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**MICRO, SMALL AND MEDIUM
ENTERPRISE
FINANCIAL SERVICES DEMAND
SURVEY
NIGERIA**

USAID/Nigeria PRISMS Project

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This Nigeria Micro, Small and Medium Enterprise (MSME) Financial Services Demand Survey Report was commissioned by USAID/Nigeria's Promoting Improved Sustainable MSME Financial Services (PRISMS) Project. PRISMS' objective is to assist commercial banks, policy makers and donors in making strategic decisions aimed at improving the delivery of financial services to the MSME sector. The MSME sector is a critical component of the Federal Republic of Nigeria's National Economic Empowerment Development Strategy (NEEDS).

Preparation of the report was a team effort involving: Olubunmi Adetunmbi, Managing Director of Development Associates, who organized and guided the research activities, and the seven researchers provided by Development Associates who conducted the field surveys and statistical analysis; Maria Stephens, a MSME financial sector development specialist, who analyzed the data and drafted the report; Farouk Kurawa and Kayode Faleti, PRISMS Financial Service Managers, who established content requirements, and provided extensive input throughout; James Whitaker, Chief of Party on PRISMS, who established the survey requirements and guided the progress at every stage; and Douglas Leavens, Chemonics Director for PRISMS, who edited the final report.

We thank all those who participated in the surveys and contributed their time and responses in our effort to make this a useful and accurate document.

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Executive Summary

Survey Context

The Federal Government of Nigeria's National Economic Empowerment Development Strategy (NEEDS) is based on a commonly accepted development strategy: micro, small and medium enterprises can act as the engine of national economic growth for Nigeria's economy if they have access to market resources, including financing, and the right enabling environment.

A popular perception among MSME operators is that commercial banks have limited experience with the MSME sector and lack the know-how to assess the associated credit risks, and are therefore reluctant to meet the sector's growing demand for financial services. Banking institutions are concerned many MSMEs do not understand how to work with financial institutions and need to upgrade their business and credit practices before banks can look at the sector as a viable and profitable business. As a result of these historical perspectives, both the supply of and demand for MSME financial services are not being adequately addressed in Nigeria.

This report examines these perceptions in order to determine the demand for and supply of financial services to the MSME sector, and the potential for broadening and deepening existing linkages between the banking community and MSMEs. While looking to expand the supply of financial services, the survey also looks into the demand and supply of support services to bolster MSME performance and attractiveness to the commercial bank sector.

Six main findings emerge from the survey:

- ***Wide range of financing currently used by MSMEs***

MSMEs access funds to operate their businesses through many sources: personal savings for working capital; informal sources, friends, families and "merry-go-rounds" for new investments; 30 percent access financing from cooperatives, and nine percent from community banks; six percent from Development Finance Institutions; and nearly 26 percent from commercial banks.

- ***MSME demand for financial services***

Nearly 80 percent of enterprises maintain business accounts with commercial banks and over half are satisfied with their bank services. While the majority of MSMEs utilize personal savings, family resources and retained earnings for new venture finance and working capital, they want leasing mechanisms, overdraft facilities and "soft loans," and business development services from commercial banks.

- ***Current level of MSME satisfaction with commercial banks***

Despite the criticism expressed by MSME operators about commercial banks, focus groups were divided in their opinion on the level of overall satisfaction with commercial bank services. The level of satisfaction appears to be related to the type of industry in which the

MSME is engaged. In general, those MSMEs engaged in production expressed dissatisfaction with commercial bank services

- ***MSME reluctance to utilize commercial bank financing:***

MSMEs cite high interest rates and excessive collateral requirements, as well as banks' inability to provide medium to longer term financing as important constraints. There is also a general concern that commercial banks' lending practices lack transparency and accountability. MSMEs agree that commercial banks lack the expertise and knowledge to interact effectively with the sector.

- ***Commercial bank constraints in supplying MSME financing:***

Most commercial banks do not think MSME have the necessary "credit culture" to understand the lending/borrowing relationship and obligations. Coupled with the inability of MSMEs to meet banks' current collateral requirements, and a lack of confidence in the management and record keeping capacity of the MSME operators, banks find the cost/benefit return from making many smaller loans is not attractive. Finally, banks also admit to a lack of sufficient knowledge and information about the MSME sector.

- ***Constraints to MSME growth:***

While an inadequate supply of financial services is an impediment to MSME growth, other exogenous factors have an equally adverse impact the sector's growth. Unreliable utilities, poor infrastructure, high inflation, inconsistent government policies, and the ineffective legal structure are major obstacles to successful business operations and competitiveness.

Outcomes:

Survey results show a strong base exists on which to build partnerships between commercial banks and MSME operators. This is in spite of very real levels of mistrust between the banking and MSME communities, generally based on a lack of information and experience. This section addresses four related outcomes from the survey: the role of capital in MSME operations; the importance of broad financial sector reform in promoting the MSME sector; dealing with the lack of trust on both sides of the demand/ supply equation; and, opportunities for developing MSME and commercial bank partnerships.

Recommendations:

This survey is a start in the continuing process of expanding broad access to financial services for the MSME sector. Both MSME operators and those intending to provide technical assistance and training to this sector need to be proactive in maintaining current information about demand for commercial financial products, and working to bring this information both to the commercial banks and MSME operators. There are several ways in which this could be done.

- ***Continue to develop MSME demand for financial services:***

Periodic assessments should be conducted to inform commercial banks regarding both MSME product needs and client satisfaction. Success will be client demand driven.

- ***Reorient commercial lending to MSME financial services:***

Nearly 80 percent of commercial bank respondents expressed a need for training in general lending principles appropriate for the MSME sector, including: understanding MSME market opportunities and potential; product development; and customer service. Nearly 90 percent of commercial bank respondents requested training in: cash flow credit analysis, loan follow up; and loan pricing. One-half of those surveyed requested training in: loan appraisal and ways to provide business development services for clients. Over 80 percent of commercial banks interviewed indicated a preference for working with and through community banks to provide financial services to the MSME sector.

- ***Commercial bank training provided to MSMEs:***

Commercial banks are willing to provide targeted technical assistance to MSME borrowers to meet the demand for business development services for: strategic planning and business plan development; basic business management training; and 3) commercial bank training in basic lending and borrowing principles.

List of Acronyms

APDF	Africa Project Development Facility
BOI	Bank of Industry
CBN	Central Bank of Nigeria
DFID	Department for International Development, UK
FCT	Federal Capital Territory
FGD	Focus Group Discussion
FI	Financial Institution
FSP	Financial Service Provider
GTZ	German Technical Assistance Program
IFC	International Finance Corporation
IFC	International Finance Corporation
MAN	Manufacturer Association of Nigeria
MIS	Management Information System
MSME	Micro, Small and Medium Enterprise
NACCIMA	National Association of Chambers of Commerce Industry Mines and Agriculture
NASME	National Association of Small and Medium Enterprises
NASSI	National Association of Small Scale Industrialists
NBFI	Non-Bank Financial Institution
NBFIS	Non Bank Financial Institutions
NEEDS	National Economic Empowerment and Development Strategy
PRISMS	Promoting Improve and Sustainable MSMS Services
SME	Small and Medium Enterprises
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria.
SMIEIS	Small and Medium Industry Equity Investment Scheme
SO12	Strategic Objective 12,USAID/Nigeria
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WB	World Bank

1. Background and Objectives

1.1 Background

This Nigeria Micro, Small and Medium Enterprise (MSME) Financial Services Demand Survey Report was commissioned by USAID/Nigeria's Promoting Improved Sustainable MSME Financial Services (PRISMS) Project. PRISMS is a four-year USAID activity with the goal of increasing the capacity of the Nigerian financial services industry to provide appropriate financial services to micro, small, and medium enterprises (MSMEs).

Nigeria is struggling to recover from years of military rule characterized by mismanagement, corruption, decaying infrastructure and deteriorating social service delivery. With a GDP of about \$40 billion and a population of some 30 million people, Nigeria is Africa's second largest economy (Nigeria's GDP in 2002 and 2001 was \$43.4 billion and \$42.5, respectively). The economy is a dichotomy between the oil and non-oil producing sectors, with the middle-income, oil-producing economy of perhaps five million people having a per capita income of about \$2,200, and the rest of the population part of a poor, non-oil producing economy, living on less than \$100 per year. However, 70 percent of the population lives below the poverty line with an average per capita income of about \$300.

In the mid-1960s and before, Nigeria was had a strong agricultural economy capable of feeding its own people. Today it is dependent on imported food and most farmers operate at the subsistence or non-commercial economic level. In order to address the high level of poverty, the Federal Government of Nigeria's launched the National Economic Empowerment Development Strategy (NEEDS) in May 2004. NEEDS is based on a commonly accepted development strategy: micro, small and medium enterprises can act as the engine of national economic growth for Nigeria's economy if they have access to market resources, including financing, and the right enabling environment.

There is an important base of agricultural activity to build upon. Despite the importance of petroleum to export earnings, Nigeria's biggest employer is the agriculture sector and most Nigerians depend on a combination of agricultural activity (including animal husbandry) and microenterprise to earn their livelihoods. Indeed, micro and small enterprises (including agricultural enterprises), are estimated to account for somewhere between 40% and 70% of Nigeria's GDP.

A key component of NEEDS is to reduce the barriers to greatly expanded private sector led growth in the rural and agricultural sectors. Access to finance by MSMEs is a critical component of this strategy. However, a common perception among MSME operators is that commercial banks have limited experience with the MSME sector, lack the know-how to assess the associated credit risks, and are, therefore, not been able to meet the sector's growing demand for financial services.

On the other hand, banking institutions are concerned that many MSMEs do not understand how to work with financial institutions and need to upgrade their business and credit practices, before banks can look at the sector as a viable and profitable business. As a result of these historical perspectives, both the supply of and demand for MSME financial services are not being adequately addressed in Nigeria.

This survey report examines these perceptions in order to better identify the nature of the demand for and supply of financial services to the MSME sector, and the potential for broadening and deepening existing linkages between the banking community and MSMEs. The survey also looks into the demand and supply of support services to bolster MSME performance and attractiveness to the commercial bank sector.

USAID recognizes that commercial banks are the primary financial institutions in Nigeria with the resources, outreach, organization and motivation to expand and transform financial services for MSMEs on a scale commensurate with the demand. USAID through PRISMS is engaging the commercial banking industry to increase awareness that the greatest retail banking potential is with the MSME sector. Activities to down-stream financial services into the MSME sector are being leveraged through partnership with the Central Bank of Nigeria (CBN) regarding supervision of lending activities into the MSME sector.

At the same time, PRISMS is engaging non-bank financial institutions (NBFIs – mainly community banks and microfinance institutions) through coordination with other donors' NBFIs capacity-building programs, to enhance NBFIs' appeal to commercial banks as partners. Training curricula is being developed and will be offered to NBFIs on a for-fee basis through local training services providers. Concurrently, PRISMS is working on a number of policy reform and implementation initiatives with CBN to improve the enabling environment for provision of MSME services through both commercial banks and NBFIs.

PRISMS' objective is to assist commercial banks, policy makers and donors in making strategic decisions aimed at improving the delivery of financial services to the MSME sector. This survey is intended to provide the beginnings of a road map for better understanding the nature of the MSME demand for financial services, and the ways in which those needs can be met.

1.2 Objectives

MSME market demand information is required to have objective, direct, specific, detailed information on which to base decisions regarding both MSME demand for financial services and how best to support financial service providers in supplying those needs with appropriate and affordable services. The survey has three major objectives:

- Assess the real demand for MSME and financial services in select focal states in Nigeria;
- Determine the training and technical assistance needs necessary to reorient commercial lending toward MSMEs in these focal states;

- Provide recommendations to commercial banks and other service providers for MSME training to increasing the sector's attractiveness to potential commercial bank lenders.

Three groups will benefit from the results of the survey:

Commercial banks

The primary intended beneficiaries are commercial banks and other potential providers of financial services to MSMEs. The survey provides specific information about the types of products and services in demand by MSMEs.

MSME operators

MSMEs will have a better understanding of the constraints impacting the commercial banking sector in providing an adequate supply of financial services. It is anticipated this information could both improve advocacy by MSME organizations and stimulate the provision of specific interventions that will strengthen MSME management and performance, making the sector a more attractive risk for the banking community.

Technical assistance providers

Providers of training and technical assistance, both to commercial banks and MSMEs, will benefit by understanding the gaps in the provision and utilization of MSME financial services, which can be used to develop and undertake appropriate technical interventions.

The following survey selection criteria were used:

Sectors: USAID/Nigeria identified food processing, metal fabrication, transportation, and commodity processing sectors, in light of the Mission's focus on promoting the development of value-adding enterprises. The working assumption is that, if supported, such enterprises have the potential to contribute to Nigeria's economic growth, acting as the "engine of growth" for larger enterprises that can produce for both domestic consumption and export.

Focal states: The survey was conducted in the focal states of Kano, Abia, Cross Rivers and FCT, given the potential supply of well-performing, high-value adding MSMEs in these states. While Oyo and Benue are not focal states, they are included in the survey because these states are major food producers with large numbers of agro-related MSMEs.

2. Survey Methodology

2.1 RAF Market Assessment Methodology

The survey is consistent with USAID's Rural and Agricultural Finance Market Assessment methodology, which is graphically portrayed in the exhibit that follows. The assessment design work was completed under the first phase of the PRISMS project completed in April 2004. The complete report is available from the PRISMS office in Abuja. This report covers

both the second and third phases, which include conducting secondary research, conducting interviews and mapping the key actors and relationships, as well as analyzing the demand for financial services and strengthening of the enabling environment. Together these two phases identify key constraints and promising commercial solutions. Recommendations for the final intervention phase are also provided in the conclusions and recommendations section of this report. It is anticipated that the broad distribution of this report will inform discussion that will lead to prioritization of suitable interventions, which should increase the provision of financial services to the targeted MSME sector.

The survey methodology incorporated qualitative and quantitative analysis. Desk research included gathering relevant industry sector information from standard financial reports and documents from the Bank of Industry, Lagos State Chamber of Commerce's SME Section, and state ministries of commerce and industry. Focus groups were conducted with MSMEs in each target industry in the four sectors in each state and with financial institutions, including commercial banks, community banks, microfinance institutions, and insurance and leasing companies, the latter in Lagos. Survey work began in November 2004 and was concluded in January 2005.

Survey designers and interviewers were selected on the basis of their knowledge of Nigerian banking system regulations and the Nigerian MSME sector. All of the consultants are Nigerian with extensive professional experience in commercial banking, rural agricultural program impact assessment survey design and marketing within the agribusiness sector. Their local knowledge was incorporated into both the survey design and execution. Seven consultants worked on the survey at the design, execution, and evaluation stages.

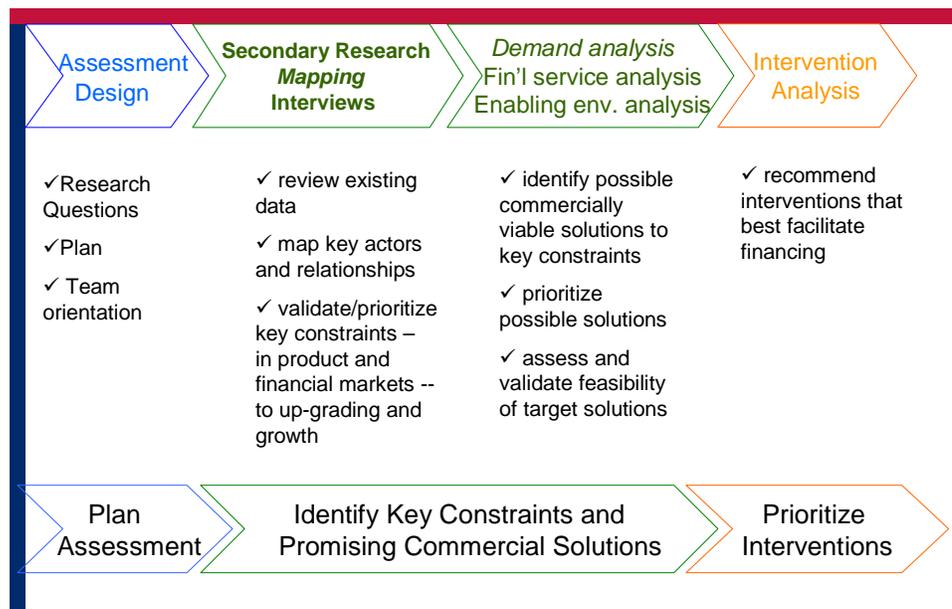
2.2 Demand Assessment

To better understand the demand side, individual, in-person interviews were held with MSME staff utilizing a structured questionnaire. The questionnaires were designed to determine sector type, business development services needed, and overall perceptions of currently available financial service providers. The survey included questions intended to determine what current impediments exist to commercial lending to the MSME sector. The survey also questioned MSME operators on standard financial management issues as a way to identify gaps in their current performance, that could be addressed through training and technical assistance.

The survey was designed to profile, analyze, and document the diversity and structure within the selected MSME sectors. The survey also intended to provide a breakdown of financial service products demanded by sector and institution type, and current financial services utilized by the sector. Researchers drew two samples for the survey, an MSME sample and a financial institutions sample, both of which were divided into the sector and financial service provider categories defined by the Scope of Work.



Framing a RAF Market Assessment



2.3 Supply Assessment

On the supply side, interviewers led focus groups to gather information about the supply of MSME services by commercial and community banks and microfinance institutions, as well as some insurance and leasing companies in Lagos. Interviews were also conducted with executive level staff from financial institutions, utilizing a standard survey. The survey addressed the following issues:

- Strengths and weaknesses of commercial financial institutions (with a focus on commercial banks);
- Challenges these institutions face in lending to the MSME sector;
- Types of interventions necessary to remove structural impediments to the flow of resources from these institutions to the MSME sector.

3. Survey Findings

There are six significant survey findings presented in this section:

- financing currently utilized by MSMEs;
- MSME demand for commercial bank services;
- current level of MSME satisfaction with commercial bank services;
- why MSMEs are reluctant to utilize commercial bank financing;
- constraints commercial banks face in expanding lending to MSMEs; and,

- constraints in the enabling environment that impact the growth of MSMEs.

3.1 Financing Currently Utilized by MSMEs

There was a wide range of responses regarding the current institutions through which Nigerian MSMEs access funds to operate their businesses, and the types of instruments they use. The following list is in ascending order from the most informal to most formal sources. Respondents' satisfaction with each product or methodology is indicated when available.

Overall, MSMEs responded that they utilize formal institutions more frequently than informal institutions as a source for debt financing and for keeping business accounts, while utilizing personal savings and cash from family and friends more for working capital.

Personal savings

The majority of entrepreneurs interviewed indicated that personal savings are a primary source of working capital. New investment is generally financed from retained earnings and from funds provided by family and friends.

Informal sources

Most of the focus group participants who maintain bank accounts said that they acquire working capital and funds for new investment either as gift money from friends and family, or through informal "merry-go-round" lending schemes, referred to as "esusu." Other semi-formal institutions, such as the Women's Thrift and Credit Cooperative Society and the Unique Philanthropic Women's Cooperative, also provide financial services to MSMEs.

MFIs and cooperatives

Savings and loan associations ranked second in providing debt finance to MSMEs, with 30 percent of MSMEs accessing loan capital from this source. However, only about 13 percent of respondents stated that they keep general business accounts with Savings and Loan institutions, a much lower percentage than those who maintain accounts with commercial banks. And approximately 5 percent of respondents indicated that they have accessed group loans through microfinance institutions.

Community bank financing

Only nine percent of MSME operators indicated that they source debt finance through community banks. They attribute the low level of debt financing from this source to the limited amount of loan funds available within the community banks.

Government sources

Government owned Development Finance Institutions (DFIs) currently provide about six percent of MSME's debt finance.

Commercial bank financing

Nearly 46 percent of MSME respondents stated that commercial banks are the primary source of their debt finance. Nearly 80 percent of enterprises maintain business accounts

with commercial banks, and over half of these expressed satisfaction with their bank services.

While the majority of respondents indicated that personal savings and retained earnings comprised the bulk of new finance and working capital, about 26 percent stated that they access this type of financing through commercial banks.

Finally, approximately 20 percent of those interviewed who maintain accounts with commercial banks stated they have overdraft features associated with these accounts at a rate of up to 20 percent interest on the overdraft balance.

Approximately 70 percent of respondents currently utilizing commercial bank overdraft facilities with lower interest rates are required to pledge collateral in the form of:

- Land – 48 percent;
- Building – 31 percent;
- Fixed assets, such as machinery – 35 percent;
- Homes – 4 percent), and;
- Other assets – 8 percent.

3.2 MSME Demand for Commercial Bank Financial Services

In order to expand their utilization of commercial bank services, MSME survey respondents expressed a preference for the following financial products and services, in order of preference: lease financing, overdraft and credit facilities, and business development services.

Leasing

Nearly 45 percent of MSMEs interviewed expressed interest in using leasing arrangements. Of the total number of respondents currently using lease financing, approximately 65 percent were satisfied with this type of product and would like to see more of this type of service offered through the commercial financial institutions.

Overdraft facilities and “soft loans”

Participants were almost unanimous in expressing the need for loan products that are easily accessed at lower rates than current prevail. They consider overdraft facilities or “soft loans” as necessary, for quickly producing prototype goods used in product demonstrations and other marketing activities and events. Business operators believe that such facilities would help them access short-term credit quickly, at lower interest rates than the prevailing market rates.

Business development services

Nearly 21 percent of MSME respondents indicated that they currently outsource for basic accounting and auditing services and that they consider these outsourcing costs, a high component of their overall operating expenses.

They also stated that banks should help MSMEs in areas of business development, such as basic training in debt finance accounting and the provision of regular information, on how MSMEs can compete effectively in both local and international markets. They believe such services could reduce some of the enterprises' costs and bolster their businesses' ability to service their debt.

Several respondents expressed a willingness to pay banks on a fee-for-service basis for accessing business advisory services that would help businesses identify potential local and international markets for their products.

3.3 Current Level of MSME Satisfaction with Commercial Banks

Despite the criticism expressed by MSME operators about commercial banks, focus groups were divided in their opinion on the level of overall satisfaction with commercial bank services. The level of satisfaction appears to be related to the type of industry, in which the MSME is engaged.

For example, businesses involving importation of finished products, appeared to have relatively less difficulty accessing commercial bank sources to finance the importation of goods. However, the same MSME operators expressed concern that requests for loans to purchase machinery to produce local counterparts of imported goods; often times meet with resistance from the same banks.

In general, those MSMEs engaged in production expressed dissatisfaction with commercial bank services.

3.4 MSMEs' Reluctance to Utilize Commercial Bank Financing

The majority of MSME operators interviewed indicate a reluctance to approach commercial banks for debt financing, for the five following reasons:

- Interest rates and collateral requirements are considered to be excessively high;
- Banks do not have the interest, or ability, to meet MSMEs' long-term financing needs;
- A general concern that commercial banks' lending practices lack transparency and accountability and are, as a result, vulnerable to nepotism and other distortions in the lending market;

- The commercial banking sector lacks sufficient understanding of the sector in which MSMEs operate and, correspondingly, lacks the internal expertise to interact with this sector – a constraint repeated by many commercial banks.

High interest rates

The interest rate on commercial bank loans is perceived as high and discourages most MSME operators, from seeking debt finance from commercial banks. However, the survey did not attempt to gauge from MSME operators what interest rates they would be willing and able to pay.

Inability to meet current collateral requirements

The general view expressed by MSME operators is that the collateral requirements of commercial banks are unrealistically high and beyond the reach of the average MSME operator. Acceptable traditional tangible collateral is currently defined by the commercial banks as either real estate (land or a primary residence) or a fixed asset (equipment), neither of which the MSME entrepreneurs can readily pledge against their loans.

Banks' inability (perceived unwillingness) to match MSME demand for medium to long-term financing with appropriate loan products

In addition to the general concern expressed about collateral requirements, MSME operators expressed the view that commercial banks do not attempt to match loan terms against the business cycles of their enterprises. Those MSMEs engaged in production stated that they need longer-term loans to produce the funds necessary to repay the loan, which cannot be less than six months if it involves both production and sale of goods. The general perception expressed by MSMEs is that commercial banks are more interested in lending to vendor-type applicants, which can turn over their inventories quickly and have the funds to repay their loans within a short period of time.

Perceptions of nepotism and lack of transparency in lending

Many MSME survey participants believe that commercial banks extend loans to well-connected individuals, even if they present substandard applications. Others charged that some commercial bank staff request bribes as part of the application process. A general concern expressed by MSMEs is that the commercial banks do not have standard, transparent and consistent policies to which all applicants must adhere throughout the application, disbursement, and collection stages.

Perception that commercial banks' lack sufficient knowledge about MSME sector

Most participants interviewed expressed a belief that the commercial banks have insufficient knowledge about MSME activities, which is responsible for banks' reluctance to extend financial services to the sector.

3.5 Commercial Bank Constraints in Supplying MSME Financing

The majority of commercial banks interviewed expressed reluctance to expand business in the MSME sector for the following five reasons:

- lack of confidence in management;
- inadequate security;
- MSME unfamiliarity with good borrower practices;
- high costs; and,
- insufficient bank knowledge of the sector.

Lack of confidence in MSME management and record-keeping capacity

Over one-half of the banks interviewed stated that they do not lend to small enterprises, because prospective borrowers lack proper accounting records or have falsified some parts of loan applications.

Over 72 percent of MSME operators interviewed responded that they do not use external auditors to conduct annual reviews of their financial statements, thus possibly validating the commercial banks' concern regarding proper record keeping and financial management.

However, over half of the medium-sized enterprises responded that they do have external audits of their financial records, while 45 percent of small and 22 percent of micro enterprises have their records audited externally.

Collateral requirements

Many commercial bank respondents listed the unwillingness or inability of MSMEs to provide collateral or security on loans, as their major concern with lending to this sector.

Of those MSME enterprises interviewed, all indicated that collateral was required on overdraft provisions of accounts they held with commercial banks, with nearly one-half of those pledging land.

The survey did not attempt to determine the effectiveness of mechanisms for legal enforcement of collateral agreements, particularly those in which land is the pledged asset. It is generally accepted that enforcement of existing collateral mechanisms is time consuming and difficult, thus making the introduction of alternative, non-traditional collateral and security arrangements more uncertain.

Limited MSME knowledge about borrowing

Most banks stated that MSMEs have limited knowledge or understanding, about financial services available from commercial banks and how best to utilize those services. In particular, commercial banks expressed the view that MSME applicants do not understand the full implications of the need to service their debts in full and on time, in order to establish and maintain good credit ratings with the lenders.

High cost of lending

Most commercial banks interviewed consider the cost of lending to the MSME sector to be considerably higher than lending to other sectors. High costs are attributed to the relatively greater amount of time necessary to monitor MSME loan compliance. In addition, commercial banks expressed concern that most MSME applicants are engaged in businesses that require lengthy terms to cover production and distribution of goods produced.

Commercial banks lack of knowledge of MSME sector

Commercial banks acknowledged their lack of knowledge and understanding of the MSME markets and those activities in which they engage. Some respondents were specific in the type of information they believe is necessary for banks to make informed lending decisions. Two examples were cited: feasibility studies of the market in which the prospective borrower is engaged; and a way to assess the character of the applicant.

Community banks lack sufficient funds to meet MSME loan demand

The majority of MSME respondents indicated that although community banks understand their communities and businesses, they lack sufficient resources to lend to the MSME sector.

There was no indication that commercial banks are utilizing SMIEIS funds to invest in community banks, thus increasing their loan capital for on-lending. Some believe that if commercial banks were to utilize community banks as financial intermediaries to disburse funds to the MSME sector, the SMIEIS funds could form the basis for such transactions, thus providing the community banks with loan funds they appear to be lacking.

3.6 Constraints to MSME Growth

MSMEs generally expressed concern that the Nigerian enabling environment does not adequately promote and support growth of the MSME sector. While many of these issues have been widely researched and reported on, the results of this survey are worth repeating. Specific concerns relate to:

- Government policy;
- Access to finance;
- Infrastructure;
- The legal system; and,
- Foreign competition.

Government policy

Many MSME respondents expressed the view that current government policy and/or practice favors multinational producers over local producers. MSME operators maintain their products cannot compete with those produced by multinationals and that multinationals, benefit both from a general bias against locally produced goods and from certain production benefits, such as economies of scale and access to preferential working capital from commercial banks.

While many respondents agreed that current government efforts are geared toward promoting locally produced goods, they concluded that further efforts might help local industries compete more effectively against the multinational producers.

Over 61 percent of the banks interviewed indicated overall satisfaction with current government policy regarding SMIEIS, which was established to promote growth in the MSME sector through the provision of commercial bank equity investments. However, less

than half of those MSME operators interviewed were aware of, or fully understood, the basic details of SMIEIS, or how they might benefit from it. Lack of information on how to utilize the banking system and existing services is an apparent constraint.

Operating environment and infrastructure constraints

Many MSME respondents indicated that factors alongside insufficient business financing, adversely impacted their performance. Specifically, the majority of respondents stated that interrupted service in water and power, poor road networks and high inflation, are major obstacles to successful business operations and competitiveness.

Ineffective legal structure

The ineffective legal structure impacts both lenders' and borrowers' ability to arbitrate legal challenges through the courts. The experience of both borrowers and lenders in seeking legal recourse against defaulters on either end of business/loan transactions, was not explored in depth.

4. Outcomes

The primary objective of the survey is to map the MSME demand for financial services in order to guide the expansion of rural and agricultural financing in Nigeria.

An underlying survey assumption was that commercial banks lack sufficient understanding of MSMEs, from which to build the capacity to service this sector. While the results of the survey do support this assumption, they also point to other underlying factors that impact the supply of commercial financial services to the MSME sector. At a minimum, these include the need to view capital constraints within a broader context of financial sector reform in Nigeria, including the cultivation of a credit culture within the MSME sector itself and the development and consistent application, of transparent lending practices within the banking sector.

In addition to these findings, the survey results show that a strong base does exist on which to build partnerships between commercial banks and MSME operators. This is in spite of very real levels of mistrust between the banking and MSME communities, generally based on a lack of information and experience. Existing connections between banks and MSMEs provide a starting point, that can be further supported through carefully designed interventions and with follow-up technical assistance. This section addresses four related outcomes from the survey:

- The role of capital in MSME operations;
- The importance of broad financial sector reform in promoting the MSME sector;
- Dealing with the lack of trust on both sides of the demand/ supply equation; and,
- Opportunities for developing MSME and commercial bank partnerships.

4.1 Role of Capital in MSME Operations

Access to capital is a primary impediment to MSME growth

One of the most consistent themes from interviews with MSME operators is that lack of loan capital, is a major impediment to the growth and expansion of their businesses. Generally, MSME operators believe additional capital alone will solve the majority, if not all, of the problems they are facing. This perception applies to starting up and continuing their enterprises in a competitive marketplace.

In addition to seeking short term production and working capital loans, many MSME operators surveyed are aware of the need to match their longer term production cycles with appropriate longer term loans. Indeed, 34 percent of MSME respondents indicate that they need longer term loans. At present, banks are generally not meeting this demand.

If MSMEs were to develop business planning documents, business plans, budgets and cash flow projections, that lay out their long-term financing needs using standard financial projections and industry-accepted ratios and financial documentation, commercial banks would be in a better position to evaluate the viability of the enterprise and the use of bank debt within the enterprise's overall operations. By presenting credible and realistic business plans to the commercial banks as part of their loan applications, MSMEs would be able to engage the banks in discussions that explain the need for specific loan products, such as short or long-term debt, leasing, warehouse receipts, and other products, and show the rationale for such financing within the context of their enterprises' overall business cycle.

In turn, the commercial banks could begin to understand the nature of the MSME sector through the applicants' business plans and as a result, be better equipped to develop products that meet this sector's financing needs. In this way, credit becomes a means to a broader end and the application for credit, becomes a vehicle through which the enterprise operator and commercial bank, can develop a business partnership that extends beyond the simple process of extending and recovering a loan.

4.2 Financial Sector Reform Context

The survey highlights the importance of viewing MSME's access to commercial financial services, within the broader context of commercial banking and legal sector reform in Nigeria. Advocacy, infrastructure, and credit culture are three important aspects of the reform process.

Role of advocacy

MSME reform and reorientation of commercial banks to increase lending to the MSME sector, needs to be viewed as part of a broader national agricultural development policy, with corresponding strategy and action plans. Both MSME operators and commercial banks can, and should, be part of the development of rural and agricultural finance policy guidelines and should, be empowered to advocate their respective positions throughout the process. Encouraging dialogue between both parties during such activities is a sound way to bring

both sides closer to understanding both the needs of borrowers and lenders and the reasons why bottlenecks currently exist, in lending to the MSME sector from commercial banks.

Impact of infrastructure on MSME operations

Many MSME respondents indicated that poor infrastructure has an adverse impact on their business performance. Regardless of the amount of loan or equity capital provided to the sector from commercial banks, interruptions in the supply of electricity, poor roads and road networks and other causes of disruption, both in the production and distribution of goods and services, will continue to have an adverse effect upon the growth and expansion of the MSME sector in Nigeria.

Importance of creating a credit culture among MSME operators

Many MSME respondents criticized commercial banks for “not understanding or being sympathetic to the needs of the MSME sector.” Some respondents gave examples to support this claim, including the following explanation of a favorable partnership with a commercial bank: “Bank “x” has pity for the poor, which is why it does not demand collateral or money from an applicant before approving a loan.”

As illustrated by this social compassion perspective, there is a general sense that a commercial credit culture has not been fully established within the MSMSE sector and that as a result, many applicants for loan capital do not understand the full implications of taking on debt. In fact, some MSME respondents did not appear to understand why commercial banks’ require that they open a current account at the bank in which they are applying for a loan. The good news is that some commercial banks recognize this deficiency and appear to be willing, to provide rudimentary training to the MSME sector in the basics of building a good credit history and developing a sound banking relationship.

4.3 Lack of Trust on Both Sides of Lender-Borrower Equation

Critical role of trust in a banking system

A theme that repeats itself throughout the survey results is a lack of trust on the part of both prospective lenders and borrowers. Some MSME operators mistrust commercial banks for their perceived unfair lending practices, while many commercial banks express concern that they have received falsified applications on more than one occasion.

An effective banking system and the credit culture underpinning it, is built on trust and confidence on the part of both borrowers and lenders. Borrowers need to know that corrupt bank officials cannot alter the “rules of the game” and that their deposits are secure. Lenders want reasonable assurance that borrowers have both the ability and the intention, to repay loans. Establishing and maintaining transparent financial systems, including banking systems and practices that are subject to external review, is a critical first step toward building a culture of trust in lending and borrowing.

4.4 Developing MSME and Commercial Bank Partnerships

Despite the criticisms made by both MSME operators and commercial bank respondents about each other, the survey results showed signs of opportunities for both groups to work effectively to increase commercial lending to the MSME sector.

Many MSMEs have bank accounts and loans at commercial banks

Nearly 80 percent of MSME operators interviewed stated they maintain current accounts with commercial banks, while another 13 percent hold accounts with savings and loan institutions. Commercial banks are already the primary source of debt finance for 46 percent of surveyed MSMEs. Of this group, approximately 54 percent expressed overall satisfaction with their bank's services.

With such a relatively large percentage of MSME operators currently working with and through formal and commercial banking institutions, commercial banks already have a conduit through which to further their business relations with the MSME sector.

Commercial banks' awareness of potential market:

Nearly 90 percent of commercial banks interviewed are aware of the growing demand for MSME financial services and over 91 percent, stated that banks should collaborate with MSMEs in the provision of financial services.

Attitudes toward direct lending to MSMEs and wholesaling services through intermediaries, such as community banks and microfinance institutions, is split with 66 percent of the banks preferring to establish wholesale services to the MSME sector.

In general, commercial banks seem both to recognize the increasing demand for commercial financial services to the MSME sector and appear prepared to meet this demand, if some of their concerns about borrower credibility and loan security are appropriately addressed.

5. Recommendations

5.1 Continue to Develop MSME Demand for Financial Services

This survey is a start in the continuing process of expanding broad access to financial services for the MSME sector. Both MSME operators and those intending to provide technical assistance and training to this sector, need to be proactive in maintaining current information about demand for commercial financial products and working to bring this information both to the commercial banks and MSME operators. There are several ways in which this could be done:

Undertake frequent demand assessments

Technical assistance can be provided in the form of periodic assessments to maintain a current profile of MSME financial product demand and satisfaction, with services provided. Surveys can establish a baseline of current products used and monitor a sample set of the MSME operators, to determine which products can have a sizeable impact on growth in the sector and correspondingly, the contribution made to national economic growth and development.

Develop effective lines of communication with banks regarding product needs

Business development service providers can assist MSME operators in developing effective communications with commercial banks, regarding both product needs and client satisfaction.

USAID's rural and agricultural market assessment approach referenced in this report, provides an effective strategy for understanding the market linkages through a value-chain lens and a financial sector lens. Additional work can be done between donor, government and private sector partners, to develop these linkages. The USAID PRISMS project is currently collaborating with USAID's MARKETS and REFORMS projects, as well as with other donor projects and the commercial banking industry, to address constraints to MSME sector access to finance, including needed policy and regulatory reforms.

Leverage resources and knowledge sharing

Under the new Country Partnership Strategy (CPS), DFID, the World Bank and USAID are working with the Federal Government of Nigeria and with State governments, to implement the NEEDS strategy and to make rural and agricultural development, the engine of economic growth in Nigeria. Other donors will eventually join the CPS, making it a powerful alliance for development of the MSME sector. An effective public-private sector partnership will involve all Nigerians.

It is worth noting that within the MSME sector globally, the issue of client satisfaction has elicited lively debate and commentary among practitioners. Both MSME operators and those providing technical assistance to this sector, will find useful information relevant to MSME operations by following this debate. (See <http://www.seepnetwork.org> for information on the Client Satisfaction Working Group's activities to date.)

5.2 Reorient Commercial Banks to MSME Financial Services

In addition to working on the demand side of the equation, technical assistance providers can work closely with commercial banks to reorient current lending toward the MSME sector. Commercial bank respondents to the survey confirmed they lack understanding of the MSME market. Workshops, technical training, study tours and other information sharing initiatives will be helpful in closing this knowledge gap.

Commercial banks planning to work with and through intermediaries, such as community banks and microfinance institutions, will benefit from training to address the financial

viability of non-bank financial institutions. PRISMS has developed training curricula for this purpose.

Training in general lending principles to the MSME sector

The survey gathered a great deal of information about the types of training commercial banks require to increase their capacity to service the MSME sector. Over 80 percent of respondents, would like to increase their understanding of MSME market opportunities and potential to develop appropriate and demand-led products and, to improve their customer service.

Nearly 80 percent of bank participants requested training in these areas:

- Loan follow up and recovery;
- Principles and practices of lending based on cash flow, character and enterprise based lending that could utilize non-traditional collateral; and,
- Developing and pricing MSME loan products.

Approximately half of those surveyed requested training in loan appraisal and in ways to provide business development service for clients.

A theme running through all of these responses is the need to develop capacity within the commercial banks to service effectively and profitably the MSME sector, as well as the need to develop ways to identify and manage the real and perceived risks associated with lending to this sector.

Identify permanent sources of MSME funding

Commercial banks will need to reorient their investment priorities to provide funding for loans to the MSME sector. The CBN is working on issues related to bank capitalization, risk based supervision of banks and loan portfolios and the requirement for 100 percent traditional collateral, all of which impact on investment decisions the banks make. Technical assistance may be appropriate both on the policy and regulatory side and for banks, in assessing the portfolio risks and potential return from expanding into the MSME sector.

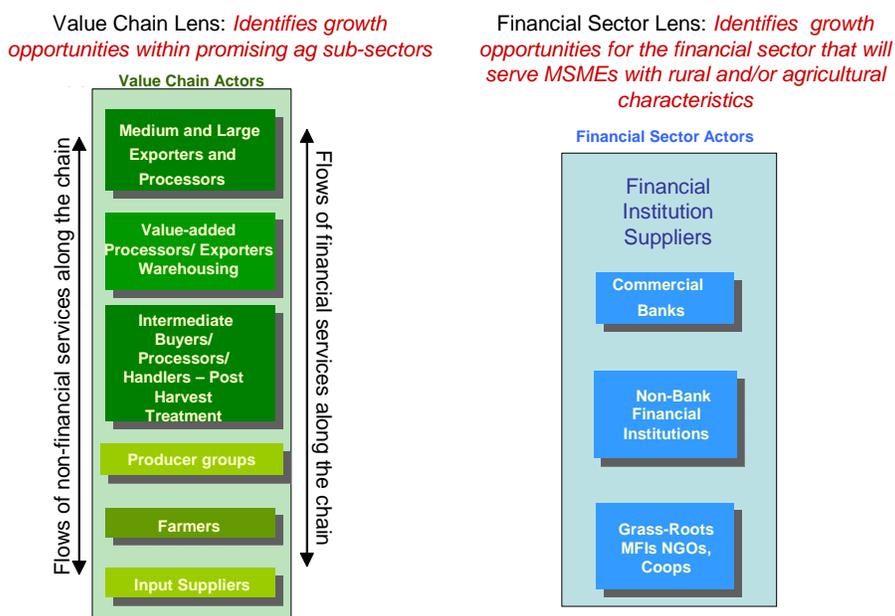
In addition to banks' deposit base which is available for lending, banks have accumulated substantial resources in their SMIEIS accounts. MSME investments from these SMIEIS accounts have yet to provide the level of investment into the MSME sector envisioned. For example, only 4 out of 10 MSME operators questioned in the survey know about the scheme and understand how their sector might benefit.

Technical assistance is being developed by PRISMS, the World Bank, IFC, DFID, UNDP, GTZ and others, to help identify and remove impediments to the flow of these resources from the banks to the intended beneficiaries, the MSMEs. One area for further initiatives is in support of commercial bank investment in community banks and microfinance institutions to wholesale resources into the MSME sector. The introduction of various leveraged, time-limited guarantee programs, are also being developed by donors to encourage bank lending into the sector.

Some commercial banks are working on direct lending structures. For example, the United Bank for Africa (UBA) is in the process of establishing a dedicated MSME direct lending subsidiary that will be owned jointly by UBA and AfriCap, an African fund for investment in qualified banks lending into the MSME sector. UBA is also developing a dedicated MSME fund that will be capitalized by both UBA and others, to provide both equity investments in community banks and MFIs, as well as wholesale loan capital lending to these NBFIs. The IFC and ACCION, an international microfinance investor, have organized a new microfinance NBFi with seven Nigerian bank investors, that will open new avenues for MSME financial services and encourage healthy competition. Mechanisms such as these, plus substantial availing of loan capital to NBFIs by commercial banks, can provide permanent sources of funding to the MSME sector.

There are many other non-bank sources of finance that MSMEs currently assess and that can be further expanded. The Rural and Agricultural Finance (RAF) market assessment framework provides a useful approach to understanding and developing alternative financing options that could include the following mechanisms linked to the value chain and financial sector lenses diagram shown below:

Focusing the RAF market assessment



By looking at the MSME sector through the RAF Market assessment lens, it is possible to identify growth opportunities within promising agric sub-sectors and sources of financial services along the chain. With the financial sector lens, financial institutions can identify growth opportunities for the financial sector, that will serve MSMEs with rural and/or agricultural characteristics. Some of the promising financing options that can be further developed include:

- Outgrower Schemes/Trader Credit

- Warehouse Receipts
- Rural Deposit Mobilization - CI
- Ag Dependent Household Loans
- BDS to Value Chain Actors
- Index-Based Insurance
- Leasing
- Credit Enhancements and Credit Guarantees
- Moveable and Immoveable Collateral
- Credit Bureaus

Promote commercial bank collaboration with financial intermediaries

Over 80 percent of commercial banks interviewed, indicated a preference for working with and through community banks and microfinance institutions to provide financial services to the MSME sector. For commercial banks to lend through non-bank financial intermediaries, they will benefit from training in evaluating the viability of their retail-lending partners.

PRISMS has developed a tool for assessing the strength of community banks that is available to commercial banks. This tool has two parts, a financial performance section and a management and governance section. Utilizing a series of standard industry financial ratios that determine the profitability, liquidity, operating efficiency and asset quality of the community banks, the first part of the tool focuses on the likelihood of default in those institutions were such to be availed a loan capital funding facility from a commercial bank. The second part of the tool focuses on evaluating management of operations and its ability to identify and contain unexpected shocks within the institution, that would seriously affect the operations and/or profitability of the institution.

Commercial banks interested in lending to microfinance institutions can also use the Global Performance Monitoring Tool (GPMT) to put an institution's financial statements, into a standard MFI reporting format that will help analyze institutions using a common template. Trainers can assist banks in the appropriate use of the tool, including how to use both the accompanying handbooks and computer-based spreadsheets. The tool and training manuals are free to the public and can be accessed through the SEEP Network's website.

5.3 Commercial Banks Provide Training to MSMEs

The survey results indicate a willingness on the part of commercial banks, to provide targeted technical assistance to prospective and current MSME borrowers, as well as a demand for such services from the MSME sector. The potential benefits are two fold: MSMEs would acquire necessary business management skills; and banks would acquire a deeper understanding of the MSME sector.

Business development services to improve MSME competitiveness

Many MSMEs expressed a willingness to pay for business development services provided by entities such as the National Association of Small Scale Industrialists (NASSI), a member-based network comprised of entrepreneurs involved in small-scale businesses based in Lagos. MSMEs recommended that commercial banks establish fee-for-service units, through which

MSMEs could access regular information on how to market their products both locally and internationally.

Basic business management training

Almost one third of MSME respondents stated that they use management information systems within their operations and 28 percent, confirmed a regular use of external audits within their operations. While encouraging, more can be done to improve accounting and record keeping practices within the MSME sector. Commercial banks have expressed interest in providing such training to MSMEs and have the incentive to do so, if they are to engage in lending to this sector. Commercial banks could collaborate with other institutions, such as the Nigeria Bankers' Association, to develop targeted training modules for MSME operators to address this deficiency.

Commercial bank training in basic lending/borrowing principles

Finally, survey findings show a relatively low level of understanding on the part of many MSME operators, of the basic principles of commercial bank lending and borrowing practices. Some MSME operators appear to be unclear about the need to repay loans on time and in full, in order to build and maintain a sound credit history with the lender.

Some MSME operators also do not appear to understand the commercial orientation of banks, namely that the banks must cover their own costs and provide a return to shareholders when extending credit. Again, banks have both the opportunity and incentive to provide training to MSME operators on basic lending and borrowing principles, in conjunction with a professional organization, such as the Bankers' Association.

6. Annexes

A. Financial Services Providers Survey Questionnaire

Good day Sir/Madam, My name is from Development Associates, a development consulting firm. We are currently conducting a survey on training needs of **commercial banks** for the provision of financial services to **micro, small and medium** enterprises (MSMEs) towards building their capacity in providing such services.

FOR OFFICIAL USE ONLY

1. Name of interviewer.....
 2. Location (state / community).....
 3. Date.....
 4. Call commenced.....
 5. Call ended.....
 6. Supervised by.....
 7. Edited by.....
-
1. Name of respondent.....
 2. Bank.....
 3. Position.....
 4. Address.....
 5. State.....
 6. Local Government
 7. Community.....8. Phone Number.....

Respondents Selection Guide:

For the purpose of this survey, enterprises categories are categorized on the basis of their annual turn over as follows:

Enterprise	Annual Turnover
Micro	N10, 000 – N12.0 million
Small	N12.1million – N 100.0 million
Medium	N100.1 – N 500.0 million

SECTION 1: Institutional Assessment

Q1a. Which of the MSME do you provide financial services?

Q1b. What type of financial services do you provide toenterprises

	Micro	Small	Medium
Group loan	1	1	1
Group guaranteed loan	2	2	2
Equity finance	3	3	3
Leasing	4	4	4
Short-term loan	5	5	5
Long-term loan	6	6	6
Overdraft	7	7	7
Venture capital	8	8	8
Other	9	9	9

INTERVIEWER: FOR MSME CATEGORY NOT DEALT WITH ASK Q1C AND Q1d

Q1c. Why are you not dealing with -----enterprise?

MICRO	
SMALL	
MEDIUM	

--	--

Q1d. Do you intent to consider this enterprise in future? IF NO ASK WHY

MICRO	
SMALL	
MEDIUM	

Q2. How many customers are currently enjoying your MSME financial services in the MICRO.....SMALL.....and MEDIUM..... segment?

Q3. Specifically, which of the MSME sector do you consider most viable for banks financing? And why?

	Reasons
MICRO	
SMALL	
MEDIUM	

Q3b. What is the aggregate number of customers in each category of enterprise?

	Micro	Small	Medium
Food processing			
Metal fabrication			
Transportation			
Cottage industry (manuf.)			

Construction (block making, quarries etc.)			
Poultry			
Wood processing			
Beauty care services			

- Q4. What is the aggregate (cumulative) number of your MSME loan portfolio?
- Q5. What is the total (cumulative) number of MSME loan disbursed?
- Q6. What approaches have you adopted to deal with
- (a) Competition.....
 - (b) Default.....
 - (c) Government policy.....
 - (d) Funds.....

SECTION II

- Q7. How in general, would you define your opinion on impact of govt. MSME policy on the sector? Would you say it has
- Improve a lot.....1
 - Improve a little.....2
 - Stay about the same..... 3
 - Got a bit worse.....4
 - Got a lot worse.....5

- Q8. What is your main reason for this view?

- Q9. What strategic ways would you suggest for MSME policy to have positive impact?

--

Q10 Thinking about expectations on the delivery of financial services to MSME, what is your opinion about each of the following statements made by some people about bank's MSME service. For each statement please tell me to what extent you agree or disagree with these statements

SHOW CARD

	Strongly agree	Somewhat agree	Neither Agree nor dis.	Somewhat disagree	Strongly Disagree	Don't know
Banks need to be involved in a collaborative provision of financial services to MSMEs with possible sponsors/investors	1	2	3	4	5	6
Banks require training on technicalities of the provision of financial services to MSMEs such as processing of requests for facilities,	1	2	3	4	5	6
Banks require information on types and nature of financial services needs by the MSMEs	1	2	3	4	5	6
Banks require information on business opportunities within the MSMEs class	1	2	3	4	5	6
There is growing demand for MSME financial services from banks	1	2	3	4	5	6
Banks should consider cash flow lending	1	2	3	4	5	6

option for MSME loan request						
Banks should work through intermediaries e.g. community banks, MFIs to handle MSMEs financing	1	2	3	4	5	6

Q11 What constraints slow down or are likely to slow down your bank’s activities in providing MSME financial services?

(a) Internal factors.....

(b) External factors

Q12 What ways can such constraint be removed?.....

SECTION III (TRAINING)

Q13a Generally, what are the challenges/problems that your bank encounters in dealing with MSME sector?.....

Q13b Which of the following areas do you consider as a challenge to the bank in dealing with MSMEs?

	Q13a	Q13b
Staff training and capacity building	1	2
Finance/Fund availability	1	2
Operations	1	2
Client management skills	1	2
Information on MSME	1	2
Fund availability	1	2
Facilities	1	2
.....	1	2
.....	1	2

Q14a In specific term, what are the operational constraints that you experience in effective delivery of services to MSMEs?

Q14b Which of the following operational constraints do you experience in effective delivery of MSME services?

	Q14a	Q14b
Business plan / Feasibility study	1	2
Client assessment	1	2
Monitoring of client	1	2
MSME sector knowledge	1	2
Fund/Deposit base	1	2
Loan intermediation between Commercial and Community banks	1	2
Small credit size	1	2
High overheads cost	1	2
Collateral	1	2
Others	1	2

Q15a What are your specific training areas in dealing MSME?.....

Q15b Which of the following areas of training do you consider important in strengthening the capacity of banks generally in servicing MSME?

	Q15a	Q15b
Business development	1	2
Appraisal of loan application	1	2
Loan recovery	1	2
MSME sector knowledge	1	2
Cash flow lending	1	2
Loan collateral	1	2
Bus. Dev. Service to clients	1	2
Client training / capacity building	1	2
Others	1	2

Q16 Thinking about all your experience with dealing with MSMEs, how in general, would you define your opinion about the training needs of banks in the following areas? Would you say it is.....

SHOW CARD

	Very Import.	Slightly Import.	Neither Import. nor dis.	Un- Import.	Don't know
Development of appropriate and demand driven products for MSMEs	1	2	3	4	5
Pricing of micro finance products					
Alternative options to the usual collaterals that is require on loan from clients	1	2	3	4	5
Principles and practice of cash flow lending	1	2	3	4	5
Understanding MSME market opportunity and potentials	1	2	3	4	5
Banker - MSME customer relationship management	1	2	3	4	5
Post lending support for the MSMEs	1	2	3	4	5

B. MSME Financial Services Needs Survey Questionnaire

Good morning/afternoon, My name is from Development Associates, a development consulting firm. We are currently conducting a survey of Micro, Small and medium enterprises in this state. The aim is to identify MSMEs needs for financial services and be able to facilitate their access to financial services from financial institutions in Nigeria through a program involving USAID. We therefore request your cooperation to conduct this interview.

Interviewers Name

Location (State/Community)

Sector

Industry

Date

Call Commenced

Call Completed

Supervised by

Edited by

Name of Respondent

Company Represented

Address

StateLGA

Sector

Industry

SECTION ONE - Background Information

Q1. Record sex of the respondent

Male 1

Female 2

Q2. Age

Q3. What is your position in this company?

Managing Director 1

Director 2

General Manager 3

Manager 4

Others 5

Q4. What is the nature of the business?

Food Processing	1	Metal Fabrication	2	Transportation	3	Commodity Processing	4
Cassava	5	Tinkers	9	Commercial mass transit operators (Road)	13	Cashew	17
Rice	6	Spare parts	10	Commercial mass transit operator (marine)	14	Gum Arabic	18
Grains	7	Tank Construction	11	Road Haulage Companies	15	Wood	19
Fruits	8	Equipment Fabrication	12		16	Ginger	20

Q5. In what year did your firm begin operations?.....

Q6. What is the legal status of this company?

Sole proprietorship 1

Partnership 2

Limited Liability company 3

Others 4

Q7. What percentage of the enterprise is owned by the principal owner.....

Q8. Is the principal owner involved in the day to day management of the enterprise?
Yes No.....

Q9. If yes, in what capacity?.....

Q10. What is your annual turnover as at last year?

N10,000 – N12m 1

N12m – N100m 2

N100m – N500m 3

Q11. Can you state your annual sales for the following fiscal year?

2000.....

2001.....

2002.....

2003.....

Q12. How many full time employees do you have?

1 – 9 1

10 – 100 2

101 – 300 3

Q13. What is the asset base of your company?

N10,000 – N5m 1

N5.1m – N50m 2

N50.1 – N200m 3

SECTION TWO – Business Development Service Needs Assessment

Q14 Which of the following professional services have you used in the last one year in your business operations?.....

Q15 Which are you currently using?.....

Q16. How often do you use -----(Service mention at Q14)

Q16a. Which of these services do you outsource?

	Q 14	Q 15	Monthly	Quarterly	Bi-annually	Annually	Necessary	Q 16a
Accounting & Auditing	1	1	1	2	3	4	5	1
Legal	1	1	1	2	3	4	5	1
Advertising	1	1	1	2	3	4	5	1
Manpower Training	1	1	1	2	3	4	5	1
Market research	1	1	1	2	3	4	5	1
Distribution	1	1	1	2	3	4	5	1
Transportation	1	1	1	2	3	4	5	1
Warehousing	1	1	1	2	3	4	5	1
None	1	1	1	2	3	4	5	1

Q17. If none, why?

.....

Q18. Give an idea of your expenditure on each professional service you outsourced

Q19. In what areas are you experiencing dissatisfaction in using any of the professional services?

	Below 1000000	100 – 500K	500K – 1M	1M – 5M	Above 5M		Quality	Accessibility	Cost	Timing	Other
Accounting & Auditing	1	2	3	4	5		1	2	3	4	5
Legal	1	2	3	4	5		1	2	3	4	5
Advertising	1	2	3	4	5		1	2	3	4	5
Manpower Training	1	2	3	4	5		1	2	3	4	5
Market research	1	2	3	4	5		1	2	3	4	5
Distribution	1	2	3	4	5		1	2	3	4	5
Transportation	1	2	3	4	5		1	2	3	4	5
Warehousing	1	2	3	4	5		1	2	3	4	5
None	1	2	3	4	5		1	2	3	4	5

Q20. What practical suggestion would you give in order for service providers to improve on their services delivery?

Q22. Do you keep financial records and account?

Yes.....1

No.....2 IF No, why.....

Q23. Do you have management and information system (MIS) in your organization?

Yes.....1

No.....2

Q23. Do you keep financial records and accounts?

Yes1

No2

Q23b If no, ask why?

Q24. Does your establishment have its annual financial statement reviewed by an external auditor?

Yes1

No2

SECTION THREE – Financial Services Needs Assessment

Q25a Does your company or you (micro enterprises/sole proprietorship) maintain a bank account with any financial institutions?

- Yes 1
- No 2 – Go to 25c

Q25b If yes to Q25a, please tick type of institution.....

INTERVIEWER: FOR THOSE WHO SAY “NO” AT Q25A, ASK Q26C AND MOVE TO SECTION 4

Q25c if no to 25a, please mention why.....

.....

Q26. Which of the following type of finance are you currently using in your business (tick a minimum of one)

- Only debt finance 1
- Only equity finance 2
- Both debt and equity 3
- Venture capital 4
- Leasing 5
- Others (specify) 6

Q27. Please rate the different types of finance in order of preference and state reasons for your choice.

- Debt finance why
- Equity finance why
- Both debt & equity why
- Venture capital why
- Leasing why

FOR THOSE USING LEASING FINANCE ASK Q28a

FOR THOSE NOT USING LEASING FINANCE ASK Q28b

Q28a With respect to leasing, how satisfied are you? Would you say you are

- Very satisfied.....1
- Somewhat satisfied.....2
- Neither satisfied nor.....3
- Somewhat dissatisfied.....4
- Very dissatisfied.....5

Q28b Would you be interested in using lease arrangement to finance your equipment needs?

- Yes1
- No2
- Not certain.....3
- Need more information4

Q29a. Using 1 (frequent); 2 (not frequent); 3 (not needed), how would you rate your demand for the following financial services.

- Short-term facility
- Medium term facility
- Short term loan
- Long term loan
- Syndicate loan facility

Q29b. Which of the above facilities have you used or being using in the last three years?

.....

Q30. With respect to debt financing, which of the following debt instruments are you using to fund your operations at the moment? (Tick a minimum of one)

- Line of credit 1
- Revolving credit agreement2
- Short Term loan 3
- Banker's acceptances4
- Long term loan 5

Q31. From which of the following financial institutions do you source your debt financing instruments?

- Development finance institutions 1
e.g. bank of industry, NACRDB etc)
- Export – Import banks (e.g. NEXIM) 2
- Commercial Banks 3
- Community banks 4
- Microfinance Institutions 5
- Finance companies 6
- Savings & Loans associations 7
- Multilateral financial institutions 8
- Insurance companies 9

Q32. Do you have an overdraft facility or any line of credit?

Yes.....1

No.....2 If no, Why-----

----- Move to Q39

Q33 What is the loan's approximate annual cost/ rate of interest?

Q34 What is the duration (term) of the loan?.....

Q35. For the most recent loan or overdraft, did the financing require collateral or a deposit?

Yes.....1

No.....2

Q35b. If yes, what kind of collateral (e.g. land, buildings, machinery, home)?

Q36. What was the approximate value of collateral required as a percentage of the loan value?

Collateral	Code	Value of Collateral required as % of the Loan value	Code
Land	1		
Buildings	2		
Machinery	3		
Home	4		

Others (Pls Specify)	5		
----------------------	---	--	--

Q37. Are you satisfied with the services you are getting from your bank?

- Yes 1
- No 2

Q38. If no, why

.....

Q39. Are you aware of the SMIEIS funds?

- Yes 1
- No 2

Q40. If no, why?

Q40b. What constraints did you encounter in trying to access the funds?

.....

C. Moderation Guide for Financial services Providers In-depth Interview and focus group discussions.

This guide is intended to provide general order and guideline for moderators of focus group discussions and in-depth interviews. The moderators could develop, expand, and add points/questions and probe further as appropriate during the discussion.

INTRODUCTION

- Moderator to introduce self and agency
 - Explain the study objectives
 - What is expected of respondents
- A. Which MSME sectors do you consider the most viable for banks financing? Probe specifically for the following sub sectors:
- Food processing
 - Commodity processing
 - Transportation
 - Metal fabrication
- B. Which financial products do you target specifically at MSMEs? Probe for acceptance and patronage and the reasons why?
- C. What would you say are (is) the major weaknesses of MSMEs that makes bank reluctant to grant facilities?
- How can these be addressed and at what cost?
- D. What is the most critical consideration that cannot be compromised in financing MSMEs? How can MSMEs be assisted to meet this consideration?
- E. What would you consider to be the weakest link in commercial banks financing for MSME?
- F. Besides lending, what other services do you think banks should offer to MSMEs?