**TERMS OF REFERENCE FOR TECHNICAL ASSISTANCE FROM THE ISLAMIC DEVELOPMENT BANK TO ENHANCE THE REGULATORY AND SUPERVISORY CAPACITY OF THE CENTRAL BANK OF NIGERIA**

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| **1.** | **INTRODUCTION** |

Central Bank of Nigeria (CBN) has received a Grant from the Islamic Development Bank (IsDB) to enhance the Regulatory and Supervisory Capacity of the CBN in the areas of Liquidity Management, Shari’ah Audit and Conversion of Conventional Banks to Non-Interest Banks.

The CBN had in 2011 issued the Framework for the Regulation and Supervision of Islamic banks (called non-interest banks in Nigeria), and the Guidelines on Non-Interest Window and Branch operations of Conventional Banks and Other Financial Institutions. Also, in 2017, the Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks in Nigeria was released. In addition, the CBN had issued a number of policies towards the regulation and supervision of non-interest (Islamic) banks in Nigeria. However, one of the challenges faced by the Islamic banks is dearth of competitive Shari’ah-compliant liquidity management instruments and lack of sufficient knowledge of the Shari’ah by examiners while supervising the banks.

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| **2.** | **BACKGROUND** |

Nigeria has made significant progress in the development of its non-interest banking industry. This progress is evidenced by the licensing of four (4) full-fledged non-interest banks (NIBs), one (1) window operating within a conventional bank, and five (5) Islamic microfinance banks (MFBs). The Central Bank of Nigeria (CBN) has further supported this growth by issuing a comprehensive framework of policies and guidelines for the regulation and supervision of non-interest banking institutions. Additionally, the CBN has taken the initiative to develop a set of Sharia-compliant financial instruments, with a total of six (6) instruments currently available**.**

However, compared with the number of liquidity management instruments available for the conventional banks, the Shari’ah-compliant instruments issued by the CBN are still grossly inadequate. More so, the instruments are not as competitive as the conventional instruments. This is because whereas the conventional instruments are readily available and return on them is assured and predictable, the Shari’ah-compliant instruments are scarce, and apart from the sovereign sukuk issued by the Federal Government of Nigeria (FGN), return is unpredictable, and payment is at the discretion of the CBN. This makes the instruments unattractive to the banks.

In the same vein, whereas there is a vibrant interbank market that exists among the conventional banks, the non-interest interbank market is shallow or almost non-existent in Nigeria. This further aggravates the liquidity management problem for non-interest banks in Nigeria. Hence, there is a need to train CBN staff on developing competitive Shari’ah-compliant instruments and to build a vibrant interbank non-interest market as obtained in other developed Islamic banking jurisdictions.

Furthermore, as the Nigerian non-interest banking industry evolves (over a decade since its inception), the need to develop the capacity of the CBN staff in the field of Shari’ah Audit becomes paramount. This is because compliance with the Shari’ah Principles is the bedrock of Islamic banks and is the key distinguishing factor that sets apart Islamic banks from conventional banks. The development of a Shari'ah Audit Manual would equip Central Bank of Nigeria (CBN) examiners with a standardized reference guide that would outline key steps involved in auditing critical products offered by Islamic banks as well as their processes. By providing clear expectations, the manual can help identify potential violations of Sharia principles. Early detection and mitigation of such violations are crucial, as Sharia non-compliance risk represents a significant threat to the stability of Islamic banks.

In addition to the above, the CBN receives lots of applications from conventional banks (especially microfinance banks) requesting to convert their operations to non-interest. Given the complexity involved in converting conventional banks to non-interest, receiving hands on training on the process involved would greatly assist the CBN in handling such requests.

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| **3.** | **OBJECTIVE, METHODOLOGY, SCOPE OF SERVICES & DELIVERABLES** |

The Technical Assistant (T.A) is expected to achieve the following key objectives:

1. Build the capacity of the CBN staff and other market players in the Nigerian non-interest banking industry in the following areas:
2. Sharia-compliant liquidity management instruments for managing liquidity in Islamic banks (money market instruments);
3. Shari’ah Audit; and
4. Process for converting conventional banks to non-interest banks.
5. Develop Shari’ah Audit Manual for examination of non-interest banks.

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| **4.** | **SCOPE AND DELIVERABLES** |

1. **Initial Study of the Nigerian Banking Industry**

The study would include a survey of the Nigerian banking industry in general and the non-interest sub-sector to have a good understanding of the strengths, weaknesses, opportunities, and threats facing the industry. This would assist the Consultant appointed or whoever is to undertake the study, the opportunity to understand the industry thoroughly and to proffer the right solutions to overcome the identified challenges.

The study would equally entail reviewing existing legislations guiding the operation of banks in Nigeria. Laws such as the Banks and Other Financial Institutions Act (BOFIA), 2020, Central Bank of Nigeria Act (CBN) 2007, Companies and Allied Matters Act (CAMA), 2020, the Money laundering (Prevention and Prohibition) Act, 2022 or MLA 2022 and other ancillary legislation. Reviewing these legislations would assist the Consultant appointed in having good understanding of regulations that need to be complied with in developing any product to be used in the Nigerian banking industry.

1. **Expected Deliverables**

Based on the initial study above, the programme is expected to achieve the following deliverables:

1. Develop competitive Sharia-compliant liquidity management instruments for managing liquidity by Islamic banks in Nigeria and train staff of the CBN on the application of the instruments;
2. Develop Sharia Compliance Audit Manual and train staff of the CBN on the developed Manual;
3. Refine guidelines for converting conventional banks to Islamic banks, and train CBN staff on implementing the guidelines and monitoring the process; and
4. Training of specified Islamic bank staff on newly developed liquidity management instruments.

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| **5.** | **SELECTION CRITERIA** |

Selection of Consultant (s) to anchor the programme would be carried out with the use of consultant qualification selection method (CQS), in accordance with the policies and procedures of the IsDB. The selection criteria will be based on the following five (5)factors:

1. Experience of the Consultant (as a firm) related to the entire assignment (30%);
2. Adequacy of the proposed work plan and methodology in responding to the Terms of Reference (TOR) (20%);
3. Qualifications and experience of the key partners in the Consultant’s firm in relation to the project (20%);
4. Evidence of similar trainings conducted, and results achieved after the training (20%); and
5. Evidence of familiarity with the Nigerian economy and the Nigerian banking industry (10%).

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| **6.** | **WORKING MODALITIES** |

The successful Consultant would be expected to work closely with staff of the CBN from the Financial Policy and Regulation Department (FPRD) and other relevant departments of the CBN including Legal Services Department (LSD), Financial Markets Department (FMD), Banking Supervision Department (BSD) and other agencies in Nigeria as may be recommended by the CBN. The Consultant will also be expected to participate in internal and external stakeholder discussions.

The Consultant shall be required to submit draft copies of the developed guidelines to FPRD in both soft (MS Word) and hard copies for review. They would equally be required to make a presentation to the CBN for feedback.

In addition to the above, the Consultant would be expected to carry out a desk review, field visit, in person meetings with stakeholders, and take into consideration, international best practices and local legislations while developing the guidelines and manual.

The Consultant shall work full-time or remotely on the project or as may be agreed with the CBN.

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| **7.** | **DURATION OF THE ASSIGNMENT** |

The consultant shall abide by the following timelines:

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| **S/N** | **EXPECTED DELIVERABLE** | **EXPECTED TIMELINE** |
| 1 | Initial Study of the Nigerian Banking Industry | 1 month |
| 2 | Sharia-compliant liquidity management instruments | 3 months |
| 3 | Training on Sharia-compliant liquidity management instruments | 2 weeks |
| 4 | Sharia Compliance Audit Manual | 3 months |
| 5 | Training on Sharia Compliance Audit Manual | 2 weeks |
| 6 | Review of the CBN guidelines for converting conventional banks to Islamic banks and training CBN staff on the mechanics of converting conventional banks to Islamic banks. | 4 weeks |

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| **9.** | **PAYMENT SCHEDULE** |

The payment schedule to the consultant will be based on the delivery of the following specific deliverables:

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| **No.** | **Deliverables** | **Details** | **% Payment** |
| 1. | **Project Plan** | Upon the successful award of the contract, the Consultant is required to provide a comprehensive project plan (including detailed Gantt Chart) outlining various steps and activities the consultant will undertake in order to complete the various components or milestones of the deliverables expected of the project. | 10 |
| 2. | **Initial Market Study** | After hiring and onboarding the successful Consultant, he would be expected to develop and deliver the Initial Market Study. The Consultant will make revisions as necessary based on feedback provided to the first draft of the Initial Market Study. Following revisions and resubmission, the hiring department will review again for any further changes required and revert to the Consultant if required. If satisfied, the department will forward the Initial Market Study for approval by the CBN and for IsDB’s no-objection. | 15 |
| 3. | **Sharia-compliant liquidity management instruments** | Once Initial Market Study is approved, the Consultant will be required to undertake the development of the liquidity management instruments in line with international best practice. He would be expected to work closely with the CBN to ensure that the developed instruments take into account the specificities of the Nigerian economy and enabling legislations and regulations.  The instruments would be expected to draw experiences from other jurisdictions with advanced Islamic industry that have successfully implemented Shari’ah-compliant liquidity management instruments.  Following revisions and resubmission, the CBN will review again for any further changes required and revert to the Consultant if required. If satisfied, the CBN will forward same to the IsDB for its no-objection and subsequently, for approval. | 15 |
| 4. | **Capacity building of CBN staff and staff of Islamic banks on Sharia-compliant liquidity management instruments** | After successfully developing the instruments, the Consultant would be expected to first train CBN staff on the implementation of the instrument.  The Consultant would equally be expected to train specified Islamic bank operators on the utilization of the instruments.  In conducting the training, the Consultant would be expected to collaborate with staff from other central banks that have implemented such instruments in order for them to share hands on experiences including challenges in the implementation of the instruments and how to overcome such challenges | 15 |
| 5. | **Sharia Compliance Audit Manual** | In developing the Sharia Compliance Audit Manual, the Consultant is expected to work closely with the CBN to ensure that the Manual takes into account the specificities of the Nigerian economy, enabling legislations and extant regulations, as well as the Resolutions of the Financial Regulation Advisory Council of Experts (FRACE).  It would equally be expected to consider the CBN Risk-Based Supervisory Framework currently being used by CBN Examiners in the examination of Islamic banks in Nigeria.  Following revisions and resubmission, the CBN will review again for any further changes required and revert to the Consultant if required. If satisfied, the CBN will forward same to the IsDB for its no-objection and subsequently, for approval. | 20 |
| 6 | **Capacity building of staff on Sharia Compliance Audit Manual** | After developing the Manual, the Consultant would be expected to train examiners of both the CBN and the Nigeria Deposit Insurance Corporation (NDIC) on the applicability of the Manual, and especially as it relates to identifying Shari’ah Non-Compliance Risk in the product offering and operations of Islamic banks.  In conducting the training, the Consultant is expected to expose the trainees, to the harmonization of Shari’ah Principles with banking and finance and risk management principles in conducting Shari’ah Audit in Islamic banks | 15 |
| 7 | **Review of the CBN guidelines for converting conventional banks to Islamic banks and training of CBN staff on the processes of conversion** | The Consultant is expected to review the CBN guidelines for the conversion of conventional banks to Islamic banks and train CBN staff on the processes of conversion.  The Consultant is expected to draw experiences from jurisdictions that have successfully converted conventional banks to Islamic banks, challenges they have encountered and how they have overcome them. | 10 |
|  |  | **Total** | 100% |