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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-eighth Session**

Rome, 13-14 September 2006

**REPORT AND RECOMMENDATION OF THE PRESIDENT**

TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE

**FEDERAL REPUBLIC OF NIGERIA**

FOR THE

**RURAL FINANCE INSTITUTION-BUILDING PROGRAMME**

**For: Approval**

## **Note to Executive Board Directors**

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

**Hamed Haidara**

Country Programme Manager

telephone: +39-06-5459-2604

e-mail: [h.haidara@ifad.org](mailto:h.haidara@ifad.org)

Queries regarding the dispatch of documentation for this session should be addressed to:

**Deirdre McGrenra**

Governing Bodies Officer

telephone: +39-06-5459-2374

e-mail: [d.mcgrenra@ifad.org](mailto:d.mcgrenra@ifad.org)

**TABLE OF CONTENTS**

<b>CURRENCY EQUIVALENTS</b>	<b>iii</b>
<b>WEIGHTS AND MEASURES</b>	<b>iii</b>
<b>ABBREVIATIONS AND ACRONYMS</b>	<b>iii</b>
<b>RECOMMENDATION FOR APPROVAL</b>	<b>iv</b>
<b>MAP OF THE PROGRAMME AREA</b>	<b>v</b>
<b>FINANCING SUMMARY</b>	<b>vi</b>
<b>PROGRAMME BRIEF</b>	<b>vii</b>
<b>PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY</b>	<b>1</b>
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	3
C. IFAD’s Strategy for Collaboration with Nigeria	3
<b>PART II – THE PROGRAMME</b>	<b>5</b>
A. Programme Area and Target Group	5
B. Objectives and Scope	5
C. Components	5
D. Costs and Financing	6
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	10
G. Economic Justification	10
H. Risks	11
I. Environmental Impact	11
J. Innovative Features	12
<b>PART III – LEGAL INSTRUMENTS AND AUTHORITY</b>	<b>12</b>
<b>PART IV – RECOMMENDATION</b>	<b>13</b>
<b>ANNEX</b>	
<b>SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE     NEGOTIATED FINANCING AGREEMENT</b>	<b>15</b>

**APPENDICES**

<b>I. COUNTRY DATA</b>	<b>1</b>
<b>II. PREVIOUS IFAD FINANCING IN NIGERIA</b>	<b>2</b>
<b>III. LOGICAL FRAMEWORK</b>	<b>3</b>
<b>IV. PURPOSE AND JUSTIFICATION FOR A GRANT FUNDING OF US\$400,000 AND MANAGEMENT</b>	<b>12</b>
<b>V. ORGANIGRAMMES</b>	<b>13</b>

**CURRENCY EQUIVALENTS**

Currency unit	=	naira (₦)
US\$1.00	=	₦135
₦1.00	=	US\$0.0074

**WEIGHTS AND MEASURES**

1 kilogram (kg)	=	2.204 pounds (lb)
1,000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m <sup>2</sup> )	=	10.76 square feet (ft <sup>2</sup> )
1 acre (ac)	=	0.405 hectare (ha)
1 ha	=	2.47 ac

**ABBREVIATIONS AND ACRONYMS**

CBN	Central Bank of Nigeria
MFB	microfinance bank
MFI	microfinance institution
NACRDB	Nigerian Agricultural Cooperative and Rural Development Bank

**GOVERNMENT OF THE FEDERAL REPUBLIC OF NIGERIA**  
**Fiscal Year**

1 January – 31 December

**RECOMMENDATION FOR APPROVAL**

The Executive Board is invited to approve the recommendation for proposed financial assistance to the Federal Republic of Nigeria for the Rural Finance Institution-Building Programme, as contained in paragraph 49.

MAP OF THE PROGRAMME AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

**FEDERAL REPUBLIC OF NIGERIA**  
**RURAL FINANCE INSTITUTION-BUILDING PROGRAMME**

**FINANCING SUMMARY**

<b>INITIATING INSTITUTION:</b>	IFAD
<b>RECIPIENT:</b>	Federal Republic of Nigeria
<b>EXECUTING AGENCY:</b>	Ministry of Agriculture and Rural Development
<b>TOTAL PROGRAMME COST:</b>	US\$40.0 million
<b>AMOUNT OF IFAD FINANCING:</b>	<b>Loan:</b> SDR 18.5 million (equivalent to approximately US\$27.2 million)  <b>Grant:</b> SDR 270,000 (equivalent to approximately US\$400,000)
<b>TERMS OF IFAD LOAN:</b>	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
<b>COFINANCIER:</b>	Ford Foundation
<b>AMOUNT OF COFINANCING:</b>	US\$500,000
<b>TERMS OF COFINANCING:</b>	Grant
<b>CONTRIBUTION OF RECIPIENT:</b>	US\$6.2 million
<b>CONTRIBUTION OF BENEFICIARIES:</b>	US\$985,100
<b>CONTRIBUTION OF PARTICIPATING INSTITUTIONS:</b>	US\$4.8 million
<b>APPRAISING INSTITUTION:</b>	IFAD
<b>COOPERATING INSTITUTION:</b>	International Development Association



**PROGRAMME BRIEF**

**Who are the beneficiaries?** The beneficiaries are 345,000 households, among which 138,000 woman-headed households, living in 12 states within several of the six geopolitical zones of Nigeria: the north (Adamawa, Bauchi, Katsina and Zamfara States), the middle belt (Benue, Nassarawa, Lagos and Oyo States), and the south (Anambra, Imo, Akwa Ibom and Edo States). The target group comprises vulnerable poor families: families that are food insecure and live below the poverty line (75% of the target group), and poor families that are food secure in good rainfall years but have a low income. The other direct beneficiaries would be 70 microfinance banks, 70 non-bank microfinance institutions, the Central Bank of Nigeria, the Nigeria Agricultural Cooperative and Rural Development Bank, microfinance apex organizations and research institutes that benefit from the capacity-building of the programme. The rural poor will directly benefit from financial services that will improve in terms of quality and quantity, and from access to deposit, loan and transfer services. The beneficiaries will also include small rural entrepreneurs, such as farmers, craftsmen and petty traders, women, the physically challenged and youth.

**Why are they poor?** Lack of access to financial services, limited access to land; low agricultural productivity - which constrain the opportunities for off-farm income-generating activities - low literacy levels; and poor access to markets are the main causes of poverty in the programme area. These primary causes are compounded by secondary-level constraints, including poor organization; high technical and credit risks, which limit access to credit and increase financial costs; lack of access to processing facilities, which limits value added production; and inadequate rural infrastructure, particularly roads, which creates difficulties in accessing markets, thus limiting both the sale of production and the purchase of inputs.

**What will the programme do for them?** Poor access to rural financial services, weak organization and an inadequate rural finance institutional framework are the main constraints; that will receive major attention under the programme. The programme will complement the production services and the social infrastructure expansion and improvement being provided by programmes funded by IFAD and other donors in the programme area so as to maximize the financial and social benefits to the target groups. The programme will support the development of target group organizations into viable non-banking rural finance institutions. These institutions will reduce the technical and credit risks that have hitherto hindered the access by the target groups to credit finance at acceptable financial cost. Microfinance institutions, including microfinance banks and NGO microfinance institutions operating in rural areas, will be assisted in strengthening their rural outreach and improving their services for rural poor families and, particularly, for woman-headed households. The programme will develop new financial products that will facilitate cash flow and character lending so as to address the lack of tangible assets for use as collateral for loans. The lack of such products currently hinders access by the poor to credit financing. The programme will also promote pro-poor policy and enhance the participation of the poor in the financial-sector policy-making process.

**How will the beneficiaries participate in the programme?** A major focus of the programme is the development of target-group member-based non-banking rural financial institutions that will fully and actively participate in developing a viable rural financial system in Nigeria. The linkage programme under the programme will facilitate close interaction between target-group organizations and the formal banking and microfinance sector, thereby bringing the rural poor into the mainstream of banking services.

**How was the programme formulated?** The programme was formulated in a fully participatory manner on the basis of a comprehensive assessment of the needs of beneficiaries and with significant contributions from all stakeholders. Among these are the Federal Ministry of Agriculture and Rural Development, the Central Bank of Nigeria, commercial banks, community banks, the National Poverty Eradication Programme, the Nigeria Agricultural Cooperative and Rural Development Bank, the Federal Ministry of Finance, the All Farmers' Association of Nigeria and a sizeable share of the potential

beneficiaries, particularly poor farmers. The process also involved significant consultations with development partners (the World Bank, the African Development Bank, the European Union, the German Agency for Technical Cooperation, the United States Agency for International Development, the Department for International Development (United Kingdom of Great Britain and Northern Ireland), the United Nations Development Programme, the Ford Foundation and the Food and Agriculture Organization of the United Nations, etc.) to take into account lessons learned.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD  
TO THE EXECUTIVE BOARD ON PROPOSED FINANCIAL ASSISTANCE TO THE  
FEDERAL REPUBLIC OF NIGERIA  
FOR THE  
RURAL FINANCE INSTITUTION-BUILDING PROGRAMME**

I submit the following report and recommendation on proposed financial assistance to the Federal Republic of Nigeria, comprising a loan of SDR 18.5 million (equivalent to approximately US\$27.2 million) on highly concessional terms and a grant of SDR 270,000 (equivalent to approximately US\$400,000) to help finance the Rural Finance Institution-building Programme. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the International Development Association as IFAD's cooperating institution.

**PART I – THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY**

**A. The Economy and Agricultural Sector**

1. Agriculture is the mainstay of the Nigerian economy, accounting for 45% of GDP and providing employment for over 60% of the labour force. However, since 1973, the economy has become highly dependent on the oil sector, which accounts for about 40% of GDP, over 80% of the country's foreign exchange earnings and about 90% of government revenues. The Government is concerned about the dependence on oil and has undertaken initiatives to promote agricultural development, stimulate the exploitation of solid minerals and energize the growth of the industrial sector, which is currently utilizing less than 60% of installed capacity. While agriculture has shown a modest growth of about 5%-7% per annum in the last three years, there has been no significant improvement in other areas. Inflation, which dropped to a single digit in 2001, rose to 15% in 2003/2004 and showed a slight decline, to about 13%, in 2005. A sharp rise in oil prices in recent years and prudent management of resources have led to a significant rise in foreign exchange reserves, which stood at over US\$28 billion by the end of 2005.

2. The current Government has committed itself to running a liberal economy characterized by a market-determined exchange rate, fiscal prudence, decentralization, privatization and progressive financial-sector reforms that will create macroeconomic stability. In 2005, the Government succeeded in obtaining debt relief; 60% of its estimated outstanding debt of about US\$33 billion was forgiven. The country planned a debt exit by 2006. Barring political instability, there is a good prospect for growth in the coming years.

3. Agriculture employs over 90% of the rural population. Women play a major role in the production, processing and marketing of food crops. Arable land is estimated at over 70 million ha, of which only 50% is under cultivation. Agricultural land covers a wide range of agroecological zones, ranging from the semi-arid regions of the northernmost states to the derived savannah land of the middle belt and the south-west, to the rainforest belt of the south-south and the south-east. Nigerian agriculture is predominantly smallholder-based; over 95% of the output is from smallholdings ranging in size from 1 ha-5 ha. Federal Office of Statistics data indicate that about 45%-57% of farmers grow only food crops, while the rest grow food and cash crops. The northern zone is the principal livestock-raising area, accounting for over 75% of the small ruminants and a greater share of large

stock (cattle, camels and donkeys). The dry northern zone is suitable for growing sorghum, millet, groundnuts and cotton. The middle belt and the south-west grow mainly root and tuber crops, maize, plantain and sorghum. The southern part of the south-west also produces cocoa and palm oil. The south-south and the south-east are noted for fisheries and agricultural production, including maize, root and tuber crops, cocoa, oil palm and rubber. Nigeria is Africa's largest producer of yams and cowpeas and the leading world producer of cassava, which has resulted from IFAD's support since the early 1990s.

4. Nigeria is a major fish-producing country, with an annual output estimated at 366,000 tonnes. The total area of inland water bodies is estimated at slightly over 12 million ha. Low-lying and seasonally-flooded areas are increasingly being used for the production of rice. Forests and woodlands currently occupy 17 million ha, but primary forests and most of the wildlife are disappearing due to human population pressure. Infrastructure in rural areas is poor, creating difficulties for reaching markets. Storage facilities are also poor, accounting for high post-harvest losses estimated to reach 15% in the dry north and 25% in the humid forest zones of the south. Furthermore, inadequate access to credit constrains investment in agriculture, agro-processing and off-farm revenue-generating activities.

5. Nigeria has a diversified financial sector, comprising nine major subsectors, four of which are relevant for the proposed programme: (a) the Central Bank of Nigeria (CBN), as the regulatory and supervisory body of the financial sector; (b) the commercial/universal bank subsector, which has undergone restructuring, including a reduction in number from 89 to 25 mega-banks starting in January 2006. The number of branches, put at 3,100, has also been reduced, though the actual number will not be known until later in 2006; (c) 735 single-unit community banks, which will soon undergo restructuring aimed at turning them into microfinance banks (MFBs) with an improved capital base; and (d) five Government-owned development finance institutions, including the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB), with 201 branches providing agricultural and rural finance.

6. The Small and Medium Industries Equity Investment Scheme, now called the Small and Medium Enterprises Equity Investment Scheme, was set up in 2001. It required banks to put aside 10% of their pre-tax profit for investment in small and medium enterprises. The fund now has ₦28.8 billion (approximately US\$210 million) and has disbursed ₦9.7 billion (34%) to 185 enterprises in urban areas. More recently, the CBN directed that 10% of the funds be set aside for investment in microenterprises.

7. In December 2005, the CBN issued a new policy for the microfinance sector. This policy emerged as a result of a microfinance conference held in 2000. The policy provides a framework for the future operations of (a) commercial banks that are not able to increase their minimum equity to the required ₦25 billion; (b) community banks; and (c) microfinance institutions (MFIs), through the creation of new types of financial institutions. The CBN will issue detailed prudential regulations for the entire sector at a later stage, starting in 2006.

8. The objectives of the new microfinance policy are, inter alia, to: (a) make financial services accessible to the large segment of the potentially productive Nigerian population that would otherwise have little or no access to financial services; (b) promote synergy and mainstreaming of the informal subsector into the national financial system; and (c) enhance service delivery by MFIs to micro-, small and medium entrepreneurs.

9. The microfinance policy provides for the creation of MFBs as private, well-capitalized and technically-sound financial institutions that are oriented towards lending on the basis of the cash flow and character of clients. MFBs will obtain a banking licence from CBN to operate in a specific geographical area. Those operating as unit banks, which refers directly to the current community

banks, need a minimum paid-up share capital of ₦20 million (US\$148,000) and can operate in approved local government areas. These MFBs are permitted to open cash centres and branches after prior approval by CBN and upon meeting prudential requirements. For each new branch, an MFB needs additional equity of ₦20 million. MFBs desiring to operate at the state level need a paid-up share capital of ₦1 billion (US\$7.4 million). The policy further states that CBN will verify whether a unit-bank MFB has achieved a “reasonable spread” in a local government area or a state before granting it a licence to expand.

### **B. Lessons Learned from Previous IFAD Experience**

10. **IFAD’s portfolio.** IFAD has financed seven projects and programmes in Nigeria since 1985, with a total loan commitment of SDR 90.1 million. The eighth project, the Benue and Niger States Agricultural Support Project, which was approved by the Executive Board in December 1993 with a loan of SDR 20 million, was cancelled on government request before loan effectiveness. Four projects and programmes have closed, and the seventh, the Community-Based Natural Resource Management Programme-Niger Delta, became effective on 6 July 2005. All projects and programmes have addressed the livelihood needs of poor rural communities, including smallholders, rural microentrepreneurs, artisanal fishermen, youth, the landless and women. These projects and programmes have contributed to technology generation and dissemination, which, while raising incomes and family food security, have introduced approaches for effective soil and water conservation and environmental management, demand-driven and participatory approaches for the provision of agricultural and rural support services, and capacity-building and institutional strengthening to ensure the replicability and sustainability of successful development approaches. The IFAD-funded Community-Based Agricultural and Rural Development Programme and Community-Based Natural Resource Management Programme-Niger Delta include innovative approaches for local resource mobilization, budgetary allocation and management within decentralized democratic governance.

11. **Main lessons learned.** Major lessons emerging from IFAD’s experience include the following: (a) access to financial services that complement effective technical services permits improvement in productivity and promotes diversification in family economic activities, which enhances family food security and income; (b) a microfinance policy and institutional framework are important for sustainable agricultural and rural financial services, and such a framework should ensure institutional linkages between formal financial institutions and informal rural financial institutions and promote the access of rural people to formal banking services; (c) microfinance policy should be holistic in addressing issues on both the supply and the demand sides; (d) self-help groups, savings and credit associations and cooperative societies should be encouraged voluntarily to amalgamate to form viable economic units that will reduce transaction costs and minimize credit and technical risks to financial institutions; (e) measures should be found to minimize technical and credit risks, which constitute major constraints in funding agriculture and rural microenterprises; such measures are key factors in interest rate setting.

12. IFAD has also experienced general implementation problems in Nigeria. There have generally been delays in project start-up due to delays in meeting loan effectiveness conditions, poor collaboration among implementing agencies and inadequate and untimely counterpart fund contributions.

### **C. IFAD’s Strategy for Collaboration with Nigeria**

13. **Nigeria’s policy for poverty eradication.** The policies and strategies to promote economic growth in Nigeria have been documented in a recent (2005) national economic empowerment and development strategy. The strategy has identified the main causes of poverty, which it strives to address by appropriate policies and development programmes. The causes include: (a) weak

governance, including mismanagement, which has hampered the impact of past poverty reduction programmes and reduced the capacity of individuals and businesses to exploit available economic opportunities; (b) social conflicts, which have not only resulted in death and the loss of assets, but have also discouraged domestic and foreign investment; (c) limited technological innovations, which have hampered productivity and constrained employment; (d) and environmental factors, which have contributed significantly to poverty, particularly among rural people who depend on natural resources for their livelihoods.

14. **The poverty eradication activities of other major donors.** Given the scale and complexity of rural poverty in Nigeria, opportunities for addressing the phenomenon need to be seized in a coherent and mutually reinforcing manner. Key development partners such as the United Nations Development Programme, the Food and Agriculture Organization of the United Nations, IFAD, the World Bank and the African Development Bank have jointly adopted an operational approach to strengthening their collaboration and enhancing their partnership in order to avoid sending conflicting messages from international development partners and donors that might lead to confusion, lack of coherent sectoral strategies, wasted resources and, ultimately, diminished effectiveness in combating rural poverty. This collaborative approach is based on the agreement that the most efficient and effective way to ensure concrete international support for rural development in Nigeria is to involve in community-level development. It also responds to the desire for deeper and more effective institutional partnerships between IFAD and the above partners with other key donors and stakeholders such as the Department for International Development (United Kingdom of Great Britain and Northern Ireland), the Ford Foundation, the German Agency for Technical Cooperation and the United States Agency for International Development. Closer and more explicit links between loans and grants must be instituted to maximize the synergy among different types of IFAD financing.

15. **IFAD's strategy in Nigeria.** The focus of IFAD's support for the Government's poverty reduction programme is on building capacity and strengthening institutions able to facilitate the provision of services to the rural poor, developing IFAD target-group member-based organizations to enhance their effective participation, assisting with necessary policy changes, promoting sectoral initiatives to create the conditions for rapid poverty reduction and economic growth led by the private sector and improving accountability and transparency.

16. The proposed programme, building on a dialogue between donors and the Government on the financial sector reform that started in 2000, will support the implementation of the microfinance policy framework recently launched by the Federal Government of Nigeria, with a particular focus on improving the access of the IFAD target group to financial services, including expansion of formal banking services in rural areas. IFAD participation is designed to orient the policies to service the agricultural and rural sector more effectively, strengthen institutions that will bring financial services to the poor and facilitate the participation of rural people and their institutions in the implementation and future improvement of the policy and institutional framework in line with the new microfinance policy. Most importantly, the proposed programme will give priority to the development of target-group member-based rural microfinance institutions (RMFIs) so as to promote the effective participation of the rural poor, particularly women, in rural financial services.

17. **Programme rationale.** The programme seeks to exploit the newly launched microfinance policy to serve the poor more effectively. Apart from reorienting MFIs to serve the rural poor more effectively, the programme will lead the way in the development of linkages between non-banking MFIs and formal financing institutions. Experience in Nigeria and other sub-Saharan African countries has revealed that a lack of vertical integration between the formal and informal financial markets is one of the reasons that financial sector reforms have not led to the expected economic growth they were designed to trigger.

## PART II – THE PROGRAMME

### A. Programme Area and Target Group

18. The proposed programme will cover 12 states within several of the six geopolitical zones of Nigeria: the north (Adamawa, Bauchi, Katsina and Zamfara States), the middle belt (Benue, Nassarawa, Lagos and Oyo States), and the south (Anambra, Imo, Akwa Ibom and Edo States). The selection of the programme area has been influenced by two factors. First, the proposed programme will lay the foundation for the long-term development of a sustainable rural financial system, and this requires that the programme be national in scope. Second, experience has shown that, while it is not advisable to integrate rural financial services as a component within an agricultural or any other form of development project, it is important to ensure complementarity between technical and financial services for effective poverty alleviation. Thus, the proposed programme will complement ongoing agricultural and rural development projects and programmes, notably, the Community-Based Agricultural and Rural Development Programme, the Community-Based Natural Resource Management Programme-Niger Delta and the Roots and Tubers Expansion Programme. The programme will also support and implement the Rural Microenterprise Programme that IFAD is currently developing. It will also support local initiatives within the framework of the National Programme for Food Security and the activities of the National Poverty Eradication Programme. The latter two are the Government's own initiatives. These projects and programmes target the rural poor, with special focus on women, youth and vulnerable groups, which will also constitute the target group of the proposed programme.

19. Rural poor households, particularly woman-headed households, constitute the major target group of the programme. Youth and the physically challenged are also specially targeted. Rural poor families will directly benefit from the financial services that will be improved in terms of quality, quantity and access to deposit, loan and transfer services. It is estimated that about 345,000 families, of which at least 138,000 will be woman-headed households, will benefit directly from this programme. These families include smallholders, farmers, rural entrepreneurs (such as farmers, craftsmen and petty traders), women, the physically challenged and youth. Given the economic independence, propensity to save and financial discipline in most parts of southern and central Nigeria, women are likely to be the prime financial beneficiaries.

### B. Objectives and Scope

20. The programme aims to strengthen microfinance institutions (MFIs) and establish linkages between these institutions and formal financial institutions in order to create a viable and sustainable rural financial system. The purpose is to develop rural financial services and enhance the access to these services by the rural population so as to expand and improve the productivity of agriculture and rural micro- and small enterprises. The goal is to reduce poverty, particularly among the rural poor and especially women, youth and the physically challenged.

21. The strategy involves providing support to develop and strengthen MFIs; promote the improvement of a legal, policy and regulatory framework that will enhance the operations and minimize the risk exposure of MFIs; and establish linkages between the financial system and rural production system so as to improve operational efficiency, raise productivity and minimize technical and credit risks.

### C. Components

22. The programme is structured around four components: (a) development and strengthening of member-based rural MFIs; (b) support to MFIs; (c) framework conditions for microfinance development; and (d) programme management, coordination, and monitoring and evaluation.

23. **Development and strengthening of member-based rural MFIs.** This component aims to improve the enabling environment for the development and strengthening of viable and sustainable member-based rural MFIs and enhance the capacity of national institutions that provide training and capacity-building among rural financial institutions. The component comprises three subcomponents: (a) improvement in the policy, legal and institutional framework for the development of member-based rural MFIs; (b) development and strengthening of rural MFIs and their apex organizations; and (c) promotion of a linkage programme to test the credit delivery system.

24. **Support to MFIs.** MFIs that deliver financial services to the poor need to accomplish this on a sustainable basis if the expected outreach, particularly in rural areas, is to be attained. The depth and breadth of MFI services will depend on the capacity of the MFIs to provide appropriate services and products, including savings, credit, innovative transfer payments, remittances and insurance. This component will support institution-building among microfinance banks (MFBs), NGO-type MFIs and the Nigerian Agriculture Cooperative and Rural Development Bank (NACRDB). Support for beneficiary institutions will be provided after an institutional assessment has been completed that will show whether the business models being applied are profitable by establishing the level of operational and financial sustainability. This component has four subcomponents: (a) institution-building among MFBs; (b) capacity-building among non-bank MFIs; (c) support for NACRDB; and (d) implementation support, regulation and supervision for MFBs.

25. **Framework conditions for microfinance development.** The implementation of the national microfinance policy by CBN requires that the participating institutions develop capacities and internal systems that will facilitate the delivery of information from the supervised institutions to CBN. The component includes provision for policy review through a Microfinance Advisory Board involving major stakeholders, including donors, and annual national policy workshops that will review experiences and lessons and feed into the policy review process. This component will also support CBN in the promotion of an integrated linkage system between the supervised MFBs and the universal banks. The programme will also support efforts by CBN as it works with microfinance apex organizations so that they can meaningfully provide services to their members, which include capacity-building, setting performance standards and monitoring. This component will have three subcomponents: (a) the provision of access to refinance facilities; (b) the development of apex organizations for MFBs and MFIs and their umbrella organizations; and (c) policy dialogue and research and documentation on microfinance.

26. **Programme management, coordination, and monitoring and evaluation.** This component provides necessary technical and financial support for programme implementation, coordination, planning, monitoring and evaluation. The component includes three subcomponents: (a) establishment of a semi-autonomous programme management unit; (b) monitoring and evaluation; and (c) policy support for implementation.

#### D. Costs and Financing

27. The cost of the seven-year programme is estimated at US\$40.0 million, including a total contingency of US\$2.3 million, or 6% of the base cost. The cost per client-beneficiary is estimated at US\$120. The foreign exchange component is estimated at US\$10.3 million. The summary cost table is provided in table 1 and includes contributions by cofinanciers.

28. The programme is to be financed by IFAD, the Ford Foundation, the Federal Government, the state governments, CBN and participating banks, MFIs and rural MFIs. The proposed financing is composed of an IFAD loan of approximately US\$27.2 million, provided on highly concessional terms, and grant funding of approximately US\$400,000 (see appendix IV and output 1.1 and 1.2 of the Logical Framework), resulting in an IFAD contribution of US\$27.6 million, or 68% of the total programme cost. The participating institutions, including CBN, the National Poverty Eradication



Programme and NACRDB, will finance US\$4.8 million, or 12% of the total cost. The Ford Foundation is expected to finance US\$500,000, or 1.3% of the total cost on a grant basis, to provide part of the guarantee fund under the microfinance development fund established by CBN. The Government will finance the equivalent of US\$6.2 million, or 15.4% of the total cost in local currency. The beneficiaries are expected to contribute US\$985,100, or 2.5% of the total cost. A summary of programme costs and proposed financing are reflected in tables 1 and 2.

29. It will, however, be noted that programme efforts will attract credit financing from other financial institutions, including MFBs, commercial banks and the Nigerian Agricultural Cooperative and Rural Development Bank, that is estimated to reach over US\$100 million during the programme period.

**TABLE 1: SUMMARY OF PROGRAMME COSTS<sup>a</sup>**  
(US\$ '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
Development and strengthening of member-based rural MFIs	15 739.9	3 981.5	19 721.4	20	52
Support to MFIs	5 863.8	3 965.1	9 828.9	40	26
Framework conditions for microfinance development	3 807.5	668.7	4 476.2	15	12
Programme management, coordination, and monitoring and evaluation	2 459.0	1 167.3	3 626.3	32	10
<b>Total base costs</b>	<b>27 870.1</b>	<b>9 782.6</b>	<b>37 652.7</b>	<b>26</b>	<b>100</b>
Physical contingencies	664.4	148.5	812.8	18	2
Price contingencies	1 154.2	364.7	1 519.0	24	4
<b>Total programme costs</b>	<b>29 688.7</b>	<b>10 295.8</b>	<b>39 997.7</b>	<b>26</b>	<b>106</b>

<sup>a/</sup> Discrepancies in totals are due to rounding.

**TABLE 2: FINANCING PLAN<sup>a</sup>**  
(US\$ '000)

Components	IFAD		IFAD Grant		Ford Foundation		Participating Institutions		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
Development and strengthening of member-based rural MFIs	14 815.9	70.6	–	–	–	–	159.2	0.8	5 020.7	23.9	985.1	4.7	20 980.9	52.5	4 229.5	15 802.9	948.4
Support to MFIs	5 877.6	56.7	–	–	–	–	3 731.5	36.0	753.2	7.3	–	–	10 362.3	25.9	4 117.2	5 379.8	865.3
Framework conditions for microfinance development	3 137.0	66.6	–	–	500.0	10.6	871.4	18.5	205.0	4.3	–	–	4 713.4	11.8	705.9	3 802.6	205.0
Programme management, coordination, and monitoring and evaluation	3 344.8	85.2	400.0	10.1	–	–	–	–	196.2	5.0	–	–	3 941.1	9.8	1 243.2	2 488.5	196.2
<b>Total disbursement</b>	<b>27 175.3</b>	<b>68.0</b>	<b>400.0</b>	<b>1.0</b>	<b>500.0</b>	<b>1.3</b>	<b>4 762.2</b>	<b>11.9</b>	<b>6 175.0</b>	<b>15.4</b>	<b>985.1</b>	<b>2.5</b>	<b>39 997.7</b>	<b>100.0</b>	<b>10 295.8</b>	<b>27 473.8</b>	<b>2 214.9</b>

<sup>a/</sup> Discrepancies in totals are due to rounding.

### E. Procurement, Disbursement, Accounts and Audit

30. **Annual workplan and budget.** The annual workplan and budget will be prepared by the programme management unit on the basis of perceived demand among the target groups and beneficiary institutions; it will be reviewed and approved by the programme screening committee prior to submission to IFAD and the cooperating institution (World Bank) for approval. The annual workplan and budget will show detailed activities, unit costs and monitoring indicators for results and impacts, as well as the modality of implementation. The programme will include a procurement plan for the first 18 months that is to be submitted separately to IFAD and the World Bank for no objection.

31. **Procurement.** Procurement of goods and services will follow procedures consistent with IFAD Procurement Guidelines. Before the commencement of procurement, the borrower shall furnish IFAD, for approval, a procurement plan for an initial 18 months, including (a) a list or lists of goods and services to be procured; and (b) the proposed groupings of these goods and services.

32. **Disbursement.** No civil works are planned under the programme. Disbursements for vehicles, machinery, equipment and consultant services will be fully documented. Disbursements for expenditures equal to or less than US\$50,000 for training, workshops, local salaries and allowances, materials, office supplies and other operating expenses will be made against certified Statements of Expenditures. Related supporting documents, including supplier invoices, evidence of payment, contracts, analysis of bids and recommendations for awards, and payment vouchers will be retained in a central location by the respective implementing agencies for inspection during supervision missions by the cooperating institution and examination by auditors. In order to facilitate timely payments for services and supplies and due to government inability to pre-finance IFAD eligible expenditures, payment will be made through the special account or direct payment. After the special account has been duly opened, and upon the borrower's request, IFAD will make an initial deposit of US\$500,000. IFAD will replenish the special account from time to time upon request, with one or more withdrawals of up to US\$2 million in the aggregate and in such minimum amounts as IFAD, or the cooperating institution on behalf of IFAD, may specify by notice to the borrower.

33. **Accounts.** The programme parties will maintain independent accounts for IFAD-financed activities. The chart of accounts and accounting practices will be in accordance with accepted international standards. The accounting practices under the programme will be harmonized to facilitate cost analyses, financial control and audits. The programme coordinator and the financial controller under the programme will ensure that agreed accounting procedures are fully implemented. Since an acceptable unified accounting system to be adopted under the programme should be in place before the first disbursement, it is proposed that the design of such an accounting system be one of the activities to be financed under the early implementation support fund. Programme accounts will be opened in each of the zonal programme management units to receive counterpart funds.

34. **Audit.** Major disbursements will be subject to internal audit by the internal auditors of the respective participating institutions. For the central programme management unit, the Auditor General for the Federation (Nigeria) will second to the unit an experienced internal auditor. The internal auditor will apply internationally accepted internal audit procedures and control, including prepayment audit. The programme's annual financial reports will be subject to annual audits to be carried out by acceptable independent external auditors, with necessary experience, recommended by the Auditor General for the Federation, and acceptable to IFAD and the cooperating institution. The auditors will examine the documentation related to expenditures carried out under the statement of expenditures and provide opinion on the operation of the special account. The auditors will submit audited financial statements, along with a long-form report to the programme coordinating unit, IFAD and the cooperating institution, not later than six months after the end of the Federal Government of Nigeria's fiscal year, which is 31 December.

## F. Organization and Management

35. The organizational framework of the programme entails a division of tasks and responsibilities among different entities, as indicated in the main programme's appraisal report (chapter VII) and working paper 6 (working papers, volume II).

36. **Programme management and coordination.** Implementation will be coordinated by a central programme management unit, assisted by three zonal programme management units and state and local government programme offices. The programme will be implemented under the authority of the Federal Ministry for Agriculture and Rural Development as the programme lead agency. The programme management unit and its associated offices will maintain close liaison with implementing agencies, the participating states and local government councils so as to control the day-to-day management of the programme. The staff of the programme management unit will provide technical support as required to implementing agencies. The programme coordinator will organize start-off, sensitization and annual monitoring and evaluation workshops. The programme coordinator will coordinate and ensure timely submission of the annual workplan and budget to the programme screening committee for consideration and approval and submission subsequently to the cooperating institution and IFAD.

37. **Institutional responsibilities for the programme.** The programme will be implemented by the existing institutions following their mandate. The resources for implementation will be disbursed directly to the participating institutions in line with the programme budget as approved by the programme screening committee. Subsequently, they will be responsible for accounting and financial reports on activities they implement. As necessary, memorandums of understanding will be entered into among the respective participating institutions, namely, MFBs, the National Poverty Eradication Programme, MFIs and rural MFIs.

38. **National-level oversight and facilitation.** A programme screening committee will be set up to oversee programme implementation. The programme screening committee will be chaired by the permanent secretary of the Ministry of Agriculture and Rural Development and will include representatives from line ministries, the Central Bank of Nigeria (CBN) and the Federal Ministry of Finance. Development partners involved in the microfinance subsector may be invited as observers.

39. **Support services.** Programme capacity-building and training activities will be implemented through contractual arrangements involving private sector service providers. The delivery of services will be based on a business-oriented approach. Specialized subject-matter specialists and institutions will be contracted, as needed, to undertake specific tasks.

40. **Monitoring and evaluation.** A participatory monitoring and evaluation approach that will involve the beneficiaries and participating institutions will be followed. However, the programme coordination unit will assume overall responsibility for monitoring, progress reporting and evaluation. The monitoring and evaluation specialist will be assisted by monitoring and evaluation assistants at the zonal levels. Following effectiveness, a monitoring and evaluation expert will be recruited to set up the monitoring and evaluation system, including data collection, analysis and reporting.

## G. Economic Justification

41. At the **microlevel**, the programme will achieve a much greater outreach to clients, particularly on the lending side. The capacity-building effort and linkage programme promoted by the programme will lead to the extension of loans to more than 345,000 poor rural families engaged in agriculture and rural enterprises. It is assumed that the intensification of agriculture and the start of new micro- and small enterprises will generate two additional employments per operation. This will result in over 700,000 new jobs in the rural sector.

42. At the **mesolevel**, the programme would increase the turnover of financiers substantially. After two years, the microfinance banks and non-bank microfinance institutions are expected to improve their management capacity and financial products, which will increase their client outreach over the last five years of the programme. The following changes are assumed between programme year three and programme year seven: 10%, 15%, 25%, 30% and 35%. This will expand the outreach of MFBs by 141,750 borrowers and of non-bank MFIs by 47,250 borrowers. The increased competition, reduction in technical and credit risks and lower operational costs are expected to reduce the average interest rate from the current 35% to 20%. With an average loan size of US\$500, turnovers of MFBs and non-bank MFIs will increase by US\$14.2 million and US\$4.7 million, respectively. Assuming a profit-before-tax of 35% of turnover, this will translate into US\$4.97 million and US\$1.8 million, respectively. At the **macrolevel**, the main benefits – apart from the taxes collected – consist of: (a) an improved regulatory and supervisory framework for MFBs and MFIs, together with the improved capacity of the Central Bank of Nigeria to analyse, regulate and supervise the rural financial sector and, in particular, the MFBs; (b) employment creation at the level of borrowers and rural MFIs; and (c) an improved image and increased stability of the microfinance banking sector. Other unquantifiable benefits may emerge through research and policy dialogue activities provided that these lead to more appropriate legal and economic framework conditions. The **economic impact** of the programme is expected to be substantial, but cannot be meaningfully estimated at this stage. It is expected that, due to the microfinance policy that will be promulgated and due to programme interventions, loss-making MFIs will gradually move to the break-even point and beyond; the overall result would be better performance, better services and greater outreach.

#### H. Risks

43. The programme has been designed by building on the experience of IFAD and other donors in Nigeria. Key stakeholders, including institutions and beneficiaries, have participated fully in programme design, and their concerns and views have been fully taken into account. The policy and institutional framework for programme implementation is defined and in place, and the private sector groups with vested interests will take the lead in implementation. This should reduce the risks considerably. The programme will demand a high managerial competence, which may not be available within government institutions. This risk has been addressed by limiting government intervention to areas of the policy and legal framework and creating a conducive operational environment, where governments have experience and capability. The programme has included technical assistance to support both government and private sector institutions. The intensive supervision and monitoring of implementation will be ensured. Training and capacity-building are key thrusts of the programme. The existing community banks are to be transformed into MFBs by or before 31 December 2007. The CBN has recently completed a similar and more complex exercise for commercial banks within a shorter period and has demonstrated its will and commitment to carrying out the financial sector reform. The community banks have an interest in the reform, and some of them (12%) already have the capital base sufficient to meet requirements. The development of rural MFIs may be more gradual than expected. This risk has been addressed through the intense training among groups, associations and cooperatives. The target groups themselves have a keen interest in developing viable rural MFIs, and many have initiated the process using their own resources and initiative. However, they lack adequate technical competence and resources. The programme will make these available.

#### I. Environmental Impact

44. The proposed programme would complement ongoing IFAD-funded projects and programmes, namely, the Community-Based Agricultural and Rural Development Programme, the Community-Based Natural Resource Management Programme-Niger Delta and the Roots and Tubers Expansion Programme, as well as the World Bank-financed Fadama Project and the National Programme for Food Security funded by the Government and a pool of external donors. The projects

and programmes include measures for environmental conservation and improvement. The required measures will continue to be undertaken, and additional measures that may be needed as a result of the proposed programme will be implemented. An environmental screening and scoping exercise has classified the programme as Category B because it is not expected to have any major environmental impact.

#### **J. Innovative Features**

45. The programme includes a number of innovative features consistent with IFAD rural finance policy. The programme will provide a major instrument for the implementation of the newly launched Nigerian Microfinance Policy Framework (December 2005), with a particular focus on rural finance services targeted at the rural poor. The programme also involves additional investment in the improvement of the policy and legal framework for the informal rural financial sector in recognition of the need for a holistic policy and regulatory approach for sustainable rural financial services that will more effectively serve the rural poor, particularly women. The programme includes measures for policy improvement through reviews, consultations and workshops involving the active participation of stakeholders, including government, private sector beneficiaries and development partners. The programme will be led by the private sector, while the Government will assume a major role in creating an enabling environment.

#### **PART III – LEGAL INSTRUMENTS AND AUTHORITY**

46. A financing agreement between the Federal Republic of Nigeria and IFAD will constitute the legal instrument for extending the proposed financial assistance to the recipient. A summary of the important supplementary assurances included in the negotiated financing agreement is attached as an annex.

47. The Federal Republic of Nigeria is empowered under its laws to borrow from IFAD.

48. I am satisfied that the proposed financial assistance will comply with the Agreement Establishing IFAD.

**PART IV – RECOMMENDATION**

49. I recommend that the Executive Board approve the proposed financial assistance in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Federal Republic of Nigeria in various currencies in an amount equivalent to eighteen million five hundred thousand special drawing rights (SDR 18,500,000) to mature on or prior to 1 September 2046 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

RESOLVED FURTHER: that the Fund shall provide a grant to the Federal Republic of Nigeria in various currencies in an amount equivalent to two hundred and seventy thousand special drawing rights (SDR 270,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in the Report and Recommendation of the President.

Lennart Båge  
President





**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES  
INCLUDED IN THE NEGOTIATED FINANCING AGREEMENT**

(Negotiations concluded on 23 August 2006)

1. The Government has requested a loan for the purpose of financing the Rural Finance Institution-building Programme. In addition to this loan, IFAD has agreed to extend a grant to the Government in the amount of SDR 270,000 to finance the guarantee fund under the framework conditions for the microfinance development component.
2. The Government will make the proceeds of the loan and grant available to the lead programme agency in accordance with the annual workplans and budget (AWPBs) and the CBN memorandum of understanding.
3. **Availability of additional resources**
  - (a) In addition to the proceeds of the loan and grant, the Government will make available to the lead programme agency and each other programme party, promptly as needed, such funds, facilities, services and other resources as may be required from time to time to carry out the programme in accordance with the financing agreement.
  - (b) Without limiting the generality of paragraph (a) above, the Government will make available to the lead programme agency during the programme implementation period counterpart funds from its own resources in an aggregate amount of US\$6,175,000 in accordance with its customary national procedures for development assistance. For such purpose, the Government will deposit counterpart funds in an initial amount of US\$750,000 into the federal programme account to cover the first programme year, and will thereafter replenish this account by depositing the counterpart funds called for in the AWPB for the relevant programme year annually in advance.
  - (c) Without limiting the generality of paragraph (a) above, the Government will ensure that the proceeds of the loan and grant are made available to the lead programme agency in accordance with the AWPBs.
4. **Programme accounts**
  - (a) The lead programme agency, through the programme coordinating unit (PCU), will open and thereafter maintain in a bank accepted by IFAD a federal programme account denominated in local currency to receive the Government's contribution in advance in accordance with the AWPBs.
  - (b) The Government will cause CBN, the Federal Department of Cooperatives (FDC), the central programme management unit (CPMU), NACRDB and the National Poverty Eradication Programme (NAPEP) to each open, and thereafter maintain in a bank accepted by IFAD, two programme accounts (programme account A and programme account B) denominated in local currency. Programme account A will receive the loan proceeds that will be transferred from the special account. Programme account B will receive the Government's contribution in advance from the federal programme account annually in accordance with the AWPBs. The programme coordinator and the financial controller of the CPMU will be fully authorized to operate programme accounts A and B, and both signatures will be required to make any withdrawal from the accounts.

- (c) The PCU will cause each zonal programme management unit (PMU) to open and thereafter maintain in a bank accepted by IFAD a current account denominated in local currency for programme operations in their respective programme zone (the zonal accounts). The zonal coordinator and the zonal accountant of each zonal PMU will be the authorized signatories to operate the relevant zonal account, and both signatures will be required to make any withdrawal from the account.

5. **The CBN memorandum of understanding.** The lead programme agency and CBN will enter into an agreement (the CBN memorandum of understanding), which will provide, among other things, that:

- (a) CBN will declare its commitment to the goals and purposes of the programme and, in furtherance of such goals and purposes, it will undertake to carry out the implementation of microfinance-related activities.
- (b) CBN will have the overall responsibility to ensure that programme activities are implemented in accordance with the microfinance policy and supporting guidelines. In addition, CBN will ensure that resources from different donors in support of microfinance policy implementation are coordinated and used complementarily.
- (c) CBN will ensure that the programme steering committee and programme financiers participate in meetings of the microfinance advisory board and implement the board's recommendations.
- (d) CBN will ensure that MFBs have the proper licensing to participate in programme activities.
- (e) CBN will provide guidelines and conditions for the establishment of apex organizations for MFBs/MFIs; to this end, CBN will supervise service providers contracted to provide training to apex organizations and establish their operational procedures, including self-regulation and supervision of members. The training and operational manual, reporting format and accounting software standard will be approved by CBN.
- (f) CBN will implement the data management and information system, including the establishment of a website for MFIs.
- (g) CBN will supervise implementation of special studies and research activities to be conducted by its Research and Statistics Department.
- (h) CBN will operate, through an external private-sector manager, the microfinance development fund and the guarantee fund to be established in accordance with the framework conditions for the microfinance development component. The criteria for the operation of the microfinance development fund and the guarantee fund, including the eligibility criteria, will have been defined in the programme implementation manual and will be attached to the CBN memorandum of understanding.
- (i) CBN will enter into agreements with MFIs and MFBs.
- (j) CBN will establish a microfinance advisory board.
- (k) The CBN Development Finance Department will organize the NACRDB study, supervise it and arrange follow-up to implement its recommendations. Other studies and research

activities as may be agreed will be under the supervision of the Research and Statistics Department of CBN.

- (l) The lead programme agency will transfer available funds and other resources to CBN as a grant in accordance with the CBN-related activities set forth in the AWPBs.

The lead programme agency will submit a draft of the CBN memorandum of understanding to IFAD for comments and approval before its signature.

6. **The MFI/MFB memorandum of understanding.** CBN will enter into an agreement with each MFI/MFB, which will provide, among other things, that:

- (a) CBN will provide available funds as a loan and/or guarantee to the relevant MFI/MFB; and
- (b) MFI/MFB will declare its commitment to the goals and purposes of the programme and, in furtherance of such goals and purposes, it will undertake to carry out the framework conditions for the microfinance development component in accordance with the financing agreement and the credit by-laws, which will be annexed to the relevant MFI/MFB memorandum of understanding.

CBN will submit a draft of each MFI/MFB memorandum of understanding to IFAD for its non-objection.

7. IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the loan and grant accounts upon the occurrence of any of the events set forth below **provided, however**, that if the audit required has not been satisfactorily concluded within six months of the financial reporting date, IFAD will suspend the right of the Government to request withdrawals from the loan and grant accounts.

- (a) Should a grant agreement be concluded between the Government and the Ford Foundation, the right of the Government to withdraw the proceeds of the Ford Foundation grant has been suspended, cancelled or terminated, in whole or in part, or any event has occurred that, with notice or the passage of time, could result in any of the foregoing.
- (b) The CBN memorandum of understanding, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on implementation of microfinance activities.
- (c) The programme implementation manual, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.
- (d) The AWPBs and/or the procurement plan, or any provision thereof, have been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the programme.

- (e) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the programme have come to its attention, and the Government has failed to investigate the matter fully and promptly to the satisfaction of IFAD; or based on the conclusions of the aforesaid investigation and any other information relevant to it, IFAD, in consultation with the Government, determines that such practices have occurred, and the Government has failed to take timely and appropriate action to remedy the matter to the satisfaction of IFAD.
8. As part of maintaining sound environmental practices, the programme parties will maintain appropriate pest management practices under the programme and, to that end, the Government will ensure that pesticides procured under the programme do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations, as amended from time to time, or listed in tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization's Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.
9. **Monitoring.** The programme will define indicators quantitatively after the institutional assessments and the conclusions of the baseline study. A monitoring and evaluation committee will be established and will be composed, inter alia, of: CBN, NAPEP, FDC, PCU, the Federal Ministry of Finance and representatives of apex organizations for MFBS, MFIs and rural microfinance institutions. The CPMU will collaborate with the monitoring and evaluation committee. Performance indicators for the duration of the programme will be agreed by programme parties on a year-to-year basis. The final monitoring and evaluation system, including indicators, reporting formats, schedule and analytical software prepared by the CPMU, will be approved by the monitoring and evaluation committee. The progress of programme activities will be monitored in accordance with the Results and Impact Management System framework of IFAD, which will incorporate the MIX Market, a web-based platform through which MFIs share key indicators on client outreach and financial performance.
10. **Tax exemption.** The Government will exempt from taxes all imported item and services financed by the loan and grant. To this end, the Government will make budgetary provisions or will provide exemptions from payment of taxes. The Government will ensure that invoices in relation to expenditures clearly show the amount net of taxes to be paid from the loan and grant.
11. **Insurance of programme personnel.** The Government will insure key programme personnel against health and accident risks to the extent consistent with sound commercial practice.
12. **Gender focus.** Each programme party will ensure that gender concerns are integrated into all programme activities during programme implementation.
13. **States' contributions.** The lead programme agency will ensure that participating states provide their respective contribution to the programme.
14. **State-level and local government council-level offices.** The lead programme agency will ensure that each participating state and local government council establish an office to assist the CPMU.
15. **Conditions precedent to withdrawals**
- (a) Following the initial deposit, no further withdrawals will be made until:
- (i) the chief technical adviser has been duly contracted by the lead programme agency and approved by IFAD;

ANNEX

- (ii) the AWPB for the first programme year, including the procurement plan, has been submitted and approved by IFAD;
  - (iii) the CBN, FDC, zonal PMUs, PCU, NACRDB and NAPEP have each opened a programme account A and a programme account B; and
  - (iv) the programme implementation manual has been approved by IFAD in draft; and a copy of the manual as adopted by the programme steering committee, substantially in the form so approved and certified as true and complete by a competent officer of the lead programme agency, has been delivered to IFAD.
- (b) For activities related to the apex organizations, no withdrawal will be made until such organizations have been duly established to the satisfaction of IFAD and an agreement has been entered into with the lead programme agency.
- (c) For activities related to NAPEP and NACRDB, except for those under the guarantee fund, no withdrawal will be made until an agreement has been entered into.
- (d) No withdrawals will be made for any expenditure related to the framework conditions for the microfinance development component until an MFI memorandum of understanding and an MFB memorandum of understanding have been approved by IFAD in draft; a copy of such an agreement, as signed by the CBN and by the MFI or MFB concerned, substantially in the form so approved and certified as true and complete by a competent officer of the CBN, has been delivered to IFAD; the signature and performance thereof by the CBN and the MFI or MFB concerned have been duly authorized or ratified by all necessary corporate and administrative action; and all conditions precedent to the effectiveness thereof have been fulfilled.

16. The Government will ensure that the recommendations resulting from the mid-term review are implemented thereafter and to the satisfaction of IFAD. It is agreed and understood that such recommendations may result in modifications to the loan documents, suspension of withdrawals of loan and grant proceeds, or cancellation of the loan and grant.

17. **Conditions precedent to effectiveness.** The financing agreement will become effective subject to the fulfilment of the following conditions:

- (a) the programme steering committee has been duly established;
- (b) the CPMU has been duly established and the programme coordinator and financial controller have been selected;
- (c) the special account, the grant bank account, the federal programme account and the CPMU programme accounts A and B have been duly opened;
- (d) the Government has made the initial deposit of counterpart funds into the federal programme account;
- (e) the auditor of the programme has been duly appointed;
- (f) the financing agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;

## ANNEX

- (g) the CBN memorandum of understanding has been approved by IFAD in draft; a copy of the signed agreement, substantially in the form so approved and certified as true and complete by a competent officer of the Government, has been delivered to IFAD; the signature and performance thereof by the Government have been duly authorized or ratified by all necessary corporate, administrative and governmental action; and all conditions precedent to the effectiveness thereof (other than the effectiveness of the loan documents) have been fulfilled; and
- (h) a favourable legal opinion, issued by the Federal Ministry of Justice in form and substance acceptable to IFAD has been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

NIGERIA

<b>Land area (km<sup>2</sup> thousand) 2004 1/</b>	911	<b>GNI per capita (USD) 2004 1/</b>	430
<b>Total population (million) 2004 1/</b>	128.71	<b>GDP per capita growth (annual %) 2004 1/</b>	3.7
<b>Population density (people per km<sup>2</sup>) 2004 1/</b>	141	<b>Inflation, consumer prices (annual %) 2004 1/</b>	15
<b>Local currency</b>	Naira (NGN)	<b>Exchange rate: USD 1 =</b>	NGN 135
<b>Social Indicators</b>		<b>Economic Indicators</b>	
Population (average annual population growth rate) 1998-2004 1/	2.3	GDP (USD million) 2004 1/	72 053
Crude birth rate (per thousand people) 2004 1/	41	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2004 1/	19	2003	10.7
Infant mortality rate (per thousand live births) 2004 1/	101	2004	6.0
Life expectancy at birth (years) 2004 1/	44	Sectoral distribution of GDP 2004 1/	
Number of rural poor (million) (approximate) 1/	n/a	% agriculture	17
Poor as % of total rural population 1/	n/a	% industry	57
Total labour force (million) 2004 1/	46.72	% manufacturing	4 a/
Female labour force as % of total 2004 1/	35	% services	26
<b>Education</b>		Consumption 2004 1/	
School enrolment, primary (% gross) 2004 1/	99	General government final consumption expenditure (as % of GDP)	22
Adult illiteracy rate (% age 15 and above) 2004 1/	n/a	Household final consumption expenditure, etc. (as % of GDP)	38
<b>Nutrition</b>		Gross domestic savings (as % of GDP)	40
Daily calorie supply per capita	n/a	<b>Balance of Payments (USD million)</b>	
Malnutrition prevalence, height for age (% of children under 5) 2004 2/	38 a/	Merchandise exports 2004 1/	23 657
Malnutrition prevalence, weight for age (% of children under 5) 2004 2/	29 a/	Merchandise imports 2004 1/	11 096
<b>Health</b>		Balance of merchandise trade	12 561
Health expenditure, total (as % of GDP) 2004 1/	5 a/	Current account balances (USD million)	
Physicians (per thousand people)	0.3 a/	before official transfers 2004 1/	9 991
Population using improved water sources (%) 2002 2/	60	after official transfers 2004 1/	12 264
Population with access to essential drugs (%) 2/	n/a	Foreign direct investment, net 2004 1/	1 875
Population using adequate sanitation facilities (%) 2002 2/	38	<b>Government Finance</b>	
<b>Agriculture and Food</b>		Cash surplus/deficit (as % of GDP) 2004 1/	n/a
Food imports (% of merchandise imports) 2004 1/	16 a/	Total expenditure (% of GDP) 2004 1/	n/a
Fertilizer consumption (hundreds of grams per ha of arable land) 2004 1/	55 a/	Total external debt (USD million) 2004 1/	35 890
Food production index (1999-01=100) 2004 1/	106	Present value of debt (as % of GNI) 2004 1/	71
Cereal yield (kg per ha) 2004 1/	1 057	Total debt service (% of exports of goods and services) 2004 1/	8
<b>Land Use</b>		Lending interest rate (%) 2004 1/	19
Arable land as % of land area 2004 1/	34 a/	Deposit interest rate (%) 2004 1/	14
Forest area as % of total land area 2004 1/	n/a		
Irrigated land as % of cropland 2004 1/	1 a/		

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2006

2/ UNDP, *Human Development Report*, 2005

**PREVIOUS IFAD FINANCING IN NIGERIA**

<b>Project and Programme Names</b>	<b>Initiating Institution</b>	<b>Cooperating Institution</b>	<b>Lending Terms</b>	<b>Board Approval</b>	<b>Loan Effectiveness</b>	<b>Current Closing Date</b>	<b>Denominated Currency</b>	<b>Approved Loan Amount ('000)</b>	<b>Disbursement (as % of Approved Amount)</b>
Multi-State Agricultural Development Project	IFAD	World Bank/IBRD	I	05 Dec 85	25 Sep 87	30 Jun 97	SDR	12 050	97%
Artisanal Fisheries Development Project	IFAD	UNOPS	I	30 Nov 88	05 Apr 91	30 Sep 97	SDR	11 150	56%
Katsina State Agricultural and Community Development Project	IFAD	World Bank/IDA	HC	12 Dec 90	08 Jul 93	30 Jun 01	SDR	8 550	95%
Sokoto State Agricultural and Community Development Project	IFAD	World Bank/IDA	HC	08 Sep 92	04 Nov 94	30 Jun 01	SDR	6 500	98%
Benue and Niger States Agricultural Support Project	IFAD	AfDB	HC	02 Dec 93	Loan was cancelled 31-Jul-01	31 Dec 02	SDR	20 000	Cancelled
Roots and Tubers Expansion Programme	IFAD	World Bank/IDA	HC	09 Dec 99	31 Jan 03	31 Mar 10	SDR	16 700	33%
Community-Based Agricultural and Rural Development Programme	IFAD	World Bank/IDA	-	12 Sep 01	31 Jan 03	31 Sep 10	SDR	23 800	20%
Community-Based Natural Resource Management Programme	IFAD	World Bank/IDA	HC	11 Dec 02	31 Mar 05	31 Mar 14	SDR	11 350	-

HC: highly concessional

I: intermediate



## LOGICAL FRAMEWORK

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p><b>Objective</b> To develop and strengthen MFIs and establish linkages between these institutions and formal financing institutions in order to create a viable and sustainable rural financial system</p>	<ul style="list-style-type: none"> <li>• Implementation of a microfinance policy and institutional framework that result in a network of MFBs able to ease the access of the poor rural families to rural financial services</li> </ul>	<ul style="list-style-type: none"> <li>• CBN statistics on MFBs in rural areas and commercial bank branches in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>• Government commitment to implement the newly launched microfinance policy framework</li> </ul>
<p><b>Programme Goal</b> Improvement of incomes, food security and general living conditions of poor rural households, particularly woman-headed households, youth and the physically challenged</p>	<ul style="list-style-type: none"> <li>• Proportion of rural poor families having access to rural financial services</li> <li>• Improvement of assets of rural poor families</li> <li>• Improved productivity and family incomes</li> <li>• A percentage reduction in the prevalence of child malnutrition</li> <li>• Improved access to financial services by women</li> <li>• Number of households showing improvement in household assets</li> </ul>	<ul style="list-style-type: none"> <li>• Programme impact assessment studies</li> <li>• Gender disaggregated national and state household income and poverty studies</li> <li>• Programme progress reports</li> <li>• Mid-term reviews</li> <li>• Monitoring reports</li> </ul>	<ul style="list-style-type: none"> <li>• A good number of community banks can successfully transform to MFBs with a capital base as stipulated in the microfinance policy</li> <li>• The lack of rural MFIs is a constraint on credit for agriculture and rural microenterprise development. There will be a stable macroeconomic environment for agriculture and rural-sector growth</li> </ul>
<p><b>Purpose</b> To develop rural financial services and enhance the accessibility of poor rural people to these services so as to expand production and improve the productivity of agriculture and micro- and small rural enterprises</p>	<ul style="list-style-type: none"> <li>• Increase in average savings per poor rural family</li> <li>• Increase in the number of poor women, youth and the vulnerable gathering savings</li> <li>• Increase in the number of poor people gaining access to credit; increase in the average credit per borrower</li> <li>• Incremental growth in the incomes of poor rural families</li> </ul>	<ul style="list-style-type: none"> <li>• Programme progress and monitoring reports</li> <li>• Community-based management database on the microfinance subsector</li> <li>• Mid-term review and programme completion report, including an analysis comparing the baseline situation with the situation at mid-term and at programme completion</li> <li>• Special reports, including evaluation of the microenterprises financed</li> </ul>	<ul style="list-style-type: none"> <li>• MFBs and commercial banks located in rural areas respond to policy incentives; existence of viable investment opportunities</li> <li>• Poor rural families can help improve their organizations so as to increase access to rural financial services</li> <li>• Poor rural families find financially viable investment opportunities</li> <li>• The Government implements the microfinance policy conscientiously</li> <li>• Political stability is maintained</li> </ul>

CBN: Central Bank of Nigeria  
MFB: microfinance bank  
MFI: microfinance institution

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p><b>OUTPUTS</b> <b>Output 1:</b> <b>Development and strengthening of member-based rural MFIs</b></p>			
<p>1.1 Improvement of the policy, legal and institutional framework for development (rural MFIs)</p> <ul style="list-style-type: none"> <li>• Federal Department of Cooperatives and its state counterparts are strengthened to develop responsive policies and a legal framework for the sustainable development of rural MFIs and the supervision of their operations</li> </ul>	<ul style="list-style-type: none"> <li>• Existence of an improved policy framework that promotes the development of a sustainable cooperative system and membership-based rural MFIs</li> <li>• Legal and regulatory framework for rural MFIs and cooperative development is improved and implemented nationally</li> <li>• Operational guidelines for the development of apex organizations are established and implemented</li> <li>• A national apex organization is developed for member-based rural MFIs so as to provide support services to member organizations</li> <li>• Conditions for registering rural MFIs with CBN established and implemented</li> </ul> <ul style="list-style-type: none"> <li>• An improved policy document</li> <li>• An improved legal and regulatory framework for rural MFIs is developed</li> <li>• The number of rural MFIs running on a sustained basis</li> <li>• Standard rural MFI financial performance indicators</li> <li>• An improved curriculum for cooperative training colleges and institutes</li> </ul>	<ul style="list-style-type: none"> <li>• Approved policy and legal framework</li> <li>• Self-regulatory framework establishment by rural MFIs and their apex organizations</li> <li>• Progress and monitoring reports</li> <li>• Mid-term review reports</li> <li>• Programme completion reports</li> <li>• Policy workshop reports</li> <li>• Supervision reports</li> </ul> <ul style="list-style-type: none"> <li>• Annual reports of Federal Department of Cooperatives</li> <li>• Annual reports of cooperative training colleges and institutes</li> <li>• Periodic reports of rural MFIs</li> <li>• Programme progress and monitoring reports</li> <li>• Mid-term reviews</li> <li>• Supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>• Political stability is maintained</li> <li>• As a follow-up to the microfinance policy framework, the Government, through the Department of Cooperative Development, promotes an improved policy and legal framework to facilitate access by the poor families to rural financial services</li> <li>• The Government willing to revise the existing policy and legal framework for cooperative and member-based rural MFIs</li> </ul> <ul style="list-style-type: none"> <li>• Committed leadership exists in the Federal Department of Cooperatives and its state counterparts</li> <li>• The Government provides resources for the training of staff and provides other incentives for operations</li> <li>• Political stability is assured</li> </ul>

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p>1.2 Capacity-building among rural MFIs and their apex organizations</p> <ul style="list-style-type: none"> <li>Rural MFIs are restructured and strengthened, and they are efficiently managing their savings, loan portfolios and risks, thereby responding to the needs of their members, including rural poor families</li> </ul>	<ul style="list-style-type: none"> <li>Number of training institutions and NGOs strengthened to carry out capacity-building and training among rural MFIs and MFBs</li> <li>Training needs assessment of rural MFIs carried out</li> <li>Number of training modules developed for the training of trainers</li> <li>Training manuals produced for the training of trainers</li> <li>Number of rural MFIs restructured and strengthened</li> <li>Number of rural MFIs participating in RUFIN</li> <li>Number of rural MFIs in stage 1 of development</li> <li>Number of rural MFIs in stage 2 of development</li> <li>Number of rural MFIs in stage 3 of development</li> <li>Number of poor rural families participating in RUFIN</li> <li>Number of specific women's rural MFIs participating in RUFIN</li> <li>Improved savings and credit delivery rate</li> <li>Percentage of portfolio at risk (outstanding balance of overdue loans)</li> <li>Percentage of operational self-sufficiency of rural MFIs</li> <li>Percentage of operating cost/loan portfolio</li> <li>Percentage of outstanding loans/staff (staff productivity)</li> <li>Improved leadership of rural MFIs</li> <li>Improved governance and management of rural MFIs</li> <li>Standard rural MFI financial performance indicators developed</li> <li>Benefit indicators for rural MFI members</li> </ul>	<ul style="list-style-type: none"> <li>Evaluation reports of NGOs and training institutions</li> <li>Assessment reports on the quality and impact of training on trainers</li> <li>Programme progress reports</li> <li>Supervision reports</li> <li>Mid-term reviews</li> <li>Programme completion reports</li> <li>Programme progress and monitoring reports</li> <li>Evaluation reports of rural MFIs</li> <li>CBN MFI databank</li> <li>Apex organization annual reports</li> <li>FDC annual reports</li> <li>Mid-term reviews</li> <li>Supervision reports</li> </ul>	<ul style="list-style-type: none"> <li>There are NGOs and training institutions interested in learning new skills in building the capacity of rural MFIs and ready to provide cost-effective training services to rural MFIs and MFBs on a sustainable basis</li> <li>The Government is favourably disposed toward the appointment of suitable external consultants to provide the training of trainers</li> <li>The improved rural economic environment is creating increased demand for rural financial services</li> <li>Profitable investment opportunities exist in agriculture and rural enterprises</li> <li>Suitable leaders exist in rural MFIs who can learn new skills</li> <li>Rural MFI financial capacity is improved, permitting the employment of suitable staff</li> <li>Political stability is maintained</li> </ul>

RUFIN: Rural Finance Institution-building Programme  
FDC: Foundation for Development Cooperation

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<ul style="list-style-type: none"> <li>• Evolution of apex organization of rural MFIs capable of providing technical and financial support services to member organizations</li> </ul>	<ul style="list-style-type: none"> <li>• Number and type of services provided to member organizations</li> <li>• Sustainability of operations through own resources</li> <li>• Member organization morale and financial support</li> <li>• Standard performance indicators</li> </ul>	<ul style="list-style-type: none"> <li>• Annual report of FDC</li> <li>• Annual report of the apex organization</li> <li>• CBN databank</li> <li>• Programme monitoring and progress reports</li> <li>• Supervision reports</li> <li>• Mid-term reviews</li> </ul>	<ul style="list-style-type: none"> <li>• Resources made available to restructure and strengthen apex organization</li> <li>• Apex organization is voluntarily developed by rural MFIs</li> <li>• Member association support</li> <li>• No government interference</li> <li>• Political stability assured</li> </ul>
1.3 Promotion of linkage programme	<ul style="list-style-type: none"> <li>• Multipartner/cooperation agreement concluded</li> <li>• Number of states participating</li> <li>• Number of NGO-MFIs participating</li> <li>• Number of rural MFIs participating</li> <li>• Number of families participating, by gender</li> <li>• Policy reports prepared</li> <li>• Policy changes effected</li> <li>• Number of commercial/universal banks participating</li> <li>• Savings mobilized and management in place; returns on savings</li> <li>• New financial products tested</li> <li>• Volume of loans disbursed</li> <li>• Number of beneficiaries</li> <li>• Number and types of enterprises financed</li> <li>• Income effects</li> <li>• Leadership effects</li> <li>• Women's roles and leadership</li> </ul>	<ul style="list-style-type: none"> <li>• Special reports on partnership</li> <li>• Partnership agreements</li> <li>• Progress reports</li> <li>• Monitoring reports</li> <li>• Mid-term review</li> <li>• Programme completion report</li> <li>• Participating bank reports</li> <li>• Participating NGO-MFI reports</li> <li>• CBN databank</li> </ul>	<ul style="list-style-type: none"> <li>• Policy stability maintained</li> <li>• Political stability maintained</li> <li>• Political will exists in the National Poverty Eradication Programme</li> <li>• Partnership programme implemented as planned</li> <li>• Partners keep open mind and are committed to policy changes as determined by pilot results</li> </ul>

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p><b>Output 2: Support for MFIs</b></p>			
<p>2.1 Institution-building among MFBs</p> <p>MFB management capacity and resource base improved; MFBs provide financial services to an increasing number of clients, including the rural poor population, particularly women, youth and the physically challenged</p>	<ul style="list-style-type: none"> <li>• Number of MFBs supported</li> <li>• Number and value of loans granted on favourable terms to MFIs and rural MFIs</li> <li>• Decreasing and bad debt provision</li> <li>• Number and value of loans granted to individuals</li> <li>• Number of new clients, by gender</li> <li>• Number and value of loans to rural MFIs and MFIs guaranteed by the guarantee window of the Microfinance Development Fund</li> <li>• Number of MFBs with functioning management information systems</li> <li>• Number and types of training programmes run for MFBs</li> <li>• Number of unit banks that have graduated to state-level MFBs</li> <li>• Number of increases in savings accounts</li> <li>• Volume of savings</li> <li>• Number of innovative products introduced and adopted by clients</li> <li>• Average amount of loans granted per annum</li> <li>• Average loan as percentage of GDP</li> </ul>	<ul style="list-style-type: none"> <li>• Financial reports from MFBs to CBN</li> <li>• Annual audited report</li> <li>• Institutional audit and development plan</li> <li>• Special studies</li> <li>• Programme monitoring reports</li> <li>• Mid-term reviews</li> <li>• Impact evaluation report</li> </ul>	<ul style="list-style-type: none"> <li>• Willingness and ability of MFBs to improve their performance and increase outreach</li> <li>• Microfinance policy is implemented consistently</li> <li>• CBN improves its supervisory and regulatory capacity in terms of staff and software</li> <li>• CBN issues its supervisory reports regularly</li> </ul>
<p>2.2. Capacity-building among non-bank MFIs</p> <p>MFIs efficiently provide financial services to increasing numbers of clients, including women and the rural poor, on a sustainable basis and in line with demand</p>	<ul style="list-style-type: none"> <li>• Number of MFIs rehabilitated and profitable</li> <li>• Decreasing operating costs of MFIs in terms of loans outstanding</li> <li>• Decreasing bad debt provisions of MFIs over loans outstanding</li> <li>• Number of new clients reached</li> <li>• Number and value of loans granted and share lent to women</li> <li>• Average amount of loans disbursed per annual GDP per capita</li> <li>• Degree of satisfaction of clients with MFI services</li> <li>• Number of rural MFIs with functional management information systems</li> <li>• Number of innovative products introduced and adopted by MFIs</li> <li>• Number of MFI staff trained</li> </ul>	<ul style="list-style-type: none"> <li>• Institutional audit and development plans</li> <li>• Financial reports from rural MFIs to CBN</li> <li>• Programme supervision reports and mid-term review</li> <li>• Annual audited reports of rural MFIs</li> <li>• Client surveys</li> </ul>	<ul style="list-style-type: none"> <li>• Ability and willingness of rural MFIs to improve their performance and increase their outreach</li> <li>• Freedom of rural MFIs to determine their own lending policies, terms and conditions</li> </ul>

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p>2.3 Support for NACRDB</p> <p>NACRDB improves its operational efficiency, expands outreach, adopts new operational policy and becomes sustainable</p>	<ul style="list-style-type: none"> <li>• The increase in the number and value of loans to MFIs and rural MFIs</li> <li>• The increase in the number and value of loans to individual borrowers</li> <li>• Portfolio at risk is reduced to a sustainable level</li> <li>• Operational costs are reduced drastically</li> <li>• Reduction in losses leading to operational profit</li> <li>• Adoption of new policies supporting best microfinance practices</li> <li>• Government reduction of interference in management, including by dictating the interest rate to be charged</li> <li>• Number of new products introduced and adopted by clients</li> <li>• Number and type of training initiatives carried out</li> <li>• Number and type of staff trained</li> </ul>	<ul style="list-style-type: none"> <li>• Financial reports</li> <li>• Annual audit reports</li> <li>• Progress reports</li> <li>• Programme monitoring reports</li> <li>• Institutional audit reports</li> <li>• Programme impact assessment reports</li> <li>• Programme mid-term reviews</li> <li>• Programme completion report</li> </ul>	<ul style="list-style-type: none"> <li>• Government is willing to introduce policies and operational guidelines; these will be proposed under the programme</li> <li>• NACRDB is willing to adopt best microfinance practices</li> <li>• Board members are selected on the basis of qualifications and experience, and this process is not influenced by political considerations</li> </ul>
<p>2.4 Implementation support, supervision and regulation of MFBs</p> <p>CBN is provided additional capacity to coordinate and provide support for the implementation of assistance to MFBs and MFIs and regulate and supervise MFBs, particularly those under the programme</p>	<ul style="list-style-type: none"> <li>• Number of non-bank MFIs supported</li> <li>• Number of MFBs supported under the programme</li> <li>• Supervision reports issued on schedule</li> <li>• Guidelines produced for the establishment of apex and umbrella organizations</li> <li>• Prudential guidelines produced for the supervision and regulation of non-bank MFIs</li> <li>• Apex and umbrella organizations established and functioning effectively</li> <li>• Microfinance development fund established and functioning</li> <li>• Number of loans guaranteed by the microfinance development fund</li> <li>• Number of states/local government councils participating in microfinance development fund</li> <li>• The value of microfinance development fund</li> <li>• Increase in microfinance share of credit</li> <li>• Average loan as percentage of GDP</li> </ul>	<ul style="list-style-type: none"> <li>• Financial sector reports</li> <li>• Supervision reports</li> <li>• Programme progress reports</li> <li>• Programme monitoring and evaluation reports</li> <li>• Programme mid-term reviews</li> <li>• Programme impact study reports</li> <li>• Programme completion report</li> </ul>	<ul style="list-style-type: none"> <li>• Microfinance policy implemented consistently</li> <li>• Special credit programme de-emphasized</li> <li>• Governments contribute to the microfinance development fund as planned</li> <li>• Macroeconomic stability</li> </ul>

NACRDB: Nigerian Agricultural Cooperative and Rural Development Bank

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p><b>Output 3: Framework conditions for microfinance development</b></p>			
<p>3.1 Access to refinance facilities</p> <p>Microfinance development fund established and operating effectively, and linkage programme under the microfinance policy effectively established. The framework conditions are improved and are more conducive to that MFIs and rural MFIs may accelerate outreach and improve their level of efficiency</p>	<ul style="list-style-type: none"> <li>• Microfinance development fund established with contributions from governments (federal, state and local) and donors</li> <li>• Satisfactory criteria and guidelines are issued and are satisfactory to donors</li> <li>• Microfinance development fund operational on a commercial basis and under private sector management</li> <li>• Type and number of operations financed through the microfinance development fund</li> <li>• Number and value of loans guaranteed through the microfinance development fund</li> <li>• Number of banks linking with MFIs and rural MFIs and providing finance</li> <li>• Number and value of wholesale credit financed annually</li> <li>• Portfolio management and operational efficiency of MFBs, MFIs and rural MFIs</li> </ul>	<ul style="list-style-type: none"> <li>• Financial sector reports</li> <li>• Microfinance development fund progress reports</li> <li>• Financial reports of banks</li> <li>• Programme progress reports</li> <li>• Programme monitoring and evaluation reports</li> <li>• Programme mid-term reviews</li> <li>• Programme impact study reports</li> <li>• Programme completion report</li> </ul>	<ul style="list-style-type: none"> <li>• The microfinance policy implemented consistently</li> <li>• MFBs become well established and take an interest in increasing outreach</li> <li>• Governments and donors take an interest in contributing to the microfinance development fund</li> <li>• Capacities of MFIs and rural MFIs improved so as to use refinance facilities effectively</li> </ul>
<p>3.2. Capacity-building among apex organizations for MFBs and MFIs and umbrella organizations for MFI apex organizations</p> <p>Apex and umbrella organizations are established and functional and are providing services to members</p>	<ul style="list-style-type: none"> <li>• Establishment of an apex organization for MFBs</li> <li>• Establishment of an apex organization for MFIs</li> <li>• Establishment of umbrella organizations for MFIs and MFBs</li> <li>• Apex and umbrella organizations providing support services to member institutions</li> <li>• Apex and umbrella organizations are being run effectively by member institutions</li> <li>• Apex and umbrella organizations provide self-regulatory services for the microfinance subsector</li> </ul>	<ul style="list-style-type: none"> <li>• Progress reports of apex and umbrella organizations</li> <li>• Programme progress reports</li> <li>• Programme monitoring and evaluation reports</li> <li>• Programme mid-term reviews</li> <li>• Programme impact evaluation reports</li> <li>• Programme completion report</li> <li>• CBN financial sector reports</li> </ul>	<ul style="list-style-type: none"> <li>• Microfinance policy effectively implemented</li> <li>• MFIs, MFBs and rural MFIs take an interest in setting up apex and umbrella organizations</li> </ul>

Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p>3.3 Policy dialogue and research and documentation on microfinance</p> <p>Enabling environment established for effective operation of MFIs, and policy improvement mechanism is put in place. Information in microfinance subsector becomes readily available</p>	<ul style="list-style-type: none"> <li>• The microfinance advisory board is established and functional</li> <li>• Number of meetings held by the board and the outcomes</li> <li>• Website established for the microfinance subsector</li> <li>• Number of rural and microfinance conferences, workshops and seminars held and number of participants and issues discussed and resolved</li> <li>• Number of publications on rural and microfinance matters</li> <li>• The research and statistics department of CBN strengthened and becomes active in undertaking studies and research in the microfinance sector</li> </ul>	<ul style="list-style-type: none"> <li>• Reports, studies, surveys published</li> <li>• Visit to website</li> <li>• Progress report of research and statistics department of CBN</li> <li>• Programme progress reports</li> <li>• Programme mid-term reviews</li> <li>• Programme completion report</li> </ul>	<ul style="list-style-type: none"> <li>• CBN Research and Statistics Department is interested in improving information on microfinance sector</li> <li>• Microfinance policy is implemented consistently</li> </ul>
<p><b>Output 4: Programme management, coordination, monitoring and evaluation</b></p> <p>4.1 Setting up a semi-autonomous PMU</p>	<ul style="list-style-type: none"> <li>• Zonal offices established and staffed</li> <li>• Inception workshops carried out, and reports produced</li> <li>• Heads and accounting officers trained in participatory AWPB preparation</li> <li>• Training committee established and functioning</li> <li>• PSC established and functioning</li> <li>• Number of PSC meetings held</li> <li>• AWPB prepared and approved on schedule</li> <li>• Policy issues resolved and policy guidance provided</li> <li>• Number of field supervision missions carried out</li> <li>• Number of annual review workshops held</li> <li>• Supervision and implementation support missions carried out by managers of PMU and by zonal PMU</li> <li>• Monitoring and coordination activities with donors</li> <li>• Programme quarterly management meetings held</li> <li>• Coordination and planning meetings with host programmes</li> </ul>	<ul style="list-style-type: none"> <li>• Progress reports</li> <li>• Supervision mission reports</li> <li>• Special reports</li> <li>• Monitoring and evaluation reports</li> <li>• Mid-term review reports</li> <li>• Programme completion report</li> <li>• Financial and audit reports</li> </ul>	<ul style="list-style-type: none"> <li>• Highly qualified and committed staff in place</li> <li>• Minimum political interference</li> <li>• Political stability</li> <li>• Policy stability</li> </ul>

AWPB: annual workplan and budget



Narrative Summary	Performance Indicators	Means of Verification	Assumption/Risks
<p>4.2 Monitoring and evaluation systems and management information systems established and effectively functioning</p>	<ul style="list-style-type: none"> <li>• Monitoring and evaluation manual produced</li> <li>• Monitoring and evaluation committee established</li> <li>• Biannual meetings of monitoring and evaluation officers</li> <li>• Monitoring system reporting formats and reporting schedule agreed and operational, first quarter, programme year 1</li> <li>• Rural MFIs trained in self-monitoring and provided with reporting format and schedule</li> <li>• Monitoring and evaluation annual review workshops held</li> <li>• Impact assessment carried out annually starting in programme year 2</li> <li>• Mid-term reviews carried out on schedule, and follow-up action agreed and implemented</li> <li>• Thematic studies carried out and reports distributed</li> <li>• Microfinance advisory board meetings attended, and reports produced</li> <li>• Programme completion report carried out on schedule, and report produced</li> </ul>	<ul style="list-style-type: none"> <li>• Progress reports</li> <li>• Monitoring reports</li> <li>• Annual evaluation reports</li> <li>• Mid-term reviews</li> <li>• Feedback reports from rural MFIs</li> <li>• Programme completion report</li> <li>• Impact evaluation report</li> <li>• Reports of the meetings of the microfinance advisory board</li> </ul>	<ul style="list-style-type: none"> <li>• Political stability</li> <li>• Policy stability</li> <li>• Capable and committed staff available</li> <li>• Working relationship with CBN and financial institutions established and cordial</li> </ul>

## PURPOSE AND JUSTIFICATION FOR A GRANT FUNDING OF US\$400,000 AND MANAGEMENT

### **Purpose**

The proposed grant funding of US\$400,000 will be used to finance two years of an internationally recruited chief technical adviser, three years of a locally recruited training specialist and a three-month short-term consultancy by a legal expert. This team will be crucial in providing necessary policy, institutional training and legal services to Nigeria. The chief adviser, working with the PMU, will work closely with policy-making organs of the financial sector that include CBN and the Federal Ministry of Finance. This is to provide policy advice and guidance and institutional guidelines for the development of rural financial institutions within the overall financial sector. IFAD's particular concern for the development of its targeted member-based institutions will receive a special focus. The training specialist will oversee the training programme for the Rural Finance Institution-building Programme, which will be provided by local training institutes. Working closely with the chief technical adviser and other members of the Rural Finance Institution-building Programme, technical team, she/he will ensure the production of training materials that will be used nationally. The short-term technical assistance is needed to harmonize the policy framework and the legal framework for the development of rural MFIs. The Government of Nigeria has, in the past, obtained technical support from the International Labour Organization to review the national microfinance policy framework, but proper attention was not given to the legal implications of the changes in the policy framework.

### **Specific Grant Objectives**

- (i) provide support to strengthen the policy base for the development of rural MFIs;
- (ii) provide assistance in developing best practices for the development of rural MFIs;
- (iii) provide training support to strengthen rural MFIs and produce training materials that can be used nationally in developing the capacity of rural MFIs; and
- (iv) strengthen the legal base and harmonize the policy and legal framework for the development of rural MFIs.

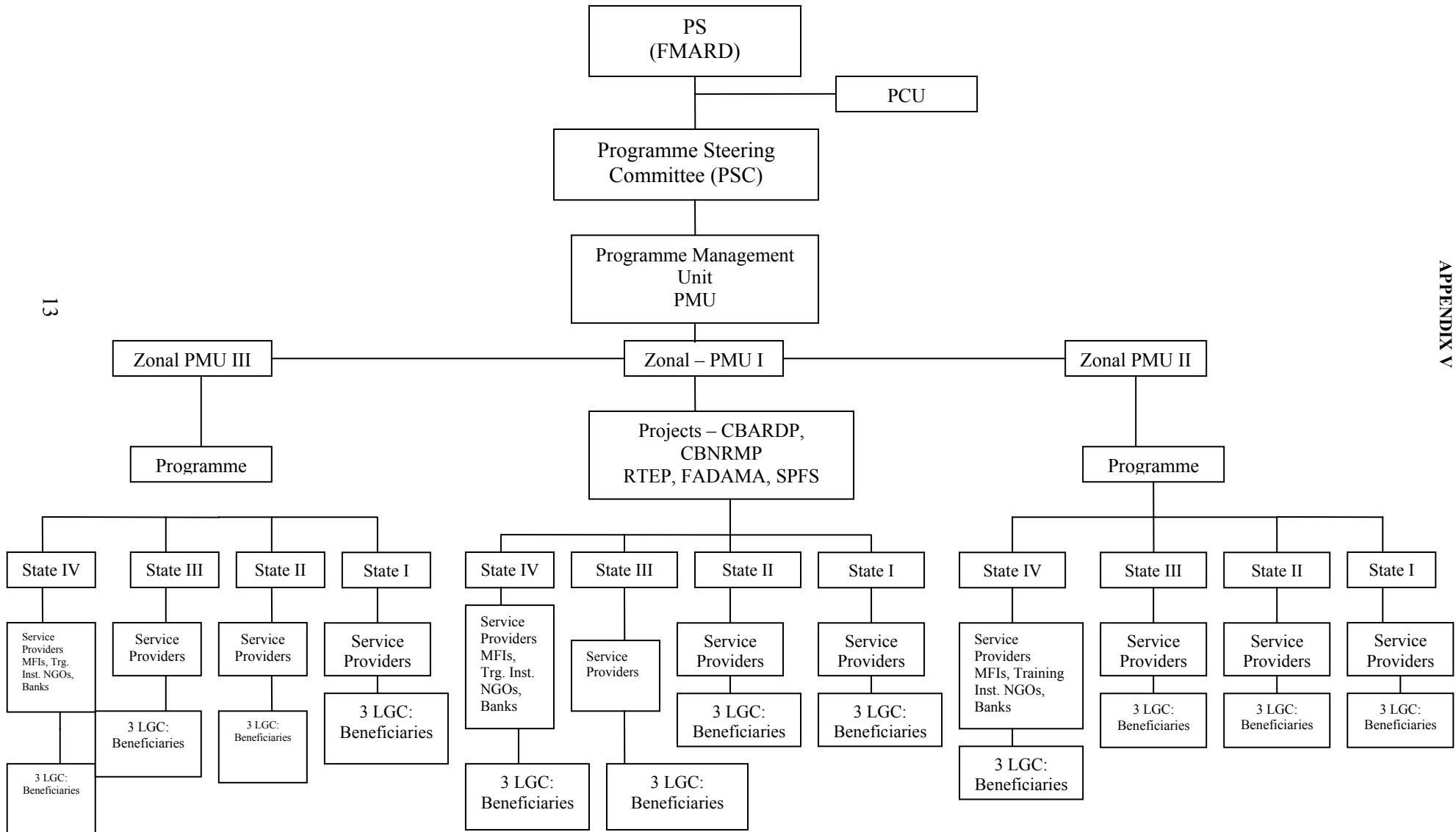
### **Expected Benefits**

- (i) the policy and legal base for the development of rural MFIs will be improved;
- (ii) the policy-making capacity of key institutions in the financial sector will be strengthened;
- (iii) rural MFIs will be strengthened and more well-oriented to serve poor rural households; and
- (iv) the capacity of local institutions supporting the development of rural MFIs will be increased so that they can assist more effectively in the development of rural MFIs.

See Logical Framework, outputs 1.1 and 1.2.

ORGANIGRAMMES

Programme Organization Structure



**Flow of IFAD Loan Proceeds to the Programme**

