



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
NIGER INVESTMENT CLIMATE SUPPORT  
APPROVED ON AUGUST 19, 2015  
TO  
REPUBLIC OF NIGER

FINANCE, COMPETITIVENESS AND INNOVATION

AFRICA

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## ABBREVIATIONS AND ACRONYMS

BCEAO	<i>Banque Centrale des États de l'Afrique de l'Ouest</i> (Central Bank of West African States)
CMU	Country Management Unit
EDD	End Disbursement Date
IT	Information Technology
MSMEs	Micro Small and Medium Enterprises
MTR	Mid-Term Review
PIU	Project Implementation Unit
RETF	Recipient Executed Trust Fund
RSF	Risk Sharing Facility
SAHFI	Société Sahélienne de financement (Guarantee Company)
TA	Technical Assistance
TF	Trust Fund
WBG	World Bank Group
WFAFO	World Bank Group Finance & Accounting



**BASIC DATA**

**Product Information**

Project ID P148839	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 19-Aug-2015	Current Closing Date 30-Dec-2020

**Organizations**

Borrower Republic of Niger	Responsible Agency MOP - PIU (CR 51320),Ministry of Planning, Land Management and Community Development
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**Project Development Objective (PDO)**

Original PDO

The objective is to improve critical elements of investment climate for the private sector and enhance competitiveness of SME in selected agriculture value chain.

**Summary Status of Financing**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
TF-A0809	19-Aug-2015	25-Aug-2015	01-Dec-2015	30-Dec-2020	9.08	6.10	2.98

**Policy Waiver(s)**

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

No



## I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. As a result of the combined efforts by the Government and the World Bank, the project has recorded significant progress after initial delays due to lengthy procurement procedures. The project implementation accelerated following the Government decision to lift the suspension of approvals of all project contracts, and the appointment of a dedicated controller for the project's line ministry (Ministry of Planning, Land Management and Community Development).
2. The level of execution of the program has reached 60% with delivery of all the infrastructures in Maradi expected to be completed by December 2019, despite slower progress in Diffa due to security challenges faced by contractors. This should translate into a significant overall disbursement increase as the infrastructure component amounts to more than 50 percent of project costs.

### Under Component 1:

3. Over the last 4 years, the Project provided continued support to the implementation of the Doing Business agenda in Niger and contributed to significant progress in easing the Doing Business index.
4. The project is pursuing targeted support to investment climate reforms through the modernization of the commercial court. The case management system for the court should be available in December 2019 and will enhance the transparency, and efficiency of this jurisdiction. The recruitment of the consultant to design the information system architecture for the commercial court is underway and bidding document for the purchase of the software should be finalized by November 2019.
5. The Government and the World Bank are in the process of developing an action plan to implement the entrepreneur regime in Niger by December 2019.

### Under Component 2:

6. A business plan competition partly funded by the project has been completed and 100 winning projects have been awarded. The provision of the Technical Assistance (TA) and mentoring services, started in early September 2018, has helped the winners improve the quality of their business plans. Of the 100-award winning business plans, 64 have mobilized funding to launch their business activities. The project is demonstrating the principles of maximizing finance for development because firms have mobilized private resources.
7. Disbursement arrangements and procurement procedures remain in place. A draft procurement plan for the introduced activities has been submitted, reviewed and given a no objection by the Bank.

### **Rationale for restructuring**

8. Acknowledging the weak uptake of the initially envisioned matching grant to support MSMEs investments, the Danish Cooperation conducted the Mid-Term Review (MTR) and concluded that the mechanism was inadequate to address access to finance constraints faced by actors of Agriculture Value Chains in Niger. Consequently, the MTR recommended to drop the grant mechanism and establish a Risk Sharing Facility (RSF) instead. The aim of the RSF is to encourage national commercial banks to support SMEs investments along the agricultural value chains in Niger



by partially mitigating creditor risk through counter guarantees offered by a local Guarantee Fund.

9. Having taken into account the WB task team's comments, a consultant commissioned by the Danish counterpart has finalized a feasibility study for a guarantee scheme to replace the initially envisioned grant mechanism. Based on thorough analysis and interviews with stakeholders, the feasibility study concluded, that the guarantee fund mechanism would make an important contribution and would be consistent with the project design and needs of firms and banks. The OP 10 review concurred with this conclusion, and the project complies with OP 10 financial intermediary financing policy.
10. The Government submitted a request for restructuring with the following objectives:
  - a) Align the Danish TF with the other component of the Danish support in Niger implemented by the swiss cooperation.
  - b) Identify and implement adequate management mechanisms for the infrastructure constructed with the project support under Component 2.
  - c) Implement a new instrument to support SMEs in lieu of the grant mechanism initially envisioned.
  - d) Extend the closing date to from March 31, 2019 to December 31, 2020.
11. The above actions have been completed with the exception of item (c) which is being addressed within this Restructuring Paper. The project has undergone two Level II restructurings: (i) The first Level II restructuring was to extend the closing date, from March 31, 2019 to May 30, 2019, to allow for the in-depth evaluation of the Risk Sharing Facility and (ii) the second extension from March 31, 2019 to December 30, 2020 was to ensure that remaining project activities are completed and their associated results delivered and to establish the RSF as well as to ensure compliance with Bank requirements.

12. **OP10 Review Summary**

- a) The project restructuring meets the OP 10 requirements on design. The design through the RSF meets the objective of enhancing competitiveness of selected agricultural value chains by encouraging national commercial banks to lend to farmers and MSMEs by mitigating creditor risk through counter guarantees.
- b) **Strategy.** The strategy to establish a Public Guarantee Fund administrated by a professional financial institution, entrusted by banks and MSMEs, within a 'public-private' integrated framework with the Government of Niger and the Niger banking sector, is a viable option to crowd in the private sector while collaborating with the government. The approach fits well with the challenging and fragile context. The Guarantee Fund will be donated to the Government of Niger by the end of the program, based on the Danish TF's requirements. The strategy fits well with a long-term approach of perpetuation of the guarantee mechanism and availability of the guarantee fund for the benefit of the country.
- c) **The institutional set-up assures ongoing monitoring and evaluation, based on the context.**
  - SAHFI SA is a financial institution specialized in guarantee disbursement authorized within the UMOA. The legal set-up is compliant with the local jurisdiction.
  - Good footprint in Niger: 12 years of experience in disbursing guarantees to MSMEs with five partner banks, two of them top listed in the Niger market, discrete products and procedures in place, and a discrete track record. A co-guarantee mechanism is in place if the risk exceeds the ceiling amounts.



- It can meet the financial sector needs of the MSMEs in the agri value chains, both for medium-term investments to enhance processes and commercialization and for short-term financing/working capital.
  - It's able to leverage the regional presence and existing relation with local and regional financial institutions.
- d) **Individual Guarantee Scheme identified.** The scheme meets the requirements of targeting a limited number of MSMEs with specific needs in the agri value chains. It offers opportunities to a larger number of banks, it's faster to set-up, and the direct appraisal conducted enhance the credit appraisal procedures undertaken by the banks.
- e) **The Technical Assistance component** will support required SAHFI's enhancements. Following the 'WBG Principles for Public Credit Guarantee Schemes for SMEs' during project execution will ensure smooth implementation. Further analysis of the existing guarantee funds in Niger (and international guarantee funds operating in Niger, if any) alongside products offered would benefit project design and execution.
16. This is the proposed third Level II restructuring of the Niger Investment Climate Support Project which seeks your approval to: (i) drop the investment funding mechanism for MSMES; (ii) establish new financing guarantee mechanism for SMEs under Component 2; (iii) change the institutional arrangements; (iv) amend the disbursement arrangements; (v) amend the legal covenants; and (vi) adjust the results framework.

## II. DESCRIPTION OF PROPOSED CHANGES

17. The project development objective which is to improve critical elements of investment climate for the private sector and enhance competitiveness of MSME in selected agriculture value chain remains unchanged and achievable during the life of the project.
18. The proposed restructuring will consist of:
- a) Dropping the investment funding mechanism for Small and Medium Enterprises (MSMEs) under Component 2.
  - b) Establishing a Risk Sharing Facility (RSF) in collaboration with SAHFI ("Société Sahélienne de financement"), a local guarantee fund for MSMEs. A guarantee line will be created through the existing SAHFI RSF to encourage the private commercial banks to lend to farmers and MSMEs along the agricultural value chains. It will cover up to 70 percent of the commercial loan contracted. The working capital and investment loans will be eligible. SAHFI and banks operating in Niger have expressed their support to the proposed RSF which is also in line with the BCEAO's regional strategy for SMEs financing.
  - c) Providing technical assistance to SAHFI to better manage the Risk sharing facility

### **Funded Activities:**

19. Funding to establish the Guarantee line through the SAHFI existing Risk Sharing Facility. The first tranche amounting to \$US 1.28 million will be provided to the SAHFI to initiate the guarantee line. The second tranche will be performance-based using the step-wise formula for capitalization with verification protocol (audited statements, reviewed by third party) as shown:



At least 30% of target (verified through protocol)	\$300,000
> 30% to 50% of target (verified through protocol)	\$500,000
>50% to 70% of target (verified through protocol)	\$650,000
> 70% to 85% of target (verified through protocol)	\$800,000
> 85% to 100% of target (verified through protocol)	\$1 million

- a) Investment into capacity building for the SAHFI (IT systems; provision of management support and technical assistance related to the Risk Sharing Facility);
- b) Consultancy services to develop the RSF Manual of Procedures.

20. **Institutional Arrangements:** SAHFI will be responsible for the implementation of the RSF under the overall coordination of the Maison de l’entreprise PCU (one of the implementing agencies of the project), overall supervision of the Ministry of Planning (line Ministry of the project) and technical leadership of the Ministry of Planning. The new RSF will be implemented in accordance with the provisions of:

- (a) The RSF Framework Agreement to be signed between the SAHFI and the Ministry of Planning;
- (b) The RSF Manual containing detailed arrangements and procedures for the Risk Sharing Facility, including: (a) eligibility criteria, detailed rules and procedures for selection of Participating Banks, (b) legal arrangements to be entered into between SAHFI and Participating Bank and between Participating Banks and Private Sector Operators, (c) administration, financial management and accounting procedures; (d) verification and calculation of step-wise formula and specific date for verification (e) all other administrative, technical and organizational arrangements and procedures needed for the implementation of the RSF.

21. **Disbursement Arrangements:** The PCU will open a Special Account for the RSF in a competitively selected commercial bank. The RSF will receive the proceeds of the Grant dedicated to the guarantee line and will be used to make payments under the RSF (in accordance with the Disbursement Letter (DL) and the terms and conditions established in the RSF Framework Agreement and the RSF Manual). The payments from the Special Account will be subject to acceptable arrangements with the World Bank. Following the Danish TF’s requirements, the Guarantee Fund will be transferred to the Government of Niger by the end of the program.

22. **Risks and Mitigating Measures**

- a) Portfolio quality (given high NPLs in the banking sector): The project team will put in place mechanisms to ensure audit reports are submitted in a timely manner during the implementation missions.
- b) SAHFI efficiency of validated claims: Streamlined procedures to process the claims will be outlined in the manual of procedures.
- c) Phased capitalization approach for the second tranche based on the degree of leverage achieved: The RSF manual will outline detailed information on the step-wise formula and verification dates.

23. **Amendment to the legal covenants:** The legal covenant relating to investment mechanism will be dropped, namely: “Finance Agreement :Internal Auditor | Description :The Recipient shall, not later than four (4) months after the Effective Date, recruit an internal auditor at the Maison de l’Entreprise, with terms of reference satisfactory to the World Bank, in accordance with the provisions of Section III of the Grant Agreement”. It will be replaced by the Risk Sharing Facility.

24. **Changes to the Results Framework:** In this restructuring, two new intermediate indicators are introduced - (v) Volume of Loans to MSME generated by Guarantee mechanism (Amount (USD)) and (vi) Return on Assets of SAHFI



(Percentage). In addition, the end targets for the indicator “Number of firms that have business plan prepared” have been revised.

### III. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Disbursements Arrangements	✓	
Legal Covenants	✓	
Institutional Arrangements	✓	
Other Change(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Components and Cost		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursement Estimates		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓



#### IV. DETAILED CHANGE(S)

#### LEGAL COVENANTS

Loan/Credit/TF	Description	Status	Action
TF-A0809	Finance Agreement :External Auditor   Description :The Recipient shall, not later than four (4) months after the Effective Date, recruit an external auditor at the PIU, with terms of reference satisfactory to the World Bank, in accordance with the provisions of Section III of the Grant Agreement.   Due Date :18-Mar-2016	Complied with	No Change
TF-A0809	Finance Agreement :Assistant Accountant   Description :The Recipient shall, not later than two (2) months after the Effective Date, recruit an assistant accountant in both implementing units, the PIU and the Maison de l'Entreprise, with terms of reference satisfactory to the World Bank, in accordance with the provisions of Section III of the Grant Agreement.   Due Date :19-Jan-2016	After delay complied with	No Change
TF-A0809	Finance Agreement :Internal Auditor   Description :The Recipient shall, not later than four (4) months after the Effective Date, recruit an internal auditor at the Maison de l'Entreprise, with terms of reference satisfactory to the World Bank, in accordance with the provisions of Section III of the Grant Agreement.   Due Date :18-Mar-2016	Not complied with	Marked for Deletion



**Results framework**

COUNTRY: Niger

Niger Investment Climate Support

**Project Development Objectives(s)**

The objective is to improve critical elements of investment climate for the private sector and enhance competitiveness of SME inselected agriculture value chain.

**Project Development Objective Indicators by Objectives/ Outcomes**

Indicator Name	DLI	Baseline	End Target
<b>Improved Investment Climate</b>			
Number of DB reforms implemented (Number)		0.00	4.00
Direct compliance cost savings (Amount(USD))		0.00	2,000,000.00
Increase of sales revenue of beneficiary firms (Percentage)		0.00	10.00
Direct project beneficiaries, of which female (%) (Number)		0.00	2,300.00
of which female (%) (Percentage)		0.00	20.00



Intermediate Results Indicators by Components

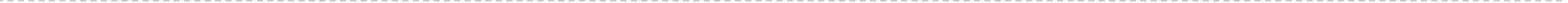
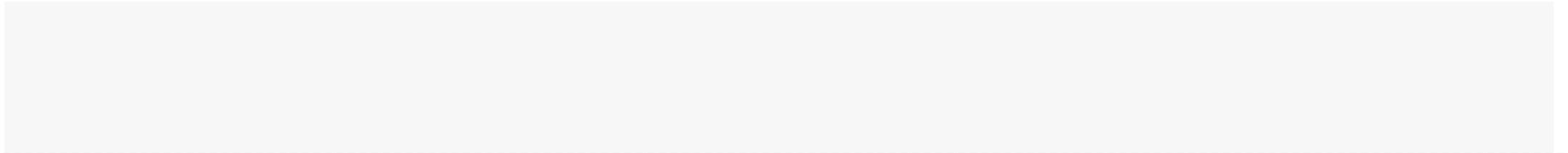
Indicator Name	DLI	Baseline	End Target
<b>Component 1: Modernization of the Business Environment</b>			
Number of procedures in starting a business (Number)		6.00	4.00
Number of day to settle a commercial case (Number)		545.00	445.00
Number of procedures to obtain a construction permit (Number)		15.00	9.00
Number of documents required to export (Number)		8.00	6.00
Number of documents required to import (Number)		10.00	8.00
Number of new "entreprenant" registered (Number)		0.00	1,000.00
Increase in number of services offered to members (Number)		0.00	2.00
<b>Component 2. Increase the competitiveness of selected agricultural value chains</b>			
Number of firms that have business plan prepared (Number)		0.00	600.00
<i>Action: This indicator has been Revised</i>			
Number of new direct jobs created (Number)		0.00	1,000.00
Number of collective market infrastructure constructed (Number)		0.00	6.00
Citizens and/or communities involved in planning/ implementation/ evaluation of development programs (Yes/No)		No	Yes
Volume of Loans to MSME generated by Guarantee mechanism (Amount(USD))		0.00	1,000,000.00
<i>Action: This indicator is New</i>			
Return on Assets of SAHFI (Percentage)		0.00	10.00
<i>Action: This indicator is New</i>			



**The World Bank**

Niger Investment Climate Support (P148839)

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**The World Bank**

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