10 AUGUST 2020

REVISED GUIDELINES FOR NON-INTEREST FINANCIAL INSTITUTIONS

INTRODUCTION

On 16 July 2020, the Central Bank of Nigeria issued a circular notifying all non-interest financial institutions (NFIs) of the review of a number of Guidelines to increase the NFIs' access to finance and promote financial inclusion in the country. Some of the revised Guidelines and the amendments made are highlighted below:

1. **Guidelines for the operations of the Agri-business, Small and Medium Enterprises Investment Scheme (AGSMEIS) for Non-Interest Financial Institutions (NIFIS)**

   The revised Guidelines describes the AGSMEIS as a Non-Interest Fund to be domiciled in a dedicated account with the CBN with each Non-Interest Deposit Bank setting aside 5% of its profit after tax (PAT) annually as contribution to the Fund. It also transferred the responsibility of managing and monitoring the scheme from the Board of Trustees appointed by the Banker's Committee to a Special Purpose Vehicle (SPV).

   Finally, the revised Guidelines categorised the application of the fund into three components namely:

   a. the debt component which would constitute 50% of the Fund and be disbursed to eligible businesses as term financing (including equipment finance) and/or working capital where applicable.
   b. The equity component which would constitute 45% of the Fund and be disbursed through SEC-licensed Islamic Fund Managers or Windows, for equity, quasi-equity and non-equity financing in agri-businesses and SMEs; and
   c. the developmental component which would constitute 5% of the Fund and be applied for capacity building and technical assistance to MSMEs as well as operational costs of the Scheme.

2. **Guidelines for Micro, Small and Medium Enterprises Development Fund for Non-Interest Financial Institutions (MSMEDF for NIFIs)**

Under the revised Guidelines, Non-Interest Microfinance Banks and Non-Interest Deposit Money Banks have been included as eligible PFIs with the Bank of Industry (BoI) and Deposit Money Banks (DMBs) participating only under the SMEs window.
The revised Guidelines also reviewed the rate of return such that all PFIs under this scheme would access the funds at a targeted rate of 2% per annum based on a restricted **Mudarabah** contract between the CBN as fund provider and the PFI as manager. The value of the acceptable collateral was also revised from the previous 75% of the loan amount to a minimum of 30%. Finally, collateral would be waived for Non-Interest Microfinance Banks with Portfolio At Risk (PAR) of 10% and below and for NIFIs, a MoU with CBN and an undertaking to bear all credit risks for projects presented would suffice as collateral.

3. **Non-Interest Guidelines for Non-Oil Export Stimulation Facility (NESF)**

Under the revised Guidelines, only Non-Interest Banks (NIBs) and Non-Interest Development Finance Institutions (NI-DFIs) are eligible to participate under the Facility.
The revised Guidelines also changed the collateral requirement for the Facility from the Irrevocable Standing Payment Order (ISPO) required from the PFIs to the following:

a. Federal Government of Nigeria Sukuk (where available);
b. CBN Non-Interest Liquidity Management Instruments (i.e. CBN Safe Custody Account (CSCA), CBN Non-Interest Note (CNIN) and CBN Asset-Backed Securities (CABS);
c. Sukuk backed by the guarantee of the Federal Government.
d. Sukuk given regulatory treatment by the CBN; and
e. Any other securities that are Shariah-compliant and acceptable to the CBN

Finally, the revised Guidelines also introduced a two-tier structured modality for the Facility namely: the execution of a Restricted Profit-Sharing Agreement (Restricted Mudarabah) between the CBN and the NIFI and a transaction structured between the NIFI and the Investor such that the NiFI finances the Investor using any of the following CBN approved non-interest financial contracts:

a. **Murabahah** (sharing the profit and loss with venture capital)
b. **Salam** (an Islamic contract in which full payment is made in advance for specific goods),
c. **Istisna** (a contract of exchange, whereby the funding party agrees to deliver a commodity or an asset at a pre-determined future time at an agreed price),
d. **Ijarah** (giving something on rent or providing services and goods temporarily for a wage),
e. **Wakalah** (a contract where a party, as principal authorizes another party as his agent to perform a particular task on matters that may be delegated, with or without imposition of a fee) etc.

4. **Non-Interest Guidelines for Real Sector Support Facility (RSSF) Revised**

Apart from the inclusion of Non-Interest Deposit Money Banks as eligible PFIs under the Facility, one of the notable revisions to this Guidelines is the increment of the activities covered by the Facility to include manufacturing SMES, agricultural value chain, services, new and expansion projects in the real sector with priority still given to projects with high local content, import substitution, foreign exchange earnings and huge potentials for job creation. In addition, the roll over permitted under working capital loans granted under the Facility would no longer attract interest charges but returns based on Shariah-compliant re-financing arrangements. Furthermore, the two-tier structure now available under the r**evised Non-Interest Guidelines for Non-Oil Export Stimulation Facility (NESF)** would also apply and the NIFIs are also expected to deposit with the CBN securities equivalent to 120% of the facility amount to secure the Facility. The eligible assets for security under the **Non-Interest Guidelines for Non-Oil Export Stimulation Facility (NESF)** listed above would also suffice for this Facility.

For the other Guidelines, such as the **Non-Interest Guidelines For Real Sector Support Facility (RSSF) through Cash Reserves Requirement** (**CRR**) and the **Modalities for the Implementation of the Creative Industry Financing Initiative** (**CIFI**) (Non-Interest), the CBN made the Non-Interest Banks (NiBs) and Non-Interest Microfinance Banks (NIMFB) the only eligible PFIs and now require that the financing should be based on CBN approved non-interest financial contracts respectively.

CONCLUSION

It is expected that the inclusion of NiFIs as eligible PFIs under the various existing financing schemes would increase their access to finance and improve the level of financial inclusion which is one of the key objectives of the CBN. It would also increase economic activities in various sectors which these facilities apply and definitely impact positively on the economy as a whole.

For more information, please contact: