

TERMS OF REFERENCE (CONSULTING SERVICES – FIRMS SELECTION)

Assignment Title: Hiring of a consulting firm to conduct a Diagnostic Assessment of the Corporate Governance Practices of the Development Bank of Nigeria Plc (DBN)

I. Introduction and Background

The World Bank-funded US\$500 million Development Finance Project supports the establishment of the Development Bank of Nigeria (DBN), a wholesale development finance institution licensed and supervised by the Central Bank of Nigeria, with the objective of addressing the access to finance gaps of underserved Micro, Small and Medium Enterprises (MSMEs) in Nigeria. The DBN provides private sector lenders with longer term financing in local currency and partial credit guarantees (through its wholly-owned subsidiary Impact Credit Guarantee Company – “IMPACT”) in order to expand their outreach to MSMEs. With business and governance models based on internationally recognized good practice and substantial commitment of capital, the DBN is to perform a catalytic role with potentially transformational impact by facilitating financially sustainable and transparent access to finance for underserved MSMEs.

In addition to the World Bank, the DBN is also being supported by funding provided by other development partners, namely: the African Development Bank (AfDB), the German Development Bank (KfW), the French Development Agency (AFD) and the European Investment Bank (EIB). Together with the World Bank these partner institutions are providing contributions in the form of debt, equity and technical assistance for a combined value of over US\$1.3 billion.

The DBN was set up with a robust governance structure to promote operational and financial sustainability, ensure transparency, and promote effectiveness. These features of the DBN’s model are critical to its success and it is important that they be preserved. Compliance with the DBN’s strategic mandate is ensured by its governance structure: DBN’s board members were competitively selected independent directors. The process of appointing independent directors is stipulated in the Memorandum and Articles of Association (MemArt) which requires that independent directors have specific professional and technical qualifications and are selected from a qualified pool of candidates recruited with the support of an independent search firm. In addition, the AfDB and EIB are represented on the Board as equity-owner, and the World Bank attends the Board meetings as an Observer, thus strengthening institutional transparency.

Compliance with the above arrangements was confirmed in a recent review of Board performance conducted by PricewaterhouseCoopers (PwC) Chartered Accountants for the year ended 31 December 2018. Responding to the request of the Board, PwC undertook an evaluation in accordance with SEC’s Code of Corporate Governance for Public Companies in Nigeria, the CBN Code of Corporate Governance for Other Financial Institutions and the Companies and Allied Matters Act (CAMA) Cap. C20 LFN 2004. The assessment highlighted the presence of a strong and technical Board, with active Board committees, strong follow up on Board decisions, and almost 100 percent attendance at committee and Board meetings.

The DBN is institutionally operational and functions in compliance with prevailing regulations. The DBN was incorporated as a Public Liability Company in 2014 under the prevailing company law, thus subjecting the DBN to the corporate governance standards applied to public companies. The DBN was licensed as a Wholesale Development Finance Institution by the CBN on March 29, 2017, and effectively became operational towards the end of 2017. As of December 2018, the issued and fully paid-up share capital of the DBN was 100,000,000 ordinary shares of NGN1 each and the DBN met the minimum capital requirement of NGN100 billion as prescribed by CBN. The DBN also raised debt financing from several development partners, including the World Bank, AFD, KfW and AfDB.

The maiden supervision report on the DBN prepared by CBN awarded it a low risk rating (the top rating). The DBN has a capital adequacy ratio of 244 percent, which as intended during the operational build-up phase, is well above the regulatory requirement of 10 percent. Similarly, its liquidity ratio is at 149 percent, also well above the 10 percent requirement. Such high levels of capitalization and liquidity were envisaged in the initial phases of DBN operations to allow the DBN to strengthen its capital base and prepare the DBN for issuance of Naira denominated bonds thereby allowing the DBN to gradually move towards meeting its development objective of providing finance to Nigerian MSMEs at a meaningful scale on terms that are fully financially-sustainable basis. To date the DBN also has sound asset quality with no recorded non-performing loans. Table I below provides an overview of DBN's equity and debt financing as provided by the Federal Ministry of Finance (FMOF), Nigeria Sovereign Investment Authority (NSIA) and different development partners.

Table I. DBN's Equity and Debt Structure

Equity Shareholders	Shareholding Percentage	Debt Financing Partners	Available Amount (USD)
Ministry of Finance Incorporated (MoFI)	60%	International Bank for Reconstruction & Development (IBRD)	\$480m
Nigeria Sovereign Investment Authority (NSIA)	15%	German Development Bank (KfW)	\$200m
African Development Bank (AfDB)	18%	French Agency for Development (AFD)	\$130m
European Investment Bank (EIB)*	7%	African Development Bank (AfDB)	\$450m

*EIB is the only equity shareholder not represented on the Board by its own choice.

The objective of DBN – as per the MemArt - is to *alleviate financing constraints faced by MSMEs and other small and medium corporates in Nigeria by providing financing, Partial Credit Guarantees and Technical Assistance to eligible financial intermediaries on a market-conforming and fully financially sustainable basis.*

DBN's purpose is centered around three (3) mandates as follows:

1. To increase access to finance for MSMEs by providing Credit Lines to Participating Financial Institutions (Commercial Banks, Micro Finance Banks and other DFIs) for on-lending to this segment.
2. To provide Partial Credit Guarantees to Participating Financial Institutions – via its wholly-owned subsidiary IMPACT Credit Guarantee Company – to encourage them to take on the risk of lending to MSMEs.
3. To provide Capacity Building for Participating Financial Institutions to enhance their ability and willingness to lend to the MSME segment.

DBN has achieved significant traction on the first two mandates and has set up a Project Implementation Unit (PIU) for the purpose of actualizing the third mandate.

II. Objective of the Assignment

As strong corporate governance is key to the successful achievement of the DBN's mandate the Corporate Governance assessment is a key requirement of the DBN's Project Implementation Plan. The purpose of the assessment is to ensure that the Bank's Governance systems and procedures are in compliance with local regulations and international good practices and are sufficiently robust to ensure that the DBN delivers on its stated mandate.

III. Scope of Work

This task will result in a baseline assessment of all aspects of corporate governance in the DBN, including with respect to its wholly owned subsidiary IMPACT Credit Guarantee Company. The assessment will provide tailored analysis and recommendations in relation to the following areas:

- **The Robustness of the DBN's Approach/Commitment to Good Corporate Governance:** an analysis as to whether the formal structure of the corporate governance framework is in place (including, whether the Bank's policies and procedures provide for appropriate corporate governance structures and processes, and support implementation of a sound corporate governance framework); whether the management of DBN provides an appropriate "tone-at-the-top" with regards to corporate governance; and whether the DBN has established key functions, such as reporting, and checks and balances in decision-making, essential to a sound corporate governance system.
- **The Effectiveness of the DBN's Governance Structure as regards Board /Strategic and Supervision Functions:** analysis as to whether the governance functions related to (i) strategic navigation of the DBN in achieving its stated objective, and (ii) oversight of management/executives are effectively and optimally performed; and in which areas the DBN could benefit from the strengthening of certain practices. The

assessment would review board practices, composition, skills-mix and appointment practices as well as the professionalism, substantive appropriateness and effectiveness of its deliberation and decision-making processes. It would also consider the policies overseen by the Board and their effectiveness in implementation as regards performance monitoring and evaluation of management, remuneration policies and practices; board evaluation techniques; and training of board members.

- **Control, Risk-Management and Audit Environment:** analysis as to whether the DBN has:
 - appropriate structuring and oversight of the control and risk-management environment;
 - appropriate internal control and information system;
 - a sound risk management system allowing for risks to be identified, assessed and monitored on an ongoing basis; and
 - an internal audit function established in line with the standards of the profession and best practice.

- **Transparency, Disclosure, Communication with External Stakeholders:** an assessment as to whether the DBN has appropriate policies and mechanisms in place for timely and accurate disclosure to key stakeholders/investors, business partners, lenders and other relevant third parties; whether the DBN is appropriately transparent in communication with its stakeholders; and suggestions regarding annual reports and website entries designed to enhance the DBN's accountability and transparency.

- **The Role of the State as Owner:** an assessment of the role of the Federal Government of Nigeria (directly and indirectly) as shareholder, including the capacity of the government as represented by the Ministry of Finance and the Nigeria Sovereign Investment Authority to act as an informed shareholders; the board nomination and appointments process; and the role/pro-activeness of the government and non-governmental shareholders in engaging in the monitoring and evaluating of the performance of the bank.

The task will also require the consultant to undertake a formal assessment of the current condition of the DBN with reference to the requirements of the Central Bank of Nigeria Code of Corporate Governance for Development Finance Institutions, the Securities and Exchange Commission's Code of Corporate Governance for Public Companies, and the Code of Corporate Governance for Public companies as issued by the Financial Reporting Council of Nigeria. These Codes stipulate requirements as regards:

- The Corporate Governance framework
- How shareholders exercise their ownership rights over the Bank and the role of the Development Partners in the Bank's adoption of best corporate governance practices.
- Capacity of the board to oversee the bank
- Transparency of the DBN including the role of the board audit and risk management committees and the quality of external audits
- The execution of key governance roles, including:

- Board Chair
- Board members
- Board members sitting on specialized committees
- Board Audit Committee
- Risk Management Committee
- Statutory Audit Committee
- Chief Executive Officer
- Chief Financial Officer
- Company secretary
- Chief Risk Officer
- Chief Compliance Officer
- Head, Internal Audit

The consultant selected under the project will:

- Propose a methodology to benchmark the governance of the DBN against international good practice, including an appropriate benchmarking framework (drawing from inter alia the Basel Committee on Banking Supervision *Corporate Governance Principles for Banks*), *OECD Principles of Corporate Governance*, the *OECD Guidelines for State Owned Enterprises*);
- Undertake a mix of on-site and off-site reviews;
- Develop and send out questionnaires to collect basic documents and information from the DBN's Board members and management on their corporate governance practices;
- Review relevant codes, laws and regulations, as well as internal documents, policies and procedures relevant to the governance of the DBN;
- Undertake on-site meetings with key counterparties in Abuja and Lagos: shareholders, Development Partners, regulators, members of the board and key staff. Consider the appropriateness of processes and procedures for Board appointments, board and board committee practices, oversight of key functions including financial reporting and internal controls, risk management, transparency and disclosure;
- Review regulatory policies and procedures that affect the DBN, including with regard to ownership policies, board appointment policies, and performance agreements (KPIs), if any;
- Undertake an assessment of whether the governance framework and practices currently adopted by the DBN are sufficiently robust and effective in supporting the DBN to achieve its core development mandate. In those instances where shortfalls and possible improvements are identified, outline specific proposals for reforms that will strengthen the DBN's governance. The purpose is to ensure that governance practices and procedures are effectively support the DBN in achieving its mandate, and in those instances where this is not the case, to make proposals that will ensure that the focus of the DBN's Board, management and staff is enhanced.
- Draft a report, and power point presentation with proposals designed to enhance the DBN's current corporate governance practices. This report will include a table benchmarking DBN practices against international good practice, and recommendations regarding proposed adjustments to the DBN's current governance practices together

with a road map for enhancing the DBN's corporate governance framework (Implementation Action Plan) for consideration by the DBN's Board.

IV. Deliverables, Reporting and Payment Schedule

The consultant will work with the DBN's Company Secretary and all deliverables will be provided to the DBN's appointed project coordinator.

The minimum specific deliverables to be provided by the Consultant along with the payment schedule will be as outlined below:

- Inception Report, including the proposed methodology for the assessment and the outline of the report – 20% of the contract amount;
- Final Report, including implementation action plan, and a PowerPoint presentation summarizing the reports key findings, recommendations, and proposed action plan – 80% of the contract amount.

V. Selection Criteria

Minimum firm qualification criteria:

- Evidence of at least 10 years of international experience with similar advisory projects related to corporate governance reviews in financial industry, including public companies, with relevant project experience in at least 2 jurisdictions;
- Evidence of at least one recent similar assignment undertaking corporate governance assessment of a financial institution;
- Experience with the similar assignments funded by multilateral agencies

Interested Consultants should provide information on firm qualifications and details of relevant experience specifically responding to each of the criteria above, including a brief description of the scope of the projects, outputs, the dates of implementation, and the funding organization.

Minimum Qualification for Key Staff:

1. **Team Leader** – Minimum, Master's Degree in any of the Social Sciences, Law, Accounting, Finance and minimum twenty (20) years international advisory experience in Corporate Governance Reviews, Audit, Risk Management or Compliance. Prior role as the team leader in at least three comprehensive corporate governance reviews of financial institutions is required.
2. **Corporate Governance Expert** – Minimum, Master's degree in any of the Social Sciences, Law, Accounting, Finance and minimum fifteen (15) years advisory experience in Corporate Governance Reviews, Audit, Risk Management or Compliance and experience in at least two comprehensive corporate governance reviews of financial institutions.

The Consultant is expected to conduct work on-site with DBN and IMPACT and will otherwise be responsible to secure all relevant facilities for project implementation (e.g. transport, accommodation, communication, etc.). The DBN and IMPACT will facilitate the work of the consultants by ensuring that the consultants have ready access to relevant institutions and documents.

VI. Schedule and Duration

The assignment is expected to be completed within 6 months from the contract start date.