

A smiling woman in a patterned top stands in a market stall. The stall is filled with various goods, including bags of flour labeled 'PREMIUM' and 'PENNY WITA', and several bowls containing food items. The background shows more market stalls and a window with a grid pattern.

# Market Bite Nigeria

*Innovation Offers Key to the  
Broader MSME Finance Market*

November 2022

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## 01

# Executive Summary

## Nigerian MSMEs Offer Estimated 13 Trillion Naira Finance Market Opportunity

Private sector lending to micro, small and medium enterprises (MSMEs) in Nigeria is limited. Domestic credit to the private sector was about 10.5 percent of gross domestic product (GDP) in 2019, well below the about 45.5 percent average in Sub-Saharan Africa<sup>1</sup>. While commercial banks lend to larger firms, smaller scale businesses generally struggle to access formal financing. There are many reasons for this, including the government's crowding out of the private sector, a weak debt resolution and loan recovery framework, and underutilized and underdeveloped financial infrastructure in terms of, for example, credit information.

Additionally, MSMEs are often perceived as lacking the business and technical capacity to make successful loan applications<sup>2</sup>. Small-scale entrepreneurs, often operating informally and on a micro scale, are commonly perceived as being too costly and too risky for financial institutions to serve. Still, Nigeria's 39.7 million MSMEs<sup>3</sup> account for 86 percent of employment and contribute 50 percent of nominal GDP<sup>4</sup> (see Box 1 for MSME definition). They are the backbone of the non-oil economy, contributing significantly to innovation, economic growth, and job creation in the agriculture, manufacturing, and services sectors.

To explore the potential of the MSME finance market, IFC conducted a survey of almost 1,000 MSMEs across the country in July 2021 and March 2022<sup>5</sup>. The survey was complemented by in-depth interviews with a range of market actors, as well as contextual desktop research. While the results of the assessment presented in this report confirm that MSMEs face a challenging business environment, and that difficulty in accessing finance is a key constraint on sector growth, it also points to the resilience of Nigeria's MSMEs through the COVID-19 crisis, and to the potential for financial institutions to leverage innovative technology to expand the MSME market.

Based on the survey, IFC estimates that there is an unmet demand for credit by Nigerian MSMEs of approximately 13 trillion naira, equivalent to \$32.2 billion. On an aggregate level, demand for credit is highest among micro entrepreneurs and in the agriculture and retail trade sectors. A large proportion of MSMEs seek loans that are less than 10 million naira (\$24,700), with small and medium businesses looking for larger loans. Almost all surveyed MSMEs had a bank account, but less than half had ever borrowed capital for their business.

The global outbreak of the COVID-19 pandemic has exacerbated MSME challenges, with 64 percent of the MSMEs surveyed by IFC stating that they have experienced financial consequences. Micro and informal businesses were most impacted. While about a quarter of the surveyed MSMEs stated that they require restructured loans to meet the challenges of the crisis, four out of 10 said they primarily require support in terms of information on health recommendations, business tips, and government support. Despite the crisis, most respondents said they would either continue operations unchanged (51 percent) or even expand in the coming three months (34 percent). Looking separately at the smaller survey sample in the Abuja region in March 2022, the outlook had further improved with 48 percent looking to expand<sup>6</sup>.

While the adoption of digital financial services (DFS) is nascent among MSMEs, 46 percent of survey respondents use WhatsApp to market their goods and services. This indicates the potential to bring the Nigerian small-scale business sector into the digital economy and open new avenues for financial services providers to reach this market segment. Innovation and collaborative fintech frameworks offer the possibility to build and strengthen the fundamentals of an MSME finance business and to develop more advanced offerings and tools for financial institutions to serve MSMEs in a sustainable way.

<sup>1</sup> Nigeria Private Sector Diagnostic, World Bank Group, October 2020

<sup>2</sup> Ibid

<sup>3</sup> See Box 1 for details on the estimate of the numbers of MSMEs in Nigeria.

<sup>4</sup> Nigeria Private Sector Diagnostic, World Bank Group, October 2020

<sup>5</sup> This report is based on a survey of 980 MSMEs in Nigeria, conducted in the South-South, South-East, South-West, South-West, North-West, and North-Central regions in July 2021 and in March 2022. The March 2022 survey was conducted in the Abuja region only to correct imbalances in the original survey sample in Abuja in July 2022 (results that were removed). See Box 2 and How the Research Was Done for full details.

<sup>6</sup> For the March 2022 Abuja region sample alone, the business outlook numbers were the following: 0% indefinitely close down, 1% temporarily close down, 14% decrease business activity, 37% maintain business activity, 48% increase business activity.

One of the key recommendations of this report, presented in the final section, is that financial institutions seek partnerships with fintech providers to leverage technology to increase operational efficiencies and explore alternative delivery models and innovative product development for MSMEs. In 2020 alone, it is estimated that Nigerian fintechs raised \$439 million, equal to 20 percent of the amount raised by all African technology startups<sup>7</sup>. This would suggest local and global investors see great potential in the financial services mass market in Nigeria, including services targeting MSMEs.

### Box 1. Definition of MSMEs

This report uses a definition of MSMEs adopted by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Bank of Industry (BOI) categorizing enterprises based on the minimum requirements of any two of the criteria; 1) the number of employees, 2) asset value, 3) and annual turnover. Table 1 shows the official definition used in this report.

**Table 1. MSME Definition**

Indicator/ Size of the Enterprise	Micro Enterprises	Small Enterprise	Medium-size Enterprise
Asset value (NGN) <sup>8</sup>	<5M	5M — 100M	101M — 500M
Asset value (USD)*	<12k	12k — 243k	245k — 1.2M
Annual Turnover (NGN) <sup>9</sup>	≤ 20M	≤ 100M	≤ 500M
Annual Turnover (USD)	≤ 49K	≤ 243K	≤ 1.2M
Employees	<10	10 — 49	50 — 199

An enterprise is classified as woman-owned, if a woman or several women own more than 51 percent of the enterprise, or if 20 percent or more of the business is owned by a woman or women, and a woman is chief executive officer, chief operating officer, president or vice president, and at least 30 percent of the board of directors comprises women, where a board exists.

For this report, IFC used the SMEDAN National Survey of MSMEs, 2020. The SMEDAN 2020 survey puts the total number of MSMEs at approximately 39.7 million, of which 39 million are micro enterprises and 670,447 are small and medium enterprises.

<sup>7</sup> EY, Nigeria Fintech Census, 2020 Available: [https://www.proshareng.com/news/FINTECH/Nigerian-FinTechs-Raised-\\$439m-in-2020/57099](https://www.proshareng.com/news/FINTECH/Nigerian-FinTechs-Raised-$439m-in-2020/57099)

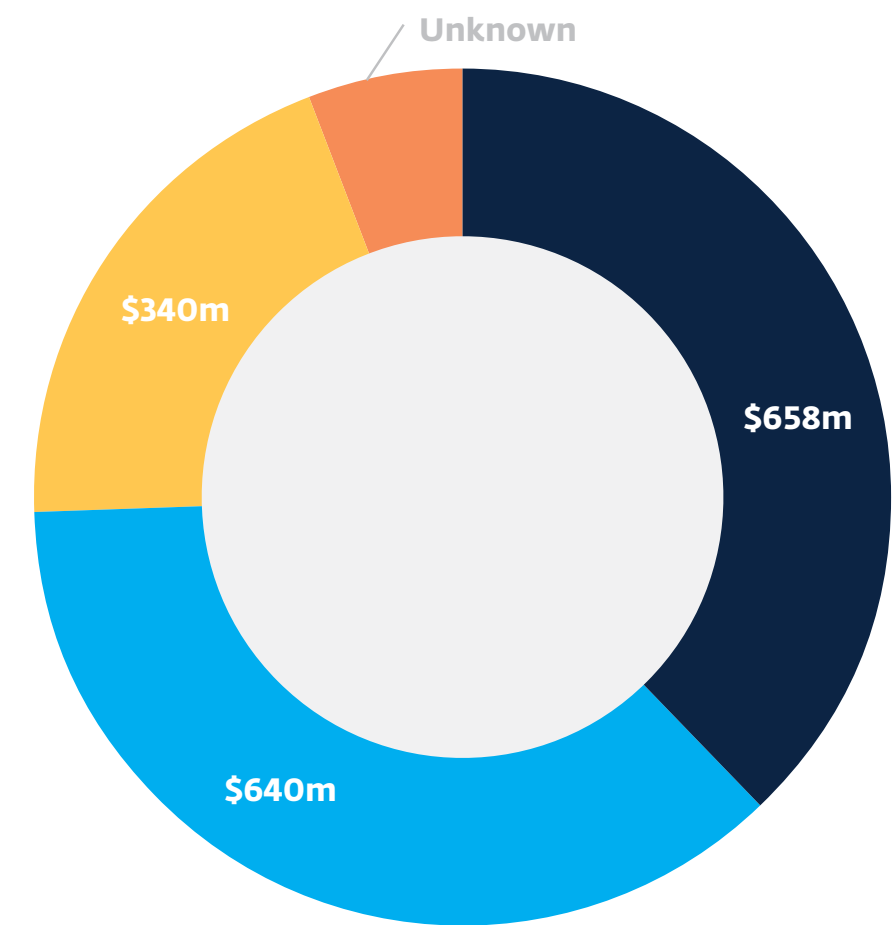
<sup>8</sup> Nigeria MSME National Policy, SMEDAN

<sup>9</sup> Nigeria Bank of Industry Definition of MSMEs

# MSME Market Overview

## Infographic

### Sources of MSME Financing

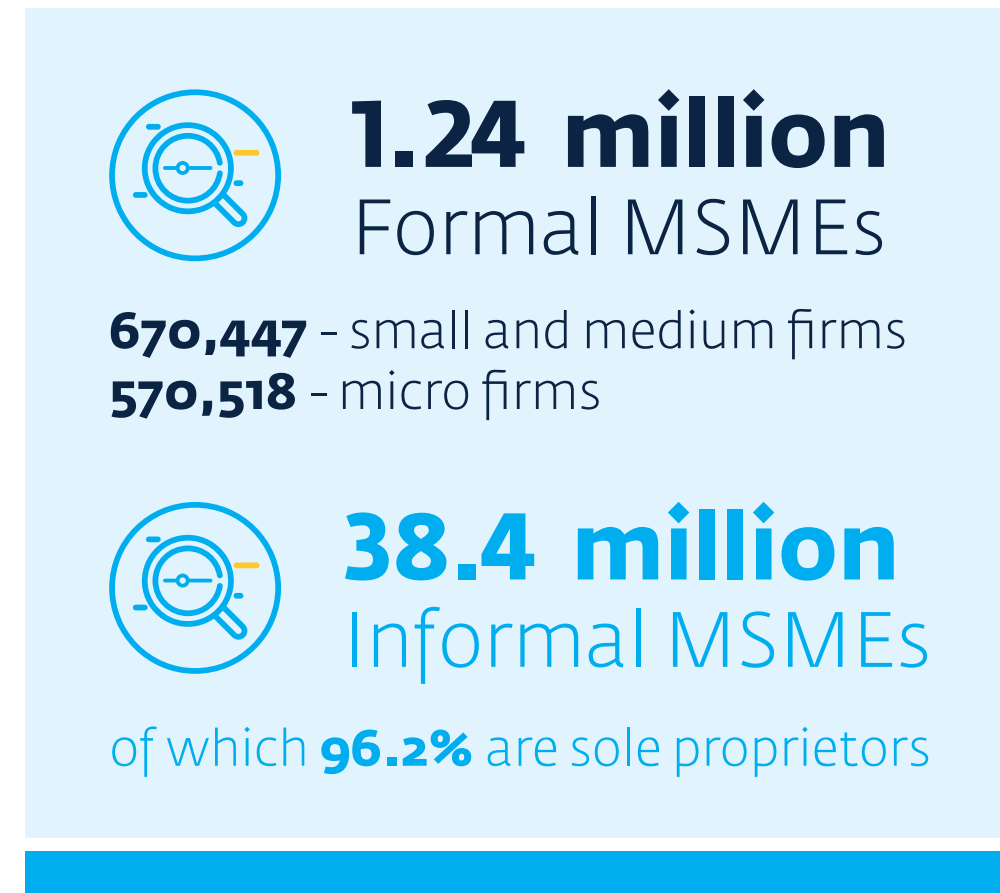


**\$658 million**  
Microfinance banks

**\$640 million**  
Private equity and venture capital

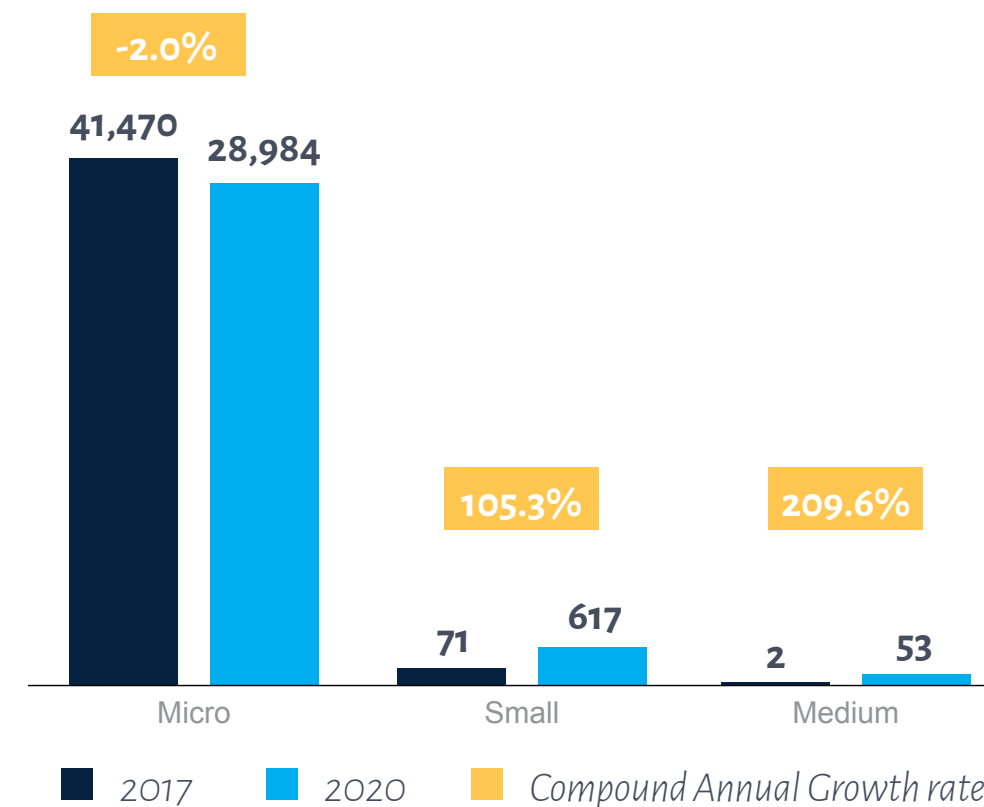
**\$340 million**  
Commercial Banks

**Unknown**  
Digital financial services providers



### Average growth rate in number of MSMEs per size category (Thousands, %, 2017 - 2020)

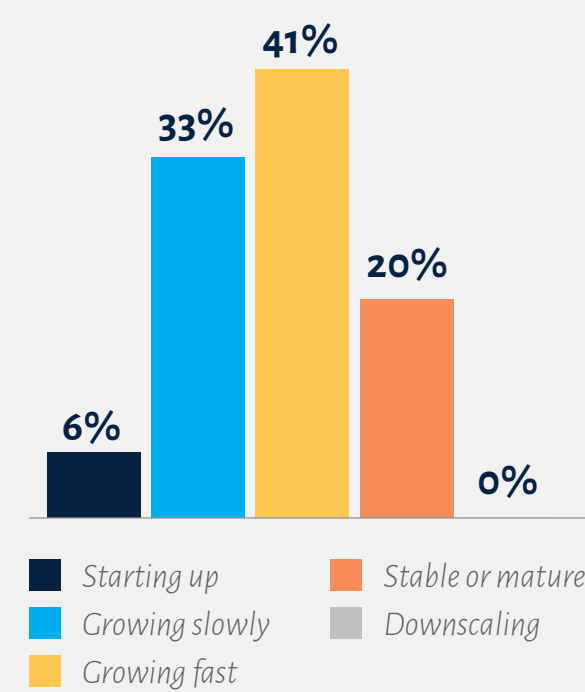
High growth in SMEs is largely due to changes in the 2020 sampling compared to 2017. NBS Business census was updated in 2020 to include a larger share of SMEs than previous years.



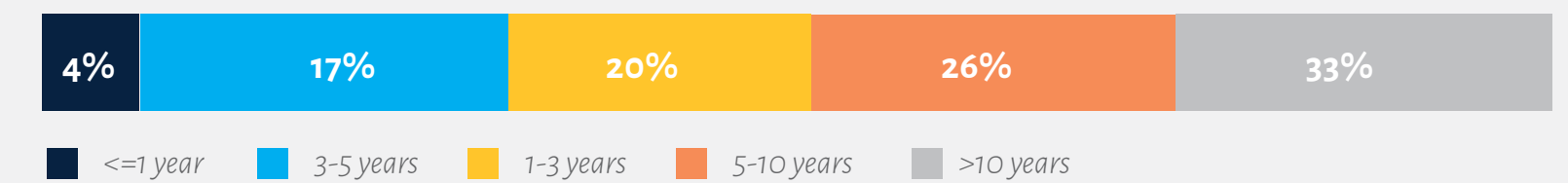
### MSME Survey Insights

n represents the number of MSMEs for each indicator or question

#### Stage of business (n=980, 2021)

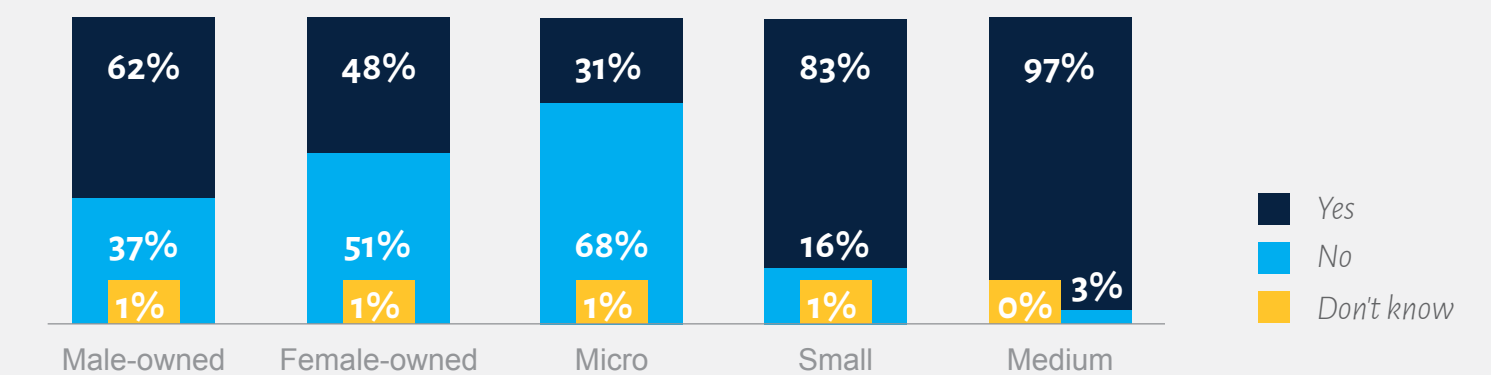


#### Business age (n=980, 2021)

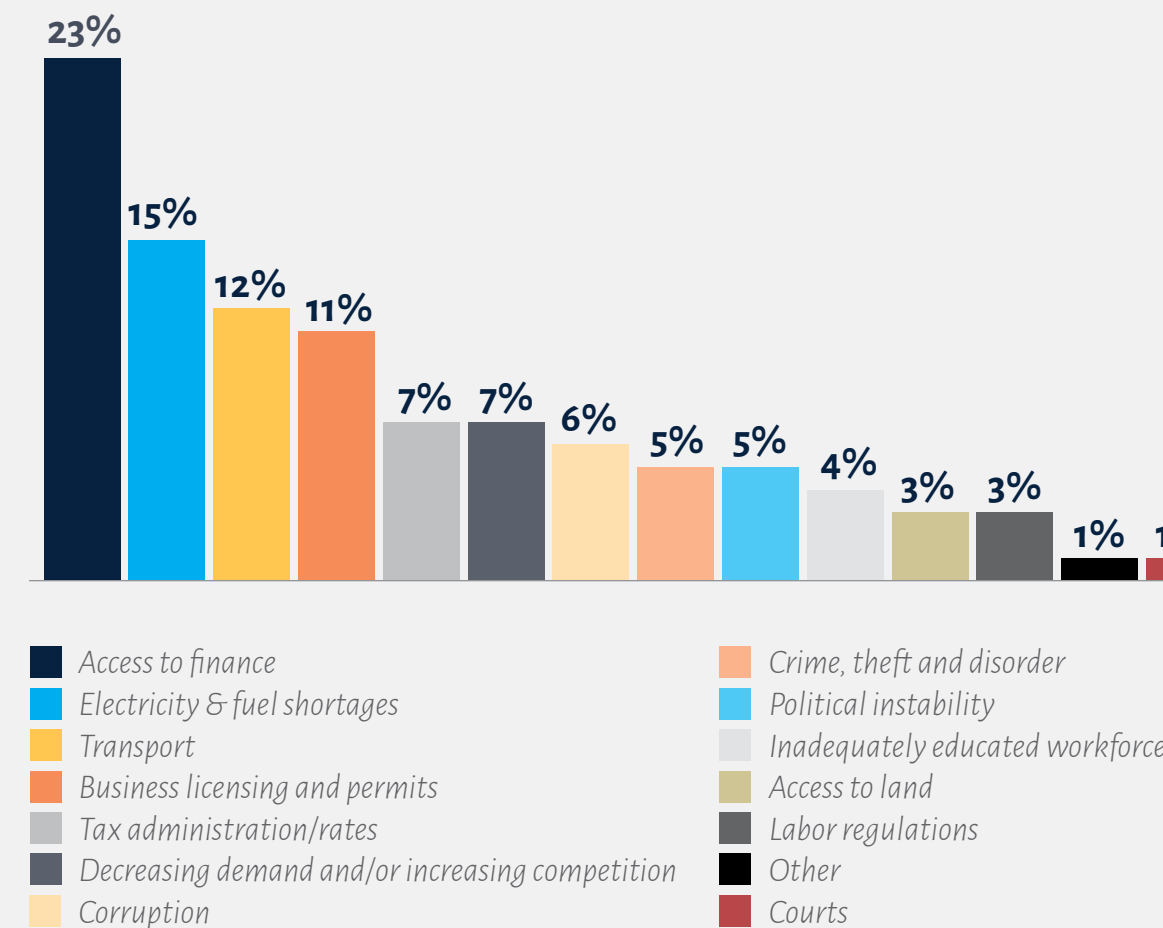


#### Level of formality

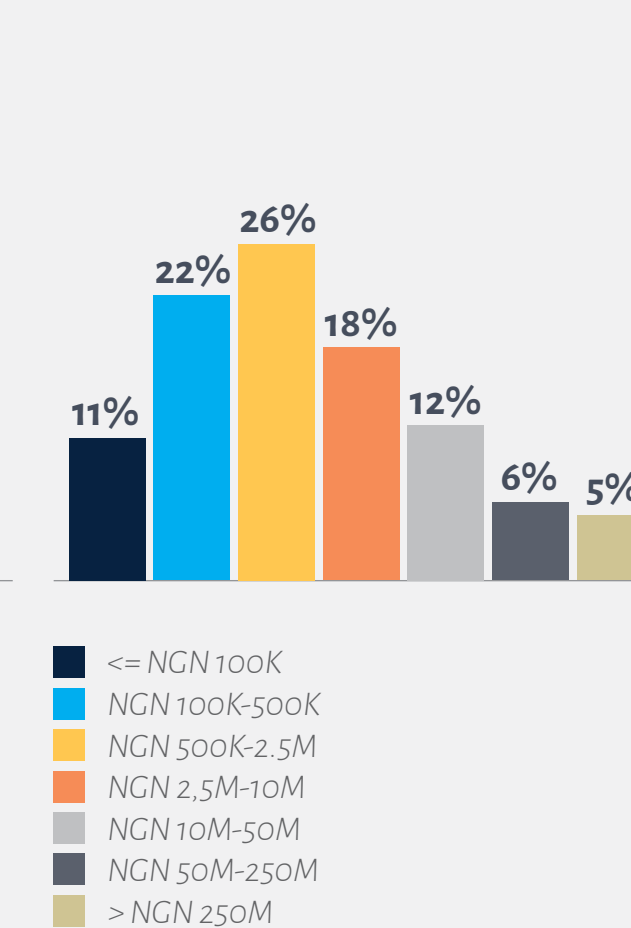
#### Incidence of Business registration by gender and size segment - (n=551, 2021)



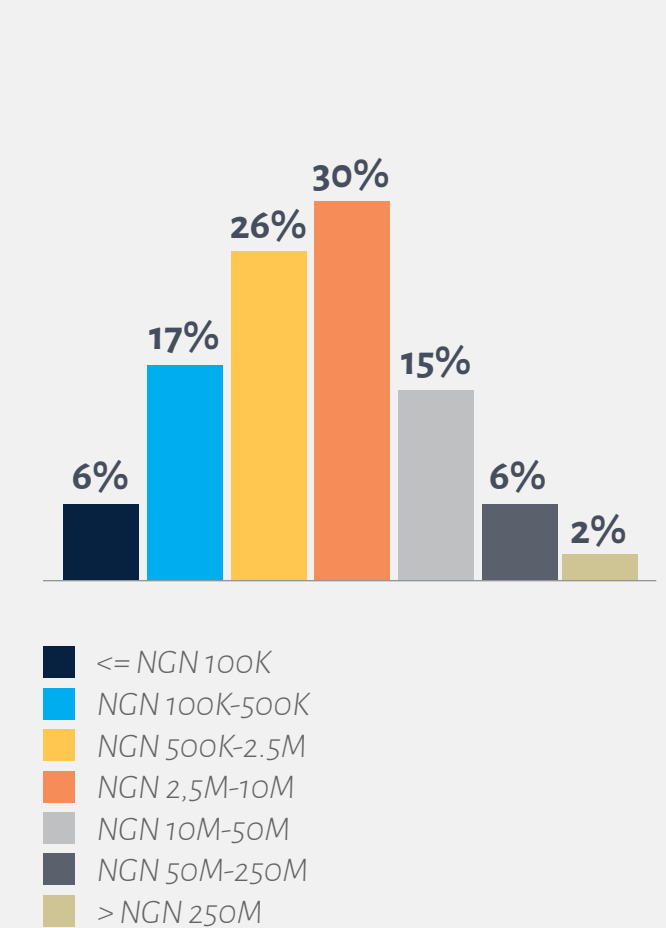
#### Obstacles to growth: Major obstacles for MSMEs (% , 2021)



#### Starting needs: Start up funding (n=980, 2021)



#### Funding needs: How much would you like to borrow (n=481, 2021)

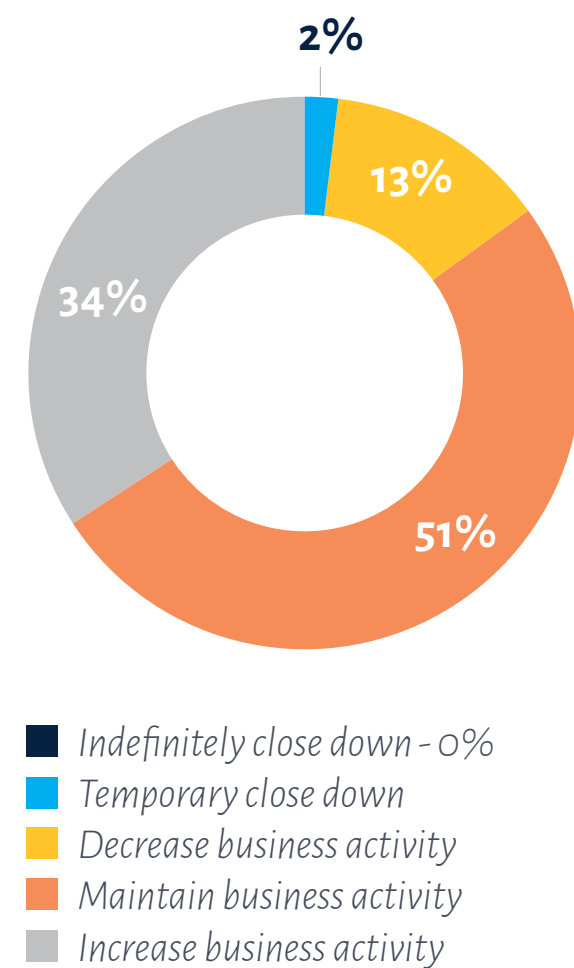


# 02

## Market Context

### MSMEs Dominate Economy Despite Challenging Setting

Figure 1. Business Plans in the Next Three Months, % of full sample



- 10 National Bureau of Statistics, Labor Force Statistics 2020
- 11 International Labour Organization, A Rapid Diagnostics Assessing the Impact of COVID-19 on enterprises and workers in the informal Economy in Nigeria, 2020
- 12 ACIOE Research Team, Analysis of the COVID-19 Impact: Need to Harness Opportunities in the Resilient Sectors for Sustainable Growth in Nigeria 2021
- 13 Central Bank of Nigeria, CBN Update - Moves to Cushion the Impact of COVID-19 Crisis
- 14 For the March 2022 Abuja region sample alone, the business outlook numbers were the following: 0% indefinitely close down, 1% temporarily close down, 14% decrease business activity, 37% maintain business activity, 48% increase business activity
- 15 AFDB, Africa Economic Outlook 2021
- 16 Nigeria Private Sector Diagnostic, World Bank Group, October 2020

#### Economic Outlook: MSMEs Show Resilience in the Face of Economic Crisis

In 2020, the global COVID-19 pandemic and a sharp fall in crude oil prices brought Nigeria's economy back to negative growth following a couple of years of recovery from the 2016 recession. The 2020 contraction of 1.8 percent was the sharpest economic decline since 1983 and was marked by capital outflows, a rapidly growing government deficit, rising inflation, widespread firm closures, and a 10-percentage point increase in the unemployment rate to above 30 percent<sup>10</sup>.

MSMEs have been hard hit by the pandemic as operations traditionally depend on physical contact with customers and partners, manifested in a marked slowdown in business activity particularly in the urban informal sector<sup>11</sup>. Small-scale entrepreneurs in the agriculture sector were less impacted by the COVID-19 crisis as farming operations were less hindered by mobility restrictions<sup>12</sup>.

The steep decline in economic activity prompted the government to introduce measures to limit the fallout in the economy and the MSME sector. In March 2020, the government launched a 50 billion naira (\$163 million) targeted facility for households and MSMEs, and the June 2020, 2.3 trillion naira (\$7.5 billion), Economic Sustainability Plan includes measures to safeguard MSMEs. The Central Bank of Nigeria (CBN)

injected 3.6 trillion naira (\$11.7 billion) into the banking system to enable banks to offer restructured loan terms to impacted sectors<sup>13</sup>.

Despite the impact of the COVID-19 pandemic on the economy, most MSMEs surveyed by IFC showed some resilience. When asked more than one year into the COVID-19 pandemic what they plan to do in the next three months, as shown in figure 1, only 13 percent saw reason to decrease business activity while 34 percent were planning to expand their operations. Most businesses (51 percent) had no plans to change how they operate<sup>14</sup>.

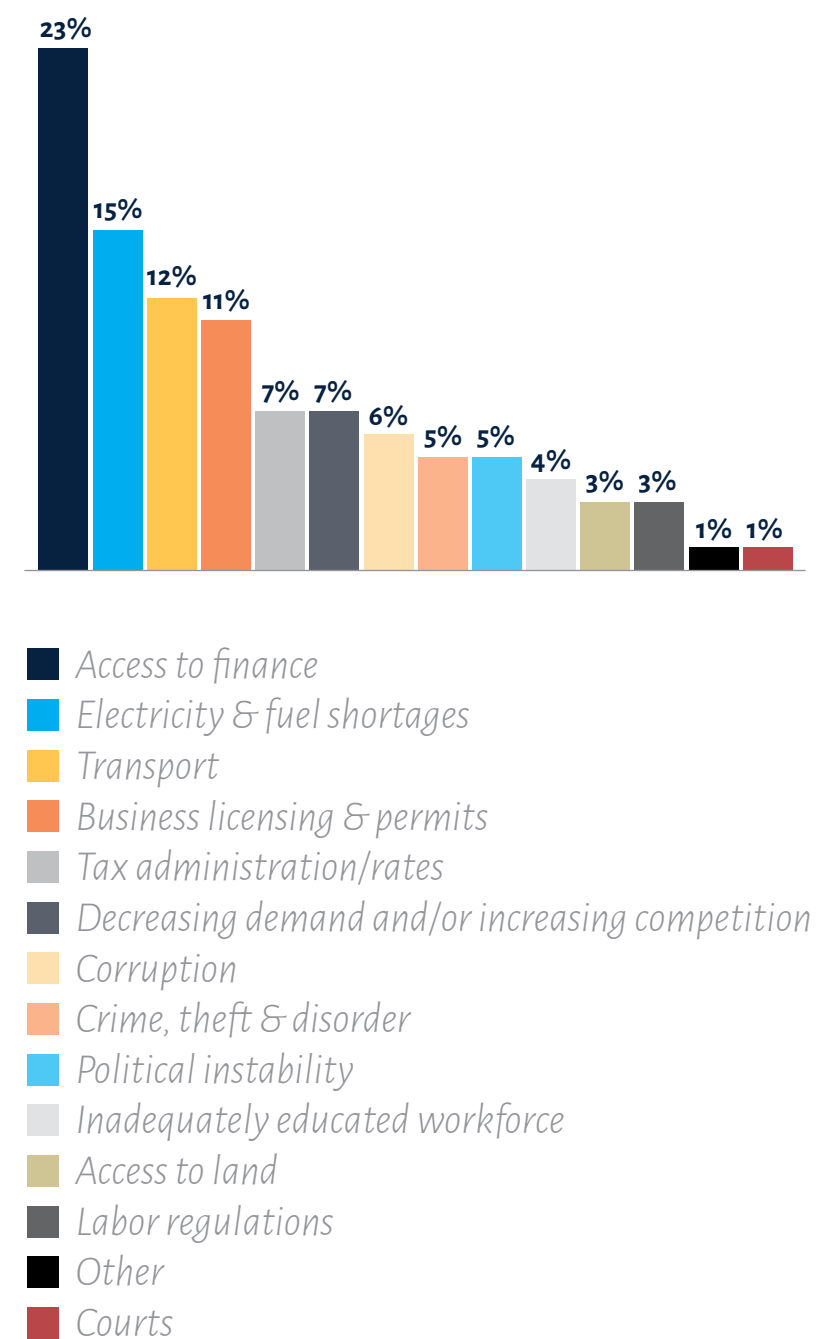
The medium-term economic outlook worsened considerably due to the impact of the COVID-19 pandemic. However, the economy is projected to grow by 1.5 percent in 2021 and 2.9 percent in 2022, based on an expected recovery in crude oil prices and production<sup>15</sup>. In the longer term, three key features of Nigeria's economy position the country for strong non-oil sector growth.

Firstly, abundant agricultural and mineral resources provide an opportunity to significantly expand food manufacturing and resource-based manufacturing. Secondly, the country's large and fast-growing urban population provide a ready market for domestic goods, potentially amplified on a regional scale

through the Economic Community of West African States (ECOWAS). Thirdly, the young entrepreneurial population is poised to embrace the digital economy<sup>16</sup>.

MSMEs are typically concentrated in low-capital intensive sectors such as agriculture, wholesale and retail trade. However, there has been an increasing trend towards MSME participation in higher value sectors such as transport, storage, and information and communications technology (ICT), likely linked to the growth in e-commerce. Some post COVID-19 MSME growth is expected to come from human, health, and social work services. Small-scale manufacturing is also expected to experience high growth rates, especially agro-processing, as the government intensifies efforts to strengthen domestic agro-processing capabilities.

**Figure 2. Main Obstacles to Business Growth, % of Full Sample 2021**



### Box 2. IFC Survey of MSMEs in Nigeria

This report is based on a survey of 980 MSMEs in Nigeria, conducted in the South-South, South-East, South-West, North-West, and North-Central regions in July 2021 and March 2022. The survey covered up to 300 questions on business performance, financial services, and financial literacy.

The March 2022 survey was conducted in the Abuja region only, to correct imbalances in the original survey sample in Abuja in July 2022 (the results of which have been removed). Although the timing of the Abuja region survey differs from that of the rest of the survey, we believe the results reflect the reality on the ground for Nigerian MSMEs in aggregate. The question for which the timing matters most is that of the outlook for the next three months, with results presented separately for the March 2022 sample.

The survey sample was skewed towards MSMEs that are smaller and urban-based (53.7 percent micro enterprises, 33.6 percent small firms, and 12.7 percent medium-sized firms). There were more male-owned (58 percent) than women-owned businesses (42 percent), and more than half of respondents were between 35 and 49 years old.

The sectors most prominently represented in the survey sample were wholesale and retail trade (27 percent), agriculture (17 percent), manufacturing (14 percent), other service activities (13 percent), accommodation and food services (8 percent), and professional, scientific and technical works (5 percent).

For full details, please see How the Research Was Done on page 20.

### Enabling Environment: Recent Improvements Yet to Pay Off for MSMEs

The Nigerian business environment is slowly improving, with some advances in starting a business, dealing with construction permits, getting electricity, registering property, and enforcing contracts. Government efforts to digitize administrative processes for registering a business and paying taxes were accelerated during the COVID-19 pandemic. Despite recent improvements in these areas of business regulation, there are still several critical policies that negatively affect an enabling business environment. These include, foreign exchange restrictions, import bans, and closed land borders that reduce export competitiveness, hinder competition, and adversely affect investor confidence and investment appetite<sup>17</sup>.

A recent study on the regulatory cost of compliance for MSMEs found that interaction between government authorities in Nigeria and MSMEs is poor, leading to a pervasive use of middlemen. An average MSME pays additional fees to complete a compliance process 51 percent of the time, often doubling the actual cost of official fees<sup>18</sup>.

MSMEs surveyed by IFC find that electricity and fuel shortages, business licensing and permits, and transport are significant obstacles to business growth in addition to access to finance (figure 2). Tax administration and rates are considered less of a hindrance, and the same is true for labor regulations. The high degree of informality in the MSME sector, at about 98 percent, indicates that few smaller scale entrepreneurs see value in formalization or lack access to the systems to register a business<sup>19</sup>.

Nigeria's credit bureaus and digital collateral registry remain underutilized despite recent enhancements to regulations. For example, the Credit Reporting Act of 2017 broadened the scope of credit reporting to include non-financial institution credit providers and permitted access by credit bureaus to public data. According to news reports, about 270,000 borrowers had accessed a total of 2 trillion naira (\$4.9 billion dollar) in loans by leveraging the collateral registry as of October 2020. Of the registered borrowers, 4,260 were medium-sized enterprises, 3,417 were small businesses, and 1,433 were micro entrepreneurs<sup>20</sup>.

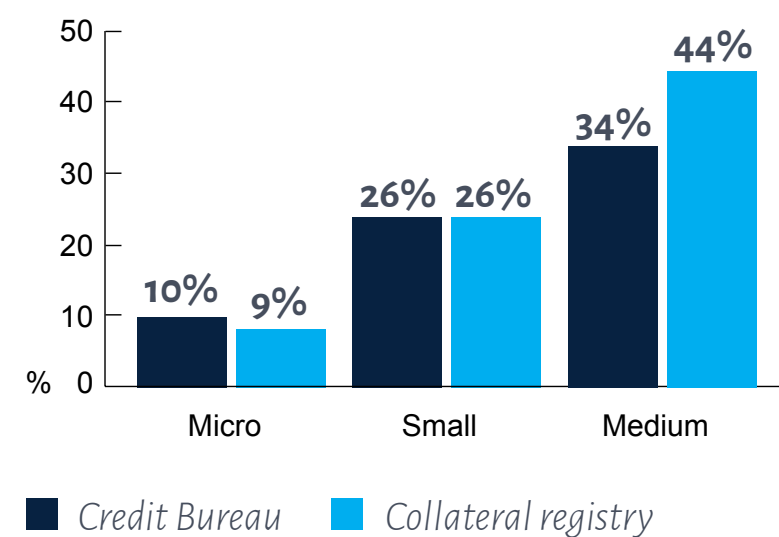
<sup>17</sup> World Bank Group, *Nigeria Development Update: Resilience Through Reforms*, June 2021

<sup>18</sup> Presidential Enabling Business Environment Council (PEBEC), *Micro, small and medium enterprises (MSMEs) regulatory cost of compliance: a pilot study covering Lagos state and the FCT*, December 2020

<sup>19</sup> SMEDAN National Survey of Micro, Small and Medium Enterprises (MSMEs), 2017

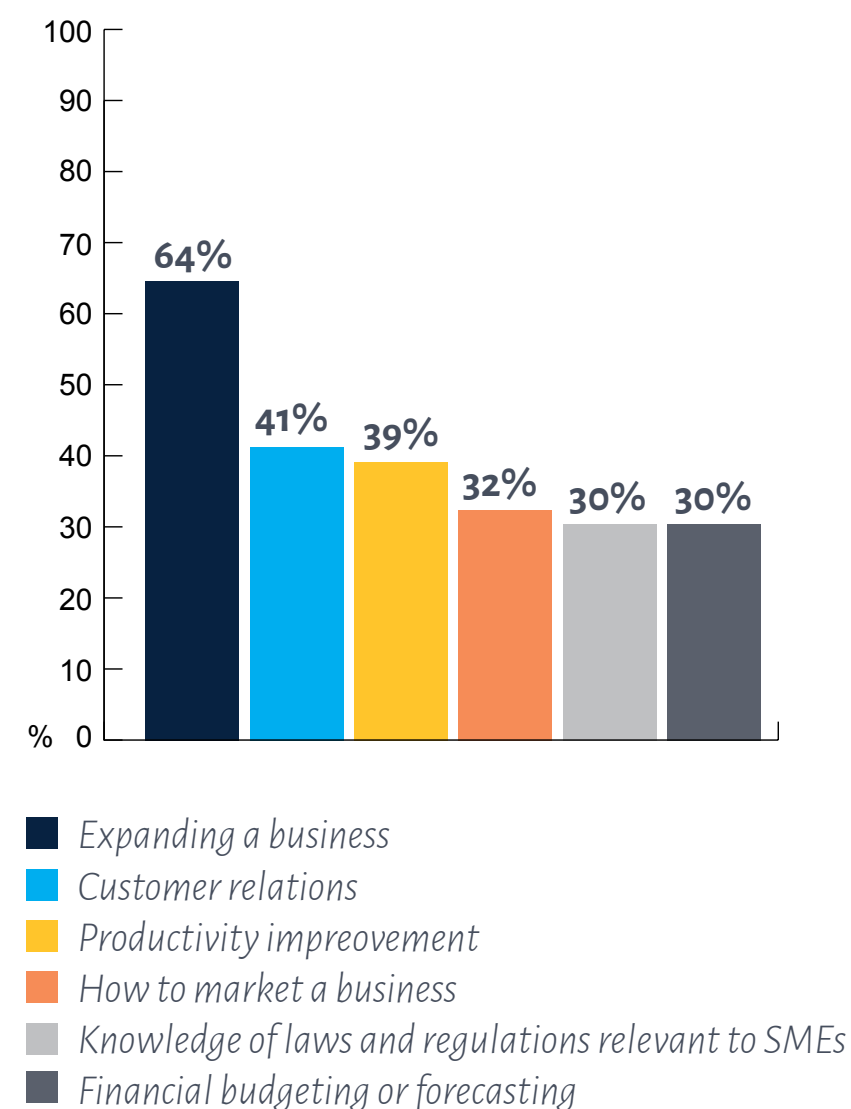
<sup>20</sup> Nigerian Tribune, '273,435 Borrowers Access Over N2trn Through Collateral Registry—Emefiele', 27 October 2020

**Figure 3. Awareness of Credit Bureaus and Collateral Registry, by Business Size, Full Sample**



About a fifth of the MSMEs surveyed by IFC (18.3 percent) were aware of the credit bureaus, and of those who were aware of the bureaus, 44 percent knew the status of their credit profile. About the same proportion of respondents (19.2 percent) were aware of the collateral registry, and of those aware of the registry, 43 percent said their property had been registered with the collateral registry to obtain a loan, while 52 percent were aware that their bank was registered with the collateral registry. See figure 3 for the breakdown of awareness of credit bureaus and the collateral registry by business size.

**Figure 4. MSME Demand for Training, % 2021, Full Sample, Multiple Answers Possible**



### Support for MSMEs: Limited Uptake of Targeted Initiatives for MSMEs

The revised National Policy on MSMEs 2015 to 2025, launched by SMEDAN in early 2021, provides the government framework for the promotion of MSMEs as the primary driver of national growth and employment. SMEDAN itself plays a key role in coordinating, supporting, developing, and promoting the national policy, while the BOI manages the government's 5 billion naira (\$31.8 million) special intervention fund to provide subsidized loans to MSMEs<sup>21</sup>.

The Development Bank of Nigeria, set up by government in 2017 to channel support to small and medium enterprises in the form of loans, capacity-building, and guarantees, had funded 134,000 MSMEs through 22 participating financial institutions and trained about 50,000 MSMEs as of 2021<sup>22</sup>.

Public-private partnerships involving government, development finance institutions, commercial banks, and microfinance banks offer the MSME market similar support with subsidized loans.

The larger banks offer MSME clients a range of business development support and non-financial services, including networking sessions, start-up support, capacity-building, small and medium enterprise toolkits, financial literacy training, software, market linkages, e-commerce platforms, and support to digitize business operations. Some microfinance banks also offer clients capacity-building support and essential non-financial services to MSMEs.

However, uptake of these support mechanisms remains limited. While 47 percent of MSMEs surveyed by IFC were aware of government support initiatives, including funding, only 11 percent of surveyed MSMEs had received such government support. Just over 16 percent had accessed business association initiatives, and just over 1 percent stated that they had benefited from incubators. Only 8 percent of respondents were aware that their bank offered training for MSMEs.

When asked what kind of training they would benefit from most, the top three areas of expertise favored by surveyed MSMEs were how to expand a business (64 percent), customer relations (41 percent) and productivity improvement (39 percent) as shown in figure 4.

### Box 3. Three Key Support Initiatives for MSMEs During COVID-19 Crisis

- The CBN introduced the 50 billion naira (\$163 million) Targeted Credit Facility to support households and MSMEs affected by the COVID-19 pandemic. NIRSAL Microfinance Bank issued the first tranche of disbursements to 3,256 individuals and businesses negatively affected by the pandemic to cushion the effect on their businesses<sup>23</sup>.
- The Nigeria Economic Sustainability Plan, adopted in July 2020, includes 15 billion naira to sustain 300,000 jobs in 100,000 MSMEs by guaranteeing off-take of identified priority products and 260 billion naira to establish the SME Survival Fund to sustain at least 500,000 jobs in 50,000 small and medium enterprises for three months<sup>24</sup>.
- Nigeria has made starting a business easier by reducing the time and cost needed to register a company and introducing online platforms for registration. Prior to the pandemic, businesses collected the certificate at the nearest Corporate Affairs Commission (CAC) office after completing registration online, but with the COVID-19 pandemic, certificates can now be emailed to business owners<sup>25</sup>.

<sup>21</sup> Bank of Industry website, September 30, 2021

<sup>22</sup> IFC Stakeholder Interview - Development Bank of Nigeria, 2021

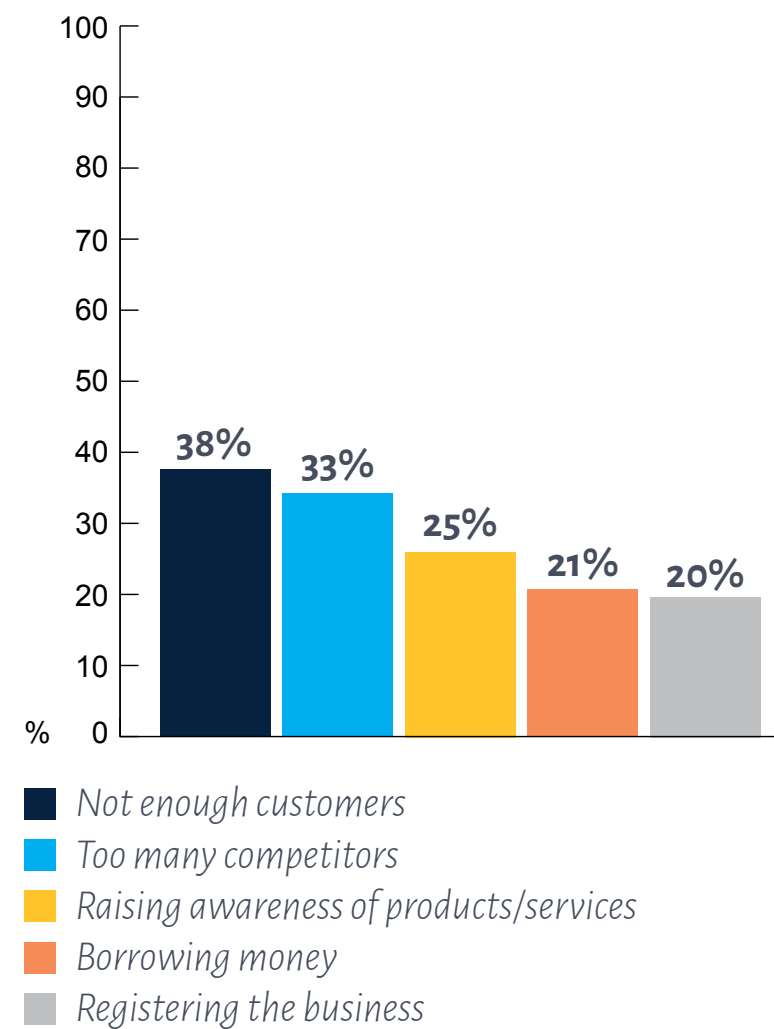
<sup>23</sup> Central Bank of Nigeria, CBN Update - Moves to Cushion the Impact of COVID-19 Crisis

<sup>24</sup> The State House, 2020 - Available: <https://statehouse.gov.ng/news/what-you-need-to-know-about-the-nigeria-economic-sustainability-plan/>

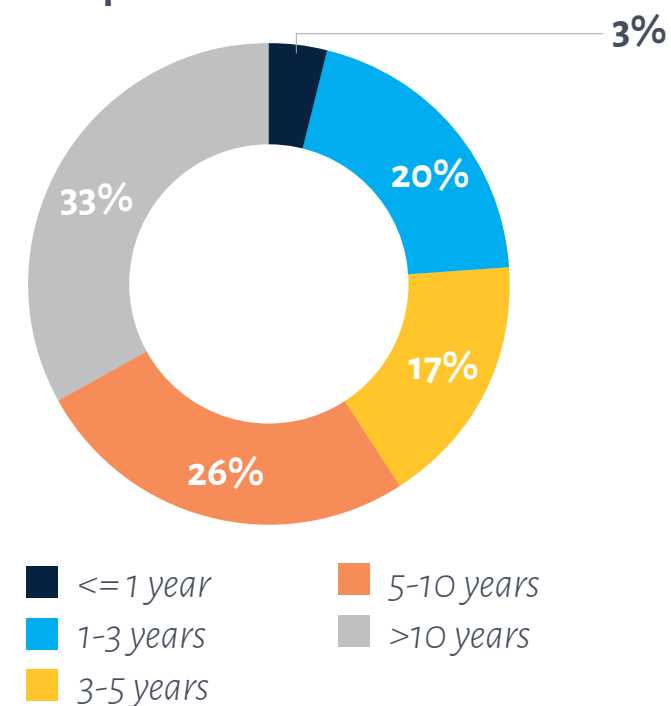
<sup>25</sup> Nairametrics, CAC: Certificate of incorporation will now be delivered via email or courier 2020



**Figure 5. Financial Challenges When Starting the Business, % of Full Sample, Multiple Answers Possible**



**Figure 6. Years in Operation, % of Full Sample 2021**



<sup>26</sup> SMEDAN National Survey of Micro, Small and Medium Enterprises (MSMEs), 2017 and Genesis Team Analysis, 2021. Please note, the 2021 SMEDAN survey report did not include informal SMEs and hence the 2017 estimate has been quoted

<sup>27</sup> Ibid

<sup>28</sup> Ibid

<sup>29</sup> Information on financial performance and profitability were self-reported

# 03

## Survey Insights

### Many Small Opportunities Make One Large Market

#### MSME Market Characteristics: Informal Micro Enterprises Dominate the Segment

Nigeria has a vibrant entrepreneurial business sector dominated by micro enterprises that make up the lion's share of the estimated 39.7 million MSMEs<sup>26</sup>. By the SMEDAN criteria for formality (business registration with the CAC), only 3 percent of all MSMEs in Nigeria are formal. While virtually no micro businesses are formalized, the share of formalization was higher among smaller- and medium-sized businesses (21 percent) in 2017<sup>27</sup>.

The majority of MSMEs, specifically micro businesses, are active in the agriculture (37 percent), wholesale and retail trade sectors (33 percent), other service activities (10 percent), and manufacturing (5 percent). Larger MSMEs are concentrated to a higher degree in education, manufacturing, and the human health and social work sectors<sup>28</sup>. The majority of MSMEs are in the South and North-Western regions, especially in key economic centers such as Lagos and Kaduna.

More MSMEs started a business to earn an income than to address a market gap. This likely reflects a lack of market insight, which also means that many micro and small businesses operate in highly competitive industries facing fluctuating demand. Two of the main challenges cited by surveyed MSMEs when starting

up, were not enough customers and dealing with too many competitors (figure 5). Other challenges included raising awareness, access to finance, registering a business, and laws and regulation.

The largest part of MSMEs surveyed by IFC were growing fast, as stated by 40 percent of micro entrepreneurs, 43 percent of small businesses, and 40 percent of medium firms. Most micro businesses were operating within their first five years, while small businesses were operating within three to 10 years, and medium businesses had mostly been in existence for more than 10 years (figure 6).

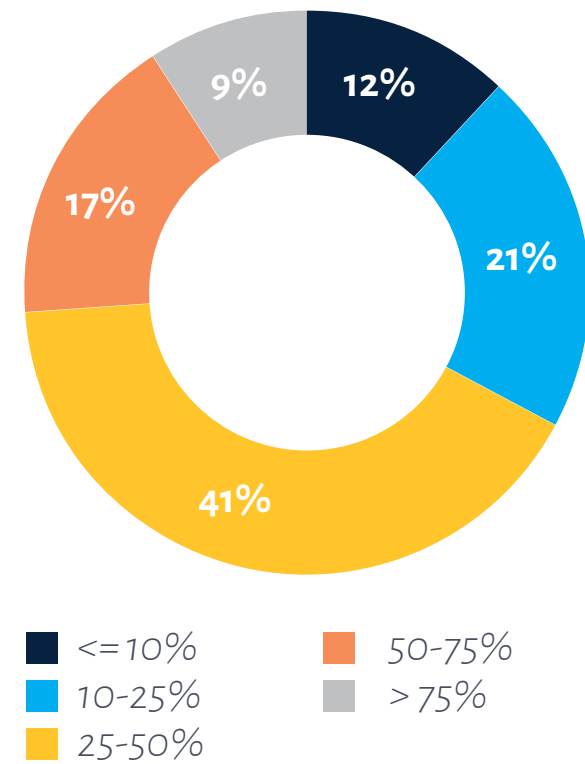
Of the MSMEs surveyed by IFC, 43 percent were earning less than 10 million naira (\$24,778) annually and had an average markup between 25 to 50 percent on the cost of sales (figure 7 on page 8)<sup>29</sup>.

Businesses in the mining, construction, transport, and the professional, scientific and technical works sectors had a larger share of businesses earning above 10 million naira. These were also the sectors with highest profitability. Revenue and profitability increased with business size as medium enterprises averaged higher gross profit margins than small businesses. Most MSMEs have a monthly average gross profit margin of less than 2.5 million naira (\$6,195). Profits are reinvested or used for personal expenses.

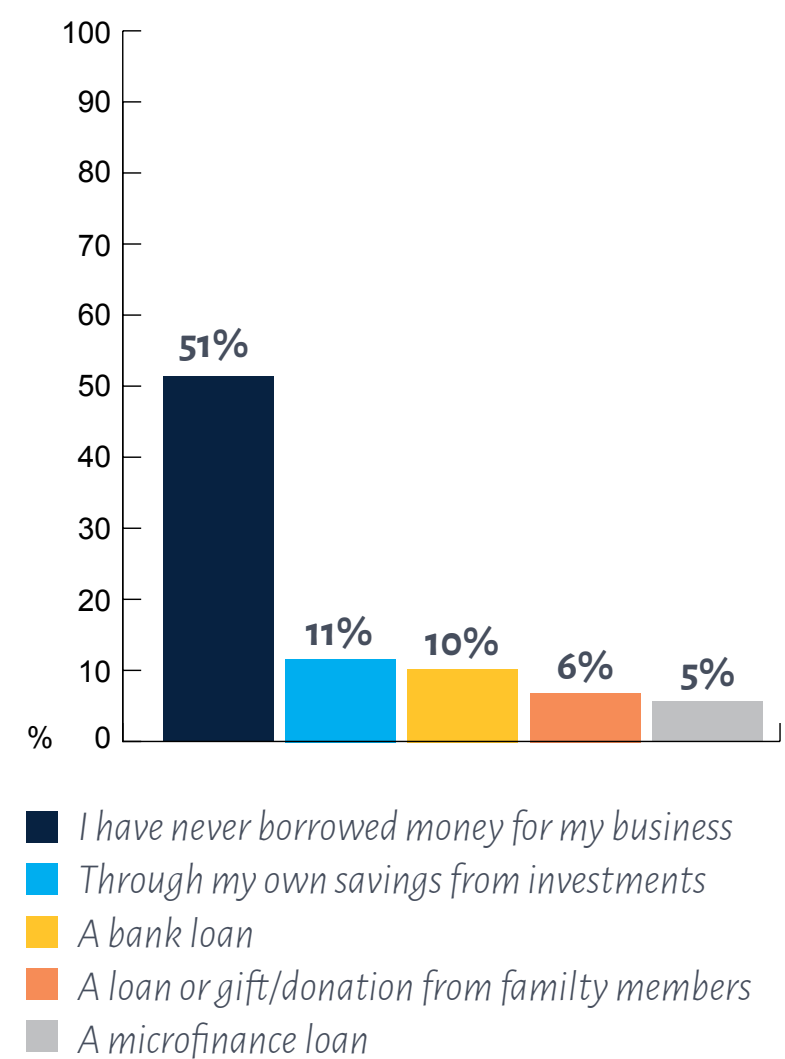
#### Box 4. Five Key Survey Insights on Women Owned MSMEs and Financial Services

- Of the surveyed MSMEs, 42 percent were owned by women. Women MSMEs typically operate in the wholesale, retail, education, and other service sectors. Surveyed women-owned businesses were growing as fast as male-owned businesses.
- The share of enterprises with more than 50 percent women-ownership decreases with size. Forty eight percent of micro businesses were female-owned, compared with 38 percent and 27 percent for small and medium business respectively.
- Women MSMEs found access to finance as challenging as male MSMEs (16 percent and 19 percent respectively). Key challenges faced by women starting a business include time to care for family and children (41 percent), perception of lack of management competence (31 percent), and disadvantage in raising initial capital (24 percent).
- Almost half of the women-owned MSMEs surveyed by IFC (44 percent), said they were more likely to choose a financial services provider that represents women in marketing and staff. For 27 percent, competitive interest rates and fees were more important than a 'for women' brand.
- Women-owned businesses in the survey sample were younger than male-owned businesses, with women-owned businesses existing for an average of 7.4 years compared with 10.3 years for male-owned MSMEs.

**Figure 7. Average Mark-Up on Sales, % of Full Sample**



**Figure 8. Most Recent Source of Finance, % Full Sample**



**Market Size: MSMEs Are Mostly Looking to Borrow More Than 2.5 Million Naira**

The IFC survey suggests that bank account ownership is high among MSMEs (95 percent), and evenly spread across sectors. The majority of MSMEs use business accounts for their transactions, but a third (37 percent) of the overall sample used only personal accounts. The use of personal accounts is higher among micro, informal, and women-owned MSMEs, and more common in agriculture and retail trade. Guarantee Trust Bank, Access Bank, First Bank, and Zenith were the top four banks used for personal accounts. This remained true across gender, business size, and sectors.

Access to finance was the main constraint to business growth identified by micro entrepreneurs (24 percent), small-scale businesses (22 percent) and medium-sized enterprises (20 percent) in IFC’s survey. Just over three quarters of respondents (76 percent) had not borrowed money in the past 12 months at the time of the survey. Out of all surveyed MSMEs, 7 percent had borrowed money for the business while 13 percent had taken goods on credit for business purposes.

A majority of sampled MSMEs (60 percent) used personal funds to start the business and most of the respondents (59 percent) required a value less than 2.5 million naira (\$6,195). Only 12 percent of surveyed businesses sourced startup funding from commercial banks. Medium companies sought funding from banks to a larger degree than micro and smaller

sized enterprises. Startup funds were mostly used for working capital, buying stock and to rent premises.

When asked where they sourced finance for their business last time they needed it, 11 percent of respondents said that they had used their personal savings while 10 percent had used a bank loan. Just over half of the MSMEs (51 percent) said they had never borrowed money for their business (figure 8). The financial products most popular among the sample were working capital (12 percent), bank guarantees (7 percent), and term loans (6 percent).

Just under two thirds of the surveyed MSMEs (61 percent) were not looking to bring in capital to the business in the near future. Of those who were considering seeking finance, 52 percent were looking to borrow more than 2.5 million naira (\$6,195) as shown in figure 9 on page 9. Just under a third of respondents (22 percent) seek finance to expand business premises, and 16 percent want to purchase more goods.

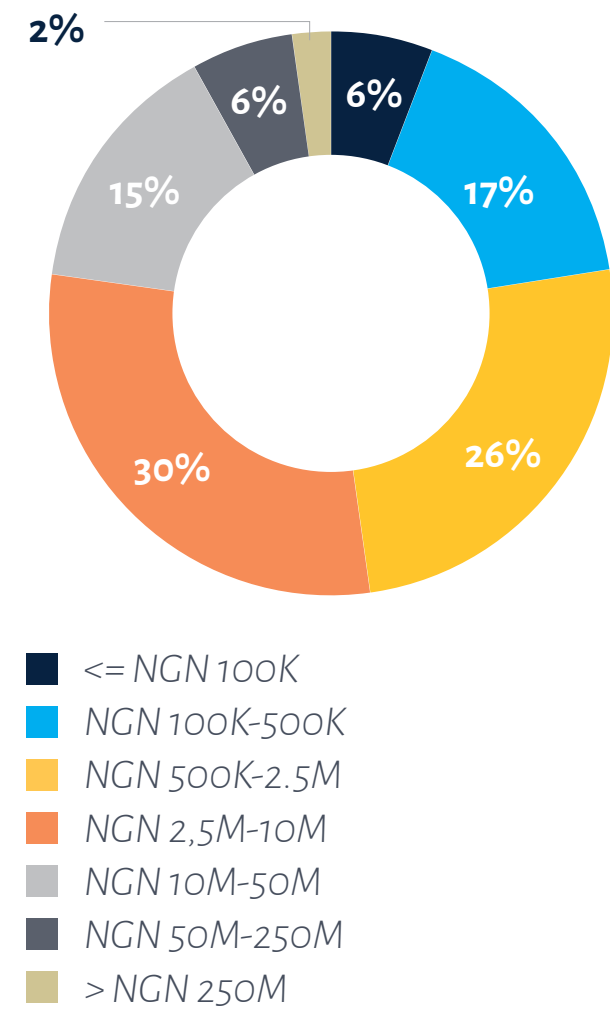
Based on the expressed median loan size required in the survey, IFC estimates that the demand for credit by MSMEs in Nigeria is 13 trillion naira (\$32.2 billion). Based on this methodology (see Box 5 for details), the segments with the highest numbers of MSMEs have the highest demand for credit. These segments are micro enterprises and MSMEs in the agriculture, wholesale and retail trade sectors. These sectors are characterized by informal micro entrepreneurs that are typically underserved.

For those MSMEs that were not looking to borrow funds for the business, the main reason was that there was no need for such a loan (42 percent). Some considered interest rates too high (19 percent), and others prefer not to owe debt (12 percent). Only 7 percent said they consider the collateral requirements too high, and only 2 percent said it was because they lack credit history (had not borrowed before).

**Box 5. Methodology: Estimated Demand for Credit**

To estimate total credit demand we used IFC MSME survey results on the percentage of MSMEs that want to borrow in future, and the median loan amounts requested per business segment. This is then applied to the total MSME market figures across business size and sector.

**Figure 9. How Much Would You Like to Borrow, n=379**



**Digital: DFS Use is Low but Whatsapp Marketing Indicates Digital Possibilities**

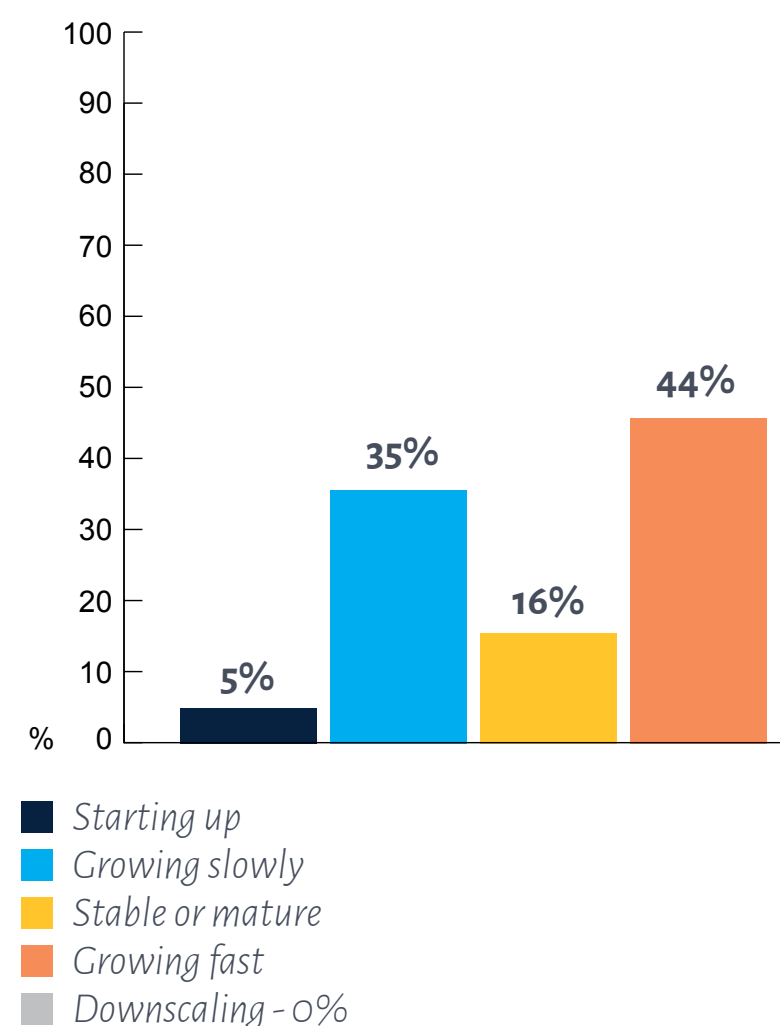
Cash is the dominant method for MSMEs to receive payments for products and services (84 percent), although a majority also use bank transfers (55 percent) and some use money transfers (12 percent). MSMEs noted that cash is the easiest, fastest and safest form of payment for their business. The acceptance of alternative payment methods increased with the size of the business.

In terms of channels, ATMs and bank tellers were the dominant channels for the MSMEs surveyed by IFC (70 percent and 60 percent respectively). Digital channels are becoming more utilized however – a trend that has accelerated during the COVID-19 pandemic, according to stakeholder interviews. Forty-four percent of all respondents were using mobile banking, 16 percent internet banking, and 7 percent used agents.

Almost a fifth of surveyed MSMEs (19 percent) said they accept mobile money payments for the business, but only 5 percent said mobile money is the most convenient way for them to get paid by customers. Of those accepting mobile payments, the main challenges were slow transaction confirmation and transaction costs.

Of the respondents who were using mobile banking, 74 percent found it saves them time, 70 percent said it was more convenient, while 49 percent considered it safe and easy to use. Forty six percent of the whole survey sample said they were using WhatsApp for marketing, although only 3 percent of those who were considering getting a loan would prefer to apply through SMS or WhatsApp.

**Figure 10. State of Business, Wholesale and Retail Trade, n = 265**



### Sector Spotlight: Young Micro Enterprises Dominate Retail Trade

Nigeria’s relatively large and fast-growing urban population provides a ready market base for food products, consumer goods, building materials and services. The wholesale and retail trade sector account for 33 percent of all MSMEs<sup>30</sup>.

The rapidly evolving e-commerce sector potentially amplifies this market, leading to an increasing number of MSMEs in the transport, storage, and ICT sectors.

There is a high presence of informal micro enterprises in the retail stage of the value chain, and a medium presence of MSMEs in the logistics and wholesale stages competing with larger corporates in transporting and supplying products to retailers, kiosks and open-air market vendors. There is a low number of MSMEs in the processing stage, discussed further in the manufacturing section on page 12.

Of the 265 surveyed MSMEs active in the wholesale and retail trade sector, 71 percent are micro entrepreneurs, 22 percent small businesses and 8 percent medium-sized firms. A large majority of these (82 percent) were sole proprietorships, and businesses in the sector had been in existence for an average of 8.5 years. Most were selling something at value (62 percent), while 18 percent were adding value before selling.

About half (55 percent) were running their first business, while 37 percent had had one or more businesses before. Most (60 percent) believe they contribute to the growth of the economy, and 37 percent said they were contributing to job creation. Almost half of the surveyed MSMEs, 44 percent, said they were growing fast, while 35 percent were growing slowly, and 16 percent were stable or mature (figure 10).

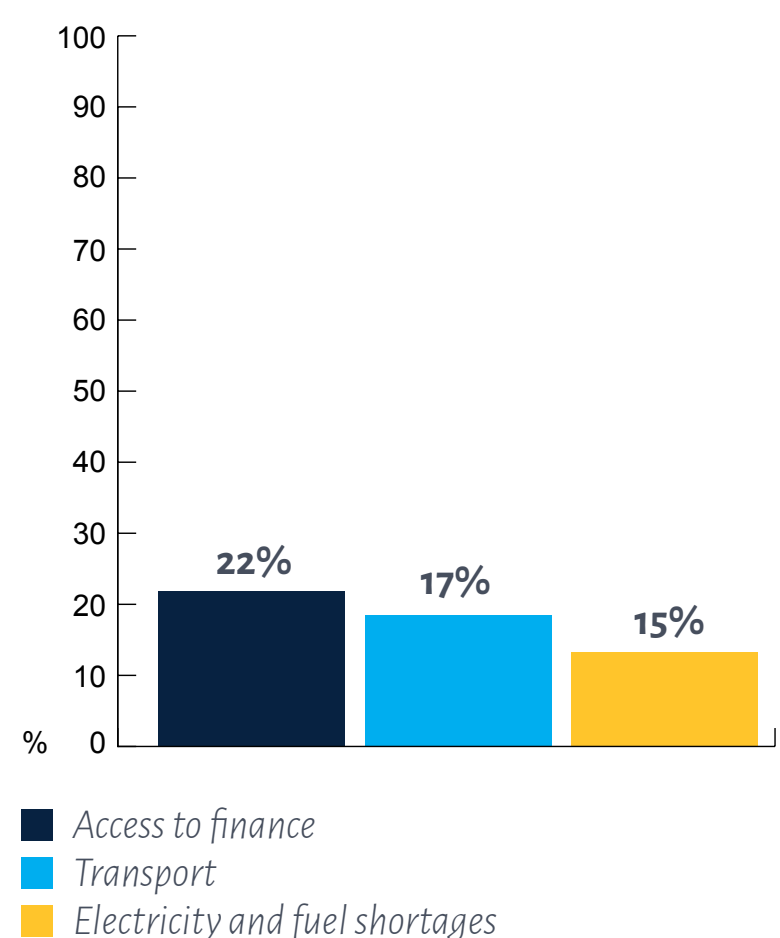
Access to finance was the biggest obstacle to business growth in this sector (figure 11). Somewhat fewer MSMEs in the sector are banked (92 percent) than the overall sample, primarily using business accounts (53 percent). Just under three quarters of retail MSMEs use ATMs (74

percent), 42 percent use mobile banking, 13 percent internet banking, and 7 percent use agent banking.

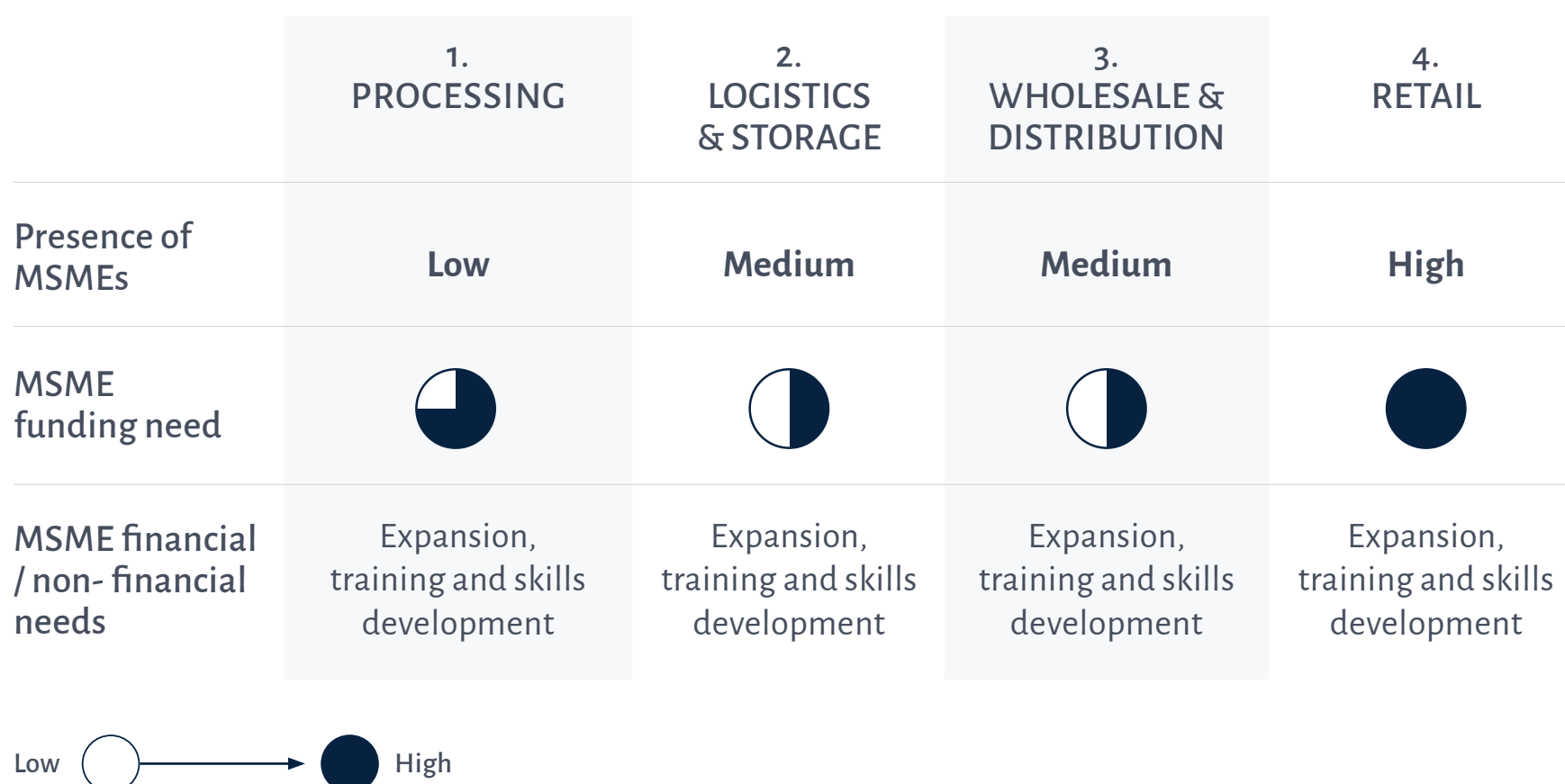
Recent credit use in this sector was in line with the overall sample with 7 percent of respondents in the sector having borrowed in the past 12 months, primarily working capital finance. A further 11 percent had taken goods on credit for the business in the same period, and 4 percent were repaying or owing money for the business. Loans were generally less than 1 million naira.

A majority of MSMEs in the wholesale and retail sector were not considering getting a loan in the future (63 percent), while those that do, plan to do so for one or multiple of the following reasons: to expand business premises (20 percent), buy more goods (20 percent), and to start a business (14 percent). Of those seeking credit, 27 percent were looking to borrow between 500,000 thousand and 2.5 million naira while 54 percent were seeking more than 2.5 million naira.

**Figure 11. Top Three Obstacles to Business Growth for MSMEs in Wholesale and Retail Trade, n=265**



### Market Snapshot: MSME Financing Opportunities in the Wholesale and Retail Trade Value Chain



30 SMEDAN National MSME Survey, 2020

### Sector Spotlight: Many MSMEs in Agriculture Value Chain are Growing Fast

Agriculture plays a central role in the economy, accounting for 26 percent of GDP and 21 percent of all MSMEs<sup>31</sup>. The sector is a key focus of government's economic development plans and will likely remain so in the medium term. Financial institutions interviewed by IFC for this report indicated an increasing appetite to serve the sector by designing specialized products for MSMEs in agriculture.

The agricultural value chain for crop production, livestock, forestry, and fishing cuts across the primary, secondary and tertiary sectors and includes traditional farming activities, inputs, production, processing, and distribution. MSME activity in the agricultural value chain is primarily in the inputs, post-harvest treatment, processing, and distribution and retail stages.

Of the 170 MSMEs in IFC's survey active in the agriculture sector, 66 percent focused on livestock while 18 percent were engaged in crop production. The majority were

sole proprietors (76 percent) and businesses in the sector had been in existence for an average of 7 years. Close to two thirds of the respondents (62 percent) believed they contribute to the economy and 45 percent said they were creating jobs.

The growth indicators for MSMEs in the agriculture sector were in line with the average for the full sample, with 39 percent saying their businesses were growing fast, 17 percent were stable or mature, and 36 percent were growing slowly. Eight percent were starting up and only one MSME was downscaling, as seen in figure 12.

Access to finance was cited as the main obstacle to business growth by 28 percent of respondents, above the average for the whole sample of 23 percent (figure 13). A majority (94 percent) of MSMEs in the agriculture sector used a bank account for business purposes, and almost half (47 percent) primarily use a business account. Just over two thirds (69 percent) of agriculture MSMEs use ATMs, 40 percent use mobile banking, 13 percent internet banking, and 4 percent use agent banking.

A slightly higher-than-average percentage of MSMEs in the agriculture value chain had borrowed in the past 12 months (9 percent), primarily working capital finance. A slightly lower-than-average percentage had taken goods on credit (11 percent) in the past 12 months, and 4 percent were repaying or owing money for the business (in-line with the average). Loans in the sector were generally less than 1 million naira.

In terms of financing needs, 56 percent of respondents in the agriculture sector were not thinking of getting a loan, while those who plan to, do so for one or multiple of the following reasons: to expand the business premises (26 percent), to buy equipment (18 percent), and to buy more goods/stock (18 percent). About a quarter of those seeking credit (27 percent) were looking to borrow between 500,000 and 2.5 million naira, and about 47 percent were seeking more than 2.5 million naira.

Figure 12. Agriculture MSME Business State, n=170

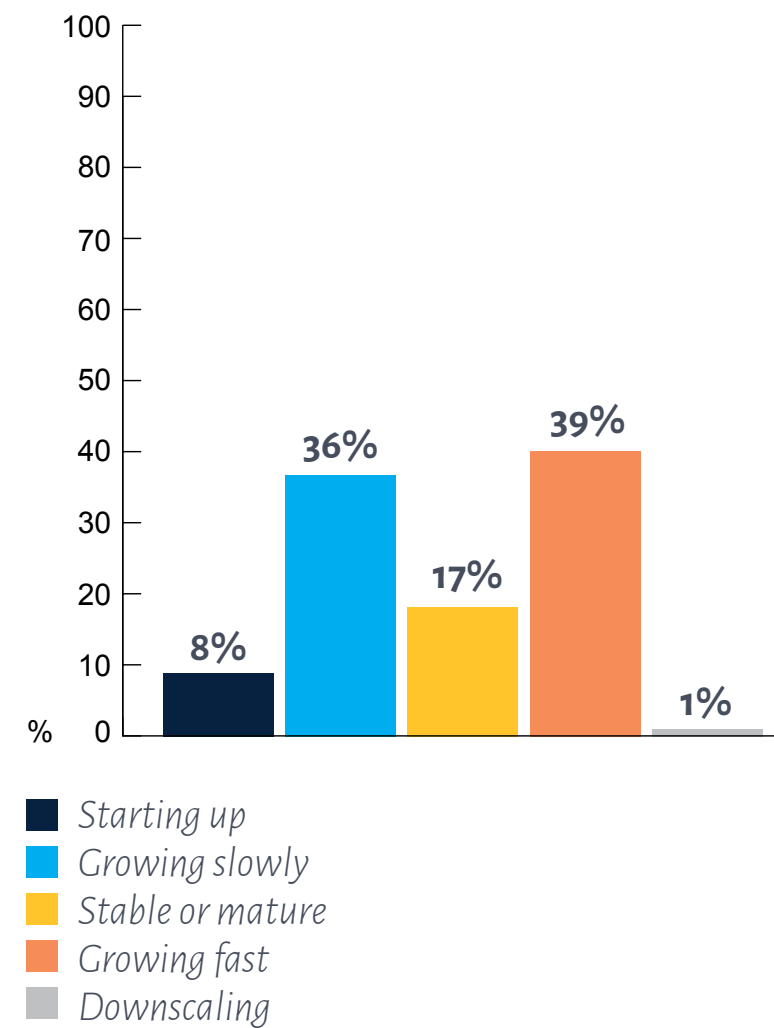
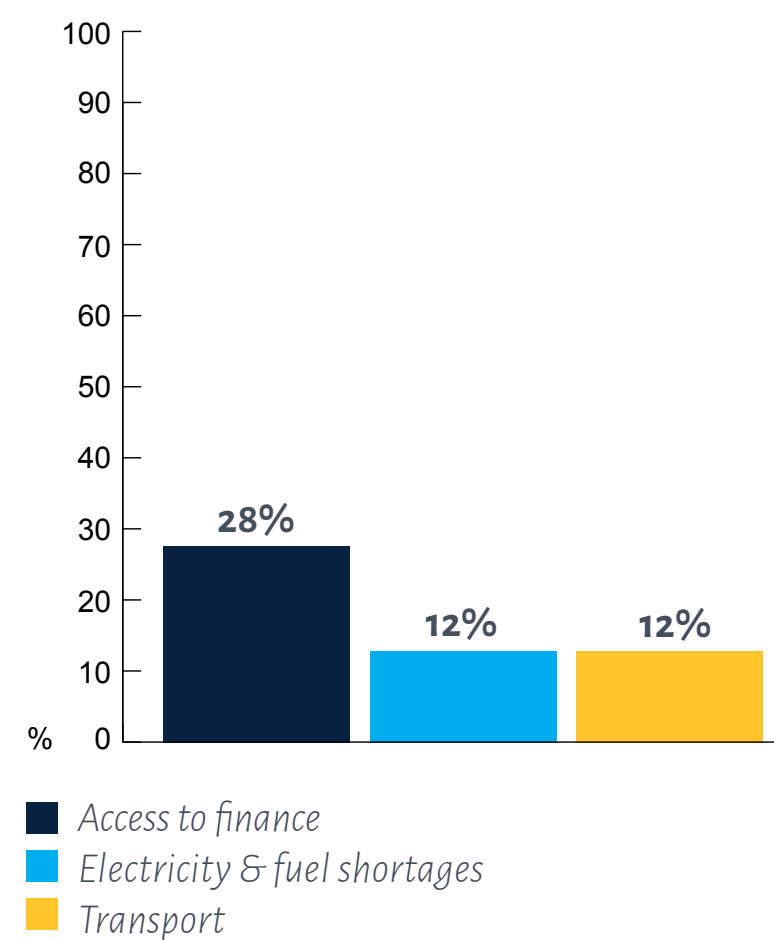


Figure 13. Top Three Obstacles to Business Growth for MSMEs in Agriculture, n=170



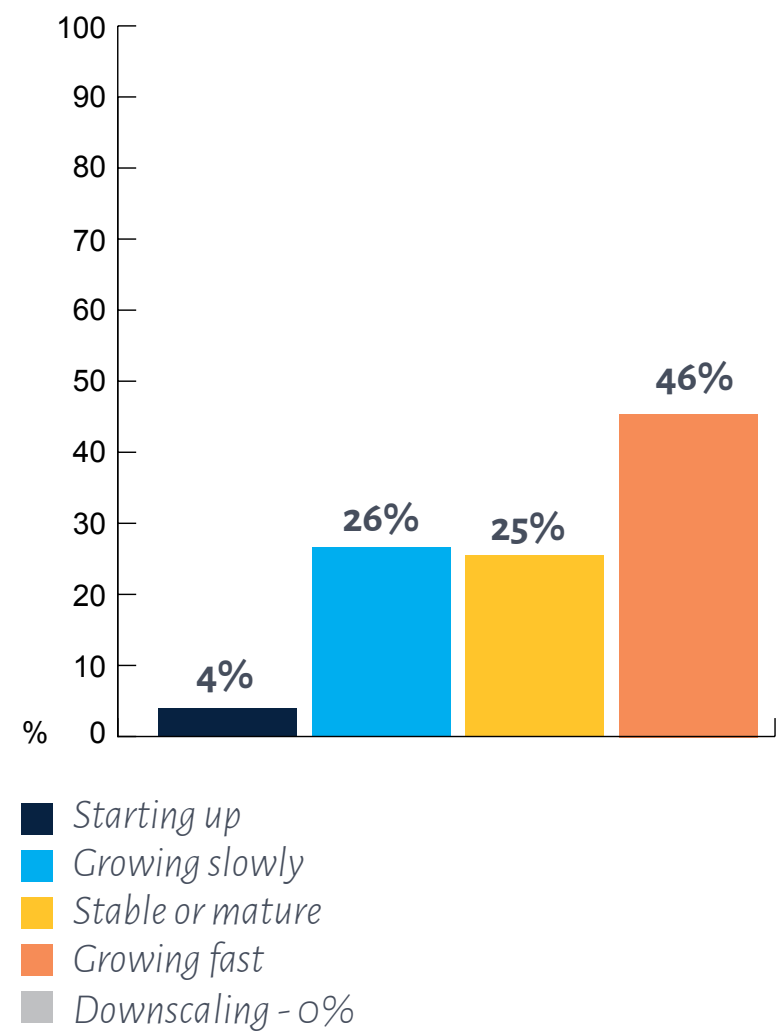
### Market Snapshot: MSME Financing Opportunities in the Agricultural Value Chain

	1. AGRICULTURAL INPUTS	2. PRIMARY ACTIVITY	3. INTERMEDIATE PROCESSING	4. COMPLETE PROCESSING	5. DISTRIBUTION & RETAIL
Presence of MSMEs	Moderate	Low	Moderate	Moderate	High
MSME funding need	◐	◑	◐	◐	●
MSME financial / non-financial needs	Training and skills development	Assistance in managing finances for cyclical business	Training and skills development	Training and skills development	Support to expand their business

Low ◐ → ● High

31 Genesis Analytics team analysis 2021, based on SMEDAN MSME Survey 2017

**Figure 14. Business State in Manufacturing Sector, n = 133**



**Sector Spotlight: Almost All Manufacturing MSMEs Have Bank Accounts**

The manufacturing sector accounts for 5 percent of all MSMEs in Nigeria and includes the production of food, beverages, textile, apparel, footwear, and cement. The textile, apparel and footwear industry contribute 22 percent to total manufacturing output and have a strong potential for growth due to the availability of cotton<sup>32</sup>. MSMEs are present across the value chain.

Of the 133 surveyed MSMEs active in the manufacturing sector, 70 percent are sole proprietors and on average had been in existence for longer than 10 years. Just over half of the MSMEs (52 percent) sell something they make, such as crafts, clothes, food, or furniture. About half (45 percent) were first time businesses, and 35 percent had run one or more businesses previously.

Most of the surveyed MSMEs in the manufacturing sector were growing fast (42 percent), while a quarter (27 percent) were stable or mature. Another 27 percent

were growing slowly, while 4 percent were starting up and none were downscaling (figure 14). A majority of the respondents (59 percent) believe they are contributing to economic growth, and 53 percent said they contribute to job creation.

Access to finance was the main obstacle to business growth for 26 percent of surveyed MSMEs, above the average of the full sample at 23 percent (figure 15). Almost all MSMEs in this sector (97 percent) have a bank account, primarily a business account (65 percent). Among surveyed MSMEs in manufacturing, 66 percent use ATMs, 44 percent use mobile banking, 17 per cent internet banking, and a high 10 percent use agent banking.

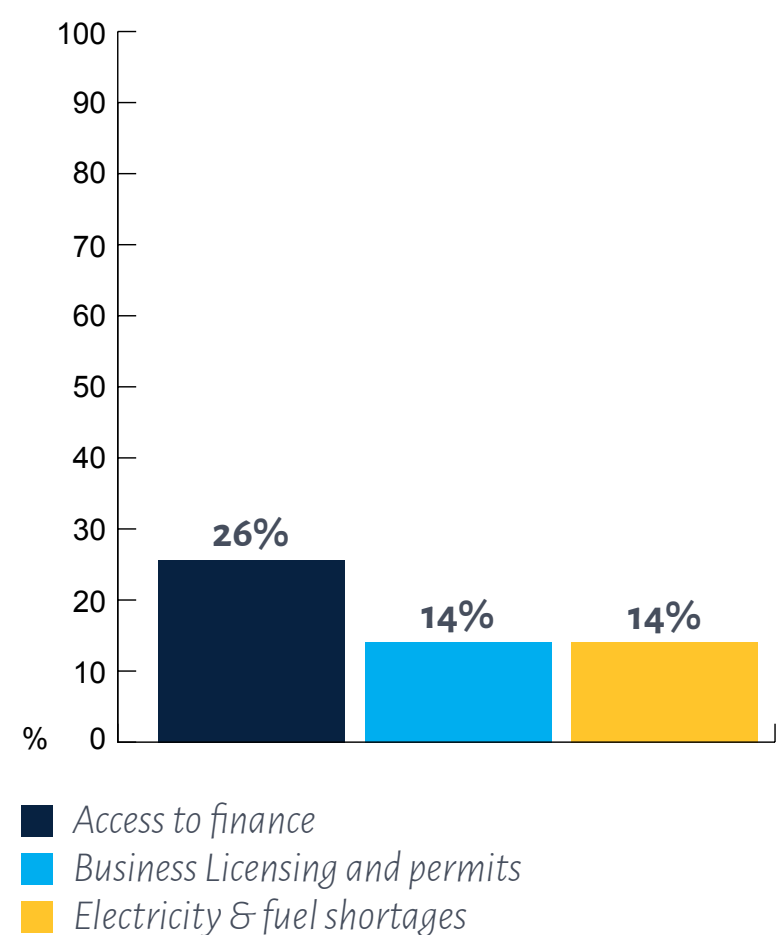
Fewer manufacturing MSMEs had borrowed in the past 12 months (5 percent) than the overall survey sample, primarily overdrafts. The sector was slightly below the overall sample in terms of how many had taken goods on credit (11 percent). However, a higher-than-average

share of MSMEs were repaying or owing money for the business (5 percent). Loans were generally less than 1 million naira.

Almost two thirds of the surveyed MSMEs in the manufacturing sector as a whole (63 percent) were not thinking of getting a loan, while those who plan to, do so for one or multiple of the following reasons: to expand business premises (18 percent), buy equipment (18 percent), or to start a business (17 percent). Of those who were considering getting credit, 38 percent sought less than 2.5 million naira and 61 percent sought more than 2.5 million naira.

32 National Bureau of Statistics (NBS) GDP Report, 2020

**Figure 15. Top Three Obstacles to Business Growth for MSMEs in Manufacturing, n=133**



**Market Snapshot: MSME Financing Opportunities in the Textile and Apparel Value Chain**

	1. FARMING	2. SPINNING	3. WEAVING, KNITTING & FINISHING	4. DESIGN & SEWING	5. DISTRIBUTION & RETAIL
Presence of MSMEs	High	Low	Moderate	High	High
MSME funding need	High	Low	Moderate	High	High
MSME financial / non- financial needs	Assistance in managing finances for cyclical business	Training and skills development	Training and skills development	Support to expand their business	Support to expand their business

Low ○ → ● High

**Market Snapshot: MSME Financing Opportunities in the Footwear Value Chain**

	1. RAW HIDES & SKINS	2. LEATHER PROCESSING	3. FOOTWEAR MANUFACTURERS	4. DISTRIBUTION & RETAIL
Presence of MSMEs	High	Low	High	High
MSME funding need	High	Low	High	High
MSME financial / non- financial needs	Training and skills development	Training and skills development	Support to expand their business	Support to expand their business

Low ○ → ● High

# 04

## Demand for MSME Finance

### Informal Micro Entrepreneurs Offer Key Opportunity

Table 2 on page 14 presents an analysis based on the survey results and contextual research, highlighting opportunities for formal financial institutions to grow the MSME finance business. The assessment is based on the number of MSMEs in a segment, uptake of financial services in the segment, and the estimated effort required to serve a segment effectively.

Based on this methodology, the segment with the best opportunity for financial institutions to expand MSME finance is informal micro entrepreneurs. Unlocking this opportunity will require that financial institutions support the formalization and capacity building of clients. Informal MSMEs already have a moderate uptake of retail banking products and use of alternative delivery channels for banks to build on.





































































On the sectoral side, the most significant opportunity to generate non-interest income lies in the sectors with high volumes of person-to-business and business-to-business payments, such as wholesale and retail trade and manufacturing. To fully capture this opportunity, it is critical to expose MSMEs and end-consumers to the benefits of digital payments over cash. E-commerce platforms, including WhatsApp, may serve as important entry points.

While the high cost and risk associated with serving informal and formal MSMEs of all sizes have long been obstacles to expanding credit to such businesses, today's innovations and collaborative frameworks open up the possibility to build and strengthen the fundamentals of a small and medium enterprise finance business and to develop more advanced offerings and tools to serve MSMEs in a sustainable way.

These include enhanced operational efficiencies and cost-effective portfolio management leveraging alternative credit-scoring models and other data analytics tools, as well as alternative delivery channels that extend reach beyond the traditional branch network. On the product side, value chain financing, financing to women-owned businesses, and non-financial services can break new ground.

Table 2. MSME Finance Opportunities in Nigeria

Low  →  High

MSME Segment	Prevalence	Uptake of transaction services	Uptake of formal FI financing	Effort required to serve segment	Current penetration by banks	Opportunity to generate interest income	Opportunity to generate non-interest income
Micro	Very High					Moderate	Low
Small	Low					Low to Moderate	Moderate
Medium	Low					Low to Moderate	Moderate to High
Formal	Low					Moderate	Moderate to High
Informal	High					High	Low to Moderate
Female owned MSMEs	Moderate					Moderate	Low to Moderate
Male owned MSMEs	High					Moderate	Moderate
Agriculture	High					Moderate	Low to Moderate
Manufacturing	Moderate					High	Moderate
Construction & real estate	Low					Moderate	Moderate
Trade	Very High					High	High
Hospitality	Moderate					Moderate	Moderate to High
Professional Services	Low					Moderate	Low
Education	Low					Moderate	Moderate
Mining & quarrying	Low					Low to Moderate	Moderate
Other services	High					Moderate	Low to Moderate
Transport & Storage	Moderate					Moderate	Moderate to High



# 05

## Supply of SME Finance

### MFB Lending to MSMEs Double That of Commercial Banks

In the three years to 2020, overall lending to MSMEs in Nigeria increased by 42 percent to a total of about 590 billion Nigerian naira (\$1.6 billion). As shown in Table 3, most of the credit came from microfinance banks followed by private equity/venture capital. Commercial banks are only the third largest source of finance to the MSME sector, with the segment estimated to receive about one percent of the total loan portfolio<sup>33</sup>.

Informal micro entrepreneurs, making up the lion's share of the MSME market segment, are currently primarily served by microfinance banks. IFC's survey confirms that uptake of financial products and services remains generally low in this segment. MSMEs that are formalized and larger use a broader range of financial products and services, and a higher portion source funding from banks.

Banks are increasingly establishing dedicated MSME business units and creating bespoke MSME products, although many offerings remain basic. Bank lending to MSMEs is still generally geared towards medium enterprises, as micro and small-scale businesses are excluded as potential clients by the MSME definitions employed by many of the banks.

Stakeholders in the financial industry interviewed for this report cite lack of collateral and insufficient credit information as the key obstacles to MSME lending. They also mention insufficient documentation and deficient financial records (partly due to reliance on cash transactions) and poorly articulated loan applications as factors making it challenging to expand MSME finance.

The banks with the largest number of MSME clients offer a broad range of MSME products, with limited treasury offerings and gender-specific products. Standard products include MSME-tailored accounts, overdraft facilities, working capital loans, inventory financing and government-subsidized long-term finance, while more advanced offerings include digital lending and e-commerce platforms.

DFS are playing an increasing role in financial inclusion, with a growing number of digital channels and agent networks. Mobile payments are dominated by non-bank actors, providing digital financial tools to MSMEs to accept payments via basic digital channels, including unstructured supplementary service data (USSD) and point of sale (POS). However, mobile money operators and payment service banks are not permitted to offer loans.

**Table 3. Estimated Formal MSME Finance Supply Per Type of Financial Services Provider, 2019**

	Type of financial service provider	Number	Estimated MSME finance supply
1	Microfinance Banks (MFBs) <sup>34</sup>	704	~ NGN 240B/USD 658M
2	Private Equity and Venture capital <sup>35</sup>	Unknown	~ NGN 230B/USD 640 M
3	Commercial Banks <sup>36</sup>	22	~ NGN 124B/USD 340M
4	Digital Financial Services (DFS)	200	Unknown
5	Development Finance Institution (DFI) <sup>37</sup>	7	Finance MSMEs through banks/ MFBs
	<b>Total</b>		<b>~ NGN 594B/USD 1.65B</b>

<sup>33</sup> Genesis Team Analysis, 2021 – total MSME loans as a percentage of total net loans

<sup>34</sup> NBS Selected banking sector data, 2019

<sup>35</sup> African Startup Funding Landscape 2020 - Startuplist Africa - Available here

<sup>36</sup> CBN Financial Sector Statistical Bulletin 2020

<sup>37</sup> The CBN reports that DFIs have a net loan of NGN 885 billion (\$2.4 billion) in their books, of which at least part is for MSME lending. Notably, the Development Bank of Nigeria (DBN) and NEXIM Bank partner with banks and MFBs to disburse loans to MSMEs. The gap between DFI lending and bank lending is a function of low disbursement by commercial banks

\* VC funding is significant due to transaction size and not necessarily volume. Therefore, most MSMEs, especially micro enterprises, access finance from MFBs and banks at smaller ticket sizes

\*\* Exchange rate: \$1= N360 (31-12-2019 rate on <https://www1.oanda.com/currency/converter/>)

Between 2014 and 2020, Nigeria's fintech start-ups raised more than \$1.04 billion in funding<sup>38</sup>. In 2020 alone, it is estimated that the industry raised \$439 million, equal to 20 percent of the amount raised by all African tech startups<sup>39</sup>. The Fintech Association of Nigeria reports that payments, mobile money, and lending (in collaboration with MFIs) jointly constitute approximately 60 percent of the sector<sup>40</sup>.

Most of the MSMEs surveyed by IFC were satisfied with their primary financial provider; 40 percent said they were 'very satisfied' and 53 percent said they were 'satisfied.' More of the medium sized businesses were very satisfied than micro and small businesses. An impressive 96 percent of MSMEs said they were likely or very likely to recommend their financial services provider to another business.

Most MSME clients (33 percent) chose their current financial services provider based on recommendations from other business owners. If MSMEs found relationship managers were not proactive or easy to reach, this could be reason to switch to another provider. High interest rates and fees could also prompt a change in providers.

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38 *African Startup Funding Landscape 2020 - Startuplist Africa*

39 *EY, Nigeria Fintech Census, 2020 Available: [https://www.proshareng.com/news/FINTECH/Nigerian-FinTechs-Raised-\\$439m-in-2020/57099](https://www.proshareng.com/news/FINTECH/Nigerian-FinTechs-Raised-$439m-in-2020/57099)*

40 *Fintech Association of Nigeria, Nigeria Fintech Census, 2020*

# 06

## Conclusions & Recommendations

Measures to improve access to finance for MSMEs cut across various dimensions necessary for business growth and development.

### 1. Addressing informality will support access to finance for MSMEs and revenue collection for the government.

There are 38.4 million informal MSMEs in Nigeria, accounting for 97 percent of all MSMEs. Many informal enterprises often do not have a business bank account but operate their business using a personal bank account. In addition, they do not have proper record-keeping processes in the form of financial accounts or audited financial statements. As a result, formal financial institutions typically do not serve informal MSMEs due to the know your customer (KYC) requirements.

#### Recommendations for government and public authorities:

- The CAC could ensure that the business registration process is more accessible to MSMEs, taking account of, for example, their constraints in internet access and power availability. For example, the CAC could partner with banks and other financial institutions to enable MSMEs to register businesses while opening a business account or applying for a loan. In turn, the CAC can automate the opening of a bank account for MSMEs that can register their business through the CAC platform.
- The Ministry of Finance may increase awareness of tax incentives for newly registered MSMEs that could significantly reduce the cost of compliance and encourage formalization. Based on feedback, radio should be included as a dissemination tool to reach MSMEs, especially in rural areas.

#### Recommendations for industry associations:

- Enhance ongoing efforts to provide business development services to MSMEs that include information on the benefits of formalization. Associations are strongly encouraged to use radio as a dissemination tool to reach MSMEs.
- Create a business registry desk to encourage registration of all members. This desk could provide direct support to formalize businesses.

#### Recommendation for financial institutions:

- Partner with the CAC to integrate business registration with account opening or loan application processes.
- Work with public authorities, business associations, and other relevant stakeholders to inform existing and potential MSME clients on the benefits of formalization.

### 2. Addressing the quality and accessibility of credit information will support the ability of financiers to assess MSMEs creditworthiness.

Lack of traditional and alternative credit information makes credit scoring of loan applicants difficult, which adds to the real and perceived risk of lending to MSMEs. Similarly, collateral is a key barrier for MSMEs to access financing. The development of an enabling legal framework for credit information sharing and the existence of three credit bureaus is a significant step towards closing the gaps in credit assessment and risk management. In addition, the enactment of the Secured Transaction in Movable Asset Act, 2017, and the introduction of the National Collateral Registry (NCR) has made it possible for MSMEs to leverage movable assets to access credit.

An essential step to further improve the quality and accessibility of credit information is to enhance the awareness and use of credit bureaus and the NCR.

#### Recommendation for government and public authorities:

- Improve the use of the credit bureaus through incentives and awareness programs and redesign (where required).
- Improve the use of the NCR through awareness programs.
- Enforce full compliance with the credit reporting requirements.
- Allow for the integration of the credit information system with other public databases, e.g., business registration, collateral registries, the National Identification number, and bank verification number.

- Expand the credit reporting infrastructure by accelerating the onboarding of non-bank financial institutions that are not currently submitting information to the credit bureaus.
- Support small lenders such as unit MFBs, state MFBs, and cooperatives to adopt Banking-as-a-Service (BaaS) and Application Programming Interface (API) banking technology to digitize their operations and submit data to the credit reporting service providers.
- Support the adoption and use of alternative data, such as airtime lending and repayment information, for credit reporting services.

#### **Recommendations for private sector financial market actors:**

- Actively report credit information to the credit bureaus and NCR.
- Introduce innovative technology and tools for alternative credit scoring methods, credit assessments and portfolio management, based, for example, on data from airtime lending by telecoms and digital financial services.
- Provide non-financial support to MSMEs to enable MSMEs to keep proper financial records; this could be done by partnering with fintechs.
- Further develop and enhance asset-based lending products such as invoice discounting, factoring and leasing, that have lower collateral requirements.

### **3. Improving the operational models of financial institutions using innovative technologies would improve the efficiency for MSME service delivery and reduce the cost of serving the MSME sector.**

High operational costs and inefficiencies prevent financial institutions from effectively serving the MSME market. Through innovative partnerships with fintechs, payment service banks and mobile network operators, they could digitize their operations which would result in increased efficiencies and reduction in the cost of serving MSMEs, particularly in customer acquisition and service delivery (e.g., KYC/onboarding, account opening, credit assessment and loan repayment).

#### **Recommendation for government and public authorities:**

- CBN to develop open banking regulations and API standards to support access to personalized customer data such as income ratings and credit scores. An inclusive, open banking regulation would improve service efficiency, reduce MSME risk profiles and, ultimately, reduce lending rates.
- Extend the reach of the Shared Agent Network Expansion Facilities (SANEF) program to cover underserved communities.

#### **Recommendations for financial institutions:**

- Explore alternative distribution models to reach underserved MSMEs efficiently through agent networks, and electronic and mobile banking. This may include partnerships with Agency-as-a-Service fintechs or the government's SANEF programs.
- Explore partnership opportunities to digitize processes to increase customer convenience and realize operational efficiencies. Such partnerships could include working with API-as-a-Service fintechs for KYC/onboarding and loan assessment.
- Optimize and improve awareness of alternative channels, including USSD banking.
- Consider partnerships with digital marketplaces and e-commerce platforms to drive information-sharing, marketing, and non-financial services.

### **4. Developing customized financing products for MSME market segments to improve reach and meet the needs of specific MSME sub-segments.**

Commercial banks are reluctant to lend to MSMEs at affordable rates, partly because of the existing unlevel playing field and market distortions resulting from CBN's subsidized development finance initiatives. Additionally, current MSME product offerings are quite standard with limited customization for specific MSME subsegments, such as women entrepreneurs and specialized sectors. There is a need to design and implement new, bespoke products based on the specific needs of key market segments.

#### **Recommendations for government and public authorities:**

- Develop and implement risk-sharing arrangements with financial institutions to encourage them to increase their funding to specific MSME market segments.
- Review impacts of subsidized finance initiatives and adjust to avoid market distortions.

#### **Recommendations for industry associations:**

- To provide information to financial institutions on the product needs of MSMEs and regarding potential segmentation parameters such as industry, geography, asset size, and turnover, that could serve as a basis for financial institutions to explore the development of products targeted to such market segments.

#### **Recommendations for financial institutions:**

- Develop customized product offerings for MSMEs, including asset and liability products, to meet the needs of key MSME sub-segments.

## 5. Improving Nigeria's business development services market would help create an enabling MSME ecosystem and improve access to finance for the business growth.

Given that micro business comprise 98.3 percent of MSMEs in Nigeria, there is an urgent need for capacity development and business support services targeted at these smaller enterprises. In cities where capacity development support is available, MSMEs are often hindered by fees to access these services. As a result of the COVID-19 pandemic, several Nigerian industry associations migrated physical capacity development programs online. However, challenges associated with internet connectivity (access and affordability) has hampered the access of MSMEs to these types of programs.

### Recommendations for government and public authorities:

- To increase the reach and impact of capacity-building initiatives, the government should create a support network of training institutions to provide customized training and mentorship programs for MSMEs. In addition, the governments can build the capacity of these institutions to ensure high quality services are offered. Key areas of focus should be financial literacy, governance, and market intelligence.

### Recommendations for industry associations:

- Raise awareness of existing public and private sector business development services (BDS) to MSMEs through information campaigns in partnership with government and industry.
- Partner with telecoms to provide free data to access online capacity building programs/courses.
- Partner with radio stations to disseminate capacity development programs.
- Industry associations should also consider partnering with financial institutions as service providers. They could offer capacity building to MSME customers of financial institutions and connect their constituents with financial institutions in such events.

### Recommendations for financial institutions:

- Design appropriate non-financial products/services to help build the capacity of MSME clients. Non-financial products/services can include:
  - (a) Business and market-related knowledge and information. This can include information on business registration and benefits of formalization, legal/tax policies, and industry knowledge.
  - (b) Financial management and business education. For example, on how to expand a business, customer relations, and how to improve productivity.
  - (c) Business guidance and advice by connecting MSMEs to experts, mentors and coaches.
  - (d) Access to markets through networking events (with suppliers, buyers and peers), access to e-commerce platforms, trade fairs, recognition programs, etc.
  - (e) Access to SME digital platforms to promote digitization of records and support MSMEs in improving operational efficiency and productivity.
- Leverage technology to provide these essential non-financial products/services to MSMEs to increase reach and reduce costs. For example, information can be disseminated through websites, social media, radio. Training can be offered through on-line workshops.
- Provide clients with networking opportunities to learn and gain support from peers. Such events may also serve as marketing channels for financial products.

# 07

## How the Research Was Done

This report is based on a survey of 980 MSMEs in Nigeria conducted in the South-South, South-East, South-West, North-West, and North-Central regions in July 2021 and March 2022, as well as stakeholder interviews and desktop research of relevant reports and statistics.

The March 2022 survey was conducted in the Abuja region only, to correct imbalances in the original July 2021 survey sample in Abuja (results that were removed). Although the timing of the Abuja region survey differs from that of the rest of the survey, we believe the results reflect the reality on the ground for Nigerian MSMEs in aggregate. The question for which the timing matters most is that of the outlook for the next three months, with results presented separately for the March 2022 sample.

The survey sample was skewed towards MSMEs that are smaller and urban-based. (55.2 percent micro enterprises, 31.4 percent small firms, and 13.4 percent medium sized firms). There were more male-owned firms (58 percent) than women-owned businesses (42 percent), and more than half of respondents were between 30 and 39 years old. The sectors most prominently represented in the survey sample were wholesale and retail trade (27 percent), agriculture (17 percent), manufacturing (14 percent), other service activities (13 percent), accommodation and food services (8 percent), and professional, scientific and technical works (5 percent).

The survey covered almost 300 questions on business performance, financial services, and financial literacy. Additionally, in-depth interviews were held with 20 stakeholders representing the public, private, financial and non-governmental organization (NGO) sectors to corroborate data and deepen understanding of the MSME market context. Stakeholder interviews covered how MSME policy priorities translate into actions that benefit MSMEs, feedback that stakeholders are receiving from MSMEs on the support they need to access finance, and the benefits and challenges MSMEs encounter when working with financial services providers.

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# Acronyms

	DEFINITION
AFDB	African Development Bank
BDS	Business Development Services
BOI	Bank of Industry
CAC	Corporate Affairs Commission
CBN	Central Bank of Nigeria
CIT	Company Income Tax
COVID-19	Coronavirus pandemic
DFI	Development Finance Institutions
DFS	Digital Finance Services
ECOWAS	Economic Community of West African States
EUR	European Euros
FCT	Federal Capital Territory
FI	Financial Institutions

GDP	Gross Domestic Product
GTP	Growth and Transformation Plans
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IMF	International Monetary Fund
KYC	Know Your Customer
MSME	Micro, Small, and Medium Enterprise
NBS	National Bureau of Statistics
NIRSAL	Nigeria Incentive-Based Risk Sharing System for Agricultural Lending
NIBSS	Nigeria Inter-Bank Settlement System
NRC	National Collateral Registry
POS	Point of Sale
SANEF	Shared Agent Network Expansion Facilities
SCF	Supply Chain Financing
SME	Small and Medium Enterprise
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SSA	Sub-Saharan Africa
TIN	Tax Identification Number (TIN)
UNDP	United Nations Development Programme
USD	United States Dollars
USSD	Unstructured Supplementary Service Data (a GSM communications protocol used by standard mobile phones)

## IFC Market Bites

IFC Market Bites is a series of reports based on comprehensive market assessments conducted by IFC's Financial Institutions Group to provide market knowledge and support financial inclusion in Africa.

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