Intelligence Series

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Financing Through Uncertainty

***MSME* Credit** in Nigeria's Evolving Macroeconomic Environment

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Executive Summary

Nigeria has approximately 40 million MSMEs, which account for 96.9% of businesses and 87.9% of employment, which continue to operate within a financing landscape shaped by an estimated US$236 billion credit gap, with only 4% accessing formal bank credit.[1] The Central Bank of Nigeria (CBN) maintained the Monetary Policy Rate (MPR) at 26.5% in May 2026, contributing to commercial lending rates ranging from 27% to 46% across lending products.[2,3] Meanwhile, headline inflation edged up to 15.93% in May 2026, while the naira remained relatively stable within the ₦1,350–₦1,430/US$ range.[4,5] Against this backdrop, digital lending and alternative financing models are expanding access to credit, while the CBN's proposed recapitalisation of development finance institutions seeks to address the estimated ₦130 trillion MSME funding gap. Together, these developments suggest that while macroeconomic conditions are gradually stabilising, sustainable improvements in MSME finance will depend not only on policy support but also on financing structures that better align with enterprise cash flows and evolving lender risk preferences.

$236b
Estimated MSME credit gap; formal bank loan access emains at 4% of 40M enterprises[1]

26.5%
CBN MPR held at May 2026 MPC; commercial rates reported up to 46%[2,3]

15.93%
Nigeria headline inflation, May 2026 — marginal uptick following a period of moderation[4]

Macroeconomic Context & Borrowing Conditions

Nigeria's macroeconomic environment has become more predictable than during the peak of the 2024–2025 adjustment period, but greater stability has not yet translated into materially easier financing conditions for MSMEs. While inflation has moderated and exchange rate volatility has eased, borrowing costs remain elevated, reflecting the continued impact of tight monetary policy and lender risk pricing. Consequently, many businesses continue to prioritise working capital financing over expansion, with formal credit becoming increasingly expensive for a significant proportion of the sector.

Commercial lending rates continue to range between 27% and 46%, limiting the affordability of formal finance despite signs of macroeconomic improvement.[2,3] A 2024 PwC Nigeria survey identified high interest rates, cumbersome lending processes, and collateral requirements as the principal barriers to accessing finance,[8] while the 2025 Moniepoint Informal Economy Report found that more than half of surveyed businesses had no intention of seeking formal loans.[9] Together, these findings suggest that improving macroeconomic indicators alone are unlikely to restore credit demand unless financing structures become better aligned with MSME cash flow realities.

Credit Market Dynamics & Lender Behaviour

Despite the banking sector's recapitalisation efforts, credit expansion to MSMEs has remained subdued. Private sector credit increased only marginally during the review period, while credit to the manufacturing sector reportedly declined by approximately 1.9 trillion, reflecting continued lender caution towards sectors perceived as higher risk.[10,11] This indicates that stronger bank balance sheets alone have not translated into broader MSME lending, as institutions continue to prioritise prudent risk management amid persistent macroeconomic uncertainty.

Lenders are increasingly placing greater emphasis on cash flow resilience, collateral quality, sector exposure, and borrower financial records in their credit assessments. At the same time, regulatory developments including the CBN's Consumer Lending Regulations, the Global Standing Instruction (GSI) framework, and the introduction of the Nigerian Overnight Financing Rate (NOFR), are strengthening market infrastructure, improving repayment discipline, and supporting greater transparency in loan pricing.[6,12] Collectively, these developments point to a gradual evolution in Nigeria's credit market, where improving access to finance will depend as much on innovations in credit assessment and risk-sharing mechanisms as on additional liquidity.

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Sector Financing Outlook

Credit conditions continue to vary across sectors, reflecting differences in demand resilience, cost structures, foreign exchange exposure, and lender risk perceptions. While broad macroeconomic conditions have become more stable, financing accessibility remains uneven, with sectors characterized by higher operating volatility or import dependence facing tighter lending conditions. Conversely, sectors supported by essential demand, digital business models, or development finance interventions continue to demonstrate relatively stronger credit profiles.

Sector	Financing Outlook	Key Considerations
Retail & Trade	**Challenging**	Weak consumer purchasing power, rising inventory costs, and limited access to affordable short - term working capital continue to constrain business expansion.
Manufacturing	**Challenging**	Elevated production costs, import dependence, and the reported decline in manufacturing sector credit continue to weigh on financing accessibility.
Hospitality & Tourism	**Challenging**	Softer discretionary spending and relatively high operating costs continue to weaken credit profiles across the sector.
Transport & Logistics	**Stable**	Businesses have largely adjusted to higher fuel costs, although elevated vehicle financing costs remain a constraint to fleet expansion.
Agriculture & Agritech	**Stable**	Policy support for domestic food production and moderating food inflation provides a relatively supportive outlook, although seasonal and climate - related risks remain.
Health & Pharma Services	**Favorable**	Stable demand and continued interest from development finance institutions improve access to term financing relative to other sectors.
Digital & Technology Services	**Favorable**	Lower foreign exchange exposure, scalable business models, and expanding access to alternative financing channels support comparatively stronger credit prospects.

Policy & Market Intervention Considerations

01. The CBN's DFI recapitalisation and restructuring programme merits prioritised implementation. The disparity between existing DFI assets of approximately ₦8 trillion and the estimated ₦130 trillion funding requirement reflects a structural gap warranting sustained institutional attention.[7]

02. Full deployment of the World Bank-supported $500 million MSME access package — targeting 250,000 enterprises and up to $800 million in guarantees through credibly screened participating financial institutions would constitute a meaningful near-term intervention.[13]

03. Sector-specific blended finance vehicles and risk-sharing mechanisms targeting manufacturing, agritech, and healthcare would help address areas where commercial lending remains constrained by elevated risk perceptions, while mobilising greater private sector participation in MSME financing.[8]

04. Sustained investment in MSME financial capability including bookkeeping, digital payment adoption, formal financial reporting, and broader business formalization would strengthen borrower readiness, reduce information asymmetry, and progressively expand the pool of bankable enterprises over the medium to long term.[13,8

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Innovative Financing Architecture & The Role of Financing Institutions

Within this constrained credit environment, financing models that better align repayment with business cash flows continue to demonstrate practical relevance. Revenue-based financing, supply chain finance, receivables discounting, and transaction-based credit assessment offer viable alternatives to conventional collateral-driven lending, with digital lenders disbursing $865 million in 2025 and recording annualised transaction growth exceeding 45% since 2022, evidence of growing market acceptance of these models.[6]

At Sage Grey, we believe the evolution of Nigeria's MSME financing landscape suggests that expanding access to finance will depend less on increasing the volume of available capital and more on improving how capital is structured, deployed, and assessed.

- *Structuring blended finance facilities that combine concessional funding, guarantees, and commercial capital to de-risk lending and mobilise greater private sector participation in MSME financing.*

- *Advising on revenue-based and supply chain financing structures tailored to sector-specific cash flow patterns*

- *Providing technical assistance to improve MSME investment readiness, financial records, governance, and reporting capacity*

- *Mobilising catalytic capital and connecting enterprises with appropriate financing partners across the institutional landscape*

Outlook

Nigeria's MSME financing environment is expected to remain challenging over the near term as interest rates stay elevated and lenders maintain cautious credit standards. Nevertheless, improving macroeconomic stability, expanding digital financial infrastructure, and growing adoption of alternative financing models provide a constructive foundation for broader financial inclusion.[5,6] Institutions that combine innovative financing structures with effective risk-sharing mechanisms and technical support will be best positioned to improve sustainable access to finance and unlock the long-term growth potential of Nigeria's MSME sector.

Appendix. Reference

Definition of Terms

MPR	*CBN benchmark interest rate, currently 26.5%, anchoring lending costs across the banking system.*
MSME	*Micro, Small and Medium Enterprise. Micro (≤ 25M assets), small (25M– 100M), medium (100M– 1B), per CBN classification.*
Credit Gap	*Shortfall between MSME financing needs and credit accessible through formal channels; estimated at $236bn for Nigeria*
Blended Finance	*Use of concessional capital (grants, subsidized funding) to de-risk structures and mobilise private investment in underserved markets.*
DFI	*Development Finance Institution (e.g. DBN, BOI). Nigerian DFI assets ~ 8tn against a 130tn identified MSME need.*
NOFR	*Nigerian Overnight Financing Rate; official risk-free benchmark from actual interbank secured repo transactions, published daily by the CBN.*
PFI	*Participating Financial Institution: bank/MFB approved to channel DFI or CBN intervention funds to end-borrowers.*
RBF	*Revenue-Based Financing; repayment calibrated as a proportion of actual revenue, aligning debt service with cash flow.*
GSI	*Global Standing Instruction; CBN mechanism enabling recovery from any BVN-linked account, strengthening repayment enforcement*
Embedded Finance	*Credit integrated into non-financial platforms (POS, e-commerce, logistics apps), enabling lending at point of activity.*
CRR	*Cash Reserve Ratio; proportion of deposits banks must hold with the CBN; currently 45%.*
Supply Chain Finance	*Early settlement of supplier invoices owed by anchor buyers, improving MSME working capital without collateral.*

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