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LETTER TO ALL DEVELOPMENT FINANCE INSTITUTIONS (DFIs),
MICROFINANCE BANKS (MFBs) AND FINANCE COMPANIES FCs)

ACCOUNTING TREATMENT FOR MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT FUND (MSMEDF)

This Letter serves to provide guidance to Other Financial Institutions (OFIs), which benefit from the Micro, Small and Medium Enterprises Development Fund (MSMEDF), in accounting for the funds in their books.

The funds are available through direct or indirect funding, and are to be treated in the books as follows:

i. Direct Funding

MSMED Funds received directly from the CBN for on-lending to borrowers shall be treated as On-Balance Sheet items as the OFIs bear the credit risk of default. The OFIs, in addition to adhering to the provisions of the Guidelines for the Operation of MSMEDF, shall ensure that:

- The assets and liabilities related to the Fund are stated as separate line items on the Balance Sheet with explanatory notes.
- There is a separate Credit Schedule for the on-lending facility.
- The on-lending facility is administered based on the provisions of the MSMEDF Guidelines/Memorandum of Understanding (MOU) with the CBN (especially the section on interest rates).
- Provision for loan losses is in line with the Prudential Guidelines.
- The funds due to the CBN as repayment of the facility are segregated into:
 - Funds repayable within 12 calendar months (this should form part of current liabilities in calculating liquidity ratio), and
 - Funds repayable after 12 calendar months.

ii. Indirect Funding

The MSMED funds received through State Governments/FCT for on-lending shall be treated as Off-Balance Sheet items where the State Governments/FCT act as the primary obligor to the CBN, and bear the risk of credit default. The OFIs, being secondary obligors, also carry some risk which may crystalize where they fail to adhere to the terms and conditions of the MOU with the State Government/FCT. Where the risks crystalize, the asset and liability should be reflected on the Balance Sheet. In cases where the State Government/FCT provides a list of beneficiaries of the MSMED funds, (such that the obligors are not as a result of the OFIs own risk assessment), in the event of default, the funds shall remain as Off-Balance Sheet items in the books of the OFI.

OFIs with Off-Balance Sheet engagements should, therefore, ensure that:

- The MOU with the State Government/FCT (the primary obligor) is duly signed by representatives of both the OFI and the State Government/FCT.
- The MOU clearly defines the terms and conditions of the engagement.
- There is full disclosure of the amounts received, disbursed and recovered, as well as the performance of the loans in the Audited Financial Statements and Management Accounts.

Please note for strict adherence.



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