



## TERMS OF REFERENCE

### ENGAGEMENT OF A CONSULTANT TO CONDUCT ANALYTICS OF THE MSME LENDING LANDSCAPE IN NIGERIA

MARCH 2023

## **TERMS OF REFERENCE**

### **(CONSULTING SERVICES – FIRM SELECTION)**

#### **ASSIGNMENT TITLE:**

**Hiring a consulting firm to conduct a study on the MSME Lending Market Size in Nigeria**

## **I. BACKGROUND**

The Development Bank of Nigeria (DBN) is a wholesale development finance institution licensed and supervised by the Central Bank of Nigeria, with the objective of addressing access to finance gaps of underserved Micro, Small and Medium Enterprises (MSME) in Nigeria. With business and governance models based on internationally recognized good practices and substantial commitments of capital, DBN performs a catalytic role with potentially transformational impact by facilitating financially sustainable and transparent access to finance for underserved MSMEs.

This is achieved by supporting the development of diverse lending products, including the provision of medium and long-term loans in local currency (Naira) and partial credit guarantees (through its wholly-owned subsidiary -- IMPACT Credit Guarantee Company) to be provided to eligible Participating Financial Institutions (PFIs) with a view to expanding their outreach to MSMEs and, to a limited extent, small corporates. To compliment and reinforce the DBN's lending operations, the project also includes a Technical Assistance and Capacity Building component aimed at sourcing external expertise and advisory support for both the DBN and financial intermediaries, with a view to expand outreach to MSMEs. The DBN is registered as a public liability company and is regulated, licensed, and supervised by the CBN.

The operations of the DBN are being supported by funding provided by the World Bank and other development partners, namely: the African Development Bank (AfDB), the German Development Bank (KfW), the French Development Agency (AFD) and the European Investment Bank (EIB). Together, these partner institutions are providing contributions in the form of debt, equity, and technical assistance for a combined value of over US\$1.3 billion.

About 60 Participating Financial Institutions including Commercial Banks, Microfinance Banks and Other Financial Institutions have been onboarded, with a disbursement volume of over N600 billion, all of which have been on-lent to more than 300,000 borrowers, 67 percent of whom are women.

## 2. OBJECTIVES OF THE WORK

The broad objective of this study is to ascertain the market size of MSME financing in Nigeria. Specifically, to determine the extent of demand for financing from MSMEs, the supply of financing from various financial players, and the existent financing gap within the ecosystem. The study will also investigate the contribution of DBN’s financing within the overall MSME lending ecosystem, and other MSME insights such as their distribution, contribution to GDP and employment creation.

Based on DBN’s categorisation of businesses, MSMEs are defined as businesses with less than 250 employees, annual turnover of less than ₦1.125 billion, and total assets of less than ₦1.125 billion.

## 3. SCOPE OF WORK

The project’s scope of work will include:

Broad Scope	Objectives
<p><b>I. Supply Side:</b> Exploring the Market Size of MSME Financing from Financial Institutions</p>	<ul style="list-style-type: none"> <li>• In-depth cross-sectoral analysis leveraging primary data collection to determine the following:               <ul style="list-style-type: none"> <li>○ Breakdown of current credit to MSME sector by various financing groups (<i>i.e., Commercial Banks, Development Finance Institutions, Bilaterals &amp; Multilaterals, Microfinance Banks, Fintechs, Other Financial Institutions such as Non-Interest Banks Finance Houses, etc.</i>), indicating the largest contributor(s) to MSME lending in aggregate terms and as percentage of MSME portfolio in overall lending portfolio.</li> <li>○ Analysis of the various financing groups by type of lending (e.g., working capital; movable asset purchases; property purchases; invoice discounting; others (please specify)).</li> <li>○ A detailed assessment of the different loan products provided by the various financing groups to MSMEs, including:                   <ul style="list-style-type: none"> <li>▪ <i>Range of loan sizes; loan terms</i></li> <li>▪ <i>Collateral requirements (specifics, including whether personal guarantees by owners required; property required; movable assets accepted ... collateral coverage ratio required)</i></li> <li>▪ <i>Any other requirements (eg audited financial statements; business license)</i></li> <li>▪ <i>Volume of credit (outstanding balance) per type of product</i></li> </ul> </li> <li>○ Profile of assets (collateral) available to SMEs – e.g., property, movable assets, others.</li> </ul> </li> </ul>

Broad Scope	Objectives
	<ul style="list-style-type: none"> <li>○ Average pricing of credit to MSMEs across the various financing groups and sectors.</li> <li>○ Average loss rate (NPL) from lending to MSMEs across the various financing groups and sectors.</li> <li>○ Identify supply constraints to MSME lending based on market realities. Are these constraints likely to change in the foreseeable future?</li> </ul>
<p><b>2. Demand Side:</b> Exploring the Financing Needs of MSMEs</p>	<ul style="list-style-type: none"> <li>● Conduct desktop assessment on the Nigerian MSME environment leveraging secondary data i.e. IFC report etc. to determine: <ul style="list-style-type: none"> <li>○ The current state of financing needs (in terms of the estimated size of MSME market in Nigeria, disaggregated by: <ul style="list-style-type: none"> <li>▪ Sector / type of business;</li> <li>▪ Demographic profile of owners (gender &amp; age group)</li> <li>▪ State / regions (Lagos, SW, SS, SE, Abuja, NC, NE, NW);</li> <li>▪ Business size (broad categories)</li> </ul> </li> <li>○ Historical trend of MSMEs' financing needs in the last 5 years and the extent to which these needs were met, and projections for the market size of MSMEs' financing needs in the next 5 or 10 years.</li> <li>○ Determine the demand for credit by MSMEs, differentiated by different types of credit (e.g., working capital; movable asset purchases; property purchases; invoice discounting, trade credit, others (please specify)).</li> <li>○ Perceived obstacles to accessing finance by MSMEs.</li> </ul> </li> </ul>
<p><b>3. Diagnostics on the MSME Financing Gap</b></p>	<ul style="list-style-type: none"> <li>○ Determine the current state of financing gap within the MSME ecosystem. Has anything changed in the last 5 years? What is likely to change in the foreseeable future in terms of the MSME financing gap?</li> <li>○ Current financing gap disaggregated by sector; business size; gender &amp; age group of owners; and geographical locations.</li> <li>○ Based on the study, what would be the recommendations to close these gaps?</li> </ul>
<p><b>4. DBN's Contribution to MSME Financing</b></p>	<ul style="list-style-type: none"> <li>● Conduct diagnostics on the following: <ul style="list-style-type: none"> <li>○ DBN's contribution to total financing within the MSME Lending Ecosystem.</li> <li>○ DBN's contribution to PFIs' MSME portfolios.</li> </ul> </li> </ul>

## Broad Scope

## Objectives

- Identify and analyse the growth of MSME lending across DBN PFIs over the last five years.

## 4. Deliverables

The Consultants will work with the Strategy and Policy team of the Bank and ensure that the expected project output is delivered.

Deliverables required include the following:

- Inception Report (including the Work Plan)
- Weekly updates on the project
- Comprehensive Report showing the outcome of the “*The Analytics of the MSME Lending Landscape in Nigeria*”, covering the project scope.

## 5. Required Qualifications and Experience

The Firm must have quality experience and proven track record in providing the proposed services. The Firm must moreover have the necessary team of experts and subject matter specialists required to deliver the services outlined in the Scope of Work. Specifically, the consulting firm should have:

- Deep and demonstrable expertise in MSME-related research including but not limited to Nigerian financial institutions.
- Previous experience consulting for Institutions focused on MSME lending.
- Proficiency in analysing qualitative and quantitative data and providing concise reports.
- Key experts put forward must possess the following:
  - Minimum of 10 years’ experience working with financial institutions with a minimum of 7 years working with financial institutions in Nigeria.
  - Work experience (minimum of 5 years) working in a research firm with most recent experience in managerial capacity.
  - Knowledge and experience in areas including but not limited to Macroeconomics, MSME market research, financial analysis, investment/lending portfolios, bridging MSME lending gaps, etc.
  - Excellent reporting writing and presentation skills.

## 6. Schedule and Timeline

The assignment is expected to be completed within **1.5 months** from the contract start date.