

DBN Funds Has Kept MFBs Afloat - Dr Kazeem Olanrewaju, Managing Director, Boabab Micro Finance Bank Limited

After it commenced operation in France in 2005 Boabab Group is presently in 12 African countries and China. The Managing Director of the Nigerian subsidiary, Boabab Micro Finance Bank Limited, Dr Kazeem Olanrewaju told Eromosele Abiodun about the industry in Nigeria and how the intervention of the Development Bank of Nigeria and the Central Bank of Nigeria is keeping MFBs in business and growing SMEs and the economy

Tell us a brief history of the bank and your achievements so far?

Baobab is a group of microfinance banks both in Africa and China. We are in about 12 countries in Africa and China. The company started from France and the parent company today is in France, with all the affiliates in both Africa and in China. Boabab group started in 2005 in France. But coming home to Nigeria, it started in 2009 and we opened our business offices in 2010 in Kaduna. Presently, we have a national licence, which has taken us to about four states – Lagos, Ogun, Kaduna and the FCT and we are still counting.

You have been in this industry for a while. Can you tell us some of the challenges you have faced over time?

I have been a banker all my life. I started my career in a commercial bank. There is no doubt that the commercial bank segment of the Nigeria financial sector has really developed. But the microfinance sub-sector is still at its infancy stage. There are a lot of challenges that are associated with this level of development of this subsector. Briefly, one will look at them from economic regulatory, funding, perception, and knowledge. In terms of the economic side of it, you discover that because of the limited capital that is available to do business, weathering through

the economic turbulence is really very difficult because you don't have enough funds to be able to stabilise the business the way it ought to be.

Don't forget that customer perception is very important. The ability to trust you to be able to meet all your financial needs and meet your entire obligation is very important. A lot of microfinance banks are challenged by the fact that they don't have enough capital to do the business that they would have otherwise done. Again, when you see the downturn in the economy, it will take its toll because of the limited capacity. The fact that you are not everywhere, and you cannot tap all the resources available, because of this context, is a big challenge to the sub-sector.

Then another factor which is related to this is funding. As you grow as a microfinance bank, your growth is determined by your ability to expand your business in terms of your loan book. Funding becomes a very critical issue after your take off, unlike the commercial bank, not many people are willing to stay with the microfinance bank, so the sources of fund is very limited and when it comes they are always very expensive. I see this as a major problem or challenge to the microfinance sub-sector such that most of the banks are not able to take advantage of the business that is available in their environment.

This is also closely related to perception challenge. Not so many people have the confidence that a microfinance bank is just like any other bank where you need to trust and put all your money and do all transactions. The mention of the name micro-finance bank some people begin to fidget about safety of funds and other issues. This has not made it possible for the supply of funds to find its flow and it just means that most of the time, the operators must look for purchase funds, which of course is expensive, and it is always very difficult to get. The other challenge is related to the age.

This is a new concept which started in 2005 in Nigeria. So, you discover that there is a huge knowledge gap such that even when you have the funding and the capital to get people who can operate this microfinance banks very well, it

becomes very difficult and that is why you see that majority of the bank that started failed. They failed because people don't have the requisite knowledge to run an institution to such a level where it becomes stable and it can grow further. The other side which is connected to this is the regulatory aspect. Although, the Central Bank of Nigeria (CBN) has made efforts to revise the initial guidelines, I believe that another one will come very soon. Some of the provisions that you have in the regulations require some changes and improvement just to make business, easy and attractive. For me, these are the few areas; one can categorise all the challenges.

How have you been able to tackle some of these challenges?

Well, given the strength of Baobab, issues such as the economic is a general problem, what we need to do is to have a good business plan that takes into consideration future progression as what the economic is going to be like in the next one year or 24 months. We build our business plan around these progressions. Sometimes, these progressions can come out to be accurate, and other times, it may not be accurate that is the risk in the business. In the area of regulation, I think what we have tried to do is that we comply. We have a very strong compliance team to make sure that we don't flout any of the rules. For funding, it has been a challenge. Most of the funds we use today, over 35 per cent are purchase funds, meaning that we have take loans from local commercial banks and international lenders. Well the supply is there, but because of the sources, some of the funding are adjudged expensive. In terms of knowledge gap, we have a training school today that ensures that everybody is impacted with knowledge. To join the company, you must do minimum six weeks in the training school and there is continuous training such train the trainer. Some of these gaps are been addressed, but also very expensive to address all these gaps.

What is your relationship with the Development Bank of Nigeria (DBN)? Can you tell us how the funds you received recently from the bank were disbursed?

DBN has been very supportive. We started a partnership arrangement with them for the funding of the SMEs. They identified us as one of the banks that should be able to handle this programme which commenced some few months ago. We got about N500 million from them and this money has been fully disbursed to our various customers. We have commenced repayment. The big attraction is that this loan was given with less stringent conditions. The interest rate is very attractive, at least it is better than what we get from other purchase funds that we have from other sources and that has helped to expand our lending horizon. N500 million is quite a substantial amount. Now that we have commenced the repayment, we believe that DBN will be willing to increase this for us and we can move forward. But there is no doubt that this has added to our ability to reach more clients both breadth and depth and provide them with a longer-term loan which we believe that at the end of the day help their business. I think it is a step in the right direction. This is not a common programme that you see in Nigeria, it is well thought out programme and we just pray that it succeeds, and we can continue this partnership which has imparted positively on our clients.

Based on the feedback from your customers would you say the DBN programme is a well thought out programme?

Our customers are very happy. Every one of them has expressed joy with DBN funds. I will tell you today that the fund is not adequate. In fact, if we have N2 billion or N3 billion today, it will not solve all the issue that are on ground. Yes, they are very happy, but given the size of the population and the economy, this is just a drop and we hope that this drop will continue to come, and more people will benefit. But there is no doubt about that people that benefitted are happy both with the interest rate, the time it takes them to get this fund and the ease with which the funds get to them.

Like you said earlier, the difficulty in mobilising savings for microfinance banks, like the commercial banks, will you say that the DBN loans will help microfinance banks to stay afloat and do more business?

Definitely, the DBN loan is coming at a time when it is most needed. Most of all, the conditions are not so stringent, the interest rate is reasonable, at least it is cheaper than what we get from other purchase funds or other commercial banks. They benchmark their interest with the treasury bills which for me is very reasonable. This has helped to expand our business. These are funds that if they have not been there you probably make do with what you have. It has served in the long and the short term. Each of our loan products carries with the requirement for compulsory savings and mandatory cash collateral from the customer. That has helped in increasing our savings, aside from getting these funds from the DBN; there are ancillary benefits, of increasing our savings.

Tell us about some of your products

We have quite a lot of products, both for loans, advances and savings. We also have insurance products and transfer products. But if I need to go into specifics for instance, savings, we have things such as 'ajo', which is the normal contribution that you see people do. What we have just done is to automate the contribution and to give reward back to our customers where somebody can get the returns that are higher than whatever you can get from any savings or fixed deposit anywhere. We have loans and advances of different categories, the minimum loan been N10,000 and maximum to be N50 million. We have micro, micro plus and SME loan. Interestingly, we also have loans that are automated like Electronic Loan Processing, ALIP, such that if you are a good customer with good repayment, you can actually get 20 per cent increase on your loan without doing any other thing. You just need to sign a contract; it means that this can be gotten within 30 minutes. We also have a loan we call 'Taka' loans, which small loans you need for

consumption or for business and you can get as much N50,000 and this can be processed within one hour in the system. Of course we have other things such as regular saving, current account and fixed deposit account like any other bank.

How many SMEs have you extended your loans to?

From inception to date, we have done N55 billion disbursement. We have disbursed to over 120 customers. But in terms of outstanding loans we have in the hands of our customers today, we have a lot less than N6 billion and we have 22,000 loan customers presently cutting across Nigeria. Our intention is to continue what we are doing, to see how many people we can bring into the bracket. This is very small compared to the number of people who will need this loan. Of course, we are starting gradually, and we just hope to this and see how many of them we can capture at the end of the day.

Where do you see the future of microfinance banks in Nigeria?

Well, I think the government and the development banks and CBN are coming to the realisation that microfinance cannot be left on its own. In other words, you cannot just say that the proprietors should just stay on their own. Interestingly, the CBN approached us four months ago, for the housing loan; it is not common for a CBN to approach a bank and say they want to partner with you. Presently, we have a relationship with CBN, where we have signed agreement for the disbursement of N500 million for housing loan. They have given us the first N78 million and we are expecting another N200 million in another two weeks. This specifically address that area of housing for micro-entrepreneurs. If you look at the mortgage structure in Nigeria, it is going to be difficult for a micro-entrepreneur to get any form of assistance. You must live in a rented apartment which means that you cannot own a house of your own.

But what CBN has done today is such that everyone can get this loan and start something very small. The loan covers purchase of land, building, refurbishment

and other things. Therefore, the response from DBN and CBN are quite good and I think it is a step in the right direction where you can provide the funding and allow microfinance banks to operate in their natural habitat to be able to disburse these funds and ensure that they get the repayment from their customers. I will say that the CBN and the DBN are going in the right direction to providing the funds to support business plans and the objective of microfinance banks in Nigeria. I wish this has started long ago, but it is never too late and now that it is coming, we need to do more and support as many microfinance banks as possible, ensuring that a lot of people benefit from these funds and taking them out of poverty. This is what has been done elsewhere in the world and it has really helped, as opposed to government giving out social welfare. So, people can take their destiny in their hands.

We provide them with funds and they know what to do and make their life better. Then gradually we can take more people out of poverty. If you look at the size number of people in poverty, Nigeria is rated as one of the highest in the world today. Perhaps, programmes such as this can begin to bring them out, get them businesses, houses, and they can come out of that bracket, then the country too will have a better outlook, and maybe some of the social problems can be avoided. The CBN funds addresses housing needs, the DBN fund addresses SME needs. The fund for DBN is particularly to help people that are business or who want to go into business.

It is projected towards being an entrepreneur, setting up your own business and getting and cash flows. For instance, if you have existing business, we can give you working capital, that is what the DBN loan is all about. But for CBN, it is tailored towards housing because what the CBN has realised is that housing is very essential for Nigerians. They are not able to get the mortgage that they require to help them come out. They are partnering with the World Bank to provide funds to microfinance banks so that micro entrepreneurs can access these funds and have houses of their own. So, the two of them even though targeted at the same

market, they have different objectives, DBN the objective is to support entrepreneurs, expand the business horizon for maybe for people of the bottom of the pyramid. The CBN is target at the same people, but they are looking at housing.

What can you tell us about your Corporate Social Responsibility initiative?

In terms of CSR, we have what is known as business exclusion. There are businesses that we don't touch at all. Any business that will impart negatively on their environment we don't touch. Any business that has a negative social consequence, we don't touch it. Any business that will have a negative effect on live, we don't touch it. So, we have about 19 items on the exclusion list that we don't touch at all, we don't fund, and we don't participate in, so all the products are tailored to protect the environment, social factor and to be transparent. Beyond this as a company, we also look at our social responsibility in our society. We make donations like we did to Nigeria Army, some of the host communities, Sango-Ota, we connected light for them, and we had to pay for them to get the transformer. We supported the Nigeria Police Force (NPF) and recently this year, during the Children's Day, all our staff was dressed like children, we went out to some many schools to donate books to them, and some we gave them computers. We hope next year, we will go into scholarship scheme, for people. So these are some of the things we have done.

Tell me the success story of this bank?

Success story of this bank, I am going to say it from the perspective of the clients themselves. Success story is the people we have been able to take out poverty and today make them even above middle class. About four five months ago, we had financial inclusion meeting with the CBN and a lot of people from all over the world and there was a particular woman in our branch in Kaduna whose said she started her business with less than N50,000. Today, her business has expand beyond

N15 million, she is actually on 15 million loan with us and we have this all over the place. For us, the system is designed that the customers are allowed to grow with us and we encourage them to grow because the more you are able to meet your obligation as a client, we will open the tap to you and you can determine how far you want to grow. This has changed the face of so many people. For me, this is the biggest success story we can talk about that we have impacted people's lives positively and increase their ability to do business.

We have been able to improve their standard of living and this is what it is all about. In terms of impact in the life of the people, I think this is where we have our success story. As a Nigerian, I am also very happy, the contribution that we have made to the economy, disbursing over N50 billion in seven and eight years, it is not a joke. Even having an outstanding loan of about N6 billion is not a joke. Today, we have close to N500 staff, my estimation is that before the end of this year, we will probably have about 700 staff that means that we have taken a lot of people out of the labour market. If you want to look at the impact on their families, you can multiply that by four or five. These are the success stories which I am happy about. Most people think microfinance banks cannot thrive in Nigeria that is far from this truth. This bank is doing well. I see it do very well till the nearest future, so that these are things that when you put together makes one happy. What we are doing is a worthy service both to the nation, our people and the business community in general.

As an expert whose has been in the sector for a while, can you tell how the country can deepen financial inclusion?

I think it is an important area, which the CBN and the federal government have been trying to address. Today, one of the easiest ways is technology. It is an expensive venture, but that is the way to go as opposed to mortal and bricks. You cannot build your bank everywhere, but you can reach everybody everywhere, just like you have social media, everybody can get the news about what is

happening per time, same way. You can bring a lot of people into the financial brackets, and make sure to have one form of relationship, access to financial services by technology. This is one of the areas, my bank is trying to address, we are doing some pilot test in other countries in Africa and I hope it will come to Nigeria. This is one of the areas, the other way is to continue to do what we are doing, making our presence available in as many places as possible for people to access financial services whether loans, savings, funds transfer, or insurance. But the way to go is the way of technology. You hear about fintech. Today, from statistics you have over 40 million Nigerians who ordinarily should have had a bank account, but they don't have one and some of them are in very challenged areas, where you have some social security issues. There are some areas where areas to good roads and telecommunication are very difficult. So the way to reach them is technology and today, we have all kinds of applications that can support this initiative.

Talking technology, I want to tell us the impact of Information and Communication Technology (ICT) on the banks, and your capital base?

Today, our capital base is closed to about N3billion. ICT on a yearly basis, I can tell you that we have close to half a billion dedicated to ICT and I can tell you that this may not even be enough. But what we are trying to do is to try to see how we can bring as many Nigerians as possible into our services. Presently, we have about 7,000 customers. With technology, we believe that in the next few years we should have a million customers. Even without having to build brick and mortar all over the country. The other thing we are trying to work on is the agency network to see if we can have agents across the federation. These things are still in planning stage and in 2019, we will launch out in our agency network just to bring in as many people as possible to be able to access financial services all over the place. But even at that, ICT has a lot of roles to play reaching the unbanked population across the country.

Where do you see your bank in the next five to 10 years?

This is a growing bank with a lot of potential, by business plan, in the next five years, we will probably be having an excess of 50, 60 branches, definitely, we will be having customers close to an million. In terms of loan book, we should be doing in excess of a 100 billion. This I see possible. In the last two years, we have been able to triple our loan book and triple the number of customers we have. So if you take that projection further, it is a task that is achievable. There is no doubt that Nigerian is the biggest market, with the population in Africa and my company which is a group especially the Africa market to realise the importance of Nigeria. A lot of resources have been devoted to make sure that we tap into the Nigeria market. It looks like we have not scratched the market at all, we intend to deepen our services and broaden what we are doing. The sky is actually not the limit. We will probably go beyond this.