

A REVIEW OF THE CBN N50 BN TARGETED CREDIT FACILITY (TCF)

**By the Business Environment Team,
LINKS**

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1 ACKNOWLEDGEMENT

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- Messers Awwal Magashi / Julius - MAFITA Kaduna, Kano and Jigawa Trade Associations.

Peer review comments were received from Andrew Thorburn (Team Leader, LINKS), and all other senior LINKS staff.

Contributions to the data on which this paper is based and valuable guidance and inputs are gratefully acknowledged from the African Union, Bank of Industry, EFinA, UN Food & Agriculture Organisation, RIBY, McKinsey & Company, the World Bank and the OECD.

The study was prepared under the LINKS Programme funded by the UK Government and implemented by Tetra Tech International Development (formerly Coffey).

2 ACRONYMS

A2F	Access to Finance
AGSMEIS	Agri-Business Small and Medium Enterprises Investment Scheme
APR	Annual Percentage Rate
BDSP	Business Development Support Provider
BOI	Bank of Industry
BOP	Bottom of Pyramid (Program)
BVN	Bank Verification Number
CAMEL	Capital adequacy; Assets; Management Capability; Earnings; Liquidity
CBN	Central Bank of Nigeria
CGAP	The Consultative Group to Assist the Poor
DMBs	Deposit Money Banks
EFInA	Enhancing Financial Innovation and Access
FIRS	Federal Inland Revenue Service
FINTECH	Financial Technology Company
GEEP	Government Enterprise and Empowerment Programme
GIZ	German International Cooperation
KYC	Know Your Customers
LINKS	DFID LINKS – Powering Economic Growth in Northern Nigeria
MFBs	Microfinance Banks
MFI	Microfinance Institutions
MEs	Micro Enterprises
MSEs	Micro, Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
MSMEDF	Micro, Small and Medium Enterprise Development Fund
NAMFB	National Association of Microfinance Banks
NAWEF	National Women Empowerment Fund
NBS	National Bureau of Statistics
NMFB	NIRSA Micro Finance Bank
NDIC	Nigeria Deposit Insurance Corporation
NGOs	Non- Governmental Organizations
NGO-MFI	Non-Governmental Organizations - Microfinance Institutions
NPL	Non-Performing Loans
NOC	Network Operating Centre
OFISD	Other Financial Institutions Supervision Department
PAR	Portfolio at Risk
PMIs	Primary Mortgage Institutions
RBS	Risk-Based Supervision
SMEDAN	Small & Medium Enterprises Development Agency of Nigeria
TCF	Targeted Credit Facility
World Bank	International Bank for Reconstruction and Development

3 EXECUTIVE SUMMARY

The April 2020 World Economic Outlook (WEO)¹ forecasts that global growth is projected at -4.9 percent in 2020, with Nigeria estimated to experience a -5.4 percent. This is an increase as the COVID-19 pandemic has had a more negative impact on activity in the first half of 2020 than anticipated, and the recovery is projected to be more gradual than previously forecast.

Micro, small and medium-size enterprises (MSMEs) are in an especially difficult position. Plunging demand has forced them to lay off workers, and many don't have the financial resources to survive in this climate. In many countries, up to one-third of SMEs could fail within three months of when the pandemic began in their countries². The response by the Federal Government of Nigeria to the COVID-19 pandemic has included an array of measures to help people and businesses weather the storm. In recognizing the vulnerability of MSMEs, the CBN intervened with the N50Bn Targeted Credit Facility (TCF) to be disbursed through the NIRSA microfinance Bank (NMFB). The overarching goal was to provide business owners with critical funds and support in the immediate term.

The TCF, although aimed at addressing the needs of MSMEs, there were some concerns on the mode of operations that could lead to the potential exclusion of millions of micro-enterprises. This report was thus commissioned to identify areas of possible improvements and make recommendations for the stakeholders.

The primary finding is that the TCF has been functioning, with over 14,331 beneficiaries being approved, of which 5,868 have been credited with varying loan amounts as at June 9th 2020, as reported in various media. Our various stakeholder engagements have also been able to establish that all the regions of the country have been beneficiaries of the TCF. Unfortunately, despite the positive engagements with the management of NMFB, we were not able to obtain access to their database to interrogate and disaggregate their information. Had NMFB been willing to make available the information, a deeper analysis would have been possible.

We observed that NMFB, having only been recently established, is still developing policies and procedures, and as such it does not have a tested operational lending process that could handle the number of applications received. This lack of proven capacity also translates to NMFB's inability to monitor and evaluate the loans granted under the TCF speedily and effectively, which could have a long-term effect on the PAR or NPLs for the bank. This can be observed from the lengthy response time and delayed processing of loan applications. In addition, the bank tacitly requested for assistance in facilitating and verifying documentation of applicants.

Communication is only successful once the message that has been transmitted is accurately understood by the recipient. Poor information materials and absence of simple communication channels has created a lot of misunderstanding on the TCF and its operations. Transparent and consistent information and awareness creation to the general public would prevent mistrust and engender greater confidence in financial services and the government overall. The laudable intents of the TCF have been somewhat negated due to corrupted communication.

An easy approach that could have been employed in the administration of the TCF, that would have incorporated all stakeholders optimally would have been the use of agent networks. Agent Networks are strategic to the growth of financial inclusion in Nigeria as defined by the National Financial Inclusion Strategy (NFIS). Globally, there has been a shift from physical bank branches to branchless banking and the policies of the CBN have also promoted cashless transaction. In Nigeria, we have also seen successful implementation of GEEP programmes ("MarketMoni" and "TraderMoni") using these operational techniques. Under GEEP, 4,988,926 persons, over 3000 Clusters and 17,327 agents in 36 states plus FCT have been enumerated and verified. A total of N36.3bn has been disbursed to 2.4 Million beneficiaries, with 2m mobile wallets and 319,000 new bank accounts created. This clear evidence that both electronic platforms and agent networks can have significant impact in reaching the bottom of the pyramid. They engender trust and confidence in the populace, they are simple to operate and can reach scale.

A fallout of the COVID-19 pandemic was movement restrictions and lockdowns, which heightened the reliance of electronic platforms. We are living in a digital age and electronic payments are the life blood of an economic system. They enable people to buy goods, purchase water and electricity, and send money to friends, relatives, and business partners. They enable governments to collect taxes and disburse social welfare payments. In addition, they enable suppliers to collect payments from buyers.

¹ IMF, World Economic Outlook Update, June 2020

² Coronavirus (COVID-19): SME policy responses, OECD, oecd.org.

Electronic payments can promote economic empowerment by facilitating greater account ownership and asset accumulation and increasing women's economic participation. Financial inclusion requires pervasive cheap electronic payments and electronic platforms which offer the opportunity to rapidly scale up access to financial services using mobile phones, retail point of sales, and other broadly available access points. Economic activity is impeded when these transactions are costly and inconvenient.

The TCF is administered through electronic channels and thus it is critical for any government to ensure its citizens have unfettered access. The first level of any financial transaction lies in the ability to know the customer, which commences with a unique identity. As part of the eligibility criteria for the TCF, only three documents (International passport, Driver's licence and National Identity Number) were recognised, emphasising that possession of a unique identification is critical for access to finance. As at 2019, only 33.7 million Nigerians had received their unique national identity number, with a much smaller number possessing passports and driver's licenses. As a corollary to this, it should be noted that use of the BVN is secondary identity authenticator, as it is issued only when a bank account has been opened for which the same identity documents are required. Overall, the lack of acceptable identification documentation proved to be a key obstacle for a number of potential beneficiaries. It is thus critical that the state government prioritize the issuance of the NIN by facilitating the enumeration of its citizens. The use of agent networks deployed to the LGA offices, in collaboration with the NIMC would make this achievable.

As MSMEs account for two-thirds of employment and half of GDP, their viability is critical to any post-crisis recovery and a failure to protect them could put the entire economy at risk. The state government actions to ameliorate the effects of COVID-19 have been critical, but to maximize their impact, there are four additional initiatives to be considered: (1) easing MSME access to government support, (2) enabling the support ecosystem through an "MSME nerve center," (3) sharpening focus on building sustainability and resilience, and (4) planning for the future – the new normal. The first two focus on the immediate response to the pandemic, the last two on how MSMEs can emerge stronger.

The aforementioned informs the core of our recommendations to the KKJ – establishment of **MSME Business Clinics**. It is designed to eradicate the constrained support capacity and complex administrative procedures; the lack of integrated approach and coordination; and the focus on short-term survival rather than future growth.

The MSME Business Clinics would provide comprehensive support serving as a single orchestrator, activate the full ecosystem, and ensure that all efforts are aligned with the overarching goals. It would also serve as a control point that closely monitors the uptake and impact of MSME programs and establishes a feedback loop. Finally, it would promote a culture of entrepreneurship aimed at enhancing business creation in priority industries, increasing the number of high-quality jobs, and improving the socioeconomic resilience and competitiveness of MSMEs.

Instituting the MSME Business Clinics in each state can be achieved at least cost through the use of existing state infrastructure in LGAs and leveraging upon the networks of corporate organisations, such as RIBY.

In conclusion, ensuring that finance reaches MSMEs and makes the desired impact requires a more comprehensive approach and the MSME Business Clinics does just this.

4 REVIEW CONTEXT AND BACKGROUND

One of the interventions of the LINKS Programme is the provision of support to Micro and Small Enterprises (MSEs) for business growth which would create the absorptive capacity for the employment of marginalised youth. LINKS's approach to delivering on MSE growth is hinged on facilitating A2F through participating financial institutions and bridging the gap between the MSEs and financial institutions.

The corona virus (COVID-19) pandemic has led to unprecedented disruptions globally that has cascaded into significant economic changes at national and sub-national levels in most countries worldwide. The attendant economic consequences on households' livelihoods and business activities have been especially hard for developing nations, with most likely to experience a recession in year 2020³.

Recognising the challenge, the Central Bank of Nigeria (CBN) introduced the N50 billion Targeted Credit Facility (TCF) as a stimulus package to support households and micro, small and medium enterprises (MSMEs) affected by the COVID-19 pandemic. The broad objectives of the CBN's N50 billion Targeted Credit Facility include:

- i) Cushioning the adverse effects of COVID-19 on households and MSMEs;
- ii) Supporting households and MSMEs whose economic activities have been significantly disrupted by the COVID-19 pandemic.
- iii) Stimulating credit to MSMEs to expand their productive capacity through equipment upgrade, research and development.

The N50bn Targeted Credit Facility for COVID-19 is to be disbursed by the NIRSAL Micro Finance Bank (NMFB) through an online application process on the website of NMFB. This has raised concerns from some quarters around the potential exclusion of millions of micro-enterprises in the country as a result of the complex application process and the eligibility requirements established under the scheme. When all the outlined concerns are put into perspective, it would suggest that most of the target beneficiaries will be excluded or will be unable to access the funding.

Based on the foregoing, a short-term consulting assignment was designed to review the NMFB facility, with a view to identifying the challenges and difficulties that Micro Enterprises (MEs) face in accessing the funding. This will include interviews with selected MEs and relevant ME support stakeholders to understand their challenges from their perspectives⁴. The consultant would also develop a position paper for the Northern Governor's Forum that contains recommendations on how best to improve A2F and better serve the MEs in their states. The position paper will include recommendations that the NGF could use for advocacy to CBN and NMFB, as appropriate, for a revision of the facility.

4.1 METHODOLOGY

Interviews were conducted with various stakeholders and desk reviews were undertaken to identify best practices that could be applied. Digital solutions that could be applied were also considered.

The report is structured into sections as follows: Findings from various meetings, Observations and Interpretations, Conclusions and Recommendations.

4.2 STUDY LIMITATIONS

Due to the COVID-19 pandemic, the review of the TCF was conducted remotely through interviews with identified stakeholders. Face to face meetings and focus group discussions were therefore not possible. While this may not necessarily affect the outcome of the report but this limited the scope of the engagement and discussions with NIRSAL/CBN.

³ <https://www.mckinsey.com/featured-insights/middle-east-and-africa/tackling-covid-19-in-africa>

⁴ LINKS staff will conduct a short survey among BDSC's in KJ as part of this exercise

5 OVERVIEW OF MSMEs IN NIGERIA

The importance of Micro, Small and Medium Enterprises (MSMEs) to economic development of a nation has been recognised as they play a pivotal role through several pathways that go beyond job creation. MSMEs support growth, contribute significantly to improve living standards, catalyse substantial local capital formation and are responsible for driving innovation and competition.

In recognising the importance of MSMEs, a variety of fiscal and policy initiatives are undertaken by governments at all levels to promote growth and governments. The general perspective is that MSMEs are seen as accelerating the attainment of broad socio-economic objectives, including poverty reduction, employment generation, wealth creation, among others.

In 2017, the NBS and SMEDAN conducted a survey⁵ across all 36 states of the Federation including the Federal Capital Territory, Abuja. Micro Enterprises were covered through the household (600 households with micro-enterprises per state surveyed), while the Small and Medium Enterprises component considered 4,000 small and medium enterprises nationwide cutting across 16 sectors of the economy.

SMEDAN MSME Classification

S/N	Size Category	Employment	Assets NGN Million (excl. land and buildings)
1	Micro enterprises	Less than 10	Less than 10
2	Small enterprises	10 to 49	10 to less than 100
3	Medium enterprises	50 to 199	100 to less than 1,000

Source: SMEDAN National Policy on MSMEs, 2015

The survey revealed a total number of MSMEs in the country to be 41,543,028, further broken down into Micro Enterprises (MEs) at 41,469,947 (99.8%), whilst Small and Medium Enterprises (SMEs) stood at 73,081 (0.2%). There is a preponderance of Sole Proprietors at 97.1 percent, with 51.3 percent of businesses being male owned and a high disparity in business registration compliance - only 2.1 percent (only 854,446 MEs) and 71.9 percent (SMEs), respectively. The top five industry sectors were Wholesale/Retail trade (42.3 percent), Agriculture (20.9 percent), Other Services (13.1 percent), Manufacturing (9.0 percent) and Accommodation & Food Services (5.7 percent). Together, these account for about 91.0 percent of all MSMEs.

Most entrepreneurs were within the age brackets 26 - 35 years (30.2 percent) and 36 – 50 years (40.2 percent) and educational background was reflected in the type of enterprise. For MEs, although 93.8 percent accounted for all enterprise owners, “Bachelor’s degree” and “Master’s degree” holders, jointly make up only 3.9 percent while Vocational/Commercial type graduates add up another 0.9 percent. In the case of SMEs, most enterprise owners had university degrees (56.3 percent).

When evaluating income patterns, 26,440,176 MEs (63.8%) reported a monthly average turnover of less than N50,000, while 8,556,105 MEs (20.6%) reported a monthly turnover of turnover of between N50,000.00 and N100,000. This means that 84.4% of MEs have a turnover of N100,000 and below.

In conclusion, enterprises reported Access to Finance (89.6 percent) as the most important encumbrance and major challenge to business development. This was followed by Inconsistent Policies (58.3 percent), Weak Infrastructure (57.2 percent) and Lack of Entrepreneurship/Vocational Training (53.3 percent) amongst others.

In recognising the importance of MSMEs to the national economy and being a signatory to the Maya Declaration, the Nigerian government launched the National Financial Inclusion Strategy in 2012 to reduce the financially excluded to 20% by 2020. Due to limited progress in attaining the original targets, the strategy has been revised to incorporate lessons learnt and new technological developments.

⁵ [http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20\(MSMEs\),%20%202017%201.pdf](http://smedan.gov.ng/images/NATIONAL%20SURVEY%20OF%20MICRO%20SMALL%20&%20MEDIUM%20ENTERPRISES%20(MSMEs),%20%202017%201.pdf)

The DFID sponsored project, Enhancing Financial Innovation & Access (EFInA) is a major stakeholder in the financial sector that promotes financial inclusion amongst poor families in Nigeria. A prime service EFInA performs is to conduct a biannual survey of access to finance that serves to assess the level of financial inclusion and progress witnessed.

The results of the EFInA Access to Financial Services in Nigeria 2018⁶ survey revealed that 39.5 million adults (39.7% of the adult population) have a deposit money bank account, an increase of 2.6 million adults, from 36.9 million in 2016. However, there was a significant increase in the number of adults relying on informal finance mechanism ONLY, from 9.4 million in 2016 to 14.6 million in 2018. The findings also revealed that 36.6 million adults, representing 36.8% of the adult population, are financially excluded.

In relation to gender, the survey also revealed that financial access is skewed towards male adults. Adult men (22.2 million or 46.1%) are more likely to be banked than adult women (16.6 million or 33.3%), which translate to higher usage percentages of formal-other and informal financial services by adult women as compared to adult men.

To reflect financial access on a regional basis, see the table below.

Table 1: Financial Access Performance Across Geo-Political Zones

	North West	North East	North Central	South West	South East	South South
Formally Included	27%	34%	50%	64%	60%	60%
Informal	11%	12%	19%	17%	11%	17%
Financially Excluded	62%	55%	31%	19%	29%	23%

Source: EFInA Access to Financial Services in Nigeria 2018 survey.

A breakdown of the EFInA survey data for the North West region identified that out of the total adult population of 22.5 million, there are 14.1 million financially excluded. Out of the financially excluded segment, 7.2 million do not have access to financial institutions, identification documents and mobile phones. The results, however, revealed that there are 4.5 million potential new users of financial services, that is financial inclusion.

Overall comments derived from the pre-survey focus group discussions conducted across 5 key locations (Lagos, Port Harcourt, Abuja, Kano and Gombe amongst 2 segments of participants (Banked/Formal & Unbanked/Informal) and the survey results are as follows:

- The mobile phone has become a prime source of information, despite erratic internet connection for the urban, especially youth segments. Television is also widely trusted consistent with the statement; '*seeing is believing*'.
- Although the mobile phone is central and a trusty "all day" companion regardless of location, virtually all respondents in the pre-survey focus groups are unaware of mobile money.
- Cash is still the most common method of payment. Note that use of debit cards / mobile banking for payments is increasing with formally banked participants.
- Money remittances, especially urban to rural, still prefer informal channels (Via Transportation/ Driver, airtime, family/friends) as the mediums do not require technicality or paperwork.
- Perceptions about Loans: Many respondents will not take loan except there is need to address a calamity.
- Cooperative Societies, although popular, are perceived as semi-formal with many rules and regulations that can be restrictive and lengthy.
- Savings Groups / Trade Associations are more trusted and viewed as informal. They have common interest and ease of use by the members.

⁶ <https://www.efina.org.ng/our-work/research/access/>

These survey results help to explain behavioural patterns of MSMEs, their preferences and regional differences that exist. It also provides evidenced based information to enable better planning and project implementation.

6 COVID-19 AND ITS EFFECT ON GLOBAL AND NATIONAL ECONOMIES

Since the report of first infections in China at the end of 2019, the Coronavirus disease (COVID-19) has continued to spread across the world. No continent has been spared and it was declared a pandemic by the World Health Organization (WHO) on 11 March 2020. COVID-19 has become a global emergency, given its impact on the entire world population and the economy, with various scenario simulations of the International Monetary Fund (IMF) stating that global growth could fall by 0.5 for the year 2020.

In Africa, it is estimated that GDP growth could decline by between 3 and 7 percent depending on the scenario as opposed to an estimated baseline GDP growth of 3.9% for 2020⁷. Three major challenges are expected to arise from the COVID-19 crisis in the coming months:

- Economic – (1) Slowdown in overall economic growth, acute in hard-hit sectors (e.g. aviation, hospitality, tourism), potential for contraction (2) Business failures, particularly SMEs are under significant cost pressure, facing potential closure and bankruptcies, (3) Lower productivity with job losses particularly for nonessential sectors. Also, longer-term human capital issues (e.g., delayed schooling) and (4) Reduced household expenditure and consumption;
- Fiscal – (1) Reduced tax revenues (2) Limited access to hard currency;
- Monetary – (1) Rising deficits and increased pressure on debt markets (2) Pressure on interest rates and currency devaluation.

The lockdowns have frozen economic activities, causing massive job losses and supply chain disruptions. It has also depressed the demand for crude oil and precipitated an unprecedented oil price crash.

In response to the severe shocks occasioned by the COVID-19 pandemic to national economies globally, most countries have instituted various measures, primarily focusing on social and job protection. The World Bank has a compendium of the measure across 190 countries as at May 22, 2020. Below is a table that covers some countries for comparison to Nigeria.

Table 1: SUMMARY OF COVID 19 CASH TRANSFER SCHEMES IN SELECTED COUNTRIES

	Cash Transfers	Public Works	In-kind/ school feeding	Utility/ financial support	Paid leave/ Unemployment	Health insurance	Pensions/ Disability benefits	Social security	Wage subsidy	Labor regulation adjustment	Reduced work time subsidy
Angola	x										
Canada	x		x		x		x		x		
Egypt	x						x		x		
Ethiopia		x	x	x	x					x	
Germany	x				x		x	x	x		x
Ghana			x	x			x				
Kenya	x	x		x							
Morocco	x				x			x			

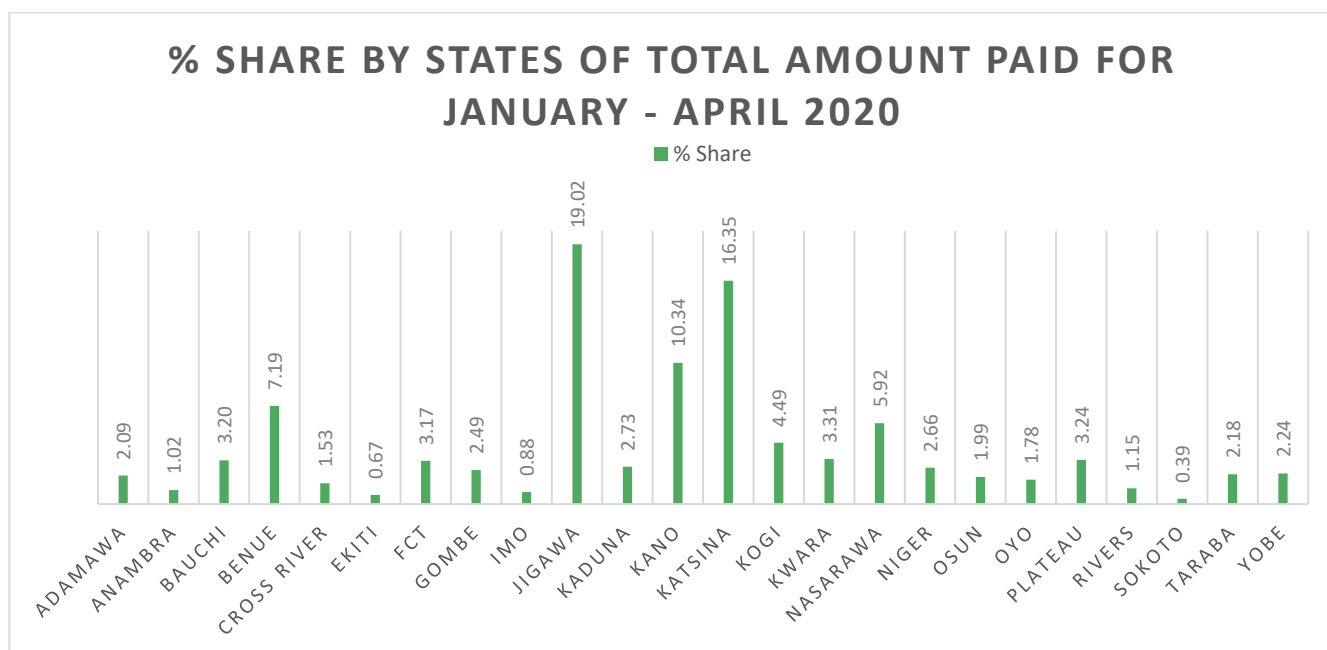
⁷ AfDB estimate, other analyst estimates range between 3.2% (e.g., UNECA) to 3.8% (e.g., Oxford Economics Research)

Nigeria	x	x	x	x							
South Africa	x		x		x				x		
UK	x		x	x	x		x		x		
USA	x		x		x		x	x			

Source: Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures, The World Bank

6.1 SUMMARY OF NIGERIA'S COVID-19 SOCIAL INTERVENTION

- The existing National Social Safety Nets Project (NASSP) platform for existing chronic poor as well as transient poor (vulnerable households and individual affected by COVID-19 crisis) is being scaled up. The National Social Register (NSR) currently contains data of over 2.6 million poor and vulnerable households (11 million individuals) across 34 States and the federal capital territory. With the accelerated registration and rapid expansion, it is expected that the NSR will grow to a total of 4 million poor and vulnerable households across all the states.
- Currently, there is a National Beneficiary Register (NBR) with a total of 1,028,416 poor and vulnerable households targeted for CCT support across 32 states. The government has made the decision to pay this category of HHs an advance payment of N20,000 each.
- President Buhari approved the release of 70,000 MT of Grains from Nigeria's National Strategic Grain Reserves, for distribution to poor and vulnerable persons in frontline COVID-19 States, as well as persons whose livelihoods will be affected by the lockdown.
- Under the GEEP scheme, Bank of Industry has announced that beneficiaries have been granted a 3-month moratorium on their loans. They will also provide additional loans to 500,000 traders.
- 32 states are currently benefiting from the NCTP as at April 2020, of which 24 had received payments in January – April 2020⁸. Although technical issues with the payment service providers had prevented payments to the remaining 8 states, it was anticipated that they would be resolved shortly.



⁸ <https://www.aneej.org/category/reports/>

Source: ANEEJ, *Spot checks on payment to beneficiaries; NCTP, May2020*

7 COVID-19 AND ITS EFFECT ON MSMEs IN NIGERIA

Pre-COVID-19, Nigeria's forecasted GDP growth projections for 2020 was 2.5% growth⁹, however, depending on the scenario, GDP growth could decline by between 6% to 11% in 2020. This clearly suggests that Nigeria's economy looks to be heading towards a recession, with the National Bureau of Statistics (NBS) projecting that economic growth could fall by as much as minus 4.40% to minus 8.91% depending on the length of the lockdown period, the potency of the economic plans that are put in place, and, in particular, the amount of stimulus spending.

Nigeria's dependence on oil for revenue and foreign exchange makes it particularly vulnerable, with the oil effect being the biggest driver of GDP impact (40-70% of total) as it funds 65% of budgeted revenue and 90% of foreign reserves accrual.

In May 2020, LINKS conducted an online business survey in cooperation with local business chambers. The survey aimed to understand the impact of Covid-19 on revenue, employment, coping mechanism and changes in business financial security and opportunity. The survey generated 653 responses from businesses in Kano (76%), Kaduna (16%) and Jigawa (8%).

Key findings from the survey are as follows:

- 76% of respondent businesses are male owned, 23% female owned whilst 1% did not report ownership;
- Business profile - 75% Micro, 22% Small, 3% Medium and 1% Large;
- Business sectoral distribution – 50% Services, 32% Agriculture and 16% Industry;
- Total number of people employed by the surveyed business was 3,858 pre-COVID-19;
- **High Job Losses:** Close to 30% of the workforce across Kano, Kaduna and Jigawa might have been laid off due to Covid-19. This presents a major risk to education, household welfare and government revenue to support communities and business;
- **High Revenue Losses:** Over 80% of firms have seen high drops in revenue with almost 60% reporting drops of 50% or more;
- **Challenges Across the Board:** Firms are facing supply side and demand side challenges that need to be addressed concurrently;
- **Fewer and Weaker Firms in the Future:** 10% of firms report that it is likely they will close for good. Some firms have implemented coping mechanisms, however actions such as selling assets may weaken their future viability as well as reduce their ability to leverage assets as collateral for loans;
- **Reduced Opportunities for Growth:** Firms expect less opportunity (lower demand) and less capital available for growth in the future. 25% of firms expect lower sales in the future with approximately 20% reporting Covid-19 has resulted in lost investment for growth;
- **Many Firms Plan to Pivot:** Almost 90% of businesses are looking to identify new business opportunities post Covid-19. This is possible in response to: 1) a response to emerging opportunities and realities in the market; 2) the need to build up new lines of business for future resilience; 3) the existing business is no longer viable;
- **Funding to Remain Open is Urgent:** 30% of firms identify working capital financing to remain operational as urgent (with 1 month) with 39% identifying as required overall.

The survey concludes that with as many as 30% jobs lost and 10% of firms gone, LINKS together with public and private partners will need to expand focus toward supporting surviving firms innovate and adapt to a post-COVID

⁹ Based on AfDB baseline and projections, from the African Statistical Yearbook 2019 and African Economic Outlook 2020

economy. This involves, financial support, new investment, innovation and public stakeholders introducing structures and services to manage and support change.

On a national scale, the Enterprise Development Centre (EDC), Pan-Atlantic University¹⁰ conducted a survey of MSMEs to gain insights into (a) how MSMEs are coping during this period (b) assess their current level of financial fragility (c) ascertain the measures taken to adjust and (d) ascertain the types of support required to survive the COVID 19 induced economic downturn.

The survey was carried out in two primary cities, Abuja and Lagos and had 1,674 participant MSMEs out of which 69% were female and 31% male. There was a good distribution of industry sector representation -17% agriculture, 15% fashion, 10% manufacturing, 9% education, 6% retail, 5% health, 4% beauty/cosmetics, 4% ICT, 4% social services, 3% media and 2% transportation.

The results show that 93% have seen decrease in their revenues, 89% are experiencing significant disruptions in their supply chains and have begun rethinking their business models. Financial fragility is high amongst the respondents, 57% have affected sales and 52% with cashflow challenges.

Despite the uncertainties associated with the crisis, the majority of the respondents, 83%, believe that they will survive the period, displaying a unique Nigeria tenacious attitude. In addition, 75% have indicated that access to finance is critical, with emphasis being on grants and /or low interest loans with long repayment tenures. Other support requested by the MSMEs relate to technology support and access to market 35%, business coaching / mentoring 29%, and energy support 16%.

Overall, the survey results reinforce the importance of MSMEs to the national economy and align with other previous studies such as the NBS/SMEDAN surveys. As a result of the pandemic crisis, it is clear that MSMEs are facing significant challenges and require financial palliatives to survive and thrive in the future. In conclusion, the report submits that key steps to survival for most MSMEs is to review their operational costs, align this to productivity improvements and seeking collaboration where possible. In addition, the post COVID-19 era will be characterised by accelerated digitisation of operations and a shift of target industries.

The views expressed in both the LINKS and EDC surveys reinforce the need to act decisively to prevent or limit recession, and avert the accompanying prospects of business failures, job losses, and increased poverty. The NBS recently released results of a five-year study household survey of poverty in Nigeria, which showed that over 40% of Nigerian households earn less than N137,000 per annum. The unemployment rate, which was 23.1% (or 20.9m people) at the end of 2018 was also expected to rise to 33.6% (or 39.4 million people) at the end of 2020.

7.1 SELECTED COVID-19 INITIATIVES BY DEPOSIT MONEY BANKS

Financial institutions have also recognised the plight of MSMEs and implemented various measures, some of which are outlined below:

- I. **WEMA BANK:** - Suspension of loan repayments for 90 days for SMEs and 150 days for education. Pushing ALAT - their digital bank through numerous channels
- II. **KEYSTONE BANK:** launched an Online MSME Academy aimed at helping SMEs cope with the operational stress and easing digital transformation.
- III. **STERLING BANK:** promoting webinars to educate SMEs; regular electronic newsletters; promoting their existing loans; relaunched their mobile and internet banking platforms.
- IV. **ACCESS BANK:** holding webinars to help educate SMEs, held one with NIRSA rep on TCF, promoting their existing loans especially to women segment.

¹⁰ "Impact of COVID-19 on MSME in Nigeria: EDC Pan-Atlantic University

8 TARGETED CREDIT FACILITY (TCF)

In mid-March 2020, the Central Bank of Nigeria (CBN) introduced the N50 billion Targeted Credit Facility (TCF) as a stimulus package to support households and micro, small and medium enterprises (MSMEs) affected by the COVID-19 pandemic. The broad objectives of the CBN's N50 billion Targeted Credit Facility include (1) Cushioning the adverse effects of COVID-19 on households and MSMEs; (2) Supporting households and MSMEs whose economic activities have been significantly disrupted by the COVID-19 pandemic and, (3) Stimulating credit to MSMEs to expand their productive capacity through equipment upgrade, research and development. The TCF was to be funded shall be financed from the Micro, Small and Medium Enterprises Development Fund (MSMEDF) and managed by the recently established NIRSAI Micro Finance Bank (NMFB).

NMFB's mandate is to ensure access to finance for MEs and it is focused on developing simple solutions that reach this core segment of society. The bank's processes are centralized in the head office, with physical locations for business development and relationship management at the various post offices situated across the country.

For the purposes of implementing the TCF and taking into account the lockdowns, NMFB created a dedicated automated online loan application process with the objective of ensuring transparency, speed and scale. There are two segments to the TCF, Households and SMEs for which there exist different requirements. Overall, the digital application process was intended to be very simple, requiring only the basic KYC information (National ID, Bank Verification Number, Utility Bill, Passport Photo and a third-party guarantor) for households and MES. All applications would be evaluated utilizing simple credit scoring methodology and successful credit checks. Applicants would only be successful if they were able to provide the required supporting documentation, whilst approved loan amounts would only be as deemed appropriate and not necessarily what the applicant requested.

On May 1st 2020, just over one month since commencing TCF operations, media reports¹¹ stated that a total of 3,256 applications had been approved under the first tranche of the fund disbursement and by June 9th 2020, further media reports stated the figure had risen to 14,331 beneficiaries¹². The report further stated that the total approvals amounted to N10.9 billion, of which N4.1 billion had already been disbursed to 5,868 successful beneficiaries. Beneficiaries were split over all the regions of the country and could be verified on the NMFB website - <https://nmfb.com.ng/covid-19-support/>

On 8th June 2020, the CBN announced that successful TCF applicants were to expect credits into their accounts, it was widely reported across print¹³ and digital media platforms. Although a welcome development, a review of the comments shows that communication was ineffective, with some persons complaining about not being aware of the initiative, whilst others stated that they did not receive any feedback after completing the application process, and another group felt that the process was cumbersome - see below.

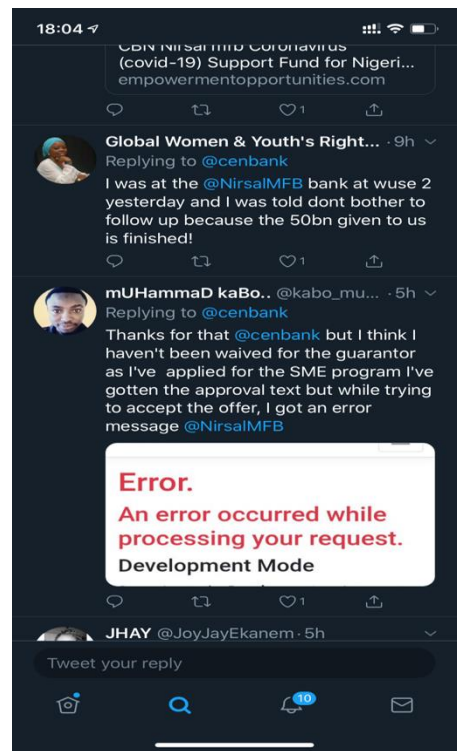
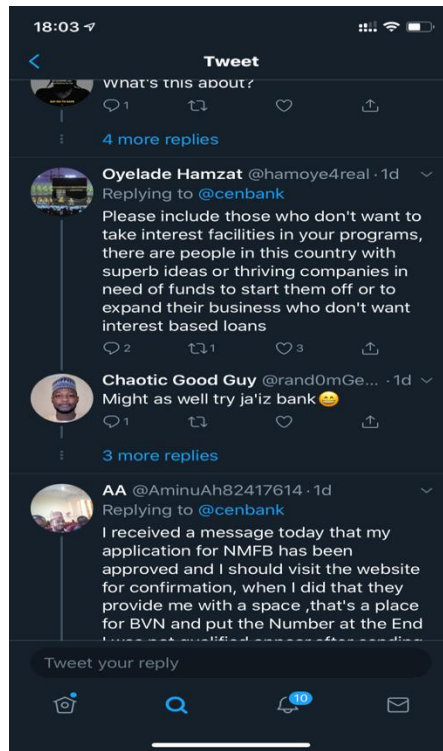
¹¹ <https://www.dailytrust.com.ng/nirsai-mfb-shotlists-3256-for-n50bn-covid-19-loan.html>

¹² <https://www.naijabusiness.com.ng/news/2020/cbn-approves-n10-9-billion-for-disbursement-to-successful-covid-19-loan-beneficiaries/>

¹³ <https://punchng.com/covid-19-loansll-be-disbursed-48-hours-after-approval-cbn/>



The CBN also issued another statement through various media channels that the requirement for guarantors had been waived¹⁴, eliciting varied comments from the public – see below screenshots.



¹⁴ https://nipc.gov.ng/2020/06/09/cbn-waives-guarantor-requirement-for-n50-billion-covid-19-loan-applications/?mc_cid=d96628d841&mc_eid=74ce702c00

9 TCF OBSERVATIONS & APPLICANT FEEDBACK

From the interviews conducted, three key areas were reoccurring issues. These are as (1) Communication, (2) Accessibility and, (3) Agent Networks.

I. COMMUNICATION

The initial announcement establishing the TCF by the CBN generated significant coverage in the media, and upon publication of the operational guidelines, further media attention was subsequently attracted. However, in over 70% of the interviews, most people said that they were not really aware of the programme. Upon further questioning, it was clear that most had received secondary information on the TCF, either through social media or peer networks.

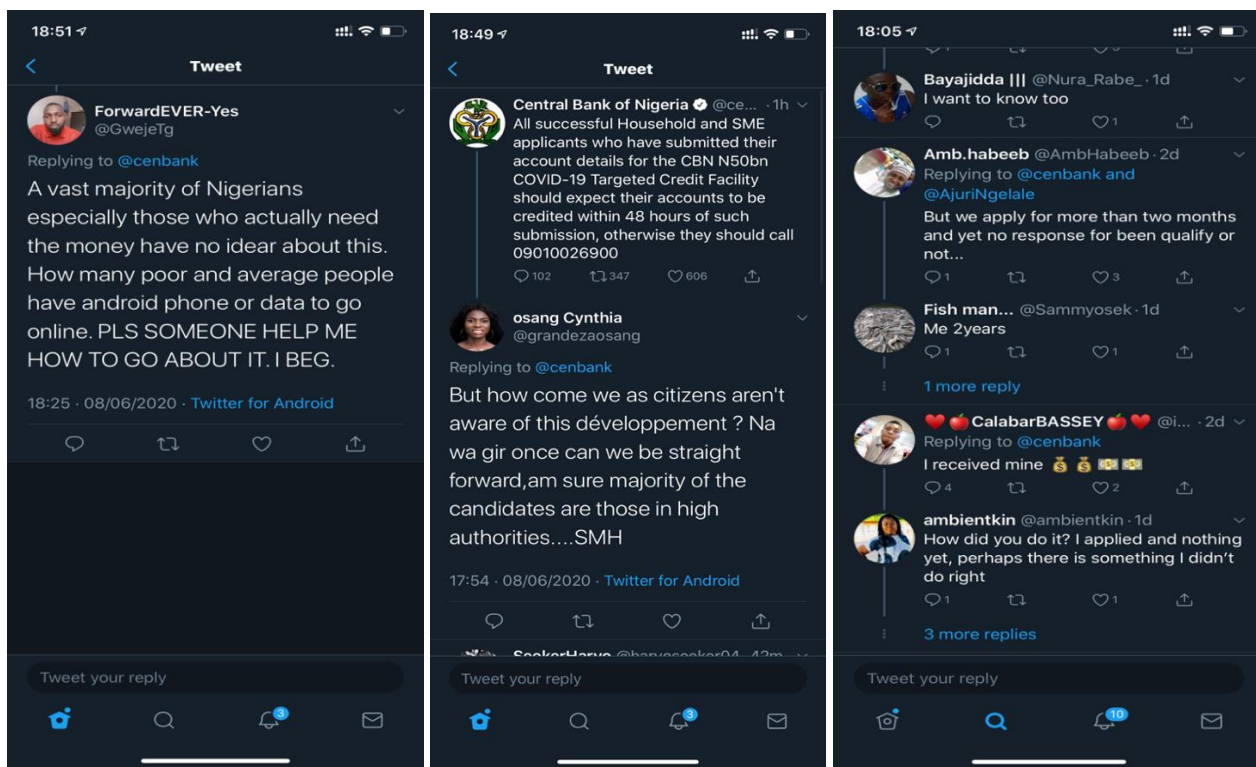
Religious, Trade and Business networks were key actors in informing the general public on the TCF, playing the role of sensitization initially and then following up with dedicated advisory support on its operations. The Kaduna and Jigawa Chamber of Commerce both instituted dedicated advisory support help desks for their members. In the case of Jigawa Chamber, the Director General stated that his mandate was to advocate, provide business intelligence and advisory services to the membership and thus the chamber contacted the local office of NMFB to better understand the application process and operational guidelines. The chamber then sensitised its members that a free advisory service had been established with an administrative secretary who had been trained on the TCF to assist in processing of the application.

The DG opined that the whole process lacked clear effective communication, and notwithstanding trying to overcome this challenge by putting in place a special advisory desk, the chamber was constantly being contacted for updates as nothing had been heard by most applicants. Those whose applications had been successfully approved were not receiving updates from NMFB, had no means to communicate with them and expected the chamber to provide answers to their questions. This limited communication had meant that members were highly sceptical of the TCF initiative, especially as there had been no recorded disbursements.

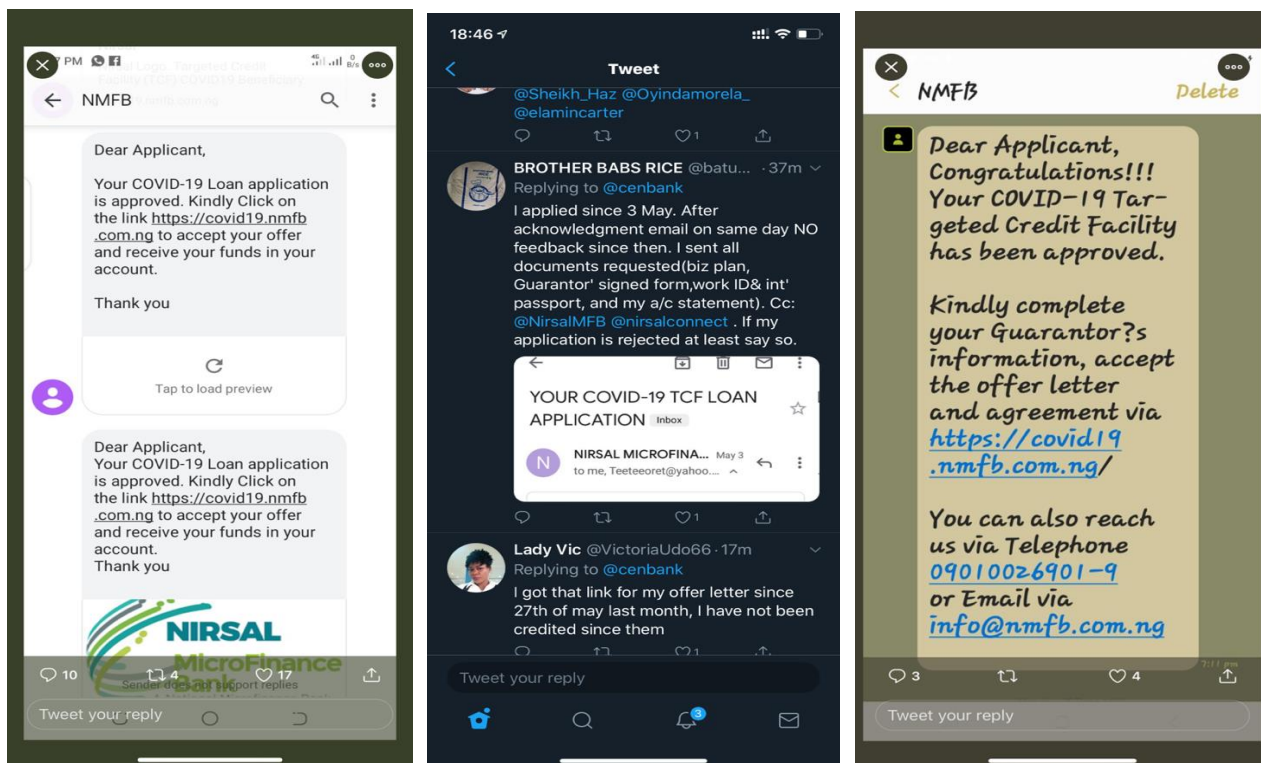
A similar situation was reported by the MAFITA Trade Associations in Kaduna, Kano and Jigawa. The DFID sponsored youth employment programme operated in northern Nigeria, MAFITA, focused on providing a combination of innovative skills development and job creation interventions. Although the programme recently concluded, a key intervention was the provision of support to Micro and Small Enterprises (MSEs) for business growth that could create the absorptive capacity for the employment of marginalised youth. To achieve this objective, the programme established support networks through Business Development Service Providers (BDSPs) for the facilitation of access to finance. Building upon these already established relationships and working with the support of key team members of the MAFITA economic empowerment unit, focus group discussions were held with the trade associations and some beneficiaries to assess the impact of the TCF.

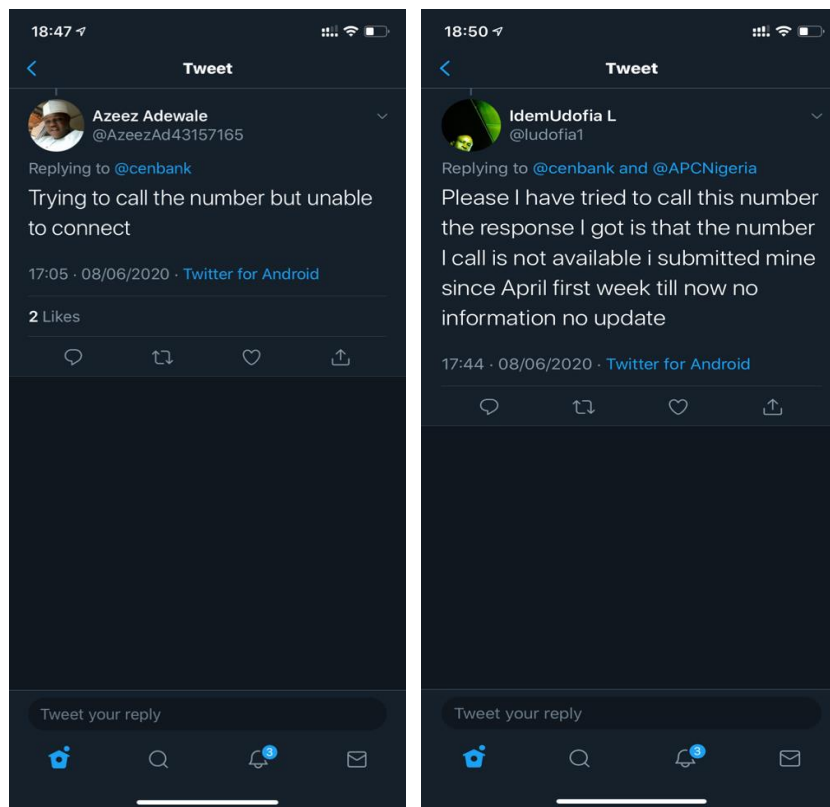
Over 100 persons participated in the focus groups across the three states and they reiterated their reliance upon the MAFITA network for information and advisory support. A common response was that without the intervention of MAFITA, they would not have known about TCF in the first instance and their ability to successfully apply had only been made possible through the advisory support received from MAFITA BDSPs.

Routine checks on social media also confirmed the feedback on poor communications, as can be seen in the screenshots below:



Upon reviewing the operational processes established by NMFB, it was observed that all communications were to be conducted through electronic platforms, SMS and emails and this was stated during submission. Once an application had been successfully submitted, an auto response would be generated and sent to the applicant's registered phone number and email address. Any status updates, documentation requests, would be sent via the same electronic channels. Evidence to this process being carried out was also seen during the focus group discussions and on social media – see below. However, the delay in communication and inability to reach the NMFB for enquiries meant that communications was judged to be poor.





II. ACCESSIBILITY

With an entirely digital application process, it presupposes access to electronic channels is universal to the majority of the population. Statistics obtained from the National Communications Commission (NCC) would buttress this position, as according to its website, there were 190,806,067¹⁵ active phone connections, whilst there were 138,733,733¹⁶ active internet subscriptions in the country as at April 2020. This amounts to an internet penetration of 61.2% for an estimated population of 206,139,589.

On the foregoing, it would appear that NMFB's approach to use a digital online portal for loan applications was justified, however, the feedback obtained during the interviews conducted paints a different picture. Potential applicants experienced challenges in accessing the NMFB portal, namely, lack of access to a computer and poor internet connectivity.

For a majority of the inhabitants in the capital cities of states, access to a computer is possible either through ownership or via a secondary means (friend, office or cybercafe). The alternative to computers would be to use a smart phone, however, with an adoption rate of 36%¹⁷ as at 2018, it is clear that smart phones are not commonplace across the country.

The combined effect of the lockdowns, limited access to computer / smartphone and poor internet coverage meant that a number of potential applicants were disenfranchised. A further impediment that was mentioned was the affordability of internet data. The trend of customers to primarily use their phones for voice and social media calls has resulted in telecoms networks changing their subscription plans to recognize the shift and promote internet services. Based upon a 2019 survey by Cable.co.uk, Nigeria ranks 11th on the list of 57 African countries, with an average price of \$2.22 for 1GB. However, the 2019 edition of the Inclusive Internet Index by the Economist Intelligence Unit (EIU) puts Nigeria at 28th. If these reports and recent calls for

¹⁵ <https://www.ncc.gov.ng/statistics-reports/industry-overview#view-graphs-tables>

¹⁶ <https://www.ncc.gov.ng/statistics-reports/industry-overview#view-graphs-tables-5>

¹⁷ <https://www.gsma.com/publicpolicy/wp-content/uploads/2019/02/GSMA-Spotlight-on-Nigeria-Report.pdf>

reduction of mobile data prices when the COVID-19 pandemic began to spread, the cost data is still relatively very expensive in comparison to the minimum monthly wage and population¹⁸.



Screenshots of the CBN twitter handle showing comments on the challenges of accessing the NMFB portal.

III. AGENT NETWORKS

A key insight gained was that a form of agency was preferred by majority of the applicants. They had either gone through a formal network (chamber of commerce, business support provider, professional services company, etc.) or through an informal network (friend, affinity group relationship). This preference was due to trust in the network's capability and history, perceived superior knowledge of the TCF and resources (internet and computer).

To better understand and analyze the sentiments expressed, interviews were carried out with the Bank of Industry (BOI), the implementer of the Federal Government's Social Investment (Intervention) Programme - Government Enterprise and Empowerment Programme (GEEP) which had recently been named "Most Impactful Microcredit Scheme in Africa" at the African Bankers Awards¹⁹²⁰

Under the GEEP programme, there are a number of interventions such as the MarketMoni and TraderMoni, which have been designed to address access to finance for MEs, reduce collateral requirements, simplify application process and reach scale nationwide. The schemes offer interest-free loans, starting at N10,000 and self-progressing, thereafter, using the most basic KYC information commence engagement with the client. The initial application requires for the applicant to be enumerated by the agent and the applicants residential / commercial location to be geotagged. The agents are responsible for day-to-day engagement of the beneficiary, from onboarding them to the program, to full daily or weekly collection of their repayments over the life of the loan.

¹⁸ <https://weetracker.com/2020/04/05/mobile-data-cost-nigeria/>

¹⁹ <http://africabankers.net/article/23082/african-bankers-awards-boi-wins-financial-inclusion-award-for-driving-fg-s-g-geep-programme>

²⁰ <https://www.boi.ng/international-bankers-magazine-awards-boi-as-foremost-dfi/>

Through the various GEEP programmes, 4,988,926 persons, over 3000 Clusters and 17,327 Agents in 36 states plus FCT have been enumerated and verified. A total of N36.3bn has been disbursed to 2.4 Million beneficiaries, with 2m mobile wallets and 319,000 new bank accounts created. Of the total loan beneficiaries, 54.3% are women whilst 53% are Youths (18 -34 years).

The importance of agent networks is that BOI is a wholesale lending institution and thus operates by utilizing the infrastructure of accredited agents (ALL 23 commercial banks, 8,429 bank branches) to process disbursement and loan repayments into bank accounts or mobile wallets. The key to success of this programme lay in its use of existing agent banking networks of intermediaries and the first-rate indigenous technology to manage the database and the credit assessments. BOI had been able to marry simple rudimentary analog operation with digital high-tech resources to achieve significant scale. To manage the agent operations, a dedicated national operations center was established alongside a 150-person customer support center for effective relationship management.

Further interrogating the relevance of agent networks, interviews with the technology provider to GEEP was held. RIBY is an indigenous fintech company that provides digital platforms for cooperatives and trade groups that help members of these groups access financial services like savings and loans. RIBY's objective is financial inclusion of the bottom of the pyramid through groups. Group lending methodologies are the preferred mode for most financial institutions when addressing the bottom of the pyramid. Most individual lending is based upon successfully graduating from a group scheme, with continued membership of same underpinning the relationship.

RIBY were responsible for managing the data being enumerated across the nation. The RIBY platform is a proprietary application that enables full registration and capture of 48 data points, such as, biodata, information on the market, nature of trader, pictures of trader and their trade point, GPS coordinate of the trade point, farm plot mapping, association membership and 43 other data points that enable credit assessment. Data on every captured beneficiary is first de-duplicated via facial recognition technology and BVN validation, then delivered to Bank of Industry real time to enable verification, appraisals and credit assessment. The application is able to operate online or offline.

Aside its support role to BOI, RIBY operates the cooperative administration solution nationwide with approximately 800,000 persons in 2,000 groups and 2,000 agents. As at March 2020, pre-COVID-19 lockdown, Kano had 168,714 customers and 263 agents; Kaduna 70,109 customers and 162 agents and, Jigawa 69,625 customers and 80 agents.

IV. OTHER ISSUES

Some interviews expressed difficulty when using the portal as a result of their limited command of English, which when allied to the previously documented ICT challenges and closure of business centres due to lockdown restrictions, resulting in an informal disenfranchisement.

In addition, some members expressed a preference for non-interest financing and leasing options, rather than a conventional loan. Although there is no survey data on the level of demand for non-interest banking, previous experience with working with MAFITA beneficiaries would suggest that significant demand exists. There has been growing demand for such financial instruments and Standard Chartered bank, Jaiz bank and Sterling bank have been operating non-interest banking for a number of years, whilst a banking license was granted by the CBN to TAJ bank in October 2019. This is following upon successful Sukuk bond issuances by the FGN and a state government, whilst the Islamic Corporation for the Development (ICD) has provided a total of \$170 million line of financing for the development of MSMEs in Nigeria.

In conclusion, it is clear that non-interest banking is growing in importance as on June 18th June 2020, the Director, Development Finance Department of CBN, Yila Yusuf, stated that the CBN will soon come up with a framework for the integration of non-interest window in all its intervention programmes, particularly the Anchor Borrowers Programme (ABP) and the Targeted Credit Facility (TCF)²¹.

²¹ <https://www.premiumtimesng.com/news/more-news/398365-cbn-approves-n432-billion-to-fund-cultivation-of-nine-commodities.html>

10 MSMEs AND THE ROLE OF STATE GOVERNMENTS

SMEDAN as the Federal Government of Nigeria's primary agency for MSMEs development, has offices in the capital cities of every state. These local state offices provide capacity building, advisory support and facilitate access to finance to the local MSME ecosystem. However, due to attendant central bureaucratic operational processes, their level of effectiveness has been somewhat limited, resulting in direct interventions by state governments.

Outlined below are some example of different approaches by state governments.

10.1 OYO STATE

A wholistic approach to catalysing the economy of Oyo State has resulted in the creation of the Oyo State Investment and Public Private Partnership Agency (OYSIPA).²² OYSIPA has a vision to make the economy of the state, the fastest growing in Nigeria through the promotion of investment and economic activities. To attain this goal, OYSIPA has identified MSMEs as being integral to success and thus prioritises their development through capacity building and finance facilitation.

As part of Oyo state's Post-Covid-19 Economic Recovery Plan, OYISPA has obtained N1 billion from the CBN Micro, Small and Medium Enterprises (MSME) Development Fund. The loans are for up to N3m per MSME at a single-digit interest rate, disbursement through selected microfinance banks whilst administration is by OYISPA. MSMEs have the option of applying online or completing an application at their offices. Below are screenshots on the programme.



10.2 DELTA STATE

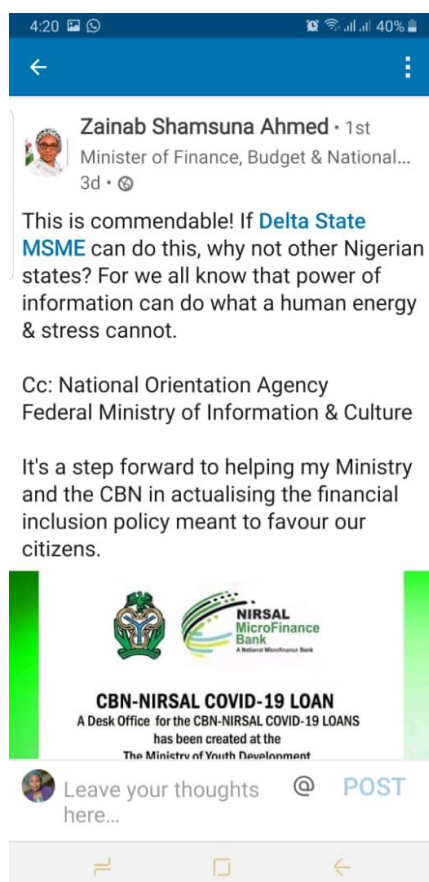
In Delta State, there are currently three agencies that are assisting indigenes to submit applications for the TCF. The Delta State Micro, Small and Medium Enterprise Development Agency (DEMSMA)²³ is the primary agency responsible for promoting and coordinating the development of MSMEs within the state, through capacity building

²²<https://www.oysipa.oy.gov.ng/oysg-msme/>

²³<https://dmsma.deltastate.gov.ng>

and advisory programmes. Business linkages and facilitating access to finance are key roles of the DEMSMA. The agency has dedicated officers who answer enquiries on the TCF and provide advisory support on how to complete the loan application on the NMFB portal, especially with regards to collation of relevant documentation. Applicants that do not have internet access are also able to complete the loan application in their office. Although for a request was made for information on number of enquiries, successfully completed applications and approvals, but no information was provided on actual figures., The only statement provided was; *“many applications and people were getting it”*.

The Delta State Ministry of Youth Development and the Delta State Skills Training and Entrepreneurship Programme (STEP) have also instituted similar advisory support services to facilitate successful financing under the TCF for businesses that have been beneficiaries of previous training and capacity building programmes. Below is the twitter handle of the Zainab Ahmed, Minister of Finance and National Planning recognising the initiative of the Delta State Ministry of Youth Development and challenging other states to follow suit.



10.3 SOKOTO STATE

A recent newspaper report of the 31st May, 2020 Sun newspaper chronicled the journey of SMEs in Sokoto state to obtaining N2.5bn in loans under another initiative of the CBN, the Agriculture Business, Small and Medium Enterprises Investment Scheme (AGSMEIS)²⁴.

According to the report, the office of Senator Aliyu Magatakarda Wamakko, representing Sokoto North Senatorial District, was responsible for facilitating the loan by personally sponsoring beneficiary online registration, business

²⁴ <https://www.sunnewsonline.com/fg-disburses-n2-5bn-loan-to-sokoto-small-medium-business-owners/>

plans and EDI training. Loans ranging from ₦500,000 to ₦10,000,000 were to be given to 5,000 beneficiaries from 23 Local Government Areas of Sokoto State.

Representatives of Central Bank of Nigeria and NIRSA Micro-finance Bank were all in attendance to ensure strict compliance of the rules and regulations of the AGSMIES loan scheme and commended the effort and co-operation of Senator Aliyu Magatakarda Wamakko which led the success of the exercise.

10.4 LAGOS STATE

In 2016, the Lagos State Employment Trust Fund (LSETF²⁵) was established to provide financial support to residents and to tackle unemployment through job and wealth creation. LSETF focuses on promoting entrepreneurship by improving access to finance, strengthening the institutional capacity of MSMEs and formulating policies designed to improve the business environment in Lagos State. In addition, the fund also develops programmes to train and place unemployed Lagos residents in jobs; while also focusing on programmes designed to drive innovation within the Lagos ecosystem.

Although the Lagos State Government seeded with an initial capital of N25Billion, LSETF is designed to be self-funding and is able raise additional funding from various sources including donor partners, development agencies, corporate organizations and individuals.

The LSETF has three different types of loan programmes. the Micro Enterprise Startup, which entitles start-ups to access up to N250,000; the Micro Enterprise Owners, which is focused on businesses existing up to 12 months. Applicants can access up to N500,000 and the Small and Medium Enterprise Owners, which is for small businesses that are formalised and have existed for over 12 months. SME applicants can access up to N5 million for asset acquisition and or working capital for a tenure of up to 36months. The entire application process is through an online portal, with a three deposit money banks acting as financial partners for disbursement and repayment.

As at the end of 2019, LSETF had disbursed N7.3 billion to over 11,000 businesses that have created about 100,000 direct and indirect jobs and had non-performing loans (NPLs) is around 14 percent. A key point of note is that applicants must be possess the Lagos State Residents Registration Agency (LASRRA) card. This is identity management and traceability at a state level, built into the lending process, to aid monitoring and evaluation of the loan portfolio. In addition, LSETF tracks the its beneficiaries through business development service providers (BDSPs) meet regularly with these beneficiaries to discuss their challenges and collect job data for LSETF.

11 RECOMMENDATIONS TO NGF

Having reviewed the above initiatives of other states, coupled with other experiences previously outlined, there is a strong recommendation to the state for the establishment of a dedicated support platform for MSMEs.

Taking into consideration the peculiarities of the KKJ states and the Post COVID-19 economic realities, States would need to provide the support mechanism at local government level. The state ministries responsible for local government, women and youth could thus facilitate the issuance of acceptable identification documents that would enable access to financial services. Micro-enterprises need to be supported with their applications as they face challenges associated with literacy, understanding of the financial terms and technology barriers. In addition, due to limited identity documentation, a significant number of potential beneficiaries may be excluded.

The various studies also revealed that due to real or perceived barriers, the provision of advisory services greatly improves access to finance, underscoring the relational nature of most MEs and their preference for personal contact. Through the MAFITA programmes, some operational structures were already established in the KKJ states and they have been tried and tested. These may be utilized to fulfill the proposed MSME support function – **“THE BUSINESS CLINIC”**.

A key component of the MAFITA project was the training of BDSPs to operate business clinics and creation of trade cooperatives. At the close of the project in March 2020, the operational procedures and data were transferred to the state governments (Kano State - Ministry of Commerce, Kaduna State - Ministry of Business, Innovation &

²⁵ <https://lsetf.ng/content/msme-loan-programme>

Technology and Jigawa State - Directorate of Economic Empowerment). It is thus recommended that this structure be utilized to drive the access to finance process in the states that had the benefit of the intervention. These trained BDSPs in each of the states can be engaged to run regular business clinics for MEs at designated offices within every local government.

Business Clinic Concept:

- i) *State provides a simple office location, with a minimum of one business clinic per local government area.*
- ii) *Office location must be equipped with a table, 3 to 4 chairs, internet access and a laptop computer. A second room or hall that could act as a waiting area would be preferred but not essential.*
- iii) *Operation of business clinic would be daily within designated hours, (say 10am to 3pm) is recommended.*
- iv) *The clinic would be manned by trained BDSPs who would provide simple business advisory services to Micro & Small Enterprises.*
- v) *In respect of the TCF, the BDSPs would undergo specific training on how to assist the MEs in developing and successfully completing the application. In addition, the BDSPs will be responsible for monitoring and ensuring loan portfolio performance in their LGA and repayment.*
- vi) *In providing this service, the state governments are able to enumerate the population of MEs, provide KYC identification documents, act as a guarantee for larger funds that require same and increase the tax base to improve upon internally generated revenue.*

Costs associated with establishing the business clinic have been minimized by utilizing existing physical assets in each local government, whilst the BDSPs would be paid a minimal monthly stipend by the State government. Their primary remuneration would be from the success fees negotiated on all successful loan disbursed and agency commissions that could be earned from financial institutions that engage them as mobile agents. Further remuneration could be earned from loan portfolio monitoring and evaluation on behalf of financial institutions. Below is a process flow:

Disbursements / Repayments
directly to and from Beneficiary
account

NMFB Relationship
Management, Establishment
of BIZ CLINIC in Local
Government

BDSPs provide
Business Diagnosis,
Loan Evaluation &
Application, Repayment
Monitoring

MSMEs approach BIZ
CLINIC in the Local
Government for support

In an increasingly digital age, the importance of identity management cannot be overemphasized. A second recommendation to the KKJ states would be to prioritize enrollment of all residents in the state by the National Identity Management Commission (NIMC). As of January 2019, only 33.7 million Nigerians, out of a total population of over 190 million, were reported to have been issued their unique National Identity Number (NIN). The NIN and associated smart card is of significant importance, as is to be used for a number of functions (travel document, payment card, driver's license, social insurance document and voter's card). As has been observed in the recent loan applications, NIN is one of three recognized identity documents and its non-possession could result in being disenfranchised.

"All over Africa, banking associations are telling me that we will not be able to improve access to credit for individuals until we make the identity of customers seeking financial support more secure," says Joseph Atick, who chairs the ID4Africa movement. According to Atick, several African central banks are currently investigating the possibility of implementing systems based on biometric technologies to prevent identity theft and over-indebtedness".²⁶

Recognizing that electronic platforms and agent networks are the best way to reach the bottom of the pyramid and facilitate access to finance, the KKJ states should also consider entering into a public private partnership to implement a management information system. The RIBY CoBanking software is a complete financial management tool for cooperatives, trade groups and associations that enables them to digitise all their financial processes inclusive of banking that can be operated online or offline. It is a proven technology that could easily be deployed as it is already operating in the focal states and there is an existing support structure. The State government would enter into a collaborative arrangement with RIBY, specifically for BDSPs operating the business clinics to be engaged as RIBY agents, utilise the software to manage the database and ensure long-term sustainability. A significant benefit of this approach is additional options available to MEs through the existing RIBY partnership network.

In return for granting operational exclusivity to RIBY, the cost of acquisition of the software could be negotiated and lower than normal commercial terms.

12 RECOMMENDATIONS TO CBN / NIRSA MFB

Some Recommendations to Ease the Process of TCF

- Decentralize the process from NMFB and use state governments as the initial screening points. The state governments can act, through business clinics would provide the linkages to the beneficiaries and to NMFB.
- Lower the minimum amount required (minimum should be about N20,000) with tiered lending depending upon the KYC
- Micro-enterprise business registration should be broadened to include; state business registration certificate, registration with a recognized Trade Association or cooperative registration
- Guarantors should endorse applicants not guarantee payments – [This requirement has now been removed](#)
- Use of agent bank networks should be explored to disburse loan payments and collect repayments. Collaborating with these FINTECHs would ensure scale and impact.
- Additional financial institutions should be considered as partners, such as the DBN and BoI. These two organisations have the experience and financial capability to scale up whilst dampening the impact of the COVID-19 pandemic on the economy.
- TCF does not address the need for alternative funding packages such as non-interest financing or leasing solutions for businesses that are averse to interest based lending. [At the recent announcement of the commencement of the Anchor Borrowers Programmes for dry season farming, the CBN stated that a framework for non-interest banking would soon be released.](#)

²⁶https://www.theafricareport.com/30838/biometric-identification-a-coveted-african-market/?utm_source=newsletter_tar_daily&utm_campaign=newsletter_tar_daily_24_06_2020&utm_medium=email

12.1 RECOMMENDATIONS ON TCF HOUSEHOLD GUIDELINES

PRODUCT NAME	TARGETED HOUSEHOLD LENDING	COMMENTS	RECOMMENDATIONS
TARGET MARKET	The fund is targeted at households with verifiable evidence of livelihood adversely impacted by COVID-19	Okay	N/A
ELIGIBILITY	<ul style="list-style-type: none"> Customers who have agreed to allow NIRSA Microfinance Bank (NMFB) assess their financial records. Evidence of opportunity cost or adverse impact as a result of COVID-19 pandemic 	This is ambiguous as how do you show evidence of being affected by COVID? There needs further clarity and simplicity.	Delete the requirement as it is not necessary.
DOCUMENTATION REQUIRED	<ul style="list-style-type: none"> Loan application letter Duly completed application form Duly executed Guarantor form A valid means of ID (national ID, driver's license, voter's card or international passport) Current utility bill 2 recent passport-size photographs BVN 	<ul style="list-style-type: none"> Guarantor is difficult in lockdown as most are suffering financial challenges themselves Recognised ID is a challenge Utility Bills are not easily obtainable as most people are yet to have meters. BVN is only for those financially included. Banks were initially closed, and access is now restricted. 	<ul style="list-style-type: none"> Guarantor to be waived – effective June 8th, this requirement is no longer applicable. Valid means of ID could include a document from LGA as issued by State Government.
TERMS & CONDITIONS	<ul style="list-style-type: none"> Flexible and moveable collateral options shall be admitted and registered under the National Collateral Registry (NCR) Bureau. Forfeiture Undertaking and Power of Attorney agreement to be signed by customer, giving NMFB rights to take over pledged assets in instance of loan default. Insurance cover on the asset financed or asset availed as flexible collateral, with the NMFB noted as the first loss payee. Loan amount must match loan repayment plan and loan purpose. Domiciliation of proceeds with NIRSA Microfinance Bank 	<ul style="list-style-type: none"> Courts are closed and thus unable to get documents verified and attested to. Asset assessment and valuation is required to ensure true value is being unlocked. The LINKS survey revealed that 11% of respondents had resorted to selling assets to manage the impact of Covid-19. Domiciliation requires opening of an account at NMFB. A BVN presupposed that there is already an existing bank account and the CBN regulation on sequestration of all 	<ul style="list-style-type: none"> Automatic registration to NCR for only loans above N250,000 Acceptance of other bank accounts, standing debit order to be instituted for repayments.

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		accounts enables NMFB to have a lien on the account ²⁷ .	
FACILITY TYPE	Term Loan	Okay	
SINGLE OBLIGOR LIMIT	N3m	Okay	
LOAN TENOR	Maximum of 36 months	Okay	
MORATORIUM	At least 12 months	Okay	
PRICING	5% per annum till February 28, 2021 and 9% subsequently	Applicants do not have uniformity of access to the concessional pricing. The later you apply, means that you have a shorter period to enjoy the reduced interest rate of 5%.	<ul style="list-style-type: none"> The concessional pricing should be fixed and defined in months i.e. for a fixed number of months per individual loan. This ensures equality for all borrowers, irrespective of when the loan is disbursed. Application of the Smart Campaign, Client Protection Principles²⁸
REPAYMENT STRUCTURE	Instalment basis, according to the nature of enterprise	Needs clarification	<ul style="list-style-type: none"> Monthly instalment payments are standard and should be adopted. Sample repayment tables should be made available
COLLATERAL REQUIREMENT Mini Micro: N1 - N500,000.00	<ul style="list-style-type: none"> 1 Acceptable Guarantor with valid ID card (National ID or NIN Slips, International Passport, Driver's License, Permanent Voter's Card) and BVN Utility Bill for both Applicant and Guarantor 	See comments above in the section on the documentation required.	
COLLATERAL REQUIREMENT Micro: N500,000 - N1.5m	<ul style="list-style-type: none"> Any describable movable asset with a serial number that can be used for registration on the collateral registry worth at least 70% of the loan amount. 1 Acceptable Guarantor with valid ID card such as National ID or NIN Slips, International Passport, Driver license, Permanent Voter's card & BVN Utility Bill for both Applicant and Guarantor 	See comments above	
COLLATERAL REQUIREMENT Micro Plus: N1.5M - 3M	<ul style="list-style-type: none"> Any describable movable asset with a serial number that can be used for registration on the collateral registry worth at least 70% of the loan amount. Comprehensive insurance over the asset. 	See comments above	

²⁷ <https://www.cbn.gov.ng/Out/2019/BSDCircular%20on%20New%20Clause%20for%20Credit%20Facilities.pdf>

²⁸ <https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>

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	<ul style="list-style-type: none"> 1 Guarantors with valid ID card (National ID or NIN Slips, International Passport, Driver license, Permanent Voter's card) and BVN Utility Bill for both Applicant and Guarantor 		
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12.2 RECOMMENDATIONS ON TCF MSME GUIDELINES

PRODUCT NAME	TARGETED HOUSEHOLD LENDING	COMMENTS	RECOMMENDATIONS
TARGET MARKET	<ul style="list-style-type: none"> Cushion the adverse effects of COVID-19 on MSMEs; Support MSMEs whose economic activities have been significantly disrupted by the COVID-19 pandemic. Stimulate credit to MSMEs to expand their productive capacity through equipment upgrade, and research and development. 	Okay	
ELIGIBILITY	<ul style="list-style-type: none"> Existing enterprises with verifiable evidence of business activities adversely affected as a result of the COVID-19 pandemic. Enterprises with bankable plans to take advantage of opportunities arising from the COVID-19 pandemic. 	Okay	
ELIGIBLE ACTIVITIES	<ul style="list-style-type: none"> Agricultural value chain activities Hospitality (accommodation and food services) Health (pharmaceuticals and medical supplies) Airline service providers Manufacturing / Value addition Trading Any other income generating activities as may be prescribed by the CBN. 	Okay	
LOAN LIMIT	<ul style="list-style-type: none"> The loan amount shall be determined based on the activity, cashflow and industry/segment size of beneficiary, subject to a maximum of N25 million for SMEs; Working capital shall be a maximum of 25% of the average of the previous 3 years' annual turnover. (where the enterprise is 	Okay	

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	not up to 3 years in operation, 25% of the previous year's turnover will suffice).		
LOAN TENOR	<ul style="list-style-type: none"> Working capital shall be for a maximum period of one year, with no option for rollover. Term loan shall have a maximum tenor of not more than 3 year. 	Okay	
MORATORIUM	<ul style="list-style-type: none"> At least 12 months 	Okay	
TERMS & CONDITIONS	<ul style="list-style-type: none"> Flexible and moveable collateral options shall be admitted and registered under the National Collateral Registry (NCR) Bureau. Forfeiture Undertaking and Power of Attorney agreement to be signed by customer, giving NMFB rights to take over pledged assets in instance of loan default. Insurance cover on the asset financed or asset availed as flexible collateral, with the NMFB noted as the first loss payee. Loan amount must match loan repayment plan and loan purpose. Domiciliation of proceeds with NIRSA Microfinance Bank 	<ul style="list-style-type: none"> Courts are closed and thus unable to get documents verified and attested to. Asset assessment and valuation is required to ensure true value is being unlocked. The LINKS survey revealed that 11% of respondents had resorted to selling assets to manage the impact of Covid-19. Domiciliation requires opening of an account at NMFB. A BVN presupposed that there is already an existing bank account and the CBN regulation on sequestration of all accounts enables NMFB to have a lien on the account²⁹. 	<ul style="list-style-type: none"> See Above
INTEREST RATE	5% per annum till February 28, 2021 and 9% subsequently	Applicants do not have uniformity of access to the concessional pricing. The later you apply, means that you have a shorter period to enjoy the reduced interest rate of 5%.	<ul style="list-style-type: none"> The concessional pricing should be fixed and defined in months i.e. for a fixed number of months per individual loan. This ensures equality for all borrowers, irrespective of when the loan is disbursed. Application of the Smart Campaign, Client Protection Principles³⁰
REPAYMENT STRUCTURE	Repayment shall be made on instalment basis by the beneficiaries to the NMFB according to the nature of enterprise and the repayment schedule/work plan provided at the application stage.	Needs further clarification	<ul style="list-style-type: none"> Monthly instalment payments are standard and should be adopted. Sample repayment tables should be made available

²⁹ <https://www.cbn.gov.ng/Out/2019/BS/Circular%20on%20New%20Clause%20for%20Credit%20Facilities.pdf>

³⁰ <https://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>

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<p>COLLATERAL REQUIREMENT</p> <p>Mini SME: 3 - 10m</p>	<ul style="list-style-type: none"> Any describable movable asset with a serial number that can be used for registration on the collateral registry worth 70% of the loan amount. Comprehensive insurance over the asset with NMFB as first loss Payee. Personal Guarantee of Business Promoter Irrevocable domiciliation of proceeds Acceptable Guarantor (1) 	<ul style="list-style-type: none"> Guarantor is difficult in lockdown as most are suffering financial challenges themselves and unwilling to Utility Bills are not easily obtainable as most people are yet to have meters. Banks were initially closed, and access is now restricted. Courts were closed and thus unable to get documents verified and attested to. Asset assessment and valuation is required to ensure true value is being unlocked. The LINKS survey revealed that 11% of respondents had resorted to selling assets to manage the impact of Covid-19. Domiciliation requires opening of an account at NMFB. A BVN presupposed that there is already an existing bank account and the CBN regulation on sequestration of all accounts enables NMFB to have a lien on the account³¹. 	<ul style="list-style-type: none"> Guarantor to be waived – effective June 8th, this requirement is no longer applicable.
<p>COLLATERAL REQUIREMENT</p> <p>SME: 10 - 15m</p>	<ul style="list-style-type: none"> Any describable movable asset with a serial number that can be used for registration on the collateral registry worth 70% of the loan amount. (Comprehensive insurance over the asset with NMFB as first loss) Or; Simple Deposit of title documents in perfectible state. Search will be conducted at customers cost (Ground rent will be up to date and all perfection letters to be executed) Irrevocable domiciliation of proceeds. Personal Guarantee of Business Promoter Acceptable Guarantor (2) 	<ul style="list-style-type: none"> See Above 	<ul style="list-style-type: none"> See Above

³¹ <https://www.cbn.gov.ng/Out/2019/BSD/Circular%20on%20New%20Clause%20for%20Credit%20Facilities.pdf>

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<p>COLLATERAL REQUIREMENT</p> <p>SME Plus: 15 - 25m</p>	<ul style="list-style-type: none"> • Simple Deposit of title documents worth 70% of the loan amount in perfectible state • Search will be conducted at customers cost (Ground rent must be up to date and all perfection letters to be executed) • Personal Guarantee of Business Promoter • Irrevocable domiciliation of proceeds • Acceptable Guarantor (2) 	<ul style="list-style-type: none"> • See Above 	<ul style="list-style-type: none"> • See Above
<p>MODALITIES</p>	<ul style="list-style-type: none"> • Eligible households or MSMEs shall submit applications directly to NIRSA Microfinance Bank (NMFB); • The application must, among others, contain BVN number, business registration (where applicable) and business plan with clear evidence of the opportunity or adverse impact as a result of COVID-19 pandemic. • NMFB shall appraise and conduct due diligence applications. • Upon satisfactory appraisal of application, NMFB shall forward the applications to the CBN for final approval CBN reviews applications and gives final approval for disbursement to NMFB. 	<ul style="list-style-type: none"> • See Above 	<ul style="list-style-type: none"> • See Above

13 CONCLUSION

Several measures have been taken by the Nigerian government, with the CBN leading the response for economic recovery through MSME growth and development. However, in navigating the COVID-19 crisis, the response should not merely be preservation but amelioration; not simply a return to normalcy but the improvement of standards of living. This is a unique opportunity to restructure a large portion of the informal economy and diversify the economic base.

This will require attitudinal change, especially as the informal sector would need to register with state agencies. The state governments must thus demonstrate integrity and good governance to engender trust for the registrations to be accurate and effective. This approach would enable governments to rectify longstanding social issues and serve to expand the national tax base. Financial Inclusion as outlined by the minimum KYC tiers should thus be prioritised.

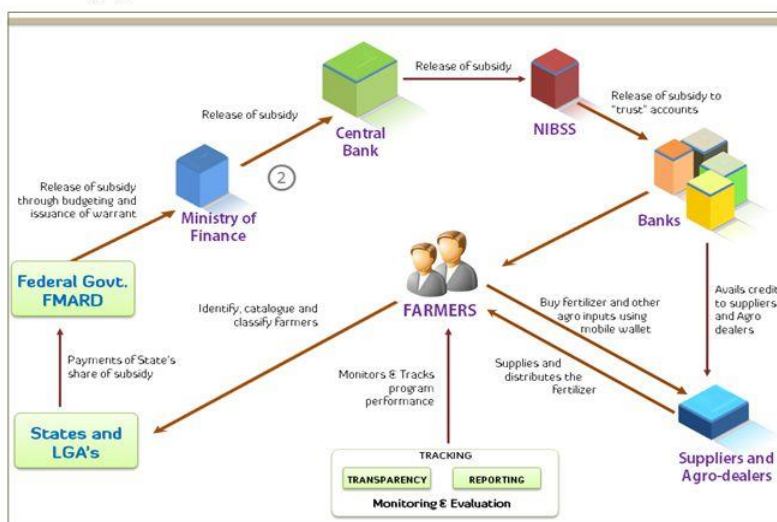
Some additional initiatives that may be considered are:

- On-lending facility through non-traditional financial channels: The traditional banking system only engages with formally registered businesses and is thus unable to supply the necessary liquidity to a wider group of informal MEs. This can be addressed by injecting capital into cooperatives (esusu etc.) and trade associations and utilising the mediation of the formal financial architecture. Due to the high level of familiarity and social trust among members, combined with the fear of reputational damage in one's community, group loans have extraordinarily low levels of default, in marked contrast to the higher delinquency rates in the formal banking system.
- Subsidies for inputs: Government should increase the subsidies to small household farmers for the purchase of inputs critical to their trade. The Federal Ministry of Agriculture and Rural Development through the Growth Enhancement Support (GES) scheme worked with a technology company, Cellulant, to register over 12 million Nigerian farmers into the Agrikore e-wallet platform in less than three months. The Agrikore platform was able to draw the farmers closer to the Federal Government and offered clear transparency in the way that farmers redeemed agricultural inputs at what location and farming season.

Appendix. A

eWallet/ GES Process Flow

- The eWallet scheme is made possible by a number of actors working together; Cellulant is the main digital solution provider responsible for the eWallet system. Schematic of key activities and actors in the fertilizer supply chain within the GES



- FMARD and Cellulant, Nigeria Inter-Bank Settlement System

- Bank loans to SMEs: last year the CBN reviewed the lending ratios for deposit money banks and thus could consider more flexible capital and deposit reserve requirements, coupled with SME loan origination targets in order to shore up the small-scale formal sector and thereby support the informal economy. Increasing lending to registered SMEs has a catalytic effect, setting off a virtuous economic circle with long-term profound ramifications.
- Retroactive and forward-looking Tax breaks: Eliminating previous taxes due and granting a one-year exemption after registration would bring significant numbers of persons into the formal economy. A similar increase was evidenced when the FIRS granted such registration waiver in 2016 with N27.086 billion being realised and a total of 814,000 new taxpayers.
- The social protection schemes being implemented by the Ministry of Humanitarian Affairs and Disaster Management should harmonise these actions with the CBN, such that a unified database is available to all stakeholders enabling greater reach and avoiding duplication.

On March 30th 2020, the Presidential Economic Sustainability Committee led by Prof. Yemi Osibajo, the Vice President of Nigeria was tasked with developing a clear response to challenges posed by the COVID-19 Pandemic. The committee has now concluded and submitted their report on June 9th 2020.

The plan entitled “Bouncing Back: Nigeria Economic Sustainability Plan”, has several priority initiatives (i) To stimulate the economy by preventing business collapse and ensuring liquidity; (ii) retain or create jobs using labour intensive methods in key areas like agriculture, facility maintenance, housing and direct labour interventions; (iii) undertake growth enhancing and job creating infrastructural investments in roads, bridges, solar power, and communications technologies; (iv) promote manufacturing and local production at all levels and advocate the use of Made in Nigeria goods and services, as a way of creating job opportunities, achieving self-sufficiency in critical sectors of our economy and curbing unnecessary demand for foreign exchange which might put pressure on the exchange rate; and (v) extend protection to the very poor and other vulnerable groups – including women and persons living with disabilities - through pro-poor spending.

As part of the plan, attention has been focused upon MSMEs with four priority projects that are designed to enable them respond to the economic challenges of COVID-19. These include a (1) Guaranteed Off-take Scheme for MSMEs, (2) SME Survival Fund, (3) Target credit facilities to specific industry sectors and, (4) NAFDAC waivers for MSMEs. In addition, digital identification of every Nigerian, is going to be undertaken as it will help improve the provision of cash transfers and other benefits.

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