

THE LEXWORTH PERSPECTIVE

This Article looks at some of the CBN's policy responses and guidelines set up to tackle the COVID-19 Pandemic. These measures were designed to cushion the adverse effects the pandemic would have on MSMEs, Households and Healthcare Sector Participants.

THE CENTRAL BANK OF NIGERIA'S POLICY RESPONSE TO THE COVID-19 PANDEMIC: EVALUATING THE ₦50 BILLION TARGETED CREDIT FACILITY GUIDELINES FOR MSMES AND HOUSEHOLDS AND THE GUIDELINES FOR THE OPERATIONS OF THE ₦100 BILLION CREDIT SUPPORT FOR THE HEALTHCARE SECTOR.

The Central Bank of Nigeria (CBN) on March 16, 2020 issued a circular in response to the Covid-19 outbreak to create a cushion effect for businesses and individuals that would be hard hit by the economic effect of the pandemic, as it announced policy measures ranging from the extension of moratorium on CBN intervention facilities to interest rate reduction, creation of a ₦50 billion targeted credit facility, provision of credit support for the healthcare industry, regulatory forbearance and the strengthening of the CBN's Loan Deposit Ratio (LDR) policy¹.

As a follow up to the CBN's initial response to the pandemic, the regulator has published guidelines for the implementation of the ₦50 Billion Targeted Credit Facility (TCF) for households and micro, small and medium sized enterprises (MSMEs) that have been particularly hard hit as a fall out of the pandemic. The regulatory body has also published guidelines for the operations of the ₦100 Billion Credit Support for the Healthcare Sector.

The CBN noted in the guidelines that the Covid-19 pandemic has led to unprecedented disruptions to global supply chains, sharp drop in global crude oil prices, turmoil in global stock and financial markets, massive cancellation of sporting and entertainment events, lockdown of large swath movements

of persons in many countries, and international travel bans/restrictions across critical air routes across the world.² No doubt these disruptions have created severe economic consequences for many households and business owners. The CBN in response has therefore introduced the ₦50 Billion Targeted Credit Facility (TCF) as a stimulus intervention to support households and micro, small and medium enterprises adversely affected by the pandemic, as the guidelines define the broad objectives of the TCF to include: Cushioning the adverse effects of Covid-19 on households and MSMEs, supporting households and MSMEs whose economic activities have been significantly disrupted by the pandemic and to stimulating credit to MSMEs to expand their productive capacities, through equipment upgrade and research and development.

The CBN has also issued guidelines for the operation of the ₦100 Billion Credit Support for the Healthcare Sector, with a view to strengthening the sector's capacity to meet potential increase in demand for healthcare products and services.

The scheme was designed to specifically provide credit to indigenous pharmaceutical companies and other healthcare value chain players intending to build or expand capacity during the Covid-19 pandemic.³ The guidelines define the broad objectives of the scheme to include: reduction of health tourism to conserve foreign exchange, providing long-term, low cost finance for healthcare infrastructure development in the country, improving access to affordable credit by indigenous pharmaceutical companies to expand their operations and comply with the World Health Organization’s Good Manufacturing Practices and supporting the provision of shared services through one-stop healthcare solutions to enhance competition and reduce the cost of healthcare delivery in the country.

The wordings of the TCF guidelines create some grey areas around the qualification of households for the grant of the TCF as the definition of “verifiable evidence of livelihood adversely impacted by Covid-19”, may be highly subjective to the approving authorities. The approving powers however would be expected to have a significant standard to measure the negative impacts and adverse effects the pandemic has had on the economics of individual households and businesses.

The CBN has identified the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (**NIRSAL**) Microfinance Bank (subsequently referred to as **NMFB**) as the participating financial institution for the TCF intervention. Interested applicants would therefore be required to make applications through the NMFB to participate in the grant of a credit facility under the scheme.

Participating Financial Institutions (**PFI**s) for the Healthcare sector intervention listed in the guidelines are: Deposit Money Banks (**DMB**s) and Development Finance Institutions (**DFI**s). Interested applicants in the healthcare sector would be required to make applications through the above listed banks to participate in the grant of loans granted under this scheme to participants in the healthcare sector.

The guidelines spell out the modalities for the grant of loans under both schemes, as they provide that applicants shall submit their applications to the **PFI**s who shall appraise and conduct due diligence on the applications, after which the **PFI**s shall forward applications that have been satisfactorily ap-

praised to the CBN for a final approval. The CBN shall thereafter process and disburse funds to the **PFI** for onward release to beneficiaries.

KEY TAKEAWAYS:

ELIGIBLE PARTICIPANTS AND ACTIVITIES

TCF Guidelines for Households and MSMEs: These guidelines spell out the targeted class of participants that may apply for this credit facility and groups them into the following categories:

- i. Households with verifiable evidence of livelihood adversely affected by Covid-19.
- ii. Existing enterprises with verifiable evidence of business activities adversely affected by the Covid-19 pandemic.
- iii. Enterprises with bankable plans to take advantage of opportunities arising from the Covid-19 pandemic.

The guidelines also create a list of eligible activities that may benefit from the scheme to include: Agricultural value chain activities, Hospitality (accommodation and food services), Health (pharmaceuticals and medical supplies), Airline service providers, Manufacturing/Value Addition, Trading and any other income generating activities as may be prescribed by the CBN.

Guidelines for the Credit Support for the Healthcare Sector: These guidelines spell out eligible applicants of this scheme to include:

- i. Healthcare product manufacturers – pharmaceutical drugs and medical equipment.
- ii. Healthcare service providers/medical facilities – hospitals/clinics, diagnostic centres/laboratories, fitness and wellness centres, rehabilitation centres, dialysis centres, blood banks, etc.
- iii. Pharmaceutical/medical products distribution and logistics services.
- iv. Other human healthcare service providers as may be determined by the CBN from time to time.

The list of eligible activities covered under the healthcare scheme include: Manufacturing of pharmaceutical drugs and medical equipment, Establishment/expansion/upgrade of basic healthcare facilities, Medical/Pharmaceutical supplies,

Medical/pharmaceutical Research and Development, Distribution of medical/pharmaceutical drugs and supplies, Manufacturing of medical/pharmaceutical drugs distribution technology and any other healthcare value chain activity as may be prescribed by the CBN from time to time.

COLLATERAL REQUIREMENTS

The TCF and Healthcare sector guidelines contain collateral requirements to be pledged by beneficiaries in fulfilment of the loan conditions.

The TCF guidelines provide that the collateral to be pledged by beneficiaries under the programme shall be as may be acceptable by the NMFB. The guidelines also state that collateral under this scheme may include any one or more of the following:

- i. Moveable asset(s) duly registered on the National Collateral Registry (NCR).
- ii. Simple deposit of title documents, in perfectible state.
- iii. Deed of Debenture (for stocks), in perfectible state.
- iv. Two acceptable guarantors.
- v. Personal guarantee of the promoter of the business.
- vi. Life insurance of the key-man, with NMFB noted as the first loss payee.
- vii. Comprehensive insurance over the asset.

Collateral to be pledged by beneficiaries under the healthcare sector guidelines are the same as are required under the Real Sector Support Facility (RSSF) and Differentiated Cash Reserve Requirement (DCRR) regimes.

The collateral requirements contained in the RSSF guidelines however, only deal clearly with the requirements for participating banks under the scheme. The CBN's approved collateral include securities with a market value not less than 120% of the specified loan amount. The RSSF guidelines further define eligible securities to include Nigerian Treasury Bills, FGN Bonds, other bonds backed by the guarantee of the Federal Government and any other securities acceptable to the CBN.

In this regard, it might be necessary to seek guidance from particular PFIs to adequately understand their approved collateral requirements for loans granted under the healthcare sector intervention facility.

LOAN LIMIT

The CBN through the published guidelines created maximum amounts that may be accessed by the targeted groups highlighted below:

The amount to be made available under the TCF intervention to MSMEs as loans shall be determined based on the activity, cash flow and industry or segment size of the beneficiary, with a maximum limit of ₦25 Million, while households may access loans up to a maximum of ₦3 Million. The guidelines also provide that the working capital of the MSMEs shall be a maximum of 25% of the average turnover for last 3 years of the business' operations, and where the enterprise has not been in operation for up to three years, 25% of the previous year's operations would suffice.

Under the healthcare scheme, the guidelines provide for the following loan limits: 20% of the average of 3 years of the company's turnover, subject to a maximum of ₦500 Million, and where the enterprise has not operated for up to 3 years, 20% of the previous year's turnover would suffice. The healthcare scheme guidelines also provide for a second category of term loans and pegs the maximum amount to ₦2 Billion per applicant. An important consideration for participants of these credit facilities is the stipulated interest rate spelt out by the CBN in its guidelines. The CBN has provided that the interest rate under both interventions shall temporarily be at **5% per annum, until February 28 2021**, after which the interest rate shall revert to **9% per annum from March 1, 2021**.

It is important for participants of this intervention to take into consideration the implications of this provision, as beneficiaries who are unable to repay their loans before March 1, 2021 would be subjected to an additional 4% interest rate on the principal sums borrowed under the scheme.

REPAYMENT OF PRINCIPAL

The TCF guidelines do not make a distinction between households and businesses in the creation of timeframes for the repayment of loans granted under the scheme. They however create a flexible repayment plan for both categories, as participants would be allowed to make repayments on an instalment basis to the NMFB according to the nature of the business and the repayment schedule provided at the stage of application.

The guidelines contain two loan tenors that speak to the duration of each category of funding, as they provide that working capital loans shall be granted for a maximum period of 1 year, with no option for rollover, while term loans shall have a maximum tenor of not more than 3 years with at least 1 year moratorium.

The healthcare scheme guidelines however, provide extended loan tenors for working capital loans and term loans. They provide that working capital loans shall be for a maximum period of 1 year, with a provision for rollover not more than 3 years, while term loans shall have a maximum tenor of not more than 10 years, with a maximum of 1 year moratorium on repayment. The Healthcare sector guidelines, like the TCF guidelines provide that interest and principal repayment shall be made on an instalment basis by the borrowers to the PFI, according to the approved repayment schedule. The guidelines also provide that the PFI shall remit repayments received to the scheme on a quarterly basis.

PERIODIC EVALUATION OF ACTIVITIES

It is important to also consider that the guidelines provide for periodic monitoring of projects financed under the TCF scheme by the NMFB and those financed through the healthcare sector intervention by the PFIs and the CBN. MSMEs and healthcare sector participants who obtain credit facilities under these schemes would therefore be expected to genuinely invest in the initiatives originally presented to the Bank for funding, to promote transparency and ensure smooth operations of their activities.

EXIT DATE

The TCF guidelines have clearly spelt out December 31, 2024 as the exit date of the ₦50 Billion Targeted Credit Facility Intervention, while the Healthcare Sector intervention guidelines provides December 31 2030 as the exit date of the ₦100 Billion Credit Support for the Healthcare sector. The wordings of the guidelines appear to speak to the availability of the facility and temporary access by applicants to the fund until the stated dates. The creation of these windows speaks largely to the temporary nature of the interventions. Participants therefore have a specific timeframe to benefit from these facilities and ensure that all transactions are completed within the timeframes established by the CBN. Both guidelines however provide that the existing frameworks shall be subject to review by the CBN from time to time as may be deemed necessary. These reviews may be accompanied by amendments of any of the provisions contained in the guidelines.

FOOTNOTES:

1. *CBN Circular to Deposit Money Banks and the General Public on: CBN Policy Measures in Response to Covid-19 Outbreak and Spillovers. FPR/DIR/GEN/CIR/07/049, issued on March 16, 2020.*
2. *CBN Guidelines for the implementation of the ₦50 Billion Targeted Credit Facility. FPRD/DIR/GEN/CIR/07/050, Issued on 23 March 2020.*
3. *CBN Guidelines for the operations of the ₦100 Billion Credit Support for the Healthcare Sector. FPR/DIR/GEN/CIR/07/051, Issued on 25 March 2020.*

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