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Circular to all Banks

AMENDMENT TO THE COMMERCIAL AGRICULTURAL CREDIT SCHEME (CACS) GUIDELINES

The Central Bank of Nigeria has reviewed the Guidelines for Commercial Agriculture Credit Scheme (CACS), to enhance its effectiveness and further mitigate the risks faced by participating financial institutions in financing the agricultural sector. This revision affects Sections 16 and 17 of the Guidelines and introduces significant changes, including a requirement that henceforth, the Nigeria Agricultural Insurance Corporation (NAIC) should provide insurance cover for all agricultural facilities/projects under the CACS in line with the NAIC Act.

In furtherance of the above revision, the CBN hereby directs the immediate commencement of insurance premium payments by borrowers under the CACS Scheme.

The revised Guidelines may be accessed at the Bank's website www.cbn.gov.ng. Participating financial institutions and stakeholders are requested to note that these guidelines supersede other related versions.

Further enquiries on the provisions of this circular may be referred to the Director, Development Finance Department, Central Bank of Nigeria, Abuja.

A blue ink signature of Kevin Amugo, which appears to be a stylized form of his name.

KEVIN AMUGO

DIRECTOR, FINANCIAL POLICY & REGULATION DEPARTMENT



CENTRAL BANK OF NIGERIA

COMMERCIAL AGRICULTURE

CREDIT SCHEME

GUIDELINES

AUGUST 2017

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These revised Guidelines for Commercial Agriculture Credit Scheme [hereinafter referred to as CACS] are issued by the Central Bank of Nigeria [hereinafter referred to as “the CBN” or “the Bank”] in exercise of the powers conferred on it by the Central Bank of Nigeria Act CAP C4 LFN 2010 and the Banks and Other Financial Institutions Act CAP B3 LFN 2010 [hereinafter referred to as “BOFIA”].

These Guidelines take immediate effect and supersedes the Guidelines for Commercial Agriculture Credit Scheme (CACS) 2010 and subsequent amendments in respect thereof. It is subject to review from time to time as may be deemed necessary by the Central Bank of Nigeria.

GUIDELINES FOR COMMERCIAL AGRICULTURE CREDIT SCHEME (CACS)

CENTRAL BANK OF NIGERIA (CBN)

AND

FEDERAL GOVERNMENT OF NIGERIA

1.0 Establishment of the Scheme

As part of its developmental role, the Central Bank of Nigeria (CBN) in collaboration with the Federal Government of Nigeria, represented by the Federal Ministry of Agriculture and Rural Development (FMARD) established the Commercial Agriculture Credit Scheme for promoting commercial agricultural enterprises in Nigeria, which is a sub-component of the Federal Government of Nigeria Commercial Agriculture Development Programme (CADP). This Fund will complement other special initiatives of the Central Bank of Nigeria in providing concessionary funding for agriculture such as the Agricultural Credit Guarantee Scheme (ACGS) which is mostly for small scale farmers, Interest Draw-back scheme, Agricultural Credit Support Scheme and other similar developmental initiatives.

2.0 Funding

The scheme shall be financed from the proceeds of the ₦200 billion, three (3) year bond raised by the Debt Management Office (DMO). The fund shall be made available to participating bank(s), to finance commercial agricultural enterprises.

3.0 Objectives of the Scheme

The objectives of the scheme are:

- (i) To fast track development of the agricultural sector of the Nigerian economy by providing credit facilities to commercial agricultural enterprises at a single digit interest rate;
- (ii) Enhance national food security by increasing food supply and effecting lower agricultural produce and product prices, thereby promoting low food inflation;

- (iii) Reduce the cost of credit in agricultural production to enable farmers exploit the potentials of the sector; and
- (iv) Increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide input for the industrial sector on a sustainable basis.

4.0 Governance of the Scheme

The Scheme shall be under the management of the Central Bank of Nigeria through the Board of Directors and the Committee of Governors. The Committee of Governors shall be responsible for the overall administration of the Scheme while Development Finance Department shall be in charge of the day-to-day implementation of the Scheme.

The Development Finance Department shall also report to the Committee of Governors on all CACS issues.

5.0 Target Agricultural Commodities and Value Chains

A Key Agricultural commodities to be covered under the Scheme are:

(i) PRODUCTION:

- **Cash Crops:** Cotton, Oil Palm, Fruit Trees. Rubber, Sugar Cane, Jatropha Carcus and Cocoa.
- **Food Crops:** Rice, Wheat, Cassava, Potato, Yam Maize/Soya, Beans/Millet/Guinea Corn. Sesame Seed, Tomatoes and Vegetables
- **Poultry:** Broilers and Eggs Production
- **Livestock:** Meat, Dairy and Piggery
- **Aquaculture:** Fingerlings and Catfish

(ii) PROCESSING: Feed mills Development, Threshing, Pulverisation and

Other forms of transmutation for value addition.

(iii) STORAGE: Commodities, Agro-Chemicals and Warehousing

(iv) FARM INPUT SUPPLIES: Fertilizers, Seeds/Seedlings, Breeder Stock, Feeds, Farm Equipment & Machineries.

(v) MARKETING: Agricultural commodities under the focal investment areas.

- B.** Five agricultural commodities namely Rice, Fish, Wheat, Sugar and Cotton as well as their value chains which constitute a huge proportion of food import bill annually shall attract 60% of the fund.

6.0 Definition of Commercial Agricultural Enterprise

For the purpose of this Scheme, a commercial enterprise is any farm or agro-based enterprise with agricultural asset (excluding land) of not less than ₦100 million for an integrated farm with prospects of growing the assets to ₦250 million within the next three years and ₦50 million for non-integrated farms/agro-enterprise with prospects of growing the assets to ₦150 million, except in the case of on-lending to farmers' cooperative societies.

7.0 Eligibility for Participation in the Scheme

(A) Participating Bank

- (i) The Central Bank of Nigeria has approved the participation of all deposit money banks under the Scheme. All participating banks are required to sponsor projects from any of the target areas indicated in the Guidelines and bear all the credit risk of the loans they will be granting.
- (ii) The single obligor for any project from a participating bank under the Scheme shall be ₦2.0 billion while for State Governments shall be ₦1.0 billion. However, for special schemes and programmes for agricultural development, State Governments may be granted concessionary approval for more than ₦1.0 billion.

(B) Borrower

(i) Corporate and Large Scale Commercial Farms/Agro-Enterprises

The borrower shall:

- Be a limited liability company with asset base of not less than N100 million and having the prospect to grow the net asset to N250 million in the next three years and complies with the provision of the Company and Allied Matters Act (1990).
- Have a clear business plan
- Provide up-to-date record on the business operation if any.
- Have out growers programme, where appropriate
- Satisfy all the requirements specified by its lending bank

(ii) Medium Scale Commercial Farms/Agro-Enterprises

To participate in the Scheme the borrower shall:

- Be a limited liability company with asset base of not less than N50 million and having the prospect to grow the net asset to N150 million in the next three years and complies with the provision of the Company and Allied Matters Act (1990)
- Have a clear business plan
- Provide up-to-date record on the business operation
- Have out growers programme, where appropriate
- Satisfy all the requirements specified by its lending bank

(iii) State Government/FCT

To participate under the Scheme, the States shall;

- Submit an expression of interest
- Present an Irrevocable Standing Payment Order (ISPO) in favour of the participating bank, duly signed by the State Governor, Commissioner for Finance and the State Accountant General
- Adhere to the repayment agreement reached with the participating bank, upon contravention; the CBN shall assist the PB to invoke the ISPO.

- Have appropriate/functional structures on ground or set up structures for the deployment of the funds, which must include existing, registered Cooperative Societies/Unions. The cooperatives must be at least six (6) months old with proven track records of repayment.
- Deploy CACS funds disbursed to farmers' cooperative societies and other areas of agricultural development provided such initiatives/interventions are line with the objectives of CACS.
- Satisfy all the requirements specified by the lending bank.

8.0 Modalities of the Scheme

- (i) Agricultural credit from the participating banks shall be in the form of loans.
- (ii) Interest on CACS facility shall not exceed 9.0 per cent inclusive of all charges to be shared between the participating bank and the CBN; 7% and 2% respectively.
- (iii) The Scheme shall terminate on September 30, 2025. This exit date does not apply to the tenor of individual loans and overdrafts which are based on their gestation period

9.0 Acceptable Collateral

The security which may be offered to a participating bank for the purpose of any loan under the scheme may be one or more of the following:

- (i) A charge on land in which the borrower holds a legal interest or a right to farm, or a charge on the land including fixed assets, crops or livestock;
- (ii) A charge on the movable property of the borrower;
- (iii) A life insurance policy, a promissory note or other negotiable security;
- (iv) Stocks and shares; and
- (v) Any other collateral acceptable to the participating bank(s).

10.0 Loan Tenor

- (i) Loans shall have a maximum tenor that is based on the gestation period of the enterprise /or working capital facility of one year with provision for roll over.
- (ii) The Scheme allows for moratorium in the loan repayment schedule taking into consideration, the gestation period of the enterprise.

11.0 Limit of Liability under the Scheme

The maximum interest rate to the borrower under the scheme shall not exceed 9 per cent, inclusive of all charges.

12.0 Procedure for Applying for the Loan

All applications for loans under the Scheme shall be made to the participating banks. All applications under the Scheme shall be treated by PB's with due diligence.

13.0 Verification and Monitoring on Projects

All projects shall be verified by the Central Bank of Nigeria after release of fund and drawdown to ensure banks fully comply with the objectives of the Scheme. The Development Finance Department of the CBN shall periodically monitor the projects funded under the Scheme, and report to the Committee of Governors.

14.0 Alteration in Other Terms and Condition of CACS Loan

Participating banks shall be required to secure written consent of the Central Bank of Nigeria before making any change(s) to the stipulated terms and conditions governing any on-going CACS facility.

15.0 Infractions and Sanctions

Participating Banks

- (i) Diversion of funds by participating banks shall attract a penalty at the bank's average lending rate at the time of infraction. In

addition, such PBs shall be barred from further participation under the scheme.

- (ii) Non-rendition or false returns shall attract the penalty stipulated by Section 60 of BOFIA.
- (iii) Charging interest rate higher than prescribed shall attract the penalty stipulated by BOFIA section 60.
- (iv) Any participating bank that fails to disburse the fund within 14 days of receipt to the borrower shall be charged a penalty interest rate of MPR+300 basis points for the period the fund was not disbursed;
- (v) Notwithstanding the agreement between the participating bank and the project promoter, the CBN has the right to reject a request from any participating bank that contravenes any section of the Guidelines.
- (vi) Failure to disburse funds in line with the agreed Disbursement Schedule shall attract penalty at the bank's lending rate as at the time of infraction.
- (vii) Any participating bank that fails to repatriate expired project funds within 5 working days to the CBN shall be charged a penalty interest rate of MPR + 300 basis points for the period the fund was not repatriated.
- (viii) Any other breach of the guidelines as may be specified from time to time.

16.0 Key Stakeholders of the Scheme

- (i) Federal Government of Nigeria (FGN), represented by Federal Ministry of Agriculture and Rural Development (FMA&RD).
- (ii) Central Bank of Nigeria (CBN).
- (iii) Debt Management Office.
- (iv) Participating Banks.
- (v) Borrowers.

(vi) Nigerian Agricultural Insurance Corporation (NAIC).

17.0 Responsibilities of Stakeholders

For effective implementation of the scheme and for it to achieve the desired objectives, the responsibilities of the stakeholders shall include:

(a) The FGN

- (i) The President of the Federal Republic of Nigeria shall grant approval for the Scheme.
- (ii) The Federal Government of Nigeria shall be the issuer of the Bond.

(b) The CBN

The Central Bank of Nigeria (CBN) shall:

- (i) Specify the rate at which PBs lend to borrowers under the Scheme
- (ii) Wholly absorb the subsidy which may arise in the pricing of the loan to borrowers
- (iii) Absorb all other incidental/administrative expenses
- (iv) Release funds to participating banks at 2% interest rate after confirmation of intent/readiness of banks to disburse funds
- (v) Receive and process the monthly returns made by the PBs in relation to their loans under the Scheme
- (vi) Conduct spot audit on the PBs as well as monitor and evaluate the borrowers' enterprises in order to ascertain the performance of the Scheme
- (vii) Retrieve funds when guidelines are not strictly adhered to by the participating banks
- (viii) Prepare monthly reports to the Committee of Governors and Board of CBN

- (ix) Retrieve funds from the PBs at the expiration of the loan tenure.
- (x) Make provision for the N200billion bond repayment.
- (xi) Ensure penal charges on infractions
- (xii) Arbitrate between the PBs and Project Promoters
- (xiii) Conduct impact assessment of the scheme
- (xiv) Review the Guidelines from time to time.

(c) Debt Management Office

- (i) Issued the Bond on behalf of the FGN
- (ii) Raised money from the market

(d) Participating Banks

The participating banks shall:

- (i) Ensure due diligence is followed in the administration of credit facilities;
- (ii) Guarantee safety and purposeful application of funds for on-lending;
- (iii) Bear 100 per cent credit risk;
- (iv) Lend funds under the Scheme at the specified rate;
- (v) Submit to the CBN, Letter of offer by the bank, Letter/Evidence of Acceptance by the state, Irrevocable Standing Payment Order (ISPO), List of State Cooperatives or Evidence of Intervention project, Disbursement schedule, Repayment schedule, the Credit Risk Management System (CRMS) report of the borrower; NAIC Insurance Cover; and

(vi) Render monthly returns under the Scheme to the CBN in line with the reporting format.

(e) Borrowers

The borrowers shall:

- (i) Utilize the funds for the purpose for which it is granted;
- (ii) Insure the project being financed with the Nigerian Agricultural Insurance Corporation (NAIC);
- (iii) Make the project records available for inspection and verification by the CBN, and PBs;
- (iv) Adhere strictly to the terms and conditions of borrowing under the Scheme;
- (v) State Governments/FCT shall utilize the funds as specified by the CACS objectives; and
- (vi) A farmer whose crop or livestock is covered by Section 7 of this Decree may take out an insurance cover under the scheme but where the farmer is also a beneficiary of an agriculture loan or credit facility from the Government, a bank or other financial institution (in this Decree referred to as "lending institution") he shall take out an insurance cover under scheme (Sub-Section 13 of NAIC Act).

(f) Nigerian Agricultural Insurance Corporation (NAIC)

NAIC's responsibilities shall include:

- (i) Provision of insurance cover for all the Agricultural projects in the event of losses arising from the various hazards insured in the value chain;
- (ii) To ensure that the subsidized portion of the premium in the production policies is collected from both the Federal and State Governments;

- (iii) Provide the pre-determined premium rate from time to time to the lending bank;
- (iv) Prompt settlement of claims in an efficient and effective manner;
- (v) Issue and incorporate the financial interest of the lending bank as the first loss payee into the policy document to the extent of their right and interests;
- (vi) Provision of advisory and other risk management services;
- (vii) Inspection and monitoring of farms and projects;
- (viii) The provision of training for the agricultural desk officers of banks on the Agricultural Insurance needs of CACS loan beneficiaries; and
- (ix) Provision of extension services and other ancillary services that may arise from time to time.

Participating Banks under the NAIC insurance cover Guidelines shall:

- (i) Educate and enlighten the borrower to take NAIC insurance policies for the various items across the agricultural value chain.
- (ii) Obtain NAIC insurance covers as condition precedent to the draw down/disbursement of the loan.
- (iii) Calculate the premium due, in consultation with NAIC, in respect of the various insurances that would be effected on the projects of the borrower and deduct the premium from the approved loan on behalf of NAIC. The lending bank shall apply the pre-determined premium rate supplied by NAIC from time to time.
- (iv) Collect premium which shall be regarded as tentative or provisional premium, subject to NAIC'S confirmation. The processing of the application and approval would however, continue once the provisional premium has been worked out and built into the loan as part of the project cost. Alternatively,

the premium could be paid by the client and therefore treated separately from the loan.

18.0 Returns by Banks should be made to the address below:

Director,
Development Finance Department,
Central bank of Nigeria,
Central Business district
Abuja.
Tel: No.: +234 9 4623 8600

19.0 Repayment, Repatriation or Discontinuation of a Credit Facility

- (i) Repayment proceeds from CACS projects shall be repatriated on quarterly basis to the CBN. Whenever a credit facility is discontinued, the PB shall repatriate the funds within 5 working days to the CBN, giving details of the credit facility.
- (ii) Repayment proceed shall be ploughed back under the Scheme as loans for new projects or enhancement for participating projects.

20.0 Disbursement of Fund

- (i) PBs and borrowers should strictly adhere to agreed disbursement/repayment schedule. Any deviation from the schedule should be mutually agreed between the parties and the CBN informed accordingly.
- (ii) Disbursement of funds must be in accordance with the due diligence of the Participating bank.

**FINANCIAL POLICY & REGULATION DEPARTMENT
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