INCREASING ACCESS TO FORMAL FINANCIAL SERVICES

Market-led approaches in NE Nigeria

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Financial inclusion works to increase people's access to and use of affordable financial services. It is not an end in itself, but it enables people to borrow to invest in their farms and businesses, save for the future, and insure against shocks. Through the USAID-funded Feed the Future Rural Resilience (RRA) Activity, Mercy Corps uses financial inclusion in Northeast Nigeria to help people facing poverty, including rural women, youth, and people on the move, improve and protect incomes and assets, and manage risk. In doing so, RRA moves people out of chronic vulnerability and poverty through expanded economic opportunities and strengthened resilience capacities.

Challenges

The four states in NE Nigeria are facing recurring and acute shocks and stresses, including rising food, fuel, and fertiliser prices, adverse weather conditions, and conflict and insecurity. The Niara redesign policy introduced by the Central Bank in early 2023, with its restriction on the use of old currency but inadequate supply of new notes, caused a cash crunch, affecting access to basic needs and market activities. About 55% of adults in the region are unbanked and unable to access and use formal financial services. The high risks, costs, and complexities of serving the predominantly rural region, with its reliance on agriculture and ongoing struggles with insecurity and conflict, deter many financial service providers from entering the market. RRA's target population – women, youth, and internally displaced peoples – often do not have sufficient assets to pledge as collateral, lack experience and understanding of formal financial services, and find most formal credit products unaffordable and not suited to their seasonal cash flows and needs. They are therefore unable to use financial services to build their resilience to shock and stresses, particularly conflict and climate change, and to capture opportunities by investing in their farms and businesses to increase their income and assets.

RRA's approach

By applying a Market Systems Development (MSD) approach, RRA has worked with formal financial service providers[1], including commercial banks and Microfinance Banks (MFBs), Business Development Service Providers (BDSPs), and Fintech companies. Through the provision of catalytic grants[2] and technical assistance to partners, and the creation of partnerships and linkages between key actors, RRA has improved and expanded the provision of financial services and increased the ability of groups and households to access and use these services.

This learning brief describes three models that RRA utilised to provide formal financial services, in particular credit and savings, to previously excluded populations in NE Nigeria:

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[1] Formal finance services providers are regulated financial institutions (bank or non bank institutions), and here includes banks, Microfinance Banks and Fintech companies, but not savings groups. The CMD SACCO is included in the case study as a 'semi-formal' institution.

[2] Grant aiming to unlock additional investments, by demonstrating the feasibility and viability of interventions that can catalyze broader positive impacts; grants often target innovative and high-risk initiatives that might face challenges in attracting traditional financing due to uncertainties or insufficient track records.

- Model 1: Microfinance Bank (MFB) direct to customers
- Model 2: Commercial Bank partners with a BDSP which acts as an aggregator to on-lend
- Model 3: Fintech-led companies direct to savings groups

For each model, this brief will highlight the key design and implementation features, the results and impact to date, and how service provision and use will continue and grow in the future. It will therefore show how an MSD-led approach can facilitate access to formal financial services even in thin markets and fragile contexts, and provide recommendations for future interventions.

Model 1: Microfinance Bank direct to customers

In this model, RRA provided catalytic grant funding and technical assistance to Standard Microfinance Bank (SMFB) to enable them to lend directly to smallholder farmers and micro, small, and medium-sized enterprises (SHFs and MSMEs respectively). SMFB is a state-licensed microfinance bank operating in Adamawa State.

Intervention features:

To ensure SHFs and MSMEs could access credit, RRA supported SMFB to improve the loan product design, to provide close training and monitoring, and to deploy digital financial services (DFS).

The loan design ensured that loans were appropriate and affordable for SHFs and SMEs	The **loan tenure and repayment** was tailored to the cash flow patterns of the income generating activities, including agriculture (catering for the differences in timings of planting and harvesting maize, rice, groundnuts and beans), and petty trading. The **loan amount** for agriculture was increased from N100,000 per hectare to N150,000 per hectare to address the increase in input costs, in particular fertiliser. The increase in scale that SMFB achieved enabled them to keep their **interest rate low** – at 1.6% per month it is the lowest in Nigeria. The **equity contribution** required from customers (the amount they must save with SMFB before the loan is disbursed which acts as collateral) was reduced from 30% to 15% as trust developed between SMFB and their customers. The use of joint liability within the loan groups meant that no further collateral was required.
Training and monitoring meant that customers used the loan productively	Before loan disbursement, SMFB's loan and extension officers provide **training** on financial literacy, business development, and good agricultural practices – funding from RRA enabled the development of manuals in local languages and helped SMFB cover the incremental cost of reaching out to new customers in new areas.. After disbursement, SMFB staff provide **monitoring and support** to loan groups to ensure that loans were used for the intended purpose, repayments were timely, and SHFs received technical support during planting, growing and harvesting. RRA staff performed **spot checks** by phone to ensure that customers had received their loans as reported. Note that RRA were not involved in participant selection, nor in ensuring repayment – this was important as RRA's presence could have indicated to customers that these were grant funds, rather than loans.

Development and deployment of DFS enabled low cost expansion in rural areas	Through the development of a new agency banking platform, 100 **Agents** have been deployed with point-of-sale (POS) devices to facilitate loan disbursements and repayments, and savings deposits and withdrawals. To assist agents to start, SMFB provided the POS for free, and provided start-up capital through an overdraft facility. Agents have also been provided with Banking Verification Number (BVN) machines to enable them to open accounts remotely A banking **app and USSD** service have been deployed to provide customers with easy, convenient access to their accounts. Voice and text messages on good agricultural practices, market prices and weather information are about to be launched in partnership with Farm Innovation Nigeria

Results and Impact:

Results: RRA's support enabled RRA to increase their outreach to underserved areas:

- SMFB extended their outreach in seven Local Government Areas (LGAs) – they entered two for the first time, and in the other five, they expanded from urban areas in to rural areas
- 18,500 loans worth $2.2 million have been disbursed, the majority for agricultural production, including for maize, rice, groundnuts and beans.
- The percentage of female customers increased from 30% to 40% - the reduction in equity contribution was a key factor in attracting and retaining women

Impact: The receipt and use of loans had a positive impact on customers' livelihoods and households. According to a survey conducted by SMFB:

- 51% of the respondents have increased their agricultural output, by using their loans to rent or buy land, to purchase fertiliser and high-quality, drought resistant seeds, and to purchase or rent equipment
- Approximately 90% of loan clients had never borrowed before. 55% of new customers heard about the bank for the first time through marketing events supported by RRA
- 91% of the respondents said they do not find it difficult to pay back their loans, reflecting the high repayment rates for the loans - the portfolio at risk is less than 5% (for 30 days)

Sustainability and scalability:

SMFB will continue to serve the new communities reached through the partnership with RRA, and will seek to further increase outreach in these LGAs and the remaining 12 LGAs of Adamawa State. Beyond this, SMFB intends to acquire a license to expand nationally, principally to increase the deposit base, since the savings rate in Adamawa is very low.

To achieve this expansion, SMFB will build on the lessons from the partnership with RRA. They will digitise the loan application and appraisal processes to improve operational efficiency and the quality of the loan portfolio, and will develop innovative financing products to enable the adoption of climate-smart technologies and practices e.g. solar irrigation pumps and solar dryers for harvest. To build staff capacity, SMFB will conduct exposure visits for staff to learn from other MFBs in Nigeria and further afield. To reduce the cost at which they borrow funds, SMFB will seek to obtain access to a loan guarantee fund to mitigate the risks of expanding their outreach.

In addition to working with SMFB, RRA also tried to partner with three other local MFBs. To date, they have just signed a partnership agreement with one, but have been unable to do so with the other two. These MFBs faced significant challenges, including changes and inconsistency in leadership and governance, high levels of default in their loan portfolios, and a lack of staff and institutional capacity resulting in a very low appetite and capacity for embracing and managing change.

Lessons and recommendations:

The experience with SMFB, and the three other MFBs, provides the following lessons and recommendations for successful partnerships:

- Close collaboration between RRA and the MFB partner is required, during the initial co-creation stage and throughout the partnership. RRA found that assigning a partnership manager and Monitoring and Result Measurement Officer right from the start to help manage the partnership and support the SMFB was effective.
- Sharing stories from successful partnerships with the leadership teams of potential partners through roundtable events and exposure visits can encourage and enable them to enter into partnership with RRA
- Some partners may require technical assistance and training to enable them to identify and realise new opportunities, through the design and implementation of new strategies, products, processes and digital services.
- More emphasis should be placed on advocacy to the State leadership – the ministry that coordinates state level MFB – to ensure their support of partnerships.

Model 2: Commercial Bank partners with a BDSP which acts as an aggregator

In this model, RRA facilitated a partnership between FCMB, a commercial bank, and CMD, a business development service provider (BDSP), through which CMD acts as an aggregator of FCMB. This has two components:

1. CMD acts as a Master-Agent to recruit and manage POS Agents for FCMB;
2. FCMB disburses loans to CMD who on-lends to SHFs and SMEs (see box for processes).

This promised to be a win-win partnership: having gained access to low cost, donor funded capital, FCMB needed a partner with a local presence and experience of working with SHFs to reduce their costs and risk – FCMB tend to serve larger SMEs; CMD needed access to low-cost financing to meet the demand for credit from the savings groups they work with.

FCMB-CMD Loan aggregation process

• CMD collects loan applications from individual members within savings groups and passes them to FCMB for verification and appraisal

• FCMB disburses the aggregated amount as a loan to CMD who disburses to each member, or pays the input provider

• At harvest time, members aggregate their harvest and CMD & FCMB facilitate access to off-takers. Either the off-taker pays the farmer, who makes loan repayment to CMD, or the off-taker pays CMD directly, and CMD net off loan repayment and pays the rest to the member

• CMD repays the aggregate loan to FCMB.

Intervention features:

To ensure that SHFs and SMEs could access credit, RRA nurtured and supported the partnership between FCMB and CMD, and ensured that CMD could provide affordable, accessible and timely loans to SHFs and MSMEs.

MC nurtured and supported the partnership	RRA played a key role in **nurturing and maintaining the partnership** between FCMB and CMD, which was a relatively new type of partnership for both. RRA helped to address challenges as they arose with the initial agreement and as the partnership developed. RRA also provided catalytic grant funding to CMD to cover some of the costs related to the activities that they undertook.
CMD provided tailored, affordable loans and support and training (similar to that provided by SMFB)	CMD leveraged its proximity to farmers to **establish trust**, foster relationships between FCMB and farmers, and promote inter and intra-farmer group collaboration. The building of trust in rural financial markets is critical, especially since a majority of the farmers being targeted are first-time borrowers. CMD provided **training** to groups on good agricultural practices, including the creation of Estimates of Production to show the cost and income estimates for SHFs, and financial literacy training. FCMB staff conducted site visits to appraise the loan applications and verify the EOP. And CMD staff **monitored and supported** member activities during planting and growing CMD provided agricultural loans and loans for small business traders, with **loan amounts and repayment terms** that matched cash flows; the low cost funding from FCMB enabled CMD to provide loans at affordable rates (2% per month) CMD's relationship with the groups, the use of joint liability within the groups, and the bundling of agricultural insurance in with the loan (for which SHFs paid a small premium), meant that **no collateral** was required, and equity contributions were reduced from 30-10%
CMD ensured timely disbursements and access to inputs and markets	The disbursement of loans from FCMB to CMD were sometimes **delayed** due to errors in the loan application forms, which could be challenging for first time applicants. In this event, CMD provided SHFs with agricultural inputs on credit, or provided a 'pre-loan' to petty traders, to ensure loans were received on time. To ensure SHF could access high quality, affordable **inputs**, and profitable, reliable **markets**, CMD contracted with input providers and off-takers, linked them to SHFs, and helped to aggregate demand and supply across farmer groups.
DFS reduced the costs for CMD and customers	CMD deployed eight **POS Agents** to SACCO branches to facilitate account opening, and deposits and withdrawals. This enabled customers, particularly in remote areas, to easily receive and repay their loans. The role of Agents was performed by CMD staff

Results and Impact:

Through the partnership with FMCB, CMD disbursed $56,000 worth of loans to 346 members – SHFs and SMEs. Loans to SHFs were mostly spent on acquiring inputs (seeds, fertiliser), on renting land, and hiring labour.

Loans were disbursed for the wet season harvest, which is in progress at the time of writing. Indications are that the harvest should be good, with increases in market prices for crops more than compensating for the increase in prices of inputs, particularly for maize, which has trebled in price since last year. To further mitigate the increase in costs, SHFs increased their use of organic fertiliser, opted for manual labour rather than mechanisation, and aggregated their harvests together to ensure a better price from off-takers.

Sustainability and scalability:

CMD and FCMD intend to continue with their partnership and seek to scale up lending to SHFs and SMEs. To ensure the timely disbursement of loans, CMD will integrate their system with FCMB's to facilitate credit bureau searches, BVN verification and account opening. FCMB have also approved the acquisition of 1,000 POS devices by CMD, who will use them to provide doorstep banking to facilitate access to savings and loans for currently un-served areas. These POS agents will be engaged by CMD through a hybrid model of base salary plus commissions to provide the right balance of security and incentive.

Despite the intention of both parties to continue and scale-up lending, this may be contingent upon the availability of low cost funds for lending. Currently, FCMB has access to low cost donor funding, which enables CMD to provide affordable loans to SHFs. Without this funding, lending would be done at market rates, or near-market rates, which might make this unattractive to SHFs, and unviable for CMD to continue.

In addition to the partnership with CMD, RRA partnered with two other BDSPs to assist them to act as aggregators to commercial banks. These partnerships were less successful: one BDSP has experienced high levels of default in their loans, and the other was not able to enter into an aggregator partnership at all. BDSPs usually provide training and capacity building, rather than financial services, and this lack of experience can make it very challenging for them to provide financial services effectively and affordably, particularly given the costs and risks of serving SHFs and SMEs.

Lessons and recommendations:

Drawing on the experiences with CMD, and the other two BSDPs, provides the following lessons and recommendations for successful partnerships:

- In rural markets, trust plays a crucial role, particularly because the majority of the targeted farmers are borrowing for the first time. For FCMB, lending to rural farmers wouldn't be feasible without trust, and CMD's efforts in building trust and relationships, though challenging to quantify, are essential for the sustainability of the model.
- BDSPs require technical assistance to ensure they have the staff and technical capacity to act as a loan aggregator. For example, ensuring they understand and fulfil all the loan application requirements from the bank, and can mitigate the costs and risks of lending to SHFs and MSMEs. As demonstrated above, this requires well-designed loan products, close monitoring and support of SHFs, linkages with input and output markets, and the deployment of DFS to reduce costs.
- In this model, the BDSP carries all the credit risk – in the event of default by loan recipients, the BDSP is still required to repay the full amount to the bank. This may call for more active intervention

in the future, for example the provision of a temporary loan guarantee fund to mitigate risks as BDSPs gain experience of lending.

- It may be beneficial to restructure the terms of the agreements between RRA and the BDSP:
  - Loan disbursement targets were very ambitious, requiring the disbursement of thousands of loans. It would be better to have lower, more achievable targets, perhaps to include a pilot phase or staggered disbursement, and for the emphasis to be placed on the successful repayment of loans, rather than disbursement.
  - As with all partners, BDSPs received funding from RRA based on the successful completion of milestones, requiring 100% completion of each milestone. It might provide greater incentive and assistance to BDSPs if payments could be made for partial completion.
  - All contracts between RRA and the BDSP were for one year. This is often too short for a BDSP to deliver on the targets, particularly for lending, and so longer contracts should be considered (perhaps with break points included)
- As indicated above, a critical aspect of the current lending model is FCMB's access to low cost donor funding, which enables CMD to provide affordable loans to SHFs. The high cost of commercial capital is a real hindrance to the provision of affordable financing to SHFs and SMEs. RRA should consider supporting partners to identify and access low cost capital for on-lending.

The CMD SACCO

With RRA's support, CMD organised savings groups into a Savings and Credit Cooperative (SACCO), owned and managed by members with technical support from CMD. This was intended to address the need for savings and loans, and to facilitate access to agricultural inputs and markets. Despite mobilising N11m in savings, from which a share-out of N2.4 million was provided, and 13% of members reporting having used loans from the SACCO to expand their business, overall the SACCO has so far failed to meet expectations.

The SACCO did not attract sufficient capital (deposits) from members to meet the demand for credit. Each member was expected to buy shares worth a minimum of N10,000, but only those who were sure of getting a loan bought any (as a condition of receiving a loan). Since most members were involved in agriculture, they needed a loan at the same time, resulting in a very high demand. There also seemed to be a preference among members of keeping their money in their savings groups because of easier access and greater control.

The SACCO did not earn sufficient fees to cover operating costs. Each member was expected to pay a registration fee and monthly development levy, but the cashless policy and Naira redesign meant that CMD had to waive the fees. Running costs were higher than expected because of the need to purchase and maintain IT equipment.

Other challenges included a lack of female staff that meant that some female members would not visit the SACCO branches due to a reluctance to meet with male staff members, and the unreliable power supply which made operations difficult to manage.

Model 3: Fintech-led companies direct to savings groups

In this model, RRA partnered with two different fintech-led companies to digitise savings groups:

- Riby Financial Services onboarded groups onto their ‘Co-banking platform’, and set-up 50 POS Agents, linking groups to formal savings accounts and loans.
- Rindev Consulting Limited onboarded groups onto their MiKashBoks app to digitise the groups’ record-keeping.

The partnership with Rindev ran for 12 months from January 2022, and that with Rindev started in April 2023.

DIGITAL SAVINGS GROUPS

A digital savings group is a savings group whose procedures, records or transactions are digitised in some way, typically through the use of mobile phones. There are two types of DSG solutions:

*• **Digital ledgers** – groups use a digital app to record their transactions instead of a paper ledger*

*• **Digital wallets** – groups transact on a digital wallet, replacing the physical cashbox.*

Intervention features:

Riby platform digitises savings and facilitates access to loans	Group members have a **wallet** on the co-banking platform, which is also linked to a bank account with a partner institution. At meetings, members deposited funds into their wallet or bank account at the POS Agent, and could check their balances and transfer funds through their mobile phones This enabled groups to save in a secure account, rather than a locked-box, and access **loans** from Riby’s partner banks based on their transaction history.
MiKashBoks app digitises record-keeping, with support from Village Agents	Groups use the **digital app** to record the savings and loan transactions at meetings, instead of using a paper-based ledger. This should improve the accuracy, simplicity and transparency of record-keeping for the groups, and build-up a transaction record against which groups can borrow from formal financial institutions. To drive uptake, **Village Agents** onboard and support groups with training, assistance with technical challenges, and monitoring and follow-up of inactive groups. RRA have access to the dashboard to enable them to monitor and report on the performance of the groups.

Results and impact:

Riby: Riby on boarded 1,519 groups onto the Riby Co-banking platform, with 11,000 members opening linked accounts with Riby’s partner banks. Loans were disbursed to 143 group members from these partner banks. Internally, groups saved $72,000 and disbursed $48,000 in loans. Of the 50 POS agents set-up, 32 of them are still active.

MiKashBoks: 617 groups have been registered on the platform, and 500 are actively using it (at least once a month); 79% of participants are female. Internally, groups have saved $350,000, and disbursed $33,000 in loans. Anecdotally, groups report that the greater accuracy and transparency of record-keeping has reduced disputes within the group, particularly at share-out.

Sustainability and scalability:

Riby: Although there was initial success with onboarding groups onto the platform, and some groups did access loans, neither usage of the platform nor access to loans continued after the end of the partnership.

Groups found it challenging to use the platform to save digitally due to poor mobile network, charges to deposit and withdraw money at the Agent, a lack of availability of POS Agents, and a lack of trust in the system due to unfamiliarity with DFS.

The provision of loans halted as a result of the low repayment rates. There seemed to be a perception among some groups that loans did not need to be repaid. Since RRA played a prominent role in introducing Riby to groups, groups assumed that the loans were grant funds due to RRA's status as an NGO. This perception may have been reinforced by the Covid-19 transfers that were disbursed to some members by RRA. Groups only received one-off training at the point of onboarding, which did not include instructions on how to manage and repay the loan. Furthermore, disbursements may have been made in haste to meet the partnership targets, and therefore without proper credit assessment - Riby indicated that the 12 month partnership agreement was not enough time to adequately identify, train and onboard groups, and to provide linkages to banks.

MiKashBoks: anecdotally, groups have indicated that they will continue to use the app, as they appreciate the greater accuracy and transparency of record-keeping. Currently, funding from RRA covers the subscription costs that groups would otherwise pay (N60 per member per month, $0.08) – whether groups are willing to pay this depends on the value derived from using the app. To further improve the value proposition, Rindev are finalising integration with MTN which will allow groups to make deposits and withdrawals on the group account digitally through MTN mobile money. The transaction history should also allow groups to borrow from Rindev's partner banks.

Lessons and recommendations:

Lessons from the partnerships with both Riby for and Rindev indicate the need for a compelling value proposition:

- Using an app to digitise record-keeping is proving effective, and groups value using it. The support from Village Agents is helping to attract and retain groups, as is the focus on activity (usage) rather than just registration.
- To encourage them to digitise their transactions, groups must be incentivised by the increased security and convenience of transactions and the prospect of receiving external loans. Adoption requires good mobile network quality, availability of agents with liquidity, and very low or no fees for depositing and withdrawing on the group wallet.
- Provision of external credit should be accompanied by appropriate training, credit assessment and supervision of groups to ensure members are willing and able to repay them. Interestingly, the current internal savings to loans ratio ($350,000 to $33,000) indicates a low demand for loans. This should be investigated further by Rindev to better inform their rollout strategy.
- Given Riby's indication that the 12 month partnership agreement was not enough time to adequately identify, train and onboard groups, and to provide linkages to banks, a longer partnership agreement may have yielded more positive, lasting results.
- RRA needs to have the right level of engagement and visibility with groups, given that their presence suggests to some groups that funds received do not need to be repaid. The partner should take the lead when engaging with groups, with RRA supporting and monitoring the activities of the partner.

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About Mercy Corps
Mercy Corps is a leading global organization powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action — helping people triumph over adversity and build stronger communities from within.
Now, and for the future.

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