



DRIVING ACCESS TO FINANCE FOR MSMEs IN NIGERIA

December 2, 2021

Project Overview & Outcomes

Overview

- ✦ In October 2021, EFinA in partnership with GIZ kicked off a project focused on improving MSMEs financing in Nigeria

Expected Outcomes

- ✦ Reduced barriers to access to finance for MSMEs
- ✦ Increased access to finance for MSMEs
- ✦ Increased number of MSMEs targeted solutions deployed in the market

Methodology & Approach

Rely on the existing rich demand-side survey and triangulate the findings with primary supply-side data

Secondary Research: Demand- side focused	Primary Research: Supply-side focused			
<p>World Bank Enterprise Surveys 2014</p> <p>National MSME Surveys 2017</p> <p>PWC Survey 2020</p> <p>EFInA Access to Financial Services in Nigeria 2020 Survey</p>	<p>10 financial service providers covered:</p> <ul style="list-style-type: none"> ▸ 4 DMBs ▸ 3 MFBs ▸ 3 MFIs 	<p>30+ questions around organisational investments in MSMEs –</p> <ul style="list-style-type: none"> ▸ financial and non-financial requirements for lending, ▸ barriers to lending, ▸ risk management etc. 	<p>An online interview survey was conducted between 11 – 18 Nov 2021</p>	<p>Focus on:</p> <ul style="list-style-type: none"> ▸ Micro and Small businesses ▸ Agricultural lending ▸ Women-owned enterprises

Overview of MSMEs in Nigeria

MSME

41.5 million MSMEs



97% Sole proprietorship



49.8% GDP Contribution

MICRO-ENTERPRISE

99.8% Microenterprises

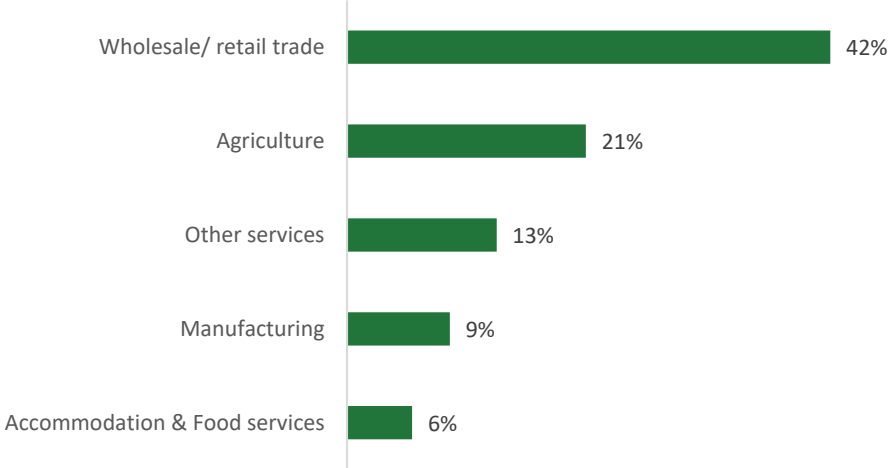


7.64% of export receipts



59.6 million employment contribution

Dominant sectors



Enterprise category/ Indicator	Micro Enterprise	Small Enterprise	Medium Enterprise
Number of Employees	1 - 9	10 - 49	50 - 199
Turnover (N)	<20 million	<100 million	<500 million

This definition of MSMEs is a blend of the SMEDAN and BOI definitions which categorises MSMEs based on at least 2 of 3 metrics:

- ▲ number of employees
- ▲ total asset
- ▲ annual turnover

SMEDAN prioritises the number of employees while the financial industry typically prioritises turnover.

Challenges MSMEs face in Access to Finance

Globally, MSMEs face multiple hurdles in the effort to establish and grow sustainable enterprises, with the lack of appropriate forms of finance often ranked as the most serious constraint

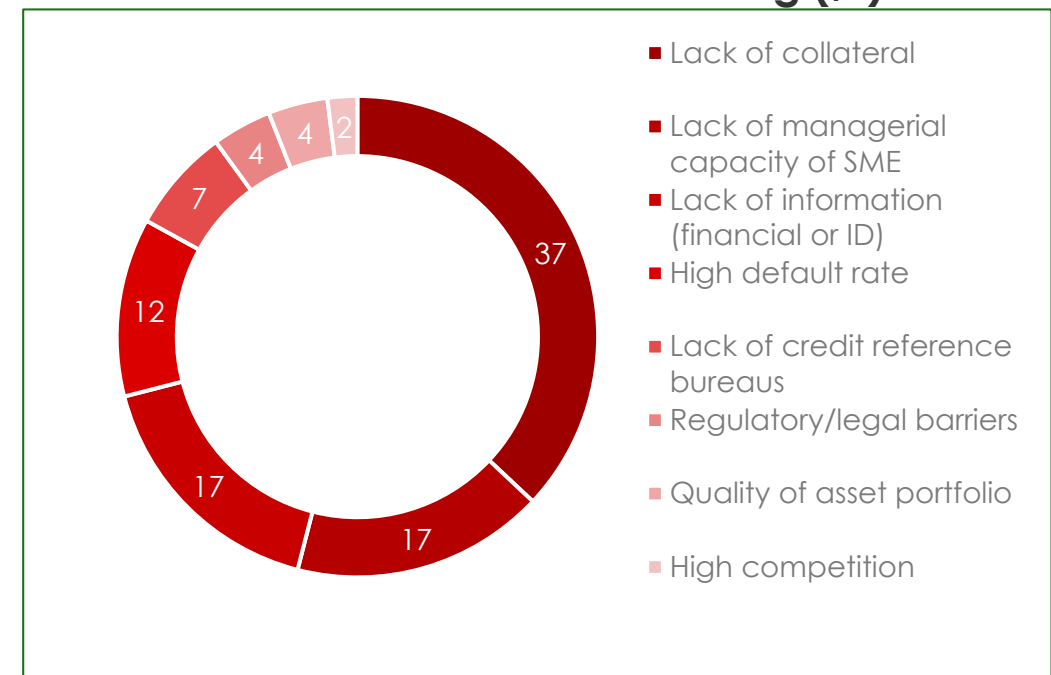
In developing countries, lack of a well-developed financial infrastructure poses challenges for both credit providers and the enterprises using the credit.

The situation in Africa is particularly challenging, in that the MSME finance gap (% of formal MSMEs that cannot or can only partially access credit) for sub-Saharan Africa is the highest in the developing world (51 percent in 2017).

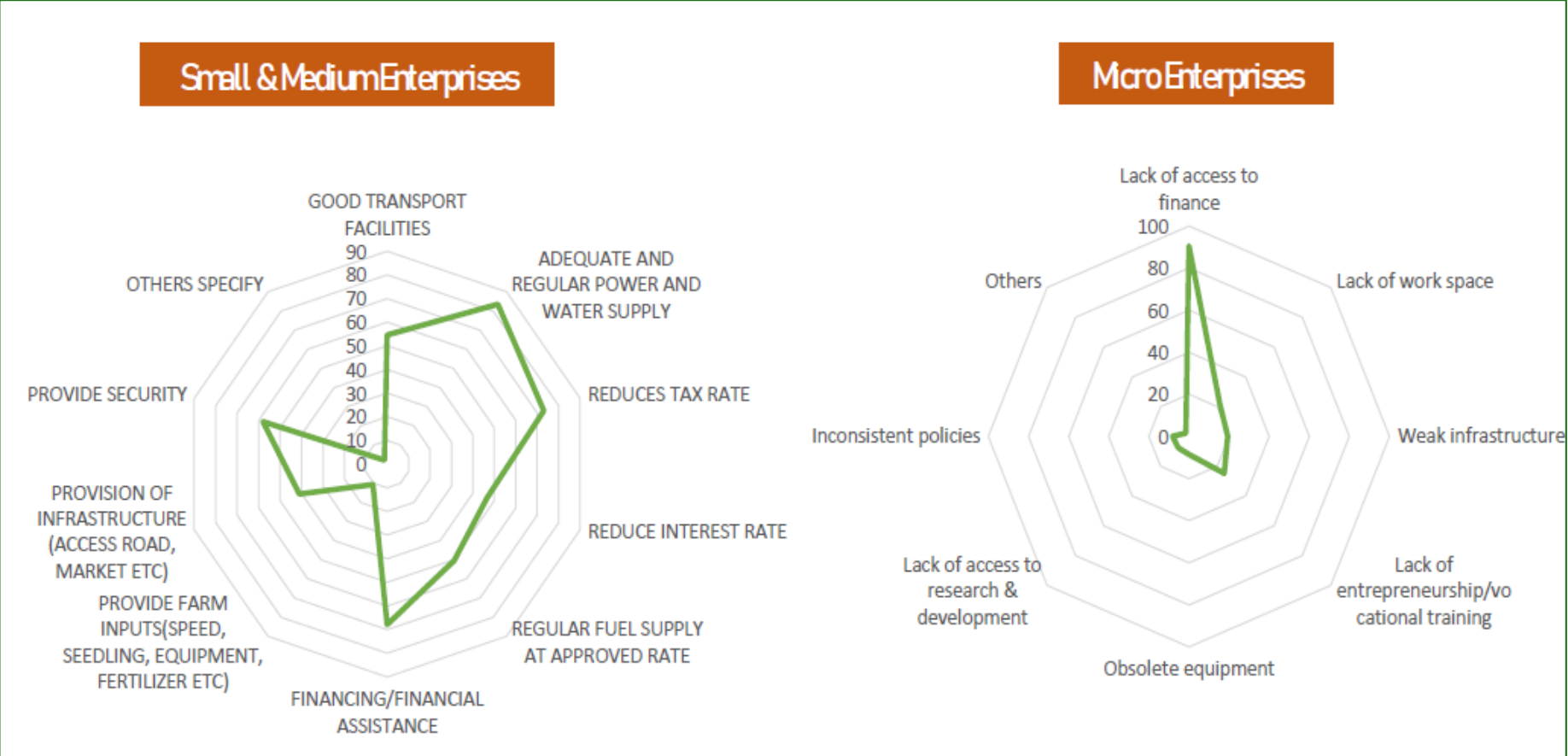
Biggest obstacle (% of firms)

Economy	access to finance	corruption	electricity	tax rates	transportation
All Countries	14.3	6.8	8.9	13.1	3.7
East Asia & Pacific	13	8.6	5.6	10.6	4.8
Europe & Central Asia	9.6	3.9	3.5	19.1	4.6
Latin America & Caribbean	9	9.7	5.4	10.9	2.2
Middle East & North Africa	11.4	9	11.7	11	4
South Asia	12.4	9.3	20.3	6.9	3.6
Sub-Saharan Africa	23.7	7.3	14.7	9.5	2.6
Nigeria (2014)	30.2	12.7	27.2	5.9	5.7

Main obstacle to SME lending (%)



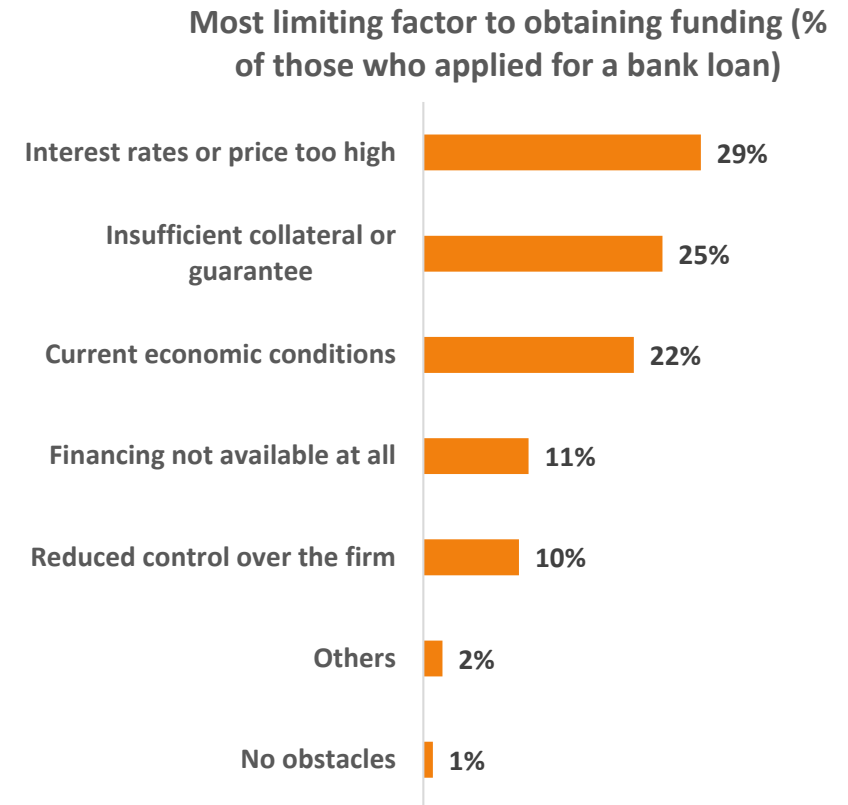
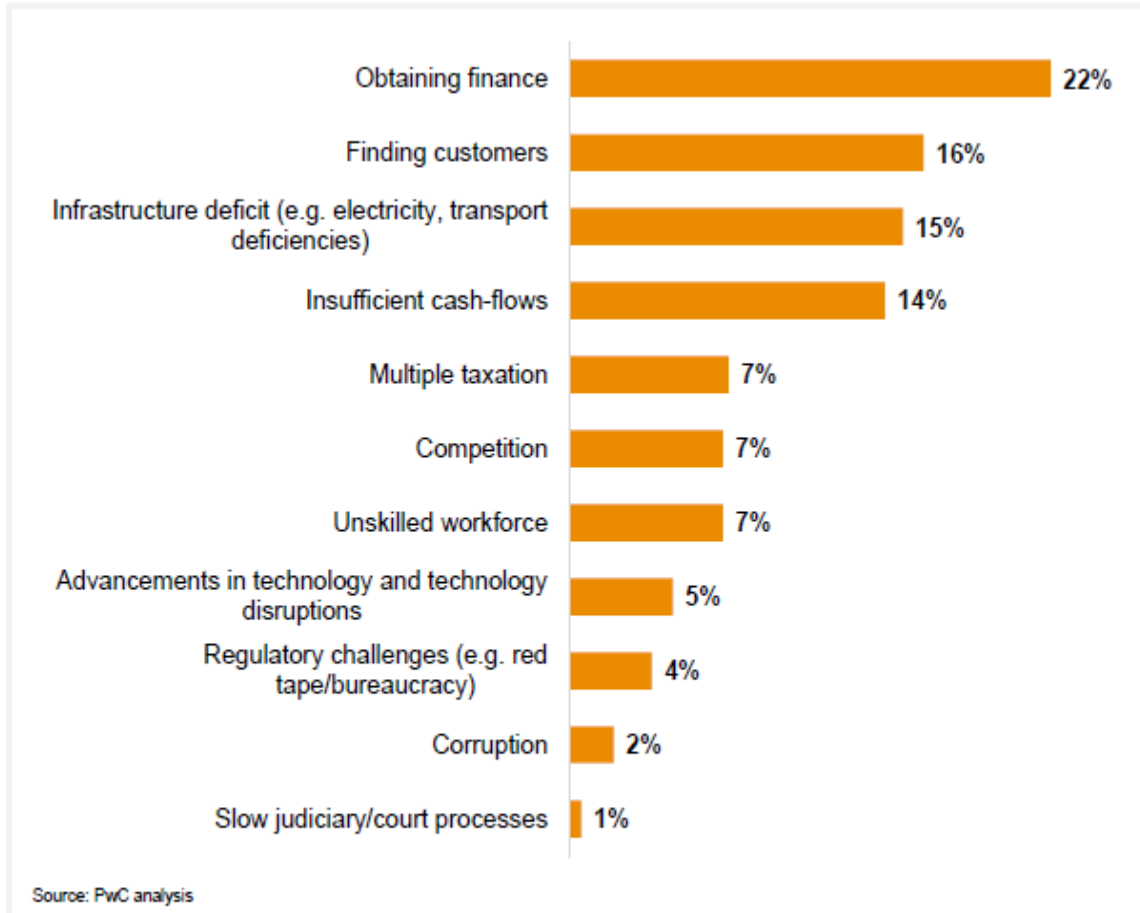
In Nigeria, access to finance remains a priority area for assistance for both SME (67.9%) and Micro enterprises (90.5%). Poor integration in financial system can be tied to low business planning and formalization



- ▶ 76% microenterprises have no business plan (65% SMEs)
- ▶ 98% microenterprises are not registered
- ▶ 96% of microenterprises are uninsured (64% SMEs)

High cost of capital as well as insufficient guarantee remain key barriers to obtaining funds

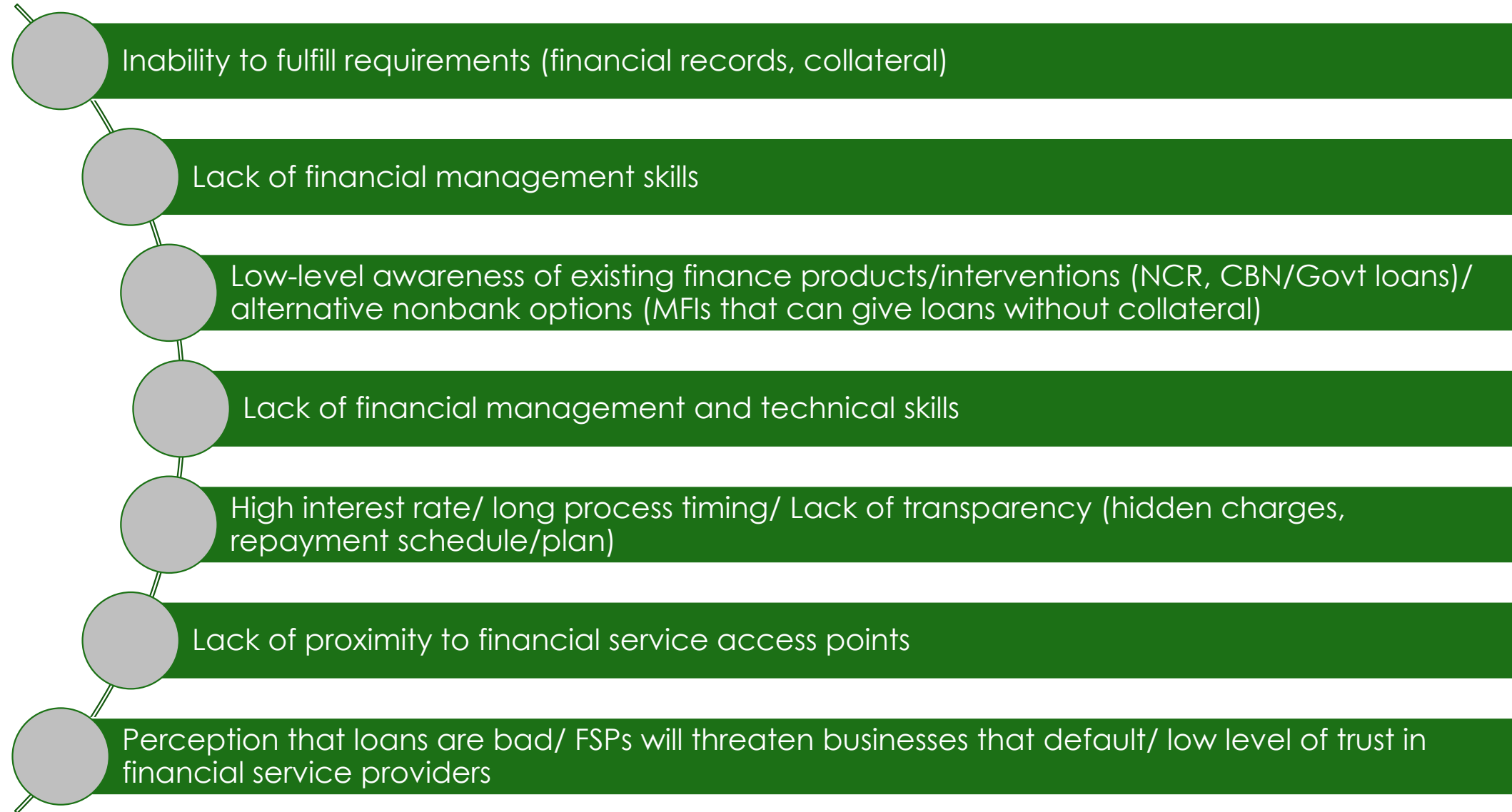
Half of the businesses revealed that they had applied for, and tried to negotiate for a bank loan over the last 12 months, but turned it down because the cost was too high.



Access to Finance Challenges MSMEs Face in Nigeria – Supply-Side



Access to Finance Challenges MSMEs Face in Nigeria – Demand side



Mitigation strategies adopted by supply-side providers in tackling some of these challenges are often costly, and not scalable. The goal is to leverage technology to implement scalable solutions that can tackle these barriers

- ▶ Non-financial services – business advisory, capacity-building programmes, access to market linkages
- ▶ Undated cheques, guarantors, monthly visits to clients
- ▶ Partnerships with multiple players
- ▶ Social collateral
- ▶ Credit guarantee schemes
- ▶ Insurance
- ▶ Non-interest finance loans

Opportunities for Promoting Access to Finance for MSMEs

45million (43% of adult population) Nigerians are business owners. Over half of business owners are formally financially included, but just 3% are borrowing from formal sources

DEMOGRAPHICS

- 52% are female
- 59% live in rural areas
- 77% are sole proprietors



45 million Nigerian business owners

WHY IS THIS THEIR PREFERRED CHOICE TO BORROW FROM?

- 41% Speed - to get the money as soon as possible
- 15% suitable repayment period
- 9% no collateral, low interest
- 7% flexible repayment terms

FINANCIAL INCLUSION

- 57% are formally included,
- 17% rely on informal financial services only
- 26% are financially excluded

WHERE THEY ARE BORROWING FROM?

- 3% are borrowing from formal sources,
- 10% from informal sources only,
- 17% from family and friends
- 30% of those borrowing from informal and FF are saving with banks

WHAT THEY ARE BORROWING FOR?

- 39% start/expand a business
- 10% medical reason
- 15% buy food/clothing

Thank you