Central Bank of Nigeria provides Real Sector Support Facility through Cash Reserves Requirement and subscription to Corporate Bonds

The Central Bank of Nigeria (CBN), in a bid to increase the flow of credit to the real sector of the economy and sustain economic recovery, released, on the 23rd of August 2018, the new Guidelines for Accessing Real Sector Support Facility (RSSF) through Cash Reserves Requirements (CRR) and Corporate Bonds (the "Guidelines").

The Guidelines were issued with the intent of incentivizing Deposit Money Banks (DMBs) to direct affordable long term credit to the manufacturing, agriculture and other sectors considered by the CBN as being capable of stimulating employment and growth on one hand and to encourage corporates with a good enough credit rating to issue long term corporate bonds.

The RSSF will operate under two regimes: The Differentiated Cash Reserve Requirement (DCRR) Regime and the Corporate Bonds (CB) Funding Programme. The CBN will lay emphasis on projects targeted at backward integration and those that promote Nigeria's import substitution strategy.

The DCRR Regime

Under the DCRR Regime, the CBN will allow interested DMBs to provide long term credit facilities to greenfield and brownfield projects in the agriculture and manufacturing sector using their Cash Reserve Requirements (CRR). The CRR is the percentage of bank deposits which DMBs are mandated to hold as reserves either as cash or as deposits with CBN. The CRR for DMBs pursuant to the Central Bank of Nigeria Monetary, Credit, Foreign Trade and Exchange Guidelines for the fiscal years 2018/2019 and the Prudential Guidelines is 22.5% of deposit liabilities. By allowing DMBs to request for the release of funds from their CRR to finance verified real sector projects, the CBN is expanding the availability of much needed finance for the economy. Release of such funds by CBN will however be contingent of the DMBs providing verifiable evidence that the funds shall be directed at the projects approved by the CBN.

Corporate Bonds (CB) Funding Programmes

The CB Funding Programme involves the active investment by the CBN and the public in CBs issued by corporates, but subject to the intensified transparency requirements for Triple A-rated entities. Such corporates must issue an Information Memorandum giving the details of the projects which must be viable long-term projects for stimulating employment and growth. The entire transaction would be closely monitored and regulated by CBN in its supervisory capacity. We expect that where the CBs are offered to the public, the issuance process must also comply with the requirements of the Investments and Securities Act, 2007 and the Securities Exchange Commission Rules and Regulations, issued pursuant thereto.

Eligible Projects for the RSSF

Eligible projects for the RSSF are greenfield (new) and brownfield (expansion) projects in agriculture, manufacturing, and other related sectors approved by the CBN, with emphasis placed on greenfield projects. Priority will be accorded to projects with high local content, import substitution, foreign exchange earnings and potential for job creation. It is noteworthy that projects concerned with trading activities are prohibited from accessing credit under the RSSF.

Indicative Finance Terms

The DCRR loans shall be new loans (refinancing is not eligible) with a minimum tenor of seven (7) years and a two (2) year moratorium period. The Tenor of the CB Programme is also required to be not less than seven (7) years with such moratorium as specified in the prospectus for the issue.

The maximum facility to be granted in respect of each project shall be N10,000,000,000 (Ten Billion Naira). The RSSF shall be administered with an all-in interest rate/charge of 9% per annum. Repayments are to be made to the CBN on a quarterly basis.

A borrower or issuer under the DCRR or CB Programme shall be a company incorporated in Nigeria under the Companies and Allied Matters Act, 1990. The RSFF is however not available to companies with non- performing loans in any financial institution.

Conclusion

The RSSF is a development that would greatly improve access to funds for investment in the real sector of the economy, as well as enhance the financial stability of borrower companies thus creating a more stable environment for foreign direct investment in the Nigerian real sector. It is useful to note that the Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria, 2004 prescribes that foreign loans with minimum repayment period of 7 years and a moratorium period of not less than 2 years are 100% exempted from withholding Tax. Thus, a foreign lender wishing to give additional loans to a RSSF Borrower on similar terms will benefit from complete repatriation of Interest income on such matching loans, without any deduction of withholding tax, and the requirements to gross up by the Borrower, thus improving the cash flow to the business.

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