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PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 22.3 MILLION
(US$32 MILLION EQUIVALENT)

TO THE

REPUBLIC OF NIGERIA

FOR

MICRO, SMALL AND MEDIUM ENTERPRISE PROJECT

November 18, 2003

Private Sector and Finance
Africa Regional Office

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 16, 2003)

Currency Unit = Naira
Naira 137.35 = US$1
US$0.0073 = Naira 1

FISCAL YEAR
January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

ACCION	ACCION (Americans for Community Co-operation in Other Nations) International
ADR	Alternative Dispute Resolution
BDS	Business Development Services
BDSF	Business Development Services Fund
BMO	Business Membership Organization
CAC	Corporate Affairs Commission
CAS	Country Assistance Strategy
CBN	Central Bank of Nigeria
CFAA	Country Financial Accountability Assessment
CGAP	Consultative Group to Assist the Poorest
CPAR	Country Procurement Assessment Report
CRMS	Credit Risk Management System
DFID	Department for International Development, UK
EA	Executing Agency
ELAN	Equipment Leasing Association of Nigeria
ERR	Economic Rate of Return
FATE	FATE Foundation
FGN	Federal Government of Nigeria
FD/NIPC	Finance Department/Nigerian Investment Promotion Commission
FIAS	Foreign Investment Advisory Service
FIRS	Federal Inland Revenue Service
FPM	Financial Procedures Manual
FPSI Network	Financial, Private Sector and Infrastructure Network
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft Fur Technische Zusammenarbeit (GTZ)GmbH
IAU/NIPC	Internal Audit Unit/Nigerian Investment Promotion Commission
ICA	Investment Climate Assessment
ICR	Implementation Completion Report
IDA	International Development Association
IFC	International Finance Corporation
JISU	Joint Interim Strategy Update
LIL	Learning and Innovation Loan

M and E	Monitoring and Evaluation
MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
NBCI	Nigeria Bank for Commerce and Industry
NEEDS	National Economic Empowerment and Development Strategy
NERFUND	Nigerian Economic Reconstruction Fund
NGO	Non-Governmental Organization
NIDB	Nigeria Industrial Development Bank
NIPC	Nigerian Investment Promotion Commission
NPV	Net Present Value
OPCPR	Procurement Service Policy Group
PIM	Project Implementation Manual
PMU	Project Management Unit
PPF	Project Preparation Facility
PRIU	Procurement Reform Implementation Unit
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
RC	Review Committee
RPED	Regional Program for Enterprise Development
SA	Special Account
SME	Small and Medium Enterprise
SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
SMIEIS	Small and Medium Industries Equity Investment Scheme
SPN	Specific Procurement Notice
STEP	Support and Training Entrepreneurship Program
TA	Technical Assistance
TOR	Terms of Reference
TTL	Task Team Leader
UNCITRAL	United Nations Commission on International Trade law
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value-Added Tax
WOCCU	World Council of Credit Unions

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NIGERIA
MICRO, SMALL AND MEDIUM ENTERPRISE PROJECT

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Annexes

NIGERIA
Micro, Small and Medium Enterprise Project

Project Appraisal Document

Africa Regional Office
AFTPS

Date: November 18, 2003
Sector Manager/Director: Demba Ba
Country Manager/Director: Mark D. Tomlinson
Project ID: P083082
Lending Instrument: Specific Investment Loan (SIL)

Team Leader: Peter Mousley
Sector(s): General finance sector (58%), Other industry (42%)
Theme(s): Small and medium enterprise support (P), Other financial and private sector development (S)

Project Financing Data

[ ] Loan [X] Credit [ ] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Amount (US$m): US$32.00 million

Proposed Terms (IDA): Standard Credit
Commitment fee: 0.00-0.50 percent **Service charge:** 0.75%

Financing Plan (US$m): Source	Local	Foreign	Total
BORROWER	1.00	0.90	1.90
IDA	11.90	20.10	32.00
INTERNATIONAL FINANCE CORPORATION	0.00	1.50	1.50
LOCAL SOURCES OF BORROWING COUNTRY	24.00	0.60	24.60
Total:	36.90	23.10	60.00

Borrower: GOVERNMENT OF NIGERIA
Responsible agency: NIGERIAN INVESTMENT PROMOTION COMMISSION
Address: Plot 1181, Aguiyi Ironsi Street, P.M.B. 381, Garki, Maitama District, Abuja, Nigeria
Contact Person: Lawal G. Lantewa, Director, Policy Advocacy and External Relations
Tel: (234)09-413-2224 Fax: (234)09-413-4803 Email: Lantewa@Yahoo.Com

Estimated Disbursements (Bank FY/US$m):

FY	2005	2006	2007	2008	2009				
Annual	4.10	6.50	8.10	9.90	3.40				
Cumulative	4.10	10.60	18.70	28.60	32.00				

Project implementation period: 2004 - 2009
Expected effectiveness date: 06/15/2004 **Expected closing date:** 06/30/2009

A. Project Development Objective

1. Project development objective: (see Annex 1)

The Micro, Small and Medium Enterprise (MSME) Project in Nigeria aims to increase the performance and employment levels of MSMEs in selected non-oil industry sub-sectors and in three targeted states of the country. To achieve this, the project in Nigeria will: (i) develop and strengthen the capacity of local intermediaries to deliver financial and non-financial services to MSMEs; (ii) reduce selected investment climate barriers that constrain MSME performance; (iii) mobilize, via (i) and (ii), increased private investments in MSMEs and intermediaries.

2. Key performance indicators: (see Annex 1)

Considering the pilot nature of this operation which will involve the introduction of new types of private-public participation in the delivery of services to MSMEs, a performance monitoring and evaluation framework is being designed to assess results at four levels: (1) output; (2) intermediary (BDS and financial institution) outcome; (3) firm outcome; and (4) impact. The results will be assessed across the four principal components of the project. Assessments will focus on determining the extent to which the grant and technical assistance provided by the Government through this project to intermediaries resulted in significant additional private sector investment and sustained improvements in provider and firm performance – including employment creation.

Quantitative methods and qualitative assessments will be generated through case studies of individual firms and surveys in order to ascertain that, as a result of the types of interventions to be undertaken by the project, sustainable increases in firm productivity and employment can be achieved. The modalities of implementation, including detailed methodologies and Terms of Reference (TORs), will be finalized as part of the implementation manual. A preliminary set of performance targets for the project are set out in Annex 16. As this project is to be driven very much by market demand, these targets will be revised throughout the project as practical knowledge of new markets and how they respond to the services generated through this project increases. This will enable the project to adapt and extend its targets.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)
Document number: : Joint Interim Strategy Update (JISU) (Report No. 23633-UNI) presented February 13, 2002.
Date of latest CAS discussion: CAS scheduled for Board discussion in May, 2004.

With a GDP of about $40 billion, Nigeria is Africa's second largest economy. However, 70 percent of its population lives below the poverty line with an average per capita income of $200. Its economy is a dichotomy between the oil and non-oil producing sectors, with the middle-income oil-producing economy of perhaps five million people having a per capita income of about US$2,200. The rest of the population is part of a poor non-oil producing economy. Based on the United Nations Development Program's (UNDP) Human Development Index, Nigeria ranks low in the human development category -- 151st out of 174 countries for which UNDP has data, and 22nd out of 45 African countries. The fundamental cause of poverty in Nigeria is the economic stagnation that the country has experienced for almost two decades.

International Development Association (IDA) notes in its Interim Strategy Update for the Federal Republic of Nigeria (February 2002) that while best estimates suggest that the economy has grown by an average of 2.9 percent per year since 1993, substantial poverty reduction would require annual growth of around five percent in agriculture and eight to ten percent in the non-agricultural economy (excluding government and the oil and gas sectors).

In its strategy paper, IDA defined a poverty reduction strategy focused on accelerating economic growth. Its development framework comprised three supporting pillars: (1) improve economic governance; (2) create the conditions for rapid private sector led poverty-reducing growth, particularly in the non-oil economy; and (3) enable local communities to take charge of their own development. Assistance to achieve the development objectives under the first and third pillars are to be provided through a combination of lending and non-lending services including those for economic management capacity building; sectoral programs on education, health, energy, water and transport; and community driven projects.

This MSME Project, which is an integral part of the World Bank Group' support to the Government of Nigeria, will focus on the second pillar of this strategy and will complement the IDA Privatization Support Project currently being implemented, the Competitiveness Forum Working Group, and the Lagos Strategy initiatives. The Project was developed following a request by the Federal Government of Nigeria (FGN) to participate in a joint International Development Association (IDA)/International Finance Corporation (IFC) Micro, Small and Medium Enterprise Development Pilot Program for Africa (26114-AFR, henceforth Pilot Program). This Pilot Program is designed to accelerate private sector growth in Africa by leveraging World Bank Group instruments - particularly those of IFC and IDA - and international best practices.

2. Main sector issues and Government strategy:

The Economic and Sector Work that underpins this project reveals a non-oil private sector that faces major development challenges (see Annex 8). Findings from these initiatives reveal that the Nigerian private sector suffers from high costs and lack of competitiveness. The productivity of Nigerian manufacturing firms relative to other countries in Africa and Asia is low and has been deteriorating over time. Capacity utilization in the manufacturing sector is only 52 percent on average. Between 1980 and 1994, Nigeria's private sector investments averaged 7 percent of GDP per annum (based on the World Bank's estimates), well below the average 20 percent invested by the world's fastest growing economies. Major constraints to private business in Nigeria were identified and include macroeconomic uncertainty, particularly inflation and interest rate trends and exchange rate volatility; a weak financial system; poor infrastructure (roads, railways, ports, airports, telecommunications); a restrictive business climate (onerous customs procedures, lack of availability of export credit, multiple licensing and regulation requirements); security concerns; low quality education and skills training; distorted trade and tariff policies; and competition from public enterprises (there are 1,500 public enterprises employing two-thirds of the non-governmental formal sector labor force and receiving, over the years, about US$90 billion in investment resources, over 50 percent of total investment in the private sector).

The Government's development strategy, articulated in a document entitled "Nigeria Economic Policy and Strategy: The Way Forward", was prepared in September 2000 and includes the following central elements: (i) strengthening the fledgling democracy, improving security, and safeguarding political and social stability (including promoting transparency, anti-corruption measures and the rule of law); (ii) pursuing structural reforms that redefine and reduce the role of government within the economy and promote the private sector; (iii) rehabilitating and improving physical infrastructure to facilitate economic activity and access by the poor; and (iv) investing in education, health and other social services to lay a solid foundation for longer-term growth but also to build the capacity to fight immediate threats to the country's well being such as malaria and the HIV/AIDS epidemic. The following priorities were highlighted in the strategy paper: (i) improving economic governance; (ii) increasing private sector-led growth; (iii) providing critical services to Nigerians, both poor and non-poor; and (iv) improving education and changing values. Since the advent of the second Obasanjo Presidency, the economic team has been leading an exercise to prepare a "National Economic Empowerment and Development Strategy" (NEEDS) that will represent also the country's PRSP. MSMEs are identified as a core element of the NEEDS.

The Government has undertaken a number of initiatives intended to support the private sector and MSMEs. Following the modification of the institutional framework for the Nigerian Investment Promotion Commission, the Commission was reorganized and more pro-private sector leaders were appointed in management and in the Board of Directors. In 2003, the Government passed legislation to establish the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN). The Small and Medium Industries Equity Investment Scheme (SMIEIS), which requires banks to set aside 10 percent of their profits before tax to invest in small and medium scale industries, was introduced in 2001. In 2002, the Bank of Industry was created as a result of the merger of the Nigeria Industrial Development Bank (NIDB), Nigeria Bank for Commerce and Industry (NBCI), and the Nigerian Economic Reconstruction Fund (NERFUND). Government programs continue to support the privatization of public enterprises, regulatory reforms and provisions for vocational training schools, technology incubation centers, and other training activities intended to raise the productivity of Nigerian workers. The impact of these initiatives to date has been limited. This reflects, in some instances, the relatively recent start-up of these initiatives. In other cases, the Government of Nigeria has indicated the need to strengthen private sector performance through greater exposure to world-wide best practices and through appropriate replication within Nigeria. This is particularly at issue in delineating the roles of the private and public sectors. While in a number of cases the current generation of initiatives remain rooted in a public sector approach to MSME development, the FGN has expressed interest in pursuing the more private sector-led, market development approach that characterizes the strategic shift proposed in this MSME Project.

3. Sector issues to be addressed by the project and strategic choices:

Given policy, market and institutional constraints in Nigeria, a key strategic choice is to isolate and tackle some of the more amenable problems, where there is a higher probability of achieving results over the short term. In each instance, there needs to be: (i) market or institutional gaps; (ii) models and practices that have been successfully tested elsewhere that can be introduced into Nigeria as a means to close these gaps; (iii) clear potential impact at the level of the MSMEs. This includes constraints to MSME access to the financial products and business "know-how" that firms require for growth and productivity. It also encompasses investment climate obstacles and institutional weaknesses within selected agencies of the public sector.

(i) The specific MSME issues in Nigeria are as follows:

***Poor access to finance*:** 85 percent of all Nigerian manufacturing firms have access only to short-term credit, mostly from costly overdrafts. Restricted access is less due to a shortage of liquidity in the banking system than a combination of systemic issues such as: (i) government over-borrowing; (ii) MSMEs are perceived as high credit risks; (iii) insufficient capacity in commercial banks to develop financial products and services responsive to the needs of MSMEs and to evaluate and monitor effectively a small loans' portfolio. Elsewhere in the world, these sorts of obstacles have been addressed through a mix of: (1) macro-economic reforms; (2) new technologies and approaches to mitigate credit risk; and (3) know-how transfer to MSMEs. While the proposed project will not be addressing macro-economic issues, it will be seeking to broaden and deepen financial intermediation to MSMEs through the introduction of new financial institutions, products and tools. This will be done via technical partners that have a proven track record in addressing these obstacles. Interventions will address the shortage of short, medium and long term finance available to MSMEs by supporting sustainable institutions and profitable lending windows within private financial institutions. In addition, the project will finance technical assistance to establish credit bureaus and support leasing companies where there is interest from private investors and evidence that such time bound and targeted support is critical to ensure their commercial sustainability. This support would also require that key changes to the tax, legal, and regulatory environment are implemented to ensure the development effectiveness of any capacity building support to these institutions.

Lack of access to business development services: MSMEs' productivity in Nigeria is constrained by lack of access to critical know-how, including: (1) appropriate technology, market information, and linkages; (2) product development and marketing; (3) human resource management; (4) quality management and efficient production systems; and (5) accounting and financial management. For a number of reasons, these BDS are not available in the quantity, price and quality range required by MSMEs. Local Business Development Services (BDS) providers - which can include specialized consulting firms and individuals, formal education institutions, business membership organizations, Non-Governmental Orginazitions (NGOs), and firms within the value chain such as input suppliers - have limited capacity or lack the necessary skills to offer products that are appropriately tailored for MSMEs. This is particularly true for sector-specific technical training. Most providers tend to use off-the-shelf products that are usually created for larger, more formal businesses. On the demand side, MSMEs make little use of business development services, partly because they feel unable to afford such services and partly because

they lack information about these services and the benefits they can derive from their use. The project will foster a supply response – through support to BDS providers – to provide high-priority know-how to MSMEs in targeted industry value-chains as well as to stimulate the provision of new BDS products in markets where excess demand is identified.

Constraints in the investment climate: While the most significant obstacles facing MSMEs in Nigeria are poor infrastructure services and macro-economic policies, there are a range of other legal, regulatory, and institutional constraints in the investment climate. These constraints hinder firm performance by encouraging firms to remain in the informal sector and by discouraging financial and non-financial service providers from responding to the MSME market. Under this project, with a mix of technical assistance and institutional capacity building, the Federal Government of Nigeria will aim to tackle a number of these constraints: (i) disincentives in business and tax registration procedures; (ii) weaknesses in the commercial dispute resolution process; and (iii) selected laws and regulations affecting the financial sector (particularly leasing, collateral and credit bureaus). These constraints to the investment climate are amenable to measurable improvements over the short-to-medium term.

Limitations to public-private sector dialogue: The public sector has an important role in providing support to MSME development where there are clear market failure issues to be addressed. This role is not always well-defined, nor is it a straightforward task to correctly calibrate the public intervention. Too often good intentions can lead public sector institutions to undertake activities that crowd out market solutions. Inefficient and unsustainable results are a common outcome. This in turn leads to cynicism and resignation in public-private dialogue with both sectors working uneasily and ineffectively together. The Nigerian Government's strategy is to open up public institutions to international lessons learned in MSME development. By linking this to performance-based capacity building support, government agencies can be effectively supported in implementing change programs designed to bring operations in line with global best practice. This project will work with selected institutions in Nigeria at the Federal and State levels, supporting them to realize the demonstration effects that will leverage smarter and more effective partnerships with the private sector.

Whether addressing financial or non-financial constraints, this project is essentially one of dealing with market failure. These failures come in various forms. There are the information asymmetries that increase risk and reduce supply of financial services and uptake of BDS. Demand for BDS is also reduced as a result of the externality problems that can accompany training and capacity building programs. The upshot is that firms are constrained in their capacity to present bankable projects to financial institutions, obtain finance and to handle the external funding obtained. The project will aim to correct for these market failures through the provision of time-bound and transparent grants to financial services and BDS providers and other technical assistance to address related investment climate and institutional constraints . The challenge is to deploy this support in ways that maximize outreach, sustainability, and impact - that foster rather than undermine commercial market development.

(ii) Strategic Choices: Piloting Best Practices and Learning - Principles and First Movers

In line with the umbrella *Pilot Program,* this project is building on best practice and lessons learned in Africa and globally. This entails three major operating tenets in terms of the use of grant subsidies: (1) a strong private sector orientation – minimizing project management and intermediation through the public sector; (2) the project targets intermediaries providing services to MSMEs rather than the MSME itself, i.e., it is the intermediary, not the MSME, that is the primary direct beneficiary of project funds; and (3) project funding allocations for the provision of services to MSMEs – be it to private or public institutions, or to NGOs – are to be governed by core criteria: the assistance provided to these beneficiaries will be: (i) based on compliance with strict technical eligibility criteria that reflect best practice; (ii) delivered via performance grant agreements that focus on sustainability and outreach.

By going upstream with a variety of suppliers (selected on the basis of rigorously monitored performance targets focused on achieving commercial viability) and requiring "cost sharing" from intermediaries receiving grant support, there is an increased expectation that the services supported by the project will be sustained over the longer run, once the project funding has concluded. The draft of the core eligibility and performance criteria against which beneficiary applications for funding would be assessed are provided in Annex 11. This includes specifications of the level of cost-sharing required. In the case of the providers, this is being targeted at 50 percent in line with current practices with "Matching Grant" programs in Africa.

Additionally, a choice has been made to target three to four industries in specific regions (targeted states include Lagos, Abia and Kaduna where there are high concentrations of MSMEs, which are the project's end beneficiaries) and to implement a comprehensive monitoring and evaluation program in these areas. Industries will be selected based on the following criteria:

- high growth potential
- size of the industry (contribution to GDP) and geographical distribution.
- number of MSMEs in the value chain and MSME employment
- potential for local MSMEs to capture more value added
- technical assistance can help MSMEs achieve the above goal - there are no structural constraints outside the scope of the project that would prevent success
- commitment of key industry stakeholders

Finally, the project involves a new collaboration between IDA and IFC which is intended to provide a learning agenda of successful commercial approaches to MSME development. To keep this learning agenda at the forefront, the project will at its outset undertake to implement some "first mover" initiatives. These initiatives are designed to provide demonstration opportunities that will help to establish a commitment among succeeding beneficiaries to the mainstreaming of internationally recognized best practice models and the mobilization of increased private sector investments into MSME development. To this end and, subject to the agreement and due

diligence of the Federal Government of Nigeria, initial allocations of funding will be made to provide capacity building and technical assistance support to the following "first movers" covering all components of the project:

Access to Finance:

- A proposal from a group of Nigerian commercial banks, their technical partner/investor, Americans for Community Cooperation in Other Nations (ACCION), and International Finance Corporation (IFC) to establish a new microfinance company;

Business Development Services (BDS):

- Proposals from two BDS providers, Support and Training Entrepreneurship Program (STEP) and the FATE Foundation to pilot commercial BDS provision in target States;
- Support to BDS providers operating at critical points in the catfish farming value chain where the potential exists for MSMEs to increase performance and capture an increased share of value-added.

Investment Climate:

- Business registration reforms with the Corporate Affairs Commission (CAC) and the Federal Inland Revenue Service (FIRS).

Public-Private Dialogue:

- Public-private capacity building initiatives with the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the Nigerian Investment Promotion Commission (NIPC).

The access to finance and BDS "first mover" initiatives involve IFC partners. This is being done because of the potentially strong impact that these initiatives can have on overall project performance. The arrival of internationally recognized practitioners and investors such as ACCION and IFC into the Nigerian micro-finance sector will provide a strong positive message to other partners and investors, strengthening market confidence. Additionally, these initiatives, including with the BDS providers, will be used for training purposes to assist project stakeholders (both implementing agents, such as Nigerian Investment Promotion Commission (NIPC) and the Project Management Unit (PMU), and other potential beneficiaries) to develop their understanding and expertise with performance grant agreements and commercial approaches that combine sustainability and outreach targets.

The IFC partner intermediaries involved in the first moving initiatives will be required to fully satisfy the applicable eligibility and performance criteria and comply with the established remedy procedures in the event of non-performance as would be applied to any other subsequent beneficiaries. These eligibility and performance criteria are set out in Annex 11. Full disclosures and mitigation actions for potential conflicts of interest regarding potential IFC investments and IFC partners that could benefit from funding through this project are set out in Annex 15.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The project will comprise five components: (i) access to finance; (ii) business development services; (iii) investment climate; (iv) public/private sector partnership development; and (v) monitoring and evaluation.

Project Component 1: Access to Finance (IDA US$10 million; Other US$23 million)

This component will seek to deepen and broaden the financial services available to MSMEs. This will be achieved through the provision of grants to assist qualifying institutions and companies to provide up to four types of commercially sustainable financial services to MSMEs. These grants will be used to finance technical and capacity building assistance to the providers. The allocation and disbursement of these grants will be governed by conformity to eligibility criteria and performance targets, as set out in performance agreements to be signed between the financial intermediary and the Government executing agent or its designated representative, i.e. the Project Management Unit. This component will support the following activities:

(a) Establishment of local commercially viable, regulated, micro-finance companies. IDA resources will be available to cover the provision of technical experts, operational and some capital costs over an initial period until the micro finance companies build up their loan portfolio and sufficient funds to cover their operational and capacity building requirements. Allocations from the project will be based on conformity with eligibility and performance criteria based on CGAP best practices and industry standards. A "first mover" in the form of an initiative led by a number of Nigerian commercial banks together with ACCION International, in collaboration with IFC, is under consideration for funding, subject to fulfillment of the eligibility and performance requirements. The intention is for this initiative to "set the bar" in terms of conformity to the eligibility and performance criteria established for this project sub-component. Subsequent allocations from this project component for the establishment of additional micro-finance companies will be determined on the basis of proposals submitted in response to requests for expressions of interest to potential investors and technical partners. These proposals will be assessed on basis of the same established eligibility and performance criteria.

(b) Technical skills transfer programs that incorporate new systems and lending methodologies to support commercial banks to expand their loan portfolio to MSMEs. This technical assistance and capacity building support will be available based on : (i) cost-sharing arrangements, reflecting participating banks' strong corporate commitment to extend further into the MSME credit market (outreach); and (ii) a performance agreement that incorporates commercial banks' adoption of best practices that would lead to sustainable operations.

(c) Support for the establishment of private credit bureau(s) over an initial set-up period until a bureau establishes a revenue flow from its services. Such support would be based on specific commercial sustainability and related outreach criteria. There is currently a potential investor specialized in credit bureaus – in collaboration with IFC – considering a possible investment in a new credit bureau in Nigeria. In view of the existence of a credit risk management system

(CRMS) within the Central Bank of Nigeria, stakeholders will also be investigating the options and feasibility of a public-private sector collaboration consistent with the objective of establishing a commercially sustainable credit bureau. The project will also be assessing the legal and other enabling changes that are required for a private sector credit bureau to be able to succeed commercially.

(d) Specialized technical assistance to selected firms providing long-term leasing services. This support would be subject to eligibility and performance criteria. For this sub-component to be activated, key reforms in the legal, tax and regulatory environment will need first to be addressed.

Over the start-up phase of the project, the primary focus will be on the first of these four services, i.e., the establishment of microfinance companies. This recognizes the fact that the enabling environment for the creation of micro-finance companies is supportive. The Nigeria *"Banks and Other Financial Institutions"* decree allows for the provision of a finance company license that entails minimum capital requirements suitable to micro-finance operations. Additionally, the Central Bank of Nigeria has recently supported actions that allow commercial banks to invest in micro-finance companies (see Section C. 2 below). Finally, there is good evidence that sound technical partners as well as investors are in the market looking to collaborate in this arena. Once further analysis is completed on the market players and enabling environment for the other services, the project will extend its reach into these other service areas.

Project Component 2: Business Development Services (IDA US$12 million, Other US$4 million)

This component will seek to develop the market for business development services (BDS) by supporting intermediaries to respond to unmet MSME demand for BDS focusing on the three target States. This will be done through the provision of grants and technical assistance to qualifying institutions and companies to develop products and to strengthen their operations in order to be able to respond commercially and over a sustained period to market demand. The grants will be used to finance capacity building assistance to the providers. The allocation and disbursement of these grants will be governed by conformity to eligibility criteria and performance targets, respectively, as set out in performance agreements to be signed between the intermediary and the Government executing agent or its designated representative, i.e., the Project Management Unit (PMU).

The project will support two broad categories of interventions:

(a) Industry Supply-Chain Development: the project will combine an industry focus and market development approach to the provision of BDS. Specific initiatives will be supported based on: (i) identification of industries with growth potential; (ii) an analysis of the constraints that firms along the supply-chain in the industry are facing; and (iii) the implementation of sustainable and cost effective mechanisms to increase the quality and availability of BDS as well as the demand for such services. IDA funds will be made available to support, e.g., enterprise service product development, market and technology information service development and

mainstreaming, and membership activities of industry and other related business associations in order to improve the availability and quality of inputs and services demanded by MSMEs seeking to grow their business within the industry value chain.

(b) BDS Fund - IDA resources will be utilized to build the capacity of BDS providers to develop certain core products to meet excess MSME demand in targeted States. Requests for funding proposals from BDS providers seeking to deliver these services into the target markets will be launched semi-annually. Successful beneficiaries will need to demonstrate: (1) clear market demand for the service proposed; (2) lowest cost compliance with technical criteria; (3) substantiated evidence that they possess -or have a credible program to develop- the institutional capacity to deliver on a performance-based agreement; and (4) a business strategy for commercial viability. In the initial start-up phase of the Fund, FGN concurrence is being sought to provide funding to selected IFC BDS partners subject to conformity with agreed-upon eligibility and performance criteria. The intention is for these first moving initiatives to provide a demonstration effect. Subsequent allocations from this project component will be based on the semi-annual qualification process.

Some services required under this component will be contracted in accordance with IDA procurement procedures, rather than through a performance grant agreement. This will be the case where the service required has a large "public good" content and is clearly not amenable to cost recovery from the sale of the service to MSMEs, e.g., market surveys and other research and analytical work.

A learning agenda will also be drawn from the lessons learned from these two BDS components. The recently created Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) will be responsible for taking a lead on this learning agenda, including its mainstreaming through the planned Annual MSME Competitiveness Report and related activities that SMEDAN will be preparing and organizing, in collaboration with other MSME stakeholders with support from this project (see Component 4).

Over the initial start-up phase, the project will focus on: (1) industry, BDS market and product assessments; and (2) mobilization of first moving activities, including in the catfish farming industry and with the BDS intermediaries STEP and FATE Foundation (subject to these organizations satisfying the eligibility and performance criteria established for the BDS Fund).

Project Component 3: Investment Climate (IDA US$5.1 million, Others US$0.7 million)

Technical and capacity building support will be provided through the IDA credit to assist in the following initiatives of the Government of Nigeria.

(a) Registration Reform: project resources will be utilized to: (1) streamline the company registration process and modernize and decentralize the information systems of the Corporate Affairs Commission (CAC); (2) facilitate the creation in some business membership organizations of the necessary infrastructure to assist local enterprises access CAC's services; and (3) conduct awareness raising programs to increase MSMEs' understanding on the role and services of CAC

and the benefits of registration. The project will also explore opportunities to streamline the overall business registration process by combining company, tax/VAT, and foreign direct investment registrations.

(b) Commercial Dispute Resolution: IDA resources would finance, in partnership with and building on the work done to date by other stakeholders, an in-depth assessment of alternative dispute resolution (ADR) mechanisms and other means through which commercial dispute resolution – including arbitral enforcement - can be improved in ways that can measurably lower the burden and risks faced by MSMEs seeking legal recourse in Nigeria. On the basis of this assessment and discussions with relevant stakeholders in the target states, it is envisioned that a program of initiatives will be developed to facilitate improvements in commercial dispute resolution for MSMEs within Nigeria. These initiatives could include train-the-trainer programs for alternative dispute resolution mechanisms (such as mediation and arbitration), court watch, and other judicial benchmarking activities.

(c) Leasing Services: Further to a diagnostic study into the leasing industry that has been completed during the preparation of the IDA credit, IDA resources would finance agreed upon technical assistance work for developing the laws and regulations together with a training program to ensure that the opportunities and implications of the legal and regulatory reforms are fully understood by relevant stakeholders including financial institutions, MSMEs, commercial lawyers, judges, tax authorities, and other relevant agencies of government. The project will also support efforts to strengthen public-private dialogue on the further development of a market-driven commercial leasing industry, including with ELAN (Equipment Leasing Association of Nigeria).

(d) Credit Bureau: The credit risk management system (CRMS) currently operated by the Central Bank of Nigeria (CBN) has not managed to generate demand from the banking community and has, to date, been used principally to assist the CBN in its supervisory functions. An IFC-financed study, which will further document the experiences with the CRMS, will make recommendations on the advisability of and investor interest in establishing a private credit bureau. Project resources would be available to develop and implement the legal reforms necessary to facilitate improvements in the enabling environment that would strengthen the commercial viability of possible private sector bureaus and utilization of credit bureau services.

(e) Secured Transaction System: A study on the improvement of the legal moveable collateral regime is underway. The study will assess the requirements and options for the development of a system which includes efficient procedures for collateral registration as the basis for resolving priority disputes and, in case of default under the financing agreement, enforcement of rights against moveable collateral. The assessment will also look at the feasibility and options for designing a regime that can allow for enforcement of rights through a private contractual arrangement without recourse to the justice system and, as an alternative, through expeditious summary court proceedings. Funding would be made available for the design and implementation of a viable regime, including hardware and software system that could be used for an integrated registration covering various forms of moveable collateral (including leasing). IDA resources will be provided also to develop the necessary laws and regulations, facilitate the mainstreaming

through seminars and capacity building activities with principal stakeholders.

Over the start up phase of this project, the focus will be on implementing the business registration sub-component, which is the "first mover" under this Investment Climate component. As the initial assessment work and stakeholder consultations are completed, these other components (commercial dispute resolution, leasing, credit bureau and secured transactions) will be defined and made operational. The emphasis for this component is to identify specific constraints facing MSMEs within the investment climate and address them in targeted ways that result in measurable benefits to the MSME sector.

Project Component 4: Public/Private Sector Partnership Development (IDA US$1 million, Others US$0.1 million)

IDA resources will be allocated to provide selected Federal and target State Government Agencies with MSME development responsibilities the opportunity to access global best practices. Specifically, advisory services would be available to provide best practice capacity-building to institutions with policy and related responsibilities for the MSME sector. This will include seminars and other focused short-term in-country training and study tours linked to the mainstreaming of best practices in access to finance, BDS, investment climate and promotion of private investment into the MSME sector. This learning agenda will be tailored to the preparation of an annual MSME Competitiveness Report that will involve close public-private collaboration. Target FGN institutions can chose to opt-in to a two-phase program of capacity building. The first phase entails an institutional assessment of the role, responsibilities, modus operandi, and a preliminary assessment of performance relative to best practice benchmarks. The second phase involves the provision of more extended technical assistance which would support the institution to develop and implement a business plan to improve institutional effectiveness through the strengthening and/or reform of selected programs and operations that impact the private sector.

Over the initial phase of the project, the capacity building will focus primarily on the Small and Medium Enterprise Development Agency (SMEDAN) and the Nigeria Investment Promotion Commission (NIPC). During the first year of project implementation diagnostic work will be undertaken with the relevant government agencies in the target States to determine what support can be provided to best assist in augmenting effective dialogue and consultations with the private sector in order to improve the business climate for MSMEs. This will be closely linked to the completion of regular cost of doing business surveys.

Project Component 5: Project Management, Monitoring and Evaluation (IDA US$2.3 million, Others US$0.2 million)

IDA funds will be allocated to finance the execution, reporting, review (semi-annual and mid-term) and monitoring of project components and independent evaluations of selected issues, particularly through case studies. Provisions will also be made for equipment and operational costs and other financial, audit, training and consultant assignments as required and laid out in the approved annual procurement plan.

Approximately US$1.6 million will remain unallocated but available to finance the above components, subject to results from project monitoring and evaluation reports. The allocation for the project components includes a Project Preparation Facility amounting to US$600,000.

Component	Indicative Costs (US$M)	% of Total	Bank-financing (US$M)	% of Bank-financing
Access to Finance	33.00	55.0	10.00	31.3
Business Development Services	16.00	26.7	12.00	37.5
Investment Climate	5.80	9.7	5.10	15.9
Public/Private Partnership Development	1.10	1.8	1.00	3.1
Project Management, Monitoring, Evaluation	2.50	4.2	2.30	7.2
Unallocated	1.60	2.7	1.60	5.0
Total Project Costs	60.00	100.0	32.00	100.0
Total Financing Required	60.00	100.0	32.00	100.0

2. Key policy and institutional reforms supported by the project:

The project focus is principally at micro-economic firm level through a private sector driven strengthening and creation of institutions that provide services to MSMEs. Attention is being paid to ensure that project targets – in terms of firm performance and capacity building to intermediary institutions - can be met within the existing broader macro-economic and institutional environment. As a result, the project will not operate in industry value-chains where these broader issues currently present a significant risk to project effectiveness, nor will it seek to develop institutions where the core policy, legal and regulatory environment is not propitious. However, where modest changes to existing policies, laws and regulations can make it possible for the project to carve out an effective role, every effort will be made to bring about these changes.

This is the case for the SMIEIS initiative, where the Central Bank of Nigeria, in cooperation with the Banker's Committee, have agreed to revise the SMIEIS guidelines to allow for commercial banks to invest up to 10 percent of the funds generated by this program in MFIs. In response a number of commercial banks in Nigeria are investigating the potential of establishing new micro-finance companies (including those that are considering an investment with ACCION and IFC. Other banks are considering the development of downscale small business lending operations. Similar such initiatives are being considered by other investors and technical partners. This proposed project seeks to encourage these efforts through the support it can provide in the set-up stage of such ventures.

In addition to these policy and institutional reforms, other selected meso-level reforms are being targeted by the project. This includes legal and regulatory changes to business registration procedures, leasing and collateral laws and practices and commercial dispute resolution. The successful implementation of changes in these areas can lay the foundation for further institution

and market building in support of MSME development.

3. Benefits and target population:

The Project is expected to foster a vibrant and commercially sustainable deepening of financial intermediation and BDS provision in support of the MSME sector. This - together with improvements in the financial legal environment, reforms to business registration and commercial dispute resolution - will serve to generate investment, employment creation and productivity improvements in the MSME sector, particularly in target industries and in selected States of Abia, Kaduna and Lagos.

The project would provide significant benefits to the following three primary groups:

- **Firm:** MSMEs in the non-oil sector, where the MSME is defined in accordance with the expanded definition of MSMEs provided in the Small and Medium Industries Equity Investment Scheme (SMIEIS) adopted in Nigeria in 1999. This includes any enterprise with a maximum of 300 employees and an asset base of up to Naira 200 million, excluding land and working capital.
- **Market Intermediary:** Institutions and enterprises providing financial and non-financial services to the MSMEs, particularly those providers operating in the target States.
- **Government:** Selected FGN agencies with responsibilities for MSME development.

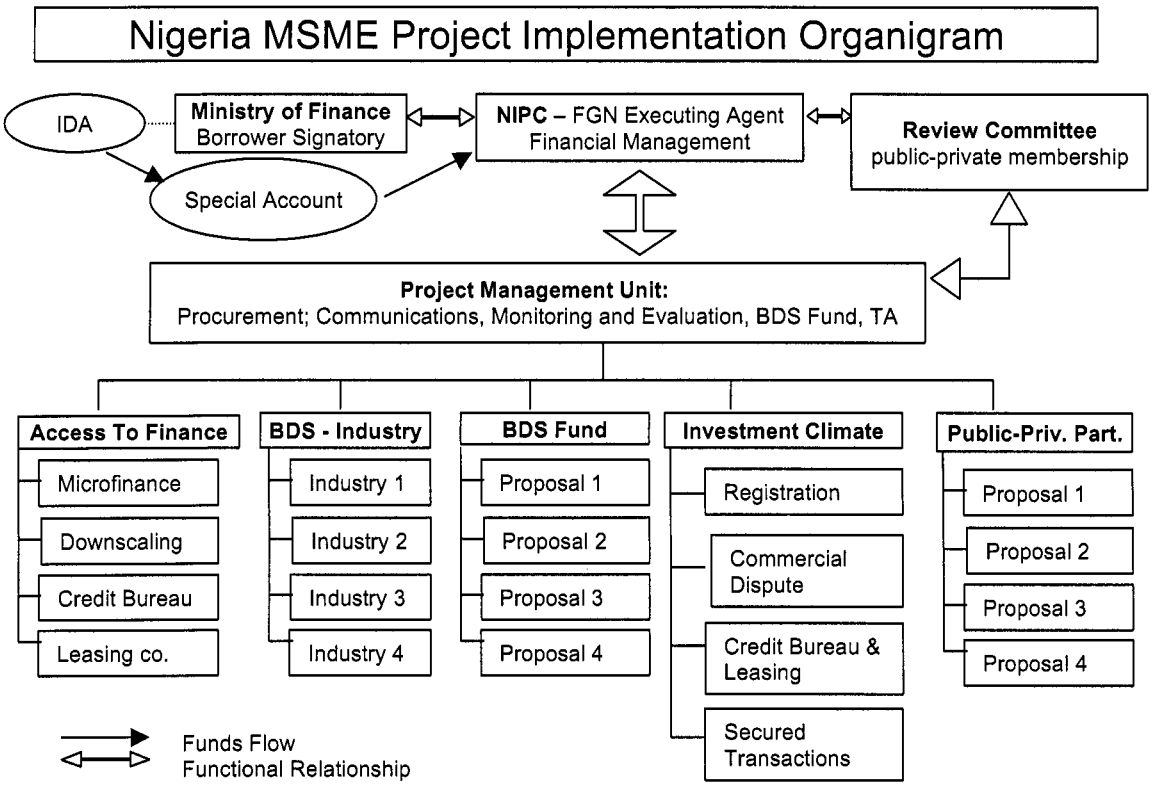
Secondary beneficiaries will include employees of MSMEs, intermediaries and government agencies receiving support directly or indirectly from the project. The project will contribute to poverty reduction through the impact that project-induced MSME job creation has on poor households and the extent to which improved products being provided by MSME project beneficiaries are consumed by these households.

It is not possible ex-ante to provide a detailed indication of the numbers of firms and intermediaries that are to benefit from the project (refer to Annex 16). This will be determined over time as target industries are identified and the activities required to support their growth are defined. As a result of the reforms to the registration system which will bring more firms into the formal sector, plus increased revenues of existing formal firms and intermediaries supported by the project, it is anticipated that there will also be a positive tax revenue stream flowing from the project's activities.

4. Institutional and implementation arrangements:

Implementation Period: Five years June 2004 – June 2009.

Implementation Arrangements: The overriding principle guiding the institutional and implementation arrangements for the project is the government's delegation of maximum feasible operational independence and responsibility to the private sector. A schemata of the project's implementation structure is set out in the table below and Annexes 13 and 14 further describe the institutional arrangements.



- The Nigerian Investment Promotion Council (NIPC) will serve as Government's executing agency (EA). The NIPC will have project oversight responsibilities on behalf of the FGN and will be the contractual client of the PMU. It will provide the financial management services for the project. The NIPC will also be responsible for coordination across Federal and State Government agencies in respect of the project activities and will participate as a member of the Review Committee. For an interim period – in order to allow for more immediate start-up of project activities - the NIPC will perform the PMU functions, until the PMU can be recruited and established. Support to ensure appropriate implementation capacity exists in NIPC will be provided through the Project Preparation Facility.
- A Review Committee, comprising a majority of representatives from the private sector as well as key government representatives (NIPC, CBN, MOF), will: (1) provide strategic guidance to the EA; (2) review and select funding proposals in accordance with the Project Implementation Manual; (3) review the annual progress reports; and (4) address any major problems affecting project implementation.
- A PMU, which will be a private sector firm (competitively selected), will ensure that the operational, monitoring, reporting, procurement and outreach and communications requirements of the project are implemented in accordance with the Credit Agreement and the Project Implementation Manual (PIM). It will also provide selected technical expertise, particularly to the BDS and monitoring and evaluation components of the project. At the conclusion of the

project, it is anticipated that the PMU will cease to exist and the activities that it has been supporting through project funds would continue to be provided, where required, on a commercial basis.

These three entities will be strengthened on a continuous basis through appropriate training. The delivery of the technical services provided by the project will be primarily through performance-based contracts and grant agreements with firms and other organizations (business membership organizations, NGOs). In addition, certain core expertise will be provided directly by the PMU. This includes a BDS specialist to manage the BDS Fund within the PMU and provide other BDS technical services related to the industry component.

A Project Implementation Manual has been drafted by NIPC and will be finalized between NIPC and the PMU in consultation with IDA/IFC. This Manual will provide: (i) a detailed description of the roles and responsibilities of the implementing agents (NIPC, PMU and RC); (ii) the institutional and operational guidelines for each component of the project including a procedures manual for the grant component of the project; (iii) a specification of the different activities, types and sources of technical expertise, budget requirements and delivery milestones for the first year of initiatives to be launched under each project component; and (iv) detailed project performance framework (indicators and targets) and implementation manual.

The implementation of the grants components of the project will be in accordance with a Grant Procedures Manual that will be incorporated in the Project Implementation Manual. The key features of the grants procedure are: (i) allocations under the Access to Finance and BDS components of the project made on the basis of eligibility and performance criteria and disbursed based on measurable triggers set out in a performance agreement; (ii) review of proposals for both access to finance and BDS by the PMU, with technical advice from specialists provided through the project; (iii) the Executing Agent will review and approve all allocations for amounts over $100,000 up to $150,000 and the Review Committee will review and approve all allocations over $150,000 subject to Executing Agent's recommendation. Below this amount the PMU will be responsible for finalizing allocations under the grant program; (iv) there will be semi-annual reviews of the grant program portfolio by the Review Committee. This will also allow for an ongoing assessment of the PMU performance managing the grant operations in order to ensure that the grant program stays on track and remedial actions can be taken promptly as required.

Project Monitoring and Evaluation: NIPC, the PMU and the RC will meet twice a year to review progress in project implementation, share accomplishments, identify problems and agree on remedial actions. IDA supervision missions will be scheduled to coincide with these consultative reviews. A mid-term review will be conducted to evaluate progress on implementation and determine whether the project should further extend its operations countrywide within 24 months after effectiveness, seek supplemental funding, or refocus.

Quarterly progress reports will provide the basis for project monitoring and operational reviews. The PMU will be responsible for monitoring project activities and the EA will monitor overall project progress in line with the PIM and annual workplans. Project evaluations – addressing efficiency, effectiveness and impact criteria - will be carried out by independent specialists in

accordance with the performance framework and its implementation plan. The PMU will be tasked with developing and populating the database required for the evaluation plan to be implemented. RPED will assist in the development of the performance framework and data requirements and the cost/benefit analysis undertaken of project impact.

The evaluation plan will include bi-annual independent operational audits of efficiency and effectiveness parameters of the project. The first of these audits will be prepared for the Mid-Term Review. A key challenge for the project will be to assess project impact. This will require, inter alia, a determination be made as to whether the grant provided by the Government through this IDA credit resulted in sustained improvements in firm performance, additional to what would have been achieved without the subsidy. To address this question it is necessary to compare with both ***"before and after"*** (assess target firms benefiting from the project both ex ante and ex post) and ***"with and without"*** (assess target firms performance relative to those who have not benefited from the project) controls. Two other major issues will need to be borne in mind when trying to isolate the effects of the project: (i) the need to control for other factors in the enabling environment that may be affecting firm performance, in addition to the project; (ii) the difficulties posed by selection bias, in that firms benefiting from the project will tend to be ones that are more successful in the first place, bringing into question the additionality generated by the project grant (refer to Annex 12) .

Financial Management Arrangements. The Finance Department of NIPC (FD/NIPC) will be responsible for managing the financial affairs of the project. FD/NIPC is staffed by relevant qualified accountants. Modern internal audit functions would be performed by the Internal Audit Unit of NIPC (IAU/NIPC). FD/NIPC will be responsible for ensuring compliance with the financial management requirements of the Bank and the Government, including forwarding the quarterly financial monitoring reports and audited annual financial statements to IDA. The project will follow disbursement procedures described in the World Bank Disbursement Handbook. Regarding flow of funds and banking arrangements, IDA will disburse the credit through a Special Account (SA) maintained for the project by FD/NIPC. Also, FD/NIPC will maintain adequate FM arrangements to support the deployment of project resources in an economic, efficient and effective manner to achieve the stated development objectives. The arrangements will also provide relevant information to NIPC and RC to facilitate the performance of their oversight functions. Experienced and well qualified external auditors will be appointed (on a TOR acceptable to IDA) to audit project accounts, financial statements and transactions irrespective of the source of financing.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

Consideration was given to a Private Sector Development (PSD) project comprising a more integrated program of policy and institutional reform in support of private sector development. Such an operation would require a longer preparatory time. In view of the World Bank Group's interest in showing support to the private sector reform agenda of the new Federal administration and the additional policy dialogue and implementation hurdles involved in a larger, more complex program, it was decided that the best approach was a two step action.

The first step would be to initiate a more narrowly focused capacity building project targeting the crucial MSME sector through more incremental and transactional activities. Diagnostics and consultations in Nigeria revealed a strong stakeholder demand to see the World Bank Group engaged in this sector of the economy. Such a project would also provide a foundation on which assess public and private sector absorptive capacities, both at the project and policy reform levels. This experience, together with the work being done in the Privatization Support project and the Competitiveness Forum Working Group Initiative would contribute considerably to discussions with the FGN on the desirability and feasibility of developing a subsequent IDA credit in support of a more comprehensive trade and investment agenda.

Once the decision was taken to design this IDA credit as the first mover in a series of Africa-wide MSME projects, under the umbrella of the proposed ***Program Framework Paper for a Joint IDA/IFC Micro, Small and Medium Enterprise Development Pilot Program for Africa***, a number of scope and design implications ensued. A core objective of the Pilot Program is to replicate specific types of MSME best practice models drawn from global experience. These models focus on financial, BDS and targeted investment climate reforms. There are other outstanding PSD issues that justify support in Nigeria but, in recognition of the complex operating environment in the country and in order to remain focused on a manageable set priorities, it was decided to keep the focus on the priorities set out in the Pilot Program. These are substantial issues in and of themselves in Nigeria. This strategic choice also serves to reduce the complexity of the project.

Consideration was also given to the preparation of a smaller Learning and Innovation Loan (LIL) initiative, focused on a single State. This would have also helped ensure that the project was kept as simple as possible and would have contributed to a faster preparation timeline. However, this could have left potentially innovative initiatives involving high-impact collaboration between IDA and IFC outside the project scope. On the other hand, nationwide coverage can raise initial expectations too much and result in the deployment of a relatively modest IDA credit across too many disparate activities and locations. This could over-stretch project management capacity and compromise project performance at outcome and impact levels. In view of these considerations, a decision was taken to target three States and, subject to progress made with this project, give consideration to extending project scope and outreach at a later date.

During preparation, the IDA team, in consultation with the Federal Government, considered the option of introducing a matching grant program which would have provided grants directly to MSMEs to purchase BDS services. This is a mechanism that a number of other countries in Africa have introduced with the support of IDA. However, given the range of new instruments and initiatives being launched under this pilot project, after consultations with the Government, it was decided to focus initially solely on providing grants to the intermediary and not the MSME. This approach will be assessed at the time of the Mid-Term Review to determine whether it is obtaining the results intended. At that point, depending on performance and an increased understanding of the markets in which the project is working, consideration may be given to introducing a matching grant scheme.

The initial design of the project envisioned no operational links between the private sector and public sector. On further consideration and after consultations with the borrower, a public-private capacity building component was incorporated into the project. This was in recognition of the need to strengthen public sector exposure to MSME development best practices as a means to foster more effective collaboration between Government agencies and the MSMEs population. This will have benefits also to project effectiveness. Nevertheless, the public-private dialogue in Nigeria is burdened by an extended past period of mutual distrust. Reform efforts in the public sector are at an early stage and this project does not have the mandate or the resources to provide a comprehensive response to the challenge of improving the public-private dialogue. What is intended is to provide some targeted and limited support in instances where selected Government agencies are interested complying with performance-based agreements targeted at bringing their MSME operations further in line with best practices.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
		Implementation Progress (IP)	Development Objective (DO)
Bank-financed			
Private sector led growth, access to financial resources by industries and enterprises	Private Small and Medium Enterprise Development Project	U	S
	Privatization Support Project	U	S
Other development agencies			
Sustainable microfinance operations	USAID – Capacity Building for Microfinance Institutions		
Agro-business sector development	DFID – PropCom; USAID – TA to Agri-business Sector		
Private enterprise development	GTZ Private Sector Development Project UNIDO – Cluster Development program		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

The project has been designed drawing on expertise from the World Bank FPSI network, the IFC Africa regional and capital market teams, the SME Global Product department, FIAS and the PSD Investment Climate unit. In addition, the project team has drawn extensively on PSD IDA project and sector experiences in Nigeria and elsewhere and on knowledge obtained from other donor and international best practices. The project design reflects six key lessons learned:

(i) **market-development approach:** The project focuses most directly on the intermediaries providing services to MSME, rather than the enterprises themselves. Aid funding is often a poor instrument through which to directly support enterprises. On the other hand, evidence indicates

that more upstream support creates a sustainable market for the demand and supply of services transacted between private actors and enhances outreach and impact.

(ii) **private over public sector leadership:** The project places a heavy reliance on private sector delivery channels in order to promote responsiveness to enterprise demand and commercial sustainability. Limited role for government, recognizing the constraints in scope and quality of most services provided by the government and the institutional absorptive capacity of government agencies.

(iii) **performance grant agreements:** Utilize performance agreements with intermediary service provider beneficiaries in order to re-enforce a commercial and results focus to project-funded activities. Cost sharing of 50 percent will be required of intermediary beneficiaries. In the case of a competitive selection process, for a given set of results, the proposal requiring the lowest grant with the clearest and most robust exit strategy will be selected for support by the project.

(iv) **greater access to a range of key services to MSMEs:** A principal conclusion of reviews of MSME interventions, including from Implementation Completion Reports (ICRs) of IDA projects, is the diminished results that accrue where MSMEs are unable to access the full range of services they require. Finance without the right technical assistance has been a common failure in IDA lines of credit and the evidence is very strong that active intervention does not work unless the basic environment for the private sector is in place. In light of this evidence, this project strives to increase access to all the key services required by the MSME and tackle some of the leading investment climate constraints.

(v) **industry focus:** better results have been realized where BDS are directed to particular industries. In view of this, the project is targeting resources at particular points of demand in high growth potential industry value chains. The linkages between firms in these value chains increases the absorptive capacities for know-how transfer and uptake and therefore probability of project realizing objectives of technical assistance.

(vi) **specialized financial products:** there is a growing body of successful experiences providing small business loans profitably – either through micro-finance institutions entering the market or through commercial bank downscaling. These experiences are drawn predominately from experience in Latin America and Eastern Europe. The critical factors underlying these success stories are often less to do with the injection of new liquidity and more to do with the application of a new technology, the introduction of new corporate incentives, the development new staff skill sets and the provision of institutional support to staff responsible for MSME lending portfolios. In transferring and replicating these models in Nigeria, this project will focus particular attention on these capacity building considerations.

4. Indications of borrower commitment and ownership:

The Federal and relevant State Governments have expressed a strong interest in working with IDA in the design and implementation of this MSME initiative. In view of the recent State and Federal elections over the past six months and the time that these major political events demand of policy makers both before and after the actual elections, the pace of the preparation of this project has been considerable. The FGN have endorsed the private sector philosophy of the MSME project. Their willingness to borrow IDA funds to provide technical assistance primarily to private sector intermediaries, without recourse to subsidiary credit agreements with the State Governments or with other statutory bodies (NIPC, CAC) that will benefit from the project, further confirms their ownership of this project. The Letter of Sector Policy with its advocacy of market solutions and private sector leadership in the MSME sector provides further articulation of the FGN commitment to the principles and objectives of this IDA initiative.

In addition to the considerable NIPC-led consultation that has taken place with private and public stakeholders in the diagnostic and eventual design for this project, the CBN has played a notably constructive and enabling role. A most tangible example was the recently issued statement that, within given limits, commercial bank investments in microfinance would be considered to be in compliance with the Bankers Committee requirements on the use of the SMIEIS funds.

The target States will contribute to the program through their commitment to support the investment climate components of the project and associated activities, including the completion of State-level "Cost of Doing Business" surveys which will be updated on a regular basis.

5. Value added of Bank support in this project:

Under the project, the World Bank Group will provide essential financing and technical support to hone and implement best practice interventions in support of MSME development in Nigeria. As part of a broader Africa-wide pilot program, this project will benefit – in both preparation and supervision phases - from an enhanced partnership between IDA and IFC. The advantages are three-fold:

(i) Increased capacity to leverage strategic investors and investment funds in concert with the IDA credit which is made possible from a closer linkage between WB advisory and IFC transactional expertise, as is the case with the proposed ACCION initiative;
(ii) Economies of scale in knowledge acquisition and transfer resulting from the implementation of similar projects systematically across multiple countries – building jointly on World Bank and IFC experiences with internationally recognized best practice technical partners - will provide major opportunities throughout the life of the project to mainstream learning and reduce costs of replication and scale-up;
(iii) By combining IDA and IFC expertise and convening power, the project can better support the FGN in its efforts to foster private-public sector dialogue, private sector investment and more effective donor coordination.

This project is also being designed to mobilize certain initiatives on a fast track to achieve an earliest possible set of results that can then "set the bar" and serve as demonstration effects for the remainder of the project.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

● Cost benefit NPV=US$ million; ERR = % (see Annex 4)

○ Cost effectiveness

○ Other (specify)

The cost-benefit analysis of this pilot MSME project presents some limits not only due to its innovative nature in Sub-Sahara Africa but also to the lack of data on the MSME sector. The difficulty in quantifying the economic benefits results mainly from the indirect relationship between the technical assistance, which represents a large part of the project, and the stream of benefits; and from the lagged effects of the project. Nevertheless, a cost-benefit analysis has been carried out to calculate the Net Present Value (NPV) and Economic Rate of Return (ERR) in a "with" and "without" project framework. The numeraire used in the objective function is output, which is expected to grow mainly as the result of: (i) improved capacity utilization and efficiency of the supported MSMEs; (ii) greater access to finance for productive activities; and (iii) streamlined investment climate.

After running a simple model calibrated using available data and based on conservative assumptions, the project generates a net present value estimated at about US$35.6 million corresponding to an internal economic rate of return of 26.2 percent. The project is expected to have a positive impact on employment as a result of acceleration of output growth in the pilot areas where a minimum of 4,770 jobs are expected to be created by supported MSMEs.

2. Financial (see Annex 4 and Annex 5):

NPV=US$ million; FRR = % (see Annex 4)

Considering the project finances mainly capacity building initiatives, there are no clear, direct revenue streams, that would permit a straightforward financial analysis. In the absence of major distortions, financial and economic costs and benefits are expected to converge towards each other.

Fiscal Impact:

The fiscal impact of the project is envisaged to be favorable. Improvements in the business climate and in business performance should generate additional tax revenues from the following sources: (1) incremental income taxes paid by employees; (2) corporate income taxes; and (3) registration fees generated by the CAC.

3. Technical:

The project is seeking to ensure appropriate technical standards are achieved in three ways: (i) partnering with international practitioners and technical experts with proven track records in successfully transferring know-how through local capacity building; (ii) a focus on commercial, market-driven provision of services will limit the creation of grant dependency among beneficiaries and promote a demand responsiveness among service providers; (iii) developing specialized financial services for the MSME market and targeting BDS to address specific industry needs will increase quality, market relevance and uptake of services. The public sector role would be to: (i) revise public policies and regulations that produce high transaction costs and

thus create a competitive disadvantage for MSMEs, and; (ii) review government-sponsored programs to ensure efficiency and avoid crowding out of private initiatives. This strategy represents a fundamental shift in the role of the government, away from direct provision of services and towards facilitating the development of private markets and networks.

4. Institutional:

Historically, Nigeria has been a very difficult place to implement projects and programs. Underlying reasons were: a poor and unstable macroeconomic environment, lack of government commitment, counterpart funding problems, corruption, lack of transparency, and frequent and disruptive changes in both project personnel and the institutional environment. Some projects were poorly designed and supervised and/or lacked the active participation of beneficiaries in project design or implementation. This project has taken into consideration past implementation problems experienced in Nigeria and elsewhere and factors bearing on successful MSME operations worldwide. This is reflected in the emphasis on targeting private sector beneficiaries and relying on a private sector-led implementation strategy. The project will be implemented on a pilot basis in selected areas and industries to provide opportunities to test out models proposed to assist MSME and ascertain commitment and implementation capacity of the beneficiaries. It will be expanded and replicated countrywide when it can be demonstrated that measures taken in the project best respond to minimizing the constraints to MSME growth and sustainability. Section B.3(ii) and Annexes 11, 13 through 15 provide further detail on the institutional aspects of the project.

4.1 Executing agencies:

Overall project management, including all procurement, administrative, reporting, monitoring and evaluation functions, have been placed under the PMU reporting to the FGN Executing Agent. The Executing Agent will be responsible for the financial management of the project. A Review Committee comprising public and private sector representation will provide strategic advice and approve grant and contract awards above a certain ceiling. Project components will be implemented through contractual and grant agreements with international and local technical partners under the overall management of the PMU working with relevant government agencies and other industry stakeholders. (refer to Annexes 13, 14).

4.2 Project management:

(See Section C.4 above and Annex 2)

4.3 Procurement issues:

The FGN Executing Agency (NIPC) shall have overall responsibility for management of the project procurement activities. This responsibility will be discharged by a project Management (Unit PMU) a private consulting firm that shall be recruited through competitive process in line with the Bank's procurement Guidelines: Selection and Employment of Consultants. All contracting will be carried out by the PMU in accordance with the operational guidelines set out in the Implementation Manual. To ensure the appropriate procurement capacity is in place prior to project effectiveness, an assessment of the procurement capacity of the NIPC (as interim PMU) has been carried out in accordance with Procurement Services Policy Group (OPCPR) guidelines dated July 15, 2002. The assessment outlines main issues and recommendations. For further details refer to Annex 6. The major procurement issues are: (i) lack of adequate procurement

capacity at the project Executing Agency; and (ii) the main implementation unit (a private management firm) that will handle all project procurement activities is not yet in place. This risk is addressed by making the selection and hiring of the PMU a condition of effectiveness. Capacity building will be provided to NIPC to ensure that they can fulfill their procurement responsibilities during the period prior to the PMU recruitment.

4.4 Financial management issues:

NIPC/FD will be responsible for the financial management affairs of the project. Although it has a strong finance department, its internal audit is under-resourced and weak (internal audit is generally weak in the public sector). The Internal Audit Department unit therefore needs to be strengthened. Also, NIPC does not have any experience in implementing IDA-assisted projects. However, project implementation activities will largely be contracted to a firm of consultants who would serve as the PMU for the project. The risk arising from the outside environment is assessed as high, based on the yet to be updated CFAA. Given such an environment, robust control arrangements that were found in NIPC/FD are necessary to ensure that funds are used only for the purpose intended. Additionally, the oversight functions to be provided by NIPC and RC will mitigate against weaknesses in the control environment and enhance the overall accountability arrangements for the project. There is a need to ensure a seamless flow of information and rapid turn around between: (i) the consultants in the PMU, which will handle project implementation activities; and (ii) FD/NIPC, which will perform all FM activities. An adequate Financial Procedures manual will be developed specifically for the project. The Manual would detail the arrangements that are necessary to facilitate proper coordination between FD/NIPC and the PMU, and to ensure smooth project implementation. The manual will include service standards and necessary measures to ensure compliance with the standard.

5. Environmental: Environmental Category: C (Not Required)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

Environmental Category: C (not required).

5.2 What are the main features of the EMP and are they adequate?

Not Applicable

5.3 For Category A and B projects, timeline and status of EA:
Date of receipt of final draft: Not Applicable

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

Not Applicable

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

Although the project is not expected to present any specific environmental risk, IDA funds may finance services that may lead to adverse environmental impact. In assessing potential beneficiary financial and business service providers, the PMU will review the environmental screening

mechanisms of the applicants. Once service providers are selected as beneficiaries under this project, the PMU will make recommendations to build the their environmental screening and verification capacity, and ability to support and provide technical advise on relevant environmental aspects of their clients' businesses and to link them with the appropriate Ministry and/or environmental protection agency.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

There are no social issues triggered by this project. A number of project components are expected to lead to favorable social outcomes, principally: (i) employment creation; (ii) contribution to poverty reduction; (iii) institution-building within markets, civil society, the judicial system and within certain activities of government. Project activities will provide short- to medium-term indirect social benefits resulting from increased investment and production and an overall stronger and broader economy.

6.2 Participatory Approach: How are key stakeholders participating in the project?

Workshops organized during project preparation and project launch with all the principal target groups for this project, i.e., BDS providers and financial institutions (selected based on their support of best business practices), FGN and State Governments, and business membership organizations, will provide the necessary fora to define and implement the project and make necessary mid-course adjustments to facilitate the realization of the project objectives. In addition, a Review Committee comprising public and private sector representatives will provide the necessary strategic direction to resolve implementation issues.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

Stakeholders, including relevant NGOs and business membership organizations, will be involved in workshops targeted at project preparation, project launch, and reviews meant to build on lessons learned and to make necessary mid-course adjustments to realize project objectives.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

(see Section 6.2 and 6.3 above)

6.5 How will the project monitor performance in terms of social development outcomes?

(see the description of Component 4 above)

7. Safeguard Policies:

7.1 Are any of the following safeguard policies triggered by the project?

Policy	Triggered
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	○ Yes ● No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	○ Yes ● No
Forestry (OP 4.36, GP 4.36)	○ Yes ● No
Pest Management (OP 4.09)	○ Yes ● No
Cultural Property (OPN 11.03)	○ Yes ● No
Indigenous Peoples (OD 4.20)	○ Yes ● No

Involuntary Resettlement (OP/BP 4.12)	○ Yes ● No
Safety of Dams (OP 4.37, BP 4.37)	○ Yes ● No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	○ Yes ● No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	○ Yes ● No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

No safeguard issues are triggered.

F. Sustainability and Risks

1. Sustainability:

The sustainability of the project will depend critically on: (i) Government's agreement and adoption of an arms-length approach to project implementation; (ii) the satisfactory achievement of performance targets that measure the catalytic effects of the initiatives to be taken in the financial and BDS market; and (iii) the commitment of the Government and the private sector to project goals, recommended reforms, and implementation arrangements.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Assuming political stability in Nigeria, the major risks facing the MSME sector in Nigeria arise from the country's poor infrastructure and macro-economic uncertainty. These risks lay beyond the project purview. While it will not be possible to completely insulate project activities against these risks, the project will be assessing and selecting specific interventions based on the degree to which they can realize results despite these broader risks.

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
BDS and financial products and services are not responsive to MSMEs' needs.	M	Beneficiaries will be service providers (BDS and finance), who have a thorough understanding of the constraints and requirements of MSMEs and whose continued access to project resources is based on their responsiveness to these needs, their outreach, and their ability to meet performance indicators. The project will identify service providers that operate in market niches where there is potential for market development and providers that have a commitment to serve MSMEs. Mid-Term Review will also assess impact to date that support to the intermediary has had on MSME performance. As necessary consideration will be given to alternative instruments, such as a matching grant program for the MSMEs.
Firms do not respond favorably to advice and training received; do not seek the	M	Ditto. In addition, the PMU will design and implement a communications package that

services provided by banks and BDS providers, nor increasingly utilize available technical, business and financial services; instead, MSMEs prefer to subscribe to free, highly subsidized, and potentially less responsive programs.		informs MSMEs of products and services available through the project's beneficiaries. The project will also – via the PMU - dialogue extensively with NGOs and donors to achieve consistency in subsidy levels and cost-sharing arrangements in the areas where the project is being implemented. The monitoring and evaluation component will be developed and applied in collaboration with other donor programs to foster a coordinated and complementary approach to the provision of commercial services to MSMEs.
Government is not committed to pursuing a private sector model of service provision to MSMEs, improving the investment climate and lowering rent-seeking behavior.	M	Measures included in the project include best practice eligibility and performance criteria managed by a private sector PMU. In addition, there will be close consultation with relevant government agencies; fora to dialogue and build up private/public sector partnership will provide opportunity to identify and resolve implementation issues. In addition, the project is focusing on selected investment climate obstacles where government stakeholders show strong commitment and where reforms are practical and have good "win-win" potential for both the Government and the private sector.
The Federal and or the State Governments do not follow through with their commitment to implement the agenda of investment climate reforms.	M	These reform programs are designed with close attention to ensuring the most effective incentive structures are in place. In the case of the financial sector reforms, this includes a very direct link with new investment and capacity building to foster growth in the provision of financial services. In other cases the initiatives provide revenue flows and\or have strong stakeholder interest from the private sector and entail relatively straightforward actions that are not political sensitive but offer the potential of capturing relatively short-term benefits.
From Components to Outputs MFIs, banks and BDS providers do not seek technical assistance on a timely basis to implement project components; services are not delivered effectively. Payments on loans and services are not received as agreed with client firms	M	Communications component of the project will foster private sector response to project services. TA requirements and performance indicators (including outreach, portfolio quality and profitability) will be agreed with beneficiary MFIs, banks, and BDS providers prior to

		receiving project support in order to ensure supply response. Targeted matching grant program will be applied where firms show inability to pay for BDS services. These services will target productivity improvements to assist firms to meet loan obligations to financial institutions.
Lack of trust and demonstrated confidence and cooperation between the Government and the private sector; State interventions weakens market-based approach to implementation and financial intermediation to MSMEs	S	Public-Private Capacity Building component of the project will provide important information on best practice on provision of BDS, MF services and opportunities to communicate successes, continuing constraints to development of MSMEs, and recommendations on relevant policy changes. Letter of Sector Policy and close dialogue will provide the framework and mechanism to address policies and regulations at issue in this project.
Private sector-led PMU is not supported by the Government and does not implement project and monitoring functions as agreed.	M	Selection of the PMU will be made by Government representatives and implementation performance will be supervised by the private-public Review Committee.
Intermediaries fail to perform in accordance with performance agreements.	M	The project will be continually learning and adapting as its know-how in terms of how to support providers in target markets in Nigeria grows. This growing "market" expertise will be used to adapt performance arrangements to strengthen performance of intermediaries, re-direct support to new services and screen out services that do not provide the impact at the level of the MSME that is being sought.
Insufficient knowledge and experience with IDA's procurement procedures will cause substantial delays in project implementation and increase risk of mis-procurement	H	Experienced procurement consultant will be hired for six months to assist NIPC manage the procurement functions prior to engagement of the PMU. The project will focus on training of all procurement staff and a comprehensive chapter of the Project Implementation Manual on procurement will clearly define procurement procedures applicable to the project. In addition, intensive procurement supervision and review of the first contract for each type of procurement by the Executing Agency regardless of the threshold will help the agency to comply with

		procurement guidelines in a timely manner.
Project financial management risk	M	Adequate supervision by Bank FMS, and external audit
Overall Risk Rating	M	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

None.

G. Main Loan Conditions

1. Effectiveness Condition

- PMU selected and hired and procurement and financial management assessments of such firm's capacities are satisfactory.
- Full Project Implementation Manual, including procedures for the grant components of the project and final procurement and disbursement plans for the first implementation year, agreed between NIPC/PMU/IDA, and NIPC has established acceptable financial management systems.
- Release by the Government of the allocation of counterpart funds for the first implementation year.

2. Other [classify according to covenant types used in the Legal Agreements.]

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
☒ 1. b) Not applicable.

☒ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
☐ 4. The following items are lacking and are discussed under loan conditions (Section G):

I. Compliance with Bank Policies

☒ 1. This project complies with all applicable Bank policies.
☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Peter Mousley	Demba Ba	Mark D. Tomlinson
Team Leader	**Sector Manager/Director**	**Country Manager/Director**

Annex 1: Project Design Summary

NIGERIA: Micro, Small and Medium Enterprise Project

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Sector-related CAS Goal: Accelerate reduction of poverty by promoting broad-based economic and private-sector led growth in the non-oil private sector	**Sector Indicators:** Annual GDP growth in participating States Increased contribution to GDP growth by sectors assisted by the project	**Sector/ country reports:** National Statistics; State level surveys and periodic ICA updates; Project Impact Assessment Framework and M&E system	**(from Goal to Bank Mission)** Political stability and commitment of newly elected government to private sector; economic and financial reform agenda; and reduction of rent-seeking behavior
Project Development Objective: Increase the performance and employment levels of MSMEs in selected non-oil industry sub-sectors and in pilot areas of the country	**Outcome / Impact Indicators:** Growth of MSMEs' value-added in participating States and sectors	**Project reports:** Project Impact Assessment Framework and M&E system; project supervision and progress reports	**(from Objective to Goal)** BDS and financial products and services responsive to MSMEs' needs; Government is committed to improving the investment climate and lowering rent-seeking behavior
Output from each Component: Financial institutions increase their lending to MSMEs	**Output Indicators:** $15 million new private sector investments in microfinance institutions (MFIs); at least two MFIs; three commercial banks establish MSME downscaling programs; portfolio at risk (arrears over 60 days) not greater than 5 percent after second year of operation for both MFIs and	**Project reports:** Project Impact Assessment Framework and M&E system; project supervision and progress reports	**(from Outputs to Objective)** Financial institutions and Government maintain their commitment to a private-sector led, market-driven, commercial approach to financial institutions development; MSMEs' capacity to utilize financial services increases as they become more competitive in the

	commercial banks; loan portfolio cumulative disbursed of $75 million each for MFIs and commercial banks		domestic and/or global market
Nigerian firms competitively respond to increasing demand for products and services	At least 1,000 MSMEs are supplied with BDS by participating BDS providers; up to 4,000 new (including indirect) jobs in 3-5 supply chains in selected industries	-ditto-	Firms' operational strategies reflect lessons learned from TA received; firms increasingly utilize available technical, business and financial services
BDS providers provide firm-oriented, relevant services	Under both the BDS Fund and industry supply chain, at least 20 BDS providers assisted by the Fund; at least 75 percent cost recovery reached by participating BDS providers within a specified time-frame; at leat 20 products or services with sustained uptake improved or developed through support from the Fund	- ditto -	MSMEs respond favorably to TA received and positively rate services from BDS providers
Reduction in constraints faced by business in selected areas of investment climate, including initially: secured transactions, leasing, credit bureau, commercial dispute resolution	Secured transactions regime introduced in each target State; regulatory framework updated for leasing industry; framework for credit bureau established; alternative dispute resolution mechanisms developed and implemented in up to three States	- ditto -	Government participates in preparation, identification of required changes and follows through on commitment to changes in relevant areas of the investment climate
Business entry facilitated by public institutions	Streamlined procedures; integrated tax and	- ditto -	Dialogue with private sector should strengthen

including Corporate Affairs Commission, Federal Inland Revenue Service	business registration processes; reduction in transaction costs for company registration with CAC (including a reduction in the number of steps required to register a business from 9 to 6 and reduction in time required by 30 percent)		understanding and commitment to implement reforms that improve the investment climate and lower rent-seeking behavior
Public sector agencies performance to deliver on their MSME mandates are strengthened	At least 3 MSME competitiveness conferences held (annual) and reports of proceedings produced and disseminated; associated roundtable discussions held between Government and private sector to disseminate lessons, best practices, success stories from the project and establish dialogue to improve policies and programs targeted at MSMEs	- ditto -	Agencies follow through on their commitment to the project component and best practice principles and philosophy underlying this component.
Project impact assessment carried out	Appropriate monitoring and evaluation system established to measure the project's impact in participating States	- ditto-	Participating institutions, agencies, private sector willing and able to provide relevant information
Project Components / Sub-components:	**Inputs: (budget for each component)**	**Project reports:**	**(from Components to Outputs)**
Access to Finance: Microfinance/ commercial banking/leasing/credit bureau Consultants Grants	**US$ 33 million**	Progress, supervision, mid-term, completion reports provide feedback on compliance with terms of reference, established performance targets and deliverables; evaluation report documents impact assessment.	Institutions or mechanisms are established on a timely basis; services meet MSME requirements, and clients pay for services promptly; legal and regulatory environment is conducive to the

			development of the mechanisms
Business Development Services:	**US$ 16 million**		
1. Training and Advisory Services for BDS Providers Consultants Grants	US$6.5 million	- ditto -	Institutions or mechanisms are established on a timely basis; services meet MSME requirements, and clients pay for services promptly
2. BDS Fund Consultants Grants	US$9.5 million	- ditto -	- ditto -
Investment Climate:	**US$5.8 million**		
1. Registration Reform Consultants Training Equipment	US$1.6 million	- ditto -	Government implements reforms that improve the company registration system
2. Commercial Dispute Resolution Consultants Training Equipment	US$2.2 million	- ditto -	Government demonstrates its commitment to establish, implement dispute resolution mechanisms, lower rent-seeking behavior
3. Leasing Services Consultants	US$0.5 million	- ditto -	Leasing regulations conducive to increasing services; participating leasing companies apply learned technology
4. Credit Bureau Consultants	US$0.5 million	- ditto -	Client and participating institutions provide quality information-
5. Secured Transaction	US$1 million	-ditto-	New mechanisms adopted
Public/Private Sector Partnership Development Consultants Training	**US$1.1 million**	- ditto -	Government/ private sector demonstrate confidence in partnership development efforts; Government open to

Equipment			adopting best practices in their programs
Project Management, Monitoring and Evaluation Consultants Training Equipment Recurrent expenditure	**US$2.5 million**	- ditto -	Private sector-led PMU receives government support and implements project and monitoring function as agreed.
Unallocated	**US$1.6 million**		
Total	**US$60 million**		

Annex 2: Detailed Project Description
NIGERIA: Micro, Small and Medium Enterprise Project

By Component:

Project Component 1 - Access to Finance Component - US$33.00 million

Objective: The objective of the Access to Finance component is to increase access and availability of financial services to MSMEs through the introduction of new financial institutions, products and tools, re-enforced with selective financial sector legal and regulatory reforms being undertaken under component 4 (Investment Climate).

Background:

The Nigerian financial system is one of the largest in sub-Saharan Africa consisting of a diverse array of banking and non-banking financial institutions, including as of end-2001 89 commercial and merchant banks, over 1,000 rural-oriented community banks, 7 development finance institutions, 229 licensed finance companies, about 195 primary mortgage institutions, over 100 insurance companies, 5 discount houses, various pension schemes, and over 100 exchange bureaus. There are also embryonic money and capital markets. This apparent diversified nature of the system is deceptive, however, as commercial banks overwhelmingly dominate the financial sector (accounting for 93 percent of non-central bank assets), traditional bank deposits represent the major forms of financial savings, and in the absence of a variety of products and services, access to term finance by the real sector is very difficult at best.

Development finance institutions, traditionally the major source of long-term debt capital for the real sector, were increasingly marginalized as their financial status declined by the late 1990s. Their combined annual loss amounted to about Naira 2.1 billion or 8.6 percent of average total assets; the combined total assets of four institutions declined almost 17 percent in nominal terms in their most recent reporting year; and four of the seven institutions virtually did not have any disbursements in 1998. While these institutions represented a small part of the financial sector they discouraged more efficient commercial banks from entering the long-term finance arena. The performance of community banks and rural commercial banks in extending financial services has been disappointing also. By the late 1990s, only about 200 of the over 1,000 community banks were believed to be profitable.

Leasing, which can also contribute significantly to MSME medium to long-term finance requirements remains underdeveloped and accounted for only one percent of total domestic investment in 1997. The growth of the leasing industry has been hampered by: (i) the lack of a coherent body of law to govern leasing transactions; (ii) problems with contract enforcement and difficulties in repossessing leased equipment from defaulting lessees; (iii) lack of domestic long-term funds to finance leasing; (iv) rising costs of equipment; and (v) lack of awareness and the poor skills base in the industry.

In the micro-finance sector, in 2001 several commercial banks began micro-finance pilot projects with their own funds, however, there is little information that will allow a proper assessment of

the results of these pilots to date. Institutions created by the Government have not performed well; many have experienced significant losses recently as historical average loan repayment rates were low and interest rates were subsidized. About 17 major NGOs have been providing micro-finance services in Nigeria with average loan size at about US$56. These institutions tend to be operationally and financially weak, driven by social justice goals rather than financial and operational sustainability, and lack a national presence and outreach. There also are a large number of credit unions and cooperatives. A 1991 study by the World Council of Credit Unions (WOCCU) estimated that approximately 15,000 credit unions operated in Nigeria serving 2.7 million members with savings of more than US$34 million financing about $37 million in loans.

Neither the formal and informal financial sectors have been able to effectively support a strong expansion of the real sector and maximize their contribution to economic growth and development. The Government has long recognized the importance of addressing access to financial services to maximize MSMEs' contribution to economic development. In 1999, an initiative instituted by the Central Bank of Nigeria-headed Bankers' Committee, comprising the central bank and all banks as members, require all banks to set aside 10 percent of pre-tax profits into the Small and Medium Industries Equity Investment Scheme (SMIEIS) to be used for equity investment in SMEs. SMIEIS commenced in 2001 and by around mid-2003 amounted to about Naira 14.6 billion. Approximately, Naira 4.3 billion or 29.4 percent has been invested, of which 52 percent was invested in the real sector (micro enterprises accounted for around 0.05 percent of the fund and 79.3 percent the total value of the investments was made in Lagos. The Government is committed to improving the accessibility to financial services by MSMEs and has agreed that banks should be permitted to allocate up to 10 percentof their SMIEIS contributions for investments in the microfinance sector.

Activities:

This component of the project will seek to address the shortage of short, medium and long term finance available to MSMEs by supporting – through the provision of performance-based grants - sustainable financial institutions and profitable lending windows within private financial institutions to expand their portfolio of lending to MSMEs. Additionally, the project will assess the potential for the development of private credit bureaus to strengthen the risk mitigating tools available to lenders will be investigated. If justified by private sector demand and the necessary reforms are undertaken to ensure commercial potential and effectiveness, the project could support the establishment of a private credit bureau. Similarly, with changes to the enabling environment, there is considerable potential for growth in the leasing industry. The project would be able to provide grants to support providers of leasing services, subject to there being the right enabling environment and providers' ability to meet the eligibility and performance requirements for this support.

The grants, which will be made available to institutions satisfying the eligibility and performance criteria will help to cover technical assistance and operational costs on a cost shared basis over an initial and limited period to enable the beneficiary financial institution to build up its portfolio and revenue flow sufficiently to cover operational requirements. The two initiatives most ready to move under this component are:

(i) ***Establishment of a micro-finance company:*** The approach to support micro-finance takes advantage of the opportunity presented by the interest of Nigerian banks to set up a joint-ventures for micro-finance services based on: (1) their requirements under the SMIEIS; (2) the support of the Central Bank of Nigeria; (3) the existence of market opportunities, i.e., a large underserved market; (4) the availability of proven technical expertise; and (5) the interest of recognized international stakeholders, including ACCION, and international investment partners, such as IFC. Participating MFIs and commercial banks will be selected based on their meeting specified criteria that respect best practice and openness to support MSMEs in their corporate mission, strategic objectives and operating policies (outreach, risk assessment, credit extension, financial management, governance, social policies, etc.).

(ii) ***Commercial bank downscaling:*** For commercial banks, assistance will focus on the development and implementation of a technical skills transfer program designed primarily to introduce to selected participating banks new systems and lending methodologies for MSMEs. The technical assistance will be provided on a cost-sharing basis to banks that provide strong evidence of a corporate commitment to extend further into the MSME credit market by growing their MSME loan portfolio.

Project Component 2 - Business Development Services - US$16.00 million

Objective: The objective of the BDS component of this project is to increase MSMEs' access to quality business services that are both specialized and well-tailored to the specific needs of MSMEs. Targeted MSMEs are expected to improve their performance through the application of know-how acquired through BDS providers supported by the project.

***Background*:**

Business services are not available in the quantity, quality and price ranges required by MSMEs for a number of reasons. First, local BDS providers (which can include specialized consulting firms, formal education institutions, business membership organizations, NGOs, and firms within the supply chain) have limited capacity and few products that are appropriately tailored for MSMEs. This is particularly the case for sector-specific technical training for which most providers tend to use off-the-shelf products that are usually created for larger, more formal businesses. Second, most local BDS providers tend to prefer working for larger firms and government or donors where contracts are larger. On the demand side, MSMEs make little use of business development services, in part because they feel unable to afford such services and in part because they lack information about them and do not trust the benefits they can derive from their use.

To address these constraints, the proposed project will combine two approaches: (1) *Industry-focused BDS program*: assisting BDS providers to develop training and consulting services that can assist MSMEs within specific industries to increase their value added and grow; and (2) *BDS Fund:* building capacity of providers of value-adding services to reach larger numbers of MSMEs with higher quality services using a sustainable business model. The

approach in both cases will be demand-based. Demand will be assessed through market studies, firm surveys, focus groups and interviews, as well as firms' willingness to pay for services. In particular, the following principles will be followed:

- *Getting the right product*: selling a product that is affordable in the market place, that is tailored for MSMEs and for the local environment. Special attention will be given to the development and adaptation of products that meet MSMEs' needs.
- *Keeping subsidies out of the sales transaction*: ensuring that subsidies are upstream in product development and capacity building to provide sustainable outreach;
- *Working with multiple suppliers* to ensure that by working with a specific supplier, the project will not force another one to go out of business;
- *Performance Grant Agreements*: BDS providers will be required to fulfill sustainability, outreach and impact targets as a condition of disbursement.

(1) Industry-Focused BDS Program

The Industry Supply Chain Development sub-component of the IDA project will combine an industry focus and a BDS development approach. The assumption is that focusing on high growth sectors and addressing the inefficiencies along the chain can result in high and measurable impacts in terms of job creation and firm growth. The project will include up to four industries. The methodology will be consistent across industries and will include four stages: (i) industry selection; (ii) industry analysis; (iii) feasibility work for programming; and (iv) design of initiatives.

The main criteria for the industry selection will be the following:

- high growth potential
- size of the industry (contribution to GDP) and geographical distribution.
- number of MSMEs in the value chain and SME employment
- potential for local MSMEs to capture more value added
- evidence that financing/ TA can help MSMEs achieve the above goal, i.e., there are no structural/market constraints outside the scope of the project that would prevent success.
- commitment of key industry stakeholders

Those industries that rank higher in terms of growth potential and outreach will be selected to do a more in-depth industry analysis. The analysis consists of an industry overview and a value chain analysis. The *industry analysis* provides a succinct picture of the size of the industry, its distribution and main players, and the sources of competitiveness and growth potential. The *value chain analysis* identifies the most important segments of the chain in terms of contribution to employment and income and evaluates the cost of production at each stage based on international standards to detect any inefficiencies and areas where improvements can be made. The *feasibility analysis* focuses on assessing the demand for and supply of BDS services within each segment of the value chain. Based on the results of this diagnostic, the project will work with the industry stakeholders to develop a *program* to support intermediaries seeking to meet MSMEs' business development needs within the supply chain.

In order to create a strong demonstration effect on which to launch this sub-component, this methodology has already been applied to agriculture and agro-processing industries. Based on the analysis, catfish farming has been selected as the first target industry. The proposed interventions to support the catfish farming industry are presented below in the following box. Interventions in other industries (up to three additional industries are anticipated within this existing project budget) will vary according to the characteristics of the underlying value chain and determination of the ways in which BDS can improve MSME performance in the value chain.

Catfish Industry

Background

The fishing industry is a major and growing one in Nigeria, even more so than meat (in 2000 fish production grew by 22 percent while meat production grew by 6 percent). As a maritime country with large inland water resources, fishing represents a large share of Nigeria's economy. The fishing industry is an important source of: employment, particularly in poor rural areas; food; income; and foreign exchange earnings (approximately $57million). Local fish production is about 500,000 tons per year, less than half of local consumption. In value terms, the domestic fish industry represents 60 percent of total production, of which catfish accounts for 33 percent. The balance is imported, making Nigeria the largest importer of frozen fish in Africa. Although aquaculture represents a small share of total fish consumption in Nigeria (0.4 percent), Nigeria is the fifth aquaculture producer in the world after the US, Thailand, Indonesia, and Maylasia. Furthermore, aquaculture is the fastest growing source of domestic fish supply (almost 50 percent growth (in volume) since 1995). Given the limited supplies of caught fish and consumer's preference for fresh fish over imported frozen fish, this trend is expected to continue. By value, catfish accounts for 33 percent of total fish production and 60 percent of the freshwater fish industry in Nigeria. Demand exceeds supply and the best way to increase supply is through catfish aquaculture.

There are three main players in the production and distribution of farmed catfish: (i) hatcheries, where eggs are incubated, hatched, and raised to fingerlings; (ii) out-growers, which raise (or outgrow) the fingerlings/juveniles to table-size fish using different water holding systems; and (iii) traders or "fish mammies", who are organized in associations, buy from the farmers, transport and keep the catfish alive for up to a week, and sell about 30 percent of it to roadside restaurants and retailers; few fish are also sold directly to consumers.

The main constraints affecting catfish aquaculture are: (i) limited access to critical operational inputs: quality feed, which can only be imported and constitutes at least 60 percent of the production cost; and fingerlings, which are scarcely produced due to lack of know-how; (ii) limited access to reliable technical expertise about aquaculture; (iii) limited access to finance; (iv) high levels of theft of catfish farms. With the increased access to technical support that would result from the Project and providing finance can be secured, catfish aquaculture could generate substantial revenues and new jobs (including jobs in downstream sectors such as fast-food restaurants.).

Activities:

The Project will focus on the following areas of intervention:

- *Training and Consulting Services.* The Project will: (i) provide training to local fish industry consultants and develop an accreditation system –these consultants could include input suppliers, such as feed and fingerlings suppliers-; (ii) provide business management, business planning and financial advisory training to specialized consultants; (iii) develop training courses for start-ups and deliver them through local institutions; (iv) provide specialist training to skilled small scale catfish farmers interested in developing hatcheries and to potential feed suppliers.
- *Aquaculture Best Practice Development*, including developing an aquaculture manual tailored to the needs of most entrepreneurs in Nigeria building on existing materials.
- *Aquaculture Association Development.* The goal of the association would be to: (i) help set standards and disseminate knowledge by training consultants and sponsoring research; (ii) create a network to facilitate business opportunities and improve the distribution channels (for example by developing a mechanism for industrial customers to contact farmers through the association); and (iii) conduct advocacy.

This component will focus initially on Lagos, Kaduna, and Abia, and would target bordering states where there is a large volume of catfish production or where there are significant successful ventures interested in participating in the Project, such as Oyo state. The catfish initiative will be implemented in close collaboration with FAO and the Federal Ministry of Agriculture, which are leading a nation-wide fisheries development project as part of the Special Program for Food Security. The overall program will be managed by an independent, qualified firm, that will be competitively selected and charged with: (i) designing and delivering each specific activity based on an agreed-upon work program; (ii) selecting and contracting specialists and providers as needed; and (iii) monitoring the project according to a performance contract.

2. Business Development Services Fund (BDSF)

Background:

While financing and a friendly business environment are important factors for the success of a business venture, MSMEs often fail or do not achieve their full potential because they lack proper organizational capacity, skills, systems and procedures, information, and technology. Improvements in these areas through training and use of consulting advice can often translate into cost savings and efficiency gains. According to a firm survey conducted in Eastern Nigeria to assess MSMEs' demand for such services, MSMEs consider human resource management, marketing, and accounting as the most important areas of concern for their businesses. Specialized advice in these areas is either lacking, not well-tailored to their needs, or too costly.

The BDS Fund (BDSF) will aim to build the capacity of BDS providers to supply high quality services to MSMEs operating in Lagos, Kaduna, and Abia states. The project will promote the development of three to six specific services for which there is a clear excess demand among the target population of MSMEs. These services will be identified through a BDS demand survey and consultations with business communities in the target States. The range of potential services considered is broad and includes information, training, consulting, advisory, export marketing, information technology, design, and product development. Based on preliminary analysis, human resource management (including recruitment, human resource policy, staff training and incentive systems), marketing, and accounting, seem to be some of the services for which there is a potential untapped market.

Activities:

Grants will be extended to business service providers selected based on criteria that reflect best business practices. Applicants will be carefully screened to ensure that recipients have the requisite management capacity, financial strength, sound business model, and commitment to serving MSMEs. Firms will have to be operating as business and have a strong track record of performance in their core business lines; demonstrated management capability; audited financial statements; experience with and significant interest in serving MSMEs; willingness to take a commercial approach to service provision; and if not a private business, a significant and growing ratio of fee revenues to operating costs. Winning proposals will be those that contain measurable targets in terms of reaching large numbers of MSMEs (outreach) with services that make a difference (impact) and that can be delivered on a sustained basis (sustainability).

Project Component 3 - Investment Climate - US$ 5.80 million

Objective: The objective of this component is to reduce the constraints firms face in registering their businesses and enhance firms' confidence in entering a contractual agreement. The component will focus on a number of specific investment climate constraints related to business registration, commercial dispute resolution and legal and regulatory changes related to the leasing

industry, the establishment of a commercial credit bureau and the introduction of a secured transactions regime.

Background:

(i) Business registration: Companies in the informal sector prefer to stay in the informal economy or rely on informal mechanisms as they perceive that *benefits* of staying informal outweighs the costs of going formal. Benefits of being in the informal sector are mainly avoidance of taxes and burdensome government regulations. Red tape basically imposes additional costs such as bribes and indirect costs such as investors' time spent on complying with the red tape. There are also *costs* to staying in the informal sector. As seen in Nigeria, companies need to stay small in order to remain under the radar to prevent harassment by authorities/inspectors. In some cases, even formal companies prefer staying under the radar as much as possible. While the necessary bribes may be costly, they are lower than the taxes, fees, social security, and other official payments confronting firms. However, this strategy is risky. Failure to pay the bribes can result in heightened harassment and closure by aggressive bureaucrats/inspectors. When firms are informal, they do not have the tools to complain against such harassment. Another cost of being informal is the lack of a social security net for the firm owners and the employees, increasing the uncertainty. Finally, companies in the informal sector do not have access to credit channels and different types of SME assistance services such as business development services – the main two services this project aims to provide to MSMEs in Nigeria.

Within this framework, a more streamlined registration process can be expected to encourage more businesses to migrate into the formal sector. At the firm level, formalization would improve access to financial and non-financial services as well as reduction in waiting times and economic costs (explicit and implicit). Another benefit of improving business registration is the additional revenue from company tax. In this regard, there is often a trade off between improved access to the registration process and higher tax revenue. While better registration processes both for business as well as tax registration allows firms to migrate to the formal sector, there is often a general disincentive from making this migration as it exposes smaller and less structured firms to regulatory agencies.

(ii) Commercial Dispute Resolution: The ability to enforce contract is fundamental for businesses to enter into long term relationships with other customers. Manufacturing firms surveyed in 2000 (RPED) noted that inefficient courts procedures coupled with administrative bottleneck in the judicial system cause delays in the resolution of commercial cases. Currently, "Doing Business" estimates that it takes 730 days for a business to settle disputes. As a result of businesses are reluctant to enter into arms' length transactions in order to avoid potential contract disputes. The net effect is that business costs are increased. A more effective system for resolving commercial disputes would increase business confidence and decrease costs.

Until confidence in court processes has been restored, alternative dispute resolution outside the formal judicial process can be used for resolving commercial disputes. The international experience suggests that in a significant share of cases ADR represents a better way to resolve a dispute for all parties involved. One finding in all studies of court-annexed ADR programs, is that

litigants like ADR. They report much higher levels of satisfaction with a dispute resolved through ADR than with a trial or an unmediated settlement. Nigeria's laws are conducive to ADR. Domestic arbitration is governed by the Arbitration and Conciliation Act (Cap 19 Laws of the Federation of Nigeria 1990), which is modeled on the UN Commission on International Trade Law (a model law which contains internationally accepted provisions for the conduct and regulation of arbitration.). Cap 19 implements the 1958 New York Convention on Recognition and Enforcement of Foreign Arbitral Awards, which provides for the recognition and enforcement of arbitral awards in another party's jurisdiction. There is also a court-annexed ADR program for negotiation and conflict management, the Lagos Multi Door Program, which has recently been instituted. The Nigeria branch of the Chartered Institute for Arbitrators holds training and specialized courses for lawyers and non lawyers. However, in Nigeria the use of alternatives to litigation such as mediation, conciliation and arbitration has not been fully exploited. In Nigeria ADR is underdeveloped.

(iii) Secured Transactions Regime: Resources will be allocated to strengthen the collateral process (access and enforcement) through a Secured Transaction System. Support will be extended to develop a legal regime which provides easy and efficient procedures for resolving priority disputes and, in case of default under the financing agreement, enforcement of rights against collateral that can proceed through a private contractual arrangement without recourse to the justice system and, as an alternative, through an expeditious summary court proceedings. Funding would also be made available for a hardware and software system that could be used for the establishment of pledge registries of moveable capital.

(iv) Leasing Industry: Under this component, the project will focus on pursuing the development of appropriate policies and changes in the legal and regulatory framework supporting the leasing industry. The focus will be on reforming the tax regulations for leases; working with the Nigerian Accounting Standards Board (NASB) on the adoption of International Accounting Standards in lease recognition policies; coordinating with policy makers and financial regulators to ensure that best practices are followed in licensing leasing activities, regulating capitalization and other prudential requirements to protect the financial system and the leasing industry; and support the legal system in handling leasing cases.

(v) Credit Bureau: While a credit risk management system (CRMS) exists in the Central Bank of Nigeria (CBN), there has been limited demand for the service. The potential exists for a private sector Credit Bureau to enter the market, working in partnership with the CBN in order to put in place a mechanism that does effectively serve commercial banks. The results of a recently completed IFC study into the feasibility of establishing a private sector credit bureau will be used as the basis for identifying possible changes to be made in related legal and regulatory climate pertaining to mandatory provision of (negative and positive) data to the bureau and access to certain public data bases, e.g., national population and ID registers, registrar of companies, property and deeds. Consideration will also need to be given to the approval of a Bureau Code of Conduct which, in the absence of specific consumer protection legislation, will be essential to ensure international best practice standards are introduced and maintained.

Activities:

(i) **Business Registration**

A FIAS/USAID Study (Investors Roadmap) that examined administrative procedures to invest in Nigeria suggests that the legislation underlying the incorporation process is of good quality and generally in line with international practice. However, there are a number of areas where improvements could be made that would ease the burden on MSMEs. The Business registration component of the project aims to address these issues by developing close cooperation between the CAC and the Federal Inland Revenue Service (FIRS) and : (a) streamline of the business registration process and company outreach - based on international best practices (for example, the Business Services in Canada); (b) assist the CAC's Computerization program; (c) expand the Computerization system to the two pilot states (CAC's Zonal Offices) and improve company access; (d) integrate the stamp Duty Payment, tax and VAT and foreign direct investment registration procedures into the company registration process.

(a) ***Streamlining the CAC procedures***

The CAC is making strides to increase its efficiency, particularly through the ongoing computerization program within headquarters and in the liaison offices. It is critical to streamline the internal CAC process in parallel with computerization of the system to increase the effectiveness of the computer application and reach effective results. The streamlining process would be based on learning opportunities for the CAC staff of best practices, aiming to reduce the number of days to process applications to the target of 24 hours envisioned by President Obasanjo.

The simplification of the registration process could involve the following steps:

➢ Enhance the capability of CAC personnel through workshops conducted by best practice experts, and possibly exchange programs and twining arrangements Using best practice indicators, the project could assist the CAC to further strengthen the efficiency of its registration process. This exercise would also involve a comprehensive analysis of the process and the instruments (forms) used in each step by the best practice experts to identify possible alternative procedures to streamline the overall registration process within the CAC.

➢ The outcome of this activity would be a standardized operating manual which indicates the targeted time and cost associated with each step.

(b) ***Assistance to the CAC's Computerization program***

The CAC computerization process, which is going to cost about US$6 million or N800 million, is currently ongoing. Within this process, the name check/availability database has mostly been completed, allowing computerized searches and completion of the process in one business day, unless it is conducted in the zonal offices and needs additional verification at the Abuja office.

The information technology (IT) company contracted by CAC to computerize its operations suggested that the computer applications would handle document management, business registration, web interface, management reports, and Smart Card technology for payments. The equipment required to widen the system to the initial set of zonal offices is expected to arrive in about 6 weeks. The IT company also noted that there is no law in Nigeria on electronic signature so the stamp duty document and the applicants signature will have to be scanned as part of the on-line registration process and sent to CAC via post.

In this perspective, there are two areas the MSME project would assist CAC's computerization process. (i) A study of the current computerization at CAC, including an analysis of the software being used, and determine additional support needed to increase productivity and the alternative financing of this activity. This would involve (i) integration of streamlined procedures under component A described above; (ii) develop and implement a more comprehensive computerization of CAC headquarters and the zonal offices at the pilot states, taking into consideration best practices, infrastructure needs, and sustainability concerns.

(c) Firm access to registration, and company outreach in the pilot States

The MSME project will involve states that choose to opt-in to join the project. There is a likelihood that CAC already has zonal offices located in these pilot States. To increase firm access to registration, CAC also welcomes the idea of BMO's acting as links to the enterprises. It was further agreed that the private sector must be educated on CAC operations as this would enable them to better understand the internal process and the requirements. There is therefore the need to organize capacity building activities to achieve this purpose.

This goal can be served by through the use of other reputable avenues to deliver CAC services, strengthening of CAC liaison offices and their link to the central office as well as the proper implementation of on-line registration. In addition, on-line registration would greatly increase the ability of enterprises to register. However, given the lack of access of a large percentage of the Nigerian population to internet access, there is the serious need to determine the most feasible way of delivering this service.

We expect that activities that reach out to the private sector would include the following:

(i) Forging relationship with the business membership associations especially those located outside of Lagos and Abuja. Furthermore, the business membership association can provide a feedback mechanism for improving CAC services and serve as a conduit through which to increase enterprise familiarity with and trust towards the CAC;
(ii) Developing outreach programs such as workshops, round tables and seminars with the organized private sector and other sectoral groups;
(iii) Facilitating the development of the necessary infrastructure in some business membership associations to enable them to access the on-line registration process;
(iv) Enabling the business membership associations and banks in verifying and filing CAC applications/forms and accepting CAC fees, respectively. This could eliminate the requirement of

going to a court to notarize documents as certified notary public located in business associations and banks (with SME units) can assist enterprises in this process.

(d) ***Integration of CAC, FIRS and NIPC registration procedures***

There are two other areas, where cooperation between the CAC, FIRS and NIPC would significantly improve the registration experience of firms: paying of stamp duties tax/VAT registration and Foreign Investment Registration.

One of the pre-conditions of CAC Registration is the payment of the stamp duty at the Federal Inland Revenue Service (FIRS). This process takes 2-5 days depending on the method of payment. There are opportunities to streamline the overall registration process by integrating the stamp duty payment into the CAC registration process or providing opportunities for payment of stamp duty at the banks located in CAC offices. CAC and FIRS have already met and discussed the possibility of locating FIRS officers within the CAC offices to integrate the two procedures. A solution for this option has not been agreed on yet. Given the fact that CAC and the FIRS are both very open to further streamlining and continued reforms, there are possibilities to continue the dialogue and integrate these procedures.

Once they complete the registration process at the CAC, companies have to complete their tax and VAT registration with the FIRS to receive their tax and VAT identification numbers. Further exploration is required into the possibilities of CAC issuing the tax and VAT registration numbers for all companies registering at the CAC. The numbers would be communicated to the FIRS on the forms CAC currently send to the FIRS once a company completes CAC registration. Discussions are also to take place to determine whether it is possible to integrate the CAC and NIPC registration processes and establish the necessary protocols to enable sharing of data bases, in line with the mandated and legislated responsibilities of the two Agencies.

(ii) Commercial Dispute Resolution

Subject to the results of an in-depth assessment to be undertaken by the Government in collaboration with stakeholders, this dispute resolution component could support alternative dispute resolution in the pilot states. A number of states in the country have developed ADR mechanisms that are part of the state Ministry of Justice such as the Lagos Multi-Door and the Kaduna ADR Center. While these efforts have reduced the caseload in the formal courts, they often represent another step in the process. The objective of this sub-component is to increase the utilization of private ADR systems operated by non-government institutions such as the Bar Association. The component could also build on ongoing judicial reform programs in Kaduna and Lagos States to improve the ability of courts in those jurisdictions to uniformly and predictably apply the law to commercial disputes brought before them and to support the enforcement of arbitral awards. Specific activities are anticipated to include:

- Skill transfer and capacity building to local trainers in ADR
- Communications component which will include working through existing business organizations, as well as reaching out to the other segments of the micro, small and business

community that are not part of existing networks. This program will seek to familiarize these segments of the business community on the potential for and benefits of ADR.

- The Nigerian Bar Association, the Manufacturers Association of Nigeria, the Nigerian Economic Summit Group, and the Chartered Institute of Bankers of Nigeria have indicated their interest in establishing Court Watch Programs.
- Discrete initiatives that can serve to reduce the bottlenecks to dispute resolution for MSMEs in the existing courts.

Initiatives supported under this project will be building on an existing participatory sector-wide approach being pursued in Lagos and Kaduna States with the support of other donors. It is critical, in line with ongoing programs, to build a consensus for a clearly sequenced initiatives in support of a more streamlined approach to commercial dispute resolution. Success will depend upon remedial solutions tailored to the Nigerian culture. Their implementation must reflect an understanding of how much change the legal profession can accept, and include a clear articulation to those concerned of the benefits to them of judicial reform. If there is support for incremental change, a virtuous cycle can be initiated by systematically reducing the opportunities for rent seeking behaviors, and changing attitudes among the judiciary, the bar, and court users.

(iii) Secured Transactions Regime

The focus of the Secured Transaction System Sub-component will be on strengthening the collateral process (access and enforcement). Support will be extended to develop a legal regime which contemplates easy and efficient procedures for the creation, registration as the basis for resolving priority disputes and, in case of default under the financing agreement, enforcement of rights against collateral that can proceed through a private contractual arrangement without recourse to the justice system and as an alternative through an expeditious summary court proceedings.

The design criteria for the secured transactions system would take the following factors into account: (i) protect the rights of the financial institutions and creditors, in particular, lenders, leasing companies, public institutions with claims on movables; (ii) expedite the extension of credit on more favorable terms and costs; (iii) while maintaining recourse to the court enforcement procedure, the system should allow financial institutions to foreclose on the collateral in case of default without requiring creditor or permitting debtor recourse to the judicial system or government security personnel; (iv) identify an alternative procedure to lengthily court proceedings of issuing execution orders and determine priority disputes; (v) identify an efficient registration procedure, and potential institution to serve as the central registry; (vi) propose mechanisms to increase financial and operational sustainable of the system; and (vii) the need to have a simple and efficient legislation to support the system.

It is envisaged that the design of the secured transaction system would also incorporate the need of credit grantors to learn about interests of non-lending institutions such as leasing companies, retail seller of goods under conditional sale agreements and any other transactions which may effect the real value of the property they deal with. Funding would also be made available for a hardware and software system that could be used for registration of the financing statements. A

training and capacity building program to ensure that the opportunities and implications of the reforms are fully understood and implemented by relevant stakeholders including tax authorities, commercial lawyers, judges and relevant agencies of Government.

(iv) Leasing

On the basis of the results of the leasing sector assessment commissioned by the IFC, consultations now need to be launched with the key players in the public and private sectors to address the outstanding "enabling environment" issues. This dialogue, which is to result in an Action Plan that can be supported through technical assistance and capacity building financed out of the IDA credit, will encompass:

- possible amendments to the Companies Income Tax Act, the Bankruptcy Act and the Statement on Accounting Standard (SAS);
- introduction of a leasing law and repeal of the current Hire Purchase Act;
- creation of separate guidelines for leasing companies (versus finance companies); review of prudential norms as they apply to leasing;
- adaptation of the SMIEIS program to make it possible for these funds to be made available for investment in leasing companies;
- investigation of ways to secure moveable collateral and establish a viable credit bureau;
- enforcement of contract right repossession via courts or alternative resolution mechanisms;
- education and outreach programs and activities with the leasing industry and its associations, the financial sector, the judiciary and government agencies with supervisory and policy responsibilities affecting the leasing industry.

(v) Credit Bureau

Based on consultations with stakeholders and authorities and agreements reached out of these discussions, project resources could be utilized for:

- legal and regulatory reforms for facilitate data sharing in conjunction with the Central Bank, the Commercial Affairs Corporation, the Federal Inland Revenue Service;
- legislation in respect of consumer and data protection issues and a related credit bureau code of conduct;
- training and capacity building related to credit bureau licensing and supervision issues;
- outreach and training programs to educate both businesses and lenders on the merits of credit bureau services.

Project Component 4 - Public/Private Sector Partnership Development - - US$1.10 million

Background:

This component will seek to address the MSME sector issues by focusing on government agencies and their programs. Specifically, capacity building based on lessons learned and best practices stemming from international microfinance and business development services will be extended to relevant government agencies targeted at MSME development. Advisory services would be available to update government policies and review, re-engineer, and build on ongoing government- sponsored programs aimed at MSMEs to enhance their responsiveness to MSMEs and increase the sustainability of program results that are founded on best practices.

Activities:

Resources will be allocated also to facilitate the dialogue process between the public and private sectors. This will include the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) and the Nigerian Investment Promotion Commission (NIPC). SMEDAN would take the lead on a dialogue with business associations, private sector and government stakeholders with a view to preparing MSME competitiveness report on an annual basis utilizing the cost of doing business surveys and other evaluations generated by the project and research undertaken by SMEDAN itself. This component will also support other learning agenda events (domestic and through study tours) including best practice workshops with leading Africa and international practitioners that will feed into topics and priorities to be addressed in the Annual MSME Competitiveness report.

Support will also be provided to participating States with policy and public-private dialogue responsibilities with the MSME sector to assist them develop expertise in best practices in these areas.

Project Component 5 - Project Management, Monitoring and Evaluation - US$2.50 million

To facilitate the implementation of this project, resources allocated to this component will fund financial, audit, training, and consultant assignments required to prepare an implementation manual and further the execution, reporting, review (semi-annual and mid-term), and monitoring of project components. Provisions will also be made for equipment and operational costs (within an agreed framework). A comprehensive impact assessment survey will also be conducted. This assessment will quantify and benchmark constraints, based on the implementation of State-level enterprise surveys. These surveys would provide baseline data on enterprise productivity and the cost of doing business.

Annex 3: Estimated Project Costs
NIGERIA: Micro, Small and Medium Enterprise Project

Project Cost By Component	Local US $million	Foreign US $million	Total US $million
Access to Finance	22.50	10.50	33.00
Business Development Services	9.70	6.30	16.00
Investment Climate	2.70	3.10	5.80
Private/Public Sector Partnership Development	1.00	0.10	1.10
Project Management, Monitoring, and Evaluation	1.00	1.50	2.50
Unallocated	0.00	1.60	1.60
Total Baseline Cost	36.90	23.10	60.00
Physical Contingencies	0.00	0.00	0.00
Price Contingencies	0.00	0.00	0.00
Total Project Costs[1]	36.90	23.10	60.00
Total Financing Required	36.90	23.10	60.00

Project Cost By Category	Local US $million	Foreign US $million	Total US $million
Goods	0.00	1.80	1.80
Works	0.00	0.00	0.00
Services	27.00	12.60	39.60
Training	0.80	2.00	2.80
Operating Costs	0.30	0.30	0.60
Grant	7.90	5.10	13.00
PPF Refinancing	0.40	0.20	0.60
Unallocated	0.50	1.10	1.60
Total Project Costs[1]	36.90	23.10	60.00
Total Financing Required	36.90	23.10	60.00

[1] Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 60 (US$m). Therefore, the project cost sharing ratio is 55.83% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary
NIGERIA: Micro, Small and Medium Enterprise Project

[For projects with benefits that are measured in monetary terms]

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	Financial Analysis[1]	Taxes	Subsidies
Benefits: (US$ million)	70.7		14.3	N/A
Costs: (US$ million)	35.1			N/A
Net Benefits: US$ million)	35.6		14.3	N/A
IRR: (percent)	26.2			

Note: The discount rate used for the economic analysis is 12 percent.

[1] If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g. "The value of financial benefits is less than that of economic benefits because of controls on electricity tariffs."

Summary of Benefits and Costs:

Base Case Results

The cost-benefits analysis of this pilot MSME project presents some limits not only due to its innovative nature in Sub-Sahara Africa but also to the lack of data on the MSME sector. The difficulty in quantifying the economic benefits results mainly from the indirect relationship between the technical assistance, which represents a large part of the project, and the stream of benefits; and from the lagged effects of the project. Nevertheless, a cost-benefit analysis has been carried out to calculate the Net Present Value (NPV) and Economic Rate of Return (ERR) in a "with" and "without" project framework. The numeraire used in the objective function is output, which is expected to grow mainly as the result of (i) improved capacity utilization and efficiency of the supported MSMEs; (ii) greater access to finance for productive activities, and (iii) streamlined investment climate.

After running a simple model calibrated using available data and based on conservative assumptions, the project generates a net present value estimated at about US$35.6 million corresponding to an internal economic rate of return of 26.2 percent. The project is expected to have a positive impact on employment as a result of acceleration of output growth in the pilot areas where a minimum of 4770 jobs are expected to be created by supported MSMEs (it is important to emphasize that the acceleration of job-generating investment would be slacked by the relatively low capacity utilization rate). In other terms, 1 permanent job is created by the MSMEs for each $2304 granted to BDS providers. Although the size of the multiplier effect is not known, it should be noted that indirect jobs are also expected. Ceteris paribus, the government fiscal

position is also positively affected. Indeed, the project would generate $14.3 million as the result of incremental taxes paid by employees, corporate income taxes, taxes on incremental wages and registrations fees generated by the CAC. The informal sector will also benefit from the project to an extent which obviously cannot be rigorously estimated. The project is expected to encourage informal MSMEs to crowd in the formal sector which will have a positive impact on the fiscal position. Knowledge spillovers will also positively contribute to the economy of the pilot areas.

The cost-benefit analysis was done for three main componenets: (i) BDS, which factor in some elements of the microfinance and commercial bank downscaling sub-components, (ii) Access to finance; and (iii) Investment Climate, which, for the purpose of the analysis, includes the components "public/private partnership", project management and unallocated. For the three categories, as shown in table 1 below, the ERRs are greater than the discount rate of 12 percent, indicating that the project is robust. The relatively high ERR for the BDS component can partly be explained by the fact that the greater access to finance for MSMEs benefiting from improved BDS has been factored in to calculate the benefit. This can be considered as a strength of this pilot stand-alone MSME project aimed at improving both BDS and access to finance.

Table 1: Results by Components

	BDS	Access to Finance	Investment Climate	Overall Project (a)
NPV (US$ million)	27.3	4.7	3.6	35.6
ERR (percent)	29.0	24.3	19.5	26.2

(a) The overall ERR is weighed by the relative size of each component.

Main Assumptions:

1. BDS and financial products and services are responsive to MSMEs' needs.

2. A minimum of 220 BDS providers are expected to benefit from the grant scheme with and average amount of $50,000 per provider. Each BDS will support on average 150 MSMEs. It is assumed that the supported MSMEs, would increase their capacity utilization rate and their efficiency which would yield an increase in outputs at a multiple of 5 times the amount of support. This conservative assumption is made based on empirical evidence from schemes in East Asian countries, where output increased at a multiple of 15 times the matching grant amount; and in Uganda, where output increased at a multiple of 10 times the amount of support (BUDS-Business Uganda Development Scheme component of the Private Sector Competitiveness project closed in December 2002). The conservative multiplying factor take into account the fact that the grant scheme will not directly support the MSMEs but the BDS providers. However, the MSMEs will directly benefit from the greater access to finance facilitated by the project.

3. For the supported MSMEs, the rate of job creation has been calculated taking into account a shadow yearly worth of output per worker of US $2742 given an informal sector representing 70 percent of the economy. The rate of job creation has been discounted by one-half because of the

current relatively low average capacity utilization rate of 52 percent.

4. The additional output created by assisted firms is defined as the difference between the level of output achieved by firms assisted by the project and the level of output these same firms would have achieved without the project. Without the project, based on experience from the Uganda BUDS scheme, it is assumed that only 50 percent of the MSMEs will undertake the activity supported by the BDS providers, but with a delay of 3 years.

5. The transfer of knowledge/skills will have a lasting effect on the activities of the beneficiaries and this, up to seven years after project completion.

6. It is assumed that there is no mismanagement of grant received by BDS providers and financial institutions.

7. In the base case, the increase in firms' output is discounted by two-third to take into account the social costs of other resources in the economy that are diverted into the project from other activities not directly supported by the project.

8. It is assumed that the support provided to improve the investment climate would, with an average lag of two years, have a positive impact estimated at 2 times the amount of support.

9. A stable macroeconomic environment with price and exchange rate stability is also assumed.

10. For the investment climate and the public/private partnership components, it is assumed that financial cost and benefits equated economic cost and benefits.

Sensitivity analysis / Switching values of critical items:

Four sensitivity tests were carried out by switching values of critical variables. The results are presented in table 2 below.

(i) The first test decreases the social cost of resources diverted into the project from 66 percent to 50 percent; the NPV jumped to US$102.5 million with a corresponding ERR of 43.3 percent. 5015 jobs are created.

(ii) The second test assumes a 75 percent social cost of resources diverted into the project, the NPV considerably decreased to US$7.4 million while the ERR dropped to 15.6 percent. About 2500 jobs are generated.

(iii) The third test assumes a higher increase in output for each firm from 5 to 10; the results showed a NPV of US$84.3 million and ERR of 39.3%.

(iv) The fourth test elongates the disbursement period by two years, the NPV decreased to US$17.9 million while the ERR came down to 20.1%. The number of jobs created remains the same as in the base case with however a slightly lower rate of job creation.

The fiscal impact is positive in all the scenarios.

Table 2 : Sensitivity Analysis Summary

Scenario	Sensitivity Performed	Cases	Variable Amount	NPV ($m)	ERR (%)	Fiscal Impact ($m)	Jobs created
Overall Project							
Delayed Project Implementation	Elongated disbursement period	(a) Base	(a) Regular	35.6	26.2	14.3	3410
		(b) Alternate	Disbursement	17.9	20.1	10.5	3410
			(b) Slow Disbursement				
Change in Diversion Assumption	Percent reduction in increase in Output attributed to diversion from other sources	(a) Base	(a) 66% Reduction	35.6	26.2	14.3	3410
		(b) Alternate	(b) 75% Reduction	7.4	15.6	8.6	2507
		(d) Alternate	50% Reduction	102.5	43.3	27.7	5015
Expected Change in Output for each firm	Increase in expected change in output for each MSME	(a) Base	(a) 5 Times	35.6	26.2	14.3	3410
		(b) Alternate	(b) 10 Times	84.3	39.3	24.2	6820

Benefits from the project

The main economic benefits and the monitoring tools are presented below:

Nature of benefits / Indicators	Monitoring Tools
Increased capacity utilization rate	Base case / end of project survey (control MSME group)
Increased productivity and outputs in supported MSMEs	Base case / end of project output levels (control MSME group)
Increased number of MSMEs	CAC report
Job creation in the MSMEs sector	Number of employees at beginning / end of project in the relevant MSMEs
Improved Investment climate; business environment (Registration; dispute resolution)	End-of-project survey / RPED follow up survey
Improved access to finance for MSMEs	New financial services and product; survey of relevant MSMEs / survey of relevant financial institutions
More efficient BDS market and services	Base case / end of project survey of beneficiary BDS providers; survey of relevant MSMEs
Government Taxes	Tax payment by supported MSMEs; Registration fees / CAC report

Main Beneficiaries

The main beneficiaries of the project would be: (i) the BDS providers, (ii) the financial institutions, (iii) the supported MSMEs with better access to business development services, finance and improved investment climate; and (iv) the government with wider tax base and healthier fiscal position.

Annex 5: Financial Summary

NIGERIA: Micro, Small and Medium Enterprise Project

Years Ending

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	9.2	14.6	16.0	14.5	4.1	0.0	0.0
Recurrent Costs	0.3	0.3	0.4	0.4	0.2	0.0	0.0
Total Project Costs	9.5	14.9	16.4	14.9	4.3	0.0	0.0
Total Financing	9.5	14.9	16.4	14.9	4.3	0.0	0.0
Financing							
IBRD/IDA	4.1	6.5	8.1	9.9	3.4	0.0	0.0
Government	0.2	0.2	1.0	0.4	0.1	0.0	0.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiers	0.0					0.0	0.0
IFC, Nigerian private sector	5.2	8.2	7.3	4.6	0.8	0.0	0.0
Total Project Financing	9.5	14.9	16.4	14.9	4.3	0.0	0.0

Main assumptions:

Annex 6(A): Procurement Arrangements
NIGERIA: Micro, Small and Medium Enterprise Project

Procurement

The procurement system in Nigeria is in the process of being reformed at all levels. The Government procurement reform program was fashioned in line with the recommendations of the year 2000 Nigeria Country Procurement Assessment Report (CPAR). All the three tiers of government are operating under the Financial Regulations (FR), which are essentially an internal set of rules for economic controls. The CPAR identified major weaknesses in the procurement polices and practices in Nigeria and made appropriate short-, medium- and long-term recommendations. Based on the short-term recommendations of the 2000 Nigeria CPAR, the procurement procedures section of the FR at the federal government level, was revised on June 27, 2001, to ensure clarity and transparency by incorporating details of the various procurement methods and their applications for goods, works and services among others. For instance, the ineffective Federal and Departmental Tender Boards have been abolished while the Ministerial Tender Boards have been strengthened with powers to approve contract awards. Also a Procurement Reform Implementation Unit (PRIU) and a Steering Committee that would initiate and supervise initial implementation of reforms have been established at the federal government level. It is envisaged that the states and local governments will review and revise their procurement system in line with the FGN reform programs. FG is making arrangements to disseminate the findings and recommendations of the CPAR at State and LGAs Levels. The reforms have five main features:

- Enactment of a new procurement law based on the UNCITRAL model law. *(the procurement bill is now before the National Assembly for passage);*
- Establishment of a public procurement oversight body, the Public Procurement Commission (PCC), independent of the Tender boards with responsibility for the efficiency and effectiveness of the procurement function across the public sector;
- Revision of key areas of the Financial Regulations to make them more transparent *(this has been effected at the federal level since June 27, 2001)*;
- Deep restructuring of Tender Boards and approval procedures for contracts. Specifically, abolish Federal Tender Board and Departmental Tender Boards and strengthening Ministerial Tender Boards by vesting them with powers to approve contract awards (partially fulfilled); and,
- Building procurement capacity in the public sector through a restoration of professionalism in procurement and intensive training of procurement staff.

Until Government takes major steps to reform the procurement policies and practices in the country (it is presumed the reform process will reach an advanced stage by FY04), procurement risk for doing business in Nigeria is assessed as high. Under this project, this risk will be minimized by incorporating the procurement responsibilities in the terms of reference for the PMU, a private entity, and requiring the PMU to follow IDA's procurement guidelines.

Use of Bank Guidelines

All goods and services financed under the IDA credit would be procured in accordance with the appropriate IDA guidelines (*Guidelines: Procurement under IBRD Loans and IDA Credits*, January 1995 and as revised in January and August 1996, September 1997, and January 1999; and *Guidelines: Selection and Employment of Consultants by World Bank Borrowers*, January 1997 and as revised in September 1997, January 1999 and May 2002). To the extent practicable Bank's standard bidding documents for goods and Standard Requests for Proposals for consultants as well as all standard evaluation forms would be used throughout project implementation. Procurement procedures, as agreed between NIPC, the PMU and IDA, will be described in the Project Implementation Manual.

Advertising

A General Procurement Notice (GPN) is mandatory and would be published before Board presentation in the UN Development Business or Development Gateway and in a national newspaper as provided under the Guidelines. The GPN would be updated on a yearly basis and would show all outstanding International Competitive Bidding (ICB) for goods and all international consulting services. In addition, a Specific Procurement Notice (SPN) is required for all goods to be procured under ICB and Expressions of Interest (EOI) for all consulting services with a value in excess of US$ 200,000. All NCB procurement packages for goods and works would be advertised in the national newspapers.

Procurement Capacity Assessment

To ensure the appropriate procurement capacity is in place prior to project effectiveness, an assessment of the procurement capacity of the NIPC (as interim PMU) was carried out in accordance with Procurement Services Policy Group (OPCPR) guidelines dated July 15, 2002. The assessment outlines main issues and recommendations and is in the project files. The assessment revealed that NIPC only carries out small purchases using shopping or direct contracting methods in an amount less than $16,000.00, while its major procurement activities are undertaken at the Office of the Vice President (its supervising office). Hence, the existing capacity to handle procurement under this project is inadequate at NIPC. To address this weakness, NIPC (Project Executing Agency), will select through a competitive process, a private management firm (the PMU) using the Quality Cost Based Selection (QCBS) method in line with the Bank's Guidelines: Selection and Employment of Consultants not later than June 30, 2003. -Also, three months after project effectiveness, the Bank will carry out a procurement capacity assessment of the PMUto ensure it has sufficient skills mix and capacity to carry out its project-related procurement responsibilities. The assessment will determine the ability of the PMU to perform procurement coordination responsibilities and will outline the main issues and recommendations for procurement implementation and include an action plan that addresses the following requirements: (a) a management and staffing structure with key officials possessing appropriate technical skills to carry out the day to day procurement activities during the duration of the Project implementation; (b) preparation of a comprehensive Procurement Procedures Manual as

part of PIM for the project, which will be adopted before project effectiveness; (c) preparation of a procurement plan for the first year to be discussed, finalized, and agreed by end-June 2004; and (d) as appropriate, attendance at procurement workshops organized by the Bank not later than three months after project effectiveness.

Procurement Planning

The Borrower will prepare a Global Procurement Strategic Plan, and a detailed procurement plan for the first year's activities prior to effectiveness. The plans will be updated yearly, sent to IDA for clearance not later than three months before the end of each fiscal year. The procurement plan for the first year will be prepared by NIPC (under the guidance of an experienced Procurement Consultant) based on the initial needs for all project activities. Procurement for subsequent years will be indicative and based on a predetermined set of activities projected by beneficiary institutions that have met selection and performance criteria during the implementation period.

Procurement Implementation Arrangements

The overall coordination and implementation of the project activities would be the responsibility of NIPC for about the first six months of project implementation. However, such responsibility will be entrusted to the PMU, which will also be responsible for coordinating all procurement under the project. The guidelines that will be used in preparing, screening and implementing subprojects will be specified in the project Implementation Manual. As part of capacity building under the project, staff of NIPC and local staff of the PMU would have access to training on procurement for IDA-funded projects.

Component 1 – Access to finance is aimed at increasing access and availability of financial services to MSMEs through the introduction of new financial institutions, products and tools, reinforced with selective financial sector legal and regulatory reforms. One of the major activities under this component will be the selection of MFIs and commercial banks based on pre-specified criteria that respect best practice and openness to support MSMEs in their corporate mission, strategic objectives, operating policies, etc. Expressions of Interest (EoI) will be called for from the interested MFIs and commercial banks, and the EoIs will explicitly state the criteria to determine the eligibility of interested applicants. The eligible applicants will submit detailed business plans which will include their portion of the contribution (i.e. matching grants) towards the implementation of the overall objective of this component. MFIs and commercial banks who fulfill the minimum criteria (which shall be part of a procedures manual prepared for the Credit), will have an acceptable business plan based on verifiable financial information and will have the requisite matching funds to be considered for access to finance under the proposed project. Release of funds will be in tranches, based on meeting the contractually agreed performance indicators for the respective tranche released. As the selection of beneficiaries will be based on specified criteria, business plan, performance indicators, etc, the selected MFIs/commercial banks may use their own procurement procedures to procure the goods and services required to fulfill their performance obligations. Other activities such as technical assistance for establishing the laws and regulations that shall be implemented by NIPC, until a PMU from the private sector has been appointed, will be contracted using Bank procurement procedures.

Component 2 – Business Development Services. The objective of this component is to increase MSMEs' access to quality business services that are both specialized and well-tailored to the specific needs of MSMEs. This component will assist BDS providers to build their capacity to develop and deliver quality training and consulting services that can assist a large number of MSMEs to increase their value added and grow. As in the Access to Finance component, selection of these service providers will be based on minimum eligibility criteria that shall be detailed out in the project procedure manual which shall be reviewed. The service providers which will be contracted under a performance based contract agreement will use commercial practice in procuring goods and services to execute their performance contract. All other activities under the component such as studies, other consulting services and analytical work, will be contracted using Bank procurement procedures.

Detailed procedures for the selection of MFIs and BDS providers will be defined in a Procedures Manual, which should be acceptable to IDA.

Components 3 – 5 – Investment Climate, Public/Private Sector Partnership Development and Project Management, Monitoring and Evaluation are aimed at (i) assisting CAC to reform its registration process and conduct awareness to increase MSMEs understanding of the roles and services of CAC, (ii) provide advisory services to selected FGN agencies with development responsibilities and the opportunity to access global best practices, and (iii) fund activities such as the financial audit, training, and consultancy assignments required to prepare the implementation manual, monitor and evaluate the impact of each of the project components. Procurement of goods and services under these component will be contracted using the Bank's procurement procedures.

Procurement Categories

Goods

The project will finance items such as office equipment, computers and accessories. To the extent practicable, goods and equipment would be combined in packages worth at least $150,000 and be procured using International Competitive Bidding (ICB) procedures, using IDA Standard Bidding Documents (SBD).

Each contract for goods estimated to cost between US$30,000 and US$150,000 up to an aggregate of US$0.48 million would be procured through National Competitive Bidding (NCB) using national procedures acceptable to IDA. However, since there is no national SBD acceptable to IDA for now in Nigeria, IDA SBD for procurement of goods will be adapted by the project. National competitive bidding procedures will also ensure that: (i) bids will be advertised in National dailies of wide circulation; (ii) methods to be used in evaluation of bids and the award of contracts are made known to all the bidders and are not applied arbitrarily; (iii) bidders are given adequate response time at least (four weeks) for preparation and submission of bids; (iv) bid evaluation and bidder qualification are clearly specified in the bidding documents; (v) no preference margin is granted to domestic contractors; (vi) interested eligible foreign firms are not

precluded from participation; (vii) award of contract will be made to the lowest evaluated bidder substantively responsive to the bidding documents in accordance with pre-determined and pre-announced/published and transparent methods; (viii) the bid evaluation reports will clearly state the reasons for rejecting any non-responsive bid; and (ix) prior to issuing the first call for bids, the draft standard bidding documents prepared by the PMU will be submitted to the Association and found acceptable.

Procurement for readily available off-the-shelf goods that cannot be grouped or standard specification commodities for individual contracts of less than US$30,000, up to an aggregate of US$2 million, would be procured under National Shopping or International Shopping procedures as detailed in paragraph 3.5 and 3.6 of the "Guidelines: Procurement under IBRD Loans and IDA Credits" and June 9, 2000 Memorandum "Guidance on Shopping" issued by the Bank.

To ensure that these limits are observed, each quarterly progress report of the project would include a list of the contracts and the table setting out the number and value (in US$ equivalent) of contracts issued through Local, International Shopping and National competitive bidding during the quarter as well as the cumulative total value (in US$ equivalent) of contracts under each of these two procedures from the date of the project start-up.

Consulting Services

These services would cover implementation and advisory services. As a rule, consultant services will be procured utilizing the Quality and Cost Based Selection (QCBS) method. All consultancy assignments estimated to cost US$100,000 or more would be procured through QCBS and would be advertised in the Development Business and or the Development Gateway and in at least one national newspaper. In addition, the scope of the service may be advertised in an international newspaper or magazine seeking "expressions of interest." In the case of assignments estimated to cost less than US$100,000, the assignment may be advertised nationally, and the shortlist made up entirely of national consultants provided that at least three qualified national firms are available in the country, and foreign consultants who wish to participate are not excluded from consideration. Consultant services (firms) estimated to cost less than the equivalent of US$100,000, may be contracted by using the Consultants Qualifications (CQ) method in accordance with paragraph 3.7 of the Guidelines. All consulting services of individual consultants (IC) will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.3 of the Guidelines. Consultants for assignments of a standard routine nature such as audits may be selected on the basis of Least-Cost method (LC). Single Source Selection: in exceptional cases, this method would be used in accordance with the provisions of paragraphs 3.8 to 3.11, with IDA's prior agreement.

Training and Workshops

17. Training/workshops will be carried out on the basis of approved annual programs that would identify the general framework of training activities for the year, including the nature of training/workshops, the number of trainees, and cost estimates, to be reviewed and cleared by IDA. Selection of training institutions for workshops/training should be based on a competitive

process using the Consultant's Qualifications method of selection.

Operating Cost

18. This will include the incremental operating cost arising under the project on account of the maintenance of equipment and vehicles, fuel, office supplies, utilities, consumables, travel per diem and allowances, travel and accomodation, office rental, but excluding salaries of public servants.

IDA Prior Review

19. Table B provides the prior review thresholds. Each contract for goods estimated to cost US$150,000 equivalent or more will be subject to IDA prior review as per paragraph 2 of appendix I of the Guidelines. The first National Competitive Bidding packages for goods shall be subject to IDA prior review. Other contracts will be subject to post review in accordance with paragraph 4 of Appendix I of the Guidelines. All consulting contracts costing US$100,000 equivalent or more for firms and US$50,000 and more for individuals will be subject to IDA prior review. All single-source selection of consultants and terms of reference for consulting services will be subject to IDA's prior review. Any exceptional extensions to non-prior review contracts raising their values to levels equivalent or above the prior review thresholds will be subject to IDA clearance. All training contracts costing US$15,000 equivalent or more per contract, will be subject to IDA prior review.

Post Review

20. Monitoring and evaluation of procurement performance at all levels (national, state, private organization and institutions) would be carried out during IDA supervision missions and through annual ex-post procurement audits. The audits would: (a) verify that the procurement and contracting procedures and processes followed were in accordance with the Development Credit Agreement (DCA); (b) verify technical compliance, physical completion and price competitiveness of each contract in a selected representative sample; (c) review capacity of participating agencies in managing procurement efficiently; and (d) identify improvements in the procurement process in light of any identified deficiencies.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements
(US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)
2. Goods Equipment	1.40 (1.40)	0.00 (0.00)	0.40 (0.40)	0.00 (0.00)	1.80 (1.80)
3. Services Consulting	2.00 (2.00)	1.00 (1.00)	10.80 (10.80)	28.00 (0.00)	41.80 (13.80)
4. Training	0.00 (0.00)	0.00 (0.00)	2.80 (2.80)	0.00 (0.00)	2.80 (2.80)
5. Operating costs	0.00 (0.00)	0.00 (0.00)	0.60 (0.60)	0.00 (0.00)	0.60 (0.60)
Grants	0.00 (0.00)	0.00 (0.00)	13.00 (13.00)	0.00 (0.00)	13.00 (13.00)
Total	3.40 (3.40)	1.00 (1.00)	27.60 (27.60)	28.00 (0.00)	60.00 (32.00)

1/ Figures in parentheses are the amounts to be financed by the IDA Credit. All costs include contingencies.

2/ Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Table A1: Consultant Selection Arrangements (optional)
(US$ million equivalent)

Consultant Services Expenditure Category	Selection Method							Total Cost[1]
	QCBS	QBS	SFB	LCS	CQ	Other	N.B.F.	
A. Firms	2.00	0.00	0.00	0.00	2.50	0.00	26.90	31.40
	(2.00)	(0.00)	(0.00)	(0.00)	(2.50)	(0.00)	(0.00)	(4.50)
B. Individuals	0.00	0.00	0.00	0.00	2.30	7.00	1.10	10.40
	(0.00)	(0.00)	(0.00)	(0.00)	(2.30)	(7.00)	(0.00)	(9.30)
Total	2.00	0.00	0.00	0.00	4.80	7.00	28.00	41.80
	(2.00)	(0.00)	(0.00)	(0.00)	(4.80)	(7.00)	(0.00)	(13.80)

[1] Including contingencies

Note: QCBS = Quality- and Cost-Based Selection
QBS = Quality-based Selection
SFB = Selection under a Fixed Budget
LCS = Least-Cost Selection
CQ = Selection Based on Consultants' Qualifications
Other = Selection of individual consultants (per Section V of Consultants Guidelines), Commercial Practices, etc.
N.B.F. = Not Bank-financed
Figures in parentheses are the amounts to be financed by the Bank Credit.

Prior review thresholds (Table B)

Table B: Thresholds for Procurement Methods and Prior Review[1]

Expenditure Category	Contract Value Threshold (US$ thousands)	Procurement Method	Contracts Subject to Prior Review (US$ millions)
1. Works			
2. Goods	US$150,000 and above	ICB	All
	US$30,000-US$150,000	NCB	Post Review
3. Services	Less than US$30,000	Shopping	Post review
	US$100,000 and above	QCBS	All
	Below US$100,000 (firms)	CQ	Post review
	US$50,000 and above (individual)		
	Below US$50,000 (individual)	IC	All
		IC	Post review
4. Training, workshops, study tours	US$15,000 and above	QCBS/CQ	All

Total value of contracts subject to prior review: USD 7,000,000
Overall Procurement Risk Assessment: **High**
Frequency of procurement supervision missions proposed: One every six months (includes special procurement supervision for post-review/audits)

[1] Thresholds generally differ by country and project. Consult "Assessment of Agency's Capacity to Implement Procurement" and contact the Regional Procurement Adviser for guidance.

Annex 6(B): Financial Management and Disbursement Arrangements
NIGERIA: Micro, Small and Medium Enterprise Project

Financial Management

1. Summary of the Financial Management Assessment

A. General

Objective of the FM System

1. The objective of the Financial Management systems is to support the Executing Agency and implementing unit in deploying project resources to produce the required outputs and with attention to economy, efficiency and effectiveness. Specifically, the FM systems must be capable of producing timely, understandable, relevant and reliable financial information to enable the implementing units to plan, coordinate, monitor and appraise the Project's overall progress towards the achievement of its objectives, as well as ensuring that funds provided will be used for the purposes intended.

Financial Management

2. NIPC is the executing agency for the project but it will delegate the day to day implementation of the project to a private firm, which will be contracted to carry out the role as a Project Management Unit (PMU). NIPC will serve as the oversight body together with a Review Committee (RC), which it will establish.

3. The Finance Department of NIPC (FD/NIPC) will be responsible for managing the financial affairs of the Project. FD/NIPC is staffed by relevant qualified accountants. Modern internal audit functions would be performed by the Internal Audit Unit of NIPC (IAU/NIPC). FD/NIPC will be responsible for ensuring compliance with the financial management requirements of the Bank and the Government, including forwarding the quarterly financial monitoring reports and audited annual financial statements to NIPC, the Review Committee, and to IDA. FD/NIPCPMU will jointly prepare budgets. FD/NIPC will be responsible for preparing monthly financial reports, quarterly financial monitoring reports, and annual financial statements, as required.

4. All accounts personnel will be sufficiently trained in Bank procedures, computer applications and financial management skills.

B. Risk Analysis

Inherent Risks

5. The Country Financial Accountability Assessment (CFAA), which was conducted in CY 2000, revealed that the systems for planning, budgeting, monitoring and controlling public resources in Nigeria have deteriorated to a level that they do not provide any reasonable

assurance that funds are used for the purpose intended. Risk of waste, diversion and misuse of funds was highly rated until such a time as the CFAA recommendations have been implemented. Some of the CFAA recommendations have been implemented and some are being implemented. An update of the CFAA, which is due before CY 2006 will be required to confirm the current level of risk.

6. To minimize the aforementioned risks and ensure the appropriate financial management capacity is in place prior to Project effectiveness, an assessment of the financial management capacity of the NIPC has been undertaken.

Control Risks

7. The overall Project risk from a financial management perspective is considered moderate, provided: (a) the weaknesses described in paragraph 9 are satisfactorily addressed; (b) the financial management action plan described in paragraph 18 is fully implemented; and (c) the conditions for Board are met.

Strengths and Weaknesses

8. *Strengths*: NIPC has a strong Finance Department (FD/NIPC). The department has relevantly qualified staff, effective financial controls, including adequate segregation of duties, internal check and monitoring, and adequate communication. NIPC also has external auditors that have regularly audited its accounts. NIPC and its RC have an oversight responsibility for the project and will review Project progress, and review and approve work plans and budgets.

9. *Weaknesses:* The main weaknesses are: (a) that the Internal Audit Unit in NIPC (IAU/NIPC) is under-resourced and weak and requires strengthening through the recruitment of a professionally qualified internal auditor; and (b) that NIPC does not have any experience in implementing IDA-assisted projects.

C. Financial Management Systems

Funds Flow and Banking Arrangements

10. The overall project funding will be from the IDA credit and investments from local and foreign investors and beneficiaries. IDA will disburse the credit through a Special Account, which will be managed by the FD/NIPC.

11. The following accounts will be opened and maintained by FD/NIPC:

- A Special Account in US Dollars to which the initial deposit and replenishments from IDA will be lodged.
- A Current (Draw-down) Account in Naira in a bank to which draw-downs from the Special Account will be credited once or twice per month in respect of incurred eligible expenditures. Following the immediate payments in respect of those eligible expenditures, the

balance on this account should be zero.

- A Current (Project) Account in Naira in a bank to which Counterpart Funds will be deposited.
- A Current (Naira Interest) Account in Naira in a bank to which interests on Counterpart Funds will be credited.
- A Current (US$ Interest) Account in abank to which interests on the Special Account will be credited.

12. FD/NIPC will maintain an IDA Ledger Loan Account (Washington) in US Dollars/Naira/SDR to keep track of draw downs from the IDA credit. The account will show (a) deposits made into a bank by IDA, (b) drawn downs by NIPC, (c) direct payments by IDA, and (d) opening and closing balances.

13. All bank accounts will be reconciled with bank statements on a monthly basis by FD/NIPC. The bank reconciliation statements will be reviewed by designated officials, and identified differences will be expeditiously investigated. Also, FD/NIPC will reconcile monthly the IDA Ledger Loan Account with the Disbursement Summary provided by the IDA.

14. FD/NIPC will be responsible for preparing and submitting to the World Bank applications for withdrawal, as appropriate. Appropriate procedures and controls will be instituted to ensure disbursements and flow of funds are carried out in an efficient and effective manner. The FD/NIPC will maintain a cumulative record of draw-downs from the Credit that will be reconciled monthly with the Disbursement Summary provided by the Bank. Detailed banking arrangements, including control procedures over all bank transactions (e.g. check signatories, transfers, etc.), will be documented by the FD/NIPC as described in the financial procedures manual (FPM).

D. Action Plan

15. The following actions are to be implemented as specified

1. Supervision Plan

16. Supervision activities will include a review of quarterly FMRs; review of annual audited financial statements and management letters as well as timely follow-up of issues arising during implementation; annual SOE reviews; participation in project supervision missions as appropriate; and updating the FM rating in the Project Status Report (PSR).

2. Audit Arrangements

Internal Audit

17. The Internal Audit Unit of NIPC (IAU/NIPC) will perform internal audit activities for the project. NIPC will strengthen the Unit by appointing a professionally qualified internal auditor to head the Unit. Regular internal audit reports will be submitted to the NIPC, RC and the Accountant General.

External Audit

18. Audited Project Financial Statements for the project will be submitted to IDA within six months after year-end. Relevantly qualified external auditors will be appointed based on Terms of Reference acceptable to the Bank to perform these audits.

19. Besides expressing an opinion on the Project Financial Statements in accordance with International Standards on Auditing (ISAs), the auditors will be required to comment on whether counterpart funds have been provided regularly and used in accordance with the financing agreement.

20. In addition to the audit report, the external auditors will be expected to prepare Management Letters giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the IDA agreement.

3. Disbursement Arrangements

21. By effectiveness, the Project will not be ready for report-based disbursements. Thus, at the initial stage, the transaction-based disbursement procedures (as described in the World Bank Disbursement Handbook) will be followed, i.e. direct payment, reimbursement, and special commitments.

22. When project implementation begins, the quarterly Financial Monitoring Reports (FMRs) produced by the project will be reviewed. Where the reports are adequate and produced on a timely basis, and the borrower requests conversion to report-based disbursements, a review will be undertaken by the Task Team Leader (TTL) to determine if the project is eligible. The adoption of report-based disbursements by the project will enable it to move away from time-consuming voucher-by-voucher (transaction-based) disbursement methods to quarterly disbursements to the Project's Special Account, based on FMRs.

23. Detailed disbursement procedures will be documented in the FPM.

Planning and Budgeting

24. Cash Budget preparation will reflect financial projections or forecasts for the life of the project (analyzed by year) and will be prepared on an annual basis. On an annual basis, FD/NIPC in collaboration with the PMU will prepare the cash budget for the coming period based on the work program. The cash budget should include the figures for the year, analyzed by quarter. The cash budget for each quarter will reflect the detailed specifications for project activities, schedules (including procurement plan), and expenditure on project activities scheduled respectively for the quarter. (Guidance on the preparation of budgets is available in the Bank publication entitled "Financial Monitoring Reports: Guidelines to Borrowers"). The annual cash budget will be sent

to the Task Team Leader at least two months before the beginning of the project fiscal year.

25. Detailed procedures for planning and budgeting will be documented in the Financial Procedures Manual (FPM)

Fixed Assets and Contracts Registers

26. At the FD/NIPC, a Fixed Assets Register will be prepared, regularly updated and checked. A Contracts Register will also be maintained in respect of all contracts with consultants and suppliers. Also, a quarterly Contract Status Reports will be prepared. Control procedures over fixed assets and contracts with consultants and suppliers/vendors for the States and federal levels will be documented in the FPM.

Information Systems

27. NIPC will hire a financial management consultant who will, among other things, select and install a computerized accounting package to be used by FD/NIPC for NIPC and the project, and train FD/NIPC staff in the use of the software in compliance with the FPM.

Financial Reporting and Monitoring

28. Monthly, quarterly and annual reports will be prepared to allow monitoring of project implementation. The reports will be submitted to the PMU, RC, NIPC, FMOF and IDA. On a monthly basis, the FD/NIPC will prepare and submit the following reports to the aforementioned:

- *A Bank Reconciliation Statement* for each bank account;
- *Monthly Statement of CashPosition* for project funds from all sources, taking into consideration significant reconciling items;
- *A monthly Statement of Expenditure* classified by project components, disbursement categories, and comparison with budgets, or a variance analysis; and
- *Statement of Sources and Uses of Funds* (by Credit Category/Activity showing IDA and Counterpart Funds separately);

29. The following financial monitoring reports will be prepared by FD/NIPC in collaboration with the PMU on a quarterly basis and submitted to IDA, RC, NIPC and FMOF:

- Financial Reports which include a Statement showing for the period and cumulatively (project life or year to date) inflows by sources and outflows by main expenditure classifications; beginning and ending cash balances of the project; and supporting schedules comparing actual and planned expenditures. The reports will also include cash forecast for the next two quarters.
- Physical Progress Reports, which include narrative information and output indicators (agreed during project preparation) linking financial information with physical progress, and highlight issues that require attention.
- Procurement Reports, which provide information on the procurement of goods, works,

and related services, and the selection of consultants, and on compliance with agreed procurement methods. The reports will compare procurement performance against the plan agreed at negotiations or subsequently updated, and highlight key procurement issues such as staffing and building Borrower capacity.

- SOE Withdrawal Schedule listing individual withdrawal applications relating to disbursements by the SOE method, by reference number, date and amount.
- The annual project financial statements, which will be prepared by FD/NIPC and submitted to IDA, RC, NIPC and FMOF will include the following:

  - **A Statement of Sources and Uses of Funds** (by Credit Category/by Activity showing IDA and Counterpart Funds separately);
  - **Statement of Cash Position** for Project Funds from all sources;
  - **Statements** reconciling the balances on the various bank accounts (including IDA Special Account) to the bank balances shown on the Statement of Sources and Uses of funds;
  - **SOE Withdrawal Schedules** listing individual withdrawal applications relating to disbursements by the SOE Method, by reference number, date and amount;

  - **Notes to the Financial Statements**.

30. Indicative formats for the reports are outlined in two Bank publications: (a) Financial Monitoring Reports: Guidelines to Borrowers-Quarterly FMRs, and (b) Financial Accounting, Reporting and Auditing Handbook (FARAH) - monthly and annual reports.

Accounting Policies and Procedures

31. IDA and Counterpart Funds will be accounted for by the Project on a cash basis. This will be augmented with appropriate records and procedures to track commitments and to safeguard assets. Also, accounting records will be maintained in dual currencies (i.e. Naira and US dollars).

32. The Chart of Accounts will facilitate the preparation of relevant monthly, quarterly and annual financial Statements, including information on the following:

- Total project expenditures
- Total financial contribution from each financier
- Total expenditure on each project component/activity, and
- Analysis of that total expenditure into civil works, various categories of goods, training, consultants and other procurement and disbursement categories.

33. Annual financial Statements will be prepared in accordance with International Accounting Standards (IAS).

34. All accounting and control procedures will be documented in the FPM, a living document that will be regularly updated by the Project Accountants.

Allocation of credit proceeds (Table C)

Table C: Allocation of Credit Proceeds

Expenditure Category	Amount in US$million	Financing Percentage
Goods	1.80	100 FE, 90% LC
Consultant Services	11.60	90%
Training & Workshops	2.80	100%
Incremental Operating costs	0.60	80%
Grant	13.00	100%
PPF	0.60	
Unallocated	1.60	
Total Project Costs with Bank Financing	32.00	
Total	32.00	

Use of statements of expenditures (SOEs):

35. All applications for the withdrawal of proceeds from the credit will be fully documented, except for: (i) expenditures of contracts with an estimated value of US$150,000 each or less for goods, (ii) $100,000 or less for consulting firms; (iii) US$50,000 or less for individual consultants, and (iv) $15,000 or less for training, workshops and incremental operating costs; (v) $100,000 or less for payments on account of Performance Grants. Documentation supporting all expenditures claimed against SOEs will be retained by FD/NIPC, and will be available for review when requested by IDA supervision missions and project auditors. All disbursements are subject to the conditions of the Development Credit Agreement and the procedures defined in the Disbursement Letter.

Special account:

36. To facilitate disbursements for eligible expenditures for goods and services, the flow-of-funds mechanism has been designed with the following guiding principles: (a) the FD/NIPC controls and accounts for project funds; (b) bottlenecks in the transfer of funds are minimized via adequate Financial Procedures Manual, including service standards; and (c) implementation transparency and accountability. The NIPC will open a Special Account, which will be managed and administered by the FD/NIPC, in a commercial bank to cover part of IDA's share of eligible expenditures. The flow of funds is detailed in section C above. FD/NIPC will be responsible for submitting monthly replenishment applications with appropriate supporting documents for expenditures. To the extent possible, all of IDA's share of expenditures should be paid through the special account. Unless otherwise agreed by the Bank, all expenditures of less than US$1,000,000 will be made through the Special Account.

37. The Special Account will be replenished through the submission of Withdrawal

Applications on a monthly basis and will include reconciled bank statements and other documents as may be required until such time as the Borrower may choose to convert to report-based disbursement. All disbursements will be channeled through the SA.

Annex 7: Project Processing Schedule
NIGERIA: Micro, Small and Medium Enterprise Project

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	9	
First Bank mission (identification)		05/12/2003
Appraisal mission departure	10/31/2003	
Negotiations	11/14/2003	
Planned Date of Effectiveness	06/15/2004	

Prepared by:
Peter Mousley

Preparation assistance:

Bank staff who worked on the project included:

Name	Speciality
Peter J. Mousley	Task Team Leader, Senior Private Sec. Dev. Specialist, AFTPS
Akin Adeoye	Business Development Officer, CSMAN
Chau-Ching Shen	Senior Financial Officer, LOAG2
Gokhan Akinci	Investment Policy Officer, CICFA
Irene Arias	Business Development Officer, CSMDR
Bayo Awosemusi	Senior Procurement Specialist, AFTPC
Karen Alexandra Hudes	Senior Counsel, LEGAF
Marilyn Swann Manalo	Operations Officer, AFTPS
Victoria Kwakwa	Lead Economist, AFTP3
Leila McKimmon Webster	Senior Program Officer, CSMDR
Adenike Mustapha	Financial Management Specialist
Edward Olowo-Okere	Sr. Financial Management Specialist, AFTFM
John Philippe Prosper	Chief Financial Officer, CAFSI
Andrew Alli	Country Manager, CAFW5
Ismail Samji	Senior Investment Officer, CGFMF
Georgette B. Johnson	Program Assistant, AFTPS
Makanda Kioko	Program Officer, CGFMF
Mary Agboli	Consultant, CSMDR
Gloria Kwembe	Team Assistant, AFC12
Felicia Ogidan	Program Assistant, AFC12
Sidonie Jocktane	Program Assistant, AFTPS

Annex 8: Documents in the Project File*
NIGERIA: Micro, Small and Medium Enterprise Project

A. Project Implementation Plan

Detail cost tables and draft Project Implemenation Manual (PIM)

B. Bank Staff Assessments

Results of the Nigeria Firm Survey, Regional Program on Enterprise Development (RPED Paper #118, April 2002), World Bank.

The *Implementation Completion Report (ICR) on the World Bank Small and Medium Enterprise Development Project* (Loan 2995-UNI), Report #16811, June 1997.

Africa Program Framework Paper for a Joint IDA/IFC Micro, Small and Medium Enterprise Development Pilot Program for Africa, World Bank/IFC (considered by the Board of Executive Directors, June 19, 2003).

SME mapping exercise undertaken in parallel with a survey on Nigerian firms conducted under the RPED of the World Bank, October 2001.

"Joining the Race for Non-Oil Foreign Investment," conducted by the Foreign Investment Advisory Services;

"Direct Support to Private Firms – Evidence of Effectiveness", G. Batra and S. Mahmood, 2001 and *"IDA's Partnership for Poverty Reduction (FY94-FY00): An Independent Evaluation"*, OED, 2001, pp 31-33.

C. Other

The recently completed *"Evaluation of the Mekong Project Development Facility"*, Nexus and Assocs., June, 2002 provides important insights into the best design parameters for BDS provider capacity building.

Guiding Principles for Donor Intervention Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention, Committee of Donor Agencies for Small Enterprise Development, February 2001.

*Including electronic files

Annex 9: Statement of Loans and Credits

NIGERIA: Micro, Small and Medium Enterprise Project

27-Oct-2003

			Original Amount in US$ Millions				Difference between expected and actual disbursements*	
Project ID	FY	Purpose	IBRD	IDA	Cancel.	Undisb.	Orig	Frm Rev'd
P069892	2004	NG Local Empowerment & Envir.Mgmt.	0.00	70.00	0.00	72.35	1.03	0.00
P071494	2003	Universal Basic Ed.	0.00	101.00	0.00	106.13	18.54	0.00
P080295	2003	Polio Eradication	0.00	28.70	0.00	18.82	0.16	0.00
P074963	2003	NG Lagos Urban Transport Project	0.00	100.00	0.00	107.76	13.39	0.00
P072018	2002	Nigeria:Transmission Development Project	0.00	100.00	0.00	105.40	47.38	15.12
P070291	2002	HIV/AIDS Prog. Dev.	0.00	90.30	0.00	96.32	25.17	0.00
P070290	2002	2nd Health Systems Dev.	0.00	127.01	0.00	142.16	32.02	0.00
P069901	2002	Community Based Urban Development	0.00	110.00	0.00	122.54	32.42	6.37
P069086	2001	Com.-Based Pov. Reduct.	0.00	60.00	0.00	55.33	14.56	8.56
P070293	2001	NG PRIVATIZATION SUPPORT PROJECT	0.00	114.29	0.00	117.97	37.62	0.00
P066571	2000	2nd Primary Educ.	0.00	55.00	0.00	44.65	42.92	25.36
P065301	2000	ECON.MGMT.CAP.BLDG.	0.00	20.00	0.00	8.18	0.02	0.00
P064008	2000	SMALL TOWNS WATER	0.00	5.00	0.00	3.40	3.08	2.06
		Total:	0.00	981.30	0.00	1001.01	268.30	57.46

NIGERIA
STATEMENT OF IFC's
Held and Disbursed Portfolio
June 30 - 2003
In Millions US Dollars

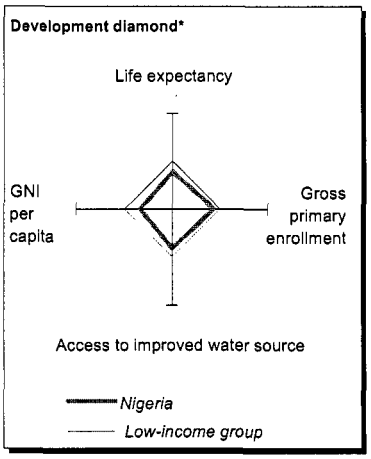
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2000	CAPE FUND	0.00	7.50	0.00	0.00	0.00	5.40	0.00	0.00
2000	Citibank (Nig)	18.28	0.00	0.00	0.00	8.28	0.00	0.00	0.00
2001	Delta Contractor	15.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	Diamond Bank	14.00	0.00	0.00	0.00	14.00	0.00	0.00	0.00
2000	FSB	4.50	0.00	18.00	0.00	0.00	0.00	18.00	0.00
1992/93	FSDH	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	GTB	18.00	0.00	0.00	0.00	18.00	0.00	0.00	0.00
2000	IBTC	20.00	0.00	0.00	0.00	20.00	0.00	0.00	0.00
1981/85/88	Ikeja Hotel	0.00	0.25	0.00	0.00	0.00	0.25	0.00	0.00
1993	Tourist Co Nir	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2001	UBA	30.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1998	AEF Ansbby	0.10	0.00	0.00	0.00	0.10	0.00	0.00	0.00
1997	AEF Ekesons	0.06	0.00	0.00	0.00	0.06	0.00	0.00	0.00
1999	AEF Global Fabri	0.32	0.00	0.00	0.00	0.32	0.00	0.00	0.00
1999	AEF Hercules	1.30	0.00	0.00	0.00	1.30	0.00	0.00	0.00
1999	AEF Hygeia	0.19	0.19	0.00	0.00	0.19	0.19	0.00	0.00
1996	AEF Mid-East	0.00	0.00	0.12	0.00	0.00	0.00	0.12	0.00
1997	AEF Moorhouse	0.79	0.00	0.00	0.00	0.79	0.00	0.00	0.00
2000	AEF Oha Motors	0.84	0.00	0.00	0.00	0.84	0.00	0.00	0.00
1997	AEF Radmed	0.25	0.00	0.00	0.00	0.25	0.00	0.00	0.00
2000	AEF SafetyCenter	0.50	0.06	0.00	0.00	0.50	0.06	0.00	0.00
1997	AEF Telipoint	0.08	0.00	0.00	0.00	0.08	0.00	0.00	0.00
1995	AEF Vinfesen	1.00	0.00	0.00	0.00	1.00	0.00	0.00	0.00
1994	Abuja Intl	1.75	0.71	0.00	0.00	1.75	0.71	0.00	0.00
2003	Adamac	25.00	0.00	0.00	15.00	11.56	0.00	0.00	6.94
1964/66/70/89	Arewa Textiles	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Total Portfolio:	151.96	8.71	18.12	15.00	79.02	6.61	18.12	6.94

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic
2002	MTNN	0.08	0.01	0.02	0.00
2002	NTEF - ANZ	0.01	0.00	0.00	0.00
2002	NTEF- SCB	0.02	0.00	0.00	0.00
	Total Pending Commitment:	0.11	0.01	0.02	0.00

Annex 10: Country at a Glance

NIGERIA: Micro, Small and Medium Enterprise Project

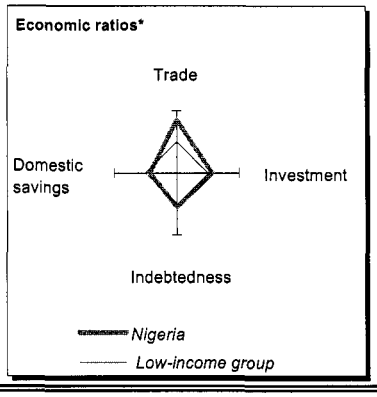
POVERTY and SOCIAL	Nigeria	Sub-Saharan Africa	Low-income
2002			
Population, mid-year *(millions)*	132.8	688	2,495
GNI per capita *(Atlas method, US$)*	290	450	430
GNI *(Atlas method, US$ billions)*	38.7	306	1,072
Average annual growth, 1996-02			
Population *(%)*	2.5	2.4	1.9
Labor force *(%)*	2.6	2.5	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	46	33	30
Life expectancy at birth *(years)*	45	46	59
Infant mortality *(per 1,000 live births)*	109	105	81
Child malnutrition *(% of children under 5)*	31	..	..
Access to an improved water source *(% of population)*	62	58	76
Illiteracy *(% of population age 15+)*	33	37	37
Gross primary enrollment *(% of school-age population)*	82	86	95
Male	89	92	103
Female	74	80	87



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

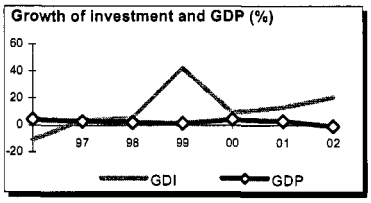
	1982	1992	2001	2002
GDP *(US$ billions)*	49.7	32.7	42.5	43.4
Gross domestic investment/GDP	..	21.8	20.1	23.3
Exports of goods and services/GDP	16.3	42.2	44.4	37.7
Gross domestic savings/GDP	14.0	23.5	24.5	17.4
Gross national savings/GDP	11.4	16.9	22.9	14.8
Current account balance/GDP	-13.5	-4.0	2.8	-8.5
Interest payments/GDP	1.7	5.6	4.6	..
Total debt/GDP	24.1	88.7	73.2	69.4
Total debt service/exports	16.1	30.9	19.0	18.1
Present value of debt/GDP	..	..	72.6	..
Present value of debt/exports	..	..	160.6	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	4.2	2.3	2.9	-0.9	3.5
GDP per capita	1.2	-0.4	0.6	-3.1	0.5

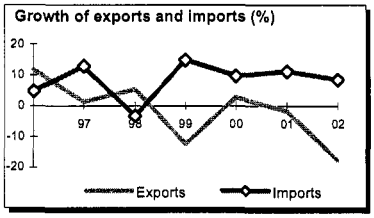


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	30.8	23.8	34.6	37.4
Industry	33.3	58.3	35.5	28.8
Manufacturing	9.6	4.3	4.2	..
Services	35.8	17.9	29.9	33.8
Private consumption	69.9	58.1	45.5	55.4
General government consumption	16.1	18.4	30.0	27.2
Imports of goods and services	22.3	40.5	39.9	43.6

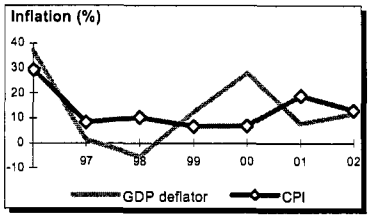


	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	4.8	3.8	3.8	5.3
Industry	2.4	0.8	1.5	-4.8
Manufacturing	2.8	1.3	3.8	..
Services	6.0	2.4	3.2	-4.3
Private consumption	-1.8	-2.0	-12.5	7.2
General government consumption	-1.0	10.5	22.9	-11.6
Gross domestic investment	2.2	6.6	13.3	20.5
Imports of goods and services	-8.9	6.5	11.3	8.6



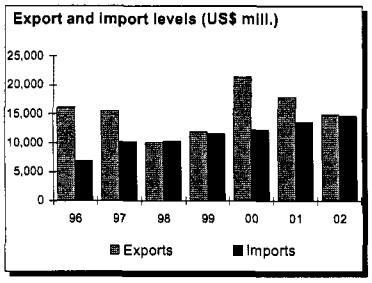
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	7.7	44.6	18.9	12.9
Implicit GDP deflator	2.6	83.6	7.8	11.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	35.1	46.9	40.2
Current budget balance	7.8	16.7	7.1	2.9
Overall surplus/deficit	..	..	-3.3	-5.8



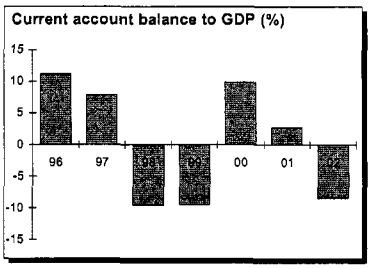
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	12,154	11,886	17,949	14,912
Crude petroleum	11,888	11,642	16,574	13,306
Liquefied natural gas	..	..	708	886
Manufactures	..	36	88	89
Total imports (cif)	17,730	9,842	13,619	14,752
Food	2,890	807	1,790	1,917
Fuel and energy	..	..	2,717	3,470
Capital goods	..	..	..	..
Export price index *(1995=100)*	186	110	148	152
Import price index *(1995=100)*	63	89	85	84
Terms of trade *(1995=100)*	293	123	175	181



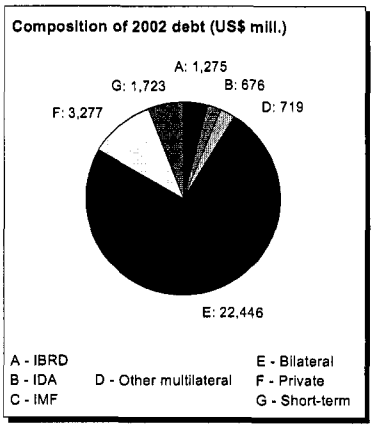
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	12,607	12,034	18,943	15,932
Imports of goods and services	17,210	11,539	17,041	18,455
Resource balance	-4,602	495	1,902	-2,523
Net income	-1,661	-2,569	-2,482	-2,956
Net current transfers	..	776	1,773	1,812
Current account balance	-6,693	-1,298	1,193	-3,667
Financing items (net)	4,326	-717	-170	676
Changes in net reserves	2,367	2,015	-1,023	2,991
Memo:				
Reserves including gold *(US$ millions)*	1,639	2,135	10,423	7,233
Conversion rate *(DEC, local/US$)*	1.0	19.0	111.6	121.0



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	11,972	29,019	31,119	30,116
IBRD	674	3,174	1,337	1,275
IDA	37	80	621	676
Total debt service	2,087	3,750	3,659	2,933
IBRD	85	555	285	251
IDA	1	1	13	16
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	169	198	-1,464	..
Private creditors	2,417	-1,542	-184	..
Foreign direct investment	..	714	1,796	1,950
Portfolio equity	0	0	0	..
World Bank program				
Commitments	100	581	305	438
Disbursements	144	296	27	20
Principal repayments	33	295	215	189
Net flows	111	1	-188	-169
Interest payments	53	262	83	74
Net transfers	59	-261	-271	-243



Additional Annex 11: Eligibility and Performance Criteria for Financial and BDS Intermediaries

NIGERIA: Micro, Small and Medium Enterprise Project

1. DRAFT SELECTION CRITERIA FOR BUSINESS DEVELOPMENT SERVICE PROVIDERS

Eligibility

- NGO\Is and enterprises have significant track records in the relevant areas as set out in the objectives identified in the Expressions of Interest Notification
- Absorptive capacity (financial, managerial, operationally – human and systems resources, application of best practice methodology) for additional operations and programming initiatives
- High capacity to deliver good quality financial statements and audited accounts since this will be one of the key sources of measuring their performance.
- Demonstrated commitment by their willingness to contribute their own resources to the development of the program

Performance Criteria

The program will support BDS providers to expand or develop and market new products (to be defined in the Expression of Interest Notification) according to the following criteria related to sustainability, outreach and impact.

A comprehensive business plan will be required with detailed financial and operational plans addressing, inter alia:

- Potential outreach, measured by the expected increase in the number of clients reached, sales growth, and growth in the number of new products developed and delivered;
- Potential impact measured by the expected change in the percent of SMEs that purchase services from the provider;
- Potential sustainability measured by sustained increase in new clients and sales, decrease in unit costs and increase in financial sustainability over time, i.e., cost recovery (operating revenues/operating cost) increases.

Proposals will, to the extent possible be benchmarked against industry best practices.

2. DRAFT SELECTION CRITERIA FOR FINANCIAL SERVICE PROVIDERS

This comprises various initiatives to develop new institutions and new products to extend commercial financial services to MSMEs. What follows pertains to the start-up of new microfinance institutions targeted on MSMEs and development of new products to be implemented by existing financial institutions.

A. Selection Criteria for Proposals to Establish New Commercial Micro and Small Business (MSB) Finance Institutions

Eligibility Criteria

Capacity to fulfill objectives as identified in the Expressions of Interest Notification, based on:

- The experience, success record and reputation of the strategic investor in starting, managing and expanding commercial MSB finance institutions.
- The experience, success record and reputation of the technical services provider.
- The experience, track record and reputation of the proposed shareholders.
- Absorptive capacity (financial, managerial, operationally – human and systems resources, application of best practice methodology) for additional operations and programming.
- Demonstrated commitment by their willingness to contribute their own resources to the development of the program.

Commercial investors will be required also to submit a statement of interest which will be expected to address, and provide evidence of, the following:

- Corporate mission
- Background of founder(s), board of governors and senior management
- Commitment to transparency and good governance
- Commitment to support the mission, goals, objectives and sustainability of the Project MFI
- Policy on conflicts of interest

Performance Criteria:

The program will support micro and small business finance providers to expand or develop and new financial products and institutions (to be defined in the Expression of Interest Notification) according to the following CGAP-compliant criteria related to sustainability, outreach and impact.

- Sustainability and cost effectiveness – commercially viable operation within timebound period
- Outreach - growth of loan portfolio meeting financial prudential standards for commercial viability
- Impact - A comprehensive 5 year business plan for the project that clearly details how the project will fulfill sustainability, outreach and impact objectives in line with Expression of Interest Notification.

Proposals will be benchmarked against industry best practices, including:

(a) Microfinance Consensus Guidelines on the definitions of selected financial terms, ratios, and adjustments (reference: http://www.cgap.org/publications/guidelines.html)

(b) Disclosure Guidelines for Financial Reporting by MFIs (reference: http://www.cgap.org/publications/guidelines.html)

(c) The MIXMarket which links investors, MFIs and service providers (reference: http://www.mixmarket.org)

(d) Industry performance benchmarks (reference: http://www.mixmbb.org/en/)

B. Downscaling of Commercial Banks into Micro, Small and Medium Business Finance:

Eligibility Criteria:

Commercial banks will be required to submit a statement of interest which will be expected to address, and provide evidence of, the following:

- Corporate mission
- Background of founder(s), board of governors and senior management
- Commitment to transparency and good governance
- Commitment to support the mission, goals, objectives and sustainability of the downscaling project in particular after the technical assistance program is fully implemented
- Financial capacity
- Managerial capacity
- Existence of a branch network and other infrastructure suitable for implementing a cost-effective, efficient downscaling program in both urban and rural areas
- Ability and willingness to implement the program based on a good faith effort to ensure program success, including bearing the costs of that portion of the program not covered by grant funding and to bear 100% of the cost of running the downscaling program after the grant funding is completed. Such costs to include but not be limited to loan officer salaries, MIS, travel, security, promotion and financial reporting
- Use of best practice methodology in the bank's core business
- Policy on conflicts of interest

Performance Criteria:

- Sustainability and cost effectiveness – commercially viable operation within timebound period
- Outreach - growth of loan portfolio meeting financial prudential standards for commercial viability
- Impact - A comprehensive 5 year business plan for the project that clearly details how the project will fulfill sustainability, outreach and impact objectives in line with Expression of Interest Notification.

Proposals will be benchmarked against industry best practices.

Additional Annex 12:Draft Outline of the Performance Framework
NIGERIA: Micro, Small and Medium Enterprise Project

Approach:

- Assessing results at four levels: output, intermediate outcome, economic outcome and impact across the three principal components of the project at the institutional (intermediate level of MSME service providers/facilitators) and at end-user (MSME firm level) target groups.

- **Intermediary Level Indicators:** The project provides "performance-based" technical and capacity building assistance to a range of private, public and NGO/I facilitators and providers of policy, regulatory, business development services, and financial services. This funding will be allocated in accordance with eligibility and operational performance criteria pertaining to outreach, impact and sustainability performance indicators.

- **End-User MSME Firm Performance Indicators:** The results measures set out in the logframe include – at the impact level – firm and industry-level indicators. In line with World Bank Private Sector Development Strategy, these impact-level results look to confirm the link between project activities and firm performance. Also, it is recognized, as set out in the Joint IDA/IFC Africa MSME Program Framework Paper, that "observing firm level changes…to (project) interventions will require experimental models of evaluation, which can be complex and costly in execution…". This will involve assessments of the performance of specific firms that are beneficiaries of the project, complemented by industry, regional and national benchmarking (as appropriate) and PICS-type survey work.

- **RPED Role:** In addition to the provision of technical advice on the design, implementation and analysis of the different enterprise surveys undertaken by the project, RPED support will be key in the design of the performance framework and advising on data requirements\costs and cost\benefit analyses undertaken of project impact.

Issues to be Addressed:

- In developing a picture of the project impact, the principal question to be answered is whether the subsidy provided by the Government through this IDA credit resulted in sustained improvements in firm performance, additional to what would have been achieved without the subsidy. To address this question it is necessary to compare with both ***"before and after"*** (assess target firms benefiting from the project both ex ante and ex post) and ***"with and without"*** (assess target firms performance relative to those who have not benefited from the project) controls.

- Two other major issues will need to be borne in mind when trying to isolate the effects of the project: (i) the need to control for other factors in the enabling environment that may be affecting firm performance, in addition to the project; (ii) the difficulties posed by selection bias, in that firms benefiting from the project will tend to be ones that are more successful in the first place, bringing into question the additionality generated by the project subsidy.

- In order to do this, it will be necessary to undertake a baseline collation of relevant performance data of firms in a given industry and then trace performance of both client firms and a random number of firms that do not receive project benefits. Other statistical techniques and applications will be required to control for "other factors" and selection bias. The practicability of doing this sort of analysis varies across the project components.

  - **Investment Climate:** In the case of the registration, the project is targeting new entrants, so before\after scenarios can not be practically assessed. But the project should look at the level of investment and access to services at a recently registered firm versus similar firms that remain in the informal sector. In the case of the ADR sub-component, the project can trace economic impact of settling a dispute – by determining from the firms that are part of the successful pilot caseload exercises, the ways in which the resolution of their case impacts on subsequent business and investment decisions.

  - **Financial Services:** It will be necessary to determine if funding provided the additionality required to jump-start new financial services to MSMEs and to what extent does the MSME portfolio of institutional beneficiaries (MFIs, commercial banks and leasing companies) increase as a result of the intervention. Ex ante and ex post information will be required from the firms receiving the loans to determine how these funds were used. On this basis it will be possible to construct a picture of the productivity impacts that the credit provided to the firms.

  - **BDS:** In the case of the industry sub-component, baseline productivity, labor and wage rate information will be required as well as specific ex ante and ex post information on those firms that receive services that are supported by the project. This will allow a productivity story to be constructed that addresses both the before\after as well as the with\without project assistance. This exercise would need to be reproduced for each industry the project selects for support. In the case of the BDS Fund, where the clients are more likely to be informal micro and start-up enterprises, good data on wages, value-added and labour may be even harder to obtain. But a decision will need to be made as to whether the cost is merited and the data is sufficiently robust to be usable. A second best solution may be to determine employment and sales level increases.

- One way to control for selection bias might be to weight results by the scores they obtain that enable them to access funds (assuming a competitive selection process).

- In addition to the firm-level impacts, there are also the additional externalities generated as a result of the demonstration effects that the project is seeking to generate at a sector, regional or market level. The demonstration effects are intended to have a longer term impact on PSD perceptions and performance. This can be tracked through survey instruments – designed so they are consistent with the core PICS - but tailored to industry and State-level target groups as well as national-level groups.

- MSME projects are unlikely to have a statistically significant impact on poverty reduction. There are at least three main reasons for this: (i) these are smaller projects, targeting a relatively small sample of the MSME population in places where there are other major variables at play within the enabling environment; (ii) the MSME project will have its own selection bias, focusing

its support on stronger MSMEs that are arguably less likely to employ the poor; (iii) the selection bias issue identified earlier will also likely mean that the firms that show performance improvements were pre-disposed this way and it may be difficult to provide statistical evidence that the project provided additionality in this respect.

- While it may not be possible to arrive at a quantitative assessment of the poverty reduction, qualitative assessments could be generated though case studies of individual firms, where it is first ascertained that they employ "poor people". The task would then be to trace the effects of project support through to the incomes and other related assets of the employees in beneficiary firms (both providers and end-users).

- Another way in which MSME projects could have a poverty impact is on the consumption, rather than the production side. Where MSMEs lower the price or improve the quality of products consumed by poor households – other things being equal - poverty would be reduced. Again it will need to be shown how the project has contributed to these effects on the consumption side. This is a more probable scenario where there is a strong sector and geographic focus.

Additional Annex 13: Project Management Unit - Terms of Reference
NIGERIA: Micro, Small and Medium Enterprise Project

BACKGROUND

The Federal Government of Nigeria intends to apply for a credit from the International Development Association (IDA) in the amount of US$32 million equivalent toward the cost of the Proposed Micro, Small and Medium Scale Enterprises (MSME) Project. The Government intends to apply the proceeds of this credit to payments for consulting services and goods to be procured under this project, which is scheduled to last five years. The objective of the proposed MSME Project is to increase the growth of MSMEs Defined as any enterprise with a maximum asset base of N200 million excluding land and working capital; and with a maximum number of 300 staff employed by the enterprise., in non-oil industry sub-sectors. The program will have five components:

(i) expanding MSMEs' access to financial services;
(ii) expanding MSMEs' access to business development services (BDS);
(iii) improving the investment climate, particularly by simplifying the firm registration process and improving the efficiency of the commercial dispute resolution system;
(iv) providing targeted, performance-based capacity building to foster increased public-private sector collaboration on MSME development;
(v) project management and monitoring and evaluation.

A Project Management Unit (PMU) will be established to manage the project for the FGN. This PMU is to be run by a private company, reporting to the Federal Government of Nigeria's designated Executing Agent (EA). These Terms of Reference set out the roles and responsibilities required of the PMU.

ROLES AND RESPONSIBILITIES OF THE PMU

1. Overall Project Administration: Serve as the Credit Administrator of the Project and provides project administrative support to the EA and the Review Committee (RC) in accordance with the Project Implementation Manual (PIM). Specific responsibilities include:

- Organize quarterly meetings to assess progress, identify implementation constraints and recommend remedial actions with key actors across all project components;
- Collect from the project beneficiaries and consultants, review, and transmit to the Executing Agency, the Government and IDA all quarterly progress, audit, mid-term, and implementation completion reports;
- Maintain dialogue with IDA, in consultation with the EA, on all aspects of project preparation and implementation, including semi-annual review meetings at the time of the IDA Supervision Missions;
- Prepare and consolidate annual and quarterly work plans and budgets for the Project for review and approval by the EA on a quarterly basis and review by the RC on an annual basis;
- Prepare the minutes and record decisions and actions arising from the quarterly review meetings with the EA.

2. Procurement and Disbursement: The PMU will, once operational, be the coordinating and responsible agent for all procurement under the Project. The PMU will be subject to a procurement assessment to confirm capacity of the contracted party to execute this function accordingly. The activities of the PMU will be periodically reviewed by the Internal Audit Unit of the Federal Ministry of Finance.

Procurement will follow IDA procurement procedures. The selection and employment of consultants will be in accordance with the guidelines set out in *The Selection and Employment of Consultants by World Bank Borrowers* (January 1997, revised September 1997, January 1999, May 2003). The purchase of goods and services would be in accordance with IDA procurement guidelines (reference Procurement Under IBRD Loans and IDA Credits, January 1995 and revised in January and August 1996). Specific procurement requirements to be followed by the PMU will be detailed in the Project's Implementation Manual. The PMU will monitor and maintain disbursements in line with the performance targets established in the contracts. Disbursements from the IDA Credit will be made on the basis of incurred eligible expenditures and through financial management reporting arrangements. Each beneficiary and consultant receiving funds from the project will be responsible for furnishing the PMU with monthly disbursement plans based on disbursement and withdrawal procedures detailed in the Project Implementation Manual. The expenditure categories, projected allocation of Project proceeds, and IDA's financing percentages would also be provided in the Project Implementation Manual.

The PMU will be responsible to ensure all applications to withdraw proceeds from the Credit account will be fully documented. Specific disbursement procedures to be followed under this project will be detailed in the Project Implementation Manual and the Financial Procedures Manual, both *"living documents"* that will be updated regularly to meet evolving needs. Specific responsibilities include:

- Develop and update quarterly disbursement and procurement plans and progress reports, covering all aspects of the project for submission to the EA and IDA;
- Assume responsibility for the procurement processes for all project components; with input from local and foreign technical experts, as applicable and required, prepare assessments and recommendations on the selection of consultants/beneficiaries required for the implementation of all the project components for consideration by the EA, RC and IDA;
- Review and approve bids and applications from potential project beneficiaries based on selection and performance criteria. Applications for project support amounting to over US$ $200,000 will require endorsement by the Review Committee , based on recommendations made by the PMU;
- Prepare all procurement documentation and submit to the EA and for World Bank for no objection clearance;
- Manage all disbursement requests of each project beneficiary and consultant according to monthly schedules submitted to it.

3. Technical Services: The PMU will be required, in addition to core project management, budget planning, and procurement, to provide technical expertise, pre-dominantly on a short-term basis, except in the areas of: (i) monitoring and evaluation, training, (ii) BDS Fund and; (iii)

specific industry sub-components, where a decision is made not to sub-contract an industry program out to an alternative implementing agent. In these three cases, the PMU will – prima facie - require fulltime specialists suited to the particular performance framework established for the project, the training programs anticipated and to manage the BDS Fund as a unique cost center within the program. Specific technical responsibilities include:

- Provide short-term specialist consultants to provide appraisal services on bid documents received for initiatives being financed under the different Project components;
- In collaboration with other project implementing agencies/project beneficiaries and in line with work programs, develop overseas and in-country training plans and implement the training in a timely manner;
- Develop an inventory of MSME best practice experience/models in line with priority needs of the four components of the project, drawn from worldwide lessons learned.
- Identify, analyze, and develop, with support from the EA and external experts, a program for specific industries under the BDS component.

4. **BDS Fund:** The BDS Fund will support BDS providers to develop and deliver products and services tailored to MSMEs for which there is demonstrated demand. Employing the same geographic focus as the larger project, this Fund will operate initially in Lagos and Kaduna, but also extend to Abia during the project life. A firm-level BDS survey will be carried out to identify those services for which there is demand and those that will therefore be eligible for grants from the Fund. Funds would be made available on the basis of performance contract agreements in which capacity-building support for activities such as staff training, information systems upgrades, and technical consulting services would be dependent on fulfilling outreach and sustainability targets. Disbursements would be linked to the realization of these targeted results.

Funds would also be made available to service providers to use in developing products that are appropriate for MSMEs, typically involving adaptation of off-the-shelf products for use by local MSMEs. In both cases, activities financed by the Fund should result in service providers increasing their outreach to MSMEs, the impact of their services, and the sustainability of their organizations.

The Fund's approach will be in keeping with current thinking about business services provision, i.e., products and services supported by the Fund should be delivered to MSMEs on a commercial basis. Providers financed by the Fund would be selected on the basis of their meeting pre-set organizational and project criteria. The PMU will manage the BDS Fund in accordance with a detailed manual, prepared by the EA, in consultation with technical experts. Grant sizes will vary depending on the needs of grantees, but the average size grant is expected to be about $100,000. Specific responsibilities include:

- Undertake site visits to BDS Fund beneficiaries to complement the project information obtained from reporting;
- Provide quarterly progress reports to the EA covering financial and project implementation analysis and an annual report on the overall performance of the BDS Fund in terms of institutional and economic outputs, outcomes and impact;
- Report to the RC on overall BDS Fund performance on a semi-annual basis these

semi-annual meetings with the RC should take place prior to the IDA semi-annual supervision mission.

The PMU will be responsible for (i) reviewing requests for proposals for funding; (ii) approving proposals and institutions meeting selection criteria for proposals costing up to US$100,000 for a firm and $50,000 for an individual; (iii) making recommendations to the EA for approvals for grant requests amounting up to $150,000 for a firm and $75,000 for an individual; (iv) making recommendations to the EA and the Review Committee for approvals for grant requests amounting to over $150,000 for a firm and $75,000 for an individual; depending on the nature of the proposals received, the PMU will call upon individual experts to submit a technical review of the project proposal; for amounts triggering EA and RC involvement, the PMU will submit its recommendation and the technical reviews to the EA and RC and agree on final recommendations to be transmitted to IDA for its consideration; (v) supervising implementation of beneficiary financing; (vi) possibly offering technical assistance to beneficiaries, when needed; (vii) identifying new services that the Fund should support; and (vii) providing regular reports to the Chairman and the Review Committee members.

5. Communications Strategy: The PMU, in consultation with the EA, will elaborate and implement a strategic communications plan following the completion of a needs assessment under the Project. The communication needs assessment will cover: (i) stakeholder identification; (ii) stakeholders' knowledge, opinions and attitudes with respect to the project's goals and approach; (iii) stakeholders' communication profile; (iv) outline of an appropriate mix of methods and media to be used for ensuring effective outreach on project opportunities (for example, access to funding by local organizations/groups) and feedback on project activities and results with stakeholders.

The PMU will prepare a detailed work plan every year including a list of key communication indicators and present it to the EA for approval. Specific responsibilities include:

- Organize annual events (at both Federal and also target State locations) in close cooperation with Federal and State governments and the organized private sector to present the Annual Performance Report of the Project and the BDS Fund Annual Report;
- Undertake targeted capacity building activities with States and Federal agencies in line with Annual Workplans;
- Provide Best Practice Workshops based on project priorities, as part of major private sector events in Nigeria, e.g., Nigerian Economic Summit; Banker's Committee meetings etc.

6. Monitoring and Evaluation: The PMU will monitor the Project based on the overall project performance framework and specific performance agreements and contractual outputs required from project beneficiaries and consultants. Each beneficiary and consultant agency will develop instruments for monitoring its respective component while the PMU will consolidate and analyze statistical, financial, and physical data on the rate of implementation. It will also monitor and analyze the performance under the BDS Fund. Quarterly progress reports will be prepared by the PMU and submitted to the EA and IDA. The monitoring and outcome indicators will provide the PMU, the EA, the Government, IDA, etc. with measures to determine progress and form the basis for joint supervisions.

Formal supervision will take place on a regular basis to review implementation progress. The EA, IDA and other donors will jointly prepare the terms of reference and will participate in the mission. The PMU will also be required to prepare information required for the completion annually of the project status report (PSR).

A mid-term evaluation of the Project will take place no later than 24 months after the Credit effectiveness in accordance with terms of reference agreed upon by Government/EA, the PMU, and IDA and other donors. The PMU will be required to prepare a mid-term report detailing implementation progress under all Project components and identifying implementation issues. This report will be submitted to the EA, IDA and other donors not later than two months prior to the mid-term review. During the mid-term review, in response to the implementation issues identified, solutions will be developed, and, if required, project redesign steps will be taken. An Implementation Completion Report will also be jointly prepared by the PMU, EA, and IDA within six months after the closing date of the Credit. Specific responsibilities include:

- Maintain responsibility for monitoring Project performance at the output, outcome and impact levels in accordance with the project performance framework. This includes: (a) collection of data; (b) development of an appropriate database system; (c) assessing data collection systems of beneficiaries and consultants and verifying accuracy of the data reported by these entities;
- Liaising with IDA, develop the links required with the LSMS team at the FSO and undertake to contract case study work as agreed in the annual workplan to track firm-level productivity impacts and poverty reduction implications of project activities.
- Preparation of an Annual Monitoring and Evaluation Implementation Plan and appropriate semi-annual progress reports building on reporting provided by beneficiaries and consultants. This will include the preparation of an annual report providing a detailed review of the project's achievements in meeting the performance objectives set out in the project's appraisal document.

CORE EXPERIENCE AND SKILL REQUIREMENTS OF PMU

The PMU needs to include staff who can demonstrate:

- Excellent procurement skills and knowledge of World Bank Group procurement guidelines
- Knowledge of financial management systems and procedures conforming to World Bank Group's requirements
- Five years experience as an administrator of various development programs/projects, including experience in partnering with the local private sector (e.g. through joint ventures).
- Wide experience in implementation of development programs and in dealing with donor agencies.
- Excellent demonstrated management capacity to run a business development services fund and experience in administering small grants in a complex environment
- Demonstrated technical expertise in BDS.
- Demonstrated capacity to develop and implement a communication strategy.
- Experience in developing and implementing a monitoring and evaluation system

appropriate to measure the impact of the Project activities on economic growth and to track performance of Project beneficiaries on an ongoing basis.

- Technical expertise suited to the component parts of the project.
- Excellent organizational skills.
- Excellent knowledge of Nigeria, particularly of key MSME stakeholders in private and public sectors.

Additional Annex 14: Roles and Responsibilities of the Review Committee and the Executing Agent

NIGERIA: Micro, Small and Medium Enterprise Project

1. REVIEW COMMITTEE

The MSME Project Review Committee (RC) is in charge of providing strategic guidance and support to the PMU and EA and making strategic decisions related to Project implementation. The RC will consist of representatives from the public and the private sectors.

A. Technical Advice: The Review Committee will be responsible for reviewing the PMU's annual work program and providing technical advice on the Project Implementation Plan (PIP) to the EA as required. The PMU and EA may seek technical advice from Committee members on an ongoing basis during Project implementation.

B. Decision Making: In accordance with the Project Implementation Plan (PIP), the RC will select, on the basis of agreed-upon selection criteria and procedures and the recommendations of the EA, the PMU, the MFIs, commercial banks, the firms managing individual industry sub-components, and BDS providers.

C. Strategic Direction and Supervision (quality control): The Review Committee will:

- Assist the Executing Agency and the PMU in resolving ambiguities and uncertainties associated with Project implementation
- Provide strategic direction and ensure that the general patterns of support are consistent with the Project objectives
- Review reports including the audit, mid-term, and implementation completion report (ICR) and evaluate if the development objectives of the project are being met.

The Review Committee (RC) will meet on a semi-annual basis to conduct a review of the portfolio. The RC will also meet (on an as needed basis) in order to evaluate proposals above a certain threshold, in accordance with the PIP.

2. EXECUTING AGENCY

The Executing Agency (EA), acting on behalf of the Federal Ministry of Finance, has the following functions:

A. Project Implementation, Monitoring and Supervision: The Executing Agency will:

- be responsible for the implementation of the IDA credit on behalf of the FGN;
- approve the annual work plan and budgets for each component, in consultation with IDA and the Review Committee;

- provide the Financial Management systems and services for the project;
- delegate management, operational, procurement, monitoring and evaluation responsibilities to the PMU and oversee its operations;
- monitor the Project implementation to ensure that it is consistent with the PIP and review reports received from the PMU, including quarterly progress reports, semi-annual reports, audit reports, and the ICR;
- conduct a semi-annual Project portfolio review meeting with the RC, the PMU, and key Project beneficiaries (at the time of the IDA Supervision Missions)
- act as Secretariat for the Review Committee;
- In the event of poor performance on the part of the PMU, take appropriate measures, in consultation with IDA;
- If required, review and authorize, in consultation with IDA, the RC and the PMU, the reallocation of resources across the various components of the project as lessons emerge as to patterns of demand and development impact.

B. Coordination: The EA will be responsible for coordinating across government departments in respect to the Project operations, in consultation with the PMU.

C. Technical Advice: The EA will provide technical guidance to the PMU, particularly with respect to industry analysis and support, in line with NIPC's mandate.

Additional Annex 15: Disclosures on Potential IFC Investments and IFC Partners Benefiting from the Project

NIGERIA: Micro, Small and Medium Enterprise Project

The proposed MSME Project is being prepared (and will also be supervised) by a joint team of IFC and IDA staff working closely in collaboration with Nigerian partners.

IFC has already identified and, in some cases is already supporting, several private sector projects in Nigeria related to MSME development. The IDA project preparation team has determined that several of these projects, in which IFC is, or may be, involved are likely to receive support from the MSME Project through performance-based contracts. These entities include the proposed first commercial regulated micro-finance bank in Nigeria (with ACCION); the Support and Training Entrepreneurship Program (STEP); the FATE Foundation; and possibly a strategic partner for a commercial credit bureau.

Both IFC and IDA consider that the design of the MSME Project, including the engagement and potential engagement of the parties noted above, offers the most promising option to launch a program that will meet the needs of private businesses in the micro, small and medium enterprise sectors. However, we recognize that this also raises the risk of potential conflicts of interest, or the perception thereof, between IDA and IFC activities in Nigeria. Accordingly, IDA and IFC have established a framework for identifying and managing conflicts of interest in this project, or perceived conflicts of interest. This framework includes disclosure to concerned parties, in communications together with specific measures to manage actual, potential or perceived conflicts of interest arising from the roles of IDA and IFC.

Specific measures that will be implemented include:

a) Separate teams (combining IFC and IDA staff, as appropriate) will be established for IDA project preparation/supervision activities and IFC investment activities. These teams will not share any team members. Accordingly, no staff who have been part of the IDA preparation and supervision team would be assigned to work on IFC financing of actual or potential beneficiaries of the IDA Project.

b) No confidential information will be shared among the teams. Accordingly, the IDA preparation and supervision team would not provide IFC staff working on financing potential Project beneficiaries any confidential or privileged information obtained by the preparation and supervision team in the course of the Project; and IFC staff which may become involved in providing financing for potential Project beneficiaries would not provide the preparation and supervision team any confidential or privileged information obtained as a result of their work with an IFC client.

c) The advice of the preparation and supervision team has been and will continue to be separate and independent from any IFC role or investment in a potential Project beneficiary. The preparation and supervision team will continue to provide stand-alone, independent advice based on international best practice and experience, and without regard to the possibility that IFC might eventually become a lender to or investor in a Project beneficiary.

d) The selection of Project beneficiaries will be based on best practice and transparent eligibility criteria which have been developed by the preparation team and agreed with the Government of Nigeria. In the case of the ACCION, STEP and FATE components the IDA team is prepared at this stage to recommend that IDA financing be provided from the Credit on the basis that:

- These partners will play a key role in providing an early learning and demonstration experience for subsequent project implementation partners;

- ACCION International is recognized by IDA and IFC as an international best-practice micro-finance partner. IDA support will facilitate mobilization of private investment capital and accelerate expansion of Accion's Nigerian operations;

- FATE and STEP are developing track-records as efficient Nigerian 'home-grown' implementation partners in entrepreneurship development with youth, and in the informal micro-enterprise sector.

- These partners are ready to move quickly into implementation;

- These partners will be required under the Project to submit acceptable business and implementation plans, in line with project eligibility and performance requirements, as a condition to IDA support;

- IDA disbursements will be phased according to accomplishment of agreed performance targets; and

- Other entities meeting the same experience, performance and eligibility criteria would be equally eligible to receive subsequent support on a competitive basis under the Project.

The attached table provides additional details regarding the ACCION, STEP and FATE proposals.

Nigeria MSME Project – Proposed Performance Agreement Partners & IFC Relationships

Entity	Activity	Rationale for Support	IFC Relationship	Proposed IDA Support
ACCION Nigeria	Commercial, regulated, microfinance bank	• 1st Nigerian regulated, commercial, MFI – demonstration impact • Top class international best-practice partner • Mobilize incremental private investment capital • Facilitate faster expansion than otherwise feasible • Ready to move quickly	• ACCION International is an IFC 'best-practice' partner • IFC considering an investment in ACCION Nigeria	$1.8 million
STEP Foundation	Microenterprise development	• Home-grown Nigerian foundation; model now being replicated in Chad & Mali • Efficient, high impact, work in informal sector (90%+ of Nigerian private sector), where almost no others work • Key training & demonstration effect • Ready to move quickly	• IFC best-practice partner; STEP model taken to other African countries • IFC has provided grant support to STEP • IFC staff have been involved with STEP Nigeria establishment & oversight	$150,000
FATE Foundation	Youth entrepreneur development	• Home-grown Nigerian foundation; model now being replicated in Chad & Mali • Efficient, high impact, work in high priority sector, where almost no others work • Key training & demonstration effect • Ready to move quickly	• IFC best-practice partner • IFC has provided grant support to FATE	$150,000
To be established	Commercial credit bureau	• 1st regulated commercial credit bureau – demonstration impact • Bring proven international best-practice partner to Nigeria • Mobilize	A potential IFC investment opportunity	Up to $0.5 million

		incremental private investment capital • Facilitate faster expansion than otherwise feasible		
To be established	Leasing	Promote more rapid, sustainable, expansion of viable commercial productive leasing activities	Potential downstream IFC investments	Up to $0.5 million

Additional Annex 16: Performance Targets
NIGERIA: Micro, Small and Medium Enterprise Project

At the end of the Project, targets are:

I. Access to Finance Component

A. Micro-finance Institutions

1. $15 million new private sector investments and establishment of at least two new micro-finance companies.
2. Micro-finance institution(s)'s portfolio at risk (arrears over 60 days) not greater than 5 percent after a second year of operation.
3. MFI loan portfolio cumulative disbursed of $75 million.

B. Commercial Banks

1. Three commercial banks establish MSME downscaling programs;
2. Commercial Bank MSME portfolio at risk (arrears over 60 days) not greater than 5 percent after a second year of operation.
3. Downscaling loan portfolio cumulative disbursed of $75 million.

II. Business Development Services

A. BDS Fund

1. At least 20 BDS providers assisted by the Fund
2. At least 75% cost recovery reached by participating BDS providers within a specified time-frame
3. At least 20 products or services with sustained uptake improved or developed through support from the Fund
4. At least 1,000 new MSMEs are supplied with BDS by participating BDS providers;

B. Industry Supply Chain

1. At least 20 BDS providers assisted by the Fund within a specified time-frame
2. At least 75% cost recovery reached by participating BDS providers within a specified time-frame
3. At least 20 products or services with sustained uptake improved or developed through support from the Fund
4. Up to 4,000 new (including indirect) jobs in 3-5 supply chains in selected industries

III. Investment Climate

1. Streamlined procedures, integrated tax and business registration process, and reduction in

transaction costs for company registration with the Corporate Affairs Commission – including a reduction in number of steps required to register a business from 9 to 6 and a 30 percent reduction in the time required;

2. Alternative dispute resolution mechanisms developed and implemented in up to three target states;
3. Secured transactions regime introduced in the each target States;
4. Regulatory framework updated for leasing industry;
5. Framework for and new credit bureau established.

IV. Public/Private Sector Partnership Development

1. Three Annual MSME competitiveness Conferences;
2. Associated roundtable discussions held between Government and private sector to disseminate lessons, best practices, and success stories from the Project, and establish dialogue to improve policies and programs targeted at MSMEs.
3. Three Annual MSME Competitiveness Reports completed.

V. Project Monitoring and Evaluation

An appropriate monitoring and evaluation system has been established to appropriately measure the Project's impact in the participating States.

Additional Annex 17: Letter of Sector Policy
NIGERIA: Micro, Small and Medium Enterprise Project

BACKGROUND

1. Given the structure of the industrial sector, it is clear that micro, small and medium enterprises (MSMEs) hold the greatest prospect for income and employment for the majority of Nigerians. Most enterprises in Nigeria at present fall within MSMEs sector, with a few core and strategic large scale capital intensive industries, mainly still in the public sector. MSMEs are strategically placed in that they utilized labour intensive production processes with relatively modest technologies that are easily available and manageable. The entrepreneurship development aspect of MSMEs bears direct relevance to empowerment of the population for sustainable development, improves the welfare content of growth and provides great prospects for employment creation. The manufacturing sector in Nigeria is predominantly small enterprises. Sixty percent of firms have between 20-49 employees, although it is the large firms that provide the bulk of formal sectoral employment, accounting for over 50% of total employment in manufacturing. Over the last decade, employment levels have tended to decline in large firms and increase in the micro, small and medium enterprise sector. The informal micro-enterprise sector remains the major source of employment for the majority of Nigerians.

2. MSMEs provide greater possibilities for the use of locally available raw materials and for linkages vertically and horizontally, thus facilitating technological adaptation and opportunities for developing domestically consumer goods industries. This will also assist in reducing dependence on imported inputs. By virtue of their local raw materials – based on their vast geographical distribution, MSMEs guarantee even distribution of national wealth. The growth of MSMEs would greatly improve on the welfare content of the economy by minimizing the incidence of marginalization and impoverishment of the greater part of the society.

SECTOR POLICIES AND STRATEGIES

Sector Policies

3. Successive administrations in Nigeria had, over the years, accepted the need for government to provide an enabling environment supportive of the development of MSMEs, given its role in economic growth and industrialization in both developed and developing economies. Accordingly, government has taken a number of fundamental and deliberate initiatives to promote the development of the private sector and in particular, the MSMEs. Currently, the President's Economic Team is preparing a National Economic Empowerment and Development strategy, which is geared towards stability, growth and development. Strengthening MSMEs is identified as a core element of the NEEDs.

4. To enable government achieve the foregoing objectives and priorities, the Federal Government has initiated a number of institutional reform initiatives to put in place the enabling environment for MSMEs to grow. To this end, the Nigerian Investment Promotion Commission was restructured and re-engineered to be more pro-private sector-led both in management and Governing Council leadership. The Commission's vision and mission are generally towards the development and promotion of MSMEs, which serves as an engine of economic growth. Indeed,

equally important is the establishment of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2003, which is expected to give policy direction to the sector.

5. In a renewed determination to create effective and efficient development finance institution for MSMEs, government undertook a re-structuring of development finance institutions. This includes the Bank of Industry (BOI), which has been created from the merger of the Nigeria Industrial Development Bank (NIDB), the Nigeria Bank for Commerce and Industry (NBCI) and the National Economic Reconstruction Fund (NERFUND). The Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB) has emerged from the integration of the Family Economic Advancement Programme (FEAP), People's Bank and Nigeria Agricultural and Co-operative Bank (NACB). These reforms are designed to move these institutions away from the failed paradigms of the past.

6. The Government has a firm commitment to a market-based financial system and recognizes the importance of providing the enabling environment that will serve to deepen and broaden financial intermediation within the country. Under the auspices of the Bankers' Committee, the commercial banks have acted to support this goal through an initiative whereby they set aside annually ten percent (10%) of their profit before tax (PBT) to invest as equity in SMEs under a scheme called Small and Medium Industry Equity Investment Scheme (SMIEIS). This fits into the government programme of increasing accessibility to funds to promote growth of SMEs. With the introduction of the Scheme, it is expected that improved funding of the SMEs will facilitate the achievement of higher economic growth.

7. These initiatives are striving to make important inroads into the rehabilitation of the MSME sector in Nigeria. There remain macro-economic; infrastructure and investment climate constraints, which the diagnostic work indicates, are the major impediments to the growth and productivity of the MSME sector in Nigeria. The government is also actively working to address these constraints.

8. Market failures operating at the meso and micro-levels also contribute significantly to the weak response of financial institutions and other private sector actors to the MSME sector. Tackling these problems will require a robust public-private sector dialogue and cooperation between these two sectors of the national economy. We recognize that these certain market failures are not best addressed by public sector intervention in the delivery of these services. The public sector role is, at its best, one of facilitation, supporting the private sector to provide these services. At the firm level, an effective response that fills the financing and know-how gaps currently facing MSMEs in Nigeria will require a level of scale-up and replication that is only sustainable if it is demand-driven, commercial and private sector led. This, moreover, is the evidence of a growing body of global experience. The Government of Nigeria is, in collaboration with the private sector, committed to identifying and mainstreaming within Nigeria, different best practice approaches and models that have proven track records in sustainability and outreach and can be suitably adapted to the Nigerian context. In support of this, the Government is committed to lowering the legal, administrative and regulatory costs of doing business. We are looking to achieve a public-private collaboration that brings about necessary changes to the investment climate, mobilizes private sector actors and fosters innovative market-based responses. In our view this offers the greatest potential for Nigeria to deepen and broaden MSME access to financial and non-financial services and provide this sector with the resources it requires to increase productiveness and grow.

Strategic Actions:

9. In support of the Sector Policies and Strategies outlined above, the Government will:

I. Pursue macro-economic policy that will achieve a stable business environment.

II. Review and revise existing policy, legislation, regulations, institutions to improve enabling environment for MSMEs, particularly in the areas of business and tax registration, leasing, credit bureau, secured transactions and the SMIEIS program.

III. Establish a permanent advocacy and review mechanism by which to assess impact of policy and legislation on the MSME sector (along the lines of the USA small Business Administration) including:

- Increasing Inter-departmental and inter-agency collaboration
- Increasing coordination with MSME business membership organizations

IV. Test and disseminate new program models and methodologies- including:

- Initiatives that mobilize new private sector investment in MSMEs and their intermediaries.
- A private sector driven approach to the development of the MSME intermediary market for the provision of financial services - one based on commercial viability (sustainability) demand-driven (outreach) and impact (results-based)
- Innovative new public- private sector partnerships with international best practice institutions and practitioner.

V. Prepare an Annual MSME Competitiveness Report- including

a. Benchmarking of Best practice in support of MSMEs that

b. Identify and utilize international benchmarks to establish goals and track performance.

c. Use of enterprise surveys as means of verifying MSME and market perceptions of government and sector performance.

ROLE OF THE PROJECT IN SUPPORT OF STRATEGIC ACTION

10. In this regard, the IDA MSME Development Credit represents a critical component of the Government's overall Sector Policy to bring about sustained improvement in the performance of the non-oil MSME sector in Nigeria. The project - through initiatives designed to improve the investment climate, strengthen intermediaries delivering services to MSMEs and supporting public sector institutions with key critical facilitator roles – will be contributing to the Government's core objectives for the MSME sector. The approach adopted by the Government for this project includes: (i) the mainstreaming of best practices; (ii) leveraging the involvement of international partners to develop strong local Nigerian institutions; (iii) the use of performance-based contract agreements with intermediaries to ensure sustainability and outreach targets are met, and: (iv) a strong monitoring and evaluation component to effectively assess impact on the MSMEs benefiting from the project.

11. The Government also confirms its strong interest, through this project, in participating in the Joint IDA\IFC Micro and Small and Medium Enterprise Pilot Program for Africa. This

Nigeria MSME project will be the first under this new program. The opportunity to work in a more coordinated manner with both IDA and IFC and achieve a greater synergy in the use of the instruments available from these two arms of the World Bank Group is welcomed. Depending on the success achieved with this pilot project, the Government would be interested in discussing with IDA the possibility of extending it, in order to serve other States outside of the three States (Lagos\Lagos, Kaduna\Kaduna, Abia\Umuahia) which are the primary focus of this first pilot initiative. Going forward the Government will also look to find further innovative ways to lever more private investment in the Nigerian MSME sector.

MAP SECTION