

## **Sanusi Lamido Sanusi: Financing small and medium enterprises – strategies and challenges**

Keynote address by Mr Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria, at the Annual Micro, Small and Medium Enterprises (MSMEs) Finance Conference & D-8 Workshop on Microfinance For Small and Medium Enterprises (SMEs), Lagos, 15 August 2013.

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### **Protocol**

1. I welcome you all to this auspicious occasion of the Annual Micro, Small and Medium Enterprises (MSMEs) Finance Conference and Entrepreneurship Awards holding concurrently with the Developing-8 (D-8) Organization for Economic Cooperation's Workshop on "*Microfinance for Small and Medium Enterprises (SMEs)*". The similarity between the theme of the Conference, which is "*Strategies for Sustainable MSME Financing*", and the focus of the D-8 Workshop, engenders the need for the search for a common solution to the challenges of access to finance for Micro, Small & Medium Entrepreneurs (MSMEs) – a critical sector usually excluded by the financial markets.

2. The D-8 Organization for Economic Cooperation is an alliance made up of Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey as members, which aims at improving the position of member states in the global economy, through diversification and creating new opportunities in trade relations, enhancing participation in decision-making at international level for economic development. The platform thus provides an avenue for members to benchmark each other, share development experiences, closely under-study best practice models, and apply peer pressure in the implementation of agreed milestones. The five priority areas of long-term cooperation among the members include trade, agriculture and food, industry, transportation, energy and minerals.

3. A cardinal aspect of D-8 industrial cooperation is the promotion of SMEs. The emphasis in this regard had been on the need to deepen collaboration through technology transfer and cluster development. This workshop on Microfinance for SMEs can, therefore, be viewed as a strategic approach by the D-8 to address the financing of SME in member countries. The conference is also focused on financing of MSMEs because they are generally acknowledged to contribute meaningfully to economic development through output growth, income and employment generation, and innovation.

4. Your Excellencies, distinguished Ladies and Gentlemen, in 2012, Nigeria had about 17.6 million MSMEs employing about 32.4 million people, and contributing about 46.54 per cent of nominal GDP. A recent survey by IFC and Mckinsey (2010) suggests that 80 per cent of these MSMEs are excluded from the financial markets. The state of MSMEs in the country underscores the importance of this conference. Suffice it to say that between 2003 and 2012, commercial bank loans to small scale enterprises dropped at an exponential rate. Analysis of the annual trend in the share of commercial bank credit to small-scale industries indicates a decline from about 7.5 per cent in 2003 to less than 1% in 2006 and a further decline in 2012 to 0.14 per cent.

5. A number of reasons have been proffered for this financing gap. The banks readily attribute their risk aversion stance for not lending to MSMEs to demand-side constraints, which include the lack of managerial capacity, inadequate collateral, and poor record keeping, amongst others. However, there also exist supply-side issues such as high transaction costs and lack of understanding by the banks of the nature and operations of MSMEs Other constraints plaguing the MSME sub-sector in Nigeria include infrastructure deficit (especially, power and transport),

policy inconsistencies, bureaucracy, multiple taxation and levies, weak intellectual property protection and contract enforcement, and insecurity.

6. Your Excellencies, distinguished Ladies and Gentlemen, we must therefore commit ourselves to the formulation and implementation of policies to strengthen the MSME sub-sector. The CBN on its own part has been working assiduously towards developing a robust regulatory and supervisory framework and initiatives for improved access to finance for the sub-sector. Some of these are the Revised Microfinance Policy, Regulatory and Supervisory Framework; Certification Programme for MFBs; Designated Non-Financial Businesses and Professionals (DNFBP); Competency Framework; Payment System Transformation; development of a Moveable Collateral Registry; and the Financial Ombudsman Bill currently before the National Assembly. To further de-risk and encourage lending to the MSME sub-sector, the CBN has also intervened with a number of initiatives such as the Power and Airlines Intervention Fund (PAIF) to help address the constraints of electricity; Small and Medium Enterprises Credit Guarantee Scheme (SMECGS); SME Refinancing and Restructuring Facility (RRF); Youth Empowerment Programme (Entrepreneurship Development Centres (EDCs) and NYSC Venture Prize Competition), Financial Inclusion strategy and Tiered Know Your Customer (KYC) requirements. The CBN is also leading the efforts of the Bankers' Committee to set up an industry-wide biometric database for all bank customers to address issues of KYC, Anti Money Laundering (AML), and access to credit. This will help fast track use of channels such as biometric ATMs and POS terminals, etc.

7. At this point I would like to dwell more on the Competency Framework. In order to ensure that the banking industry has professionals with the requisite skills to maintain the stability of the financial system, an industry Competency Framework was developed and exposed in June 2012 by the CBN. The objective is to guide banking operations and address issues relating to the quality of human capital in leadership positions. The framework identifies 35 key control functions, in which significant influence is exerted on the conduct of a financial institution, to define and standardize the necessary skills and competencies required for both operators and regulators in the industry. A gap analysis on industry competency using the framework, was recently conducted which revealed results competencies ranging from 3% to 85%. The results have been exposed to the banks and remedial actions are currently being proposed to focus those with low competency ratios to get them to an acceptable level.

The CBN also recently released the National Financial Literacy Framework (NFIS). The Financial Literacy Steering Committee has been set up under my leadership in line with the NFIS. One of the most interesting elements of this project is a requirement for the Governor and Deputy Governors of the CBN and all bank CEOs to take time and teach financial inclusion to youths in secondary schools. I have already had my own baptism of fire from very intelligent students of Regent School, Abuja, Nigeria. In September 2013, I will also teach a class made up of up to 100 students drawn from 3 (three) public schools in Abuja. This will continue on designated Financial literacy Days. The classes and the questions and answers session will be broadcasted on national television and radios nationwide. Banks are also required to increase communication in indigenous languages to enhance financial literacy.

8. In 2010 cautionary lending was the order of the day as a result of the global financial crises. With the quantitative easing measures of the CBN and the intervention of AMCON, financial institutions began to recover from the effects of the crises. Specifically in agriculture, the CBN worked with the Federal Government to set up the Commercial Agriculture Credit Scheme (CACs), and the Nigeria Incentive-based Risk-sharing System for Agricultural Lending (NIRSAL). Our interventions have positively impacted the economy as evidenced by the percentage of bank lending to agriculture as a proportion of total lending, which has increased from 1.4 per cent in 2009 to 4 per cent as at June, 2013. As of June 2013, the full amount of the

CACS Fund has been disbursed to 292 projects along the agricultural value chain. Out of the total number of projects financed, 48 per cent and 41 per cent were for production and processing activities respectively. Average capacity utilization of projects financed by CACS increased from 45 per cent in 2009 to about 75 per cent as at June 2013.

9. Your Excellences, distinguished Ladies and Gentlemen, in addition to the above, the CBN is presenting for launch today the N220Billion Micro, Small and Medium Enterprises Development Fund (MSMEDF). The Fund is designed to further enhance access to finance by MSMEs with the following major objectives: (i) Provide wholesale financing windows for participating financial institutions (PFIs); (ii) Improve the capacity of the PFIs to meet credit needs of MSMEs; (iii) Provide funds at reduced cost to PFIs; (iv) Enhance access of women entrepreneurs to finance by allocating 60 per cent of the Fund to them; and (v) Improve access of NGOs/MFIs to finance.

10. Permit me, Ladies and Gentlemen, to further state that these interventions are specific in scope and time and should be seen as stimulus for addressing financing gaps aimed at stirring the market dynamics towards MSME development. The ultimate responsibility for sustainable intermediation for the subsector lies with the financial markets. Moreover, these interventions serve to integrate the micro-entrepreneurs, the low-income earners, farmers, artisans and the active poor who operate in the informal sector, into the financial system to improve the effectiveness of public policy.

11. I wish to seize this opportunity to specially thank Your Excellences, Senior Government officials, Members of Diplomatic Corps that have found time to attend this important event.

12. On this note, I hereby launch the N220 Billion Micro, Small and Medium Enterprises Development Fund (MSMEDF).

13. I wish you all fruitful deliberations.

I thank you all.