



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
DEVELOPMENT FINANCE PROJECT  
APPROVED ON SEPTEMBER 25, 2014  
TO  
FEDERAL REPUBLIC OF NIGERIA

FINANCE, COMPETITIVENESS AND INNOVATION

AFRICA

|                           |                      |
|---------------------------|----------------------|
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## ABBREVIATIONS AND ACRONYMS

|       |   |
|-------|---|
| CGF   | Credit Guarantee Facility                             |
| DBN   | Development Bank of Nigeria                           |
| DLIs  | Disbursement Linked Indicators                        |
| DFI   | Development Finance Institution                       |
| FMOF  | Federal Ministry of Finance                           |
| IBRD  | International Bank for Reconstruction and Development |
| IERD  | International Economic Relations Department           |
| MSMEs | Micro, Small and Medium Enterprises                   |
| PFI   | Participating Financial Institution                   |
| PIU   | Project Implementation Unit                           |



**BASIC DATA**

**Product Information**

|   |  |
|---|--|
| Project ID<br>P146319   | Financing Instrument<br>Investment Project Financing         |
| Original EA Category<br>Financial Intermediary Assessment (F) | Current EA Category<br>Financial Intermediary Assessment (F) |
| Approval Date<br>25-Sep-2014                                  | Current Closing Date<br>31-Dec-2021                          |

**Organizations**

|   |  |
|---|--|
| Borrower<br>Federal Republic of Nigeria | Responsible Agency<br>FEDERAL MINISTRY OF FINANCE, Development Bank of Nigeria |
|---|--|

**Project Development Objective (PDO)**

Original PDO

The project development objective is to increase the availability and access to finance for micro, small, and medium enterprises through eligible financial intermediaries with the support of a new wholesale development finance institution.

**Summary Status of Financing**

| Ln/Cr/Tf   | Approval    | Signing     | Effectiveness | Closing     | Net Commitment | Disbursed | Undisbursed |
|------------|-------------|-------------|---------------|-------------|----------------|-----------|-------------|
| IBRD-84410 | 25-Sep-2014 | 25-Feb-2015 | 08-May-2015   | 31-Dec-2021 | 500.00         | 274.18    | 225.82      |

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



## **I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING**

1. The project is funded by International Bank for Reconstruction and Development (IBRD) Loan in an amount of US\$500 million. It supports the establishment of the Development Bank of Nigeria (DBN), a wholesale development finance institution that will provide long term financing and partial credit guarantees to eligible financial intermediaries for on-lending to micro-, small, and medium enterprises (MSMEs). The project also includes technical assistance for DBN's institutional development as well as to eligible participating financial institutions – i.e. commercial banks - in support of downscaling their operations to the underserved MSME sector. The project has four components:

- i. Technical Assistance and Capacity Building in the amount of US\$12 million;
- ii. Line of Credit Facility in the amount of US\$445 million
- iii. Credit Guarantee Facility in the amount of US\$35 million; and
- iv. Project Management in the amount of US\$6.75 million.

In addition, the front-end fee of US\$1.25 million has been financed out of the proceeds of the loan.

2. The responsibility for implementation of Project Components 1, 2 and 3 is with the Development Bank of Nigeria (DBN) while the Project Implementation Unit (PIU) located at the International Economic Relations Department (IERD) within the Federal Ministry of Finance (FMOF) is responsible for implementation of Component 4. At project approval the PIU at FMOF was responsible for Component 1 but this was changed during the most recent project restructuring which transferred this responsibility to DBN. The PIU also serves as an administrative interface between the FMOF and the DBN regarding the on-lending of resources allocated under Components 2 and 3 - upon successful achievement of 6 Disbursement Linked Indicators (DLIs) - via the Subsidiary Loan Agreement between FMOF and DBN. The Project was approved in September 2014 and it became effective in May 2015. It was restructured in November 2018. The closing date of the project is December 2021. The disbursement rate is 55 percent.

### **Component 1: Technical Assistance and Capacity Building**

3. This component was designed to fund tailored technical assistance to eligible participating financial institutions (PFIs) - i.e. commercial banks - to successfully downscale their operations to underserved MSMEs, as well as to support institutional development of DBN aimed at operationalizing its mandate. Technical assistance to PFIs is instrumental for supporting banks to reach out to MSMEs beyond their traditional client base and enhancing banks understanding and usage of novel lending techniques (e.g. cash-flow-based) required in environments where MSME's access to collateral is limited and weaknesses in the financial infrastructure inhibit efficient foreclosure on collateral. Technical assistance to DBN is critical to ensure strong corporate governance and technical capacity to run wholesale banking and credit guarantee operations, market assessments, monitoring, reporting and impact evaluation, and observing related requirements such as environmental and social risk management. Following the transfer of responsibility for implementation of this component, the DBN has prepared Annual Work Plan and Procurement Plan and aims to commence procurement activities in April 2019, and to operationalize this work by September 2019.

### **Component 2: Line of Credit Facility**

4. This component was designed to provide US\$445 million to the DBN – extended via loan from the FMOF - designated for lines of credit to eligible PFIs for on-lending to eligible MSMEs. To date DBN has successfully achieved 3 DLIs which resulted in disbursement of US\$270 million in support of DBN's lending operations. To date, the DBN has achieved substantial implementation progress including expansion of lending operations to 15 financial institutions (5 banks



and 10 microfinance banks) with a volume of NGN31.2billion (around US\$102 million) - as at December 31, 2018 - which has been on-lent to over 35 thousand borrowers, 72 percent of which were women.

### **Component 3: Credit Guarantee Facility**

5. This component was designed to provide US\$35 million for a Credit Guarantee Facility (CGF) to be established as the DBN's wholly owned subsidiary. The establishment CGF is currently underway upon which the DBN will have a full set of instruments to support PFIs in reaching the underserved MSMEs towards achieving its mandate and project objectives. Following the establishment of CGF, appointment of CGF Manager, and adoption of credit guarantee manual, the project will be able to disburse US\$35 million Naira equivalent to capitalize the CGF entity under the third DLI. To date, the DBN has made progress to this end with the establishment and registration of CGF subsidiary, recruitment of Chief Executive Officer and Chief Financial Officer with a goal of fully operationalizing the facility by September 2019.

### **Component 4: Project Management**

6. This component was designed to fund the project management functions supporting the overall project implementation administered by the PIU (within the FMOF). While activities under this component were critical for the establishment of DBN prior to hiring of the DBN's permanent executive management, there were numerous implementation challenges and delays affecting overall project performance. To address implementation challenges and advance implementation of technical assistance the FMOF has agreed with the DBN and the World Bank on a project restructuring that would assign DBN with fiduciary responsibility for managing project's technical assistance activities which has now been completed. The PIU will continue to serve as administrative interface between the FMOF and the DBN regarding the on-lending of resources allocated under Components 2 and 3 - upon successful achievement of 6 Disbursement Linked Indicators (DLIs) - via the Subsidiary Loan Agreement between FMOF and DBN.

## **II. DESCRIPTION OF PROPOSED CHANGES**

7. The key proposed changes requiring amendment to Loan Agreement include changes in the language of DLIs V and VI to correct an inadvertent mistake in the way they were drafted. Specifically, DLIs V and VI refer to targets -- i.e. minimum volume of Development Finance Institution-DFI (i.e. DBN) loans to Participating Financial Institutions (PFIs) -- which need to be achieved in a period "*starting on the day immediately following Tranche IV/V disbursement*". In practice, from a technical and development objective point of view, it does not matter whether a specific volume of DFI loans was disbursed in a specific time period (i.e. following disbursement of a specific Tranche which is World Bank's administrative step) as long as the cumulative loan volume targets are met. The current wording of these DLIs does not reflect this nor does it incentivize the acceleration of achievement of cumulative loan volume target.

8. The Federal Ministry of Finance has therefore requested the Bank to clarify the language in DLIs V and VI and present the cumulative loan volume targets that need to be achieved for each DLI as opposed to a reference to a specific time period related to Tranche disbursement when the target should be achieved (which depends on market conditions) so as to make targets more predictable and to avoid potential misinterpretations. In addition, the FMOF has advised that following earlier project restructuring there would be no need to plan for establishment of the Steering Committee given the additional transfer of responsibilities from FMOF to DBN (i.e. Component 1) with which the task team fully agrees. The FMOF's request is included in Annex 1 to this restructuring paper.

9. The Table 1 below includes the proposed changes to the original DLIs V and VI from the Loan Agreement. All other aspects of the DLIs including Tranches linked to each DLI remain unchanged.



Table 1: Proposed Changes in DLIs V and VI

| DLI | Original Language  | Proposed Changes  | Justification   |
|-----|--|---|---|
| V   | Evidence, in form and substance satisfactory to the Bank, that during the period starting on the day immediately following Tranche IV disbursement, DFI has provided to PFIs minimum volume of USD50 million equivalent in DFI loans.  | <b>Evidence, in form and substance satisfactory to the Bank that DFI has provided to PFIs a cumulative volume of USD80 million equivalent in DFI loans.</b>   | The DLI IV was the first DLI referring to DFI loan targets setting the minimum volume of DFI loans to USD30 million which was successfully achieved. The proposed change therefore converts the subsequently required additional minimum volume of USD50 million into a cumulative target of USD80 million making the target more objective and avoiding potential misinterpretations while retaining the original target intact. |
| VI  | Evidence, in form and substance satisfactory to the Bank, that during the period starting on the day immediately following Tranche V disbursement, DFI has: (i) provided to PFIs a minimum volume of USD100 million equivalent in DFI Loans; and (ii) unless otherwise agreed in writing by the Bank, issued and sold new bonds the proceeds of the sale of which shall be used to fund lines of credits to PFIs for onlending to Eligible Beneficiaries with a minimum volume of bonds outstanding equivalent to USD50 million. | <b>Evidence, in form and substance satisfactory to the Bank that DFI has: (i) provided to PFIs a cumulative volume of USD180 million equivalent in DFI Loans; and (ii) unless otherwise agreed in writing by the Bank, issued and sold new bonds the proceeds of the sale of which shall be used to fund lines of credits to PFIs for onlending to Eligible Beneficiaries with a minimum volume of bonds outstanding equivalent to USD50 million.</b> | In line with the rationale outlined above, the proposed change converts the additional minimum volume of DFI loans of USD100 into a cumulative target of USD180 million.  |

I. SUMMARY OF CHANGES

|                                  | Changed | Not Changed |
|----------------------------------|---------|-------------|
| Other Change(s)                  | ✓       |             |
| Implementing Agency              |         | ✓           |
| DDO Status                       |         | ✓           |
| Project's Development Objectives |         | ✓           |
| Results Framework                |         | ✓           |



|  |  |   |
|--|--|---|
| Components and Cost                          |  | ✓ |
| Loan Closing Date(s)                         |  | ✓ |
| Cancellations Proposed                       |  | ✓ |
| Reallocation between Disbursement Categories |  | ✓ |
| Disbursements Arrangements                   |  | ✓ |
| Disbursement Estimates                       |  | ✓ |
| Overall Risk Rating                          |  | ✓ |
| Safeguard Policies Triggered                 |  | ✓ |
| EA category                                  |  | ✓ |
| Legal Covenants                              |  | ✓ |
| Institutional Arrangements                   |  | ✓ |
| Financial Management                         |  | ✓ |
| Procurement                                  |  | ✓ |
| Implementation Schedule                      |  | ✓ |
| Economic and Financial Analysis              |  | ✓ |
| Technical Analysis                           |  | ✓ |
| Social Analysis                              |  | ✓ |
| Environmental Analysis                       |  | ✓ |

**IV. DETAILED CHANGE(S)**



**The World Bank**

Development Finance Project (P146319)

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**Annex 1: Request for Project Restructuring from the Federal Ministry of Finance**



## FEDERAL MINISTRY OF FINANCE

International Economic Relations

DEPARTMENT \_\_\_\_\_

Website: [www.fmf.gov.ng](http://www.fmf.gov.ng)

Telephone: \_\_\_\_\_

F.11373/S.34/C.1606/III/88

Ref. No. \_\_\_\_\_

Date: **March 08, 2019**

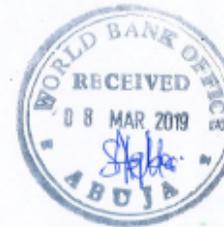
**The Country Director**

World Bank Country Office

Plot 102 Yakubu Gowon Crescent

Asokoro

Abuja



**WORLD BANK ASSISTED DEVELOPMENT FINANCE PROJECT:**

**REQUEST FOR ANOTHER PROJECT RESTRUCTURING**

I am directed to refer to the above subject and to submit herewith the evidence of compliance with the fourth disbursement linked indicator (DLI) by the Development Bank of Nigeria (DBN)'s following DBN's successful commencement of lending operations and achievement of stated DLI targets.

2. However, after a critical review of the subsequent project DLIs (V and VI), the language in these DLIs did not appear sufficiently clear. The said DLIs appear to link the achievement of objective loan volume targets (i.e. *minimum volume of DFI loans to PFIs*) with a time period following the disbursement of previous Tranche. In practice, the disbursement of loans from DBN to its partner Banks (i.e. PFIs) primarily depends on market demand, as opposed to mere timing of the disbursement of the prior project Tranche. In this regard, and from the development objective point of view, the critical indicator is whether the cumulative loan volume targets have been met.



3. Therefore, a project restructuring becomes imperative to clarify the language in DLIs V and VI and include cumulative loan volume targets that need to be achieved for each of these remaining DLIs, irrespective of the timing of the prior Tranche disbursement. This will make the DLI targets more objective and predictable and to avoid potential misinterpretations.
4. Furthermore, following the first project restructuring which moved some responsibilities of the DF-PIU to the DBN, there is no discernible role envisaged for the Steering Committee (SC) under the current structure. Consequently, there is the need to scrap the SC from the Institutional arrangement of the Project implementation
5. Please, accept the assurances of the warm regards of the Honourable Minister of Finance.

**Aliyu Ahmed**

Director, International Economic Relations

For: Honourable Minister of Finance