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OVERVIEW OF DEVELOPMENT FINANCING: THE CASE OF CENTRAL BANK OF NIGERIA

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1.0 INTRODUCTION

The functions of Central Banks worldwide are broad and differ in scope, depth of the involvement and instruments used, Central Banks all over the world are increasingly involved in development financing. This is even imperative for developing countries, especially Nigeria with economic development challenges such as low agricultural productivity, parlous infrastructure, and under-developed financial system, among others. Nigerian's financial exclusion rate currently stands at 37% of its adult population. Also, lack of access to finance by an estimated 37millon micro, small and medium enterprises has been identified as one of the major challenge confronting the sub-sector in its contribution to economic development. The Central Bank of Nigeria (CBN) has continually played a critical role in addressing most important challenges in addition to its core mandate of monetary and price stability.
The role of development finance is to identify the financial markets gaps in a country's financial sector and act as a gap-filler (Reserve Bank of India, (2004).

The main reason for developmental finance is to bridge the financial products to economic agents.

The CBN's involvement in development financing which began with support to commodity boards in 1961 has evolved to interventions in MSME and in recent time infrastructure. The interventions in agriculture started with the financing of the activities of the regional marketing Boards under the Commercial Bill Finance Scheme.

Meanwhile the mandate of the Development Finance Department is the development and implementation of policies, programmes and schemes aimed at the effective, efficient and sustainable delivery of financial services to the real sector of the Nigerian economy. The target is on critical sectors of the economy, such as agriculture, manufacturing and infrastructure that have high multiplier effects. The objectives of this mandate are to increase the flow of financial resources to the real sector, create wealth and jobs, reduce poverty and conserve foreign exchange.

2.0 DEVELOPMENT FINANCE FUNCTIONS- OBJECTIVES

The objectives of the CBN initiatives Schemes and Programmes are to:

- Provide enabling policy environment to increasing lending to priority sector
- Improve access to affordable and long term funds to fast-track the development of real sector.
- Boost domestic output to increase level of exports and supply of FOREX
- Job and Wealth creation and diversification of the economy.
- Quantitative easing measures to mitigate the impact of the global financial crisis
- Improve price stability through increased agricultural produce which is a major component of headline inflation.

Overview Of Selected Development Finance Interventions.

While the concept of development finance is to mobilise, allocate, invest and account for capital flows to real sector, infrastructure and special projects for sustainable inclusive and equitable development and also to correct failure in channelling finance.

Over time in the history of CBN, the involvement in the development financing began as early as 1961 with the support to Commodity and Marketing Board among others. Some of the interventions include

1. Industrial Development Centres(ICS) 1962
2. Nigerian Industrial Development Banks(NIDB) 1962
3. Small Scale Industries Credit Scheme(SSICS) 1971
4. Nigerian Bank of Commerce and Industries(NBCI) 1973
5. Direct Promotional Activities on SMEs) 1979/80
6. Word Bank –Assisted SME2 Loan project (1989)
7. National Economic Reconstruction Fund (NERFUND)
8. Finance and Investment Companies owned by State Government
9. Small and Medium Enterprise

Equity Investment Scheme (SMEEIS)
10. Microfinance Policy Regulatory and Supervisory Framework (2005)
11. Micro Credit Fund (2009)

1. Agricultural Credit Guarantee Scheme Fund (ACGSF)

The Agricultural Credit Guarantee Scheme (ACGS) was established by Decree 20 of 1997. The scheme became operational in April 1978.

Objectives:

Agricultural Credit Guarantee Scheme (ACGS) was introduced to induce bank lending to agriculture so as to encourage banks to lend to agricultural enterprises by providing guarantee.

The fund is a credit risk management tool that provides additional comfort to deposit money banks that grant loans to smallholder farmers.

ACGS also encourages farmers to increase productivity across the agriculture across the agriculture value chain.

Ownership Structure

Central Bank of Nigeria (CBN) - 40%
Federal Government of Nigeria (FGN) - 60%

The fund is managed by the CBN which is responsible for its day to day operations. The ACGS Fund provides credit guarantees on facilities extended to farmers by banks up to 75 per cent of the amount in default net of any security realized.
The activities covered under the scheme are crop and livestock production, processing and marketing. The establishment or management of plantation for production of rubber, oil palm, cocoa, coffee, tea and similar crops is included.

Modalities

The maximum limit of loan without collateral is N20, 000.00. This was adjusted in June 2014 to N50, 000.00

The maximum Loan limit is N10.000.000.00 also adjusted in June 2014 was the limit to corporate organization is N50, 000.000.00

2. Self Help Linkage Banking Programme

The Self-Help Group Linkage Programme (SHGLP) was launched under the Agricultural Credit Guarantee Scheme (ACGS) in 1991 and became operational in 1992.

The objectives was to inculcate the culture of savings and banking habit in group members and build up resources for financing their farm projects without recourse to bank borrowing on the long run.

3. TRUST FUND MODEL (TFM)

The model is a supplementary program under the ACGS introduced to build more confidence for banks to grant credit to farmers. Trust Fund Model was conceived in 2001.

The objective was to provide a framework for enhancing credit supply to the agricultural and rural sectors of the economy, and also reduce the risk of exposure of deposit money banks in agricultural lending to farmers with the uncollateralized loans under the ACGS.

Modalities

Under this model, oil companies, state/local Governments and Non-Governmental Organizations (NGOs) place funds in trust with lending banks to augment the small group-savings of the farmers as security for agricultural loans.

A tri-partite arrangement among the CBN, counterparty and lending bank is put in place. Under the agreement, clear roles and responsibilities for each party are defined, signed and sealed.

- ACGS offers 75% guarantee on the loan to Banks
- 25% Cash deposit is provided by the farmer as security
- 25% Cash deposit comes from counter parties as security.

Credit Risk is reduced to 12.5% for lending banks.

4. INTREST DRAWBACK PROGRAMME (IDP)

Interest Drawback Programme (IDP) was introduced in January, 2003 to back up loans under the ACGS. The programme has a capital base of N2.0 billion subscribed to by the FGN (60%) and the CBN (40%).The IDP is managed by the CBN and the ACGS Board that gives it policy direction.

The objective of the programme is to provide interest rebates to farmers that borrowed under the ACGS to reduce the cost of borrowing and burden of high interest rate. It also encourages repayment thereby reducing loan default and also reducing the contingent liability on the ACGS fund.

Modalities

Under the IDP, farmers borrow from lending banks at market-determined rates.
Farmers that repaid their loan as when due are entitled to interest rebates to reduce the cost of borrowing and burden of high interest rate.
The farmer has a grace period of 3 months after scheduled tenure of loan.
As at December, 2015, IDP provides 40% interest savings worth N2.609 Billion to 284,142 smallholder farmers under the ACGS nationwide.

5. AGRICULTURE CREDIT SUPPORT SCHEME (ACSS)

Agricultural Credit Support Scheme was introduced to enable farmers exploit untapped potentials of the country's agricultural sector.

The scheme is operated through a N50.0 billion virtual fund set up by the Federal Government with active participation of Deposit Money Banks.

The scheme is administered at 14.0%. Farmers who pay back on schedule enjoy a 6.0% rebate on the interest paid on loans, reducing the effective rate to 8.0%. The 6% rebate is paid by the CBN.

6. **COMMERCIAL AGRICULTURE CREDIT SCHEME (CACS)**

The Commercial Agriculture Credit Scheme (CACS) was established in 2009 to finance large ticket projects along the agricultural value chain.

The scheme is operated by a N200 billion fund raised by the CBN through Debt Management Office for investment in commercial agriculture.

The scheme is administered at a single digit rate of 9% to beneficiaries for a 7-year period. State Governments, including the FCT can access a maximum of N1.0 billion each on- lending to farmer's cooperatives or other areas of agricultural interventions that suit them. The scheme has been extended to 2025.

7. **NIGERIA INCENTIVE-BASED RISK SHARING SYSTEM FOR AGRICULTURAL LENDING (NIRSAL)**

•The motivating objective of establishing NIRSAL was aimed at achieving two major objectives:

- Fix the agricultural and financial value chain to encourage banks to lend with confidence to the sector; and
- Encourage banks to lend to the agricultural value chain by offering them strong incentives and technical assistance.

By improving the capacity of banks to lend and creating a guarantee mechanism by which the brunt of credit related risks are shared. NIRSAL is anchored by 5 pillars driven integration and is addressed by an estimated USD 500 million provided by the CBN.

NIRSAL creates access to finance by integrating end-to-end agriculture value chains with financing value chains, which include;

Agriculture value chain	Financing value chain	Enablers
- Input producers	- Loan product development	- Infrastructure
- Farmers	- Distribution	- Credit bureau
- Agro dealers	- Loan origination	- Policies
- Agro processors	- Credit Assessment	-Extension Services
-Industrial manufacturers	- Managing and Pricing for Risk	- Price guarantee
-Trade and exports	- Loan Disbursement	- Boards

The integration is driven by NIRSAL's 5 pillars, particular, the Risk Sharing and the Technical Assistance Pillars.

1. Risk sharing Facility (N45B/$300M)
2. Insurance Facility (N4.5B/$30M)
3. Technical assistance Facility (N9B/$60M)
4. Agricultural bank rating scheme (N1.5B/$10M)
5. Bank incentive Mechanism (N15B/$100M)

NIRSAL Objectives are thus; de-risk agriculture finance value chain, build long-term capacity and institutionalise incentives for agriculture lending

8. **SME RESTRUCTURING & REFINANCING FACILITY (SMERRF)**

The purpose is to re-finance and restructure banks' existing loan portfolios to manufacturers to improve access to finance as well as improve the financial position of Deposit Money Banks.

The scheme is operated by a N200 Billion fund raised from debentures issued by the Bank of Industry (BOI) to fund SMEs and manufacturing sector.

The fund is administered at 7% per annum payable on quarterly basis. The Managing Agent (BOI) is entitled to a 1% management fee and the Banks, a 6% spread. Loans shall have a maximum tenor of 15 years and or working capital facility of one year with provision for roll over.

9. **SME CREDIT GUARANTEE SCHEME (SMECGS)**

SMECGS was established by the CBN in April, 2010 with a N200 Billion contingent liability fund. It provides 80% guarantee of the principal and interest. The guarantee is valid up to the maturity date of a loan and has a maximum tenure of 7 years inclusive of a 2-year moratorium. The purpose is to fast-track the development of the manufacturing SME sector of the Nigerian economy by providing guarantee for credit from banks to SMEs and manufacturers.

The Scheme is operated by the raised N200 Billion as contingent liability to provide 80% guarantee cover to banks' SME loans, which Provide guarantee cover of 80% of principal and interest on term loans to SMEs for refurbishment/equipment/upgrade/expansion, overdrafts, etc.

10. REAL SECTOR SUPPORT FACILITY (RSSF)

RSSF was established in November 2014 to replace the Small & Medium Enterprise Re-discounting & Re-financing Facility (SMERRF). The facility was introduced to shift focus to new/start-up projects such as manufacturing and agricultural value chain SMEs.

The objectives of RSSF are to: Improve access of Nigerian SMEs to finance to fast-track the development of the manufacturing, agricultural value chain and services sub-sectors of the economy. Increase output and generate employment.
Equally important is to diversify the revenue base of Nigeria and increase foreign exchange earnings for the industrial sector on sustainable basis.

11. POWER & AIRLINE INTERVENTION FUND (PAIF)

Purpose: Stimulate and sustain private sector investment in the power and airline sector as well as fast-track the development of both sectors of the economy.
Funding: PAIF is operated with a N300 Billion fund raised via debentures issued by the Bank of Industry (BOI) in accordance with section 31 of the CBN Act 2007, the funds was investment in power and airline projects.

Modality: The funds are channelled through the BOI for on-lending to the Deposit Money Banks at a maximum interest rate of 2.0% for disbursement at concessionary interest rate of not more than 7.0% and a tenor of 10-15 years.

12. NIGERIA ELECTRICITY MARKET STABILISATION FACILITY (NEMSF)

NEMSG is a N213 Billion financing "window" introduced for settling certain outstanding debts in the Nigerian Electricity Supply Industry (NESI). The facility covers legacy gas debts and shortfall in revenue during the Interim Rule Period (IRP). It is expected that this will guarantee the take-off of the Transitional Electricity Market ("TEM").

Features of NEMSF are:
The facility is administered through banks and disbursed at 10% per annum with a ten-year tenor. All licensed parties by the Nigerian Electricity Regulatory Commission (NERC) to operate in the electricity market are accepted and regarded to be immediately bound by signed Performance Agreements signed with the relevant authorities such as the Bureau of Public Enterprise (BPE).

Parties are to be subjected to the oversight mechanism developed by NERC.

All sector players are required to meet all obligations of theirs critical for continued electricity supply.

13. MICRO SMALL & MEDIUM ENTERPRISES DEVELOPMENT FUND (MSMEDF)

The Central Bank of Nigeria (CBN) launched the N220 Billion MSMEDF on August 15, 2013 to provide long term affordable funding to the Micro-finance sub-sector. The objective of the Fund is to create:

- Capacity building for stakeholders
- Provide cheap wholesale funds
- Promote & deepen access to finance
- Women economic empowerment
- Job creation and
- Grassroot Economic Development.

The Features of MSME Development Fund are –

1. Disbursement is through these Participating Financial Institutions (PFIs):
   - Microfinance Banks (MFBs)
   - Microfinance Institutions (MFIs)
   - Financial Cooperatives
   - Finance Companies
   - Deposit Money Banks (DMBs)/ Bank of Agric. (BOA)/ Bank of Industry (BOI)
2. Funds are released to PFIs at 2% per annum for on-lending to beneficiaries at 9% per annum inclusive of all charges.
3. The maximum tenure of loans to MSMEs is: one year (micro-enterprises) and 3 years (SMEs).
4. Sixty per cent of the Fund is embarked for providing financing services to women in view of their peculiar financial exclusion circumstance.
5. Two per cent of the wholesale component of the Fund is dedicated to economically active persons living with disabilities (excluding mental disabilities).
6. On-lending under the Fund is 50:50 to micro enterprises and SMEs respectively.
7. Start-ups are also eligible to access funds under the MSMEDF.

The Eligible Enterprises under the MSMEDF include;

- Agricultural Value Chain Activities
- Services (e.g. Hotels, schools, restaurants, laundry, etc.)
- Artisanship
- Cottage Industries
- Trade and General Commerce (Maximum 10% of the Commercial Component)
- Any other Income Generating Projects (as may be prescribed

Participants	Facility Limit
State Governments/FCT	N2 Billion
Unit Microfinance	N10 Million
State Microfinance	N50 Million
National Microfinance	N500 Million
NGO-MFIs	N10 Million
Financial Cooperatives	N10 Million
Finance Companies	N10 Million

by the Managing Agent)
Maximum loan amount per cycle of wholesale lending shall be as indicated in the table below or 50% of Shareholder's Fund unimpaired by losses for MFBs and finance companies:

- Facility limit to Micro-enterprises - N500,000.00
- Facility limit to SME (MFBs) - N5,000,000.00
- Facility limit to SME (DMBs) - N50,000,000.00

14. SECURED TRANSACTIONS AND THE NATIONAL COLLATERAL REGISTRY

The National Collateral Registry (NCR) is an initiative of the Central Bank of Nigeria to improve access to finance particularly for Micro, Small and Medium Enterprises (MSMEs). The Collateral Registry, which operationalizes part III of the Central Bank of Nigeria's Regulations on Registrations of security interests in movable property by Banks and other Financial Institutions (Regulation No, 1, 2015) is a web-based system that allows lenders to determine any prior security interests, as well as to register their security interest over movable assets provided as collateral.

The Collateral Registry facilitates the use of movable/personal assets as collateral that remain in possession or control of the borrower and thereby improves access to secured finance because:

- Movable assets/personal property often account for most of the capital stock of private firms and comprise an especially large share of MSME stock .In Nigeria, a loan requires on average 140% of the value in collateral.
- Movable assets are the main type of collateral that MSMEs, especially those in developing countries can encumber to obtain financing and when compared to only 5% of SMEs have access to finance in Nigeria.
- Insufficient/inadequacy of collateral constitutes the greatest hindrance to SMEs access to finance. Given the opportunities in agri-business among others, the Collateral Registry regime allows Nigeria farmers and entrepreneurs to unlock significant sources of capital with assets that would otherwise not be looked at by lenders as potential collateral.

15. ENTREPRENEURSHIP DEVELOPMENT CENTRES (EDCs)

The Entrepreneurship Development Centres (EDCs) was established in 2008 in three pilot EDCs Kano(North-West), Lagos (South- West) and Onitsha (South-East) by the Central Bank of Nigeria , to complement the entrepreneurship development efforts of Government towards job creation and poverty reduction. A second set of three EDCs was established in Maiduguri (North-East), Makurdi (North-Central) and Calabar (South-South), in 2013 to ensure their even spread among the geo-political zones.

Purpose

The EDCs train graduates in entrepreneurship to evolve a new generation of entrepreneurs.

16. NYSC VENTURE PRIZE COMPETITION (NYSC-VPC)

The NYSC-VPC was introduced in 2008

Objectives

- To reduce dependence and search for white collar jobs;
- Awaken the entrepreneurial spirit of the youth corps members during their service year.
- Improve access of young entrepreneurs to finance.

Eligible Criteria

- All serving NYSC member within the defined timeline (i.e. first or a second batch of a given year) are eligible.

Activities covered by the Award

- Legal business activities in all sectors of the economy except commerce.

Geo-political Zones	No Trained	Job created	Start-up & Expanded	Linkage
Lagos	18,167	3,204	1,059	715
Kano	12,694	5,161	2,371	930
Onitsha	10,967	3,049	1,425	98
Calabar	639	178	81	None
Makurdi	1,079	63	37	None
Maiduguri	1,425	379	0	None