Project Summary Note

AFE BABALOLA UNIVERSITY

NIGERIA

October 2016
SUMMARY – AFE BABALOLA UNIVERSITY

Project Description: Corporate loan to finance the expansion of Afe Babalola University (ABUAD) in Ado Ekiti, Nigeria. The expansion plan consists in the construction of new facilities - including a 400 bed teaching hospital, an industrial research park, a post-graduate school, student hostels, a central library, and a small scale hydro power installation.

Client/Sponsor: ABUAD was established in 2010 in the Federal Republic of Nigeria as a private university. It is composed of 5 colleges, namely Science, Social and Management Sciences, Law, Engineering, and Medical & Health Science. Current enrolment stands at over 6000 students with the envisioned student capacity of over 10,000 students by 2025. The Founder and Promoter, Aare Afe Babalola, is a prominent lawyer (Senior Advocate of Nigeria) and an experienced educationalist who was the Pro-Chancellor of the University of Lagos and the Chairman, Committee of Pro-Chancellors of Nigerian Universities. In addition to the academic programs, ABUAD operates commercial ventures and complimentary services, including a primary school for staff’s children, a 1,000 hectare farm, a bakery, a printing press, and a guest house among others. School fees however still represent the bulk of ABUAD’s revenues with a 95.4% share. ABUAD total assets have grown from USD 26 million in 2011 to a current value of USD 103 million (15), with fixed assets of 100 million and total equity of 97 million. In 2015, ABUAD generated USD 17.6 million revenues compared to USD 12.9 million in 2014. ABUAD employs 925 people.

Cost Structure and Financing Plan: Total costs for the expansion program is estimated at NGN 31.72 billion to be funded by Sponsor’s equity and operating cash flows as well as debt from the Bank and local commercial banks.

Bank’s Role: A corporate loan of up to USD 40 million, in two tranches: (a) a USD tranche for an amount of up to USD 20 million and (b) an NGN tranche for an amount of up to NGN 6.31 billion, both with a tenor of 8 years including a 3-year grace period.

Market: Nigeria is home to 138 universities in total of which 59 are private. In 2014, only 30% of eligible high school leavers gained admission to University in Nigeria largely due to demand for tertiary outstripping available supply in the country. Enrolment at private institutions is estimated at 15-20% of the national University intake. More than one million students are unable to get admission to a tertiary institution in Nigeria due to capacity constraints. It is thus estimated that the market for tertiary education is set to continue growing and become more competitive. At the same time the training offered by universities in Nigeria is not producing market ready graduates as it is reported that over 75% of Nigerian young graduates are not fully employed. ABUAD’s industrial research park, teaching hospital, agribusiness ventures will improve its competitive advantage with respect to offering enhanced market skills for its graduates.

Justifications for the Bank’s Involvement:

Strategic Alignment: The project thoroughly supports the rolling out of the High5s by contributing to improve the quality of life for the people of Africa through high-quality tertiary education, job creation and health service provision (university and teaching hospital); to foster industrialisation through its industrial research park, to power Africa through its off-grid renewable Small Hydro Power (SHP) scheme and feeding Africa through its support to local farming businesses. Besides, the Project promotes 2 core focuses of the Bank’s Ten Year Strategy, namely skills & technology and private sector development and implements the Human Capital Strategy 2014-2018 which seeks to support skills development in key sectors of the economy. It is in line with Nigeria’s development strategy in the FGN’s vision 2020, its recently launched industrial revolution strategy for jobs creation as well as the Bank’s CSP for Nigeria 2013 – 2017, which prioritizes support to deliver key investments in growth enhancing sectors such as education.

Commercial Viability: As a corporate finance facility, the commercial viability of the project mainly stems from ABUAD’s strong balance sheet. ABUAD is considered by local banks as a high-net worth client which explains their appetite in co-financing the project. ABUAD has identified a comprehensive package of security over its bank accounts, existing assets worth NGN 22 billion and medical equipment to be purchased for the teaching hospital (USD 13 million). The average debt to equity ratio is 36.2% over the loan life (little financing cost). The profitability of the project also appears good. The average net profit margin for last 3 years till 2015 was 15%, and with the new borrowing the average net profit margin will become 16%. Even with the assumption of 1% growth in number of students and tuition fee over the loan life, the average net profit margin would be still around 7%. All academic and professional courses have been fully accredited by the national University Commission and relevant professional bodies to continue to provide quality curriculum. The partnership with various international institutes and companies is further expected to help the University remain competitive with active skill transfers/exchanges.

Development Outcomes: Along with expanding the access of high quality education to over 10,000 students, the project will create 250 new staff position as well as about 1000 temporary jobs across the construction, supplies and consulting in the value chain. Full/ partial scholarships and other forms of substantial financial aid will be provided to over 500 students beneficiaries during the life of the loan. With emphasis on life skills, leadership skills and entrepreneurial skills, the University will generate over 12,000 high quality and employable graduates by the end of the loan life, in addition to over 2,400 trained farmers who will benefit from the University’s farmers training and entrepreneurial programs. The industrial research park is expected to galvanize the interest of industrialists and investors to establish SME industries in the Ekiti State, and is expected to improve the State revenues by over NGN 50 million annually.

Additionality and Complementarity: The Bank’s additionality lies in (i) providing long term financing in both local and hard currency; (ii) offering affordable forex funding; and (iii) establishing a monitoring and tracking system for development and environmental impacts.

Processing Plan:

Project Appraisal Team: S. Mahieu (OPSD.2); O. Fall (OPSD2); H.D. Lee (OPSD2); O. Awojobi (OPSD2); E. Akinwumi (OPSD.4); S.Dash (GRCD); S.Balogun (GRCD); A. von Wachenfelt (EDRE); Y. Hatira (ONEC.3); E. Le Groumellec (GECL); M. Hamza (FRY); N. Attoh (FFCO)

Peer Reviewers: E. Woldegeorgise (OPSD3); B. Foko Tagne Olaoye (OSHD1); B.OLAODYE (NGFO/OSHD)

Exploratory Review: Mars 2016

Concept Review: April 2016

Final Review: August 2016

Board Approval: 19 October 2016