

GUIDELINES FOR THE OPERATIONS OF THE MICRO CREDIT FUND

I: Introduction

The Bankers' Committee has been involved in a number of initiatives to ensure access to financial services by Micro, Small and Medium Enterprises (MSMES). For instance, the Small and Medium Enterprises Equity Investment Scheme (SMEEIS) which was introduced in 2001 provides equity investments and/or loans to small and medium enterprises. The Scheme has a micro credit component to support the activities of micro enterprises. Its implementation has had salutary effects on the economy in terms of number of projects financed and total resources available to the sub- sector.

As at the December, 2007, the sum of ~~₦~~42.02billion had been set aside by the deposit money banks (DMBs) and ~~₦~~21.72billion was invested in 523 projects in different parts of the country.

During the seven years of operation of the SMEEIS, several modifications have been made to the framework/guidelines to ensure the attainment of its objectives. However, in spite of these efforts, a number of challenges still need to be addressed to improve on its impact. These include:

- Dearth of bankable SME projects because of capacity constraints of the operators.
- Skewedness in the distribution of SMEs that benefited from the Fund across Nigeria and concentration of many of the projects around Lagos. Indeed, more than 12 states did not benefit at all, and there are several states where the beneficiaries were only one or two enterprises.

To further enhance the flow of funds, particularly to micro enterprises, the Bankers' Committee would set up a Micro Credit Fund (MCF) of ~~₦~~20.0billion. This is projected to grow to ~~₦~~100.0billion by 2010. In addition to this, banks are expected to continue their support to SMEs, while the CBN, in collaboration with the fiscal authorities will work out other necessary incentives to make SME lending more attractive to banks.

II: Objectives

The objectives of the Micro Credit Fund shall be:

- To complement the poverty and small and micro credit interventions by Government at all levels as well as the activities of the Microfinance banks in supplying a large but cheap source of finance to the small and micro entrepreneurs.

- To ensure a wider and equitable distribution of credit around the country to deserving entrepreneurs by allowing State Governments to engage in wholesale borrowing from the banks and on-lend or distribute to the entrepreneurs in their respective states
- To motivate the State and Local Governments to comply with the requirements of the Microfinance Policy and Regulatory Framework that they devote at least one percent of their annual budgets to microfinance.
- To strengthen the institutional, organizational and technical capacity of the agencies that will administer the credit, including the microfinance banks, and also strengthens the technical capacity of the beneficiaries.

III: **Operations of the Fund**

The Fund will commence operations with the balance of the SMEEIS funds as at December 31, 2007 and subsequently, contributions would be made by each bank to make the fund up to ₦100.00 billion by the end of 2010.

The Fund would be made available to all state governments with viable microfinance proposals.

To access the Fund, a state will have to fulfil the following:

- put in place appropriate institutional arrangements for disbursing and recovering the amount to be accessed, which shall be confirmed by the Central Bank of Nigeria;
- show a commitment to supporting small and micro enterprises through setting aside a counterpart fund equal to the amount of the loan being sought.
- deposit the counterpart fund in the bank from which it is obtaining the Fund.
- set up a monitoring mechanism to ensure efficient utilization of the Fund;
- sign a irrevocable standing payment order (ISPO) in favour of the participating bank
- render periodic returns to the CBN on the operations of the Fund as required.

Where the State Governments are unable to exhaust the Fund set aside by the banks in any year, Microfinance Banks (MFBs) and Non Governmental Organization-Micro Finance Institutions (NGO-MFIs) may also borrow from the Fund for on-lending to small and micro enterprises. After each Government must have passed its budget, the CBN will assess the amounts set aside by the State for micro credit vis-a-vis the amount that banks are likely to set aside for the year and announce the amount available for borrowing by the MFBs and NGO-MFIs. States with wide distribution of MFBs and NGO-MFIs shall be encouraged to use the MFBs and NGO-MFIs in the administration of their micro credit fund.

IV: **Tenor**

The MCF is an interim response, to be phased-out as the legal and institutional infrastructure for efficient and effective administration of credit to small and micro enterprises by the banking system improves. In the first instance, this programme shall be applicable for three years (2008 – 2010).

The tenor of the loan accessed by each state shall be as agreed with the bank but shall not exceed one year in the first instance, with the possibility of a roll-over yearly, thereafter. The State can access the Fund on a yearly basis, provided it continues to meet its obligations under the Fund.

V: **Interest Rate**

A State may obtain a loan from the MCF at an interest rate of not more than 8% per annum and shall not be subjected to any other fees and/or charges.

VI **Eligible Activities**

The loans obtained shall be used for any of the following activities engaged in by small and micro entrepreneurs;

- Agriculture and agro allied
- Cottage industries
- Trade/commerce.
- Services

VII: **Monitoring**

The Central Bank of Nigeria shall have the responsibility for monitoring compliance with the guidelines for the operation of the Fund.

Development Finance Department

Central Bank of Nigeria

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