

## TERMS OF REFERENCE

### Long-term Capital Vehicle Finance Consultant

*Hiring of a consultant to support Development Bank of Nigeria in the set-up and implementation of a framework for engaging and lending to Private Equity Firms.*

#### 1. Background

Long Term capital vehicles are known funding vehicles that are usually channelled towards investments with long time horizons, and are typically utilized in the service of long-term rate of return. Long-term capital vehicles typically come in the form of a trust, a fund, or a fund-of-funds, all of which have longer hold strategies and the ability to ride out short-term volatility. While traditional long-term capital vehicles in Nigeria have focused on large-scale infrastructure and real estate projects characterized by high yields and minimal risk profiles, there has been increasing focus on the SME sector, and recent tax revisions have made SMEs more attractive investment targets<sup>1</sup>. Investments in SMEs are typically in the form of long-term growth capital investments in existing businesses, or seed capital investments in start-up businesses, and evidently present a positive impact to the economy.

Long Term capital vehicles have the potential to provide critical sources of patient capital for small and medium enterprises (SMEs). Vehicles usually have a lifespan of about ten years (with portfolio investments of about five to seven years). Fund managers often take an active investment approach (e.g. through occupying a seat on the board), with an explicit objective to unlock or enhance the value of the investment during the investment period. For an SME investee, the longer-term nature of financing can enable significant time for upgrading of the business model (before payback), and an active investor can offer strategic value and resource to the SME that extends beyond just finance. Direct equity is most commonly provided to SME investees, but debt and quasi-equity instruments have been emerging as well. Debt financing can be offered as a convertible loan meaning it can be converted into equity upon the occurrence of pre-determined events.

The advantage of investing in permanent capital vehicles rather than in private equity funds are: (a) the SME owner is not obliged to surrender hard-won equity in the enterprise he/she has built up; (b) the subordinated loan provided to the SME is 'self-liquidating' avoiding the need to arrange an exit from an equity stake (which the investors typically find to be difficult), and (c) subordinated debt provides a reliable income stream making investment by institutional investors more attractive, thereby enabling scaling up after a proof of concept phase. For the SME investees, the longer-term nature of financing can provide time for upgrading of the business model (before payback), and an active investor can offer strategic value and resources to the SME that extend beyond just finance. DFIs are active funders of long-term capital vehicles, and have started to provide alternative debt structures such as convertible loan and credit support instruments. DBN believes long-term capital vehicles provide a critical role in enabling MSMEs to invest and expand their business model.

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<sup>1</sup> Key legislation was enacted in 2019 which encourages the SME segment as a investment target. The Finance Act 2018 amended key provisions of the tax law which reduce the tax obligations of small and medium enterprises: Small companies (turnover of N25 million or less) are now exempted from corporate income tax, and medium-size companies (turnover between N25-100 million) receive a reduced rate (20 percent).

Long-term capital vehicles are considered to be an attractive target for DBN's long-term lending product. Long-term capital vehicles usually obtain funding from institutional investors, such as pension funds, sovereign wealth funds, development finance institutions, and high net-worth individuals. Under SEC Rules, private equity fund (similar in structure to a permanent capital vehicle) must not solicit funds from the general public (e.g. through a bond issuance) and must instead privately source funds from qualified investors such as banks and pension funds. DBN believes LT capital vehicles represent an attractive channel towards disbursing funds within the 20 percent on-lending limit to entities outside the banking system (PFIs) permitted by CBN regulation. DBN is therefore seeking technical assistance to explore the feasibility of long-term capital vehicles as a customer segment.

Partnerships with the permanent capital vehicles in DBN will be via debt or quasi-debt funding to support investments in MSME businesses. However, upon development of the required skills sets to effectively manage relationships with permanent capital vehicles, DBN may consider other offerings in line with its assessment of market needs, and management's strategy focused on vehicles with high degree of impact from their activities e.g investments in large volumes of MSMEs, investments in vulnerable groups such as women, youths and start-ups or investments in businesses centered around sustainability and climate change such as renewable energy / energy efficiency, agriculture, etc.

A relationship team in DBN will be set-up under the Operations Department and will be responsible for initiating business relations with permanent capital vehicles that are focused on MSMEs and whose business models align with DBN's mandate. This may translate to the on-boarding and lending to the permanent capital vehicle firms, as well as portfolio expansion to target market leveraging on specialized product offerings to same.

The permanent capital vehicle consultant will be engaged for a period of 180 working days over a span of 1year for the following purposes:

- To support the DBN in developing capacity in the Field of permanent capital vehicles.
- To provide capacity-building as regards the required skill set in managing investments in permanent capital vehicles.
- To help develop DBN's internal capacity to manage the permanent capital vehicle relationships, and scale-up offerings to the same subsequently.
- Support the development of products and offerings, terms and conditions, and a comprehensive framework covering the entire permanent capital vehicle investment value chain (Screening, Aquisition, Monitoring and Exit) to guide engagement with permanent capital vehicle firms.
- Given the illiquid and long term nature of permanent capital vehicle investments, the consultant will be required to develop a comprehensive risk management framework to guide the management of the wide spectrum of risks associated with permanent capital vehicle investments;
- Identification and On-boarding of permanent capital vehicle firms with a sizeable MSME portfolio, whose activities align with DBN's mandates of sustainability and impact.

The assignment will be broken down as follows:

	<b>ACTIVITY</b>	<b>DELIVERABLE</b>
<b>PHASE 1</b>	<b>Market Research Engagements</b> /	The consultant will be required to conduct research on the permanent capital vehicle firms in Nigeria to identify businesses with

		<p>activities that have high degree of impact and establish a business case for DBN with regards to partnering with / long term lending to permanent capital vehicle firms. An option to be explored is whether DBN might contribute to setting up a permanent capital vehicle partnering with Nigerian PE firms.</p> <p>The consultant will be required to engage key stakeholders / market leaders engaged in term lending to MSMEs to attain a better understanding of their business operations and opportunities within the permanent capital vehicle landscape in Nigeria.</p> <p>The consultant will also be required to review the relevant CBN and SEC regulatory frameworks to ensure alignment of DBN's proposed engagement strategy with those regulatory frameworks.</p> <p>At the end of this activity, the Consultant is expected to document the following in a comprehensive report:</p> <ul style="list-style-type: none"> <li>• Business case for on-boarding and Investing in permanent capital vehicles via Debt Financing.</li> <li>• Identified potential partner firms in specific sectors which aligns with DBN mandate; and</li> <li>• Itemize market needs and proposed product offerings based on feedback from the market engagements.</li> </ul>
<b>PHASE 2</b>	<b>Development of Frameworks and Products</b>	<p>Leveraging on the findings / recommendations from the market research, the consultant will draft a framework for engaging with permanent capital vehicle firms and support the product's design.</p> <p>Develop a comprehensive risk management framework to guide the management of permanent capital vehicle investment risks, including KRIs that will aid in the monitoring of permanent capital vehicle investments.</p>

		The permanent capital vehicle Consultant will also detail the impact measurement considerations for DBN in dealing with the permanent capital vehicle firms.
<b>PHASE 3</b>	<b>Set-up of capacity within DBN to invest in permanent capital vehicles</b>	The consultant will support the set-up of capacity within DBN, possibly in the form of a permanent capital vehicle Unit in DBN, including drafting the permanent capital vehicle engagement frameworks and documentation required for the unit's operations.
<b>PHASE 4</b>	<b>Support On-boarding and lending to the permanent capital vehicle firms</b>	The consultant will apply her/his technical know how to provide support in engaging with and lending to the permanent capital vehicle firms. This can be reviewed over the course of the engagement period. The job description will include conduct of due diligence exercises for on-boarding and annual due diligence of permanent capital vehicles.
<b>PHASE 5</b>	<b>Completion report and Recommendation</b>	The consultant will review the proposed operational model and prospective portfolio performance relative to overall market performance. This will be documented in a detailed completion report. The consultant will also provide recommendations for DBN's adoption going forward, and a detailed handover for business continuity.

**2. Main Objectives and Scope of Work**

The Development Bank of Nigeria is seeking to hire a permanent capital vehicle finance consultant to provide the required expertise in assessing the permanent capital vehicle market in Nigeria, identify business opportunities / focus areas for partnership with DBN, and also assist with the development of relevant products, engagement framework and all relating processes and procedures as well as assist with the set-up of capacity within DBN on the permanent capital vehicles.

The Consultant will also be required to provide early stage support in on-boarding and lending to the identified target customers and put-in place a template for subsequent engagements / activities.

The Consultant must have previous experience in supporting Financial Institutions in product development and strategy focused on MSME businesses. He will also be required to have a strong finance background in private equity and venture capital and /or areas such as structured finance and investments.

He or she will sit with the Operations Department of the bank, and report to the Chief Operating Officer (COO). The detailed scope of work is referenced below:

### **Activity 1 – Market Research**

- Collect Data and Information on market/macroeconomic environment in relation to the general permanent capital vehicle landscape in Nigeria and their business activities in a bid to identify areas of focus and customers to target for on-boarding.
- Embark on key stakeholder engagements, review and analyse policies, procedures, business activities and overall market performance.
- Research international, regional best practice and regulatory environment in Nigeria and outline success stories to build on/ replicate in DBN.
- Review the relevant CBN and SEC regulatory framework for permanent capital vehicle financing to ensure alignment of DBN's approach with such regulatory frameworks and identify any possible compliance requirements.
- Submit comprehensive report detailing the prospects for lending to permanent capital vehicles , and the proposed business case i.e funding needs and sectors of focus etc., and recommend product offerings to meet market demand.
- Draft detailed work plan for the project.

### **Activity 2 – Development of Frameworks and Products .**

- Develop products based on market needs and identified opportunities for DBN in line with sustainability and impact.
- Develop a comprehensive framework covering the entire permanent capital vehicle investment value chain (Screening, Aquisition, Monitoring and Exit) to guide engagement with permanent capital vehicle firms.
- Develop a comprehensive risk management framework to guide the management of permanent capital vehicle Investment risks, including KRIs that will aid in the monitoring of permanent capital vehicle investments
- Provide advisory and support to DBN in developing eligibility requirements as regards investment in permanent capital vehicles, including detailed review of their risk frameworks and credit policies. Support DBN in piloting these eligibility criteria and other documents

- Provide required input in permanent capital vehicle specific SLAs / MOUs and other documentation for on-boarding, assessment, lending, etc.
- Draft performance measurement metrics and required reporting templates in respect of permanent capital vehicle engagements.
- Conduct training sessions for Key stakeholders within DBN for implementation.

### **Activity 3 – Support the DBN in setting-up capacity to invest in permanent capital vehicles**

- Development capacity-building framework for engaging in permanent capital vehicle investment to guide the DBN's operations
- Advise on the streamlining and operationalization of internal process flows and procedures for on-boarding and lending to the permanent capital vehicles in line with DBN's mandate, market realities and global best practise.
- Assist with the setting-up of the capacity within DBN and coordinate / oversee early stage operations.
- Lead all early stage engagements with stakeholders within DBN in the setting up of investment operations.

### **Activity 4 - Support On-boarding and lending to the permanent capital vehicles**

- Identify permanent capital vehicle companies that fulfill the DBN's eligibility criteria for on-boarding relating to such areas as regulatory compliance, track record of viability, strong corporate governance and management capacity as regards investment in the MSME market.
- Engage identified permanent capital vehicles for on-boarding and subsequent lending.
- Review portfolio performance, permanent capital vehicle's business activities and DBN's operations to provide recommendations for strengthening viability and/or reducing risk.
- Conduct due diligence exercise for permanent capital vehicle firms prior to on-boarding and during anniversary.
- Liaise with DBN operations and corporate services units to set-up platforms for awareness creation and feedback in a bid to improve portfolio quality.
- Provide monthly update reports on project and portfolio performance.

## Activity 5 - Completion report and Recommendation

- Draft completion report on all activities carried out during the engagement period and submit to DBN as scheduled.
- Document recommendations for adoption by DBN based on projected portfolio performance in relation to market realities.
- Provide detailed handover document / Business continuity plan to guide DBN's full take-over of engagement with investment in permanent capital vehicles.
- Organize close-out session with stakeholders in DBN to discuss key deliverables, performance and feedback.

### 3. Reporting Requirement:

The Consultant will report directly to DBN's Chief Operating Officer or his designate on all milestones and standard operating activities above. They will also be required to submit to the COO or designate, periodic reports as scheduled below:

- Weekly reporting on all activities and engagements. This will be discussed at the weekly performance meeting of the Operations Department.
- Provide Monthly Progress Reports on the Project.
- Provide milestone reports as detailed in deliverables below.

### 4. Deliverables & Timelines:

The assignment is for a duration of 180 working days over a 1 (calendar) year period. All Deliverables shall be submitted to DBN (Attn: COO) upon schedule. Please refer to the deliverables and timelines below:

- **Phase 1 – Market Research / Consultation:**

Submission of Research Document: Report on research findings and engagements

**Timeline** - within 90 calendar days from execution of documents in respect of contract of employment.

Submission of work plan: Outline step by step activities for the entire duration of the project

**Timeline** - within 90 days from execution of documents in respect of contract of employment.

- **Phase 2 – Development of Frameworks and Products :**

Draft **Frameworks and Products** with terms and conditions, process flows, and risk framework (as applicable)

**Timeline** – within 90 days submission of research report i.e within 180 days from execution of documents in respect of contract of employment.

Review SLA, MLAs, and other documentation for on-boarding & lending.

**Timeline** – within 90 days of submission of research report i.e within 180 days from execution of documents in respect of contract of employment.

- **Phase 3 – Set-up of permanent capital vehicle capacity within DBN:**

Comprehensive strategy document detailing framework for permanent capital vehicle engagements.

**Timeline-** within 30 days from completion of product development deliverables i.e 210 days from execution of contract documents.

Process flows / procedures manual and reporting templates

**Timeline-** within 30days from completion of product development deliverables i.e 120days from execution of contract documents.

- **Phase 4 – On-boarding and lending to permanent capital vehicle Companies:**

On-boarding and Lending to identified permanent capital vehicle Companies.

**Timeline-** within 90 days from set-up of the permanent capital vehicle capacity i.e 300 days from execution of contract documents.

Submission of Portfolio Performance report on Pilot: Document and provide report on portfolio performance.

**Timeline** - Monthly subsequent to on-boarding & lending to permanent capital vehicle firms.

- **Phase 5 – Completion reports / Recommendations:**

Draft and submit project completion report with recommendations – to be discussed at close-out session.

**Timeline-** Within 365 days from execution of contract documents.

Draft Handover / BCM document.

**Timeline-** Within 365 days from execution of contract documents.

In addition to ensuring that the above reports are received as scheduled, he/she will be required to provide to DBN's COO the Weekly /Monthly progress report / update on activities as outlined in Section 3 above

## **5. Payment Schedule:**

The permanent capital vehicle Consultant will be engaged on a daily rate for the working days in the contract. The consultant shall submit invoices with each deliverable and be remunerated based on approval by the COO.

## **6. Qualification and Experience:**

### **Education:**

Minimum requirement of Master Degree in finance or related field such as Business, Management, Economics, Development Finance, Public Administration and Policy.

### **Work Experience:**

- A minimum of 10 years' experience working with financial institutions with a minimum of 5 years working with finance departments such as investments, private equity /venture capital, structured finance, etc.
- Previous work experience working with private equity firms in emerging markets or in Nigeria, and knowledge and experience in working with the regulatory framework for permanent capital vehicles.
- Previous experience in advising on DFI funded projects.
- Previous experience working in or consulting for Institutions focused on MSME lending.
- Past experience working in a Business Development role.

### **Core Competencies:**

- The permanent capital vehicle Consultant should demonstrate high knowledge and competence in finance. Competence in Structured finance and / or Development Finance is a plus.
- He/ She should be conversant with permanent capital vehicle standard operations and global best practice.
- Must have a good knowledge of the MSME business in identifying key focus areas for target customers.
- An advantage to have knowledge of Nigeria's Micro and Macroeconomic environment and the permanent capital vehicle Landscape.
- Must possess a good knowledge of product development and strategy in charting new business terrains.
- Must possess Business Development skills and the ability to develop and maintain business relationships in the permanent capital vehicle sector in Nigeria.
- Must possess excellent writing and presentation skills.
- Must demonstrate competence in delivering presentations and trainings.
- Must demonstrate influence amongst key stakeholders in the permanent capital vehicle space in Nigeria and to some extent, globally.
- Formal education in Finance, Management or Business and Information Technology will be a plus.
- Should possess excellent analytical skills.
- Excellent command of both oral and written English is mandatory