ACCESS TO FINANCE:
CHALLENGES OF LENDING TO MSMEs &
AGRICULTURAL ENTERPRISES

By

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at the
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• In emerging markets:
  - 25-30m SMEs
  - 55-70m formal micro enterprises
  - 285-345m informal enterprises and non-employer firms.

• 17.3 m MSME in Nigeria
  - 17.2 m (99.87%) micro enterprises
  - 21,264 (0.12%) small enterprises
  - 1,654 (0.01%) medium enterprises (GTZ, NBS and SMEDAN Collaborative Survey Report 2010)
# MSME & Agriculture as Driving Force for Economic Development

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment in SMEs</th>
<th>Contribution to GDP</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>70</td>
<td>68</td>
<td>40</td>
</tr>
<tr>
<td>USA</td>
<td>52</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>UK</td>
<td>53</td>
<td>52</td>
<td>27</td>
</tr>
<tr>
<td>H/Kong</td>
<td>78</td>
<td>51</td>
<td>37</td>
</tr>
<tr>
<td>India</td>
<td>79</td>
<td>40</td>
<td>38</td>
</tr>
<tr>
<td>Nigeria</td>
<td>75</td>
<td>10</td>
<td>3</td>
</tr>
</tbody>
</table>
MSMEs & Agriculture as Driving Force for Economic Development in Nigeria

- 96% of Nigerian Business are MSMEs
- 70% of Manufacturing Sector are SMEs
- SMEs Contribute 10% of GDP
MSMEs Definition in Nigeria Cont’d

**Micro Enterprises**
Asset not greater than N5mn (excluding land and buildings) with workforce not exceeding ten employees.

**Small Enterprises**
Asset >N5Mn not exceeding N50Mn (excluding land and building) with workforce more than 10 persons, but not exceeding 49 employees.

**Medium Enterprises**
Asset >N50Mn not exceeding N500mn (excluding land and building) with workforce btw 50 and 199 employees.

Source: National Policy on SME - SMEDAN 2010
MSMEs & Agriculture as Driving Force for Economic Development in Nigeria

Key Contributor to GDP

- MSMEs & Agriculture contributes 46 and 40 per cent respectively to GDP

Productivity

- Boosts productivity and increase national savings

Innovation

- Development of local technology and technological innovativeness

Employment Creation

- Solution to the upward trend in unemployment. Provides a platform for employment and wealth creation, poverty reduction, reducing rural-urban drift, arresting youth restiveness and crime reduction.

Income Generation

- Increase income generation and the utilization of available domestic resources, including raw materials to deliver quality products and services
Distribution of MSMEs in the Niger Delta

- Cross River State: 472,291
- Rivers State: 585,241
- Edo State: 491,220
- Ondo State: 490,761
- Delta State: 486,023
- Akwa-Ibom State: 447,589
- Bayelsa State: 420,233
- Abia State: 407,428
- Imo State: 408,761

Niger Delta Development Forum
No. of Micro Enterprises by States in the Niger Delta Region

<table>
<thead>
<tr>
<th>State</th>
<th>Number of MSMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abia</td>
<td>407,428</td>
</tr>
<tr>
<td>Akwa-Ibom</td>
<td>447,589</td>
</tr>
<tr>
<td>Bayelsa</td>
<td>420,233</td>
</tr>
<tr>
<td>Cross Rivers</td>
<td>472,291</td>
</tr>
<tr>
<td>Delta</td>
<td>486,023</td>
</tr>
<tr>
<td>Edo</td>
<td>491,220</td>
</tr>
<tr>
<td>Imo</td>
<td>408,761</td>
</tr>
<tr>
<td>Ondo</td>
<td>490,761</td>
</tr>
<tr>
<td>Rivers</td>
<td>585,241</td>
</tr>
</tbody>
</table>

**Total MSMEs = 4,209,547.00**

Source: National Bureau of Statistic/SMEDAN 2010

All Data as of 2010
Challenges to Lending to MSMEs & Agriculture

- Poor Credit Worthiness
- Dis-incentivizing Policies
- Poor Market Access
- Inadequate Information
- Low Human capital development
- Slow Judicial System
- Low Capacity Utilization

COMMON ISSUES

Source: National Policy on SME - SMEDAN 2010
Challenges to Lending to MSMEs & Agriculture

- 'Survivalist' informal sector that is large and expanding
- MSMEs’ sector slow in integrating into the formal sector
- Lack of understanding of the legal, regulatory and other policies of government
- Weak coordinated effort among the three tiers of government on MSMEs
- Fragmented small holder farmers
- Land tenure system
- Parlous infrastructure
- Dysfunctional financial infrastructure
39.7 per cent adult Nigerians are financially excluded (EFInA, 2012).

The need to bring financial services to doorsteps in the Niger Delta Region is imperative and urgent.
Closing the MSMEs & Agriculture Financing Gap

• 164 models of MSME finance interventions (Legal and regulatory, Financial Infrastructure, Public, Private Sector models, International Agencies)

• 8 key real sector interventions by the CBN
In Nigeria access to finance has been a major challenge to manufacturers, farmers and Micro, Small and Medium Enterprises (MSMEs). Loans to the agricultural sector accounts for only 2.5% of total lending even though the sector accounts for over 42% of the country’s GDP (2012).

‘Intervention’ is a strategic tool to improve access and bargaining power of key segments of the real sector in securing financial services.
CBN's Real Sector Interventions

Agricultural Finance Dept. established in 1977 transformed to Development Finance Department (DFD) in 2002

The mandate of DFD is to stimulate credit to the real sector and the financially excluded.

It develops and implements various policies, programmes and schemes targeted at the real sector.

Advice the Federal Government on agricultural commodities related issues.
CBN’s Real Sector Interventions

- Agric. Finance
- Micro Finance
- SME Finance
- Infra-structure Finance
- Capacity Building
AGRICULTURAL FINANCE

- Agricultural Credit Guarantee Scheme
- Trust Fund Model
- Interest Drawback Programme
- N50Bn Agricultural Credit Support Scheme
- N200Bn Commercial Agriculture Credit Scheme
- NIRSAL
- Commodity Promotion
SME FINANCING

- N200 Bn. SME Credit Guarantee Scheme (SMECGS)
- N200 Bn. SME Refinancing/Restructuring Facility (RRF)
- Secured Transaction and National Collateral Registry (NCR)
INFRASTRUCTURE
FINANCE

Power and Airlines Intervention Fund
CAPACITY BUILDING

Entrepreneurship Development Centres (EDCs)

NYSC Venture Prize Competition

Training of DMBs
The ACGS was established by Decree 20 of 1977 to provide 75 per cent guarantee cover in respect of loans granted to the agricultural sector by Deposit Money Banks.

Its share capital is N3Billion which has grown to N6.167 Billion. The Federal Government holds 60% and the Central Bank of Nigeria, 40% of the shares.

The Scheme is administered at market rate to farmers. Up to N20,000 without tangible collateral and the Guarantee is provided for maximum of N5 million to individuals and N10 million to Cooperatives and limited liability companies.
Agricultural Credit Guarantee Scheme (ACGS)

25% 

Banks take only 25% risk on Loans to Farmers

75% 

CBN Assumes 75% Risk on Loans to Farmers by Banks

Via a contingent liability fund of N100 million that has grown to N6.167 billion

835,649 Farmers

Performance

N67.065 billion

Provided 40% Interest savings worth N1.563 Billion through the Interest Drawback Programme (IDP)

N44.962 billion repaid by 630,258 farmers

N5.516 billion leveraged to support lending farmers through MOUs with 56 Stakeholders under the TFM

As of October 2013
The Commercial Agriculture Credit Scheme (CACS) was established in 2009 to finance large ticket projects along the agricultural value chain.

The scheme is operated by a N200 billion fund raised by the CBN through Debt Management Office for investment in commercial agriculture.

The Scheme is administered at a single digit rate of 9 per cent to beneficiaries for a 7 year period. State Governments, including the FCT can access a maximum of N1.0 billion each for on-lending to farmer’s cooperatives or other areas of agricultural interventions that suit them.
N200 Billion Commercial Agriculture Credit Scheme (CACS)

CBN CACS
N200 billion Fund

Deposit Money
Banks

N220.244 billion - Disbursed

Private Promoters
261 Projects

State Government
30 Projects

N26.282 Billion repaid by 52 projects

As of October 2013
N50 Bn Agriculture Credit Support Scheme (ACSS)

Purpose
ACSS introduced to enable farmers exploit untapped potentials of the country’s agricultural sector.

Funding
The scheme is operated through a virtual fund set up by the Federal Government with active participation of Deposit Money Banks.

Modality
The Scheme is administered at 14.0%. Farmers who payback on schedule enjoy a 6.0% rebate on the interest paid on loans, reducing the effective rate to 8.0%. The 6% rebate is paid by the CBN.

Repayment
N876.79 m rebate paid to 46 projects
The Central Bank of Nigeria (CBN), the Bankers Committee (BC) and the Federal Ministry of Agriculture & Rural Development, in trying to address the under-financing of the agricultural value chain introduced the Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL).

NIRSAL aims at achieving major two things:

- Fixing the agricultural and financial value chain to encourage banks to lend with confidence to the sector and
- Encouraging banks to lend to the agricultural value chain by offering them strong incentives and technical assistance.

By improving the capacity of banks to lend and creating a guarantee mechanism by which the brunt of credit related risks are shared, NIRSAL’s integration is driven by 5 pillars addressed by an estimated USD 500 million provided by the CBN.
Nigeria Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL)

NIRSAL creates access to finance by integrating end-to-end agriculture value chains with financing value chains.
The integration is driven by NIRSAL’s 5 pillars, particularly the Risk Sharing Pillar and the Technical Assistance pillars . . .

NIRSAL (₦75 billion/ $500 million assets to stimulate lending financial institutions)

1. Risk sharing Facility (₦45B/ $300m)
   - Shares lending risks with banks (e.g. 50% loss incurred)

2. Insurance Facility (₦4.5B/ $30m)
   - Link insurance products to the loan provided by the banks to loan beneficiaries

3. Technical assistance facility (₦9B/ $60m)
   - Build the capacity of banks, micro-finance institutions
   - Build capacity of agricultural value chains
   - Expand financial inclusion

4. Agricultural bank rating scheme (₦1.5B/ $10m)
   - Rate banks according to their effectiveness of lending to agriculture

5. Bank incentive mechanism (₦15B/ $100m)
   - Targeted incentives that move banks to a long term, strategic position and commitment to agricultural lending

Expand bank lending in agricultural value chains

NIRSAL Objective
De-risk agriculture finance value chain
Build long-term capacity
Institutionalise incentives for agriculture lending
Risk Sharing occurs in the form of selling a Credit Risk Guarantee...

- Potential lenders include traditional banks, microfinance institutions, trade finance providers, asset managers, and private equity funds.
- Credit instrument could be a loan portfolio, a loan, a bond or in some cases, a specific commitment letter.

- Potential borrowers include farmer groups (cooperatives), large corporate farmers, processing companies, agric service providers, logistics companies, wholesale distributors etc.
- Whole agribusiness value chain covered across all crops and livestock activities.
N200 Billion SME Restructuring and Refinancing Facility (SMERRF)

**Purpose**
To re-finance and restructure banks’ existing loan portfolios to manufacturers to improve access to finance as well as improve the financial position of DMBs.

**Funding**
The scheme is operated by a N200 Billion fund raised from debentures issued by the Bank of Industry (BOI) to fund SMEs and manufacturing sector.

**Modality**
The Fund is administered at 7% per annum payable on quarterly basis. The Managing Agent (BOI) is entitled to a 1% management fee and the Banks, a 6% spread. Loans shall have a maximum tenor of 15 years and or working capital facility of one year with provision for roll over.
N200 Billion SME Restructuring and Refinancing Facility (SMERRF)

As of October 2013

Pre-Intervention
Turn-Over: N504.832 Billion

CBN INTERVENTION

SMERRF

N235 Billion Disbursed to 535 Projects

PERFORMING LOANS

REFINANCE & RESTRUCTURE

Revive the Manufacturing Sector

Post-Intervention
Turn-Over: N661.867 Billion

Infuse Working Capital to Revive the Manufacturing Sector

Impacts

Pre-Intervention
Turn-Over: N504.832 Billion

Post-Intervention
Turn-Over: N661.867 Billion

23% increase in direct jobs created (62,275 to 78,670)

N38.1 bn repaid by 24 projects

23% increase in direct jobs created (62,275 to 78,670)

N38.1 bn repaid by 24 projects
N200 Billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

**Purpose**
To fast-track the development of the manufacturing SME sector of the Nigerian economy by providing guarantee for credit from banks to SMEs and manufacturers.

**Funding**
The raised N200 billion as contingent liability to provide 80% guarantee cover to banks’ SME loans.

**Modality**
Provide guarantee cover of 80% of principal and interest on term Loans to SMEs for refurbishment/equipment/upgrade/expansion, overdrafts, etc.
N200 Billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS)

- **20%**
  - Banks take only 20% risk on SME loans

- **80%**
  - CBN Assumes 80% risk on SME loans by providing Guarantees to Banks
  - Via a contingent liability fund of N200 billion

- **62 SME Projects**
  - Performance
  - N2.921 billion

As of October 2013
Secured Transaction and National Collateral Registry (NCR)

**Purpose**
- To establish a National Collateral Registry (NCR) to improve financing of MSMEs

**Need for the NCR?**
- In Nigeria a loan requires on average 140% of the value in collateral
- Only 5% of SMEs have access to finance in Nigeria
- Insufficient or suitable collateral have been among the top reasons for difficulty in accessing finance by SMEs
- Collateral Registry is a central database that records registration charges and collateral(s) created by borrowers on both movable and immovable properties to secure credit facilities provided by lenders.
National Financial Inclusion Strategy (NFIS)

**Purpose**

- To reduce adult financial exclusion rate in Nigeria, from 46.3 in 2010 to 20.0 per cent by the year 2020
- Financial Inclusion is achieved when adults\(^1\) have easy access to a broad range of financial products designed according to their need and provided at affordable cost.

**Strategies**

- NFIS launched on 23\(^{rd}\) October, 2012 by the President, Federal Republic of Nigeria, Dr. Goodluck Ebele Jonathan, GCFR,
- Bankers’ Committee at its retreat in Calabar, Cross River State on 7\(^{th}\) to 9\(^{th}\) December, 2012, adopted Borno State as the pilot State for NFIS’ implementation to address the problem of youth restiveness in Borno State.
- Development of payment channels, mobile banking, agent banking and Tiered -KYC
The MSME Development Fund was launched in August, 2013 with a take-off seed capital of N220 billion. The Fund has the broad objective of channeling long-term, low-interest funds to the MSME sector of the Nigerian economy through Participating Financial Institutions (PFIs).

**Purpose**

- 80% of the Fund is earmarked for Micro entrepreneurs
- 20% of the Fund for SMEs
- 60% of the Fund is particularly targeted at women entrepreneurs in Nigeria.
- 10% of the Fund shall be applied for grant purposes
- PFIs shall apply for the fund and administer to MSMEs

**Funding**

- Federal Government
- Central Bank of Nigeria
- Development Banks
- Private Sector
- Development Partners

**Modality**
N300 Billion Power and Airlines Intervention Fund (PAIF)

**Purpose**
Stimulate and sustain private sector investment in the power and airline sectors as well as fast track the development of both sectors of the economy.

**Funding**
PAIF is operated with a N300 billion fund raised via debentures issued by the Bank of Industry (BOI) in accordance with section 31 of the CBN Act 2007, the funds was investment in power and airline projects.

**Modality**
The funds are to be channeled through the BOI for on-lending to the Deposit Money Banks at a maximum interest rate of 1.0 per cent for disbursement at concessionary interest rate of not more than 7.0 per cent and a tenor of 10-15 years.
As of October 2013

- $1.16919$ billion
  - 16 Airline Projects
- $1.15734$ billion
  - 30 Power Projects

(i) 800.4 megawatts generated
(ii) $10.6$ B
(iii) $11$ B interest expenses saved
Six (6) Entrepreneurship Development Centers (EDCs)

One in each of the six geo-political zones of Nigeria to train graduates in entrepreneurship to create a pool new class of entrepreneurs in Nigeria

<table>
<thead>
<tr>
<th>Geo-Political Zones</th>
<th>No Trained</th>
<th>Job Created</th>
<th>Start – up &amp; expanded</th>
<th>Linkage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lagos</td>
<td>18,167</td>
<td>3,204</td>
<td>1,059</td>
<td>715</td>
</tr>
<tr>
<td>Kano</td>
<td>12,694</td>
<td>5,161</td>
<td>2,371</td>
<td>930</td>
</tr>
<tr>
<td>Onitsha</td>
<td>10,967</td>
<td>3,049</td>
<td>1,425</td>
<td>98</td>
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<tr>
<td>Calabar</td>
<td>639</td>
<td>178</td>
<td>81</td>
<td>None</td>
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<tr>
<td>Makurdi</td>
<td>1,079</td>
<td>63</td>
<td>37</td>
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<tr>
<td>Maiduguri</td>
<td>922</td>
<td>0</td>
<td>0</td>
<td>None</td>
</tr>
<tr>
<td>TOTAL</td>
<td>44,468</td>
<td>11,655</td>
<td>4,973</td>
<td>1,743</td>
</tr>
</tbody>
</table>
Closing the Financing Gap for MSMEs & Agriculture

- Improving the policy and regulatory environment
- Strengthening institutions (e.g. MFIs, Cooperatives)
- Deepening cooperation between private and public stakeholder
- 20% of all procurement contracts be set aside for the financing of MSMEs & Agriculture
- Establishment of Venture Capital with contribution from Government & Private Sector
- Building local capacity
- Cluster development for MSMEs & Agricultural Value Chain (AVC) with High Growth Potential
- Develop databases for MSMEs & AVC
- Develop business resource centers (BRCs)
How to Access CBN Schemes & Programmes by MSMEs

- You can obtain details on how these schemes operate from the Development Finance Office of the Central Bank of Nigeria Branch nearest to you.

- You can also access the CBN website and read the products under Development Finance.

- Your banker can also advice you as most of them are operated through the Deposit money Banks.
THANK YOU