

# Evaluation Summary

## *Credit Line to the Development Bank of Nigeria (DBN)*

Country: **Nigeria**

Sector: **MSME Finance**

Evaluator: HORUS Development Finance on behalf of the Consortium CA 17 International / AETS / CACG / EPOS

Date of the evaluation: **October 2022 – January 2023**

### Key data on AFD's support

**Project number:** CNG 1032

**Amount:** USD 130 M (Credit Line)

**Disbursement rate:** 100%

**Signature of financing agreement:** December 2015

**Completion date:** August 2021

**Total duration:** 6.5 years

### Context

AFD's credit line to Development Bank of Nigeria (DBN) is part of a larger multistakeholder Project led by the World Bank that was designed to support the creation of a new Development Finance Institution in Nigeria to foster access to finance of Micro, Small and Medium enterprises (MSMEs). It was designed in 2014 upon request of the Federal Government of Nigeria. An important financing gap had been identified for MSMEs and the creation of the Development Bank of Nigeria was one of the solutions proposed by the government to fill this gap, alongside with a range of reforms such as a regulation introduced in 2019 for commercial banks, requiring them to respect a minimum loan to deposit ratio of 60%.

### Actors and operating method

The multistakeholder Project consisted in a USD 1,225 bn credit facility provided by AFD, World Bank, AfDB and KfW, USD 300 M invested in equity into the structure by the government and development partners, USD 35 M provided by the World Bank as guarantee and USD 20 M provided by the World Bank as Technical Assistance. DBN would provide refinancing to Participating Financial Institutions (PFIs), for them to on-lend to MSMEs.

AFD's contribution took the form of a subsidized credit line of USD 130 M allocated to the Federal Government of Nigeria in USD and on-lent to DBN in Naira. It was a 15-year credit line with 5-year grace period, dedicated to finance MSMEs and small corporates (up to 20%).

### Objectives

Objectives for AFD's credit line to DBN were fixed at the multistakeholder Project's level.

The overall objective of the Project was to foster diversified economic growth generating employment by providing MSMEs with a better access to finance and banking service. To this aim, the project targeted two specific objectives:

- Increase the availability and access to mid-term and long-term credit for MSMEs and
- Develop a new offer of financial products and increase access to financing for Nigerian SMEs in the banking sector (strategy, product, organization, procedures, risk analysis...)

### Expected outputs

The expected output were as well fixed at the multistakeholder Project's level. They were the following:

1. Strengthened capacities of the financial institutions
2. Viable and functional Development Finance Institution (DBN) allowing Eligible Participating Financial Institutions to access long term financial resources at reasonable costs and in local currency
3. Functional Credit Guarantee scheme

## Performance assessment

### Relevance

Considering the MSME financing gaps in Nigeria and the limits of existing public incentives, DBN's creation was relevant, as well as its positioning as a sustainable wholesale development finance institution. It enabled AFD to reach smaller financial institutions, targeting more vulnerable populations. The credit lines offer, DBN's core activity, to which AFD provided its financial support, only partly answered to the needs of end-beneficiaries and PFIs as it didn't directly address the major constraint of commercial banks' high risk perception of the MSME segment. However, combined with technical assistance to financial institutions, it certainly contributed to lower this perception. AFD's credit line characteristics were satisfying as regards to DBN's needs.

### Coherence

DBN's creation was fully aligned with the Federal Government of Nigeria's intervention framework for MSMEs launched at the same period, as well as with AFD's intervention strategy in Nigeria. Nevertheless, the attractiveness of the credit lines offer was affected by parallel, highly subsidized schemes promoted by the Central Bank of Nigeria (CBN). The multistakeholder Project allowed for very good coordination of the development partners.

### Effectiveness

AFD's credit line of USD 130 M was fully disbursed within 6 years and was on-lent to over 34,000 MSMEs and small corporates, in accordance with the project's eligibility criteria. The multistakeholder Project contributed to the emergence of a financially sound, well governed and well managed national development finance institution. DBN managed to enrol a significant number of PFIs and disburse funds to several of them. Besides, it has overperformed in terms of reaching women end-beneficiaries. However, DBN still needs to confirm its potential by reaching a more significant scale and to prove its additionality at end-beneficiaries' level. In particular, first-time borrowers are a neglectable part of AFD's credit line and of DBN's end-borrowers in general (though it has progressed from 8 to 11% between 2021 and 2022).

### Efficiency

The structure of the multistakeholder Project, which ensured a good coordination of the approaches without imposing a complex governance proved to be very efficient. The flexibility allowed to DBN in terms of disbursement process (no validation needed from AFD to enrol a new partner financial institution, but clear predefined eligibility criteria) was also a key success factor of the Project.

### Impact

The Project has contributed to increasing Microfinance Banks' lending capacities and mobilizing commercial banks on the MSME topic. At first, DBN's credit lines have been mostly used at end-beneficiary level to finance short term loans (up to 24 months). However, DBN has been recently able to significantly increase the maturities at end-beneficiary level, especially with the introduction of a long-term finance facility to PFIs. In number, loans for the trade sector are a majority. However, in volume, a significant part of the credit lines have been used to finance the manufacturing sector. The definition of specific targets and preferential conditions for segments/projects/locations with the highest developmental impact or less served by the banking sector, as well as targeted technical assistance both to FIs and end-beneficiaries could probably lead to a higher additional impact.

### Sustainability

The Project will most likely have long term effects on access to finance for end-beneficiaries, as DBN appears as a sustainable structure and as technical capacities have been created within the banking sector. However, DBN needs to confirm its business model and fund raising strategy in order to be able to reach scale while ensuring its financial sustainability.

### Added value of AFD's contribution

AFD positioned itself at the right time and with a relevant instrument that corresponded both to the needs of the multistakeholder Project and to AFD's tools and funding capacities.

## Conclusions and lessons learnt

AFD's credit line to DBN contributed to the establishment of a well-managed national development finance institution. Despite the Covid crisis and the challenges linked to the creation of a new structure, the Project has achieved good results. The concessionality of the credit line was justified in the context of a newly-established institution. In the future, concessionality should be justified by clear additionality at end beneficiary level (ex: thematic line). Besides, the capacity of DBN to reach scale based on the credit line offer has to be confirmed. DBN is actively working on this aspect.

DBN seems as a relevant intermediary for future AFD projects in MSME finance in Nigeria. Technical assistance and Credit Guarantee Scheme seem at least as key as refinancing to foster financial inclusion in Nigeria. The value proposition of a future AFD intervention should be precisely defined for commercial and microfinance banks.

A future AFD Project should concentrate on maximizing additional impact at end-beneficiary level by:

- creating the right incentives at partner financial institutions' level through technical assistance and attractive lending conditions.
- defining relevant indicators at project's level to maximize developmental impact at end-beneficiary level and ensure both DBN and the partner financial institutions' capacities to collect and monitor them.