

CREDIT GUARANTEE COMPANIES AND ACCESS TO CREDIT FOR MSMEs IN NIGERIA

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ABSTRACT

MSMEs¹ are pivotal to the economic growth and innovation in every country, but access to capital has remained a major obstacle to them, especially in developing countries like Nigeria. MSMEs usually face difficulty accessing funds for their businesses because of the unavailability of the needed collateral to secure such funds, among other factors. However, the Central Bank of Nigeria, as part of its effort to stimulate lending to Micro, Small and Medium Enterprises (MSMEs) developed guidelines for the establishment and operation of credit guarantee companies in Nigeria, to bridge the funding gap suffered by MSMEs in Nigeria. This work discovered that CGC improve access to credit, reduce credit risk, encourage lower interest rates and improve risk management, which stimulates the development of economies. The Credit Guarantee Companies create Credit Guarantee Schemes (CGS), which provides third-party credit risk mitigation to lenders to stimulate access to credit for MSMEs. They usually absorb a portion of a lender's losses on loans made to MSMEs in the event of default. Credit guarantee schemes may be either public or private. In some economies they are run by private companies, cooperatives, or consortia of firms. However, they are usually financially supported, directly or indirectly, by the public sector. Some credit guarantee schemes are targeted at specific sectors or marginalized groups or persons. This work discovered that Public credit guarantee schemes are a common form of government intervention to unlock finance for MSMEs. The aim of article is to look at the rationale behind Credit Guarantee Companies, the modalities for credit guarantee scheme, the prospects of emergence of CGC and how the introduction will aid economic growth by helping MSMEs access credit for Business in the Nigeria. The work proposes proper implication of the CBN guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022, strong supervision of CGCs, proper appraisal of loan applications and adequate training of stakeholder in Credit Guarantee Scheme as the way of ensuring the success of Credit Guarantee Companies in achieving the purpose of their establishment. The doctrinal method of research was employed in this work.

KEY WORDS: Credit Guarantee Companies, MSMEs, Guarantee, Credit Guarantee Schemes, Security.

1. INTRODUCTION

According to *Section 1.1* of the Central Bank of Nigeria *Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria* issued by the Central Bank of Nigeria on 16 March, 2022. The Central Bank of Nigeria (CBN) issued guidelines for the regulation and supervision of credit Guarantee Companies pursuant the powers conferred on it by *Section 2(d)* of the CBN Act 2007 and

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¹ MSME is an acronym for Micro, Small, and Medium Enterprises

Section 56(2) of the Banks and Other Financial Institutions Act (BOFIA) 2020. CBN issued the guidelines in recognition of the role of guarantee schemes in facilitating lending.

The CBN facilitated the development of guidelines for establishing and operating credit guarantee companies in Nigeria as part of its effort to stimulate lending to Micro, Small, and Medium Enterprises (MSMEs). MSMEs face various difficulties in accessing credit from the formal sector in developing countries like Nigeria. Difficulties like lack of collateral among other factors have limited MSMEs' access to credit and where credit is granted, it is often on unfavorable terms.

Credit Guarantee Schemes (CGCs) have been widely considered as one of the means of addressing the challenge of MSMEs' limited access to credit. CGCs provide third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans in case of default. The CGCs are only available to Nigeria-based MSMEs. A guarantee issued by a CGC represents a legal commitment to discharge an agreed portion of the liability of a borrower in the case of default. The Guarantee may cover up to a maximum of 75% of the default amount. After the crystallized guarantee has been settled, the PFI and the CGC shall be required to take all necessary steps to recover the outstanding sum, and the CGC shall be reimbursed to the extent of the recovered sum.

2.0. CONCEPTUAL FRAMEWORK:

2.1. SECURITY/ SECURED CREDIT

Security involves a transaction whereby a person to whom an obligation is owed by another person is afforded in addition to the personal promise of the obligor to discharge the obligation, rights exercisable against some property of the obligor or a third party in order to enforce the discharge of the obligation.² It is right given to one party in the property of another party to secure payment or performance by the other party or by a third party. Security can also be defined as “anything that makes money more assured in its payment or more readily recoverable”.³

Secured Credit on the other hand are loans where the lender has the right to claim some of the borrower's assets if they do not repay it.⁴ Secured Credit are loans involving an agreement for the

² I.O. Smith, *Secured Credit in a Global Economy -Challenges and Prospects* (Department of Private and Property Law, Faculty of Law, University of Lagos 2003) 230.

³ *Ibid*, p. 2.

⁴ Longman Business English Dictionary, available at <<http://lexicon.ft.com/term?fenn=secured-credit>>, accessed 25th May, 2018.

lender to take particular assets from the borrower if they cannot pay the money back.⁵

Lenders often hesitate to provide unsecured credit because of the risks associated with, relying solely on the borrower's promise to pay or reputation. In secured transactions, promises are backed by collateral that the lender can seize and sell in case of non-compliance with the agreed-upon loan terms or through a third-party contract. Secured credit offers an alternative recourse for the creditor in case of the debtor/borrowers default.

Taking a security increases the creditor's chances of recovery in the event of the debtor's insolvency. In insolvency, the availability and sufficiency of the debtor's assets determine loan repayment possibilities, because in insolvency there is insufficient money for everybody⁶. Secured credit becomes imperative as it ensures the lender has a fallback option when the borrower fails to fulfill his financial obligations.

This financing gap suffered by most MSMEs because of lack of security when they are seeking loans, is what the introduction or emergence of Credit Guarantee Companies is aimed at mitigating. That is also why CBN issued its guidelines for the supervision and regulation of credit guarantee companies in Nigeria.

2.2. CREDIT

Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date in the future, generally with interest.⁷

2.4. GUARANTEE

A guarantee is a promise to answer for the payment of debt or performance of an obligation if the person liable in the first instance fails to make the payment or perform the obligation.⁸ It is a written undertaking made by one person to a second person to be responsible if a third person fails to perform a certain duty.⁹

⁵ Cambridge Business English Dictionary, Cambridge University Press, available at <<http://dictionary.cambridge.org/business-english/secured-credit>>, accessed 24th May, 2018.

⁶ Sykes & Walker, *The Law of Securities* (5th Edition, Law Book Company Limited) 4.

⁷ Investopedia, <http://www.investopedia.com/terms/c/credit.asp>, accessed 23rd May, 2018.

⁸ Chibuzo Ofoha, 'An Introduction to the Contract of Guarantee and the extent of the liability of a Guarantor', available at <<https://www.patrelipartners.com/wp-content/uploads/2021/01/Contract-of-Guarantee.pdf>> accessed 25th August, 2024.

⁹ The Encyclopedia of forms and precedent - fifth edition Vol. 17(3) Guarantee and Indemnities

2.5. CREDIT GUARANTEE COMPANY

A Credit Guarantee Company (CGC) is an institution licensed by the Central Bank of Nigeria with the primary objective of providing guarantees to Participating Financial Institutions (PFIs), that is, banks and other lending financial institutions licensed by the CBN, against the risk of default by obligors.¹⁰ Credit Guarantee Company is also a credit supplementation institution established to assist entrepreneurs and Businessmen to have ready access to financial credit through various Guarantee Schemes at reasonable cost.

CGC provide credit guarantees for MSMEs loans from eligible PFIs. The Credit Guarantee Company pay the claims on default by obligors in line with the contract terms and the general provisions of the Guidelines and Collaborate with PFI to recover the guaranteed sum from defaulting borrowers post claims payment.¹¹ CGCs ensure that the PFIs adhere to the terms of disbursement of loans to MSME, especially with regards to loans with fixed business circles.¹² They provide advisory support to PFIs on guarantee matters.

2.6. CRYSTALIZED GUARANTEE

Crystalized Guarantee is a guarantee that has materialized or become due for payment by the CGC, owing to failure of the borrower to fulfill the contractual terms of the underlying obligation.

2.7. PUBLIC CREDIT GUARANTEE SCHEMES

Public credit guarantee schemes are a policy tool used widely by governments to ease access to credit.

2.8. MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

MSMEs are best defined based on their capital, scope and cost of projects, annual turnover, financial strength and number of employees, amongst others. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Federal Ministry of Industries, Trade and Investment, an MSME is generally referred to as an enterprise with up to 250 employees and below, and asset base of less than 500 million. However, The National Policy on Micro, Small and Medium Enterprises' definition is more specific, it defined MSME is based on employment and assets

¹⁰ Section 1.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria, 2022.

¹¹ Section 3.3.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria, 2022.

¹² *ibid*

(excluding land and buildings). It defined a Micro Enterprise is one with less than 10 employees and assets of Less than 5 Million Naira, a Small Enterprise is one with between 10-49 employees and asset of from 5 Million Naira and less than 50 Million Naira. Medium enterprise is one of between 50-199 employees and assets of from 50 Million to 500 Million Naira. In assessing the value of the assets based on this definition land and buildings are excluded.

Under *the Central Bank of Nigeria Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria* MSMEs can apply and obtain a guarantee directly or through the lending PFI from a CGC licensed by the CBN.¹³ MSMEs should have a basic understanding of a Credit Guarantee Scheme before entering into the agreements. They have a responsibility to ensure a full discharge of their obligations as at when due.¹⁴ MSMEs should understand all conditions relating to repayment, including monthly, quarterly or other periodic repayment plans as agreed. They should have an understanding of their rights in the event of early liquidation of the facility and all sanctions in the event of default.¹⁵

2.9. PARTICIPATING FINANCIAL INSTITUTIONS

Participating Financial Institutions comprise of banks and other financial institutions that have been licensed by the Central Bank of Nigeria to grant loans.¹⁶ Under *the Central Bank of Nigeria Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022*, it is the responsibility of the Participating Financial Institutions¹⁷ to receive and appraise loan applications submitted by its customers. The PFIs apply for and obtain, with the consent of the MSME, a guarantee from only CGCs licensed by the CBN for any eligible loan. PFIs sensitize their customers on the CGC Scheme. They monitor the performance of all exposures to obligors guaranteed during the guarantee period. They register all eligible moveable assets with the National Collateral Registry. PFI take the lead in the recovery of guaranteed sums from defaulting obligors post claim payment. PFIs have a responsibility to realise all collaterals used to secure MSME loans and apply the proceeds

¹³ Section 3.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

¹⁴ *ibid*

¹⁵ *ibid*

¹⁶ Glossary, CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

¹⁷ Section 3.2 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

as stipulated in the relevant contracts, and render periodic returns as may be specified by the CBN from time to time.

3.0.OBJECTIVES OF THE CREDIT GUARANTEE SCHEME

The objectives of Credit Guarantee Schemes shall include the following:

- a. To improve access to credit for MSMEs;
- b. To reduce credit risk in lending by providing guarantees to PFIs;
- c. To stimulate lower interest rates on loans;
- d. To promote flexible collateral requirements by PFIs;
- e. To encourage new business formation, development and expansion;
- f. To accelerate economic growth and decrease unemployment;
- g. To foster sustainable and inclusive growth; and
- h. To improve risk management in the financial system.

4.0.PERMISSIBLE ACTIVITIES

CGCs in line with their mandate are empowered to carry out the following¹⁸:

- i. Provide guarantee for risk assets of Participating Financial Institutions;
- ii. Render advisory services for financial and business development;
- iii. Invest surplus funds in government securities;
- iv. Partake in other investments as may be approved by the CBN;
- v. Provide technical assistance to lenders and borrowers on credit and business development;
- vi. Maintain and operate various types of accounts with banks in Nigeria; and
- vii. Other activities as may be prescribed by the CBN from time to time.

5.0.NON-PERMISSIBLE ACTIVITIES

There are some activities that Credit Guarantee Companies are not permitted to be involved in. A CGC shall not carry out the following¹⁹:

- i. Provision of guarantee to entities outside Nigeria;
- ii. Provision of guarantee to entities within its holding company structure and to connected entities;
- iii. Guarantee loans of any institution it is indebted to;

¹⁸ Section 1.5 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

¹⁹ Section 1.6 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

- iv. Acceptance of demand, savings and time deposits or any other deposits;
- v. Provision of credit to customers;
- vi. Management of pension funds or schemes;
- vii. Foreign exchange, commodity and equity trading;
- viii. All forms of trading in derivatives and swaps;
- ix. Collection of third-party cheques and other instruments for clearing through correspondent banks;
- x. Purchase, sale, dispose, acquire or lease any real estate for whatever purpose without prior written approval of the CBN;
- xi. Lease, rental, sale or purchase of assets with related parties and/or significant shareholders of the CGC without the prior written approval of the CBN; and
- xii. Any other activity **NOT** expressly permitted by the CBN.

6.0. SUPERVISION AND REGULATION OF CREDIT GUARANTEE COMPANIES

The CBN Guidelines stipulate the minimum standards for the establishment and operations of Credit Guarantee Companies licensed by CBN in Nigeria.²⁰ The Guidelines stipulates minimum licensing governance and prudential requirements for prospective credit guarantee companies. CBN exercise regulatory and supervisory functions.²¹

The PFIs must comply with the provisions of the CBN Guidelines as it relates to their activities. PFI may apply for and obtain a guarantee from only CGCs licensed by the CBN, for any loan granted to MSMEs.²² The MSMEs also may apply and obtain a guarantee from any CGC licensed by the CBN, in order to facilitate the process of MSMEs obtaining loans from PFIs at better terms.²³ A CGC can guarantee loans originated by PFIs but excluding impaired assets that had been acquired.

The Guarantee cover not more than 75% of the default amount.²⁴ After the crystallized guarantee has been settled, the PFI and the CGC shall be required to take all necessary steps to recover the outstanding sum, and the CGC shall be reimbursed to the extent of the recovered sum. The PFI shall lead this process, in line with the provisions of the extant Consumer Protection Regulations.²⁵ The

²⁰ Section 1.2 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

²¹ Section 1.4(f) CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

²² *ibid*

²³ Section 1.3 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

²⁴ Section 9.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

²⁵ Section 9.3 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

cumulative guarantee liabilities of a CGC shall not exceed ten (10) times of its shareholders' fund unimpaired by losses.²⁶

In line with the relevant provisions of BOFIA 2020 and the CBN Act, the CBN shall²⁷:

- a. Grant and revoke licences;
- b. Determine minimum capital requirements;
- c. Issue governance guidelines and ensure compliance with the governance requirements;
- d. Approve the appointment of board members and senior management staff ;
- e. Remove board members and senior management staff
- f. Exercise regulatory and supervisory functions, some of which include:
 - i. Determining capital adequacy ratio, minimum liquidity ratio and other prudential requirements;
 - ii. Prescribing minimum criteria upon which guarantees may be extended;
 - iii. Prescribing permissible activities;
 - iv. Prescribing eligible assets or portfolios of assets and the appropriate valuation model or methodology;
 - v. Examining the books and affairs of a CGC; and
 - vi. Imposing sanctions for infractions.
 - vii. Approve the appointment of External Auditors;
 - viii. Issue 'No Objection' to annual audited financial statements of CGCs before presentation at the Annual General Meeting (AGM) and subsequent publication;
 - ix. Approve change(s) in the CGC's organizational structure before its implementation; and
 - x. Exercise any other powers in line with the BOFIA 2020, the CBN Act or any other applicable law.

7.0.LICENSING PROCEDURE AND REQUIREMENTS FOR CGC

The promoters of a CGC shall be required to submit a formal application to the Governor of the CBN for the grant of a CGC licence.²⁸ The application for CGC licence shall be processed in two stages, namely: Approval-in-Principle (AIP) and final licence.

7.1.REQUIREMENTS FOR APPROVAL-IN-PRINCIPLE (AIP)

Any promoter seeking a licence to operate a CGC in Nigeria shall apply in writing to the Governor

²⁶ Section 9.4 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

²⁷ Section 1.4 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

²⁸ Section 2.0 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria

of the CBN, and submit the following documents with the application²⁹:

- i. A non-refundable application fee of N100,000 (One Hundred Thousand Naira) only, or such other amount as the CBN may specify, in bank draft payable to the CBN or CGC Application and Licensing Account;
- ii. Evidence of deposit of the specified minimum paid-up capital requirement of 10,000,000,000.00 (Ten Billion Naira only) or any other amount that may be prescribed by the CBN into FPRD CGC Share Capital Account.
- iii. Evidence of capital contribution made by each shareholder;
- iv. Evidence of name reservation with the Corporate Affairs Commission (CAC);
- v. Detailed business plan or feasibility report which shall, at a minimum, include:
 - a. Objectives of the CGC;
 - b. Services to be rendered by the CGC;
 - c. Justification for the application;
 - d. Proposed ownership structure in a tabular form, indicating the names of proposed shareholders, their professions/businesses and percentage shareholdings;
 - e. Detailed biodata/resumes of the proposed shareholders and directors;
 - f. Source(s) of funding of the proposed equity contribution for each shareholder. Where the source of funding of the equity contribution is a loan, such shall be a long-term facility of at least 7-year tenor and shall not be taken from the Nigerian banking system;
 - g. Board and board committee charters stating the roles and responsibilities of the board and sub-committees;
 - h. Criteria for selecting board members;
 - i. Board composition and detailed resumes of proposed directors;
 - j. Completed Fitness and Propriety Questionnaire executed by the proposed shareholders, directors and top management in line with the provisions of Section 4.0 of the CBN's Revised Assessment Criteria for Approved Person's Regime for Financial Institutions, and sworn declaration of net worth executed by the proposed directors and significant shareholders;

²⁹ Section 2.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

- k. National Identity Number (NIN), Bank Verification Number (BVN) and Tax Clearance Certificate (TCC) of each proposed director and significant shareholders and valid means of identification;
- l. Organizational structure, showing functional units, responsibilities, reporting relationships and grade of heads of departments/units;
- m. List of proposed top management staff (AGM and above) and positions to be held;
- n. Technical Services Agreement (where applicable); and
- o. Five-year financial projection of the proposed CGC indicating expected growth, profitability and the underlying assumptions;
- vi. For corporate investors, promoters shall forward the following additional documents:
 - a. Certificate of Incorporation and certified true copies of other incorporation documents;
 - b. Board resolution supporting the company's decision to invest in the equity shares of the proposed CGC;
 - c. Names and addresses (business and residential) of owners, directors and their related companies, if any; and
 - d. Audited financial statements and reports of the company and TCC for the immediate past 3 years.
- vii. Draft copy of the company's Memorandum and Articles of Association (MEMART), which shall contain at a minimum the proposed name of the CGC, its object clause(s), subscribers to the MEMART, procedure for amendment, procedure for share transfer/disposal; and appointment of directors.
- viii. Shareholders' agreement providing for disposal/transfer of shares as well as authorization, amendments, waivers, reimbursement of expenses;
- ix. Statement of intent to invest in the company by each investor;
- x. Detailed Manuals and Policies, particularly:
 - a. Manual of Operations which;
 - Guarantees products that the CGC shall offer, including the terms and conditions for assigning such guarantees and actuarial standards used to manage risk inherent in the products;
 - Specifies the underwriting criteria to be applied in evaluating applications for guarantees;
 - Specifies the standards and criteria for issuing the guarantee, the portability of the guarantee and method of payment for securing the guarantee;

- States the standards and criteria for pricing of the CGC's products;
 - Conforms to the provisions of the Guide to Charges by Banks and Other Financial Institutions in Nigeria; and
 - Contains a Whistle blowing policy;
- b. Financial Management Policy that highlights the CGC's policies and procedures, and systems of internal controls. The Policy should include, at a minimum:
- ❖ Accounting policies and principles;
 - ❖ Roles and responsibilities of the senior management officials responsible for financial management;
 - ❖ Treasury operations;
 - ❖ Financial record keeping and reporting; and
 - ❖ Auditing and periodic testing of internal controls.
- c. Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) Policy;
- d. Enterprise Risk Management (ERM) Framework; and
- e. Code of Ethics and Business Conduct that specifies the acceptable standards of conduct for the CGC's employees, officers and directors. This should also provide guidance on conflicts of Interest, self-dealing and any other types of impropriety. Every director and officer of the CGC shall be required to sign the Code of Ethics and Business Conduct.

Following the receipt of an application with complete and satisfactory documentation, the CBN shall verify the capital contributions of the promoters of the CGC. Where the CBN is satisfied with the capital contribution of the promoters, it shall issue an Approval-in-Principle (AIP) to the promoters of the CGC. In all cases, the CBN shall communicate its decision to the promoters within 90 days of receipt of the application. The proposed CGC shall not incorporate or register its name with the Corporate Affairs Commission (CAC) until an AIP has been obtained from the CBN, a copy of which shall be presented to the CAC for the registration.

7.2. REQUIREMENTS FOR GRANTING OF FINAL LICENSE

Not later than six (6) months after obtaining the AIP, the promoters of a proposed CGC shall submit an application for the grant of a final licence to the CBN. The application shall be accompanied with the following³⁰:

³⁰ 2.2 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria 2022

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- i. Non-refundable licensing fee of N1,000,000.00 (One Million Naira) only, or such amount as may be prescribed by the CBN, in bank draft payable to the CBN or CGC Application and Licensing Account;
- ii. Certified True Copy (CTC) of Certificate of Incorporation of the CGC;
- iii. CTC of MEMART;
- iv. CTC of Form CAC 1.1(application for registration of company);
- v. Evidence of payment of Stamp Duties;
- vi. Evidence of location of Head Office (rented or owned) for the takeoff of the business;
- vii. Schedule of changes, if any, in the Board and Shareholding after the grant of AIP;
- viii. Evidence of ability to meet technical requirements and provision of modern infrastructural facilities such as office equipment, computers, telecommunications, to perform the CGC's operations and meet CBN and other regulatory requirements;
- ix. Copies of letters of offer and acceptance of employment in respect of the management team;
- x. Detailed resumes of top management staff stating qualification (including photocopies of academic and professional credentials), experience, and records of accomplishments, their BVN, TCC for the last three years and valid means of identification;
- xi. Completed Fitness and Propriety Questionnaire; and sworn declaration of net worth executed by top management staff;
- xii. Internal Control Policy;
- xiii. Business Continuity Plan;
- xiv. Comprehensive plan on the commencement of the CGC's operations with milestones and timelines; and
- xv. Board and staff training program.

8.0.PROSPECTS OF GUARANTEE COMPANIES IN FACILITATING ECONOMIC GROWTH

The parties to Credit Guarantee Schemes, just like the conventional guarantee are; the lender to whom the guarantee is given, the Credit Guarantee Company that provides the guarantee and the borrower on whose behalf the guarantee is given.³¹

³¹ Section 1.1 CBN Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria, 2022.

The Central Bank of Nigeria (CBN) estimates the annual financing gap for Micro, Small and Medium Enterprises at N617.3 billion per annum.³² CGCs help viable Businesses to grow, particularly entrepreneurs who lack collateral but require high financial facilities. CGCs help MSMEs without collateral or inadequate collateral to be able to access loans from Financial Institution, considering the critical role MSMEs play in the development of Economies.

CGCs facilitate better access to finance to Micro, Small and Medium Scale Enterprises in Nigeria. Thereby spurring economic growth through to increased investment in Nigeria MSMEs. They create better access to finance for MSMEs in Nigeria by sharing risk with participating financial institutions, which creates more jobs and leads to economic growth. MSMEs are the catalyst of economic development, and create employment opportunities and as such imperative for the sustenance of any economy.³³

By alleviating the financial constraints faced by MSMEs, Credit Guarantee Schemes enhance income generation and engender overall economic growth.³⁴ MSMEs contribute enormously to Gross Domestic Product (GDP) of economies. They provide more than 50 percent of GDP of developing nations and are source of supply of human capital, innovation and technological development.³⁵

Nigeria's Micro Enterprise accounted for 96.9% while SME's accounted for 3.1% of the total number of businesses in Nigeria. MSMEs contributed about 46.3% of the GDP, 6.21% of gross exports and employed 84% of the total workforce as at 2020. When the MSME sector is strong it promotes innovations and investment opportunities which in turn facilitates employment generation and sustainable growth in the GDP of an economy.³⁶

³² Andrew S. Nevin, Omomia Omosomi, Mustapha Suberu, 'Factoring the Gap: improving access to working capital to MSMEs' <<https://www.pwc.com/ng>> accessed 15th November, 2024.

³³ Imoh Kingsley Ikpe and Godspower Itéziríe Elumalúe 'Micro, Small and Medium Enterprises and Sustainable Economic Development in Nigeria' *AKSU Journal of Administration and Corporate Governance*, Volume 4 Number 2, April 2024 available at <https://aksujacog.org.ng/articles/24/04/micro-small-and-medium-enterprises-and-sustainable-economic-development-in-nigeria/aksujacog_04_02_14.pdf> accessed 17th October, 2024.

³⁴ Hassan Dauda Yahaya, 'Maina Mohammed Geidam and Mahammad Umar Usman, 'The Role of Micro Small and Medium Enterprises in the Economic Development of Nigeria' [2016] *International Journal of Small Business and Entrepreneurship Research* Vol.4, No.3, p.33-47, ISSN:2052-6377 Published by European Centre for Research Training and Development UK.

³⁵ *ibid*

³⁶ Abisola Atitebi, Esiri Agbeyi and Olusegun Zaccheus, 'Building resilience: Strategies for MSME Success in a changing Landscape' PWC's Survey 2024, available at <www.pwc.com/ng> accessed 20th November, 2024.

According to the NBS/SMEDAN MSME 2021 survey report, Micro, Small & Medium Enterprises contributed to 46.32% to the GDP, accounted for 6.21% of exports, 96.9% of businesses and 87.9% of employment in Nigeria.³⁷ In 2022, the International Labour Organisation disclosed that MSMEs contribute 48% to Nigeria's GDP. According to PWC 2024 survey MSMEs employ over 80 percent of the Nigeria Population and contribute about 46.3% percent on Nigeria Gross Domestic Product (GDP).³⁸ According to National Bureau of Statistics SMEs have contributed about 48% of the national GDP in the last five years, and account for over 90% of business and 84% of employment in Nigeria.³⁹

The implication of the above statistics is that majority of Nigeria businesses fall under MSMEs, in other words, a major part of Nigerian businesses are dominated by MSMEs. Also, if the annual financing gap which the Central Bank of Nigeria (CBN) estimates to at N617.00bn, is bridged through credit guarantee schemes offered by credit guarantee companies. The ripple effect of the increased access to finance will greatly increase Nigeria's GDP which according to various statistics on the average of 46.31% to 48%. Employment will increase and the economy will be better for it.

There are different Credit Guarantee Companies in Nigeria. Many of them have recorded great milestone since their inception. Some are general Credit Guarantee Companies, others are sector specific credit Guarantee Companies. A few examples of Credit Guarantee Companies in Nigeria include Infra Credit, Impact Credit and Nirsal. InfraCredit is focused on providing guarantees to lenders/investors in large-scale infrastructure projects.

8.1.IMPACT CREDIT GUARANTEE LIMITED (ICGL)

Impact Credit Guarantee Limited (ICGL) is a wholly owned subsidiary of the Development Bank of Nigeria Plc (DBN).⁴⁰ ICGL was set-up through a project with the World Bank to provide guarantee on loans made to eligible Micro, Small and Medium Scale Enterprises (MSMEs) by Participating Financial Institutions (PFIs) in Nigeria. ICGL has the mandate of facilitating and improving MSMEs access to finance in Nigeria through providing of partial credit guarantees and technical assistance to PFIs.⁴¹ ICGL offers maximum Guarantee Cover of 60% of loan disbursed and maximum Loan size is

³⁷ *ibid*

³⁸ *ibid*

³⁹ Andrew S. Nevin, Omomia Omosomi, Mustapha Suberu, 'Factoring the Gap: improving access to working capital to MSMEs' <<https://www.pwc.com/ng>>accessed 15th November, 2024.

⁴⁰ Impact Credit Guarantee Limited available at <<https://impactguaranteeng.com>>accessed 10th October, 2024.

⁴¹ *ibid*

defined from time to time. The maximum Tenor for the loan is 5 years, which can be extended to 8 years for special projects. Their loans are not sector specific but covers all sectors within the MSME business segment.⁴²

ICGL was established to spur economic growth through Credit Guarantees, thereby giving participating institutions (PFIs) the confidence to provide credit to Micro, Small and Medium Scale Enterprises (MSMEs) through risk sharing, enabling financial institutions to lend more. They provide risk sharing facilities to PFIs with a view to alleviating financing constraint faced by MSMEs in Nigeria.

ICGL currently offers three types of guarantee products to PFIs on facilities granted to MSMEs. They offer Individual, Blanket or PortFolio Guarantee. Individual Guarantee guarantees a single loan made by a financial institution to a single borrower whose identity is known to the guarantor. The guarantee decision is at the discretion of ICGL after individual appraisal. Blanket Guarantee are still individual by nature, but the authority to decide on the guarantee is vested in the PFIs. PortFolio Guarantee guarantees a portfolio of loans made by a financial institution to a target borrower segment (qualifying borrowers) up to the portfolio line ceiling.⁴³

As at 30th September 2023, Impact Credit Guarantee Limited had supported 48,000 MSMEs and small corporations in Nigeria and guaranteed N190 billion loans.⁴⁴ Presently, ICGL has been able to guarantee loan of over 228 billion Naira, issued over 85,016 guarantees, supported over 6,273 jobs and over 55,430 SMEs have been beneficiary of the its loan⁴⁵

8.2.NIRSAL CREDIT RISK GUARANTEE

The NIRSAL Credit Risk Guarantee (CRG) is focused on Agribusiness. It is a mechanism for de-risking agriculture and agribusiness financing in Nigeria.⁴⁶ It is an instrument issued to protect financiers and investors from possible losses in finance/credit transactions. With the Credit Risk

⁴² *ibid*

⁴³ *ibid*

⁴⁴ *ibid*

⁴⁵ Impact Credit Guarantee Limited available at <<https://impactguaranteeng.com>>accessed 10th October, 2024.

⁴⁶ Nirsal Credit Risk Guarantee Brochure available at <www.nirsal.com> accessed 12th October, 2024.

Guarantee, NIRSAL indemnifies lenders or investors in agribusinesses of the principal and accrued Interest of loans given to the limit of a pre-agreed Credit Risk Guarantee rate.⁴⁷

The NIRSAL Credit Risk Guarantee provides an incentive for financiers/investors to participate more comfortably and profitably in the agriculture sector, providing loans and other debt instruments to agricultural value chain actors.⁴⁸

The NIRSAL Credit Risk Guarantee offers a risk-sharing agreement that insures lenders up to 75% against losses on loans provided to agribusinesses. This encourages financial institutions to lend more freely to agricultural venture because the perceived risk associated with lending are lowered significantly.⁴⁹

The Credit Risk Guarantee has given agribusinesses increased access to financing. CRG makes it possible for agribusinesses to access larger loan amounts by securing loans against potential defaults. Agribusinesses can now expand their operations and improve productivity. Agribusinesses enjoy interest rate support. Through its interest Drawback (IDB) scheme, Nirsal rewards timely loan repayment with rebates of up to 40% on interest paid. This incentive encourages good repayment practice.⁵⁰

Nirsal offer project-monitoring and support system that helps to ensure the success of agribusiness projects. They provide oversight and assistance that helps to mitigate risks associated with agricultural operations

Nirsal engages commercial banks to train their staff on agricultural lending practices and the Credit Risk Guarantee Guidelines. This boosts the understanding and willingness of banks to finance agricultural projects. This has also achieved notable increase in bank lending to the agriculture sector. Operators of agribusinesses enjoy increased access to smoother approval processes. This has contributed to the growth of the economy through enhanced productivity and increased employment opportunities.

⁴⁷ *ibid*

⁴⁸ *ibid*

⁴⁹ *ibid*

⁵⁰ *ibid*

Leveraging on the NIRSAL Credit Risk Guarantee, Deposit Money Banks and other financiers have securely lent over ₦211 billion to producers of crops and livestock, processors, distributors, and providers of logistics services across agricultural value chains, with a loan crystallization rate of 1% in 10 years.⁵¹

The terms of Nirsal loans are very business friendly and have the capacity to create employment and boost agribusiness. Nirsal loans have the capacity to increase food production, through mechanized and large scale farming, which could lead to food sufficiency, food processing and export of agricultural products.

9. CONCLUSION

Financing is very critical for every business endeavor. MSMEs form a good part of every economy and particularly developing economies like Nigeria. The much needed funds to grow the businesses of MSMEs and invariably grow the economy require secured lending, which most MSMEs are not able to provide. The Central Bank of Nigeria however issued its guidelines for the regulation and supervision of credit Guarantee Companies in 2022 in recognition of the role of guarantee schemes play in facilitating lending to MSMEs. Some Credit Guarantee Companies were already in existence before the Guidelines were issued, and were creating various Credit Guarantee Schemes and hopefully more will come up, with the emergence of the CBN *Guidelines for Regulation and Supervision of Credit Guarantee Companies in Nigeria, 2022*. Various credit Guarantee Companies like Infra Credit, Impact Credit Guarantee Limited (ICGL) and Nirsal (NIRSAL Credit Risk Guarantee), offer various Credit Guarantee Schemes. Their guarantee schemes have helped many MSMEs to bridge their funding gaps through various loans. The terms of their loans are business friendly and have the potential to engender economy growth, innovation and more employment. The Credit Guarantee Companies have recorded significant milestone since their inception. With time it will be necessary to measure the impact of these loans to the growth of the economy. However, the concern is whether the issue of Nigeria factor of corruption will not hijack the aim of the credit Guarantee companies, which calls for the need for strong supervision and regulation, to take care of that.

⁵¹ Nirsal Credit Risk Guarantee Brochure available at <www.nirsal.com> accessed 12th October, 2024.

10. RECOMMENDATION

This work recommends due implementation of the CBN guidelines, which is necessary to offer proper regulation. The CBN guidelines contain beautiful provisions, but implementation is another matter altogether. CBN guidelines provides for CGCs offering advisory services, technical assistance and project monitoring to MSMEs and PFIs. If all these are done, the Credit Guarantee Companies will fulfill their mandate.

This work also recommends strong supervision and regulation of the CGCs, ensuring that they maintain strong internal control system, in order to curb unsafe and unsound practices, as well as insider abuse by bank officials and management. CBN must ensure that they meet up with their disclosure requirements and statutory filings. This is imperative, because in a situation where people register pseudo companies and arrange fake and non-existent business plans and obtain loans, which they divert for their personal needs, that will defeat the purpose of establishing Credit Guarantee Companies/Schemes. A situation where bank officials use the funds provided by government or bodies like world to settle their friends and cronies. Where they reserve slots for the friends and cronies, who don't utilize the loans for business purposes, and sometimes have no intention of paying back the government loan. Some obtain agricultural loans and divert it to building their personal houses and marrying more wives. This can only be possible because there is no proper project monitoring. So, borrowers can afford to obtain loans meant for business and use them for other purposes and nobody can dictate that.

Furthermore, this work recommends proper appraisals of loan applications and maintenance of standards in granting loan. Loans should not be granted as of right, or arbitrarily, but given only to deserving individuals or companies. Even when a business lacks security, it should at least have a good business idea or plan. A situation were loans are given to those that are not deserving because they paid bribe or they are friends and relatives of the bank staffs or officials, that defeats the purpose of credit Guarantee Companies. If people without the basic criteria for accessing the loan are granted loans, while people with good and real business ideas are denied access to the loans, it also defeats the reason for establishing Credit Guarantee Companies.

Finally, this work proposes regular and adequate training, and sensitization of all the stakeholders in the Credit Guarantee Scheme offered to MSMEs, which include the Credit Guarantee Companies, the Participating Financial Institutions and MSMEs. They staff of all these stakeholders must be at

home with the aim of Credit Guarantee Companies, their objectives and how they operate, and the responsibilities and expectation from the CGCs, PFIs and MSMEs in a Credit Guarantee Scheme, because as the saying goes, when the purpose of a thing is not known, abuse is inevitable. If they understand the purpose of credit guarantee in bridging the funding gap of MSMEs, they will most likely not use the scheme as a settlement for their friends or cronies, or grant loans arbitrarily to undeserving persons.