

**INTEGRATED SAFEGUARDS DATA SHEET
APPRAISAL STAGE**

Date prepared/updated: August 25, 2014

I. BASIC INFORMATION

1. Basic Project Data

Country: Federal Republic of Nigeria		Project ID: P146319	
		Additional Project ID (if any):	
Project Name: Development Finance Project			
Task Team Leader: Arnaud Dornel, Andrej Popovic			
Estimated Appraisal Date: June 20, 2014		Estimated Board Date: September 25, 2014	
Managing Unit: GFMDR		Lending Instrument: Investment Project Financing	
Sector: Banking (10%), SME Finance (50%), Microfinance (30%), Other non-bank financial intermediaries (10%)			
Theme: Corporate governance (10%), Regulation and competition policy (10%), Micro, Small and Medium Enterprise support (80%)			
IBRD Amount (US\$m.): 500 IDA Amount (US\$m.): GEF Amount (US\$m.): PCF Amount (US\$m.): Other financing amounts by source:			
Environmental Category: FI-2 Financial Intermediary Assessment			
Is this a transferred project	Yes []	No [X]	
Simplified Processing	Simple []	Repeater []	
Is this project processed under OP 8.00 (Rapid Response to Crises and Emergencies)	Yes []	No [X]	

2. Project Objectives:

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.

3. Project Description¹:

Component 1: Technical Assistance and Capacity Building (US\$12 million)

The project will fund tailored technical assistance to the Development Finance Institution (DFI) and participating financial institutions (PFIs) and provided by qualified external providers.

The support to the DFI will include technical assistance and institution building to enhance its operational capacity. The proposed support includes but is not limited to defining and

¹ In addition to four project components, the front-end fee of US\$1.25 million will also be financed out of the proceeds of the loan.

establishing robust operating principles, policies, procedures, and governance, design and roll out of finance instruments, assistance with pilot bond issuance, setting up and implementing monitoring and evaluation practices, impact assessment methodologies, financial consumer protection mechanisms, environmental and social safeguards system, and so forth. This component will also support capacity building for the FMOF to ensure adequate policy and technical oversight of the new DFI.

The project will also support strengthening the institutional and human resource capacity of (PFIs) with the tailored technical assistance to enhance their ability to serve the micro-, small-, and medium enterprise (MSME) sector. Among the areas to supported are recruiting and training new loan officers, strengthening of lending policies and procedures, putting in place appropriate accounting, risk management, and management information systems, supporting the sub-loan application process through enhancing screening and decision-making capacity, supporting development of capacity in sub-loan monitoring and collections, environmental and social safeguards system, and establishing financial consumer protection procedures.

The TA will also include support to the DFI and its PFIs in building capacity to implement World Bank Group (WBG) Performance Standards. The areas to be supported will include: i) capacity building of the DFI to implement the Environmental and Social Operations Manual (ESOM); ii) support to the PFIs in improving their knowledge of and implementation of the Performance Standards; and iii) leveraging IFC's existing programs to ensure continuous support is available to PFIs through its local consulting pool to ensure that WBG Performance Standards are applied in project assessments.

Specific attention will be paid to cater to supporting the needs of female entrepreneurs, given that their access to finance is particularly constrained. This will be primarily achieved by sensitizing PFIs to gender issues during provision of TA and specifically targeting women entrepreneurs.

Component 2: Line of Credit Facility (US\$445 million)

This component will provide US\$445 designated for lines of credit to eligible PFIs for on-lending to eligible enterprises and sub-projects. Sub-loans will be extended to eligible MSMEs and to a limited extent small corporates (up to 10 percent of available line of credit resources will be allocated for the latter) which will include both investment and working capital loans in the expected amount of up to US\$500 thousand equivalent for MSMEs and up to US\$2 million for small corporates.

Component 3: Credit Guarantee Facility (US\$35 million)

The project will support the establishment of a Credit Guarantee Facility (CGF). The credit guarantee facility will provide a 50 percent guarantee on bank loans made to SMEs. Banks will have to meet the same criteria for eligibility as for the DFI's credit line instrument. Guarantees will be priced, based on each bank's performance indicators in managing its SME portfolio, notably the level of non-performing loans and write-offs.

Component 4: Project Management (US\$6.75 million)

This component will fund the project management functions supporting overall project implementation. These include fiduciary requirements such as procurement, financial management, withdrawal and disbursement requests, as well as program outreach, communication, and reporting, monitoring and evaluation, and impact assessment. This component will fund relevant staff, consultants, training, equipment, and operational expenses. As part of this component funding will be provided to ensure that proposed technical assistance activities and consulting services under the project's Components 1 and 4 are undertaken in compliance with the World Bank fiduciary requirements.

This component will also provide support for developing and testing mechanisms for reducing the cost of SME credit such as auctioning of credit line funds and incentives-based first loss facility². In order to put competitive pressure on the spreads offered by banks to final borrowers interest rates will be determined by an auction process under which PFIs will compete on the basis of the spread they propose to offer to particular market segments. The focus of the first loss facility will be to explore possibilities for providing up to 15 percent first loss coverage for loans to first-time borrowers in order to reduce bank credit risks for the first 1 to 2 years of a loan's term.

4. For Category C projects, project location and rationale for finding of little or no environmental or social risk or impact:

N/A

5. For Category FI projects types of activities or sectors likely to be supported by the FI with Bank financing or other financial support, and rationale for classification as Category FI-1, FI-2, or FI-3:

The project is categorized as a Financial Intermediary (FI) project and the appropriate FI category is FI-2. This is based on the assumption that the sub-loan portfolio may potentially comprise subprojects that have limited and moderate adverse environmental or social risks or impacts that are few in number - generally site-specific, largely reversible, and readily addressed through mitigation measures - or that it may include a very limited number of subprojects with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented. In terms of the proposed sub-project activities, while they are not limited to specific sectors, they are expected to include small scale manufacturing, light industry, transport, trade, hospitality, agriculture, and similar activities. It is important to note that these activities will be limited in scope due to the fact that the loan sizes are relatively small and capped, and given that the MSME and small corporates sector is either not, or is only to a limited extent engaged in larger scale manufacturing or agriculture. It is therefore expected that these activities will have a limited negative environmental and social footprint. Nevertheless, adequate measures will be taken to screen any project that may potentially have a more significant adverse impact.

² Unrelated to the Credit Guarantee Facility presented in Component 2.

While the project is not expected to have adverse social risks, and long-term or large-scale negative environmental impacts, adequate measures will be taken to mitigate potential environmental and social risks, in line with the World Bank Group (WBG) Performance Standards. Specifically, an Environmental and Social Operations Manual (ESOM) will be applied by the DFI and all PFIs. The capacity of DFI and PFIs to assess and mitigate environmental and social risks will also be developed.

Through explicit review of social issues at the implementation level and the overall attention to the market gaps in finance which impact MSMEs sector, the project design reflects safeguards and elements to support sustainable livelihoods. Social risk screening will review particularly: i) commitment to the fair treatment, non-discrimination and equal opportunity of employees, maintenance of employee-management relationships, and compliance with national employment and labor laws (Performance Standard 2 on Labor and Working Conditions); and ii) application of all applicable national and state laws and regulations pertaining to home ownership, occupancy and land tenure (Performance Standard 5 on Land Acquisition and Involuntary Resettlement). The sub-projects will need to meet the requirements of PS's 2 and 5.

The principal activities of the DFI will be to provide wholesale term funding in local currency and partial credit risk guarantees to eligible participating financial institutions (e.g. commercial banks, microfinance banks, leasing companies) for -lending to eligible sub-borrowers for eligible activities.

Sub-borrowers will be creditworthy private sector MSMEs and small corporates which meet all of the following criteria:

Enterprise Type	# Employees	Annual Turnover	Total Assets	Max. Loan Size
MSMEs	< 250	< \$3.125mn (N500mn)	<\$3.125mn(N500mn)	< \$500k(N80mn)
Small Corporates	< 500	< \$15mn (N2.4bn)	< \$15mn (N2.4bn)	< \$2mn(N320mn)

Total amount of DFI support to small corporates will be limited to 10% of available credit line resources.

Eligible Sub-Loan Activities and Terms: Sub-loans will be extended to eligible MSMEs and small corporates (up to 10% of available DFI credit line resources for the latter) which will include both investment and working capital loans in the expected amount of up to US\$1 million equivalent for MSMEs and up to \$2million for small corporates. The sub-loan maturity is expected to be up to 10 years with a grace period of up to 18 months, specifically:

- a. **Investment Loans:** the maximum available sub-loan amount will be US\$500 thousand for MSMEs and US\$2 million for small corporates. Maximum maturity will be 10 years with grace period of up to 18 months.
- b. **Working Capital Loans:** the maximum available sub-loan amount will be US\$200 thousand for MSMEs and US\$800 thousand for small corporates. Maximum maturity will be 3 years with grace period of up to 6 months.

While the proposed activities are not expected to have a substantial negative environmental and social impact, adequate mitigation mechanisms will be established and implemented. One of the prerequisites of the World Bank Group support for the DFI in Nigeria is that the PFIs integrate into their lending operations the requirements of environmentally and socially sound and sustainable development as identified in laws and regulations of Nigeria and the sustainability policies and frameworks in line with the World Bank Group standards. Accordingly, the ESOM will serve as the guiding document ensuring that all project activities comply with the mandated environmental and social safeguard requirements. These measures will ensure that appropriate risk management measures have been identified for implementation by the loan applicant. While, Performance Standards 1, 2, and 5 are expected to be the only applicable standards for this project, each PFI will assess E&S risks of transactions according to Performance Standards 1 through 8 and will require its borrowers/investees to meet the requirements of these Performance Standards in their operations.

The ESOM, along with the Environmental and Social Management System (ESMS) that is established by each PFI, should meet the requirement of the World Bank Group that a financial intermediary has established an appropriate s ESMS. PFIs are required to establish or arrange for proper capacities to duly implement their ESMS in a manner consistent with the guidance provided in this manual. If a PFI does not have the capacity to implement the ESMS, the project would support the PFIs to develop an Action Plan that identifies all action necessary to meet the requirements set forth in this manual.

6. Environmental and Social Safeguards Specialists on the Team:

Obi Ugochuku (Consultant)
Joseph Akpokodje (AFTN1)
Paula F. Lytle (AFTCS)

6. Performance Standards Applicable	Yes	No
PS 1: Assessment and Management of Environmental and Social Risks and Impacts	x	
PS 2: Labor and Working Conditions	x	
PS 3: Resource Efficiency and Pollution Prevention		x
PS 4: Community Health, Safety, and Security		x
PS 5: Land Acquisition and Involuntary Resettlement	x	
PS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources		x
PS 7: Indigenous Peoples		x
PS 8: Cultural Heritage		x

7. If PS 1 and PS 2 are NOT applicable, provide a brief explanation why:

N/A

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe key environmental and social risks and impacts likely to be associated with the proposed project, if Category C, or the Bank-supported portfolio, if Category FI:

It is anticipated that a number of transactions covered by the Development Finance Institution (DFI) will be services or investments that will have little or no negative environmental or social impact. However, it is recognized that there may be some business activities in which the environment and social risk and impacts may be more significant and may require commensurate assessment and management (e.g. land acquisition, labor and working standards, inappropriate disposal of wastes or unhealthy or hazardous working conditions). Procedures and guidance will be developed in a manual for screening, assessing and managing these risks for transactions funded by the new DFI.

2. Describe the key features of the client's Social and Environmental Management System and the capacity to implement it in a responsible manner:

Procedures and guidance will be developed in the Environmental and Social Risk Management Operations Manual (ESOM) for the new DFI that will define all the requirements of an Environmental and Social Management System (ESMS) for all Participating Financial Institutions (PFIs) that will include procedures for screening, assessing, and managing these risks for transactions under each PFI.

The ESOM requires that the PFIs integrate into their lending operations the requirement of environmentally and socially sound and sustainable development as identified in laws and regulations of GoN and the sustainability policies and frameworks prescribed by WBG Performance Standards. The Central Bank of Nigeria (CBN) sustainability guidelines will be adopted as much as possible particularly where there are overlaps with World Bank safeguard standards. In summary, the World Bank Group and the Federal Ministry of Finance (FMoF) will collaborate to ensure that the PFIs use the required procedures in screening loan applications for environmental and social risks and ensuring that appropriate risk management measures have been identified and implemented by the final borrowers.

3. Describe the key instruments used by the client to identify and assess risks and impacts, and measures taken by the client to address environmental and social risks and impacts of the project. Provide an assessment of client's capacity to implement the measures described:

The ESOM, along with the Environmental and Social Management System (ESMS) that will be established by each PFI, will also meet the requirement of the World Bank Group Performance Standards for financial intermediary lending. Participating financial institutions are required to establish or arrange for proper capacities to duly set up their ESMS in a manner consistent with the guidance provided in the ESOM. If a PFI does not have the capacity to establish such an ESMS and/or prepare appropriate environmental and social management documents (e.g. Environmental and Social Management Frameworks, Environmental and Social Impact Assessments, and/or Environmental and Social Management Plans, Resettlement Policy Frameworks, Resettlement Action Plans, etc.), the World Bank Group reserves the right of prior review and approval of all transactions that take place under the DFI

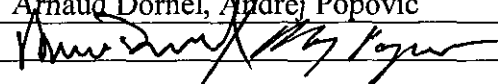
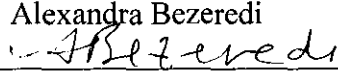

until such capacity is developed. Also, capacity building measures will be provided under the project. Alternatively, satisfactory arrangements which include external expertise assisting the PFIs in establishing the ESMS and implementing the environmental and social management documents may be considered.

B. Disclosure Requirements Date	
For Category FI -- FI's Policy Statement and Procedures for Screening and Assessing Risks:	
Dates of "in-country" disclosure	
Date of submission to InfoShop	
If in-country disclosure of any of the above documents is not expected, please explain why:	

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

Client's Environmental and Social Management System			
Has the client developed an appropriately detailed ESMS, and does the client have the technical and organizational capacity to implement it?	Yes []	No []	N/A []
Labor and Working Conditions			
Does the client have a written human resources policy available to all employees that describes labor and working conditions?	Yes []	No []	N/A []
Monitoring and Reporting			
Has the client agreed to submit an annual Environmental and Social Performance Report to the Bank to report progress on implementation of its ESMS, and does the Legal Agreement contain this provision?	Yes []	No []	N/A []

D. Approvals

Signed and submitted by:	Name	Date
Task Team Leader:	Arnaud Dornel, Andrej Popovic 	08/27/2014
Approved by:		
Regional Safeguards Coordinator:	Alexandra Bezeredi 	08/28/2014
Comments:		
Sector Manager:	Irina Astrakhan 	08/28/2014
Comments:		