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CIRCULAR TO ALL BANKS AND OTHER FINANCIAL INSTITUTIONS

AMENDMENT TO THE COMMERCIAL AGRICULTURE CREDIT SCHEME (CACS) GUIDELINES

As part of the efforts by the Central Bank of Nigeria to deepen access to finance and reduce exclusion rate, the CBN has revised the existing Commercial Agriculture Credit Scheme (CACS) Guidelines to include Non Interest Financial Institutions (NIFIs). It is expected that the review of the Guidelines for other intervention funds would follow in due course.

The revised CACS Guidelines can be accessed on the CBN Website: www.cbn.gov.ng/documents/circular.asp

Please note that the CBN will continue to review the Guidelines for other intervention funds currently managed by it to factor the needs of the non-interest banking public.

For further information, kindly contact the Director, Development Finance Department, Central Bank of Nigeria, Corporate Headquarters, Abuja on 0946238600.

Yours faithfully,


KEVIN N. AMUGO
DIRECTOR, FINANCIAL POLICY AND REGULATION DEPARTMENT



Central Bank of Nigeria

GUIDELINES FOR COMMERCIAL AGRICULTURE CREDIT SCHEME

(CACS)

The Guideline is divided into 3 sections:

Section 1: General Provisions – Applicable to ALL;

Section 2: Applicable to Conventional Banks only; and

Section 3: Applicable to Non-Interest Banks only

Section 1

General Provisions

1.1 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, hereinafter referred to as Commercial Agriculture Credit Scheme (CACS), 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 Programme, Agricultural Credit Support Scheme and other similar development initiatives.

1.2 Funding

The scheme shall be financed from the proceeds of the N200billion three (3) year bond raised by the Debt Management Office (DMO). The fund shall be made available to the participating bank(s) to finance commercial agricultural enterprises.

1.3 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.

1.4 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 the Development Finance Department shall be in charge of the day-to-day implementation of the Scheme.

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

1.5 Target Agricultural Commodities and Value Chains

The key Agricultural commodities to be covered under the Scheme are:

(i) Production:

- **Cash Crops:** Cotton, Oil Palm, Fruit Trees. Rubber, Sugar Cane, Jatropha Curcas and Cocoa.
- **Food Crops:** Rice, Wheat, Cassava, Maize/Soya, Beans/Millet, 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.

1.6 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.

1.7 Eligibility for Participation in the Scheme

(A) Participating Bank

- (i) The Central Bank of Nigeria has approved the participation of all deposit money banks, including non-interest banks, under the Scheme. All Participating Banks (PBs) 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 ₦100 million and having the prospect to grow the net asset to ₦250 million in the next three years and comply 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; and
- 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 ₦50 million and having the prospect to grow the net asset to ₦150 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 of Finance and the State Accountant General;
- Adhere to the repayment agreement reached with the PB; 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;
- Commit to deploy CACS funds to farmers' cooperative societies and other areas of agricultural development provided such initiatives/interventions are line with the objectives of CACS; and
- Satisfy all the requirements specified by the lending bank.

1.8 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 participating banks with due diligence.

1.9 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.

1.10 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.

1.11 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.

1.12 Exit Date

- 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.

1.13 The Key Stakeholders of the Scheme are:

- 1) Federal Government of Nigeria Represented by Federal Ministry of Agriculture and Rural Development (FMA&RD)
- 2) Central Bank of Nigeria (CBN)
- 3) Debt Management Office (DMO)
- 4) Participating Banks
- 5) Borrowers
- 6) Nigeria Agricultural Insurance Corporation (NAIC)

1.14 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 Federal Government of Nigeria (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 Central Bank of Nigeria (CBN)

The Central Bank of Nigeria 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 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 checks on the PBs as well as monitor and evaluate the borrowers' projects in order to ascertain the performance of the Scheme;
- (vii) Retrieve funds when guidelines are not adhered to by the participating banks or borrower;
- (viii) Retrieve funds from the PBs at the expiration of the loan tenure;
- (ix) Make provision for the ₦200billion bond repayment;
- (x) Ensure penal charges on infractions;
- (xi) Arbitrate between the PBs and project promoters, where necessary;
- (xii) Conduct impact assessment of the scheme;
- (xiii) Review the Guidelines from time to time;

(c) Debt Management Office

- (i) Issue the Bond on behalf of the FGN
- (ii) Raise 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 rate specified by the CBN;
- (v) Submit to the CBN, the Credit Risk Management System (CRMS) report of the borrower;
- (vi) In the case of State Governments, submit a copy of the letter of offer by the bank, Letter/Evidence of Acceptance by the state, House of Assembly Resolution to Borrow, Irrevocable Standing Payment Order (ISPO), List of State Cooperatives or utilization plan; Disbursement and Repayment schedules;
- (vii) Educate and enlighten the borrower to take NAIC insurance policies for the various items across the agricultural value chain;

- (viii) Ensure that the borrower obtains NAIC insurance covers as condition precedent to the draw down/disbursement of the loan;
- (ix) 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. Alternatively, the premium could be paid by the client and the receipts and insurance policy submitted to the bank; and
- (x) Render monthly returns under the Scheme to the CBN on the reporting format.

(d) Borrowers

The borrowers shall:

- (i) Utilize the funds for the purpose for which it was 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) Obtain NAIC certificate, evidencing payment of insurance premium in line with section 13 of NAIC Act.

(f) Nigerian Agricultural Insurance Corporation (NAIC)

NAIC's responsibilities shall include:

- 1) Provision of insurance cover for all the Agricultural projects in the event of losses arising from the various hazards insured in the value chain;
- 2) To ensure that the subsidized portion of the premium in the production policies is collected from both the Federal and State Governments;
- 3) Provide the pre-determined premium rate from time to time to the lending bank;
- 4) Prompt settlement of claims in an efficient and effective manner;
- 5) 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;
- 6) Provision of advisory and other risk management services;
- 7) Inspection and monitoring of farms and projects;

- 8) The provision of training for the agricultural desk officers of banks on the Agricultural Insurance needs of CACS loan beneficiaries; and
- 9) Provision of extension services and other ancillary services that may arise from time to time.

1.15 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

1.16 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..

1.17 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.

1.18 Amendments

This Guidelines is subject to review from time to time as may be deemed necessary by the Central Bank of Nigeria.

Section 2

Applicable to Conventional Banks Only

2.1 Interest Rate

- (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.

2.2 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).

2.3 Infractions and Sanctions

- (i) Delay in release of funds by the PB(s) shall attract a penalty at the bank's maximum lending rate for the period the fund was not disbursed. 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 Section 60 of BOFIA;
- (iv) Notwithstanding the agreement between the PB and the project promoter, the CBN has the right to reject a request from any PB that contravenes any section of the Guidelines.
- (v) Any participating bank that fails to repatriate expired project funds within 5 working days to the CBN shall be charged at the bank's maximum lending rate for the period the fund was not repatriated.
- (vi) Any other breach of the guidelines as may be specified from time to time.

Section 3

Applicable to Non - Interest Banks Only

3.1 Modalities for the Non-Interest Window

3.1.1 Participating Banks

All Non-Interest Financial Institutions (NIFIs)

3.1.2 Types of Financing and Tenor

Long term financing for projects under the target activities, agricultural commodities and value chains.

The tenor for the Restricted Profit Sharing Investment between the CBN and the NIFI shall be for the maximum term specified for financing of projects under the original scheme, which is seven years (but should not exceed the exit date of the scheme).

Maximum tenor for financing of projects by NIFIs under the window is to run concurrently with the period described above.

Working capital facility shall have a tenor of 1 year with a provision of roll over not more than 2 times (i. e. maximum of 3 years).

The Facility allows for moratorium commensurate with the gestation period of the project.

3.2 Description of the Non-Interest Window

The Non-Interest window shall be structured as a two-tiered structure as follows:

3.2.1 Tier 1: Between the CBN and the NIFI

A Restricted Profit-Sharing Agreement (Restricted *Mudaraba*) shall be executed between the CBN and NIFI.

The CBN, as Capital Provider disburses the funds for investment by the NIFI as the Implementing Party, based on a Business Plan commitment to be signed by the NIFI committing itself to the following terms:

- a) Investment shall only be for financing of projects under the target activities, commodities and value chains;
- b) The financing shall have an overall target profit rate of 9.0 per cent;
- c) The profit distribution ratio between the CBN as Capital Provider and the NIFI as the Implementing Party shall be in the ratio of 2:7 (i. e. CBN 22% and NIFI 78%);

- d) The NIFI commits itself to achieving a target profit rate of 2% accruing to CBN;

3.2.2 Tier 2: Between the NIFI and the Investor

The NIFI finances the customer (Client) using CBN approved non-interest financial contracts appropriate with the type of financing requested, like *Murabahah*, *Salam*, *Istisna'*, *Ijara*, *Wakalah*, etc.

3.3 Repayments

Repayments under the facility shall be amortized.

3.4 Credit Risk

As part of the investment terms, the NIFI shall bear the credit risk of repayment by investor, and the collaterals pledged by the borrowers are to mitigate that risk.

3.5 Collateral/Security

Eligible securities under this window include the following:

- a) Federal Government of Nigeria *Sukuk*;
- b) CBN Non-Interest Liquidity Management Instruments (such as 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 acceptable to the CBN.

3.6 Participation Agreement

Eligible NIFIs shall sign Participation Agreement with the CBN.

Please, refer to Section 1 for General Provisions governing the Scheme

**FINANCIAL POLICY & REGULATION DEPARTMENT
ABUJA
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