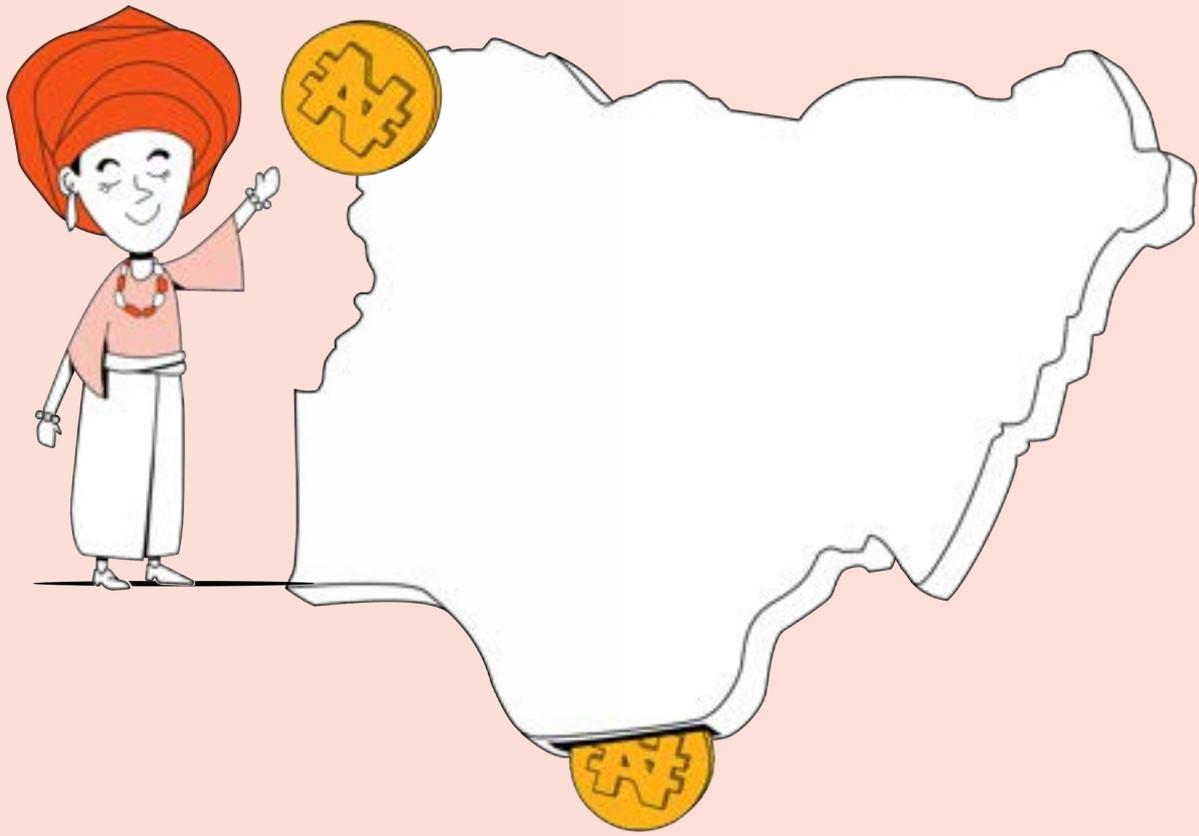


2022

Bridging the Access to Finance Gap for Nigerian Entrepreneurs





ABOUT THE FATE INSTITUTE

The FATE Institute is the research, policy and advocacy arm of FATE Foundation which leads innovative thinking and creates platforms to enable idea exchange and problem-solving strategies to foster sustainable entrepreneurship in Nigeria.

Since inception in 2015, the FATE Institute has published 14 thought leadership reports on Nigeria's Micro, Small and Medium Enterprises (MSMEs) and entrepreneurs; hosted an annual Policy Dialogue on Entrepreneurship; and in 2021 launched a quarterly Policy Workshop series.

The Institute also recently developed the Enterprise Data Map platform to track data and insights within the ecosystem and launched the pioneer FATE Institute Fellows Program this year.

The FATE Institute is a member of the Global Entrepreneurship Research Network (GERN), Aspen Network of Development Entrepreneurs (ANDE) West Africa and also the Facilitator of the Nigerian Economic Summit Group (NESG) MSME Community of Practice.



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FOREWORD

The FATE Institute of FATE Foundation is pleased to present this insight report reviewing policy and program approaches to bridging the access to finance gap for Nigerian entrepreneurs. Capital is the lifeline of any small and growing business and the most important factor that came out as a major challenge area for Nigerian entrepreneurs within our 2021 State of Entrepreneurship in Nigeria report.

In carrying out this study, we wanted to better understand the access to finance challenges from both the demand and supply sides while reviewing existing financing products; analysing insights from the implementation of government MSME funds; exploring innovative approaches particularly with the application of technology; and recommending policy enablers that can facilitate the deployment and successful implementation of financing strategies.

This report emphasises the importance of sustainable financial products and services that are easily accessible, affordable, relevant and sustainable. It also explores the importance of elevating communication channels that enable awareness of mechanisms that have been put in place to relieve collateral constraints while also leveraging digital technology as an enabler in bridging the supply and demand gap.

Given the strategic importance of NMSMEs to the country's socio-economic growth, impediments to accessing capital by entrepreneurs lead to barriers for achieving national and sub national wealth creation. Businesses need to access capital to grow, create jobs, and contribute to accelerating innovation, growth, investment and job creation. As we explore ways to create more sustainable NMSMEs, this report will help to identify critical factors and opportunities for eliminating identified barriers and facilitating successful policy and program implementation. It also identifies public, private and development sector roles which adopt a "Bottom-Up" approach to bridging the access to finance gap for Nigerian entrepreneurs.



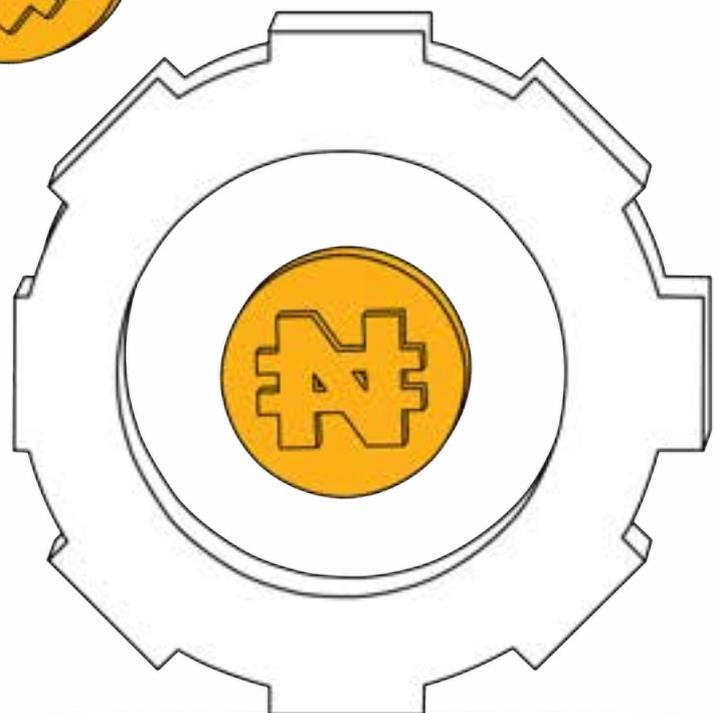
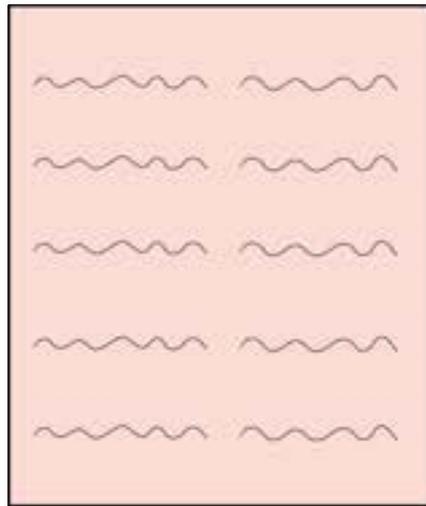
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Bridging the Access to Finance Gap

Bridging the Access to Finance Gap for Nigerian Entrepreneurs



EXECUTIVE SUMMARY



EXECUTIVE SUMMARY

Access to affordable finance is one of the topmost challenges facing entrepreneurs in Nigeria. Over the years, several studies have highlighted the extent to which small businesses are affected by limited access to affordable finance as well as the significance of addressing this problem in the quest of achieving higher economic growth and social inclusion.

In the 2022 State of Entrepreneurship (SoE) report released by The FATE Institute, **entrepreneurs in Nigeria ranked access to finance as the most important factor that needs to be addressed to improve the conditions of businesses in the country.** In view of this, FATE Institute embarked on this study to explore the magnitude of the problem and examine practical ways to improve the access to finance for entrepreneurs in Nigeria.

In exploring the different dimensions of the problem of access to finance, the FATE Institute conducted desk research, focus group discussions with relevant stakeholders and surveyed 8,611 businesses across the 36 states and the Federal Capital Territory (FCT) in Nigeria.

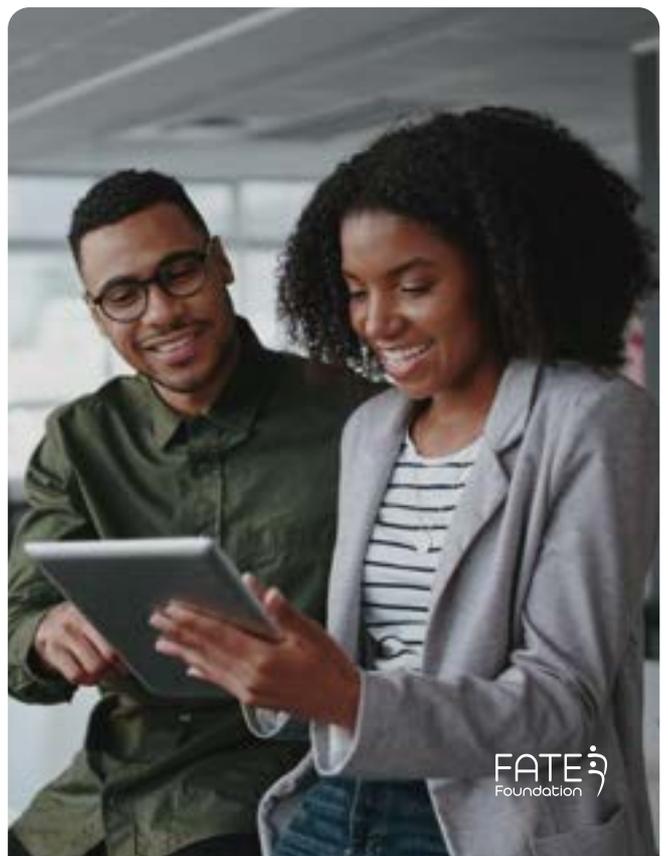
"...the FATE Institute conducted desk research, focus group discussions with relevant stakeholders and surveyed 8,611 businesses across the 36 states and the Federal Capital Territory (FCT) in Nigeria..."

KEY FINDINGS

Correlation between Access to Finance and Business Growth

- There appears to be a correlation between access to finance and business growth in Nigeria. Access to finance is among the most important ingredient for the growth of businesses in Nigeria. Findings from the 2022 SoE revealed that 75% of entrepreneurs whose businesses experienced growth in the last one year raised finance for their businesses. Similarly, of the businesses that were able to raise finance, 90% experienced growth in the last one year, while only 10% did not experience growth.

"...75% of entrepreneurs whose businesses experienced growth in the last one year raised finance for their businesses."



Key Funding Sources

- Majority of entrepreneurs that raised finance in the last one year reported personal savings (74%) and funds from family and friends (37%) as their main source of finance. In addition to these two sources, 38% and 14% accessed loans and grants, respectively.

Equity finance and angel investment had the lowest shares of 3% each, reflecting the fact that many businesses are not structured to attract such type of funding due to their informal nature. 30.5% of female entrepreneurs reported loans as a type of funding they accessed. Only 21.4% and 7% of youth entrepreneurs reported accessing loans and grants, respectively.

Institutional Sources of Finance

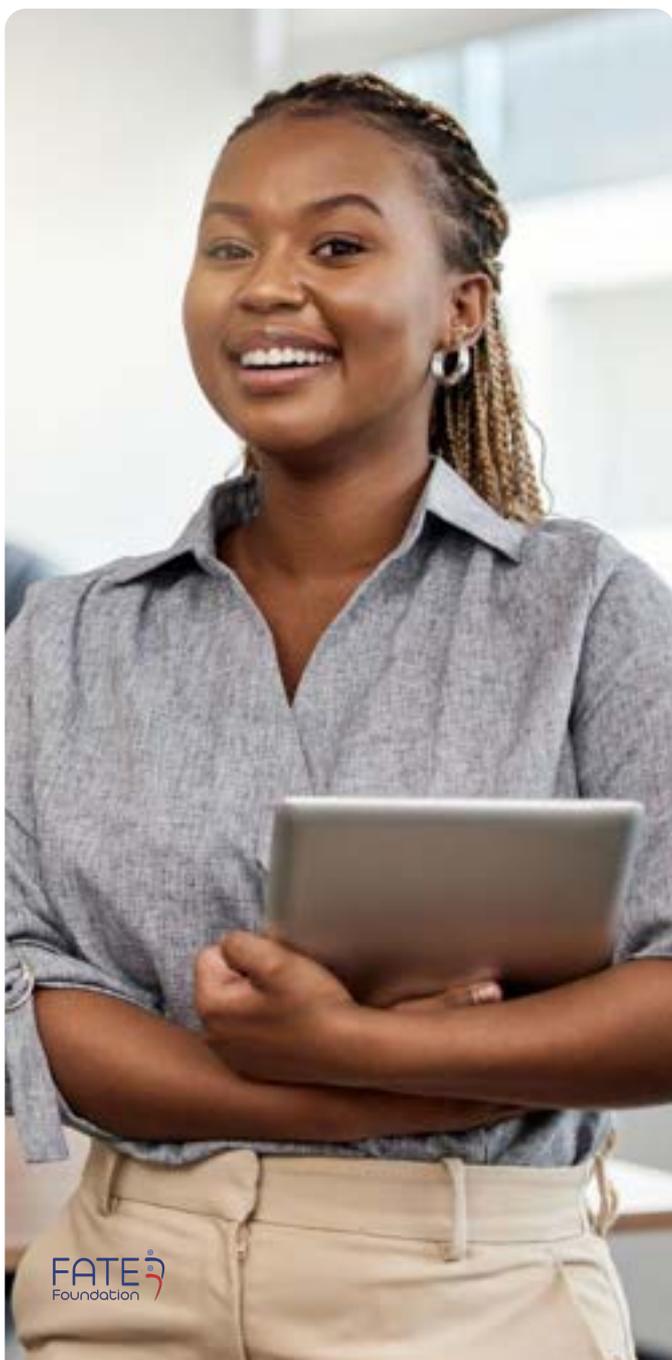
- Among the institutional sources of finance, cooperative societies (43.1%) and microfinance banks (27%) were ranked high by entrepreneurs that were able to raise finance. Meanwhile, only 19% received finance from commercial banks. This trend was also experienced for female-led and youth-led businesses that were surveyed.

Overall Financing Gap in Nigeria

- Nigeria has a large nano, micro, small and medium-scale enterprises (NMSMEs) financing gap. Commercial banks credit to the private sector stood at ₦22 trillion as at the end of 2021, but only 0.38% (₦83.7 billion) of this credit was disbursed to small-scale businesses, according to data from the Central Bank of Nigeria (CBN). Similarly, the CBN reported that Micro Finance Banks' claims on the private sector was ₦514.7 billion in 2021.

This is despite the important contribution of small businesses to GDP, employment, and economic growth. Given the nature of the operations of the commercial banks, credit to NMSMEs appears risky and less profitable, therefore, creating a huge financing gap.

“Commercial banks credit to the private sector stood at ₦22 trillion as at the end of 2021, but only 0.38% (₦83.7 billion) of this credit was disbursed to small-scale businesses...”



Addressing the NMSME Financing Gap

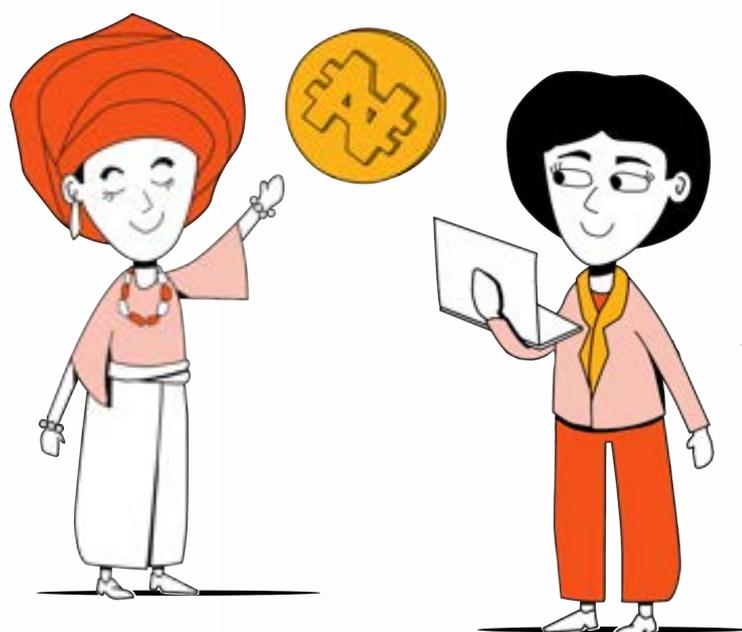
- Efforts to bridge the NMSMEs financing gap in Nigeria have included the offering of direct and cheaper loans to businesses by the government, the provision of credit guarantees to lending institutions, the passage of legislations to ease access to finance for small businesses, the establishment of policy measures to incentivise lending to small businesses and the offering of technical assistance and grants to entrepreneurs by multilateral and developmental agencies.

Even with these measures, businesses still face significant challenges in accessing finance mainly due to the absence of an effective coordination framework for NMSMEs funding in Nigeria, poor coverage of the intervention funds, absence of a suitable funding model tailored to cater for the needs of entrepreneurs in Nigeria and lack of preparedness of these businesses to access finance.

"...businesses still face significant challenges in accessing finance mainly due to the absence of an effective coordination framework for NMSMEs funding in Nigeria..."

Sensitisation of Legislative Initiatives

- Among the measures introduced by the government to bridge the financing gap is the passage of the Secured Transactions in Movable Assets Act, 2017 and establishment of the National Collateral Registry (NCR) initiative to address the challenge of huge collateral requirements by financial institutions. Our survey showed that 80% of entrepreneurs were not aware of the initiative.



Awareness is low among female-led and youth-led businesses as only 18.4% and 14.9% of female-led and youth-led businesses were aware of the initiative, respectively. Among those who were aware, 48% said they have accessed finance through the initiative. The need to create awareness about the initiative is crucial in bridging the finance gap in Nigeria.

"Awareness is low among female-led and youth-led businesses as only 18.4% and 14.9% of female-led and youth-led businesses were aware of the initiative, respectively."





The Way Forward

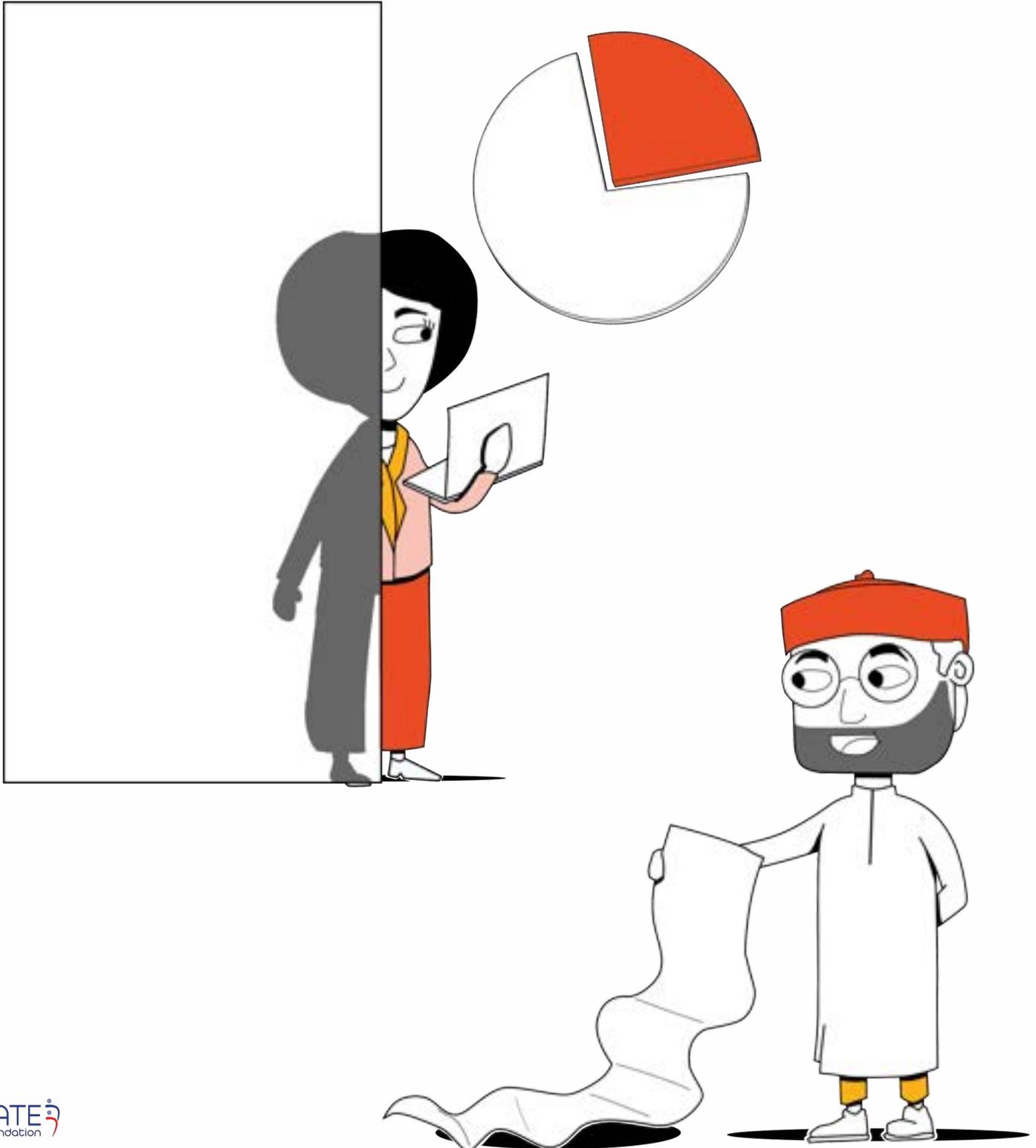
- As a way forward, financial institutions need to create NMSMEs-tailored financial products to leverage opportunities that the funding gap present, while ensuring risks are effectively mitigated. The creation of a credit risk database for NMSMEs along with harmonisation of credit information of individuals and businesses are crucial.

States and local governments' role in providing credit guarantee schemes that target nano, micro and small businesses is a good way to reach out to many small-scale entrepreneurs. Finally, improving the coverage of government intervention programmes as well as conducting effective monitoring and evaluation of such programmes are key measures to improve the funding landscape for small businesses in Nigeria.

“ ... financial institutions need to create NMSMEs-tailored financial products to leverage opportunities that the funding gap present, while ensuring risks are effectively mitigated.”



BACKGROUND



Limited Access to Finance, the Longstanding Problems of Nigerian Entrepreneurs

The role of nano, micro, small and medium-scale enterprises (NMSMEs) as a critical conduit of innovation, economic growth and development has been long established. NMSMEs, also referred to as small businesses in this report, account for 49.7% of Nigeria's Gross Domestic Product (GDP), 87.9% of the total employment, and 6.12% of total exports in 2020. Also, these businesses represent 96.7% of the total number of businesses in Nigeria, according to data from Small and Medium Enterprises Development Agency of Nigeria (SMEDAN).

"NMSMEs, also referred to as small businesses in this report, account for 49.7% of Nigeria's Gross Domestic Product (GDP), 87.9% of the total employment, and 6.12% of total exports in 2020."

As at December 2020, 39.65 million small businesses were operational in Nigeria, compared to 41.5 million MSMEs in 2019. During the height of the COVID-19 pandemic in 2020, about 37.3% of small businesses went out of operation (SMEDAN and NBS, 2021) as 73% of informal businesses faced liquidity challenges.

Limited access to affordable finance often ranks high among the challenges facing small businesses in Nigeria. In the 2021 State of Entrepreneurship (SoE) report, limited access to affordable finance was among the top five challenges faced by businesses. It was ranked as the most important factor that should be addressed to improve the state of entrepreneurship in Nigeria.



Admittedly, the Central Bank of Nigeria (CBN) recently revealed that access to capital is one of the most significant barriers to MSMEs' growth, as only 5% of the MSME operators could obtain funding for business continuity, survival, and expansion. This has undermined the crucial role of MSMEs in economic development and job creation (CBN, 2021).

"...only 5% of the MSME operators could obtain funding for business continuity, survival, and expansion."

The CBN further cited the underlying drivers of the financial gap in the NMSME space to include insufficient liquidity, multiple taxes, regulatory constraints, insecurity, corruption, political instability, land access, trade regulations, and incessant power outage among others. In the same vein, SMEDAN reported that only 15.4% of MSMEs in Nigeria were able to secure credit facilities as at 2020. Additionally, EFINA (2021) noted that while 57% of business owners are financially included, only 3% of them accessed formal financing in 2021.

“...SMEDAN reported that only 15.4% of MSMEs in Nigeria were able to secure credit facilities as at 2020.”

To explore the problem of access to finance in detail and reveal the dimensions, the FATE Institute conducted the 2022 State of Entrepreneurship Survey which captured the perception and experiences of entrepreneurs on accessing finance for their businesses.

The survey featured 8,611 businesses across the 36 states and the Federal Capital Territory (FCT) in Nigeria. Majority of surveyed businesses are start-ups, nano, micro and small in nature and are less than 10 years old. [\[See appendix for methodological note\].](#)



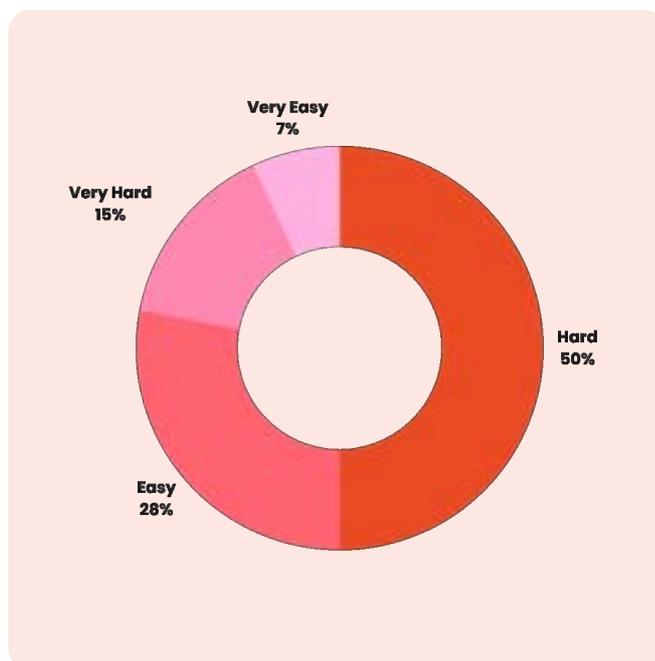
Majority of entrepreneurs in Nigeria said it is hard or very hard to access finance

In assessing how easy or difficult it is to access finance, 65% of entrepreneurs in the 2022 SoE survey said it is hard or very hard to access finance for their businesses. 28% said it was easy to access finance while 7% mentioned that it was very easy. There appears to be some disparities across gender, age, years of business existence and other indicators.

“...65% of entrepreneurs in the 2022 SoE survey said it is hard or very hard to access finance for their businesses.”

Among those that said it was easy and very easy to access finance, 58% are male-led while 42% are female-led. Within each gender, 67% of male-led businesses noted that it was difficult to access finance. This is lower for female-led businesses (62%).

Figure 1: How would you describe accessing finance for your business?





“Among those that said it was easy and very easy to access finance, 58% are male-led while 42% are female-led.”

From an age standpoint, younger entrepreneurs reported that it is more difficult in accessing finance in Nigeria. Findings show that 70% of youths (below 30 years) stated that it is hard or very hard to access finance, compared with 63% for 30 - 39 years and 40 - 49 years.

Similarly, entrepreneurs that manage younger businesses expressed more difficulty in access finance than those that manage older businesses. 71% of businesses that have been in existence for 1-5 years reported that it is hard or very hard to access finance while 29% stated that it is easy or very easy. In addition, of all the businesses that said it is difficult to access finance, 54% are 1-5 years old.



Whether businesses are run by full-time or part-time entrepreneurs is not a major factor in assessing how easy or difficult it is to access finance. However, business registration is important in accessing finance in Nigeria. While 67% and 65% of businesses that are run by full-time and part-time entrepreneurs, respectively, reported that it is hard or very hard to access finance, 61% of businesses that are registered said it was hard and very hard to access finance.

“...61% of businesses that are registered said it was hard and very hard to access finance.”

Although majority of entrepreneurs reported that they were able to raise finance in the last one year, the type of finance they raised matter.

Among the entrepreneurs surveyed, 63% reported that they were able to raise finance for their businesses in the last one year and 37% reported otherwise. Among entrepreneurs that raised finance, a significant share (60%) are males while 40% are females.

Majority of entrepreneurs accessed the following forms of finance: Personal savings (74% of respondents that access finance), loans (38%) and funds from family and friends (37%). The forms of finance accessed by entrepreneurs are discussed in detail in section 3.

“Among entrepreneurs that raised finance, a significant share (60%) are male while 40% are female.”

Figure 2: Have you been able to raise finance for your business over the past one year?

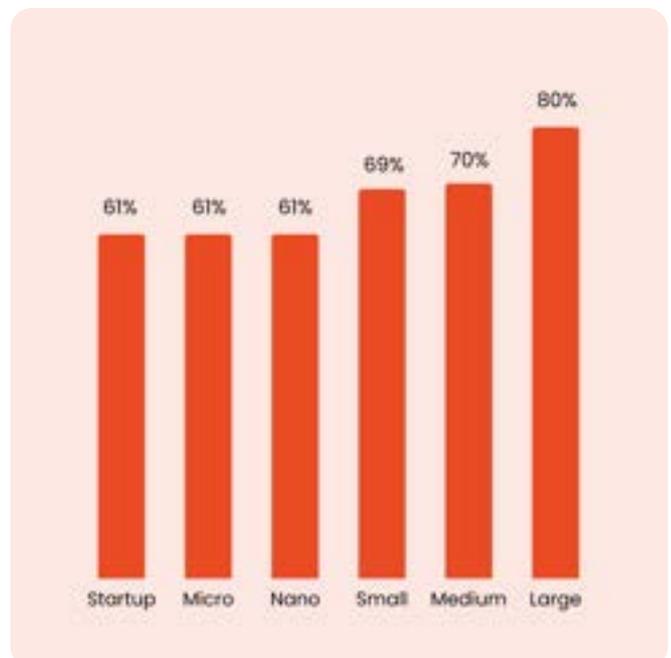


Demography of entrepreneurs that accessed finance in the last one year emphasised the importance of business size in accessing finance.

The size of a business matters in a firm’s ability to raise finance. With respect to business category by size, 41% and 38% of businesses that accessed finance are nano and small businesses respectively, the highest amongst all business categories. This is due to the dominance of these businesses (in terms of number of businesses) in the sample.

However, when the results are viewed as a proportion of each category, large businesses, followed by medium-sized and small businesses rank higher in accessing finance. Specifically, 80% of large businesses said they were able to raise finance. This is accompanied by 70% of medium-sized businesses, 69% of small businesses and 61% for start-ups, nano and micro businesses. Larger businesses have enough working capital and leverage to access finance than small businesses.

Figure 3: Access to Finance by Business Size (% of businesses in each category)



According to the survey, 83% of businesses that raised finance are managed by full-time entrepreneurs while the remaining 17% are managed by part-time entrepreneurs. This signifies the intensity of the challenge of access to finance, and the need for entrepreneurs to dedicate time and commitment in the search for, and application for funding.



“83% of businesses that raised finance are managed by full-time entrepreneurs while the remaining 17% are managed by part-time entrepreneurs.”

However, it is important to note that not all businesses that are managed by full-time entrepreneurs were able to raise finance. 36% of all full-time entrepreneurs say they were not able to raise finance.

Access to Finance is a critical element for business growth

Of the businesses that were able to raise finance, 90% experienced business growth in the last one year, while only 10% did not experience growth. Essentially, this finding correlates with several studies that argue that access to finance is an important ingredient in the growth and expansion of a businesses. Similarly, among businesses that have experienced growth, 75% of them were able to access finance.

CHALLENGES ENTREPRENEURS FACE IN ACCESSING FINANCE IN NIGERIA

Understandably, majority of surveyed entrepreneurs that did not access finance cited high interest rate as a major constraint. Nigeria’s lending rate has remained high, averaging 28% in the first half of 2022, according to data from the Central Bank of Nigeria. With such high interest rate, many entrepreneurs are less eager to seek loans from commercial banks especially in view of an already tough business environment that limits competitiveness.

In addition to high interest rate, lack of adequate collateral, limited grants and poor access to funding information ranked high among factors that limited access to finance among entrepreneurs.

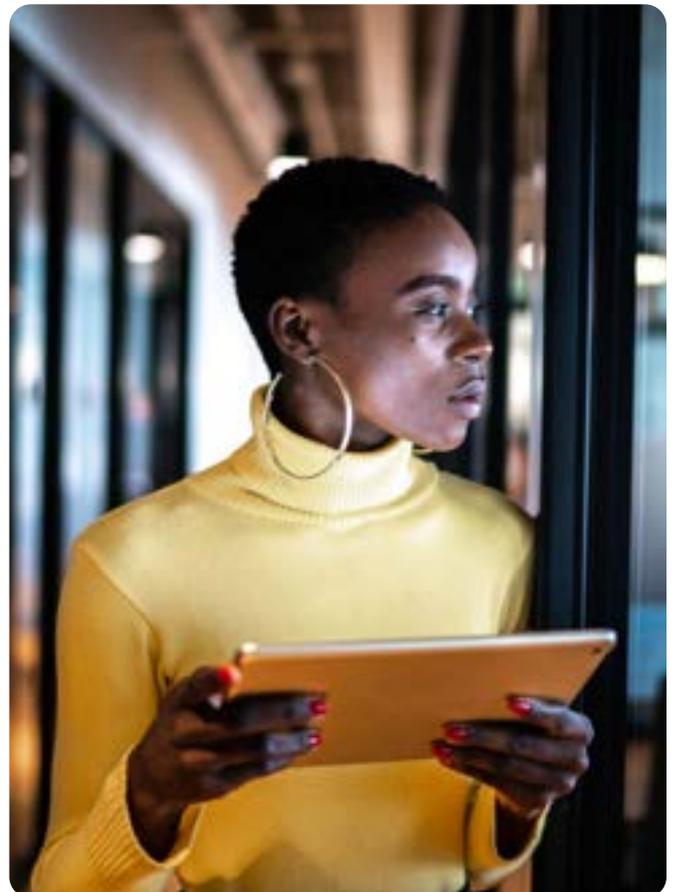
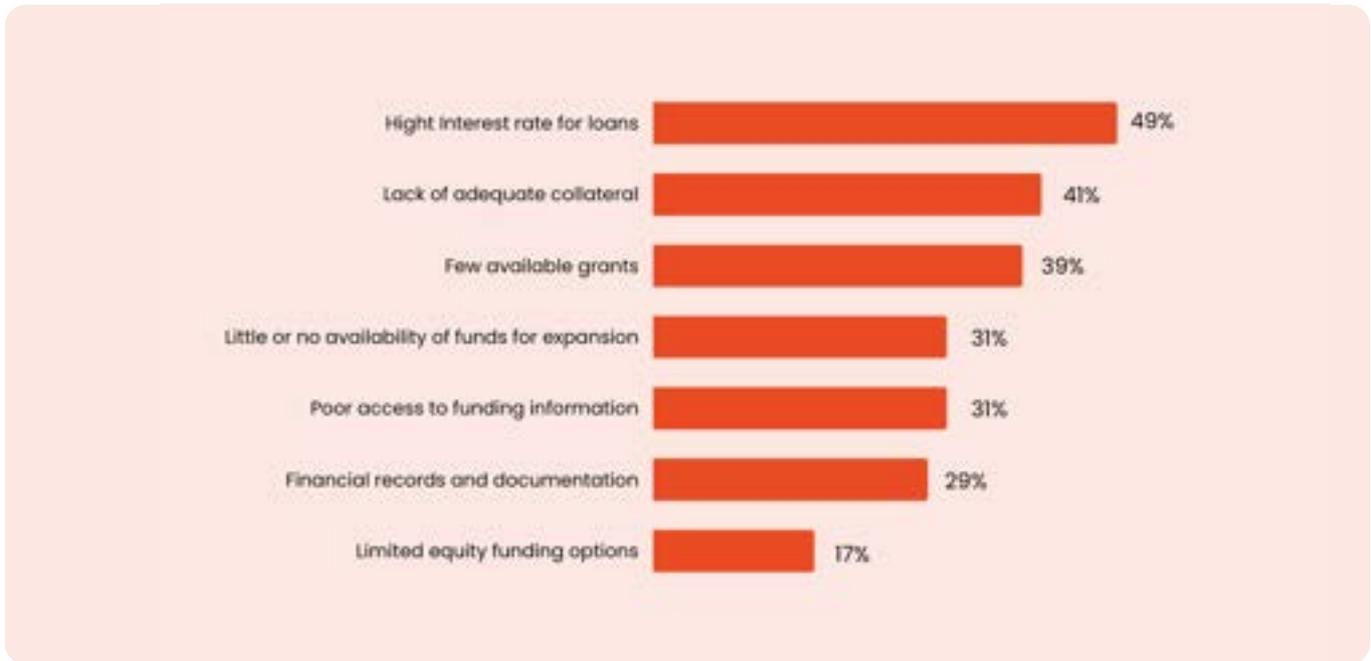


Figure 4: Factors limiting access to finance for businesses (% of respondents that did not access finance)



Conceptually, the problem of limited access to finance faced by small businesses has different dimensions and can be viewed from a demand and supply perspective. On the demand side, a host of issues ranging from the informal nature of these small businesses to the absence of proper credit information and history, inadequate collateral, lack of proper book-keeping, poor corporate governance, and limited financial literacy raise the level of risks of small businesses and therefore limit their ability to raise finance.



Demand-side Challenges of Access to Finance for Entrepreneurs

The demand-side challenges relate to factors that limit the ability of entrepreneurs to access finance for their businesses. These factors are discussed below:

- **Lack of financial and business management skills among entrepreneurs.**

Many entrepreneurs, particularly those in the informal sector do not have relevant skills to produce financial records in the format required by lenders. Lack of proper documentation, poor corporate governance structures and book-keeping practices make it difficult for financial service providers to assess the credit-worthiness of small businesses and their owners.



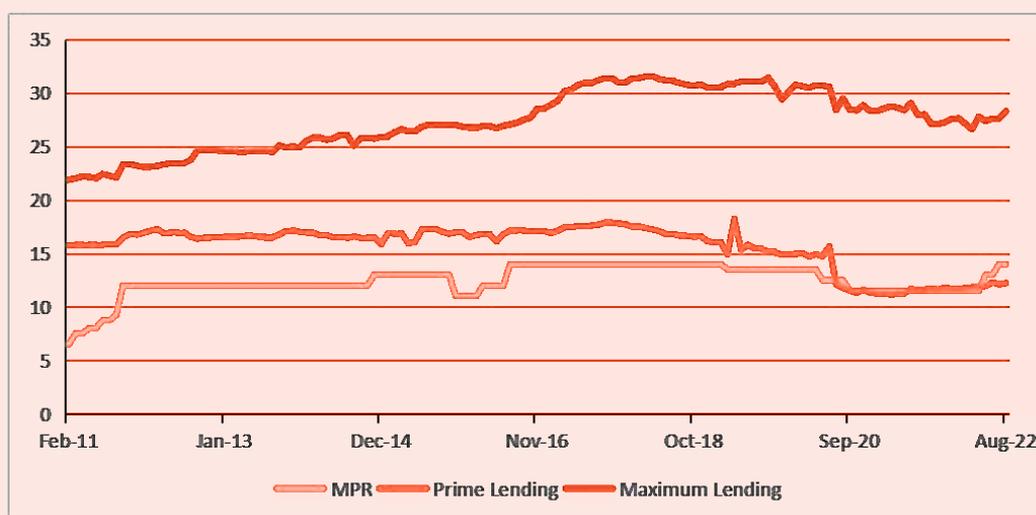
- **Lack of financial and business management skills among entrepreneurs**

The low level of education and high informality among most MSMEs limit their ability to seek and understand the available funding opportunities in the economy. Even with the numerous government funding programmes, their inability to seek information coupled with poor access to internet especially in rural areas are factors that limit access to finance for these businesses.

- **The cost of borrowing is high for entrepreneurs seeking to raise funds from commercial banks and other financial institutions**

Over the past decade, Nigeria’s benchmark interest rate, the Monetary Policy Rate (MPR) has been double digits, and was 15.5% as at October 2022. Given such high rate, the maximum lending rate, which is the rate at which banks lend money to businesses, stood at 28.3% as at August 2022, according to CBN. Such high interest rate is a major factor that limits access to finance in Nigeria.

Figure 5: Interest Rate Environment in Nigeria from Feb 2011 to Aug 2022 (%)



Data Source: Central Bank of Nigeria

- **Low level of trust in financial service providers**

Cases of fraudulent activities, internet frauds and confiscation of collateral in the event of a default are frequent. These discourage entrepreneurs from applying for funding from both commercial banks and government entities. Given these challenges, majority of entrepreneurs are comfortable securing funds from family and friends or financing their businesses through personal savings.

- **Demand for huge collateral and strenuous loan application process**

Despite several government guarantee schemes, commercial banks and other financial institutions still demand collateral from potential borrowers. Because majority of entrepreneurs do not have substantial assets that would qualify them for loans, they are therefore left out of the financial system. While the passage of the Secured Transactions in Movable Assets Act, 2017 aims to address this problem of huge collateral requirements, awareness of the initiative is low among entrepreneurs.



"...majority of entrepreneurs do not have substantial assets that would qualify them for loans, they are therefore left out of the financial system."

Findings from the 2022 SoE survey showed that only 20% of entrepreneurs surveyed were aware of the initiative (see box 1). Also, the loan application process can be time-consuming and this therefore discourages entrepreneurs from applying for funding.

Supply-side Challenges of Access to Finance for Entrepreneurs

The supply-side challenges relate to factors that limit the financial service providers in offering credit facilities to entrepreneurs. These factors are discussed below:

- **Lack of proper documentation**

Financial institutions often cite poor documentation of records and lack of financial management skills as major factors that limit access to finance of entrepreneurs. Without financial records and a clear business plan/structure, it is difficult to assess the creditworthiness of these businesses.

- **Crowding-out effect of government borrowing**

Following the need to tackle rising inflation which remained above 20% in September 2022, the CBN Monetary Policy Committee further raised the benchmark interest rate to 15.5% in September 2022. This move is expected to trigger more investments in government securities as rates/returns trend upwards. Lending rates are also expected to increase. Businesses and financial institutions find it easier to invest in government securities which are secured relative to lending to entrepreneurs.

"Following the need to tackle rising inflation which remained above 20% in September 2022, the CBN Monetary Policy Committee further raised the benchmark interest rate to 15.5% in September 2022."

- **Limited innovative products, processes and services tailored for small businesses**

Financial institutions often have inappropriate risk frameworks, products, processes to meet the needs of entrepreneurs. These small businesses are often subjected to similar assessment criteria as the large corporates.

This culminates into a rigid credit reporting system, collateral assessment, and inefficient customer verification system. In Nigeria, there are few commercial banks that continue to design products and services to meet the needs of entrepreneurs and therefore bridge the finance gap.

- **Poor coverage of government programmes**

While there is a growing number of funding interventions for NMSMEs in Nigeria, these interventions are grossly inadequate. For federal government led programmes, the use of traditional media outlets and partnerships with microfinance banks and cooperatives are required to reach entrepreneurs in rural areas.

- **Inadequate knowledge of the NMSMEs space**

Some financial institutions do not invest resources in understanding the workings of small businesses in Nigeria. Understanding the environment, sectors and workings of small businesses can help financial institutions design appropriate programmes that will be beneficial to the institution and the entrepreneur.



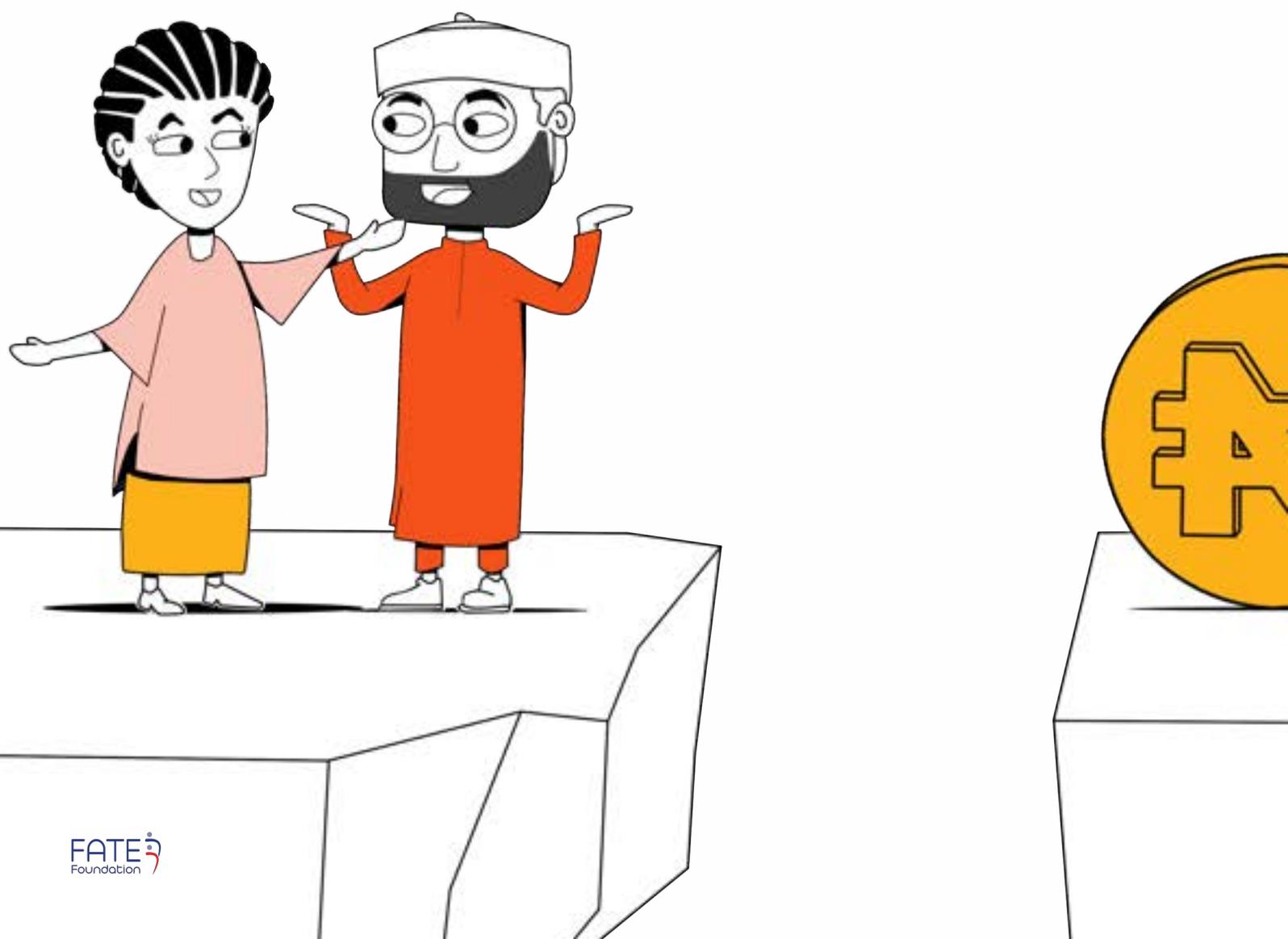
To conclude, there is a mismatch between the demand and supply side of access to finance, in that the expectations of financiers are usually not met by majority of small businesses due to their intrinsic nature. Informality is associated with certain characteristics that are not easy to relinquish in a short time.

An attempt to address this challenge will require that many entrepreneurs embrace a culture shift, away from running businesses based on necessity or for survival purpose. In essence, the motive for running businesses will need to move beyond mere survival to identifying opportunities and filling available gaps in both the local and international community.

As such, entrepreneurs will need to acquire relevant skills such as book keeping, and seek training on management and finance, governance, all of which are essential for business growth and expansion. On the other hand, many financial institutions find it hard to understand the NMSMEs space, as they adopt a corporate banking model, that without adaptation, has proven not to work well in targeting MSMEs (IFC, 2017).



TRENDS, PATTERNS AND GAPS IN ACCESSING FINANCE BY NIGERIAN ENTREPRENEURS



Innovate...

TRENDS, PATTERNS AND GAPS IN ACCESSING FINANCE BY NIGERIAN ENTREPRENEURS

Nigeria's access to finance ecosystem has seen the emergence of new trends in the last decade. Within the private sector, there has been the rise of Venture Capitalists (VCs) focused on harnessing the opportunities in the start-ups space as well as the increasing role of financial technology (fintech) companies that are deploying innovative tools and processes in offering loans to individuals and small businesses.

In addition, the use of crowdfunding especially in the agricultural sector gained prominence, with firms offering high returns to investors. The sustainability of this funding approach was challenged, particularly with the advent of COVID-19 which disrupted supply chains across different sectors. Firms involved in crowdfunding experienced defaults when investments matured, while others restructured payments to investors.

"...there has been the rise of Venture Capitalists (VCs) focused on harnessing the opportunities in the start-ups space as well as the increasing role of financial technology (fintech) companies..."

On the part of government, in the last six years, new policies such as the collateral registry and the revised MSLE policies have been introduced. These policies are aimed at addressing some of the bottlenecks that small businesses face in accessing finance and unlocking more opportunities for growth and expansion of these businesses.

The government has continued its conventional method of providing funds to small businesses at single digit interest rate.

Interventions such as TraderMoni, N-Power, the Micro, Small and Medium Enterprises Development Fund (MSMEDF) and the MSME survival fund among others were introduced by the monetary and fiscal authorities to target both informal and formal micro and small businesses and support their recovery from the impact of COVID-19.

Despite these government interventions, along with the initiatives by the private sector to provide finance to small businesses, there is still a huge financing gap for small businesses in the country. This is evident in the share of entrepreneurs that have been able to raise finance from institutional sources, i.e., beyond personal savings and funds from family and friends. Findings from The FATE Institute's 2022 State of Entrepreneurship (SoE) survey showed that only 23% of surveyed entrepreneurs secured loans in the last one year while a smaller share of 8% secured grants.



"...The FATE Institute's 2022 State of Entrepreneurship (SoE) survey showed that only 23% of surveyed entrepreneurs secured loans in the last one year while a smaller share of 8% secured grants.."

Similarly, limited access to finance was ranked as the most problematic factor that businesses faced in the last one year in the 2022 SoE survey. This is despite the numerous intervention programmes, which often encounter the challenge of poor coverage especially among rural and informal businesses.

HOW LARGE IS THE FINANCING GAP FOR SMALL BUSINESSES IN NIGERIA?

Across the world, access to finance is a major bottleneck limiting the growth and expansion of small businesses, which dominate the total number of businesses in many countries.

To examine the depth of the access to finance challenge, the International Finance Corporation (IFC) in 2017 embarked on a cross-country study to determine the financing gap for micro, small and medium-sized businesses. Looking at a sample of 128 developing countries, the finance gap for MSMEs in these countries was estimated at US\$5.2 trillion, which represents 19% of global GDP of countries covered in this analysis.

"Looking at a sample of 128 developing countries, the finance gap for MSMEs in these countries was estimated at US\$5.2 trillion..."

The top five countries with the largest financing gap are India, Russia, Philippines, Mexico, and Nigeria. Collectively, these countries had a gap of US\$996 billion, accounting for 19.2% of total financing gap.

Specifically for Nigeria, the MSME finance gap was estimated at US\$158.1 billion, which represented 33% of GDP in 2017 (IFC, 2017). In nominal terms, Nigeria was only behind India, Russia, Philippines, and Mexico. This suggests the level of severity of access to finance problem, particularly for NMSMEs in Nigeria.

"...for Nigeria, the MSME finance gap was estimated at US\$158.1 billion, which represented 33% of GDP in 2017 (IFC, 2017)."



Although this wide gap presents a significant opportunity for businesses and lenders, traditionally, commercial banks prefer to offer loans to low-risk firms with proper documentation and record of good performance. Unfortunately, majority of nano and micro businesses do not fall into this category and where they do, there is often lack of data to quantify their performance over time.

"...traditionally, commercial banks prefer to offer loans to low-risk firms with proper documentation and record of good performance."

This, therefore, creates a divergence between the expectation of small business owners and lenders, further widening the finance gap. With the emergence of COVID-19, majority of small businesses struggled to stay afloat as they experienced liquidity challenges occasioned by the lockdown and low consumer demand.

According to the National Bureau of Statistics (NBS) survey on the impact of COVID-19 on businesses in Nigeria, 72% of informal businesses, which are mostly MSMEs, faced liquidity challenge and 72% of informal businesses resorted to personal savings as the major source of finance. Only 5% and 12% cited banks and money lenders as sources of finance for their businesses.

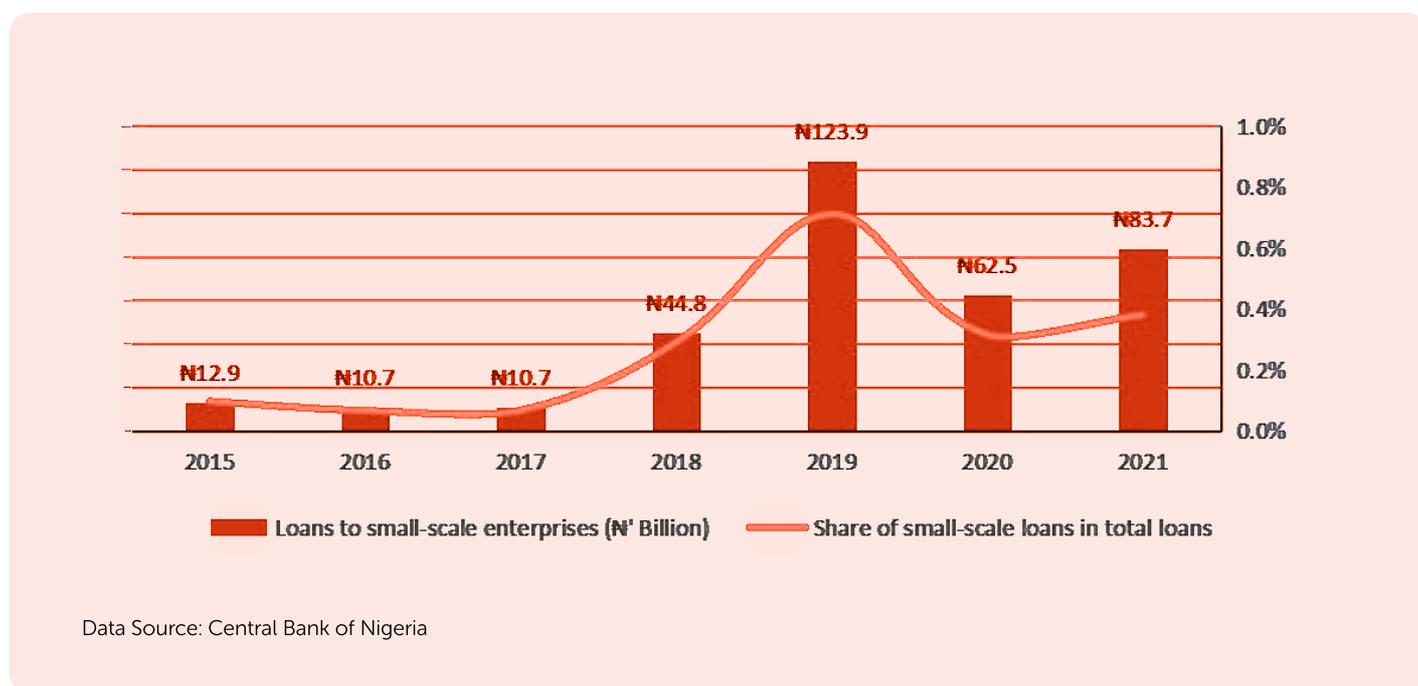
"72% of informal businesses, which are mostly MSMEs, faced liquidity challenge and 72% of informal businesses resorted to personal savings as the major source of finance."

From a supply side perspective, majority of credit in the Nigerian economy is supplied to larger firms relative to small businesses. According to data from the CBN, commercial banks credit to the private sector stood at ₦22 trillion as at the end of 2021, but only 0.38% (₦83.7 billion) of this credit was disbursed to small-scale businesses (CBN, 2022a).

This implies that NMSMEs credit from commercial banks in Nigeria remains meagre, suggesting a huge funding gap. To put this in perspective, large companies account for 53.7% of GDP and only about 12.1% of employment.

These companies, however, account for over 99% of total credit offered by commercial banks. NMSMEs, on the other hand, which account for 46% of GDP and over 80% of employment received less than 1% of total credit offered by commercial banks in Nigeria. Given the nature of the operations of the commercial banks, credit to MSMEs appears risky and unprofitable, and often not within reach for small businesses.

Figure 6: Commercial banks credit to small businesses (in Billion and %)



“...commercial banks credit to the private sector stood at ₦22 trillion as at the end of 2021, but only 0.38% (₦83.7 billion) of this credit was disbursed to small-scale businesses (CBN, 2022a).”

With such analysis, the major problem associated with access to finance is not the unavailability of capital. Rather, it is the inability of lenders to mitigate the risks associated with lending to these small businesses, many of which operate in the informal space. The development of an appropriate funding model and approach, therefore, remains critical in bridging the access to finance gap among NMSMEs in Nigeria.

MEASURES TO ADDRESS THE NMSME FINANCING GAP IN NIGERIA

As revealed in the previous sections, private sector financing of NMSMEs is very limited owing to a variety of factors mainly centred on the high level of risks associated with these businesses. To bridge the finance gap for small businesses, the government, through its agencies, has intervened in several ways.

First, is by offering direct and cheaper loans to businesses. The Central Bank of Nigeria along with Development Banks such as the Bank of Industry (BOI), the Development Bank of Nigeria (DBN), Nigerian Export-Import Bank (NEXIM), and Bank of Agriculture (BOA) have been implementing various intervention policies and providing credit to NMSMEs.



As at 2019, the CBN, in its 2019 annual report noted that the net loans and advances awarded by various government development banks was ₦1.1 trillion with the BOI accounting for 66% of the development loans. Meanwhile, as at 2021, the BOI awarded a total of ₦213.5 billion to businesses in Nigeria, 12.6% (₦27 billion) of which went to NMSMEs. BOI credit to NMSMEs, however has been declining since its record level of ₦53 billion in 2019 (BOI, 2022).

As at 2019, the CBN, in its 2019 annual report noted that the net loans and advances awarded by various government development banks was ₦1.1 trillion with the BOI accounting for 66% of the development loans..”

In addition to incentivizing commercial banks to lend to businesses, especially through the loan-to-deposit ratio policy, the CBN provides direct support to businesses. In 2021 for instance, the CBN issued an estimated ₦192.7 billion credit to NMSMEs in Nigeria. This was however a decline from the record level of ₦348.4 billion offered in 2020, which was driven by the COVID-19 pandemic (CBN, 2022b).

Beyond loans offered by the CBN, the federal government has implemented several empowerment programmes for the youth and women such as N-power and TraderMoni, FarmerMoni, MarketMoni initiatives. Since its inception, the N-Power programme has empowered over a million young people in small-scale businesses, agriculture, technology, and education.

Table 1: List of MSMEs Intervention Funds

	Name of Fund	Features	Target/Update
1	CBN Micro, Small and Medium Enterprises Development Fund (MSMEDF)	The fund was launched on August 15, 2013 with a share capital of ₦220 billion, with the goal of supporting small businesses and bridging the NMSMEs finance gap.	Micro Enterprises and Small and Medium Enterprises (MSMEs)
2	CBN Micro, Small and Medium Enterprises Development Fund (MSMEDF)	The fund was created in 2020 by the federal government to cushion the impact of the COVID-19 pandemic on MSMEs in Nigeria.	The fund supported over 1,258,183 beneficiaries. 398,024 beneficiaries received a one-off ₦30,000 payment. Also a one-off ₦50,000 grant
3	FGN special intervention fund for MSMEs (National Enterprise Development Programme)	The Federal Government of Nigeria created the Fund in 2014 to provide subsidized loans to MSMEs at 9% per annum.	No Update on Implementation/not operational
4	BOI & Government of Kano State's ₦2 billion Micro Small and Medium Enterprises (MSME) Development Fund	The Fund was created in 2013 to support the development of existing and new MSMEs in the state.	No update on implementation
5	Micro and Small Enterprise JAIZ/SMEDAN Matching Fund Programme.	This programme was created in 2020 to provide credit to MSMEs to increase output and job creation.	The programme aims to target 59 beneficiaries in the agri-business space. Beneficiaries are expected to apply for financing within the range of ₦2 million – ₦5 million.

	Name of Fund	Features	Target/Update
6	SMEDAN Conditional Grant Scheme (CGS) for Micro Enterprises in Nigeria.	Implementation of the CGS began in 2018 with the goal of creating jobs, wealth and poverty alleviation in the society while supporting micro businesses.	According to SMEDAN, there have been 6,390 beneficiaries across Nigeria, many of whom have received grants for their businesses.
7	Youth Entrepreneurship Development Programme (YEDP)	YEDP was launched in 2016 to enhance the resourcefulness of Nigerian youths. It offers credit of up to ₦3 million to eligible youth or ₦10 million for groups of 3 – 5 youths, with interest rate of 9% per annum.	(NYSC), young people and artisans, etc
8	Government Enterprise and Empowerment Programme (GEEP)	GEEP was created in 2016 to provide empowerment to micro and small business owners. The programme featured TraderMoni, FarmerMoni, MarketMoni, etc Under TraderMoni initiatives, collateral free loans from ₦10,000 are provided to petty traders. The loans are repayable within six months.	About 2.3 million beneficiaries have been recorded under the GEEP initiative.
9	Anchor Borrowers Programme (ABP)	The ABP seeks to create economic linkages between smallholder farmers and processors to enhance agricultural output and ensure food price stability.	The targeted beneficiaries are smallholder farmers in cooperatives and medium to large scale farmers. Loans are offered at prevailing interest rate for intervention funds. As at December 2021, the CBN noted that it had disbursed ₦927.94 billion to over 4.5 million smallholder farmers, cultivating 21 commodities across the country.

	Name of Fund	Features	Target/Update
10	CBN N50 billion Targeted Credit Facility (TCF)	Part of the objectives of the TCF is to support households and MSMEs that have been significantly disrupted by the COVID-19 pandemic. The Scheme was financed from the Micro, Small and Medium Enterprises Development Fund (MSMEDF)	As at December 2021, the cumulative disbursements under the TCF stood at ₦369.78 billion to 777,666 beneficiaries, comprising 648,052 households and 129,614 small businesses.
11	Tertiary Institutions Entrepreneurship Scheme (TIES)	The scheme is aimed at creating a change in thinking among undergraduates and graduates of Nigerian polytechnics and universities, from seeking white-collar jobs to entrepreneurship.	₦293 million was disbursed to 59 beneficiaries under the scheme.

Data Source: CBN, SMEDAN, BOI, NASSCO, FGN, various sources



Second is through the provision of credit guarantees to lending institutions for Entrepreneurs. Agencies and programmes such as Nigeria Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL), Lagos State Employment Trust Fund (LSETF), among others, support NMSMEs through guarantees, which are often aimed at addressing the barriers to accessing finance.

NIRSAL has the mandate of addressing the problem of low funding and investments flows into the Nigerian agriculture value chain. Through its Credit Risk Guarantee (CRG) Scheme, NIRSAL has facilitated over ₦73 billion finance in the agriculture value chain (NIRSAL, 2022).

“ NIRSAL has facilitated over ₦73 billion finance in the agriculture value chain (NIRSAL, 2022).”

Worthy of mention is the CBN Agricultural Credit Guarantee Scheme Fund (ACGSF) which offers a guarantee of up to 75% of the loans to farmers. Also, among the states, the Lagos State Employment Trust Fund (LSETF) provides both business and financial support services to youth entrepreneurs and NMSMEs in general.



Third is through the passage of legislations to ease accessing finance for small businesses. One of such legislations is the Secured Transactions in Movable Assets Act, 2017. The law was created to encourage and promote access to finance for MSMEs by allowing financial institutions such as banks and finance companies to advance loans using personal property/ movable assets as collateral.



The law mandated the creation of a National Collateral Registry in the Central Bank which receives, registers and stores information about security interests in movable assets. As at October 2020, the CBN noted that credit facilities worth 2.32 trillion (given to 273,435 large companies, individuals and Micro, Small and Medium Enterprises (MSMEs) were registered under the National Collateral Registry (NCR).

A total of 113,153 financing statements were registered on the registry representing 1,421 large firms; 4,260 medium firms; 1,433 micro-businesses and 3,417 small businesses.

Box 1: Entrepreneurs’ Experience with the National Collateral Registry (NCR) Initiative

Among the challenges limiting access to finance, entrepreneurs rated lack of adequate collateral as a major obstacle.

In 2016, the Central Bank of Nigeria established the National Collateral Registry (NCR) initiative to address the challenge of complex collateral requirements by financial institutions. The main aim is to encourage access to finance for MSMEs by allowing financial institutions such as banks and finance companies to advance loans using personal property/movable assets as collateral (NCR, 2021).

While the initiative has immense potential and despite efforts by the CBN to ensure its adoption, many entrepreneurs are not aware of the initiative. Findings from the 2022 SoE survey showed that among the entrepreneurs surveyed across the country, only 20% were aware of the initiative.

Among female entrepreneurs, 18.4% were aware of the initiative while only 14.9% of youth entrepreneurs have heard about the initiative. Across the different regions, the south east and south west have the highest rate of awareness led by Imo and Ogun respectively. The northern region had lower rate of awareness of the initiative, driven mainly by the north central region which had a share of 9%.

“Among the challenges limiting access to finance, entrepreneurs rated lack of adequate collateral as a major obstacle.”

Table 2: Are you aware of the National Collateral Registry Initiative by the Government?

	All	South East	South West	South South	North East	North West	North Central
Yes	20%	30%	26%	13%	11%	11%	9%
No	80%						

Among entrepreneurs that are aware of the National Collateral Registry initiative, 48% say they have accessed finance through the initiative, while the remaining 52% are unable to access finance. The rate of access for female entrepreneurs is significantly lower than male. Only 1.6% of female entrepreneurs accessed finance through the initiative.

“Only 1.6% of female entrepreneurs accessed finance through the initiative.”

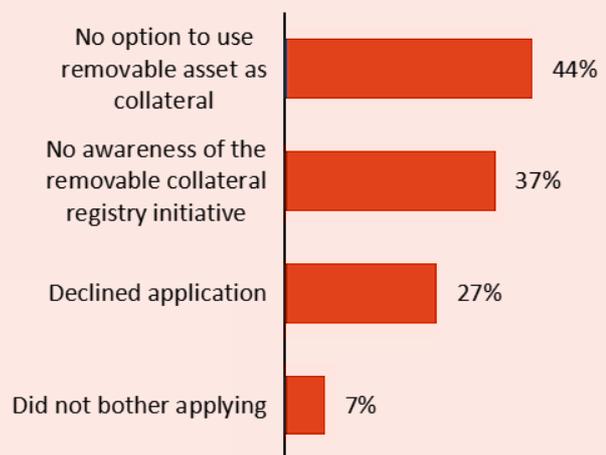
Figure 7: Have you been able to access finance from financial institutions using the National Collateral Registry initiative?



Data Source: Fate Institute 2022 SoE Survey

The share is much lower for youth entrepreneurs (0.9%). Generally, factors such as lack of awareness of the initiative and declined application were cited as reasons why they were unable to access finance through the initiative. Going forward, it is important for stakeholders to commence a massive sensitization programme to inform entrepreneurs about the initiative.

Figure 8: Reasons for lack of access of finance through the National Collateral Registry initiative





Fourth, is the establishment of policy measures to incentivise lending to small businesses in the country.

For instance, the federal government has established a revised National Policy on MSMEs from 2021 to 2025 which provides a framework that supports small businesses in Nigeria and ensure they become competitive and viable in the long term. The policy acknowledges the gravity of limited access to finance and proposes the following measures, among many others, to improve the access to finance for NMSMEs:

- The establishment of an MSMEs bank to offer loans at 9% interest rate.
- Approval of crowd-funding and crowd sourcing models of financing.
- Stimulate financial institutions to develop and operate specialized financial products for women, youth and other disadvantaged/challenged groups.
- Ensure it is mandatory for MSMEs to belong to trade organizations and associations to access credit and other measures.

In addition to government initiatives, institutions such as the World Bank, Swedish International Development Cooperation Agency (SIDA), and Canadian International Development Agency (CIDA) also provide technical assistance and grants to NMSMEs.

The World Bank through the International Finance Corporation (IFC) plays a major role in providing access to finance for MSMEs in Nigeria. In 2019, the World Bank, through the Development Bank of Nigeria (DBN), offered financial support of about US\$243.7 million (World Bank 2020). Likewise, the African Development Bank (AfDB) has through its Africa SME Program supported domestic financial institutions in Nigeria to further extend credit to MSMEs.

Finally, accessing finance through venture capital and private equity is evolving for start-ups in Nigeria.

Nigeria has been a major destination for venture capital and equity finance in Africa. Between 2016 – 2021, Nigeria attracted US\$3.45 billion in private capital.

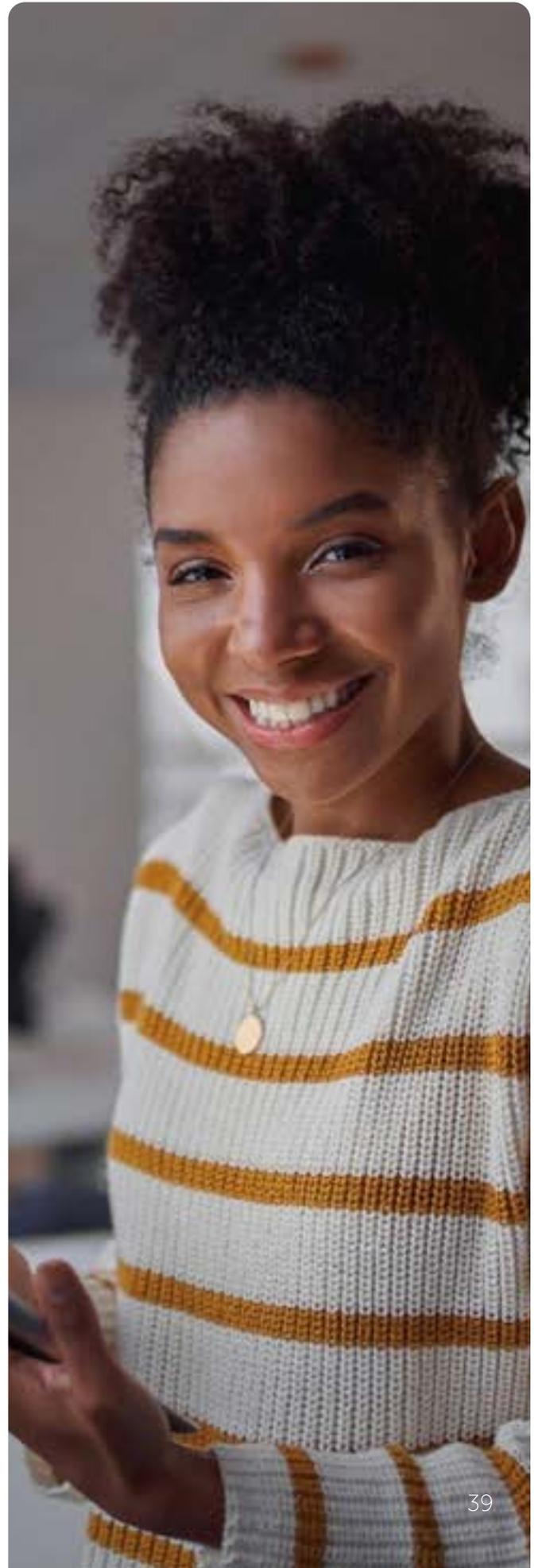
This represents 48% and 13% of private capital inflows in West Africa and Africa, respectively (ACVA, 2022). While the private capital investment in Nigeria did not entirely go into MSMEs, the nature of the investments favour start-ups with high growth impact. Similarly, the emergence of fintechs in the lending space with less stringent requirements creates an avenue for MSMEs to access credit.

There is a rapid expansion of digital credit products, driving inclusive finance for MSMEs. According to the FinTech Association of Nigeria (2022), of the US\$1.37 billion start-up capital raised in 2021, fintech start-ups attracted 68%.

WHY IS THERE STILL A LARGE FINANCING GAP IN THE NMSMES SPACE DESPITE THESE INITIATIVES?

Nigeria is known to have numerous policies and legislations across sectors but the main challenge the country faces is around improving coverage of initiatives and ensuring coordination, effective implementation, monitoring and evaluation.

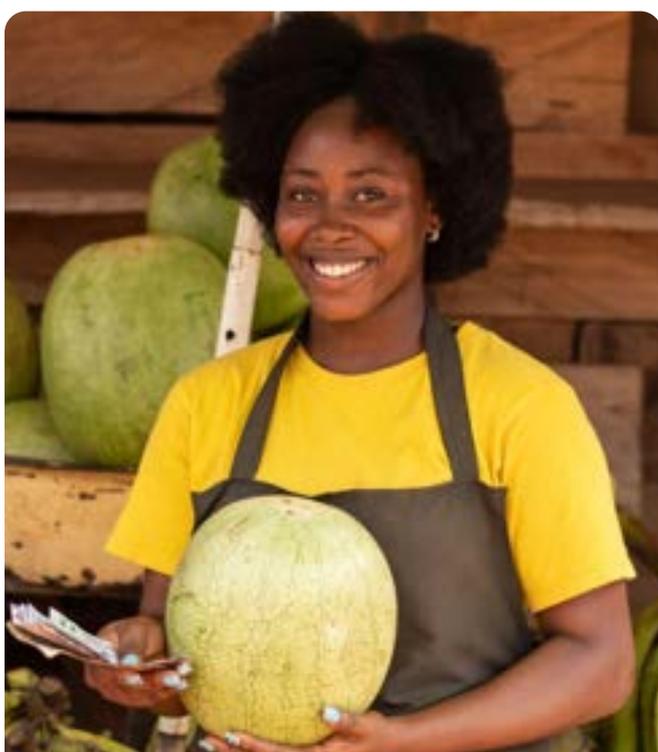
These problems are evident in the entrepreneurship space and are partly responsible for the huge funding gap that exists despite the numerous initiatives at both federal and state levels. This section highlights some specific challenges that continue to limit access to finance for entrepreneurs in Nigeria. Some of the challenges are discussed in this section



1) Absence of an effective coordinating framework for NMSME funding in Nigeria

Nigeria has numerous funds that aim to provide finance to small businesses across different sectors of the economy.

As seen in previous sections, there are funds created and managed by the Presidency; the Central Bank of Nigeria; government ministries; development banks such as Bank of Industry (BOI), Bank of Agriculture (BOA), Development Bank of Nigeria (DBN), Nigerian Import-Export Bank (NEXIM); the Nigerian Export Promotion Council; state governors and their ministries; development partners and non-governmental organisations.



“Nigeria has numerous funds that aim to provide finance to small businesses across different sectors of the economy.”

On the part of the government, there are often overlaps mainly due to lack of an effective coordination framework for supporting small businesses. In addition, little inter-agency collaboration, engagements and reviews are carried out to examine how the funds are complementary and how they are synchronised with national goals and priorities. The result, unfortunately, is the duplication of efforts within and across federal and state levels with limited impacts on businesses.

2) Absence of a suitable funding model tailored to cater to the peculiarities of NMSMEs in Nigeria

Majority of NMSMEs that operate in the informal sector do not have reliable data, documented credit history, proper financial and accounting records required by corporate financial institutions such as commercial and microfinance banks to offer loans.

The absence of these data and documentation coupled with complex business processes raise the risk perception of NMSMEs as financial institutions find it difficult to conduct Know-Your-Customer (KYC).

“Majority of NMSMEs that operate in the informal sector do not have reliable data, documented credit history, proper financial and accounting records....”

The implication of this is either a neglect from financial institutions or high interest rate on loans offered by these institutions. Some banks, on the other hand, sit on the extreme side of the curve, demanding for stringent documentations and collateral before offering loans to NMSMEs.

They often adopt a corporate banking model for NMSMEs, whose features are different from those of large and formal firms. **Such model has not been effective in targeting small businesses.**

The peculiarities of NMSMEs in Nigeria require the introduction of financial products, processes and risk frameworks that will consider the level and features of informality but at the same time ensure risks are well managed to deliver optimal outcomes for both the lender and the NMSMEs.

3) Absence of relevant data required for planning

Data is essential in bridging the NMSMEs funding gap in Nigeria. Before designing intervention funds and programmes, an ideal, strategic, and effective approach should be employed on how such funds or programmes can cover the estimated gap.

As an example, Nigeria lacks up-to-date data on the NMSMEs financing gap, distilled by sectors and across states and activity areas. Similarly, basic data on GDP by states and unemployment rate by states are either obsolete or incomplete. With the absence of such data, it is difficult to plan effective interventions for NMSMEs.

6) Lack of monitoring and evaluation (M&E) of intervention funds and programmes

The impact of these funds on businesses are unclear and often not measured. Issues relating to corruption and lack of transparency stand in the way of effectively monitoring and evaluation some of these funds.

4) Poor coverage of intervention funds especially in rural areas

Many of the government intervention funds do not reach citizens and businesses that operate in rural areas partly due to limited use of traditional media outlets. Also, because majority of the large funds require applicants to fill an online application, many rural dwellers are excluded as they often lack the relevant technical skills to apply for such funds.

“ Many of the government intervention funds do not reach citizens and businesses that operate in rural areas...”

Issues such as poor mobile and internet coverage, infrastructure deficit, among others have far reaching consequences on the effectiveness of government intervention funds in Nigeria.

5) Lack of preparedness of entrepreneurs to access finance

The lack of financial management and technical skills, financial records and credit history, and business planning and governance structure make it difficult for financial service providers to assess the credit-worthiness of MSMEs. Besides, the lack of awareness and understanding of financial products and opportunities hold NMSMEs back from accessing finance.

The low level of education and poor business trainings limit their ability to seek and understand the available funding opportunities in the economy.



EXISTING FUNDING MODELS FOR ENTREPRENEURS IN NIGERIA





There are numerous avenues through which entrepreneurs in Nigeria access funding for their businesses. Each form of financing has its unique features, challenges, and drawbacks. In Nigeria and across many countries, the most common form of finance for small businesses is personal savings and funds from friends and family.

According to SMEDAN (2021), 59% and 16.7% of MSMEs reported personal savings and funds from family and friends as their major sources of finance. More recent findings from the 2022 SoE survey showed a higher share of 74% and 37% respectively.

In addition to personal savings and funds from family and friends, there are other sources of finance that are being explored by entrepreneurs.

This section briefly reviews some of these institutional funding methods and highlights their trends, features, advantages, and challenges.

“According to SMEDAN (2021), 59% and 16.7% of MSMEs reported personal savings and funds from family and friends as their major sources of finance..”

Debt financing model

This model involves the allocation of credit and other specialized products and services to businesses, which will be repaid at an arranged date through regular payments and interests. Players in this space include commercial banks, microfinance banks, finance companies, insurance companies, credit unions, and investment companies, etc.

Credit in this model is usually offered at the prevailing market interest rate. In some developing countries like Nigeria, interest rate is often high and this is a disincentive for entrepreneurs to access finance.

This model is constrained by the problem of moral hazards and adverse selection in choosing the loan beneficiaries, shallowness of the financial sector, lack of information on customers' credit history, inadequate collateral, balance sheet risk, corporate governance risk, and limited financial literacy. Hence, players in this segment typically favour offering loans to medium to large companies to reduce the risks of default.

Among players that offer credit in this segment, microfinance banks, the specialised banks for the small businesses, have played important roles in providing credit to small businesses in Nigeria over the years. The evolution of microfinance banks (MFBs) was motivated by the inability of commercial banks to reach the poor and small businesses both in urban and rural areas.

As such, the MFBs provide banking services that address the financial needs of these cohorts of individuals and businesses. In 2021, the CBN (2022a) reported that MFBs' claims on the private sector was ₦514.77 billion, representing a decline of 9.3% from ₦567.37 billion in 2020. As at August 2022, MFBs' claims on the private sector increased by 107.6% to ₦1.07 trillion (CBN 2022c).

This implies that MFBs have awarded a net loan of ₦555.23 billion so far in 2022. Given the mandate of the MFBs, a significant share of their credit portfolio to the private sector are predominantly for small businesses.



“The evolution of microfinance banks (MFBs) was motivated by the inability of commercial banks to reach the poor and small businesses both in urban and rural areas.”

Government intervention funds

Given the challenges associated with other forms of finance, governments have had to intervene to provide support to businesses through intervention funds and business grants.

In Nigeria, federal and state governments have several funds for businesses such as TraderMoni, Anchor Borrowers Program, ₦220 billion Micro Small and Medium Enterprises Development Fund (MSMEDF) and Agribusiness Small and Medium Enterprise Investment Scheme (AGSMEIS). There are also funds that target specific sectors based on their level of importance and contribution to key social goals such as job creation and poverty reduction.

A unique feature of government intervention funds is low interest rate, which makes them attractive for businesses. Some challenges associated with this model include limited coverage, lack of effective monitoring and evaluation of the funds, and ineffective usage by recipients.



Table 3: Features of several institutional funding methods for Entrepreneurs in Nigeria

	Features	Target	Advantage	Drawbacks
Debt financing	Mostly short-to-medium term loans issued at market determined rates	Small and large firms that are properly structured	Businesses can access a reasonably large sum of money	High interest rates and stringent requirements
Government intervention/ support loans	Subsidised form of lending to businesses with low interest rate	Small and large firms	Low interest rate and flexible repayment plans	Lack of effective monitoring and evaluation/ limited coverage
Venture Capital/ Equity investment	Funds that target small firms with high-growth potential	Mostly start-ups, particularly for VC	Beneficiaries access huge sum of money, networks, and technical support	Businesses offer equity. Funds are not tailored for informal businesses.
Grants	Usually set up to support businesses to achieve a purpose and provide initial derisked capital	Businesses with growth/high impact potential	They are mostly non-repayable	Strenuous and competitive application process/limited coverage
Crowdfunding	Pool funds from investors to finance a business (mainly in agriculture)	Small-to-medium scale firms	Higher return to investors often tied to seasonality of the business	Investors' funds in some cases are not properly insured/ guaranteed
FinTech/digital finance model	Provide micro-loans to individuals and businesses	Micro businesses and individuals	Easy to access	Loans value are relatively small

	Features	Target	Advantage	Drawbacks
Cooperative funding	Localised form of lending to members of an association/ cooperative	Small firms	Based on trust of the borrower	Funds are usually not insured
Sectoral Funding	Tailored to meet specific features of a particular sector/goods/ services	Small and medium firms	Financiers tend to have a better understanding of the sector and structure funds accordingly	Funds may not get to smaller firms that are often not properly structured

Source: FATE Institute

Venture Capital/Equity Financing

Within the emerging market context, Venture Capital (VC) is relatively in its nascent stage across Africa, with VC flows representing about 3-4% of total global VC funding. Progress is being recorded in Nigeria, which led other African countries, accounting for 22% of total VC flows (equivalent to US\$1.1 billion) in Africa in 2021, followed by South Africa and Egypt with respective shares in the continent’s total VC flows of 15% (US\$783 million) and 9% (US\$484 million) (AVCA, 2022).

“ Progress is being recorded in Nigeria, which led other African countries, accounting for 22% of total VC flows (equivalent to US\$1.1 billion) in Africa in 2021...”



Deals in the financial sector (fintech in particular) dominate Nigeria's investment history, accounting for 38% of deal volume in the country between 2014 and 2021, followed by Consumer Discretionary (16%), Industrials (12%) and Information Technology (12%).

Notable among the deals in Nigeria in 2021 include **the US\$400 million Series C round raised by the mobile money platform, OPay, the US\$110 million Series B round in B2B marketplace, Trade Depot, and the US\$100 million Series A round in payment app, Palmpay (AVCA, 2022).**

Despite the growing momentum of venture capital within the African digital ecosystem, critical funding gaps still exist, especially for early-stage technology ventures. From a demand-side perspective, a significant constraint to developing a VC market is the lack of investor-ready start-ups.



“Despite the growing momentum of venture capital within the African digital ecosystem, critical funding gaps still exist...”

Grants:

Grants are sums of money given to businesses by the government, corporations, foundations and development organisations for a specific purpose. Majority of grants are non-repayable and do not require the recipient to offer equity in return.

These features make grants attractive to entrepreneurs. However, they are faced with limitations such as low coverage, highly competitive processes, time consuming applications and in some cases lack of monitoring and evaluation.

“Majority of grants are non-repayable and do not require the recipient to offer equity in return.”

Crowdfunding:

In the last couple of years, this method has become popular among small businesses and start-ups in Nigeria. It involves businesses raising funds from a pool of investors through social networks or direct engagements. The crowdfunding approach is built on a framework of trust and has been mainly deployed in the agriculture and agro-processing space in Nigeria.

While there have been a few successes in the use of this approach to raise finance, issues of fraudulent practices, regulatory compliance problems, lack of insurance of investors' funds or the business, among others, have emerged in the last few years leading to loss of investors' funds and regulatory sanctions on the business owners.

Fintech or digital finance model:

Fintechs seek to improve financial inclusion, financial efficiency and access to finance. With their activities, we have witnessed improved financial processes and services which have integrated marginalised groups into full-fledged financial systems and also enhanced competition in the financial and telecommunications sector.

The key players are finance technology companies, digital banks, mobile banking, and telecommunications companies. Finance technologies drive innovation in the banking industry by enabling digital banking, data-driven finance, internet banking, and credit scoring banking.

“Fintechs are developed to improve financial inclusion, financial efficiency, access to finance.”

There is no doubt that fintechs in Nigeria are filling a large vacuum left by commercial banks in serving the unbanked. Nigeria's fintech sector is expanding, generating over US \$600 million in funding between 2014 and 2019 and 200 fintech standalone companies (Kola-Oyeneyin, et al, 2020). Since then, digital payments have surpassed ₦105 trillion.

“Nigeria's fintech sector is expanding, generating over US \$600 million in funding between 2014 and 2019...”

However, despite the growth of fintechs, it only accounts for 1.25% of retail banking revenue in Nigeria as of 2019, with a US\$600 million investment pool, the majority of which comes from external investors.

Among the factors impeding its optimal function is the challenge of financial inclusion, as about 45% of Nigeria's adult population was financially included in 2020. This is a far cry from South Africa's financial inclusion rate of 81% as at 2020 (EFInA, 2021).



“despite the growth of fintechs, it only accounts for 1.25% of retail banking revenue in Nigeria as of 2019, ...”

Cooperative Funding:

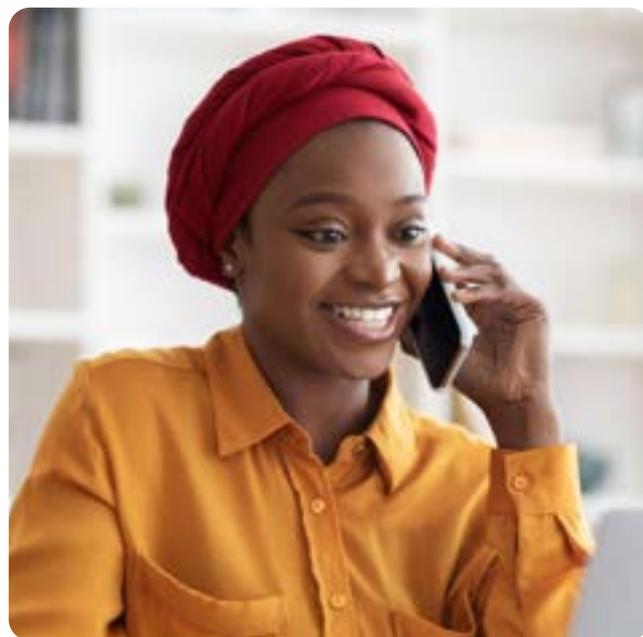
The use of cooperatives is among the oldest form of business finance. In Nigeria, they are regarded as the major source of finance for entrepreneurs. In the 2022 SoE survey, 47% of entrepreneurs chose cooperatives as the major source of finance, while 37% and 32% choose microfinance banks and commercial banks.

"In the 2022 SoE survey, 47% of entrepreneurs chose cooperatives as the major source of finance, while 37% and 32% choose microfinance banks and commercial banks."

Cooperative societies aggregate business owners within a sector or community. These individuals pay membership fees to fund the cooperative and are offered loans and grants, along with other support services, in line with the guidelines of the cooperatives.

In some cases, cooperative societies also benefit from grants and intervention funds set up by the federal government, development partners and other finance institutions. For instance, during the implementation of the Commercial Agriculture Credit Scheme instituted by the CBN and the federal government, cooperative societies were among the beneficiaries.

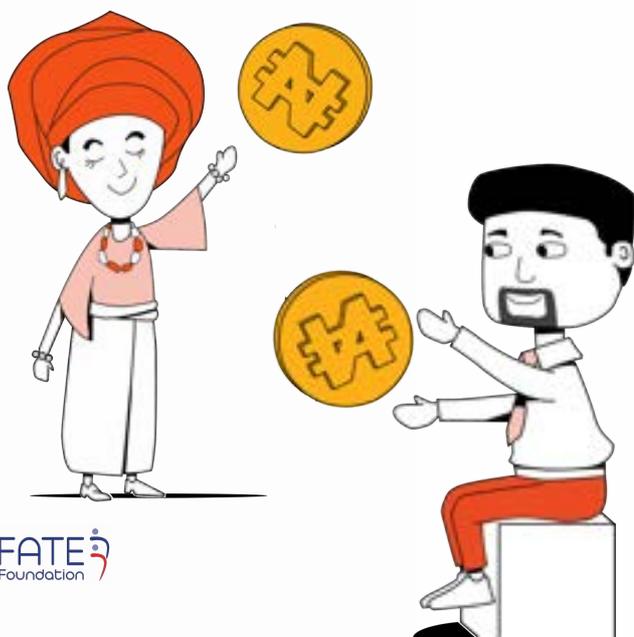
Each state government could borrow up to N1.0 billion under the CACS for on-lending to farmers' cooperative societies. Membership of cooperatives is voluntary and are open to micro/informal businesses.



Sectoral Funding:

Over the years, government intervention funds and private sector initiatives have targeted entrepreneurs that operate in specific sectors of interests to the lenders. For the government, initiatives such as the Anchor Borrowers' Programme (ABP) and the Agricultural Commodity Development Initiative (ACDI) have focused on developing the agriculture/ agro-processing industry in Nigeria.

Also, the CBN created the Creative Industry Financing Initiative (CIFI), the Nigeria Electricity Market Stabilisation Facility (NEMSF); Power and Airline Intervention Fund (PAIF), Textile Sector Intervention Facility (TSIF), Export Development Facility (EDF), and Real Sector Support Facility (RSSF) to focus on specific sectors.



Meanwhile, commercial banks' programmes such as the Guaranty Trust Bank Fashion Industry Credit and Food Industry Credit, and First Bank's Agriculture Expansion Support Programme, among others, are sector-specific funds created to support the different sectors of the economy.

One advantage of the sectoral funding approach is the ability to tailor funding in line with the specific needs of businesses in the sector. For instance, in agriculture, funding can be structured in view of the farming seasons, off-taker arrangements, equipment needs, required technology, among other factors.

MEASURES TO ADDRESS THE NMSME FINANCING GAP IN NIGERIA

As previously noted, 63% of entrepreneurs surveyed reported that they were able to raise finance for their businesses in the last one year. While this share appears to be high, especially in view of the severity of the challenge of limited finance, the mode and source of finance reveals an important narrative.

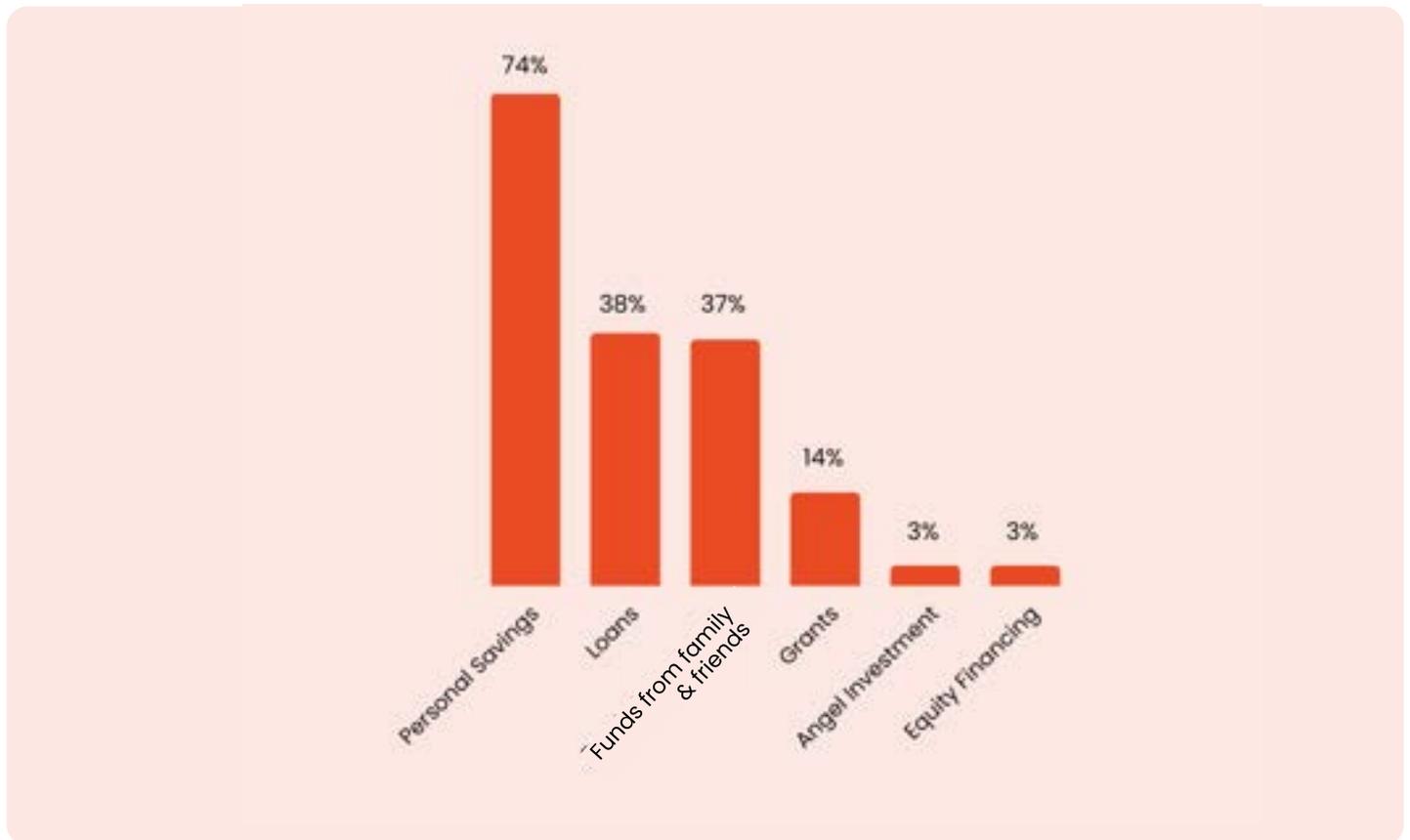


"63% of entrepreneurs surveyed reported that they were able to raise finance for their businesses in the last one year."

74% of those that have raised finance cited personal savings as the main type of finance they accessed while 37% said the finance was from family and friends. Beyond personal savings and family and friends, other forms of finance were loans (38%) and grants (14%). Equity finance and angel investment had the lowest shares of 3% each, reflecting the fact that many businesses are not structured to attract such type of funding due to their informal nature.



Figure 9: If yes, what type of financing were you able to access for your business over the past one year? (% of respondents that raised finance)



Business Demography and Access to Finance

Male-led Businesses vs Female-led Businesses

Among entrepreneurs that raised finance, a significant share (60%) are males while 40% are females. Moreover, the number of females that were able to access finance as a share of total female entrepreneurs was 64%, higher than 61% for males.

This means that for female-led businesses, many more females were able to access finance, when compared with male-led businesses. This appears reasonable considering that the major source of finance for female-led businesses were personal savings and funds from family and friends.



"Among entrepreneurs that raised finance, a significant share (60%) are males while 40% are females."



Female-led businesses are more likely to raise funds from personal savings and family and friends - 82% of female-led businesses that have raised finance say the sources are personal savings and family & friends, relative to 80% for male. 30.5% of female entrepreneurs that have raised finance reported loans as a type of funding they accessed (42% for male entrepreneurs), making it the most important formal type of finance for female-led businesses in Nigeria.

"...82% of female-led businesses that have raised finance say the sources are personal savings and family & friends, relative to 80% for male."

Youth-led Businesses

Similarly, the youth entrepreneurs who were able to raise funds relied heavily on personal savings and funds from family and friends. According to the survey, 86.6% of the youth entrepreneurs raised finance for their businesses through personal savings. This was closely followed by funds from family and friends, as reported by 38.7% of the youth-led businesses.

"...86.6% of the youth entrepreneurs raised finance for their businesses through personal savings."

Collectively, youth-led businesses that raised finance from either of the two, or both sources, account for 92%. **Only 21.4% and 7% of youth entrepreneurs reported accessing loans and grants, respectively.** Angel investment and equity financing account for just 2% each.

Institutional Sources of Finance

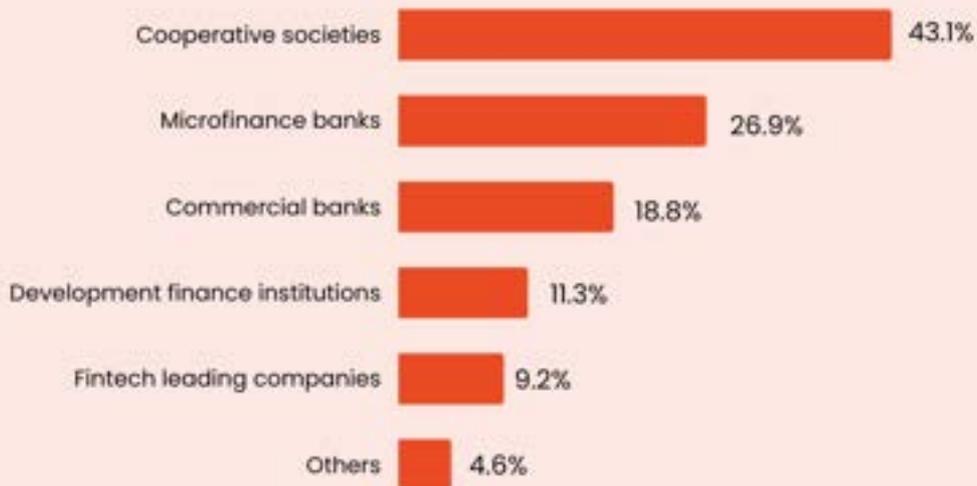
Cooperative societies remain a veritable source and major point of call for entrepreneurs over the past year. 47% chose cooperatives as the major source of finance, while 37% and 32% chose microfinance banks and commercial banks respectively.

The same trend was experienced for female entrepreneurs. 43.1% of female-led businesses in Nigeria received funds from cooperative societies, followed by microfinance bank, as reported by 26.9% of the female entrepreneurs.



Like female-led businesses, the major source of institutional finance for youth-led businesses were cooperative societies. Besides personal savings and funds from family and friend, **36.5% of youth entrepreneurs accessed finance from cooperatives.** Other sources include microfinance and commercial banks, as reported by 19.5% and 17.1% of youth entrepreneurs who raised funding in the past year.

Figure 10: Institutional sources of finance for female businesses in Nigeria over the past year (% of female respondents)



Access to Finance by State

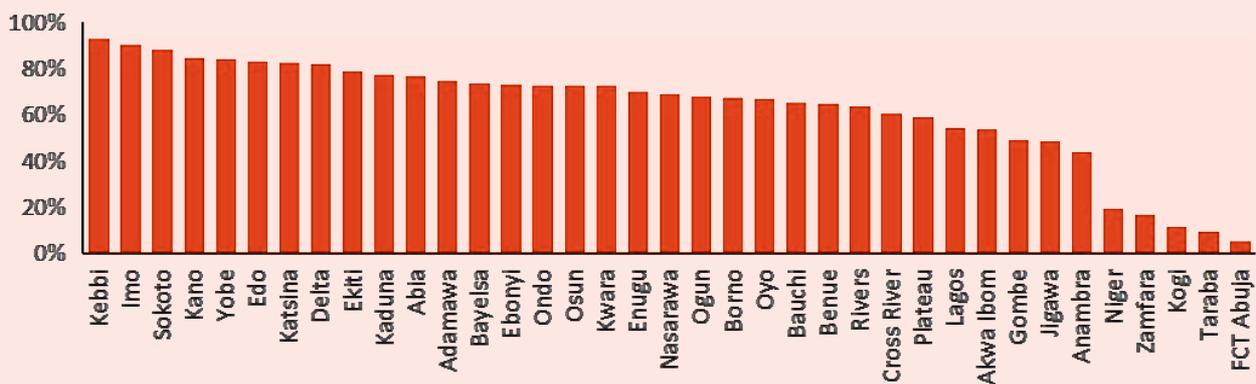
Kebbi, Imo, Sokoto, Kano and Yobe had the highest rate of businesses that accessed finance in the past one year. These states had shares of 93%, 90%, 88%, 85% and 84% respectively. For the top two states, Kebbi and Imo, while loans was the major form of finance in Kebbi, followed by personal savings, the highest forms of finance in Imo are family and friends and personal savings.

In Lagos, Nigeria's commercial capital, 66.5% and 48% of respondents that accessed finance chose personal savings and loans, respectively, as the forms of finance they accessed. Commercial banks and cooperatives are the topmost institutional sources of finance for these entrepreneurs. Ogun state exhibited the same trend with Lagos in terms of the forms of finance but cooperatives was the most chosen source of finance in the state.



"Kebbi, Imo, Sokoto, Kano and Yobe had the highest rate of businesses that accessed finance in the past one year."

Figure 11: Access to finance by state (Businesses that raised finance in the state as a % of total businesses in the state)



For states like Delta and Rivers in the south south, personal saving is the most common type of finance for businesses. Loans and grants are uncommon among the available financing options. Commercial banks do not appear as a major source of finance. Rather, cooperatives were a major source.

For instance, 65% and 75% of businesses that accessed finance chose cooperatives as the major institutional source of finance in Delta and Rivers, respectively.

“...65% and 75% of businesses that accessed finance chose cooperatives as the major institutional source of finance in Delta and Rivers, respectively.”

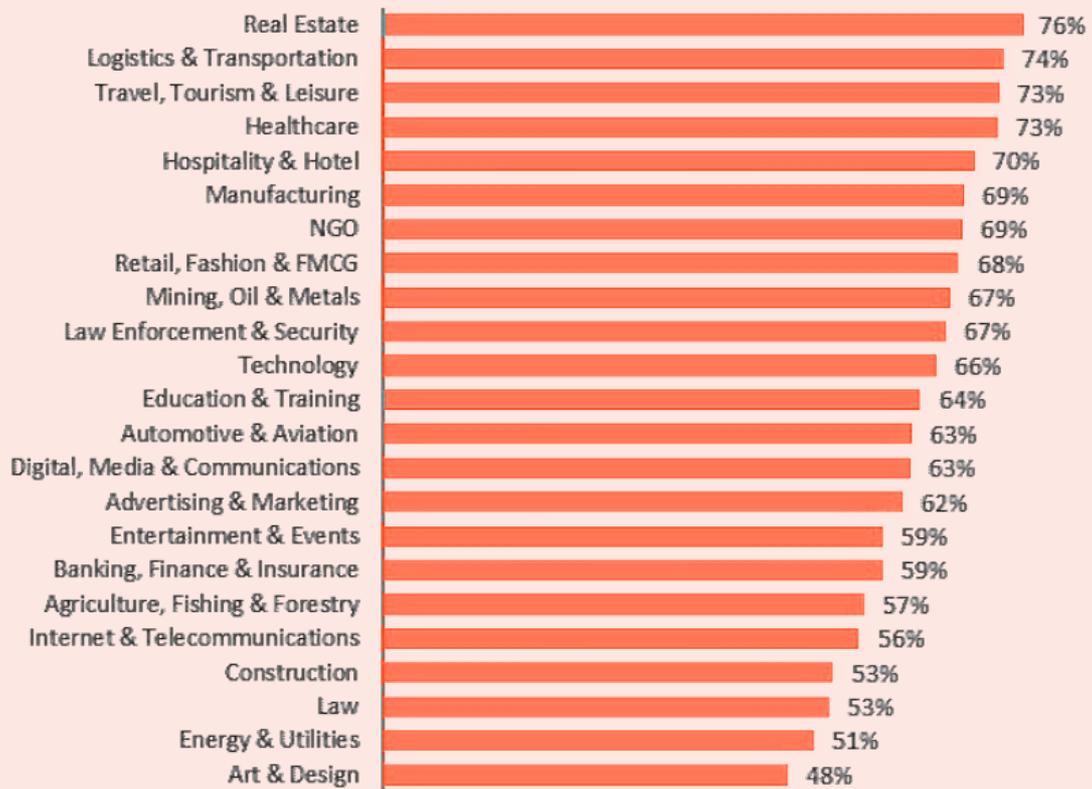
Access to Finance by Sector

From a sectoral perspective, sectors with the highest proportion of entrepreneurs that accessed finance include Real Estate, Logistics & Transportation and Travel, Tourism & Leisure.

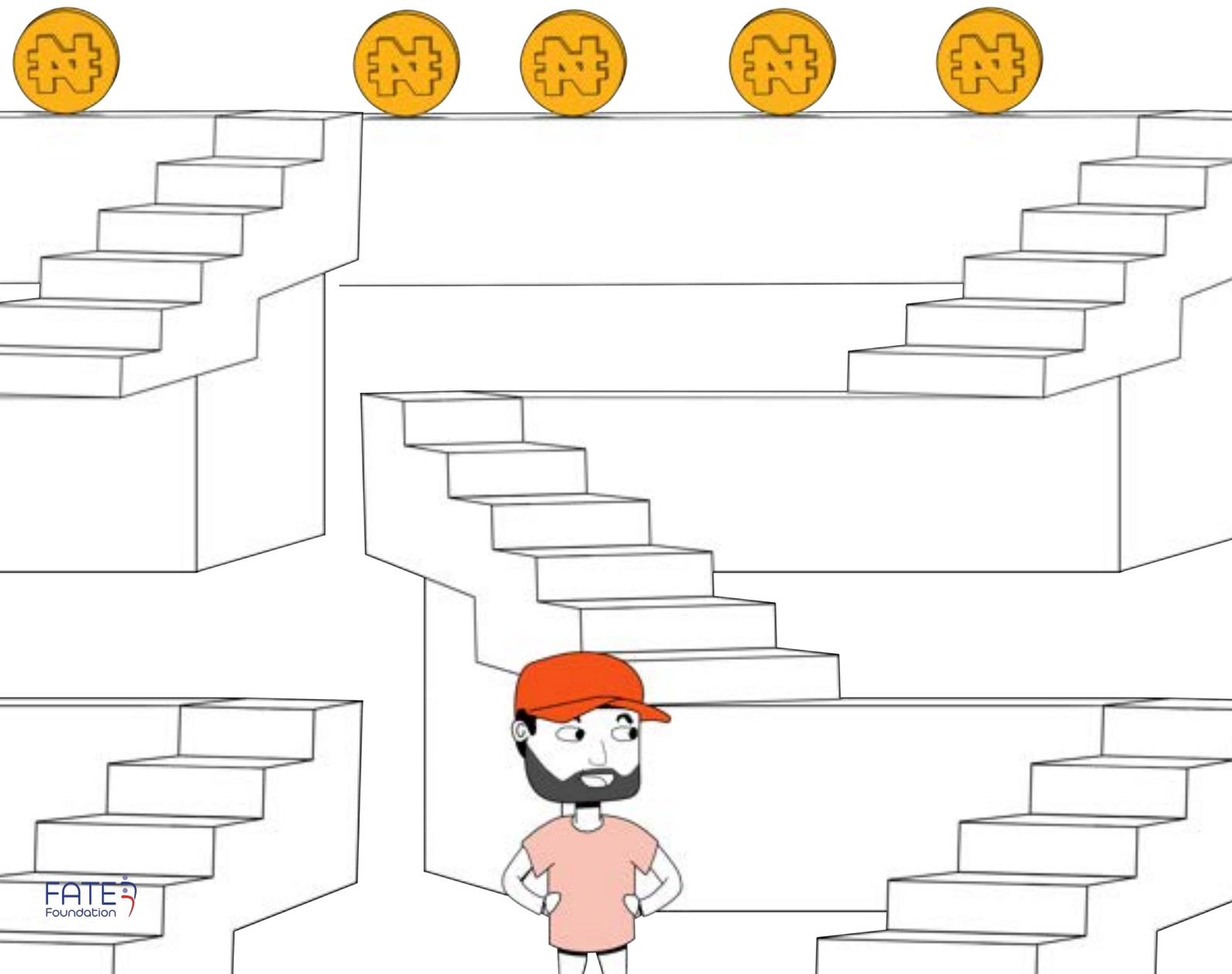
For majority of the sectors, personal savings and family & friends were the major type of finance, except for Mining, Oil & Metals, Agriculture, Fishing & Forestry and Education & Training where loan was a major type of finance.

Majority of these sectors are capital intensive, while for agriculture, the results reflect the consistent focus on the sector by both commercial banks and government intervention funds.

Figure 12: Access to finance by sector



THEORY OF CHANGE: SUSTAINABLE FUNDING MODEL FOR NIGERIAN ENTREPRENEURS





The huge NMSMEs funding gap in Nigeria demands a rethinking of the current approach to providing finance for these businesses. The complex nature of small businesses, the different dynamics across sectors, among many other factors, make it difficult to determine an appropriate funding model that is applicable to all.

Certainly, there is no one-size-fits-all approach to funding small businesses. In this section, we explore several funding options for small businesses drawing from the experiences of countries. What seems to have worked in a particular country may not be effective for others. However, for countries that have made progress in funding NMSMEs, there are some common features that can be contextualised and applied in Nigeria.

"...for countries that have made progress in funding NMSMEs, there are some common features that can be contextualised and applied in Nigeria."



Development of a Decentralised Credit Guarantee Scheme for NMSMEs

A credit guarantee scheme (CGS) ensures that risks of lending are shared between the lender and the guarantor. These schemes have become widely adopted across developing countries, particularly those with a significant share of informal businesses.

CGSs ease banks' lending to small businesses as the credit guarantor, usually a government agency or trade association, will cover a percentage of the lenders' losses in a case where the borrower defaults (Yoshino et al, 2017). Countries such as India, Indonesia, South Korea, among many others, have used this approach to encourage banks to lend to small businesses.

The practice of credit guarantees is not new in Nigeria. The Agricultural Credit Guarantee Scheme Fund (ACGSF) was setup by the CBN in partnership with the federal government in 1977 to guarantee loans to farmers in the country.

Under the scheme, banks can get guarantees up to 75% of the value of the loan offered. In several instances, businesses that seek loans are required to provide collateral or equity worth 25% by commercial banks. In 2021, loans awarded under the scheme were 31,666 valued at ₦5.9 billion, according to data from the CBN. From January to October 2020, 26,830 loans amounting to ₦3.6 billion were awarded.

"In 2021, loans awarded under the scheme were 31,666 valued at ₦5.9 billion, according to data from the CBN."

Since the inception of the scheme up to February 2022, 1,224,795 loans valued at ₦129.1 billion had been provided by the Central Bank of Nigeria (CBN) and the federal government (Inyang, 2022).

In terms of coverage, it is important to note that the ACGSF is not limited to small businesses. Medium to large firms that meet the relevant criteria participate in the scheme. In fact, data from the CBN show that from January to October 2020, majority of loans guaranteed under the scheme were worth between ₦50,000,000 - ₦100,000,000 while two-third of the value of loans guaranteed were above ₦100 million for each loan (CBN, 2020).

“Data from the CBN show that from January to October 2020, majority of loans guaranteed under the scheme were worth between ₦50,000,000 - ₦100,000,000”

This suggests that medium to large businesses benefit more from the scheme, relative to nano and micro businesses. Other programmes such as the Anchor Borrowers Programme also provide guarantee to small holder farmers who are often aggregated and linked with anchor companies that are involved in the processing.



Institutions such as Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) have played important roles in de-risking value-chains and providing support to small-medium scale businesses across the country. However, there is room for more initiatives that target small businesses, especially those that engage in non-agricultural activities.

To reach out to many small-scale entrepreneurs, a decentralised credit guarantee scheme that targets nano, micro and small businesses is a viable option. State and local governments in Nigeria have relatively better reach with these small businesses and therefore need to establish such schemes in partnership with financial institutions such as commercial and microfinance banks.

“ Institutions such as Nigerian Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL) have played important roles in de-risking value-chains and providing support to small-medium scale businesses across the country.”

With such schemes run by state governments, in addition to existing schemes at the federal level, many more small businesses will be able to access finance as risks will be shared among parties. State governments will have to allocate specific amounts for such schemes in the state budgets and ensure effective monitoring and implementation.

Such schemes, if well managed, can attract financing from the private sector, multilateral organisations among others. The Lagos State Employment Trust Fund (LSETF) loan programme, which offers loans to small businesses at 5% interest rate is a good example of such programme.

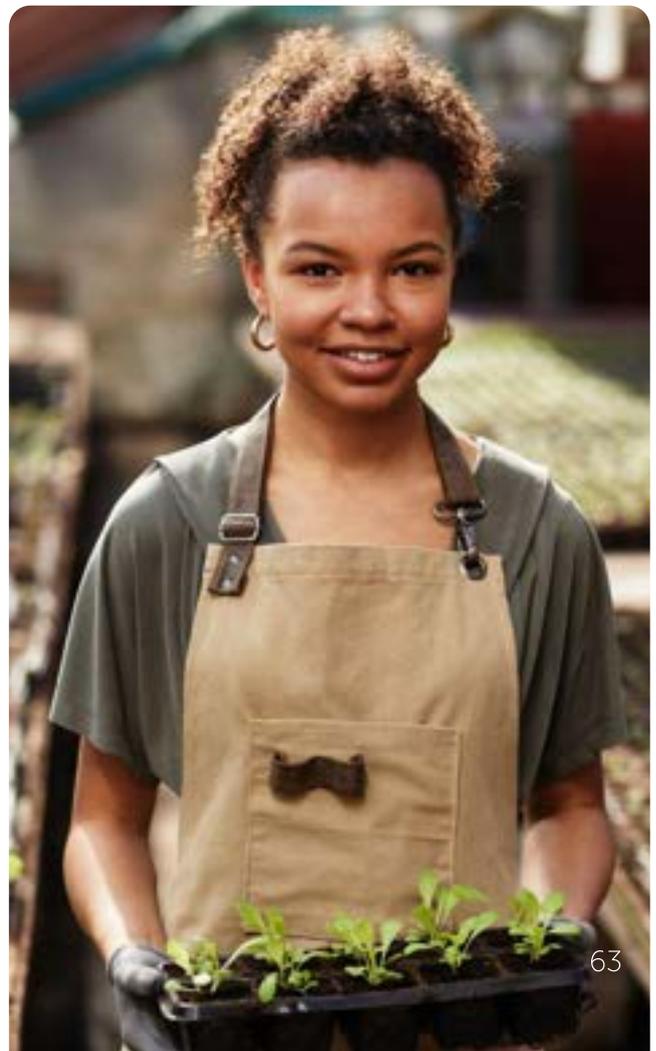
Increased Adoption of NMSMEs Credit Risk Database

The collection of financial data of NMSMEs is important in understanding the sector and in determining an appropriate risk- based lending framework, which can improve loan disbursement and the loan guarantee system. Japan is among countries that have a large credit database of small businesses. The country's Credit Risk Database (CRD) was established in 2001 by the Ministry of Economy, Trade and Industry, and the Bank of Japan (BOJ).

“Japan is among countries that have a large credit database of small businesses. The country's Credit Risk Database (CRD) was established in 2001 by the Ministry of Economy, Trade and Industry, and the Bank of Japan (BOJ).”

The CRD is managed by the CRD Association, which is a private not-for-profit organization with data-providing institutions as membership-paying members (Nguyen et al., 2020). As at November 2019, the CRD had 2.5 million SMEs and 1.2 million sole proprietors with about 21 million and 5.6 million financial statements for SMEs and sole proprietors, respectively. The existence and usage of such database has made it possible to assess credit history of small businesses and provide credit scores which form an essential part of risk evaluation of these businesses.

“As at November 2019, the CRD had 2.5 million SMEs and 1.2 million sole proprietors with about 21 million and 5.6 million financial statements for SMEs and sole proprietors, respectively.”



In Nigeria, the passage of the National Collateral Registry Act and the Credit Reporting Act of 2017 further opened the space for credit bureaus to collect and process the credit information of individuals and small businesses that engage with financial institutions.

Basically, credit bureaus have the obligation to create and maintain a database of credit, receive, collate and compile credit related information from Credit Information Providers (CIPs) and provide credit reports to credit users.

Although significant progress has been made in the last decade, The FATE Institute's stakeholder engagement with the credit bureaus in Nigeria revealed that many financial institutions in Nigeria are reluctant to share credit information on the Data Submission Application Programming Interface (API) with the bureaus.



Also, in several instances, available data on customers' credit history are not up-to-date. Financial institutions, on the other hand, cited lack of trust of the interface and fear for the breach of data privacy by the bureaus. This trust deficit is a significant limiting factor in building a consolidated credit database of individuals and small businesses in the country. As such, data on credit information exist in silos with little or no collaboration among financial institutions.

To improve the situation, in addition to ensuring compliance with the provisions of the Credit Reporting Act, it is important for stakeholders to interact and design frameworks of collaboration, which must be built on trust and mutual understanding. This process can be spearheaded by the Central Bank of Nigeria. A standardised framework for API interaction is also required to ensure processes are harmonised with the ecosystem. The more NMSMEs are profiled and captured, the more likely they are to access finance from financial institutions.



In Nigeria, the passage of the National Collateral Registry Act and the Credit Reporting Act of 2017 (Act) in 2017 further opened the space for credit bureaus to collect and process the credit information of individuals and small businesses that engage with financial institutions.



Financial institutions need to create MSMEs-tailored financial products

Financial institutions need to create specialised models for funding small businesses in Nigeria. Across sectors, there may be need to understand the level of risks as well as the most appropriate funding model. Within the agriculture space for instance, a model where farmers are aggregated and provided with funds may be suitable. However, such model may not be appropriate for petty shop owners, trading different commodities.

Alternative lending solutions for MSMEs, including special collateral regimes, insolvency practices, secured lending through movable assets, factoring and financial leasing, should be considered. In addition, the use of risk-based pricing method will also mean that businesses are charged specialised interest rates.

A one-size-fits-all funding approach for NMSMEs would only lead to the neglect of many small businesses from the financial system. Developing suitable finance models, products and services that recognise the immediate peculiarities of small informal businesses and incentivise them to keep records and formalise while ensuring proper risk management are needed to bridge the NMSMEs finance gap in Nigeria.

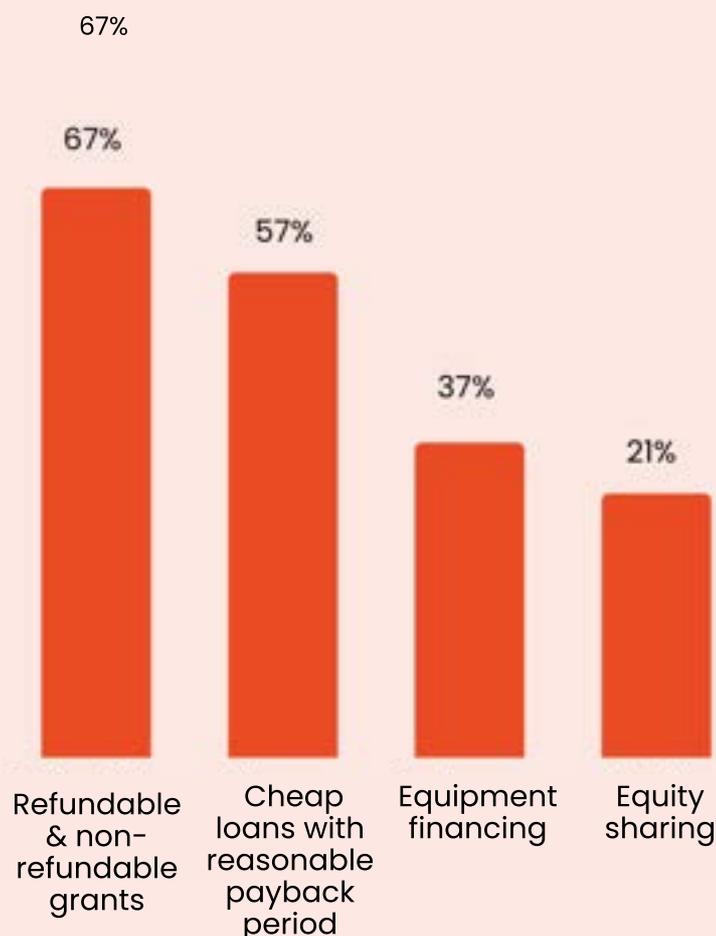


Box 2: Perspectives of Entrepreneurs on the most suitable funding model

Following the significant pressure associated with accessing finance in the last few years, entrepreneurs need a form of finance that will not exert undue pressure particularly in relation to payback period and interest payment. From the 2022 SoE survey, 67% of entrepreneurs chose business grant as a preferred form of finance mainly because they are mostly non-repayable. 57% prefer cheap loans with reasonable payback period while only 21% prefer equity financing.

"...67% of entrepreneurs chose business grant as a preferred form of finance mainly because they are mostly non-repayable. 57% prefer cheap loans with reasonable payback period while only 21% prefer equity financing.."

Figure 13: What type of funding model would work for you as an entrepreneur? (% of total respondents)



Improve coverage of government intervention programmes

Government intervention programmes are important in providing affordable finance to small businesses. One major problem associated with this model is poor coverage.

To extend their reach, the government can leverage on the extensive networks of cooperatives and microfinance banks in rural areas. Findings from the 2022 SoE survey showed that cooperatives and microfinance banks are easily accessible to entrepreneurs, as more entrepreneurs were able to raise finance from both institutions than from commercial banks.

“Findings from the 2022 SoE survey showed that cooperatives and microfinance banks are easily accessible to entrepreneurs, as more entrepreneurs were able to raise finance from both institutions than from commercial banks.”

The CBN, federal and state government intervention programmes should specifically target these organisations which often have direct links with small businesses in the aforementioned areas. This must be accompanied by an effective and timely monitoring and evaluation of intervention programmes.

Leverage Technology and Innovation to Improve Access to Finance for Entrepreneurs

Following the CBN declaration of the cashless policy in 2012, there has been tremendous development in the adoption of technology in Nigeria’s financial system.

Government policy measures, the emergence of fintech companies among other initiatives have resulted in the widespread adoption of electronic payment systems, the increasing penetration of internet banking, digital banking, automated teller machines (ATM), mobile money, point of sale (PoS) devices, e-commerce and e-credit, among others. In addition, the system has also witnessed the emergence of FinTech platforms and mobile applications that facilitate loan lending for individuals and small businesses.



“Following the CBN declaration of the cashless policy in 2012, there has been tremendous development in the adoption of technology in Nigeria’s financial system.”

These applications demand lesser strenuous requirements from potential clients in the loan application process relative to commercial banks. The advent of credit platforms such as **Carbon, QuickCredit, Specta and OPay**, among others, leverage technology to make the processing of loans seamless for applicants, who do not have to visit any physical branch.

Although interest charges on these loans are relatively higher due to the associated risks, the pace of coverage of these technology firms, the level of innovation and how rapid they can scale present some valuable lessons on the role of technology in bridging the finance gap in Nigeria.



MYbank is a leading digital private commercial bank in China established in June 2015 with a focus on SME financing. MYbank uses an AI-powered risk-management system, that runs over 310 predictive models based on 3,000 risk profiles and more than 100,000 metrics to develop a credit line for SMEs (GPFI, 2020). MYbank over the years has focused on microentrepreneurs and small businesses that have not had access to a bank loan in the past.

According to MYbank User Survey 2019, over 52% of MYbank’s MSME customers have fewer than five employees, more than half of which were mom-and-pop shops (GPFI, 2020). Also, 45% of MYbank’s loans were under RMB50,000 (US\$7,000), with average loan size of RMB11,000 (US\$1,600). More so, over 80% of MYbank’s SME clients had never previously obtained a business loan from a bank and 89% were in third or lower tier Chinese cities.

While Nigeria appears to be making some progress in the fintech space especially in providing loans to small businesses, we highlight the experience of MYbank in China in bridging the finance gap for small businesses.

Through its models and mobile digital application, MYbank boasts of three minutes of loan application completion time, one second of approval and zero human interaction (Bloomberg, 2019).

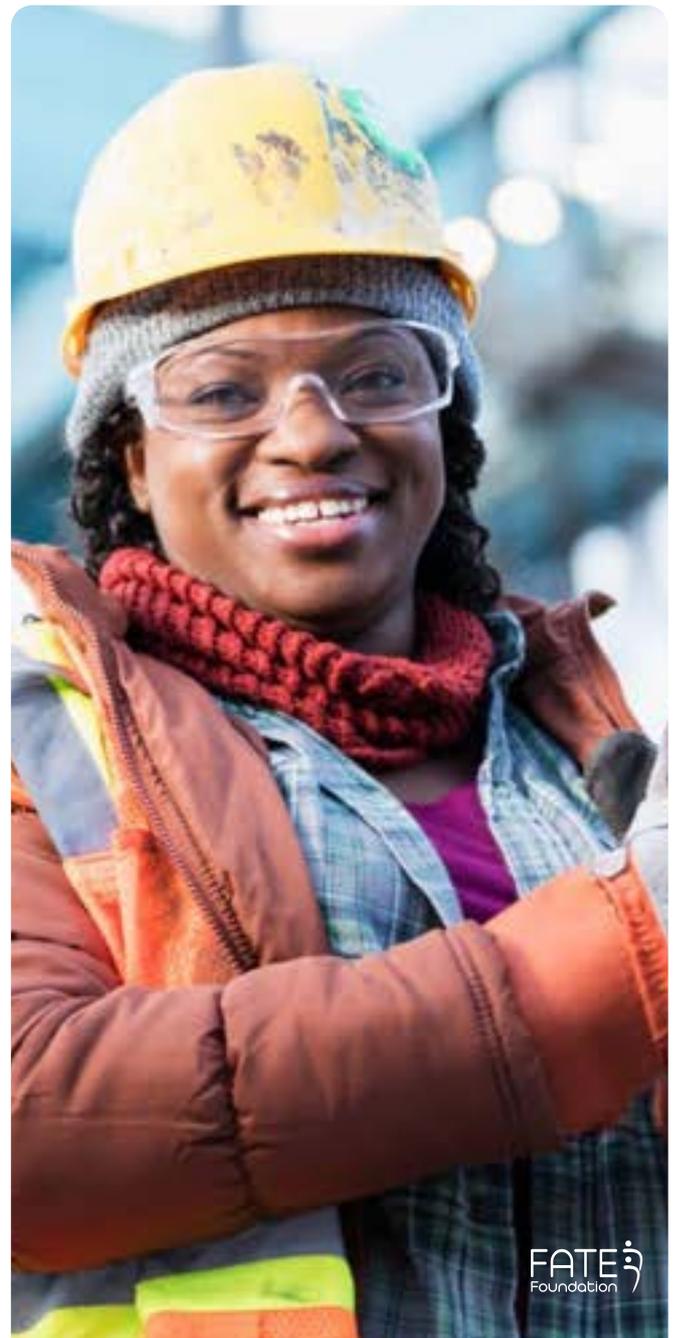
MYbank with its over 400 financial institution partners have served over 16 million MSMEs and disbursed RMB2 trillion (US\$290 billion). In 2018, Mybank announced its Star Plan to partner with 1,000 financial institutions through technology to further extend more cost-effective access to finance for 30 million SMEs in China. While the average non-performing loan (NPL) rate for SME in China stood at 2.95% in 2018, the NPL for MYbank's loan to MSMEs was around 1% in same year (BusinessWire, 2019).

“ In 2018, MYbank announced its Star Plan to partner with 1,000 financial institutions through technology to further extend more cost-effective access to finance for 30 million SMEs in China.”

In conclusion, financial inclusion among small business owners is also important in closing the financing gap in Nigeria. According to EFINA (2021), using information from the World Data Lab, leveraging the mobile money platform could improve financial inclusion in Nigeria and help the country keep pace with its African peers, including Kenya, with a financial inclusion rate of 83% as at 2020 and Tanzania with 65% as at 2017.

Learning from the experience of other countries, Morocco has successfully leveraged financial inclusion as a stepping stone to achieving the highest level of financial sophistication, which translated to access to finance for MSMEs (IMF, 2016).

The two strategies deployed by the Moroccan authorities – adopting financial inclusion as a core national strategy and harnessing digital transformation – are worth considering. Specific actions such as enhancing digital payment services, increasing the provision of financial products and ensuring partnerships between banks and fintechs are crucial in bridging the finance gap among NMSMEs in Nigeria.



Box 3: Why Monitoring and Evaluation is essential for government-support programmes: A Case Study of the Commercial Agriculture Credit Scheme Evaluation and Impact Assessment Report

Instituted in 2009 by the Central Bank of Nigeria and the Federal Ministry of Agriculture and Water Resources, the Commercial Agriculture Credit Scheme (CACCS) aimed at fast-tracking the development of the agricultural sector in Nigeria by providing finance to companies involved in agriculture and agro-processing.

The scheme was financed from the proceeds of the ₦200 Billion seven (7) year bond raised by the Debt Management Office. The fund offered a single digit interest rate of 9%. Commercial banks and state governments took part in the scheme and served as channels to beneficiaries, which included private liability companies, government-owned establishments, sole proprietorships, and public liability companies.

“ The Commercial Agriculture Credit Scheme (CACCS) aimed at fast-tracking the development of the agricultural sector in Nigeria by providing finance to companies involved in agriculture and agro-processing.”

In October 2018, the Central Bank of Nigeria published a comprehensive monitoring and evaluation report of the CACCS. The report showed that between 2009 and 2016, ₦147.87 billion was disbursed to the 191 businesses under the scheme.

Majority of firms (67.6 %) that received funding were able to purchase new plants or additional equipment/machinery, while about 42% improved utilization of installed capacity. 30.7% were able to expand land under cultivation and 23% created new outlets. Furthermore, there was a significant improvement in sales of businesses that received the funds while the number of employees in these firms increased from 10,443 in 2008 to 70,070 in 2017.



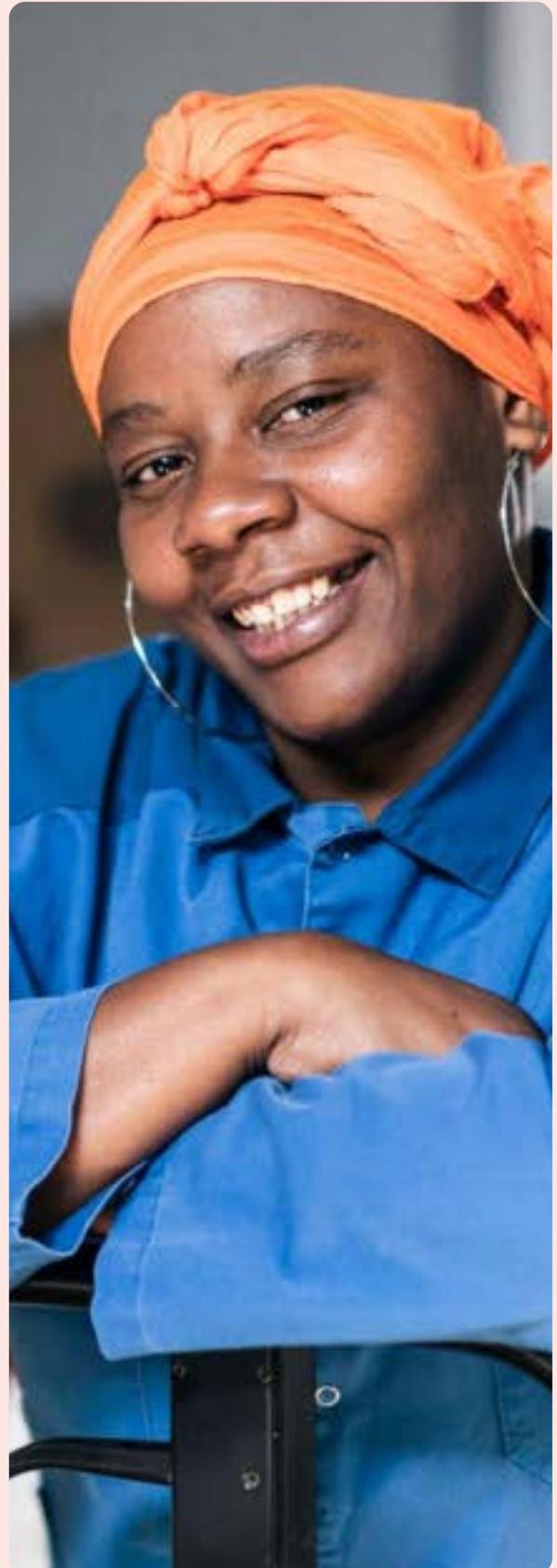
On the other hand, the monitoring and evaluation of the scheme showed evidence of funding mismatch. 19.8% (N29.2 billion) of the fund was applied to areas that were not intended under the scheme by 17.3% of the beneficiaries.

In addition, several firms that benefited from the funds were not involved in any active economic activity. There was also the absence of data from many state governments that took part in the scheme suggesting that “such funds may have been misapplied” (CBN, 2018, p7).

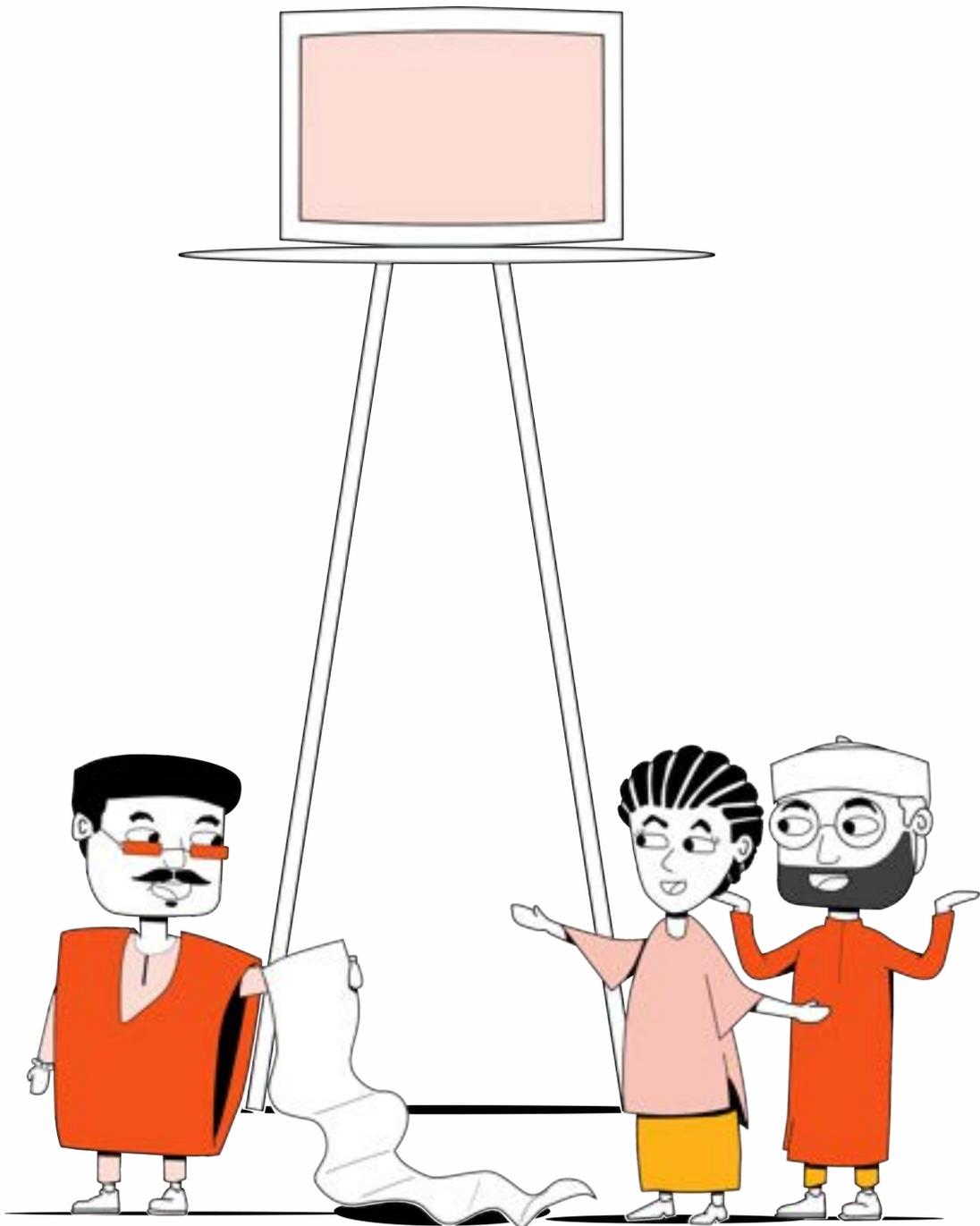
“ 19.8% (N29.2 billion) of the fund was applied to areas that were not intended under the scheme by 17.3% of the beneficiaries.”

Effective monitoring and evaluation are important to ensure the objectives of intervention funds are met. Constant monitoring of funds usage even during the implementation phase could reveal crucial gaps and therefore provide opportunities for these gaps to be corrected before the end of the programme.

As a way forward, it is important for each government intervention fund to have a strong monitoring and evaluation component, equipped with adequate workforce and financial resources to monitor beneficiaries as well as different elements of the fund.



POLICY RECOMMENDATION



POLICY RECOMMENDATION

NMSMEs are integral in the development of Nigeria. Their role in job creation, economic growth and poverty reduction is unique and therefore they must be given utmost attention by policy makers. In view of the severity of the problem of limited access to finance in the growth of small businesses, this study proffers the following policy recommendations:

- **Intensify Efforts in the adoption of an NMSMEs Credit Risk Database**

The CBN, being the apex financial regulator, needs to persuade the utilisation and sharing of credit information of customers including small business owners among financial institutions. The Credit Reporting Act empowers credit bureaus to be responsible for ensuring that credit-related information is kept accurate and updated from time to time. It is important for stakeholders to interact and design frameworks of collaboration, which must be built on trust and mutual understanding.

- **Need for more structured funding at state level**

State governments need to establish trust funds and specialised credit guarantee schemes to improve loan/grants coverage for small businesses. The Lagos State Employment Trust Fund (LSETF) is a model that can be replicated across states. Where such funds are effectively managed, they can attract investments from the private sector, multi-lateral agencies, and other stakeholders.

- **The federal government needs to create awareness on the National Collateral Registry (NCR) initiative as many entrepreneurs are not aware of the initiative**

Sensitisation programmes that target women, youth, and entrepreneurs in the north central, north west, north east and south south regions about the initiative are required and should be implemented in collaboration with state governments and other stakeholders.



- **Enhance the coverage of government intervention funds**

It is important for government intervention funds to reach businesses that operate in rural and hard-to-reach areas across the country.

The CBN, federal government ministries and agencies as state governments need to strengthen collaboration with cooperative societies, market associations and microfinance banks, to ensure these intervention funds are accessed by micro businesses in hard-to-reach areas. Communication of these interventions using local languages and traditional media outlets should be adopted.





- **Design and implement a monitoring and evaluation framework for intervention funds**

Effective monitoring and evaluation of intervention funds are crucial in identifying the impact of the funds, lessons learned and areas where improvement are required. This is important to ensure the funds get to the targeted businesses and that they are appropriately utilised. Such framework must be viewed as an essential component of every intervention at both federal and state levels.

- **More structured and targeted funding are required for female-led and youth-led businesses in Nigeria**

Due to the dynamism of female-led businesses as well as the innovative nature of youth-led businesses, the federal and state governments should design and implement specialised funding programmes for these businesses and ensure effective monitoring and evaluation of such programmes.

Commercial banks should be incentivised by the Central Bank of Nigeria to prioritise lending to youth-led and female-led businesses. This is based on the premise that only 21.4% and 7% of youth entrepreneurs reported accessing loans and grants, respectively, in the 2022 SoE survey.

“...21.4% and 7% of youth entrepreneurs reported accessing loans and grants, respectively, in the 2022 SoE survey.”

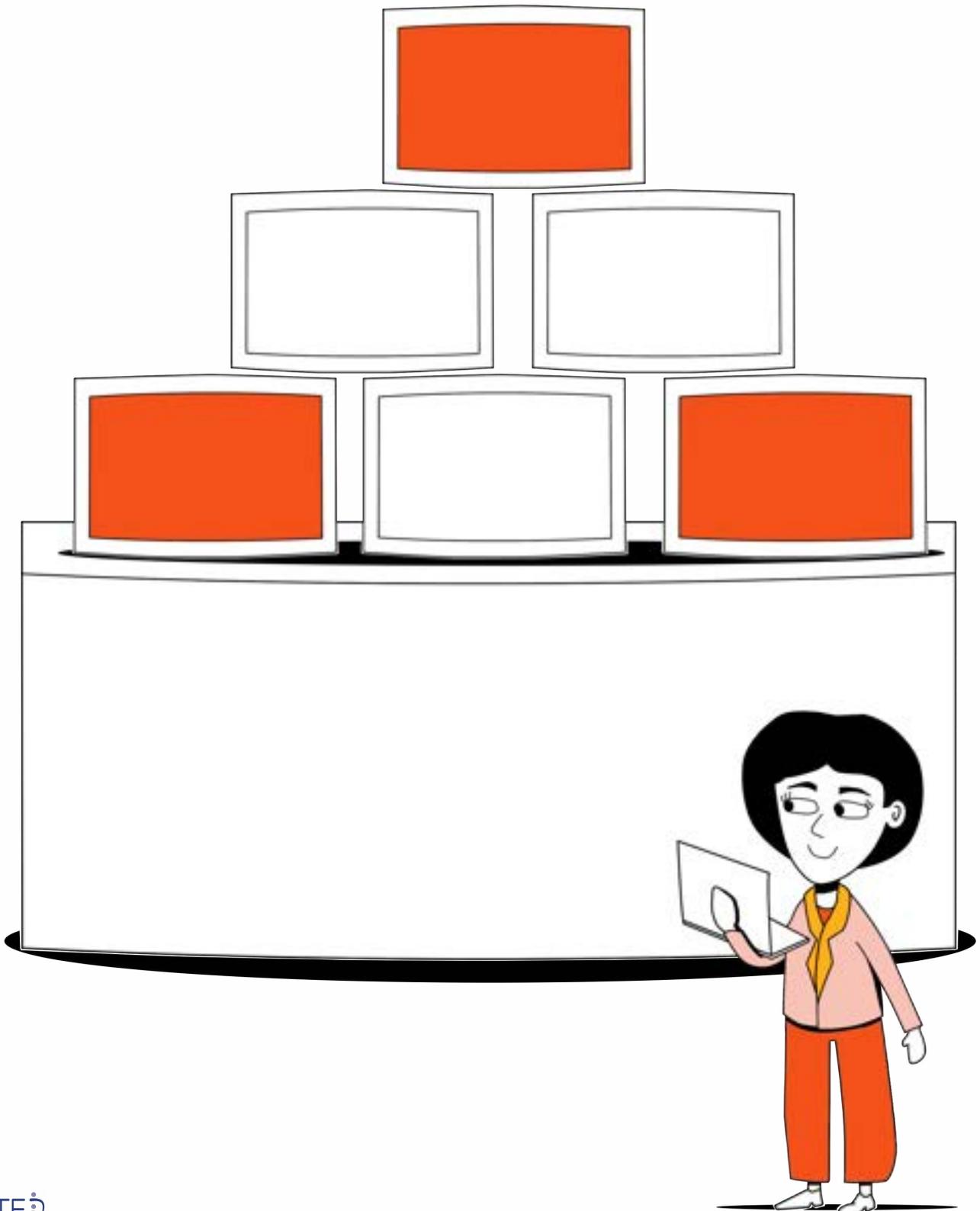
- **Expand entrepreneurial knowledge and book-keeping skills to rural areas**

Training and capacity building on entrepreneurship and enterprise building is an important foundation for entrepreneurship growth and success.

The government can incentivise private sector-led training institutes to provide trainings on financial literacy and other capacity building support to businesses in rural areas. Such trainings can be delivered to business clusters, which should be linked with financial institutions and supported in their application for loans and grants.



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APPENDIX



APPENDIX

Methodology Note

The FATE Institute conducted a survey of business establishments across several states in Nigeria for this study. A nationally representative sample of 6,500 business establishments was selected. Establishments cut across formal and informal sectors and were located in both rural and urban areas. The businesses in this study are captured under 25 sectors of the economy.

The survey was executed in two major forms: questionnaire (online and physical) and interviews of government regulators and business member organisations. The principal objective of the survey was to provide data support towards the mapping of the State of Entrepreneurship in Nigeria. Other objectives included to capture data on key business trends, survival and death rates of businesses, access to finance as well as highlight key challenges and perception of entrepreneurs on the business environment.

The surveys were conducted in the months of July and August 2022. Final number of surveyed businesses was 8,611 which exceeded the initial sample of 6,500. Field responses accounted for 91.1% of respondents while online responses had the remaining share of 8.9%. For the interviews, 7 organisations were interviewed. After completion, the data were lodged, validated, cleaned up and analysed in line with the objectives of the report. Two main statistical software - Ms Excel and SPSS - were used in the analysis.



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