

# **Strategic Paper And Plan Progression for Self-regulation of The Microfinance Industry**



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PRESENTED @ THE MICROFINANCE PLATFORM SYMPOSIUM

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# Background



With over 60% of Nigeria's population living below the poverty line, efforts have been made over the years to create a technical elegant system for poverty alleviation and wealth creation.

- The government have sponsored many initiatives and structures in attempt to bridge the gap to poverty.
- Community banks emerged in response to financial exclusion.
- Although the initiative was good but the structure and model was inappropriate.
- The collapse of that structure gave birth to the launch of the Microfinance policy framework in 2005.

# Status of the MF Industry- The Positives



In the last decade the microfinance sub-sector has grown very large in number and is striving to gain stability and sustainability.

Contributed towards economic growth through enterprise development with focus on the MSME sector and the active poor.

A veritable tool for achieving financial inclusion.

Total Assets	Shareholders' funds	Total Disbursements	Total Liability
N368.7 B	N378.37 B	N194.75 B	N191.702 B

***The Industry's balance sheet as at April 30<sup>th</sup> 2018***

# Status of the MF Industry- The Negatives



These contributions notwithstanding, there are however, several pressures that have bedeviled the industry.

- Microfinance is yet to fulfill its potentials.
- Lack of capacity of promoters and owners of the banks,
- Corporate governance issues,
- Liquidity management
- Application of some generic regulations irrespective of size, operating environment and peculiarity of their history,
- Ripple effect of TSA on the Financial eco-system,
- poor risk asset portfolio management etc.

# The Emergence of NAMB



These attendance problems gave birth to the National Association of Microfinance Banks (NAMB) as a response to galvanizing all pressures with the attempt to have a holistic approach and solve them as a team.



# Self-regulation: The Current Trend in Microfinance



- Self-regulation, co-regulation, no matter the nomenclature is the popular thinking in many climes.
- Governments, regulatory bodies and agencies are adopting this paradigm shift as against state regulation of institutions, especially financial institutions.
- The success in many climes has further increased our believe that the Nigerian MF industry can effectively self-regulate and improve the fortunes of the Nigerian economy.



Supervision of 1012 MFBs in addition to about 2991 BDCs, 6 Development Finance Institutions, 36 PMIs and over 60 Finance Houses is an overkill for the CBN

By this paradigm shift, NAMB intends to compliment the efforts of the CBN and other regulatory bodies through:

- Standards setting,
- advocacy and policy input to drive members' compliance to statutory regulation, and
- evolve a responsive structure that can support various needs of these banks as well as drive achievement of both industry and their organizational goals simultaneously.



# Attaining Self-regulation By NAMB



- NAMB, is repositioning itself in its mandate to ensure the success of this initiative.
- We have set up a Monitoring and Evaluation Department.
- The M&E is our tool to drive monitoring and self-assessment.
- Members will be educated and enlightened on the new direction, and the expectations from them.

# Role of the Monitoring & Evaluation Dept.



The Monitoring and Evaluation Department will provide the strategic oversight for the self-regulation drive of NAMMB.

- Will have its base at the National Secretariat with offices covering the six geographical zones. These will monitor MFBs' compliance to
  1. CBN monthly returns
  2. Compliance to credit reporting to Credit Bureaus
  3. BVN enrollment report
  4. Anti-money laundering report
  5. Payment of NAMMB Dues
  6. Report operation by non-registered institutions
  7. Curb unethical practices of member banks
  8. Detect liquidity problems on time for adequate solutions
  9. Prevent MFB deaths

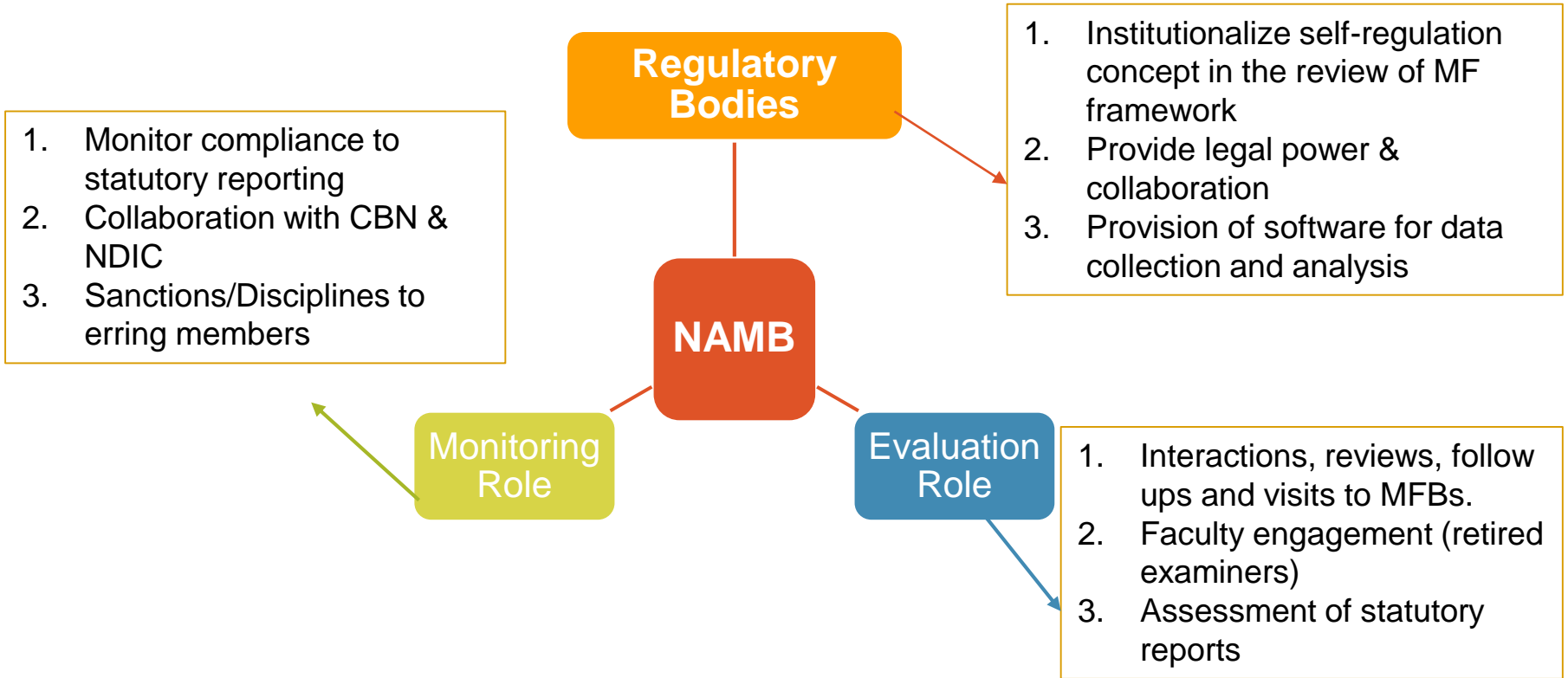
# Key Considerations for Success



To effectively implement this paradigm shift the following will be taken into consideration:

1. **The Legal Framework:** that gives power to the association, the MF Bill must allocate some monitoring roles to NAMB for sustainability.
2. **Collaboration:** expected from regulatory & statutory bodies, as well as amongst members.
3. **Code of Conduct:** A code governing operators and institutions.
4. **Disclosure:** The willingness to disclose vital information can not overstated.
5. **Funding:** Critical to the success of this attempt at self-regulation.
6. **Role of the Apex Bank:** Clear interpretation of the CBN's role in the actualization and implementation of a self-regulated sub-sector.

# Structural Framework



# Operational Framework



- Software for monitoring
- Ensure members submit monthly reports to NAMB as well
- Publish members financial reports on NAMB website
- Specific role of NAMB should be included in the MF framework
- Discipline through code of conduct and ethics

# Why Self-regulate?



- Allows for in-house clinical operations that will closely and accurately dissect REAL ISSUES in the industry
- Organic in nature as it allows players involvement in crafting the policy direction of the industry
- Promotes honesty and transparency
- Gives room for creativity and innovation in the industry
- Will encourage the industry to develop its own solutions for problems, rather than turning too often to the regulator.
- Enhance cohesion among players, providing a platform for constructive engagement of strategic issues as it relates to the sub-sector.



- It will provide hands- on evaluation of the industry to the apex regulator that will support effective decision-making process.
- It will provide for instructional stability and sustainability.
- Will create better synergy and harmony between the practitioners and the regulator.
- Compliance to statutory provisions will be enhanced.

# Impediments



- The practitioners may be self protecting to the detriment of the public depositors.
- There could be compromises to standards which could affect the stability of the sub-sector
- Weak leadership in the Apex Association can truncate the process
- Lack of funding may also affect the effectiveness of the monitoring activities of the Apex Association



# Conclusion



The challenges to effectively self-regulate notwithstanding, the genuine skepticism of many in this direction, our firm believe is that self-regulation of the microfinance sub-sector is possible, is practicable, is attainable and is a drive in the right direction to move our sub-sector and association forward.

**THANK YOU**

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