Assessment of the Current Credit Landscape for Private Health Providers in Lagos State

Matthew Griffith
Enterprise Development Specialist, Banyan Global

Assessment produced by: Matthew Griffith, Kazeem Lukman, and Ferdinand Ejere

SHOPS is funded by the U.S. Agency for International Development. Abt Associates leads the project in collaboration with
Banyan Global
Jhpiego
Marie Stopes International
Monitor Group
O'Hanlon Health Consulting

SHOPS Project

- Strengthening Health Outcomes *through* the Private Sector (SHOPS) project
- Five year, USAID-funded project
- Focuses on addressing Nigeria's most pressing family planning challenges
- Aims to strengthen private sector clinic-based family planning (FP), reproductive health (RH), and maternal and child health (MCH)
- Focuses on both clinical skills and business and financial skills of private providers

Background – expansion and growth

- In order to increase provision of services – including FP services – facilities need to grow.
  - Invest in facility upgrades and expansion
  - Invest in new beds and equipment
  - Hire new staff able to provide new services
- Growth often requires external financing
- However, banks are often wary of lending to private health providers
- And private health providers are often not comfortable working with banks

Assessment objective

The objective of this assessment was to enable the SHOPS project to gain a clear understanding the current credit landscape for private health providers, and to identify available lending products that are appropriate and beneficial for private health providers.

Research question

What is the current availability of lending products for private providers who offer FP/RH/MCH services? What are the different rates, fees and conditions on those products?

Methodology

- 13 interviews with key informants from NGOs and development projects
- 33 interviews with commercial banks and microfinance institutions (MFIs)
  - 24 respondents from commercial banks, representing seventeen institutions
  - 9 respondents from MFIs, representing eight institutions
- Product catalog
  - 36 commercial bank credit products, drawn from fifteen institutions
  - 10 MFI products, drawn from six institutions

Interest rates

- Interest rates are an important consideration for any borrower, including private health providers.
- Findings:
  - The average annual interest rate for commercial bank lending products is 23%.
  - The average annual interest rate for MFI products is 54.6% (4.55% per month).

- *Note: Rates are current as of September, 2014.*

Additional fees

- Fees that come in addition to the interest rate can significantly increase the cost of funds.
- A clear understanding of additional fees helps determine if a loan is appropriate.
- Findings:
  - The average additional fee burden for commercial bank products is 2%.
  - The average fee burden for MFI products is 3%.

Loan amount

- Understanding the minimum and maximum available amount enables providers to evaluate whether a loan will meet their needs.
- Findings:
  - The average minimum and maximum lending amounts for commercial bank products is ₦2.3 million – ₦10 million.
  - The average minimum and maximum amounts for MFI products is ₦33,400 – ₦3.36 million.

Eligibility requirements and required documents

- Providers must understand clearly what banks require in order to secure a loan.
- Findings:
  - Banks require:
    - Evidence of an ability to repay the loan
    - Evidence of some banking relationship
    - Minimum amount of time in business
  - MFIs require
    - Evidence of an ability to repay the loan
    - A relationship with that MFI
    - Legal personal identification documentation

Collateral requirements

- Collateral is often a factor that deters providers from proceeding with a loan application.
- A clear understanding of collateral can help providers understand if a product is appropriate.
- Findings:
  - Often, the asset being financed serves as collateral.
  - Otherwise, collateral requirements for commercial bank products and for MFI products range from 100%-150% of the loan amount.
  - Acceptable collateral: Cash; Property; Business or personal assets; Third-party guarantee (MFIs)

Equity contribution

- Lending institutions often require that a borrower contribute some of his/her own funds.
- Whether or not a provider has such funds available affects the choice of lending products.
- Findings:
  - Forty-two percent of the bank products require a minimum equity contribution of 10%, and twenty-eight percent require a 20% minimum equity contribution.
  - Thirty percent of MFI products require a minimum contribution of 30% while the remaining 70% of the products require a 20% minimum equity contribution.

Repayment period

- The amount of time available to a provider to repay the loan is an important consideration.
- Findings:
  - The most common maximum repayment period for commercial bank products is 36 months.
  - The most common maximum repayment period for MFI products is 12 months.

Moratorium

- A moratorium refers to the initial period of time when a borrower is not required to make payments against the loan.
- If an asset takes time to yield a return, a moratorium can make the difference between a loan making sense or not.
- Findings:
  - Sixty-four percent of commercial bank products, and 60% of MFI products, included an available moratorium of two months or longer.

Approval time

- Approval time refers to the time it takes for financial institutions to approve a loan, after all necessary documents are submitted.
- A clear, streamlined approval process can be a factor in evaluating credit products.
- Findings:
  - The most commonly cited loan approval time for commercial bank products was 14 days.
  - The most commonly cited loan approval time for MFI products was 5 days.

Conclusions

- There is a wide range of credit products for MSMEs in Nigeria, offered by a fairly large number of institutions.
- All MSMEs – not just health providers – face interest rates above 20% annually.
- Financial institutions are most interested in providers' ability to repay the loan, and pay little attention to the social aspect of health provision.
- Collateral requirements for non-asset lending are significant.
- Equity requirements suggest the importance of savings and asset building.

USAID
FROM THE AMERICAN PEOPLE

SHOPS
Strengthening Health Outcomes through the Private Sector

Thank you!

Questions or Comments?

Matthew Griffith
Enterprise Development Specialist

www.shopsproject.org
www.banyanglobal.com

Abt

SHOPS is funded by the U.S. Agency for International Development.
Abt Associates leads the project in collaboration with
Banyan Global
Jhpiego
Marie Stopes International
Monitor Group
O'Hanlon Health Consulting