

PRISMS

Promoting
Improved Sustainable
Microfinance Services

Quarterly Update

July - September 2004

Submitted by:
Chemonics International Inc.

A USAID-funded Activity
Contract # 620-C-00-04-00037-00

4 November 2004



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Activity Objectives

The Promoting Improved Sustainable MSME Services (PRISMS) Project is a two-year project focusing on increasing the capacity of the Nigerian financial services industry, to provide appropriate financial services to micro, small, and medium enterprises (MSMEs). PRISMS is designed to assist USAID/Nigeria in implementation of its Country Strategic Plan for the 2004-2009 period. Specifically, PRISMS supports the Mission's Strategic Objective 12 (SO12), Improved Livelihoods in Selected Areas. The PRISMS project results framework has three project intermediate results (PIR) and five key results areas (KRA):

- PIR 1: Improved Capacity of Commercial Banks to Serve MSME Sector
 - KRA 1.1: Increased partner bank capacity to serve MSMEs
 - KRA 1.2: Increased non-partner bank capacity to serve MSMEs
- PIR 2: Improved Capacity of Non-Bank Financial Institutions to Serve MSMEs
 - KRA 2.1: Increased capacity of NBFIs to attract commercial capital
- PIR 3: Improved Enabling Environment
 - KRA 3.1: Increased capacity of OFID to supervise community banks
 - KRA 3.2: Enhanced policy and regulatory framework for MSME financial services

Through partnerships with the Nigerian financial services sector, the Central Bank of Nigeria, USAID, and other donors, PRISMS is engaging the commercial banking industry to build on the industry's awareness, that it must focus on retail banking and that the greatest retail banking potential is with the MSME sector. These activities are addressed under PIR 1 and recognize that commercial banks are the only entities which have the resources, outreach, organization and motivation to expand and transform financial services for MSMEs, on a scale commensurate with the demand. At the same time, PRISMS under PIR 2 is engaging non-bank financial institutions (NBFIs – namely, community banks and MFIs) through coordination with other donors' NBFI capacity-building programs. To enhance NBFI's appeal to commercial banks as partners, training curricula will be developed and offered to NBFIs on a for-fee basis through local training services providers. Concurrently under PIR 3, PRISMS will work on a number of policy reform and implementation initiatives with the Central Bank of Nigeria, in order to improve the enabling environment for provision of MSME services through commercial banks and NBFIs.

Quarter Progress

This is the first quarterly report of the PRISMS Project implementation phase, covering the period from July through September 2004. Consequently, the focus of this report is on start-up

and initial activities that set the stage for implementation activities. Future quarterly reports will reference progress toward specific work plan activities, including benchmarks and the contribution to project and SO-12 results as appropriate.

This was a period of laying the groundwork, establishing partnerships with other stakeholders, work-planning, and developing and agreeing with USAID specific scopes of work for upcoming capacity building activities for commercial banks and NBFIs.

On the operations side, the PRISMS office premises were made ready for occupancy and were occupied. The project office is fully operational. The project accountant and operations manager were hired, fully trained, and began contributing to project management goals. The project's two financial services managers were also identified and final employment arrangements were concluded. Subcontracting arrangements with local subcontractor Development Associates were put in place. All project policies and procedures were established and put in place.

On the technical side, significant implementation progress was made in each of the three project results areas during the quarter.

- The PRISMS project design was approved, and the project's performance monitoring plan and work-plan were nearly completed.
- Informal partnership agreements were reached with United Bank of Africa, Union Bank of Nigeria and Prudent Bank (details in section III) and formal Memoranda of Understanding (MOUs) will follow.
- A partnership was informally agreed to between the CBN's Other Financial Institutions Department (OFID) and an MOU will also follow.
- Additional informal partnership agreements were reached with FAO/IFAD's forthcoming community banks project; with World Bank's forthcoming MSME project; and with UNDP's forthcoming microfinance project – again, with MOUs to follow.
- The development of several financial institution capacity building initiatives was initiated during the quarter, including first steps in the development of a community bank strategic management course and a board governance course, as well as the a cash flow/character/enterprise-based lending course for commercial bankers.
- First steps were also taken in the development of a community bank assessment tool for use by commercial banks.
- And preparations for a survey by subcontractor Development Associates of selected MSME sub-sectors were initiated.

Since the work plan was not finalized and approved during this period, we can not report against specific benchmarks. However, considerable progress was made and the next Quarterly Report will document both the activities accomplished and the milestones achieved against agreed benchmarks.

Project Changes

There are three significant changes in the project to note. First, the PRISMS Project Implementation Design was approved in August permitting the hiring of long term local personnel and the development of the PMP and Work Plan.

The PMP was completed and approved in September. An initial work plan was drafted in September to tie into the PMP. As at the end of this reporting period, discussions with the SO-12 team were well underway to finalize the work plan and complete several Scopes of Work (SOWs) that would begin activities to implement essential components, such as a demand assessment study and development of training programs for identified partner institutions.

Also during the period two Financial Service Managers were recruited and employment contracts were agreed. They are expected to begin on November 1st thus filling out the long-term local staff.

Impact on Intermediate Results

This section will in the future provide information on the impact of the PRISMS' project on the identified PMP indicators and contributions made to the wider SO-12 activities. Since the work plan was not finalized during this quarter, and in order to provide a clear picture of the activities that the PRISMS team has been engaged in, we have summarized activities initiated and/or underway under each PIR and KRA. During this quarter, activities under KRAs 1.1, 2.1, and 3.1 were undertaken. Activities under KRAs 1.2 and 3.2 will begin during the October to December 2004 reporting period.

PIR 1: Increased Capacity of Commercial Banks to Serve MSMEs

KRA 1.1: Increased Capacity of Partner Banks to Extend Financial Services to MSME Sector

- Preliminary agreement has been reached with Prudent Bank and Union Bank of Nigeria that PRISMS will assist them to establish wholesale loan capital relationships with community banks located in MSME sub-sectors of interest, revealed by PRISMS MSME survey.
- Preliminary agreement has been reached with United Bank of Africa and Union Bank of Nigeria's venture capital company that PRISMS will provide assistance to the development of their dedicated MSME lending subsidiaries.
- Development has been initiated of a community banks assessment tool for use by commercial banks wishing to establish wholesaling relationships with selected community banks.
- Development of a cash flow/character/enterprise-based lending course has been initiated, which will enable commercial bankers to understand and apply the principles of lending to MSMEs.
- A major survey has been initiated of selected MSME sub-sectors and community banks/MFIs available to serve the sub-sectors, as a "mapping" exercise to guide the commercial banks to MSME markets with the greatest potential.

PIR 2: Increased Capacity of NBFIs to Serve MSMEs

KRA 2.1: Increased Capacity of NBFIs to Attract Commercial Capital for MSME Financial Services:

- Development initiated of a strategic management course for community bank managements, which will teach managements how to manage their institutions properly, thereby gaining the confidence of prospective commercial bank partners.
- Development initiated of a board governance course for community bank boards, intended in cooperation with OFID enforcement, to address the poor governance of community banks thereby enabling management to be more effective and win the confidence of prospective commercial bank partners.
- Agreement to adapt a version of the forthcoming cash flow/character/enterprise-based lending course being developed for commercial bankers, for adaptation to use by community banks, as OFID informs that the community banks also don't know how to undertake such lending.
- Agreement reached with FAO's community banks institutional capacity building project that FAO's project will target for assistance those community banks with which PRISMS' partner commercial banks intend to establish relationships.

PIR 3: Enhanced Enabling Environment

KRA 3.1: Increased capacity of OFID to Supervise NBFIs Serving the MSME Sector:

- Agreement to facilitate OFID's visit to the Central Bank of Jordan, to study the use, output and output analysis of CBJ's USAID/AMIR- developed online bank supervision system, to assist OFID with outputs configuration of its component of CBN's forthcoming e-FASS supervisory system.
- Agreement that PRISMS will assist with the development of an e-FASS output analysis course to train OFID examiners.

Activities in M&E, Project Management, Communications

- M&E: Obtained approval for initiation of the MSME Survey which will "map" for the commercial banks MSME sub-sectors of greatest potential, MSME needs and constraints, and local financial institutions in the sub-sectors with which the commercial banks can establish relationships.
- Project Management: Project administrative staff hired and technical staff designated for hiring.
- Communications: A communications consulting firm was identified, a website developer was identified and preliminary website planning was undertaken.

Problems/Opportunities/Upcoming Events

The following exogenous factors could have important impact on the project, one long term and the other potentially short-term.

- Impact of the Capitalization Increase legislation on the ability of commercial banks to participate in and benefit from PRISMS' interventions. A study is being planned to more fully understand the likely impact on the banking systems, in particular as it could affect banks' interest and ability to down-stream financial services and funding to the MSME sector. Preliminary indications are that banks are already actively engaged in developing

relationships with potential merger partners, and that for most financial institutions the intended consolidation of the banking industry is likely to go smoothly. Rather than deterring the provision of new services to the MSMSE sector, the consolidation is likely to increase the level of competition for new and attractive markets, thus supporting PRISMS' objective of expanding access to financial services for all Nigerians.

- Periodic national strikes called as the Federal Government pursues its plan to normalize the retail price of petroleum products have had, and will continue to delay certain PRISMS field activities. Contingency planning will be undertaken by the project to minimize the effect on travel and work plans. Should such strikes be prolonged, then PRISMS will be affected, as will all other sectors.
- PRISMS' commercial bank partners are not engaging with our agreed joint initiatives as rapidly as either they or PRISMS would prefer, as the banks are reluctant to commit themselves to the initiatives until the forthcoming CBN MSME regulation is approved and released, as they don't yet know what will be allowed.
- PRISMS will continue to look for cross-cutting opportunities that support other SO-12 and Mission objectives. One possibility will be links to SO-14 and HIV/AIDS programs that deliver training and awareness campaigns into the workplace.
- Activities Planned for Coming Quarter:
 - PRISMS Launch and CBN MOU signing.
 - Completion of both draft training courses curricula and the assessment tool.
 - Completion of the MSME survey.
 - Determination of whether the increased bank capitalization impact assessment will be a joint undertaking by PRISMS-WB-DFID or strictly a PRISMS undertaking.
 - Completion of the PRISMS communications strategy.