infrastructure includes technical service providers, industry networks, researchers, credit bureaus, funders including equity investors and lenders, rating agencies, etc..

[24] Policy changes are identified according to the typology used in the 2002 UNCDF Strategy for Policy Impact and Replication. see: http://www.uncdf.org/english/about_uncdf/corporate_policy_papers/index.html

It should be noted that the terms "policy impact" and "replication" are used as indicated by the Information, Training and Agricultural Development (ITAD) recommendation wherein "policy impact" implies actions by national authorities imitating UNCDF procedures nation-wide and "replication" refers to UNCDF influences on donor strategy, the MFIs, the private sector and the wider microfinance community.[25]

The chapter is structured as follows: Section Two describes the methodology used to carry out the assessment.

Section Three uses an analysis of the UNCDF Illustrative Policy Issues Matrix to discuss each of the four levels of policy influence as per the Terms of Reference – Broad Policy Directions (3.1), Legal and Statutory Framework (3.2), Regulatory Framework and Microfinance Policy (3.3) and Norms (3.4), with special reference to the microfinance sector. The Section describes and analyses the *policy changes in the country attributable to UNCDF-supported microfinance interventions*.

Section Four explores evidence of replication as identified through the UNCDF Replication Matrix and elaborates on: Expanding a programme by Co-financing (4.1), Upscaling a programme Sequentially and Private sector replication (4.2), and Ad-hoc Influence and Inspiration (4.3). Here, we seek to explore *what evidence of acceptability and/or replication of the MFI and its products exists in the market.*

2.0 Methodology

Enterprising Solutions employed the following methodology to assess UNCDF's achievements in influencing policy and promoting replication and microfinance best practises.

Through the systematic identification of changes in the policy environment over the period as per the UNCDF Illustrative Policy Issues Matrix, and super-imposing them against UNCDF instruments employed in the same time period, the evaluation team attempted to isolate the causes and sources of the change through analysis, and to establish the extent to which UNCDF has had an impact on the policy environment.

The methodology considered that it would not always be possible to establish a direct correlation between policy changes and UNCDF instruments but, to the extent possible, the assessment team sought to determine whether changes could be attributed to UNCDF and/or whether or not they can be attributed to the effective partnerships in which UNCDF is engaged. In cases where results were partly achieved because of UNCDF and partly because of another donor's intervention or other reasons, this will be mentioned.

In order to assess the replication impact of UNCDF in the microfinance sector, the team undertook a similar process using the UNCDF Replication Matrix. Replication

[25] United Nations Capital Development Fund, UNCDF Strategy for Policy Impact and Replication in Local Governance and Microfinance p.7.

was assessed according to the benefits that the programmes have brought to the market, such as the extent to which:

- *MFIs have become valued and accepted by the financial sector;.*
- *MFIs have successfully developed new products and services that can reach a different market and be replicated by others; and*
- *The practical experience of supported MFIs has contributed to sector development.*

Tools included an analysis of secondary data on policy initiatives and changes in a desk review prior to the mission, as well as through document collection during the mission, and primary data collection through semi-structured interviews with key players in the microfinance sector.

3.0 Policy Issues

It is fair to say that policy impact of programmes and activities often takes years to unfold. With this understanding in mind, we proceed to identify any policy impact resulting from UNCDF microfinance activities in Nigeria only three years after it commenced under the auspices of the 1999 Policy shift.

3.1 Broad Policy Direction

Broad policy impact assessment has to do with the broad political options and directions being taken by national political authorities with regards to microfinance, and is often tied into the wider debate (if there is debate) within the political fora, as well as to pressure from opposition parties, civil society, advocacy groups, the media, and to some extent, from donors. The sum of the positions taken determines the national political stance and the overall enabling context for microfinance to develop.

An analysis of top-performing microfinance institutions worldwide found that among the broad policy directions that matter, the only macroeconomic conditions which were prohibitive for microfinance were hyperinflation and rigorously enforced interest rate controls (Christen, Rhyne and Vogel). *The broad policy direction or macro policy of key importance to microfinance is thus financial sector policies, such as inflationary controls, interest rate policies, monetary policy and financial sector reforms.* This analysis will single out these key areas for analysis.

Changing Policy Direction in Nigeria

1999 marked a watershed period in the history of Nigeria with the return to democratic government and a new political will towards improving the livelihoods of the poor. The return to democracy from military dictatorship has created a more decentralised policy development process with decision-making and programme implementation for poverty alleviation shared across federal, state and local levels of government given the increased autonomy at the state and local levels of government.

Nigeria has also long been making a case to qualify under the Highly-Indebted Poor Countries (HIPC) Initiative. To that end, it is in the process of developing the Poverty Reduction Strategy Paper (PRSP), though it has been slower than expected.

The substitutes for the PRSP, which would define the development strategy and goals for Nigeria at the present time, are the Vision 2010 document which was developed with support from the UNDP through consultations at various levels and approved in 1998, and the Nigeria Economic Policy and Strategy: *The Way Forward*, a policy document prepared in September 2000.[26]

Although these documents articulate and commit to the lofty goal of poverty alleviation, there is considerable incongruity between them and the policies pursued by the government. Nigeria's economic stability and environment over the last three years is discussed in the introduction to this Companion Report, and policy issues critical to microfinance are discussed below to identify the trends in the enabling environment.

Fiscal and Monetary Responsibility

Despite the low GDP growth rate over the last few years (2.4% between 1991-2001), the encouraging side to Nigeria's macroeconomic story is that foreign exchange reserves have more than doubled since 1991, from US$4,150 million to US$10,423 million in 2001. Furthermore, Nigeria has abandoned off-budget dedicated accounts, and there has been a reduction in the gap between unofficial and official exchange rates.

Fiscal discipline, however, remains poor. In 2000, the overall government budget had a surplus of 2.4% of GDP (including grants). This turned into a deficit of 3% in 2001. Given that 80% of government revenues are from oil, which benefited from increased prices in 2001, the budget deficit is even more striking and indicative of an enormous government spending spree during the period that allegedly focused on prestige projects rather than poverty alleviation projects.[27] This peak in public expenditure is likely to have fuelled the increase in the inflation rate in 2001 to 18.9%.

A positive development related to the financial sector has been that the Central Bank of Nigeria was finally given full independence in 1999to conduct its monetary policy.

Inflation

The inflation rate in 2000 and 2001 was 6.9% and 18.9% respectively. In recent years, prices seem fairly volatile with a disturbing upward trend. Although it is not a situation of hyperinflation, as it was in 1995 (73%), fluctuations in the inflation rate can have a significant effect in the context of microfinance where, in most cases, loans are not pegged to an inflation index.

Exchange Rate

In 1999, the dual official exchange rate system was abolished and the foreign exchange market was liberalised. However, new restrictions on foreign exchange have re-introduced a gap between official and parallel exchange rates. The U.S. Dollar exchange rate illustrates the depreciation of the Naira against the dollar over the last ten years, from 12 in 1991 to 111.6 in 2001 and 125 in 2003.

[26] EU Strategy Paper for Nigeria 2001-2007, p. 9.
[27] EU Strategy Paper

Interest Rate Ceilings

As of 1997, interest rates in Nigeria were fully deregulated. The trend in the spread between deposit and lending rates in the formal financial sector has since widened, increasing from 11 percentage points in 1996 to 20 percentage points in 1997. Although the Central Bank lowered the re-discount rate, the commercial banks did not pass the savings onto their clients, and continued to charge high rates of between 30%-40%, though now it is finally coming down, and mid-year 2003 rates ranged between 18-24%.

Financial Repression

Prior to the structural adjustment programme (SAP) proposed by the IMF in 1986, the Nigerian government's credit policy was classified by: preferred (agriculture, manufacturing and residential housing), less preferred (import and general commerce), and other (credit and financial institutions, government, "personal and professional" sectors). Although most of the directed credit and lending schemes from the 1980s and 1990s have ceased, some new incarnations have emerged in the forms of directed-lending. One of these schemes, the Small and Medium Enterprise Equity Investment Scheme (SMEIS) is targeted specifically to the microfinance sector.

The IFC is assessing the potential of using the SMEIS funds to capitalise a microfinance company that can serve as an apex institution for growth-oriented micro-entrepreneurs and small business owners. It is considering the options of developing such a company with ACCION International, where the latter would serve as the company's technical advisor. Six leading commercial banks, including Citibank, have signed on to the project. Approval from CBN to allow the banks to use the SMEIS funds to capitalise this company is pending. In the meantime, the financial needs of the small and micro sectors continue to remain unmet by commercial banks.

In summary, the economy's inflationary nature, combined with a weak flow of monetary policy initiatives through the financial sector and macroeconomic volatility, are the most telling macro influences on microfinance in Nigeria. Moreover, microfinance loans are rarely pegged to an index to control for inflation, so an MFI's portfolio value can be severely eroded in the case of high inflation. A possible crisis of confidence in the banking sector is another major driver, as a run on banks can have a similar effect on MFIs which would deal a severe blow to the development of the sector.

It should be pointed out that the nature of general macroeconomic policy is such that many key issues are beyond the scope of activities for UNCDF except where macro policies intersect with the policy advisory and advocacy or other UNCDF activities; but these are relatively few. However, in the case of Nigeria, the microfinance sector still needs to demonstrate "show-how" on the ground, and is a fair distance away from developing policies or devoting energies to affect policies currently in existence for the sector. It would thus be fair to say that none of the developments on fiscal policy, monetary policy or general macroeconomic management are a function of any UNCDF-supported activities in Nigeria.

3.2 The Statutory and Legal Framework

The legal environment in Nigeria is very open and inclusive for microfinance. It allows many different types of organisations to legally engage in lending to and mobilising savings from members. There are several legal entities under which organisations offering microfinance services can register – the Company and Allied Matters Decree, the Cooperative Act, the Finance Companies Act for non-banking finance companies, etc..

Nevertheless, the structure of the financial sector has not been very nurturing for microfinance. For example, development finance institutions (DFIs), which typically are sources of long-term capital for development purposes, and which should play a re-financing role for MFIs, have been marginally effective primarily due to the politicisation of lending due to government ownership of the DFIs.

Community banks, though attractive in concept, "are individually weak, undercapitalised, too small and of limited outreach."[28] Among the key constraining factors for the community banks is the lack of a structure such as second-tier institutions, to pool reserves and spread risks across the network of community banks. Thus, although there are multiple options for registering MFIs, there are systemic constraints pertaining to their growth.

Finally, rule of law, which involves having a codified body of laws that govern all members of society enforced through due process by law enforcement agencies such as an independent judicial system, is an essential ingredient for economic development as a protector and enforcer of contracts. But in Nigeria's legal system, based on the English legal system, law enforcement is inconsistent and lax, undermining one of the basic tenets necessary for creating a productive and law-abiding society and economy. Such weak law enforcement makes the environment unattractive for the private sector financing and investment.

The most relevant frameworks that have a bearing on microfinance are:

- The Small and Medium Enterprise Equity Investment Scheme (SMEIS);
- Agricultural Credit Guarantee System (ACGS F) (a pillar of rural finance);
- Nigeria Agricultural Rural and Cooperative Bank (NARCB) which was created by re-capitalising defunct specialised financial institutions such as Nigeria Agricultural and Cooperative Bank (NACB);
- The Peoples Bank opening of a microfinance window in 1999 (Peoples Bank was closed down in 2001);
- The strengthening of government agencies such as National Directorate of Employment (NDE); and
- Inception of NAPEP as the apex institution for microfinance.

[28] World Bank, *Nigeria: Financial Sector Review Volume 1, May 2000, p.12* Financial Sector Unit, Economic Management and Socio-Political Department, Africa Region.

3.3 Regulatory Framework

The Central Bank of Nigeria (CBN) is the regulatory authority of the financial system. It was established by the Central Bank of Nigeria Act of 1958 and commenced operations on July 1, 1959. The banking supervision system is generally in compliance with the standards necessary for effective banking supervision.[29]

The Nigerian financial system is fairly diverse, comprising of banking and non-banking financial institutions, including commercial banks, merchant banks, community banks, development finance institutions, licensed finance companies, mortgage institutions, insurance companies, discount houses, pension schemes and *bureaux de change*. Minimal capital requirements for the various financial institutions are listed in Box 1.

Box 1: Capital Requirements

- Minimum paid-in capital requirement for each of the following financial institutions are:
- Community banks– of N5 million;
- Non-banking Finance institutions – N20 million;
- Commercial and merchant banks – N500 million; and
- New banks – N1 billion.

Among the few positive indicators for the financial sector, is the fact that the deposit insurance system, NDIC, together with the courts established under the 1994 Failed Banks Decree, has helped to restore confidence in the banking system. In 1999, the CBN was made independent and this move by the government gave further confidence to market participants.

Amongst its primary functions, the CBN promotes monetary stability and a sound financial system, and acts as banker and financial adviser to the Federal Government. It is also the banker of last resort to the banks. The CNB also encourages the growth and development of financial institutions. The promulgation of CBN Decree 24 and Banks and Other Financial Institutions (BOFI) Decree 25, both of 1991, gave the Bank more flexibility in regulating and supervising the banking sector and licensing finance companies, which hitherto operated outside any regulatory framework. Hence, the CBN is responsible for the regulation and supervision of all financial institutions. However, being vested with the responsibility of supervising all non-bank financial institutions, puts it in the awkward position of having neither the necessary policies nor procedures to do this job nor the human resources to support this oversight function.

In the absence of a specific statute governing microfinance (it is debatable whether this is necessary for the sector's growth and development), the policy-makers in Nigeria have essentially left the sector to benign neglect, which, given its current stage of development, has been perhaps the most desirable option. However, a number of NGO-MFIs are operating at the fringes of existing regulations, especially with regard to deposit taking. As organisations increase the scale of operations, prudential regulation and supervision may be in order for the mobilisation of voluntary savings to better protect client savings and maintain overall sector confidence.

During the time period under consideration, 1999-2002, there have been few microfinance sectoral activities, such as workshops and conferences on regulatory

[29] Ibid. p.9.

matters in Nigeria. Of note, however, are two events: a forum held by the CBN to consult on drafting regulations for the sector; and a workshop held by the microfinance network, Community Development and Microfinance Roundtable (CMDR) to develop industry standards (see next section). UNCDF/SUM strongly encouraged the MFIs participating in MicroStart to actively participate in the CBN consultations to ensure a favourable policy environment developed. LAPO, for instance, has been very active in this regard. As the events were not led or sponsored by UNCDF, any influence and impact on the sector is therefore indirect.

It appears that UNCDF has played less of a leading role in influencing the regulatory framework than the project document for Phase I would suggest. Given the state of the industry, this is understandable, and taking into account that during the programme period a number of northern states have declared *sharia*, it is unclear whether consensus on a national policy would have been possible or might have led to a repressive financial regime.[30] Meanwhile, efforts to educate policy makers on microfinance legal and regulatory framework best practise began towards the end of the project.

Outside of Nigeria, UNCDF/SUM, through its partnership with UNDP's Regional Bureau for Africa, sponsored a training for Central Bankers. The seminar took place in Kenya with technical input from K-Rep Advisory Services and ACCION. Nigerian Central Bankers figured among the participants.

More recently, when UNCDF/SUM noted that the CBN was becoming more active on the policy front, SUM organised extra-budgetary resources to send nine Nigerian policy-makers, including three members of CBN's task force responsible for drafting the microfinance policy, to microfinance training courses in Boulder, Colorado. Boulder offers two world-class courses in regulation and supervision of microfinance tailored to central bankers.

Overall, given the potential risks of "rushing to regulate" an immature microfinance sector in Nigeria, UNCDF has responded appropriately both to the initial situation, and to more recent changes. Although there are no concrete changes to date, it is reasonable to expect a policy process to evolve over a number of years. UNCDF/SUM is well-positioned to contribute to the process in Nigeria.

3.4 Norms, Prescribed Systems, Procedures, Guidelines and Practices

The Nigerian microfinance sector, being in a state of infancy, has few officially endorsed or accepted systems of performance or reporting for MFIs. Typically, in cases where no government regulatory authority or supervisory body which governs the MFI industry exists, standards are developed by the MFIs themselves. The process of developing them is often facilitated by effective second-tier institutions and/or MFI networks and/or donor agencies. In the case of Nigeria, the specialised second-tier organisation for microfinance, the Community Development Foundation

[30] *Sharia* contains the rules by which a Muslim society is organized and governed, and it provides the means to resolve conflicts among individuals and between the individual and the state.

(CDF), has not taken a leadership role in this area attributable to a lack of vision and strategic direction within the organisation.

The MFI network, the CMDR, has become less effective due to lack of finances. Furthermore, according to key players in the sector, member needs have outgrown network capacity. As such, the CMDR has not taken up the challenge of developing the accepted best practise standards set up by the MFI industry, although in 1999, it had made some attempts to establish a process for developing industry standards. The event was not led nor sponsored by UNCDF and so any influence and impact on the sector would be unrelated to UNCDF/SUM. For some reason, there was no follow-up.

The closest to any form of standards for the industry are those best practise principles introduced by the ASA, the TSP for MicroStart which focus on non-subsidised lending, zero tolerance for delinquency, efficiency and financial sustainability. The adoption and implementation of these standards by the eight breakthrough MFIs participating in MicroStart and beyond is a major policy impact of the programme. It has also raised the bar for donors to support MFIs adhering to lower standards.

More recently, UNCDF/SUM sponsored the presentation of the Uganda experience of donor standards and coordination to donors and government participants. Government participants included the National Planning Commission, NAPEP, and CBN. No other donor agencies have made it a goal to develop accepted norms for the industry.

3.5 Conclusions of UNCDF Policy Impact

Table 1 summarises UNCDF policy impact. It shows no impact at the broad policy level and in terms of legal framework, marginal impact in terms of regulatory framework and microfinance policy development, and high impact in the area of systems, procedures guidelines and practises.

Table 1: Policy Impact Summary

Macro Policy	Legal framework	Regulatory framework and Microfinance Policy	Norms: systems, procedures, guidelines and practices adopted nationally.
Negligible impact on government to refrain from implementing microfinance programmes. **Negligible impact** on government from discontinuing its subsidised lending for rural finance and microfinance in general.	None	Central bankers attending training Central Bank introduced to the idea of guidelines for micro credit, in the form of policy. MAB served as a forum for upstream activities	Not in a formal way and not complete nation-wide adoption, but UNCDF -supported ASA standards for microfinance have become the widely accepted best practise among a variety of MFIs on key practises such as: Cost covering non -subsidised interest rate setting; Efficiency; and Financial sustainability. **Negligible impact** on UNDP ICDP lending programme to review its policy of subsidised lending.

The UNDP/UNCDF MicroStart initiative has been quite successful in its downstream activities for microfinance in Nigeria. The first need at the outset of the project in

2000 was to unequivocally demonstrate that financial services to the poor could be a sustainable development activity if they followed some key time-tested principles. The most powerful way to prove this was by demonstrating it through MFIs which adopted and followed financial principles for sustainability and were able to grow and reach larger numbers of the poor than ever before. UNCDF and UNDP, through their downstream MicroStart activities, was clearly the first programme to do this. The success of MicroStart has led to the introduction of best practise microfinance in Nigeria and momentous overall improvement in efficiency of the participating MFIs. The introduced systems, procedures, guidelines and practices are increasingly employed by practitioners and will gradually become the norm and impact policy at other levels as well.

UNCDF activities in Nigeria have been somewhat less focused on "upstream activities", seemingly as a conscious choice given the paucity of credible retailers in microfinance. In that regard, it appears to have made a wise decision. It should be mentioned that despite this strategic choice, UNCDF has not been completely absent from the policy arena.

The MAB has served as the main forum for upstream activities for UNCDF in Nigeria, albeit in an informal and unstructured manner. As mentioned, the MAB is composed of key donor agencies and key policy making agencies such as the NPC, the lead development agency in Nigeria. In a country that has only begun seeing the return of donor agencies, the MAB was designed to serve as an informal mechanism for donor coordination in microfinance, and for informing and educating donors and government policy makers about "doing microfinance right" from early on in the development of the sector.

Given the nascent nature of the microfinance sector, it is not surprising that there have been few activities undertaken at the policy level. However, it appears that within the last year, there has been considerable movement towards a dialogue regarding what would constitute an appropriate microfinance legal and regulatory framework by the Central Bank of Nigeria. UNCDF's upstream activities geared towards the creation of an enabling policy environment have been focused but limited. Some of the leadership of the MicroStart MFIs traveled to Bangladesh to better understand the steps in building a sustainable MFI and dealing with rapid expansion. As mentioned, more recently, with the commencement of the policy processes, a number of policy makers have been offered the opportunity to attend microfinance courses (Boulder Colorado programme) and Central Bankers attended the Kenya Central Bankers seminar. It should be noted that the Ford Foundation and UNCDF/SUM have worked to complement each other's programming to develop capacity of key government officials in Nigeria by funding important exposure visits to countries such as Bangladesh and Bolivia with mature microfinance sectors.

It should be mentioned that many key players are driving the push to regulate the industry, even though it is in its infancy. UNCDF could step in, with its technical expertise in microfinance, and the relationships it has established with CBN and NAPEP, and become one of the leading agencies to guide and influence the policy and regulatory framework development process. It has already introduced the Central Bank to the idea of guidelines for micro credit, in the form of policy and facilitated workshops for Central Bankers and attendance at the world's top training courses on these matters.

These support activities help build capacity among policy makers to develop a vision for the sector and an appropriate enabling environment with the appropriate incentives for MFIs to grow and reach larger numbers of poor in a sustainable fashion. As UNCDF/SUM has recommended to the new UNDP management, a far greater investment of UNDP's funds is needed for building a critical mass of Nigerian's who share a vision for a sustainable, inclusive financial sector.

4.0 Replication in the Microfinance Sector in Nigeria

As with policy impact, it is fair to say that the replication of programmes and activities often takes years to unfold and usually must be preceded by several years of demonstrated success in order to generate enough recognition and cachet for other donors to want to emulate. With this understanding in mind, we proceed to identify some of the replication effects of UNCDF microfinance programme in Nigeria. It should be recognised that this assessment takes place only three years since the 1999 policy shift.

4.1 Expanding a Programme by Co-Financing

At the commencement of UNCDF/SUM's MicroStart programme, the Japanese and EU had demonstrated interest in co-financing or adding to the existing programme financing. A change in leadership at the Japanese Embassy altered the dynamics and the commitment was not followed through. The mismatch of programming and funding cycles did not allow for the EU to commit any funds to this programme either. Ultimately a small amount of $100,000, which could be considered as co-financing, was contributed by United Nations Foundation toward MicroStart Phase I.

On a micro-level, however, there have been instances during the period of 1999-2003 where other donors have supplemented the financing for some of UNCDF/SUM's partners in Nigeria, funding the best MFIs that emerged out of the MicroStart initiative and thereby intensifying and expanding the capacity-building effort started by UNCDF/SUM. Key among donors is USAID and the Growing Business Foundation (GBF). LAPO applied to and received $1.3 million from USAID's globally competitive IGP for additional capacity building, such as developing its MIS systems, etc..

LAPO and SEAP have also benefited from supplemental funding from the Growing Business Foundation, an organisation that intermediates funds from banks to MFIs at a few points above the bank rate. Through this organisation, LAPO received N6 million in 2001 and N30 million in 2002. SEAP, received N1 million. Though the absolute amounts may be modest, the investments are an important first step towards linking MFIs with the commercial sector and integrating microfinance more squarely within the country's financial sector, and should be recognised as such. LAPO has also been successful in borrowing directly from commercial banks and development finance institutions such as the Peoples Bank (when it was in existence) and the United Bank of Africa (UBA). Among other MicroStart participants, DEC has been successful in attracting co-financing from the Ford Foundation, and NUSHO may be securing some support from the Germans and Canadians.

As to whether UNCDF influenced these replicatory behaviours, the answer would be, yes, indirectly. To date UNCDF has triggered co-financing of US$4,632,938. Although UNCDF/SUM met with the GBF at the outset of MicroStart to establish linkages, and briefed USAID (Abuja and Washington) on MicroStart, both USAID and GBF-UBA made their own decisions to invest in LAPO and other MFIs. We would argue, however, that the capacity-building provided by UNCDF/SUM's MicroStart programme inspired confidence in the donor community, and in this case in the private sector as well, facilitating the co-financing arrangements.

4.2 Upscaling a Programme Sequentially

The main UNCDF/SUM project for microfinance in Nigeria is the MicroStart programme. Replication through upscaling of this programme in the traditional UNCDF mode has happened primarily with the government agency, NAPEP, where MicroStart has been used as a vehicle for channelling some of the NAPEP funds for poverty alleviation in the amount of US$ 1,828,000. This is perhaps the most important related contribution. It should also be noted that it is the first time that Government funds have been invested in sustainable microfinance, possibly reflecting a potentially important shift in operational policy if the trend can be continued and accelerated.

While the IFAD and World Bank have sent out feelers to some MFIs informing them of a lending programme that would offer loans to MFIs at 5%, the programme has apparently stalled and funding has not been forthcoming. Among others, one of the main sticking points in the WB's programming for microfinance is that Nigeria has been dragging its feet on the PRSP process, leading to the suspension of some WB activities.

Although many of the donors acknowledge the pioneering work of UNCDF through its flagship programme, MicroStart, only the Government of Nigeria through the NAPEP has provided funds at this stage while the UNDP will contribute to MicroStart Phase II. Other bilateral donors are awaiting the completion of their microfinance programming missions. Although interested, they have not yet made any concrete offers for upscaling the programme. One would hope that the desire to "plant one's flag on individual programmes", that sometimes enters donor psyche, does not prevent others from supporting MicroStart.

4.3 Ad Hoc Influence and Inspiration

Of note here is that many non-MicroStart MFIs in Nigeria have expressed interest in learning the ASA methodology. To this end, some of the MicroStart MFIs such as LAPO, DEC and JDPC have been offering exposure visits to these MFIs to illustrate the simple ASA method of doing sustainable microfinance.

A key constraining factor for more widespread emulation of MicroStart practises has been that that lessons learned by the eight MFIs participating in MicroStart have not been shared among the group itself, in a structured way, nor disseminated widely within the larger microfinance community in Nigeria.

4.4 Private Sector Replication

The most important private sector replication of UNCDF activities has been the initiation of the Growing Business Foundation (GBF) in microfinance and its programme of establishing linkages between commercial banks and MFIs. As mentioned earlier, both LAPO and SEAP have taken advantage of the programme and are accessing loans priced at near market rates. UNCDF has also required all MFIs participating in MicroStart to apply for one-third of their funding from (soft) commercial sources of funding in Phase II.

UNCDF has actively advocated for the past two years to UNDP that UNDP Nigeria seek to replicate UNCDF's positive experience in Guatemala of supporting commercial banks to downscale. Although the previous management of UNDP was not open to this recommendation, there is the possibility that the newly arrived Resident Representative might be open to this approach. An encouraging opportunity would be to join with IFC and ACCION to support the consortium of commercial banks seeking to launch a microfinance commercial bank.

Interviews with key sector players revealed that MicroStart has not been highlighted at the national level, either among private sector participants or at the policy level, hence the limited replication by the private sector. The programme's low profile is one of the biggest shortcomings of the UNDP/UNCDF programme in Nigeria. Other problems are the current bad practices of current UNDP credit programmes. Both could be addressed by UNDP becoming a strong advocate for best-practices with MicroStart.

4.5 Replication in the Wider Development Community

Donors

UNCDF has had little replicatory impact on its key partner agency the UNDP, in adopting and incorporating standards of non-subsidised lending, zero tolerance for delinquency, efficiency and financial sustainability in its own programmes. UNDP is not required to follow UNCDF/SUM's technical advice but the UNDP Integrated Community Development Programme (ICDP) has actually undermined the good work done by UNCDF/SUM MicroStart programme in raising standards for the industry through its practises of subsidised lending, government selection of clients and other such "bad practises". With the change in UNDP management in Nigeria, UNCDF/SUM has arranged for an external review of the ICDP programme. If its recommendations are followed, the result should be a synchronised message being sent through UNDP's microfinance programming.

Despite many efforts, UNCDF has also failed to persuade the Nigerian government to follow MicroStart standards. Given that the President occasionally advocates subsidised interest rates, the challenge is such that that to make a significant impact on this issue would require a concerted effort by all stakeholders. UNCDF/SUM is playing its part. It organised a presentation of the Ugandan sector experience, succeeded in NAPEP allocating some of its budget for best-practise, and sent two key decision-makers in NAPEP to Boulder. It could possibly take the effort to a higher level if UNDP would come on board and advocate jointly with other donors.

At the country-level, the practise started by UNCDF of providing promising retail MFIs with intensive technical assistance from a global best practise practitioner to eventually become "breakthrough" organisations reaching large numbers of poor people has not been replicated by any other donor. Though the formation of the Microfinance Company of the IFC cannot be considered a replication, it is interesting to note that in so far as it is pooling commercial banks to do microfinance, the model is fairly similar in that it is bringing an expert technical assistance provider (in this case, ACCION International) to channel funds and technical assistance to the setting-up of an apex organisation.

The MicroStart Advisory Board (MAB) has been the major vehicle for informing and influencing the donor community. Through its quarterly meetings, UNCDF/SUM has helped educate and disseminate the best practise that SUM promotes through MicroStart. The main donors involved in the MAB, apart from UNCDF and UNDP, are the EU, DFID and the Japanese and the Ford Foundation, all of whom have been fairly active, although the Japanese and USAID more so in the early phases of development as a result of changes in personnel. The Ford representative has now become the Regional Representative for West Africa and hence is unable to commit as much time to the MAB as before.

Research, Training and Advocacy Institutions

UNCDF's greatest influence in training the wider donor community has been through its inexpensive but quality product – the Microfinance Distance Learning Course. UNCDF also sponsored Nigerian policy-makers to attend a Boulder microfinance training session during the course of the programme.

Networks of Practitioners

UNCDF/SUM's pivotal role in building the capacity of young and promising MFIs through the provision of intensive in-country technical expertise is acknowledged by practitioners in Nigeria. The credibility of UNCDF/SUM stems from the high-quality technical assistance provided by ASA, the TSP for MicroStart in Nigeria.

4.6 Conclusion on Replication of UNCDF Programme

Table 2 provides an overview of UNCDF's impact in terms of replication of its programmes and microfinance programme approach. It demonstrates that UNCDF has been effective in triggering significant replication effects financially as well as non-financially.

Table 2: Replication

Co-financing	Sequential Scale-Up	Influence
MicroStart Phase I: UNDP $1,610,000	USAID – US$1.3 million EED – US$228,000 (N28.5 million)	Use of Distance Learning Course provides training
MicroStart Phase II: Parallel: US$ 2.34 million	UBA – US$120,000 (N15 million) Community Bank – US$160,000 (N20 million)	Non-MicroStart MFIs learning ASA methodology through exchange visits

UNDP – US$ 290,938 NAPEP – US$ 392,000 (N49 million) Total: US$4,632,938 Exchange rate used: US$1=N125	GBF – US$20,000 (N2.5 million) US$1,828,000	Boulder Microfinance Training

Financial:

- Triggering co-financing of US$4,632,938; and
- Upscaling in the amount of US$ 1,828,00.

Non-financial:

- Ad-hoc influence on MFIs outside of the MicroStart programme;
- Private sector; and
- The wider development community

Box 2: Total Replication

Total value of other donor resources "influenced":

Co-financing:	$4,632,938
Sequential Scale Up:	$1,828,000
Total	US$ 6,460,938

After two years, UNCDF has managed to mobilise resources and leverage its programme me in Nigeria by a sizeable $6.5 million. With more dissemination of lessons learned and more pro-active resource mobilisation activities, even more could have been mobilised.

Further, it is clear that UNCDF has been successful in bringing together donors to debate and resolve the key issues confronting microfinance in Nigeria, such as a lack of significant outreach in the nation due to the lack of capacity of credible MFIs. One major donor saw the results of MicroStart and subsequently expressed the desire to continue the ASA technical assistance within their support programme.

In terms of influencing the policy of donors in microfinance however, UNCDF's sister organisation, the UNDP, continues to pursue its policy of unsustainable lending programmes through the ICDP is in violation of UNDP's own policy. Although reviewing UNDP's performance is beyond the scope of this evaluation, it does suggest that UNDP, globally, needs to review how it ensures compliance with its microfinance policies. UNCDF/SUM, as the technical advisor to UNDP, cannot be expected to play the role of compliance enforcement. Change will likely to some time and require the concerted effort and commitment of all stakeholders.

PART 5 – UNCDF STRATEGIC POSITIONING

1.0 Introduction and Research Objective

This assessment will analyse whether UNCDF's choice of intervention(s) strategically positions the organisation in accordance with its comparative advantage vis-à-vis other players in the microfinance sector in Nigeria.

UNCDF plays a unique role within the international development financing architecture as a small-scale multilateral investment organisation in support of LDCs. Recognising that it will never be a large donor, UNCDF has strategically emphasised its comparative advantage as a piloting organisation, using resources as seed money to help programme countries launch new initiatives. Activities are geared towards mobilising additional financial resources. UNCDF seeks to maximise its comparative advantage through strengthened and expanded strategic partnerships.

More specifically, the review will assess whether UNCDF's interventions and programme objectives in Nigeria, as a case study, were relevant, significant and in line with the country's strategic priorities for the sector, national needs, stated UNCDF microfinance goals and the broader UN framework.

The past positioning is assessed against UNCDF's policy reorientations in 1999. A major element of the policy reorientation was to move away from guarantee and refinancing schemes to building partnerships with MFIs with the potential to help demonstrate the feasibility of sustainable microfinance.

The recommendations for the future positioning will take into account the 2003 policy that is just starting to be implemented. This includes a coordinated, strategic approach to building microfinance as an integral part of the formal financial sector as the most effective route to reducing poverty and ensuring aid effectiveness. Therefore, UNCDF seeks to maximise its comparative advantage through strengthened and expanded strategic partnerships.

2.0 Methodology

The analysis sought to identify first, whether the programmes assessed were in line with the 1999 policy shift. Second, if they were, what the evidence reveals about how this type of intervention has enabled UNCDF to strategically and optimally position itself in the microfinance sector, taking into account sector demands, relevance of intervention to organisational goals, country priorities, MDGs, Programme of Action for the LDCs, etc., and the ability to be flexible and responsive to evolving sector contexts. Third, the assessment makes recommendations on how UNCDF could (re)position itself in the future to achieve a high impact in the sector, both

independently and through its partnership with other agencies in light of SUM's 2003 shift towards a sector approach.
A standard positioning exercise was undertaken. Research methods employed included an analysis of secondary data; semi-structured interviews with key sector players including: MFI practitioners; bankers; officials at the Central Bank and government; the local microfinance network organisations; socially responsible investors; the research community; academics and sector analysts.

The following sections outline the following steps to analyse UNCDF's positioning:

- Industry analysis (including the supply and demand for microfinance, key changes that have taken place and remaining gaps in the sector);
- A reflection on UNCDF's client needs and goals (UNCDF seeks to serve the needs of the people and governments of developing countries, UNDP country offices, and other UN partner organidations), capability analysis of UNCDF and assessment of comparative advantage as donor/investor in Nigeria; and
- Based on the above review of sector and country needs and stated UN goals, UNCDF's capability and activities in Nigeria and comparative advantage, including an assessment of the relevance of the evaluated programme and options for sound strategic positioning in the future.

3.0 Industry Analysis

Nigeria possesses the main conditions necessary for a fertile microfinance sector: a large population of 130 million and a high population density of about 144 persons per square kilometre. The percentage of people living in poverty (defined as less than $1/day) is over 70%. The percentage of people employed by the informal sector is 65.5%. It has a high national unemployment rate and the number of unemployed college graduates in 2002 is estimated to be 10 million.[31] When all these factors are analysed together, they translate into significant potential demand for microfinance services.

This section will examine the current state of the microfinance sector in Nigeria at the following levels: supply and demand for microfinance; the key actors in microfinance; the goals of the key agencies such as government and the UN system and how they relate, if at all, to microfinance; and UNCDF/SUM's role thus far in Nigeria. From the foregoing analysis, a strategic position for UNCDF/SUM within the country context will be developed.

3.1 Demand and Supply Estimation

Demand

There are many ways to determine the size of a market, some more complex than others. In the case of Nigeria, where the Federal Office of Statistics has been weak at collecting and maintaining effective records of information, derivative processes such

[31] UNDAF Nigeria 2002 -2007, p.3

as that of market sizing can vary. The process used to estimate the size of the market by this research team is detailed below.

Simple market sizing for Nigeria:

Step 1: Total population of Nigeria is approximately 130 million;
Step 2: Assuming 50% of the population are economically active = **65 million;**
Step 3: 65.5% of employed population are in the informal sector[32] = **42.57 million;**
Step 4: Due to lack of actual figures on the percentage in the informal micro-enterprise sector, we assume that 75% of those involved in the overall informal sector work in the micro-enterprise sector =**31.92 million**
Step 5: Since the average size of a family in Nigeria is eight, this would imply about **4 million** households eligible for microfinance.

The above calculation indicates that the potential market for microfinance in Nigeria is significant.

Supply

Determining supply is also not an easy matter in Nigeria. The NGO-MFIs in Nigeria do not have accurate information on the number of active clients, and information on loan size and percentage of portfolio by loan size is not very easily available. Much of the self-reported data is also often not very reliable. If one includes the informal finance actors like esusus, money lenders etc., determining the supply level of the microfinance estimates becomes even more imprecise.

For the purposes of this research, the supply figures have been estimated extrapolating from the outreach figures of MicroStart MFIs:

Step 1: The total number of borrowers covered by all the MicroStart-MFIs was 37,084 (and 45,801 savers) in December 2002.
Step 2: The average loan size was N7,726 or US$61.80.
Step 3: Assuming the total number of sizeable NGO-MFIs (at least 2,000 active clients) to be a maximum of 100, the total coverage by NGO-MFIs is approximately (100 *(37084/8)) 463,550 or a 1.1% market saturation. If a more realistic estimate of NGO-MFIs is taken, such as 70, the total covered by these institutions can be estimated to be (70 *(37084/8)) equal to 324,485 or 0.8% market saturation. Given that the MicroStart-MFIs are perhaps larger than the average MFI in Nigeria, the above figures should be discounted slightly to account for this fact.

In any event, this exercise gives an indication of the order of magnitude of the current market saturation nation-wide at 1%-2%. This estimate is supported by other data.

Capitalisation Needs

Assuming an average loan size of N8000 or US$64 (N125 = US$1) per borrower, the total needs would be over US$256 million. As seen through these calculations, the capitalisation requirements are daunting.

[32] Ibid. p.174

Market Dynamics

Projecting into the future, it is likely that the size of the microfinance market will grow further due to several factors:

- Increasing population;
- Overall economic downturn;
- Lay-offs from private sector companies due to the economic downturn and consequent rising unemployment;
- Closures of public sector enterprises and consequent unemployment; and finally; and
- Absence of social safety nets to help people adjust to the economic downturn and vulnerabilities caused by the same.

It is fairly obvious that the demand for services is not a constraining factor to the growth of the microfinance sector. Supply seems to be more of a problem in Nigeria, as is the case in many other developing countries. This “supply problem” is discussed below and can be disaggregated broadly into two main components: i) limited human resources and capacity to deliver the financial services to the poor, and ii) weak capitalisation of financial service providers to cope with the demand (capacity and capitalisation).

3.2 Major Players

As seen above, the potential Nigerian microfinance market is huge. It is served by a variety of actors, including the following:

Government

As early as the 1980s, Nigeria has had a host of government-led and government-sponsored poverty alleviation programmes which focused on providing micro-credit and training. One of the notable government programmes in recent times has been the Family Economic Advancement Programme (FEAP). FEAP was a directed-lending programme that lasted from 1998-2000 during which time it disbursed N3.3 billion (US$ 2.64 million in today’s exchange rate) in loans to cooperative societies for activities such as poultry production, animal husbandry, soap making, etc.. The National Poverty Eradication Programme (NAPEP) was established in 2001 as the next generation of government-sponsored poverty alleviation programmes.

NAPEP was given a grant for N6 billion for the first year, some of which was used in the delivery of microcredit to 10,000 people with loan sizes ranging from N10,000 to N50,000. Other government programmes include the Agricultural Credit Guarantee Scheme Fund (ACGSF) which targets rural people, focusing on farmers. This programme has been recommended for closure.

For the most part, the microfinance programmes of the Nigerian government have been based on politics rather than sound financial principles (as has been the case in many other countries). The programmes generally have been a series of fragmented and disparate efforts lacking a strategy or vision for the sector, or an understanding of the government’s role in promoting the sector. Not surprisingly, most of these programmes have not lasted beyond the political fate of their patron. Furthermore, studies have confirmed that most of these programmes failed largely due to a combination of poor design (usually not designed to reach the poor) and unclear policies, extreme political interference in implementation (operations and delivery of financial services) and macroeconomic instability.[33] Combined with the simultaneous lack of adherence to any financial principles, the financial institutions and programmes were rapidly de-capitalised, leaving the poor without a source of finance, sustainable or otherwise.

The government-owned bank that had been involved in microfinance activities, the Peoples Bank, closed down in 2000. A brainchild of the Babangida Government, it had a rural focus, providing loans to prospective entrepreneurs on soft terms without much stringent collateral or assessment. It was the main channel of distribution of FEAP loans.

In addition to the government's (not always successful) direct lending interventions, cooperative unions and societies, and cooperative banks in Nigeria have been constrained by excessive government intervention and considerable instances of fraud which have deterred external infusion of funds. Among the largest cooperative financial institutions is the Nigeria Agricultural Rural and Cooperative Bank (NARCB) which was created by re-capitalising defunct specialised financial institutions such as Nigeria Agricultural and the Cooperative Bank (NACB) and the Peoples Bank. It has received multilateral loans from the African Development Bank (ADB) and the World Bank but has had minimal multiplier effects on farmers and other end-users of credit.

Box One
Sample NGO-MFIs

The *Development Exchange Center (DEC)* – a MicroStart partner - is a local non-governmental, non-profit organisation operating in northern Nigeria (Bauchi and Gombe States). DEC provides funding for the development of women's groups and their programmes, skills training, inventory credit administration and information sharing .The main objective of the Center is to assist rural and urban women in improving the socio-economic conditions of their environment. DEC provides individual as well as group lloans.

The *Farmers Development Union (FADU)* was established iin 1989 to be an apex community development union made up of 356 rural development societies spread across villages and towns located in Ondo, Oyo, Ogun, Osun and Kwara States. Currently, it has a membership of about 550,000 members (mostly women) spread over 8000 villages and sub-urban areas in 27 states of Nigeria reaching out to them with institutional management training and credit.

COWAN was established in Ondo State in 1982 with an initial membership of 6 cooperative societies under the leadership of Chief Mrs. Bisi Ogunleye who founded the organisation. The organisation operates in 28 States with a total membership of 178,000 members that are organised in 35,000 working groups. COWAN pioneered the development of African traditional savings and credit into African Traditional Responsive Banking as a linkage between formal and in-formal credit system. The key to this is daily savings. COWAN has also worked hard to develop powerful tools towards increasing the economic independence of rural women. It intervenes in the area of education, health, technology, and regional exchange. It is also active in action-research, poverty alleviation, grassroots participation, food security, and women development.

NGOs

NGO MFIs are a variety of community-based organisations that provide financial services to the poor. They are generally retail microfinance institutions with service covering anywhere from a few villages to several states. Few Nigerian NGO-MFIs are institutionalised or reach more than 2,000 active clients or have national reach. Although exact figures are unknown, it is estimated that there are no more than one

[33] Poverty Alleviation in Nigeria – A Perspective p.5.

hundred of this category of MFI. The cumulative loan funds of most NGO-MFIs in Nigeria are 80% donor and/or government funded; the remaining 20% is internally generated from savings and fees.[34] The largest NGO-MFI in Nigeria is FADU which in 1999 had over 165,000 borrowers and 550,000 members. Another major player is COWAN. Annex 1 provides a list of CDMR member organisations.

The first generation MFIs were established as early as the 1980s. However, the development of microfinance services in the NGO sector in Nigeria has been distorted by a variety of constraints stemming mainly from internal incoherence, bureaucratic bottlenecks and operational uncertainties. These constraints have manifested themselves as "teething" problems for the start-ups and "growing pains" for the first generation MFIs, resulting in planning and management practices that are unsustainable.

The challenges posed by an absent or inappropriate enabling environment have also dogged the progress of MFIs. The result, 15 to 20 years later, are several NGO-MFIs, but all too small and few on the path to sustainability. A mapping of major MFIs in 2003 yields the same results as in the pre-project period, in terms of types of NGOs.

Private Sector Potential

Commercial banks, such as the Tropical Bank, offer lending services for rural development. Tropical works through self-help groups and uses solidarity lending methodology for reaching the rural poor. Other banks such as the Habib Bank take advantage of the ACGSF to target the poor. The African Bank is another commercial bank that has demonstrated interest in this market. The Gulf Bank has opened an esusus "windows" which provide savings and deposit mechanisms with an underlying loan facility structured to the needs of the indigenous savings and thrift groups. This product is geared towards linking these institutions with the formal sector.

In a major government initiative, SMEIS, to involve commercial banks in micro and small enterprise financing, banks have now been mandated to invest 10% of their profit after tax in Small and Medium Enterprises and micro-finance. Though commercial banks have not been players of importance in the past, they are potential new entrants into the market.

Community banks are financial institutions owned by the community or groups of communities with the objective of providing financial services to their members. The first community bank commenced operation in December 1990. While many community banks were involved in the lower-middle income or high-low income segment, several have fallen prey to poor management and have had their licenses revoked. Since then, the NBCB has issued provisional licenses to 1,366 community banks. The community banks were expected to be issued final licenses by the CBN after operating for two years, but a number of delays have occurred. By December 1998, only 1,074 banks were in operation. The remaining 353 banks had their licenses withdrawn due to the distress in the sector. One of the main MFIs, LAPO, acquired Iyobo Lapo Community Bank Ltd, with a view to turning it around and demonstrating that microfinance could be an interesting market segment to penetrate for community banks. Some community banks also seem to have launched esusu "windows".

[34] Microstart Phase I Nigeria Project Document p.32.

Corporate Involvement in microfinance is due mostly to the massive devastation of the oil producing areas. Oil companies notably Shell, Chevron, and Mobil have begun a "people" focused approach to social responsibility. In 1998, Shell disbursed $43 million towards its community development (mainly infrastructural) efforts with a small percentage of the funds allocated to micro-finance. Considering that Shell controls some 60% of the oil sector, total money going to community development may well be in the region of $72 million. The likelihood of relatively sizeable outlays on community development make the oil companies a veritable platform for NGO/Private sector linkages and partnerships in micro-finance, especially in the Niger Delta area.

Donors

Prior to the return of the democratic government in Nigeria in 1999, few donor agencies were active in the country. Since 1999, many donor agencies have docked in Nigeria but many, such as the EU, DFID and USAID, focus primarily on supporting processes for democracy and governance to aid the country in transition. DFID is in the process of assessing its role in the Nigerian microfinance sector while it continues its involvement in the MAB. Although the EU has included poverty alleviation as one of the key objectives for its Nigerian development programme, it is focusing primarily on governance and democracy issues at this point. USAID has a projected budget of US$ 5 million which is to be used for a combination of the following over the next three years: i) assessment of its comparative advantage in the sector; ii) support for technical assistance to implement best practise; and iii) regulatory issues. It should be noted that exploring potential links to MicroStart is explicitly noted in the statement of work.

Donors such as the Ford Foundation and the UNDP are among the few active agencies in Nigeria, even during the military rule. The UNDP, through the ICDP programme is engaged in microfinance. In 2000, SUM and UNDP, with UNDP Nigeria funding, started the MicroStart programme focused on capacity-building for select retail-MFIs that show promise of becoming "breakthrough" institutions. Among other multilateral actors, the AfDB has not been directly involved in microfinance but has supported some of the state-owned commercial banks such as NACB.

The World Bank had been exploring rural finance programmes which have been suspended due to a combination of factors including the government's persistence in pursuing subsidised lending policies and their slow progression in the PRSP process. The IFC has also become active in Nigeria in the last few years and is contemplating an initiative targeting microfinance and small entrepreneurs through a microfinance company that is capitalized through the SMEIS contributions of six private commercial banks

Infrastructure Supporting Microfinance Sector Development

International Networks

The Women's World Banking (WWB) and Accion International are the two international microfinance networks that have made some inroads into Nigeria. WWB has been engaged through an Africa-wide initiative funded by the UNDP Regional

Bureau for Africa in communicating with key players on important issues in microfinance in Nigeria.

ACCION International is assessing the market to determine how private banks can enter the sector and profitably serve micro and small entrepreneurs.

Domestic Networks
The only domestic network for microfinance in Nigeria is the Community Development and Microfinance Roundtable (CDMR), which was established in early 1990 as a peer learning and training network for MFIs. A combination of factors, including the lack of funding and leadership issues, have stymied its development. Members appear to be each pursuing their own growth.

Second-tier Organisations:
The Community Development Foundation (CDF) was created as a wholesale refinancing agency for retail MFIs in the 1990s and is the only second-tier institution for microfinance in Nigeria. However, it is widely believed that CDF did not use much of its "first-mover advantage" to build the sector. Instead it has become involved in retail activities by providing loans for enterprise development making. Its current strategic position is unclear. The CDF, according to many in the sector, has not served the key role of an effective second-tier organisation (i.e., that of being an information clearing-house on the sector) and has failed to harvest the lessons learned from the different types of institutions that have been part of the sector: cooperatives, public sector institutions, private financial institutions, NGO-MFIs etc. .

The Growing Business Foundation (GBF) is a pseudo-second tier institution for microfinance of more recent origin. It is a private for-profit entity that brokers loans to MFIs from private banks at a couple percentage points above the direct rate by banks. For some reason, the GBF has not generated as much interest among MFIs with this product as expected.

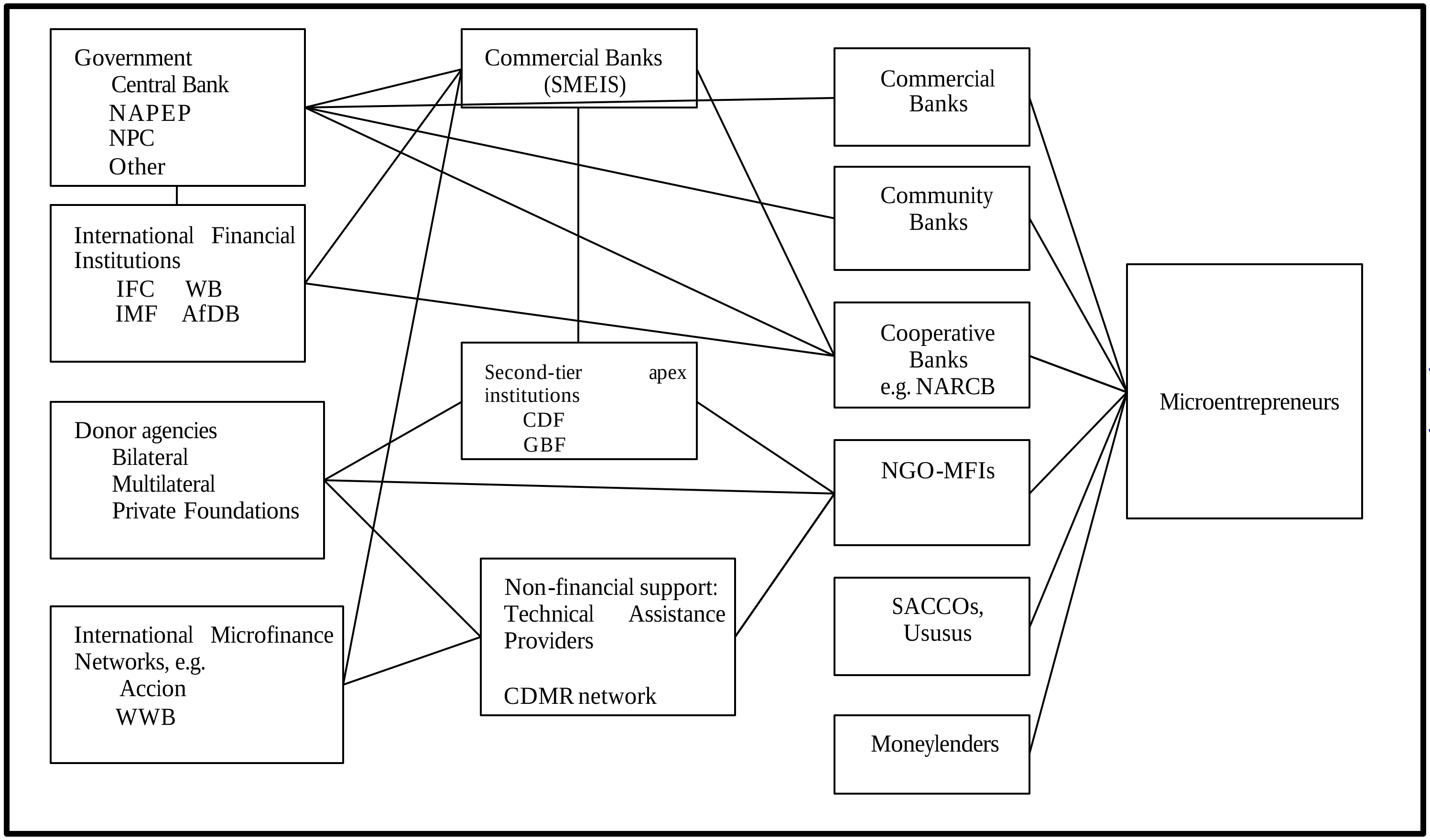
A schematic overview of the sector in Nigeria is presented in Figure 1.

3.3 Key Changes in the Microfinance Sector

In 1999, the microfinance sector in Nigeria was still very much in its infancy. It was dominated by many government poverty alleviation programmes masquerading as microfinance programmes, politically driven rather than driven by objective financial principles.

Key changes that have taken place in the sector since 2000 in terms of the general enabling environment MFIs, and the broader microfinance infrastructure are:

- Processes are well underway to establishing a critical mass of credible MFIs. It is likely that in the immediate future, the main microfinance service providers will continue to be NGO-MFIs;
- There are marginally more technical service providers specialised in the building capacity of MFIs and promoting the acceptance of microfinance best



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- practise norms (i.e. procedures, prescribed systems, guidelines and practices); and
- The formation of a second wholesaling organisation (GBF in the centre of Figure 1).

In terms of key MFI players, the microfinance sector in Nigeria has not changed that much. Change has taken place more in terms of actors' financial viability. MicroStart significantly improved the credit operations, outreach and income generating capacity, which is perhaps the most dramatic change that has taken place in the sector. Nevertheless, the critical mass of credible MFIs advocating best-practice standards has not yet made an impact on the commercial banks in Nigeria.

Although the microfinance infrastructure remains far from mature, a number of changes are taking place including the establishment of an additional wholesale institution and technical service providers to support the sector. Increasing the number of wholesale finance mechanisms is critical in a market as large as the absolute amount of capital needed to fuel growth in the Nigerian microfinance sector is sizeable. Although GBF has not generated as much interest among MFIs as expected, it could play an important role, if revamped. Conceivably, the new IFC/ACCION/government initiative to determine how private banks can enter the sector and profitably serve micro and small entrepreneurs will also help meet the need for funds.

UNCDF's support contributed to some of the key sector changes over the past three years. By taking a critical mass of MFIs and developing their capacities, the UNDP/UNCDF is moving the sector to the next stage of development. The MFIs in the programme are not yet sustainable, but most are on the path to sustainability which had not previously been the case. In this, there is no doubt that the impact of UNCDF on the sector has been significant.

These changes, an increasing capacity and role of the sector support mechanisms/actors (see Figure 1, the middle column,) increased the absorptive capacity of the MFIs, and potential interest from investors suggest a dynamic future for microfinance in Nigeria over the coming years.

3.4 Remaining Gaps in the Microfinance Sector

Although there have been several changes in the microfinance sector in recent years, a number of gaps remain:

Client Level:

- An enormous gap in the supply of financial services.

Institutional Level:

- Limited sources of capacity-building support and financing of NGO-MFIs; and
- Limited formal financial sector intermediation in microfinance (at retail or wholesale level), apart from policy-driven initiatives such as SMEIS is likely to be minimal.

Sectoral Level:

- A lack of an overall vision and strategy for developing the microfinance sector, either from the government or from the international donor agencies. Limited processes and deliberations for developing an appropriate regulatory framework and a lack of a coordinated effort by key stakeholders in the sector;
- A lack of effective and adequate numbers of second-tier institutions to provide re-financing facilities to MFIs and also building capacity at different levels; and
- A lack of information for the sector – need for an information clearinghouse.

Furthermore, one senses some urgency by actors at all levels – MFIs, second-tier institutions, donor agencies and policy-makers – to develop regulations and policies for the sector. Reasons cited for this range from lending credibility to the sector through legal frameworks, to protecting deposit-holders, to creating incentives for MFIs to grow through regulations. It should be mentioned that the current legal or regulatory environment is not in any way unfavourable to the microfinance sector.

The gaps and needs of the microfinance sector in Nigeria, especially in terms of market penetration, coherence of vision and strategy across the many states, and lack of information, are daunting. The sector here is similar to that of many other big countries such as India, Brazil, and Mexico where huge demand, minimal supply and limited institutional capacity to reach the millions who need microfinance services characterise the sector.

4.0 Clients, Capability, and Comparative Advantage

This section describes the overarching goals of partners in development cooperation in Nigeria, UNCDF capability, and its comparative advantages.

4.1 MDGs, National Priorities and UN Nigeria Cooperation Frameworks

UNCDF serves people and governments of LDCs, the UNDP country offices, and other UN partner organisations, as appropriate. The next section focuses on UNCDF's specific capabilities and past results in contributing to changes in the microfinance sector and aligning itself with partner organisations. The goals of the federal government and the UN in Nigeria, as articulated in some of the key UN documents such as the United Nations Development Assistance Framework (UNDAF) Nigeria and the Nigeria Common Country Assessment (CCA), are discussed. Furthermore, we identify and explore any points of intersection in the plans of these agencies *vis-à-vis* microfinance and its role in development.

Government National Priorities

Among other areas, the government's development priorities include the following: [35] (Only the items relevant for microfinance are mentioned below.)

- Revival and expansion of the Nigerian economy – targets include GDP growth rate of 10%; single digit inflation rate.[36]

[35] United Nations Development Assistance Framework (UNDAF) Nigeria 2002-2007 p.5.
[36] *Nigeria – Common Country Assessment (CCA)* United Nations System in Nigeria March 2001 p.72

- Creation of employment opportunities for the unemployed – target includes a 40% rise in formal and informal employment between 1999-2003;[37]
- Poverty eradication;
- Promotion of private sector-led and market-oriented economy; and
- Repositioning of the economy to participate beneficially in the global economy.

There is little elaboration on microfinance *per se* in government policy priorities, although we know that the main agency for poverty alleviation in Nigeria, NAPEC, has been involved in microfinance through delivering loans as well as building the capacity of retailers. This can be considered a strong indication of the government's plan to use microfinance as a tool for poverty alleviation.

Millennium Development Goals (MDGs)

Nigeria has committed itself to the MDGs for poverty reduction, particularly to the objective of halving the number of poor people by 2015.[38] It is unclear how the government proposes to use microfinance to reach the MDGs. The UN system however has expressed its support to the government's commitments to the MDGs.[39]

Goals of the UN System in Nigeria – CCA and UNDAF

Table 1: Reducing Poverty Theme - Summary of Objectives and Strategies Relevant to Microfinance

UNDAF Goals/Themes	
1. Promoting good Governance and Human Rights 2. Reducing Poverty 3. Reducing the Incidence and Impact of HIV/AIDS, malaria, TB, and other infections diseases	
Poverty Reduction Objectives	A selection of agreed upon strategies to reach objectives
To increase, by at least 30%, the participation of women, youth and other vulnerable groups in economic and social development processes	Support national programmes for job creation and economic empowerment of vulnerable groups. Facilitate access to microcredit for sustainable development
To promote agricultural production, practices, food security and effective use and management of the environment for poverty reduction	Strengthen micro, small and medium scale enterprises in support of improved systems and productivity in agriculture, agro-processing, food storage, packaging and distribution
To promote synergy among all UN agencies in anti-poverty intervention programmes	Support the Government to meet its obligations and commitments under the Millennium Development Goals (MDGs)

Source: UNDAF Nigeria 2002-2007.

UNDP Nigeria has been providing support to the microfinance sector since the fourth country programme cycle (1994-1997). UNDP provided initial capitalisation funds supporting revolving of micro-credit under the WID programme, including: the People's Bank, Credit Administration Entities (CAE), the Community Development Foundation (CDF), and the Country Women Association of Nigeria (COWAN). However, an UNDP analysis showed that the above engagements were inefficient due to limitations in managerial and technical skills of the poor and low level of literacy.[40]

The eight thematic areas of the CCA were used by all UN agencies in Nigeria to prioritise three broad umbrella thematic areas. One of these, "Reducing Poverty", aims to contribute to the reduction of poverty levels and improve the quality of life of

[37] Ibid.
[38] In 1990, $1/day as the baseline for the numbers to be halved. Millennium Development Goals website – Nigeria
[39] UNDAF Nigeria p.32.
[40] Nigeria Assessment Report p.11.

Nigerians. An investigation of the specifics of the Poverty Reduction thematic area indicates that microfinance is a key component of this strategy for the UN. As illustrated in Table 1, microfinance, sometimes referred to in the UN documents as microcredit, features prominently under several of the specific objectives and strategies to achieve poverty reduction.

UNDP Nigeria's Country Cooperation Framework from 1997-2002 identified four programme areas for UNDP support:

- Management of socio-economic development;
- Job creation and sustainable livelihoods;
- Social development; and
- Sustainable agriculture, environment & rural development.

Within the framework of the Job Creation and Sustainable Livelihood Programme UNDP has tried to respond to national priorities and political concerns in two main ways. Firstly, it has supported the creation of Skills Development Centers (SDCs) in all 36 states and in the FCT. Secondly, it has promoted micro-credit schemes aimed at reaching the poor. During the period under review, the UNDP has provided training to forty micro-finance institutions and micro-finance support to 350 communities in the 36 States and the FCT. It operates in parallel with UNCDF's MicroStart.[41]

Microfinance is an integral part of the UNDP Nigeria programme. UNDP's involvement has been through the ICDP programme and in addition MicroStart Phase II.

4.2 UNCDF Capabilities and Results in the Past

Institutional Capabilities

UNCDF's mission is to "undertake innovative institutional development projects within private microfinance organizations or public local organizations, with a view to influencing national policies and/or having approaches to institutional development replicated." The mission of the agency is driven by the primary goal of "poverty reduction through local development programmes and microfinance operations."

Within the broad goals outlined above, and following the 1999 evaluation of its programmes, UNCDF identified a niche for itself within the UN system as a competence centre for microfinance, decentralisation and local governance. The 1999 evaluation recommended that "UNCDF needed to adopt clearer goals of excellence in project design and project results."[42] In view of this recommendation, the Executive Board decided to focus broadly on two areas: microfinance and local governance. In view of the above it is evident that UNCDF/SUM's programme was compatible with the strategies of the Nigerian government and the UN system towards using microfinance as a tool for poverty alleviation. There are few conflicts in the over-arching strategies and plans for using microfinance but whether there is a shared

[41] UNDP Country Evaluation ADR Nigeria, May 2003

[42] *A Conceptual Framework for the UNCDF Impact Assessment*, United Nations Capital Development Fund Evaluation Unit, February 2003, p.2.

understanding on the principles for practice of microfinance is another matter altogether.

In 2002, UNCDF/SUM was evaluated as part of the Donor Peer Reviews initiated by the UK Government to assess the effectiveness of aid. The strengths and weaknesses in the capabilities of this agency, as identified by the Peer Review, are summarised in the table below.

The Peer Review team made some recommendations for future strategic direction of UNCDF/SUM within the broader and more complete analysis of their capabilities and regarding the strengths and weaknesses. A select few are presented below to provide a flavour of preferences and for where UNCDF/SUM should focus their efforts:

- UNCDF and UNDP should achieve a shared understanding of microfinance, its contributions to poverty reduction and the achievement of MDGs, and how to best support sustainable financial services for the poor;
- The SUM should spend the bulk of its time providing services to the UNDP Country Offices;
- The SUM staff should keep an operational edge by maintaining some strategic direct investments;
- The SUM should increase regional advisers in strategic regions;
- The UNDP should develop constructive partnerships with other donors to share technical staff in-country, jointly develop microfinance support strategies for countries, and to exchange lessons learned from various experiences. Other donors should not be seen only as a potential source of funds; and
- Move from isolated projects to a more systemic policy approach, as there is no clear comparative advantage in working at policy level in the financial sector.

Table 2: Strengths and Weaknesses of UNCDF – A Select List

Strengths	Weaknesses
SUM's financial instruments of grants and loans and TA for the microfinance sector are flexible and meet the needs of a target market that has low absorptive capacity but great potential	Though the evaluation capacity is well institutionalized, monitoring of investments could be enhanced; the current reduction of the number of investments is a timely measure in this regard.
UNCDF is part of the UNDP group, which provides a worldwide operational infrastructure, with close contact with government ministries	Incentive structure of field staff (RR and DRR) is not conducive to observing sound technical advice
Ten highly competent microfinance professionals at UNCDF/SUM who can be accessed by the global network of UN organisations.	In some cases being part of the UNDP group undermined UNCDF's promotion of best practice microfinance
Trusted and neutral development partner of governments in many countries in the world	UNCDF operates within an uncertain budgetary environment
Not linked to one ministry, but in principle access to all line ministries	No clear articulation as yet of how microfinance relates to MDGs
Capacity to pilot and innovate with a view to pulling in other, larger donors or investors who have a lower bar to risk taking	Emphasis on policy impact and partnerships can lead to a neglect of results and development impact.

Source: Based on CGAP Peer Review of UNDP and UNCDF/SUM 2002

Within this context of understanding the overall capabilities of UNCDF/SUM, we move on to assessing the role for UNCDF/SUM in Nigeria.

Partnerships, Synergy and Alignment of Support with other Initiatives

The Ford Foundation and USAID are the only other key donor agencies that have been involved in capacity building for microfinance in Nigeria. The efforts of both of these donors have been of much smaller scope (financially and otherwise). The vision of creating a critical mass of credible MFIs seems to have been quite unique to UNCDF/SUM.

Furthermore, during 1999-2002, donor coordination was relatively unnecessary as there were very few donors working in microfinance (discussed in detail in chapter three in the section on replication). However, in so far as there was some activity with retail MFIs, there were few conflicts and most of the activities were either complementary or supportive of UNCDF/SUM's efforts, mostly through informal discussions around MicroStart Board meetings.

As mentioned, the partnerships of UNCDF with the TSP and MFIs were strong.

Responsiveness

The structure of the MicroStart programme in Nigeria is such that the large number of partner MFIs have not allowed much tailored capacity building in specific areas of weakness not directly related to the introduction of the ASA methodology.[43] The approach notes that many promising MFIs lack cost-effective methodology at the branch level. Reengineering branches for cost-effectiveness, once an organisation has grown and faces competition is costly and thus not a viable option. The paper notes that most promising MFIs also have shortcomings in management and governance. ASA's stated approach is to engage management and governance to focus on these issues once demonstration of best-practices is taking place within their organization. Taking this approach into account, UNCDF could demonstrate its responsiveness to the lagging behind of some MFIs in terms of sustainability. MicroStart II is developing some activities in this regard. For example, ASA has changed from reporting on the ASA branches only, to reporting on the overall performance of the organization, including headquarters costs.

Notably, the MicroStart programme under auspices of UNCDF is anticipating growth capital need and in a timely manner tries to prepare MFIs for linkages with banks and second-tier facilities early on.

4.3 UNCDF Comparative Advantages

Prior to the return of the democratic government in Nigeria in 1999, few donor agencies were active in the country. UNCDF, with UNDP through MicroStart, and Ford are the first two investors in the nascent microfinance industry. Through MicroStart, UNCDF and UNDP were able to demonstrate that microfinance can be done efficiently in Nigeria with targeted capacity building support. As one of the few directly involved in

[43] See "Fostering Successful Technical Assistance Partnerships", by Md. Shafiqual Haque Choudhury, paper for UNCDF/SUM and UNDP Africa Global Meeting May 2001. http://www.uncdf.org/english/microfinance/reports/thematic_papers/index.html.

this sector, UNCDF has developed a downstream comparative advantage in providing technical support.

The Ford Foundation is currently exploring opportunities for investing in capacity-building of a number of MFIs though it has a fairly small budget of less than US$2 million for microfinance.

From discussions with USAID, it seems that a small part of the US$5 million of USAID's budget for the sector may be used for capacity building and technical assistance to MFIs while most of USAID's budget and programme is likely to be directed towards assisting in developing the regulatory framework for the microfinance sector. The World Bank is constrained in its programmatic activities by the Government's lack of progress on the PRSP process and commitment by action to allow free market principles to run the overall financial sector. IFC is focused on bringing some of the formal financial sector actors into the microfinance market with ACCION International supporting through technical assistance. The fruition of this endeavour is contingent upon CBN approval to use the SMEIS contributions of selected banks to capitalize the proposed microfinance company. IFC and the World Bank are also pushing for action on the regulatory front for microfinance. DFID is in the process of assessing the financial sector and the EU has not yet decided which course to take. Few of the other key international donor agencies are considering a strong play in the sector. The Government will continue to be involved in microfinance, and through its funding of MicroStart II, hopefully it will impart more best practices.

It would be difficult for UNDP and UNCDF to play a leadership role if UNDP Nigeria fails to discontinue its own unsustainable subsidised microcredit programme or re-structure it to comply with UNDP's own policy.

UNCDF and UNDP are neutral institutions. With UNCDF's specialised focus on microfinance, together, they could be well placed to bring together the various actors that are initiating microfinance activities to collaborate and develop a shared vision for developing the sector.

5.0 Conclusions on Strategic Positioning

5.1 Past Positioning

As described in section 3.1 UNCDF's support was in line with major development planning frameworks. Creation of employment opportunities for the unemployed is featuring high on the Government's agenda. The UNDAF explicitly states facilitating access to microcredit for sustainable development as one of its cooperation strategies. Nigeria has committed itself to the MDGs for poverty reduction, though it is unclear how the government proposes to use microfinance to reach the MDGs.

UNCDF/UNDP MicroStart programme reflected the 1999 Policy shift of supporting retail institutions directly. UNCDF made a strategic choice in the period 2000-2002 to focus on downstream activities in Nigeria (building capacity of the NGO-MFI retail sector). As indicated earlier, UNCDF and UNDP achieved enough results on the ground with MicroStart to demonstrate that microfinance can be scaled up and be sustainable in Nigeria if some basic principles are followed.

In brief, some of the major accomplishments of UNCDF/SUM in Nigeria were:

- Building capacity of select promising retail-MFIs through the MicroStart programme (a few of these might soon be poised for rapid scale-up);
- Spreading best practise microfinance practises
- Developing a sense of ownership of the MicroStart programme by the participating MFIs;
- Starting the process of creating a critical mass of credible MFIs;
- Establishing a forum for donor coordination through the MicroStart Advisory Board (MAB); and
- MAB influence on government policy makers.

However, it should be noted that MicroStart impacted a mere eight institutions whose combined outreach is less than 50,000 clients (June 2003 figures) in a country as big as Nigeria where the demand is about 4 million households. Clearly there still remains a dearth of credible mass of MFIs in Nigeria.

As the microfinance sector is young and there are few restrictive macro-policies or statutes and laws for microfinance, the focus of UNCDF/SUM on downstream activities seemed justified. However, it appears that UNCDF/SUM has not adequately capitalised on its advantages as a "first-mover" donor agency and technical expert in the sector to influence and shape the policies and programmes of other key actors in the sector (including UNDP and the government) to enable rapid acceleration of market penetration. In fact, the lack of adherence to best-practices on one hand (both UNDP's own policy and globally accepted norms) contrasted with the visible success of MicroStart on the other, could well start to work to the disadvantage in building on the MicroStart success in Nigeria.

5.2 The Way Forward

There is clearly a mismatch between microfinance supply and demand in Nigeria, with demand significantly outpacing supply. In a nutshell, the suppliers of microfinance can be characterised as numerous informal sources, limited formal finance and NGO-MFIs which currently form the mainstay.

Informal microfinance mechanisms (*esusus* and ROSCAs) are unlikely to become long-term, sustainable sources of funds. Few banks are making a strong bid to tap the microfinance market – either as retailers or as a refinancing agent for MFIs as they do not perceive the sector, at either at the retail or wholesale level, to be profitable. Hence, in the short-term (3-5 years), institutional support to the micro-entrepreneurs will, by default, be provided primarily by the NGO-MFI sector which is limited by capacity and capitalisation. It is imperative, therefore, that the capacity of NGO-MFIs be strengthened significantly if they are to achieve any kind of scale in a sustainable way.

Besides the overwhelming shortage in supply, an analysis of the sector's current dynamics suggests that the sector lacks:

- Development of a common vision for the sector by key actors;
- Coordination of resources and programmes to supplement and complement the programmes of the main actors– donors, private sector and government;
- Further support given for building capacity of MFIs that show promise;
- Identifying other delivery mechanisms to complement MFIs that will help reach scale; and
- Leading and guiding the process for regulating the sector – determining the timing and nature of the regulatory frameworks appropriate for the sector

Within the above context, and given its capabilities, UNCDF has to carefully consider where to place its efforts in order to make lasting and positive achievements.

It is imperative to have significant resources available for increasing market penetration. Given that Nigeria is a non-LDC, UNCDF/SUM would need to mobilise significant non-core resources in order to have a significant impact in this country to reach greater numbers of the poor. With this as the overall goal, it is recommended that UNCDF/SUM adopt a more balanced mix of upstream and downstream activities that will leverage its results on the ground better and more likely expedite the development of the sector towards scale, sustainability and impact. It should be underscored that the recommendations are based on what could be possible if UNDP Nigeria aligned its own programming with best-practices in order for UNDP and UNCDF to play a leadership role. The specific focus of the recommended strategy and activities is elaborated below.

Downstream Activities:

There was considerable progress in Phase I of MicroStart in terms of outreach of the partner MFIs. However, in terms of sustainability, a fair amount of work remains to be done. UNCDF should persist in building capacity of the breakthrough organisations it has identified through Phase I of MicroStart and help them become market leaders. Some MFIs badly need tailored capacity building support. The Phase II programme work plan and budget should be modified to address these issues as necessary. Some steps have already been taken in this regard in the second phase of the MicroStart programme. In addition, UNCDF should supplement its current programme of capacity building for retailers by identifying other delivery mechanisms to reach greater scale.

UNCDF has been remiss in building capacity of other non-retail MFI structures that play a vital role in the development of the sector. For example at the wholesale or second-tier level, there is only one major player in the form of Community Development Foundation (CDF) for a large country like Nigeria. While we understand the 1999 Policy Shift for UNCDF has not allowed it to build capacity of second-tier institutions, not developing an appropriate second-tier institution that can play a complementary role in lieu of a formal regulatory body, facilitating the development of industry standards, etc. is a weakness of the current programme.

Admittedly since 1999, UNCDF/SUM has made a conscious effort to move away from second-tier or apex institutions, but the need for such institutions in Nigeria is undeniable for the sector to scale up. If UNCDF/SUM's own policy mandate does not allow it to engage with second-tier institutions it should indirectly influence other agencies to develop and support a multiplicity of private (not government) apex institutions throughout the country.

Upstream Activities:

Through its long standing relationship with the government and its reputation as an 'honest broker' combined with its on-the-ground experience and technical knowledge of microfinance, UNDP and UNCDF are well-positioned to assume a leadership role in defining a vision for the sector primarily because of its convening power. Key activities are required to bring the government and policy makers, donors, second-tier institutions, private sector actors and MFIs to accomplish the following:

- Develop a vision for the sector;
- Establish a process and develop a plan for using microfinance to reach the MDGs and other national poverty reduction goals;
- Identify the key agencies and their respective roles to make the above possible – particularly important to use this opportunity to encourage the government to commit to withdraw from implementation of microfinance programmes; and
- Ensure commitment of all actors to globally established best practices for microfinance.

For such a vital event, the key actors need to be brought together by a neutral but technically competent entity that can guide the process of developing a shared understanding of the sector's needs, the gaps, and a vision and strategy for bridging this gap. UNDP, with technical support from UNCDF, seems perfectly positioned to play that role. Part of this would involve capacity-building of policy makers and donors first, as a precursor to the vision-building exercise. In more concrete terms, such a vision-building exercise, where the roles of the key actors are defined, would help donors reconsider diverting resources from regulatory issues that seem to have captured the imagination of many, toward the much-needed building of a credible retail sector. The more urgent sector need, however, is a large number of credible retail institutions that are sustainably serving this sector. UNDP and UNCDF alone, through Micro Start, are unlikely to create the capacity ofa national retail sector.

Agencies such as USAID who are focused on the regulatory issues need to be persuaded that the key constraining factor in Nigeria is currently still delivery capacity and not the regulatory framework per se. Hence , their monies would have higher impact if directed to building the retail institutions or a combination of the two foci. Such a "big picture" programmatic activity would also create a ripple effect among donors and other key agencies to committing resources to the sector in a way that is non-conflicting with each other. Given that UNCDF cannot programme its core resources in non-LDCs, mobilising non-core resources and using these to influence programmes of donors with larger budgets for the sector is the surest way for UNCDF to leverage its role beyond its limited means and yet have some impact in enabling higher market penetration in microfinance. Such upstream activities have the potential to become a high-impact intervention plan for UNCDF.

On another level, there should be more effort devoted to sharing the lessons learned by practitioners participating in MicroStart, among themselves and among the wider microfinance community. As reported during interviews with key players in the sector, the achievements of MicroStart in Nigeria apparently are not well-known among the private sector (banks etc.) and among the wider microfinance community in Nigeria. UNDP and UNCDF should consider developing a process for engaging the microfinance community through workshops, seminars, etc., to inform and educate these entities on the successes of MFIs which have adopted sustainable banking practices for microfinance. The impact on the microfinance sector will thus be broader and will help influence even MFIs that did not participate directly in the MicroStart programme. UNCDF could also assess the feasibility of reviving and strengthening the CDMR for this purpose.

One of the most concrete impacts at the country level for UNCDF is to influence the microfinance programmes designed by its sister agency, UNDP, to ensure that all microfinance programmes of the UNDP conform to global best practice principles for microfinance. UNCDF has facilitated external reviews to assist UNDP to develop best-practice alternatives for other credit programming. UNDP reform could be considered as the first test in determining impact on educating other partners and players in the Nigerian microfinance sector.

A special note:
It should be noted that given the opportunities presented by the recent change in senior management in UNDP Nigeria, UNCDF/SUM has already made proposals along the above lines to UNDP. UNDP had expressed willingness to join other donors in a joint programming mission to develop a shared vision and strategy for developing microfinance as an integral part of the financial sector. Programming is scheduled to take place in early 2004.

The Programme Supporting Document for phase II outlines a continuation of the focus on downstream activities of building capacity of the leading MFIs that emerged promising through the first phase. The amount budgeted for upstream activities in the second phase is a fairly thin $44,000 of the $3.1 million budget, which is allocated for training government and policy makers and donors on microfinance.[44] However, it appears SUM has presented a broader range of options for the sector to UNDP, beyond MicroStart. These are described in a concept note sent to the new RR.

Conclusion
Given the identified need for adopting a balanced approach to UNCDF programmes, concentrating on mutually reinforcing programmes and outputs at downstream and upstream level offers a unique strategic position for UNCDF. No other comparable agency has stepped up to the challenge of taking a leadership role in building the microfinance sector for such a large and relatively complex and financially undeveloped sector. Supporting such a young and emerging microfinance sector in a big and complex country and building a vision and strategy for the sector offers a unique value proposition for UNCDF.

[44] One area that merits some discussion here is the selection of the NAPEP as a LTSP from the second phase. The rationale is that the Government will remain a donor to the microfinance sector for the foreseeable future, and thus building its technical capacity will make it a better 'investor' in the sector. However, it is unclear why vesting a government body with the role of capacity building is the best way forward. The political nature of the NAPEP and its being open to political influence is not unknown, housed as it is within the Office of the Presidency of Nigeria. While the need to build/create/support centers for capacity -building for the sector is undeniable, the choice of a government agency for this purpose seems inconsistent with best practice for microfinance. On the other hand, if resource mobilization for MicroStart through the NAPEP is the main goal for UNCDF/SUM, it should be understood that such "resource mobilization strategy could pose risks if divergent priorities and/or disbursement pressures weaken quality standards" echoing a warning sounded by the Peer Review team.

Appendix 1: CDMR Member MFIs

	Name	No of members	Average loan amount	% of women	Savings per month
1	ASHO	938		95	
2	AUSHO	120	10,000	95	2500
3	COWAD	4672		98.03	
4	COWAN	250000	10,000		50
5	DEC	3071	6,500	100	
6	ERDU	500	5,000	87	180
7	FADU	550000	10,000		*25% of loan*
8	ISHO	1520	12,000	80	50
9	KDA	550		89	
10	LAPO	8737	10,000	96	100
11	NUSHO	5150		70	
12	ODF	1006	3,000	98	40
13	OF	361	10,000	97.5	
14	HUMARDO	2000		95	50
15	JDPC	5124	27,000	89	
16	WHEDA	12300	10,000	70	50
17	WDI				
18	NAWAD	2000	10000		100
19	PD-NET	2500	5000		100
20	RWC	357		100	
21	BDI	240	20,000		2200
22	WDC	2200	3x savings		50
23	FA	2000	10,000		100
24	CDI	300			50
25	WMTOP	600	1,000		10
26	RFDC	91	5,000		200
	TOTAL	**856,337**	*Ave* ***9,676.5***		Ave: **364.4**
Source: Ford Foundation,					

* = **NOTE**: Numbers are collated from the CDMR profiles, which are very broad estimates and only serve to give an indication of the parameters.

APPENDIX 2: TERMS OF REFERENCE SUMMARY [45]

Independent Programme
Impact Assessment (PIA)
of UNCDF-Supported Microfinance Operations

Terms of Reference for the Impact Assessment of:

Kenya: MicroStart Kenya

Nigeria: MicroStart Nigeria

Nicaragua: FNI Nicaragua

Malawi: Pride Malawi

February 2003

[45] The full Terms of Reference is 19 pages and can be made available upon request to UNCDF or Enterprising Solutions.

Background and Objectives of the UNCDF Independent Impact Assessment (IIA)
The Executive Board of UNCDF, in its decision 99/22, requested an independent evaluation of the impact of UNCDF programmes and projects and that its findings be reported to the Board in 2004. The Conceptual Framework for the UNCDF Impact Assessment provides the full background to this exercise[46].

Objectives: In serving the need for organizational accountability both to the Executive Board and to stakeholders for results, the main objective of the IIA is to assess whether UNCDF has effectively implemented the recommendations of the 1999 independent ITAD evaluation of UNCDF[47] and whether, as a result, its local governance and microfinance programmes have had the intended impact in terms of their effect on individuals, households, communities, institutions, policy and replication. The Impact Assessment will also generate useful lessons and recommendations for UNCDF and partner institutions on programming, strategic positioning and organizational effectiveness at the country, regional and corporate levels.

The overall IIA of UNCDF will be based on two sets of externally conducted exercises to be carried out in 2003, the findings of which will appear in a Synthesis Report:

(i) **Programme Impact Assessments (PIAs)**, which will take selected countries as "case studies" and assess the outcomes and indications of impact of UNCDF-supported local governance and microfinance operations at the programme/field level—analysing evidence and the potential of the approaches adopted to achieve the intended impact.

(ii) An **Organizational Performance Assessment (OPA),** which will assess UNCDF's organizational performance and effectiveness in formulating and managing its local governance programmes and microfinance programmes at both the HQ and in the field.

This TOR concerns itself only with the PIAs of UNCDF's microfinance operations.

Scope of the Microfinance PIAs
The purpose of the PIAs is to test the programme theory of UNCDF Microfinance Operations, to establish whether in fact the programmes show evidence of or potential for the intended impact. The scope of the PIAs therefore, following the above programme logic, and with reference to the three impact areas identified for assessment in the Impact Assessment Concept Paper, and to the complementary intended microfinance programme results expressed in the UNCDF Strategic Results Framework[48], will involve an assessment, in each of the selected countries, of:

(i) the achievements of UNCDF-supported MFIs with respect to **poverty reduction**;
(ii) the viability and **sustainability** of UNCDF-supported MFIs; and
(iii) UNCDF's achievements in **influencing policy and promoting replication** and microfinance best practices.

In addition to these "programme-centred" assessments, the PIA will make a "development-centred" assessment of the **strategic positioning and comparative advantage of UNCDF** in its areas of intervention in the broader microfinance context in the country and vis-à-vis other players in the microfinance arena. The **relevance and significance** of UNCDF investments and TA to UNDP-funded MicroStart programmes will also be assessed from this perspective.

The findings and analysis of the PIAs for all four country studies shall be presented in a single main report, with explicit sections covering all of the components in the following table for each of the four countries. Supporting data for the analysis shall be presented in a separate report, and shall be clearly cross-referenced in the main report.

Main evaluation questions to be answered:
IMPACT AREA 1: Poverty Reduction

- Is there increased access to financial services by the poor (in particular poor women) as a result of UNCDF-supported microfinance interventions?
- What are the nature and magnitude of changes in people's lives (women's in particular), and in communities served by microfinance services, in respect of, *inter alia*, poverty reduction and empowerment, as a result of their increased access to the financial services supported by UNCDF?
- Has increased access to financial services supported the development of clients' productive enterprises and generated employment?
- Are poor current and exited clients satisfied with the level of access to, type, quality, and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?

46 UNCDF (Feb 2004) A Conceptual Framework for the UNCDF Impact Assessment
47 ITAD (1999) Evaluation of UNCDF Synthesis Report, p65
48 See http://www.uncdf.org/english/about_uncdf/corporate_policy_papers/index.html

IMPACT AREA 2: Sustainability (institutional and capacity development)

- Is there increased access to financial services by the poor (in particular poor women) as a result of UNCDF-supported microfinance interventions?
- What are the nature and magnitude of changes in people's lives (women's in particular), and in communities served by microfinance services, in respect of, *inter alia*, poverty reduction and empowerment, as a result of their increased access to the financial services supported by UNCDF?
- Has increased access to financial services supported the development of clients' productive enterprises and generated employment?
- Are poor current and exited clients satisfied with the level of access to, type, quality, and consequence of microfinance services provided by UNCDF-supported MFIs? What improvements are suggested?

IMPACT AREA 3: Policy Impact and Replication

- What policy changes (in terms of norms, legal and regulatory frameworks, macro and micro policy) in the country are attributable to UNCDF-supported microfinance interventions?
- Is there evidence of acceptability and/or replication of the MFI and its products in the market?

ASSESSMENT OF UNCDF STRATEGIC POSITIONING

In addition to assessing the programmes themselves and related outcomes/impact according to the above criteria, the PIAs will also make an assessment of the strategic positioning of UNCDF in terms of:

- The *relevance and significance* of UNCDF-supported interventions, programme objectives and actual activities/outputs/outcomes to (i) the development of microfinance in the country; (ii) government priorities and national needs; (iii) the UN System goals as expressed in the UNDAF; and (iv) the Millennium Development Goals[49] and Programme of Action for the LDCs[50]
- How *responsive* UNCDF has been to significant changes in the country's microfinance context
- The *comparative advantage* of UNCDF in providing support to microfinance services in the country, vis-à-vis other private sector entities or donors.
- The effectiveness of *partnerships* made by UNCDF in pursuit of its objectives and *synergy and alignment* of UNCDF support with other initiatives and partners.
- How UNCDF could, in future, best (re)position itself to provide added value.

Organization, composition, duration and costs of the mission

The PIAs shall be carried out and reports finalised between April and October 2003, earlier if possible.

Team leaders for poverty assessments and CGAP appraisal: an international consultant with microfinance and impact assessment expertise and specific applied experience in using AIMS and MicroSave Africa assessment tools, and extensive experience in conducting microfinance assessments, and an international consultant with specific applied experience in using CGAP Institutional Appraisal tools respectively. Familiarity with Malawi, Kenya, Nicaragua and Nigeria would be an advantage. In addition, the team leaders shall have excellent team-management and writing skills, and will be responsible for preparing the analysis of findings and research data to feed into the main report and companion report.

Team members: will consist of international and local consultants who shall possess applied experience with LFA (Logical Framework Analysis), be familiar with the AIMS/MicroSave Africa assessment tools and/or have applied experience in participatory qualitative and quantitative research techniques and knowledge of the local microfinance context and CGAP institutional assessment tools. They shall have good knowledge of the regional and country microfinance environment

Summary of deliverables

One bound copy and an electronic version each of the main report and the companion report shall be submitted to UNCDF HQ. In summary, the outputs required of the evaluator are:

1. Detailed workplan
2. Detailed methodology plan
3. Summaries of Key Findings (prepared for each in-country debriefing)
4. Minutes of all PIA Wrap-up Meetings
5. Interim Report
6. Draft main report
7. Draft companion report
8. Final main report
9. Final companion report

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49 See http://www.undp.org/mdg/ for Millennium Development Goals and indicators.

50 See http://www.uncdf.org/english/news_and_statements/current/lauzon-statement_06Aug-02eng.html for statement of the Executive Secretary referring to the Programme of Action for the LDCs 2001-2010.

APPENDIX 3: LIST OF PEOPLE INTERVIEWED

Nigeria

MFIs
Ms. Olusola Adegbesan, General Manager Outreach Foundation
Mr. Akin Akitola, Executive Director Community Development Foundation
Ms. Anna Emaholo, Coordinator, Micro-Credit Programme, Outreach Foundation
Ms. Adhiambo Odaga, Representative for West Africa, Ford Foundation

Government and Donors
Ms. Juliet Amego, Director Programme National Poverty Eradication Programme (NAPEP)
Mr. Bashir Dikko, NAPEP
Mrs. Anne Sambo, Deputy Director, Outreach Services, NAPEP
Ms. Nancy Asanga, Deputy Resident Representative UNDP Nigeria
Mr. Bertram Egwuatu, Assistant Resident Representative (Prog.), UNDP Nigeria
Mr. Shu'aibu Musa, Programme Analyst, UNDP Nigeria
Ms. Anne Flueret, Senior Strategic Analysis Advisor USAID
Ms. Denise Rolli ns Director, Office of Program and Project Development USAID Nigeria
Mr. Frank Ajilore, Investment Officer, IFC
Ms. Irene Arias Business Development Officer, Small and Medium Enterprise Department, IFC
Mr. Stanley Hiwa, Senior Agricultural Economist, Worldbank

Financial sector
Chief Abiodun T.Salami, Deputy Director Development Finance Department, Central Bank of Nigeria

Lift Above Poverty Organization (LAPO)
Mr. Godwin Ehigiamusoe, Executive Director
Josephine Nmachukwu, Finance Manager
Stanley Aifuwa, LADEC
Abel, Operations Manager
Moses, General Manager Financial Services
Gebrin, Administration
Cynthia Ikponmwosa
Goddey Usisa
Ms. Eunice Ogisemwonyi, Board
Ms. Osaghae, Board
Ms. Ehigiamusoe, MicroInvestment services

Other
Aminur Rashid, Association for Social Advancement (ASA)
Mike Getubig, GF-USA
Andrew Ejoh and Company, External auditor

APPENDIX 4: REFERENCES

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APPENDIX 5: COMPARATIVE OVERVIEW CASE STUDY COUNTRIES 12/2003

All financial figures are in US$, unless otherwise stated
MM = Millions

	Kenya	Malawi	Nigeria	Haiti
1. Macro-economy				
Population (2002)	31.3 million	10.7 million	133 million	8.3 million
Population Density (sq. km)	53	93	144	288
GNI / Capita (Atlas Method)	$350	$160	$290	$480
GDP / Capita (current dollars)	$364	$151	$365	$460
GDP / Capita (PPP US$, 1999).	$1,022	$586	$836	$1,464
Gini co-efficient	.44	.41	.51	.50
% Below Poverty	50%	65%	60% (40% in absolute poverty)	80% of rural poor (70% of total population)
Currency Exchange Rate	1 US$ (USD) = 73.75 Kenyan Shilling (KES) 100 KES = 1.36 USD	1 US$ (USD) = 89.36 Malawi Kwacha (MWK) 100 MWK = 1.12 USD	1 US$ (USD) = 126.8 Naira (NGN) 10,000 NGN = 78.87 USD	1 US$ (USD) = 41 Gourde (HTG) 100 HTG = 2.44 USD
Inflation Rate (2002)	6%	27% 15% (1/2003)	18%	16%
Interbank Lending Rates	9% (12/ 2002) 1.6% (6/2003)	Range: 30-40% (1/2003)	15% (2003)	12.5% (2002)
Commercial Bank Lending Rates	14.7 (1/2003) 19.6% (2001)	40-46% (2003)	Capped at 19% (2003)	26% (2002)
91 day Treasury Bill rate (8/2003)	3.9%	44%	15.7%	14.5%
M2/GDP (1999)	42%	13%	13%	30%
Credit to private sector (US$ MM)	$203,443	$5,391	$582,606	$1,250
Credit to Private Sector (% of GDP, 2001)	24.6	6.8	17.8	15
Savings Ratio (Private sector savings/credit to private sector)	12%	4%	25%	10%
Manufacturing Sector (1995 prices) MM	$814	$201.5	$1,631	$850
Size Manufacturing Sector as % of GDP	12.5%	12.9%	4.2%	24%
General enabling environment	Improving after elections 12/2003.	Declining with continuing parastatal	Diversity between north and	Per capita income declined 5% a year in

	Economic conditions had been falling in Kenya for more than a decade.	subsidized lending and upcoming elections. One of 7 African countries in drought. Largely rural population	south. Political and religious friction.	last 20 years. Civil unrest is high and safety is low. Country uses International Development Association, (IDA), World Bank's concession lending window.
Gross Exports	$2,981	$455.5	$19,798	$327
Main exports	Tea, Coffee, Corn, Horticultural Products, Fish	Tobacco (50% of Exports), Tea, Sugar	Oil (20% of GDP), Coal, Vegetable Oils	Coffee, Sugarcane, Mangoes, Rice, Labor
Debt as % of GDP	4%	15%	8%	33%
Gross Domestic Savings (% of GDP, 2002)	5.5% (2001)	-1%	26%	10%
Exchange Rate Nominal Real	 153 120	 472 118	 501 284	 51
Foreign Direct Investment (FDI) US$ MM	5.3	58.4	1101.4	2.9
Aid per Capita (current US $, 2001)	14.7	38.1	1.4	20.4

Sources:
Population, Population Density: World Bank, World Development Indicators
GNP: World Bank
Gini: World Bank, Human Development Network, Development Data Group
Gini Haiti: Pederson, Lockwood, "Determination of a poverty line for Haiti," 2001
% Below Poverty: UNDP
GNI: World Bank data
GDP, PPP: World Bank, Human Development Indicators
Currency: UNIDO
Inflation: African Development Bank, World Bank (Haiti)
Commercial Bank Lending Rates: World Bank, Standard Bank Research Reports
Interbank Lending Rates: Respective Country Central Bank Website
T-Bill Rates: Liquid Africa.com, World Bank
Credit to Private Sector: African Development Bank, World Bank (Haiti)
Credit to Private Sector (%): World Development Indicators 2003
Savings ratio: African Development Bank, World Bank (Haiti)
Manufacturing Sector: African Development Bank, World Bank (Haiti – 1991)
General Enabling Environment: Various
Gross Exports: African Development Bank, World Bank (Haiti)
Main Exports: CIA Factbook
Debt as % of GDP: African Development Bank, World Bank (Haiti)
Gross Domestic Savings (as % of GDP): African Development Bank, World Bank (Haiti)
Exchange Rate, nominal, real: African Development Bank
Aid per capita: World Bank