

HOW CAN ACCESS TO CREDIT BE FACILITATED FOR SMALL AND MEDIUM ENTERPRISES?

Framework Step:

STEP 3 – Unlocking opportunities for in-country shared value creation

3.1 – Local workforce and supplier development

3.1 B. What can extractives industries do:

- Assess short-term costs associated with workforce and supplier capacity building initiatives as investments that will reduce operating costs in the long term.
- Evaluate the potential to make advance purchase orders, forward purchase agreements or implement other mechanisms that could help facilitate the integration of local suppliers in extractives sector value chains.

Tags: *In addition to the Framework step(s) that they fall under, examples will also be tagged by crosscutting issues. Please select all applicable tags.*

- local employment
- local supplier participation and development, including SMEs
- marginalised groups (women, indigenous people)
- skills development and upgrading
- access to credit
- shared infrastructure (transport, water, power)
- technology transfer
- innovation
- economic diversification

Problem Statement:

In Nigeria, Small and Medium Enterprises (SMEs) have a hard time accessing funds for taking advantage of opportunities in the extractive value chain on time and to required specifications. SMEs need guaranteed loans and market liquidity to run their own business, allowing them to pay for their staff and goods before they get paid by big multinationals or their tier 1 or 2 suppliers.

Parties Involved:

- Shell Petroleum Development Company of Nigeria (SPDC)
- Shell Nigeria Exploration and Production Company (SNEPCO)
- SPDC JV, joint venture between the government-owned Nigerian National Petroleum Corporation – NNPC (55% share), SPDC (30%), Total E&P Nigeria Ltd (10%) and the ENI subsidiary Agip Oil Company Limited (5%)
- First bank
- Access bank
- Standard Chartered bank
- Fidelity bank

- Nigerian Contractors (SMEs) with valid Shell purchase orders

Common ground:

SPDC and the participating banks found common ground in supporting the growth of Nigerian vendors working for SPDC and SNEPCo.

Actions taken:

SMEs in Nigeria trying to access finance face high interest rates, cumbersome collateral requirements, and long approval times. To address this, SPDC cooperated with a set of banks to develop a sustainable funding platform. The platform aimed to address the limited financial capabilities of Nigerian suppliers doing business with SPDC in a scalable manner, in order to grow the participation of Nigerian SMEs in the extractive value chain.

The scheme afforded participants access to credit at lower than going market interest rates (about 6% lower), replacement of collateral requirements with domiciliation of payments in the selected banks, and faster credit processing times. The scheme includes termly monitoring and evaluation mechanisms for post intervention impact assessments. Key stakeholders are governed by a signed MoU between the parties – SPDC and the banks involved – which provides a conscious and structured effort towards compliance. This includes monitoring of banks’ funding interventions and disbursements based on the agreed terms of the MoU.

The scheme facilitated faster, easier and cheaper access to credit for Nigerian suppliers in support of local participation in the supplier value chain, with requests for loans approved for disbursements in 14 days compared to at least 30 days for those not participating in the project.

Obstacles:

- Because payments from SPDC to suppliers were delayed, suppliers delayed repaying loans. This increased the amount of money eventually repaid by the suppliers and hence reduced profits from the ventures than earlier planned. The project team made cases for accelerated payments to ease the burden. This was a global problem due to reduced cash flow payments to SPDC JV.
- The low oil price environment prevailing at the time of the design of the scheme has reduced opportunities for participation of local suppliers in the value chain– a situation difficult to remedy with local action alone.
- Banks would sometimes not comply with the terms of the MoU and charge higher interest rates than those in the MoU (which are in line with normal market rates). SPDC JV addressed this by monitoring and reviewing disbursement reports by the banks, and by sharing information and engaging directly with the beneficiary vendors.
- Loans did not include refinancing clauses to address changes in the supplier’s contract situation.

Enabling factors:

- The scheme’s basis in a signed MoU provided stability and ensured irrevocable payment domiciliation with the banks - all due payments on the contract/Purchase Order are only made through the selected partner banks, a system locked-in option, which can only be reversed on agreement of the partner bank, with issue of a letter of non-indebtedness by the bank. This provides confidence to banks in terms of being repaid.
- Domiciliation with the partner banks ensured ‘real time’ repayment of facility once invoices are paid, resulting in no incidents of non-performing loans on the scheme.
- Parties leveraged their key areas of competence and influence – the banks provided credit whilst Shell ensured payment of suppliers’ invoices through irrevocable domiciliation of payments to the nominated banks.

- Quarterly review/disbursement sessions were held and follow ups done to ensure compliance with the terms of the MoU and to verify claims.

Lessons Learned:

Within the existing legal framework, information-sharing between the operators generating the purchase order, the banks disbursing the loan, and the local suppliers who can obtain a loan has been improved to address the barrier of access to credit that SMEs face to participate in the extractive value chain. An information-sharing platform was created to allow banks to check the existence of the purchase order as well as the list of pre-qualified local suppliers through a clear and transparent process. The loan is disbursed only once the purchase order has been issued and only up to the amount corresponding to the purchase order, thus bringing down exposure to risk for banks.

Shell has undertaken a refresh of the scheme, signing a new MoU with partner banks in November 2016. The refreshed scheme incorporates the following:

- Regular reviews of the interest rates being charged to ensure they reflect market realities, with interest rates for loans benchmarked on a realistic inter-bank trading (transaction) basis.
- A Service Level Agreement governing the banks' approval of loan disbursements that sets a firm 14-day limit.
- The ability of SMEs to change banks in a timely manner, to encourage competition.
- Designating a specific focal point within Shell to facilitate communications with SMEs.
- Partner banks to intensify project monitoring and coordination to ensure that disbursed funds are used for their intended purposes.
- Early registration by vendors and global approval of credit line by banks to quicken disbursement of funds once a purchasing order is issued.