Ex-Post Project Evaluation 2015:Package Ⅲ-1 (AfDB)

Evaluation report

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● African Development Bank Member Countries

FY2015 Ex-Post Evaluation of Japanese ODA Loan
"Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa,"
"Second Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa,"
and "Third Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa"[1]

External Evaluators: Tomoyuki Sho, Yoko Ogimoto[2], Ryujiro Sasao / IC Net Limited

0. Summary

This Project (Assistance Loans (I) to (III)) aims to develop the private sector in Africa, which plays a leading role in economic growth, by supplying necessary funding to private enterprises in African countries through the private-sector equity investment and loan schemes of the African Development Bank (hereinafter "AfDB").

This Project is highly relevant to AfDB's long-term development strategy and private-sector development policy, development needs of AfDB Regional Member Countries (RMCs)[3], and Japan's assistance policy. Therefore, its relevance is high. This Project has played a catalytic role that financially helped the large expansion of AfDB's private-sector operations since 2007. When the global financial crisis occurred in 2008, this Project also contributed, to a limited extent, to AfDB's agile implementation of measures for securing the liquidity and stability of the financial sector in Africa. At the subproject level, the local banks that had received credits through this Project have improved their financial stability and health, and gross revenues of the financial institutions that had received equity investments have generally been on an upward trajectory, whereas the management of end-user firms has shown a tendency to be strengthened. Furthermore, the infrastructure subprojects that received loans have helped alleviate the shortage of services through an increase in their supplies. Therefore, its effectiveness and impact are high. Because both the project cost and the project period have been within the range of the plan, the efficiency is high. When examined the system for operation and maintenance at the subproject level, the Project turned out to have no major problem in terms of institutional and technical aspects. However, the outlooks for some subprojects have not been very reassuring as it was not certain when and if they would become profitable financially. Therefore, the sustainability of this Project is fair.

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[1] In this report, they are referred to as "Assistance Loan (I)," "Assistance Loan (II)," and "Assistance Loan (III)," respectively. The Assistance Loan is also called Non-Sovereign Loan (NSL).
[2] She is a team member dispatched from Nomura Research Institute to reinforce the team.
[3] Member countries from within Africa.

In light of the above, this Project is evaluated to be highly satisfactory.

1. Project Description

Project locations (entire African continent)
AfDB headquarters is located in Abidjan, Côte d'Ivoire (red circle on the map)

Upper right: thermal power plant that received a loan
Lower right: end users (water purification business) of a micro-financial bank that received an equity investment

1.1 Background

The private sector in Africa, which this Project supported, has had a dichotomous structure that is composed of the Micro, Small, and Medium Enterprises (MSMEs) in the informal sector, which account for an overwhelming share of the total number of private business units in Africa, and multinational corporations, which make large investments mainly in the development of natural resources. In recent years, the private sector –MSMEs in particular– has been recognized as an important sector that leads economic growth and poverty reduction in Africa; and AfDB and African countries have started to set private sector development as prioritized policy –especially the strengthening of the financial sector, the support to MSMEs, and the development of infrastructure through Public Private Partnership (PPP). Behind this change is the recognition in most African countries that the sound growth of the private sector had been impeded by the lack of efficient domestic capital markets, weak financial intermediaries, and the delayed development of investment and business-enabling environments. In Africa, the supply of funds has been insufficient because banking services have not been readily available and the savings rate has been low. Particularly because market risk perception has been high, there were limitations in the supply of low interest, mid- and long-term funds necessary for private companies (especially for MSMEs) to expand their businesses. Thus, it was an urgent challenge to secure liquidity and credit to meet financial demands in the private sector, and to develop and strengthen local financial institutions. In addition, while there have existed great needs for investment in economic and social infrastructure that is essential for the development of the private business environment, it was difficult to increase government expenditures due to fiscal constraints. At the same time, because of high risk perception associated with business in Africa, the private sector was not expected to develop large-scale infrastructure by itself. As a result, there had been growing expectations for infrastructure development through PPP.

1.2 Project Outline

The objective of this Project is to develop the private sector, by providing business funds required by private enterprises that are located and registered in the RMCs of AfDB through AfDB's equity investmentsand loans for the private sector based on the Enhanced Private Sector Assistance for Africa Initiative (EPSA)[4], thereby contributing to economic growth and poverty reduction led by the private sector in the RMCs of AfDB (see Figure 1: The Loan Scheme for the Project).

[4] This initiative was announced by the Japanese Government at the G8 Gleneagles Summit in July 2005 for the purpose of providing ODA loans and technical assistance to support the development of the private sector in Africa comprehensively. There are three schemes: 1) Accelerated Co-Financing Facility for Africa (ACFA), sovereign loans with AfDB; 2) Non-Sovereign Loans (NSLs) for AfDB's non-sovereign operations given by JICA to AfDB as part of the ODA schemes; and 3) Fund for African Private Sector Assistance (FAPA), a trust fund that is primarily funded by the Japanese Government to give technical assistance to private firms and governmental agencies. Of the NSLs, this evaluation only deals with the 25 subprojects approved through Assistance Loans (I) to (III).

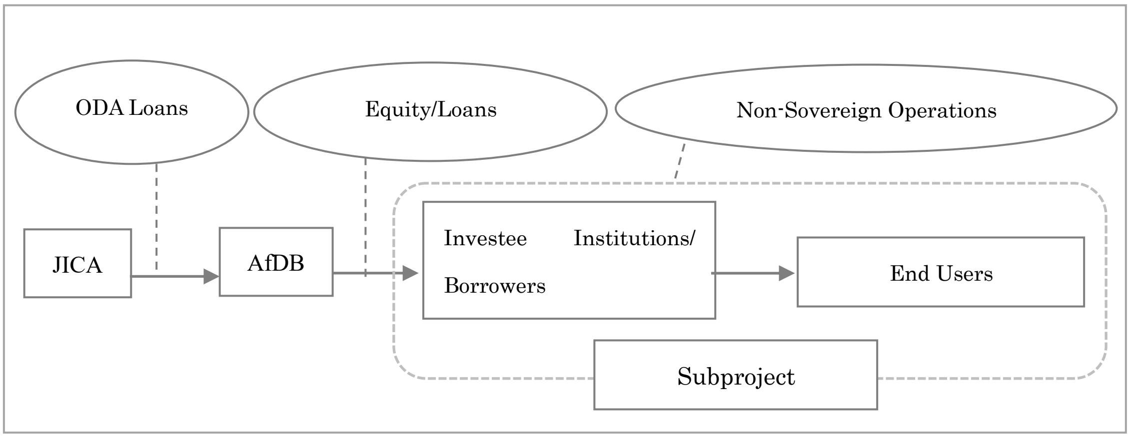

Figure 1: Loan Scheme for the Project

Note: In this project, Loan Agreement (L/A) is signed between JICA and AfDB after prospective subprojects are identified.

Loan Approved Amount/ Disbursed Amount	(I) 11,500 million yen / 11,491 million yen (II) 32,100 million yen / 32,100 million yen (III) 8,440 million yen / 8,400 million yen
Exchange of Notes Date/ Loan Agreement Signing Date	(I) February 2007 / February 2007 (II) September 2008 / September 2008 (III) October 2011 / October 2011
Terms and Conditions	Interest Rate: (I) 0.75% / (II) 0.55% / (III) 0.55% Repayment Period: 40 years (Grace Period): (10 years) Conditions for Procurement: General Untied
Borrower / Executing Agency(ies)	AfDB / AfDB Private Sector Department
Final Disbursement Date	(I) October 2008, (II) March 2010, (III) October 2013
Main Contractor	-
Main Consultant	-
Feasibility Studies, etc.	-
Related Projects	ODA loans: ・Accelerated Co-Financing Facility for Africa (ACFA) (from 2006) ・Private Sector Assistance Loan (IV) (E/N concluded in 2013) ・Private Sector Assistance Loan (V) (E/N concluded

	in 2014) ・Private Sector Assistance Loan (VI) (E/N concluded in 2015) Other international organizations, support organizations, etc.: ・Japanese Government: Fund for African Private Sector Assistance (FAPA) (from 2006)

2. Outline of the Evaluation Study

2.1 External Evaluators

Tomoyuki Sho, Yoko Ogimoto, Ryujiro Sasao / IC Net Limited

2.2 Duration of Evaluation Study

For the purpose of this ex-post evaluation, studies were conducted as follows:
Duration of the Study: September 2015 – February 2017
Duration of the Field Study: February 14 – March 17, 2016; June 12–18, 2016

2.3 Constraints during the Evaluation Study

To evaluate this Project, the 25 subprojects, which had been approved under the Project, were primarily analyzed as the main focus of the evaluation.

However, the target values of the operation indicators, set at the time of the appraisal of this Project (number of approved projects by sector, amount of loans, share of financing by type of country), were set in terms of the entire AfDB Non-Sovereign Operations (NSOs)[5]. Therefore, whether the target values of the operation indicators set at the time of appraisal have been achieved was judged from the data on all NSOs during the corresponding evaluation period, and the results of the analysis were used as a secondary reference for the evaluation. In addition, although target values were set for a single year (for example, "40% share of approvals in Low Income Countries in 2012"), the number of approved projects, the amount of loans, and the share of approved projects greatly fluctuate from year to year. Therefore, the achievement of the targets was judged comprehensively from trends in the data on all NSOs, and the results were used only as a secondary reference.

[5] AfDB has conducted its own evaluation of NSOs using a different methodology. http://idev.afdb.org/sites/default/files/documents/files/Independent%20Evaluation%20of%20Non-Sovereign%20Operations%202006-2011.pdf

Moreover, although at the time of the appraisal of Assistance Loan (II) (in 2008), macro indicators for such factors as RMCs' economic growth rates and poverty reduction rates were set as impact indicators, given the difference in scale, it is unrealistic to expect that the outcomes at the subproject level directly contributes to the impact at the macro level. Because there seems to be no simple correlation between regional/national trends in economic growth/poverty reduction and the performance of the subprojects, the impact indicators at the macro level were only used as a secondary reference for this evaluation.[6] In addition, because it was difficult to obtain reliable data at the sector level, it was possible to conduct only a limited analysis on the outcomes of subprojects at the sector level. (However, additional analysis was conducted using new indicators which the evaluation team proposed for the evaluation of the financial sector.)

3. Results of the Evaluation (Overall Rating: A[7])

3.1 Relevance (Rating:③[8])

3.1.1 Relevance to the Development Plan of AfDB and its RMCs

At the time of appraisal in 2006, in the *Private Sector Development Strategy* (issued in November 2004; for years 2005–2007), AfDB regarded the private sector as the main sector that leads economic growth and identified four focal priorities for effective private sector development: "Creating an Enabling Environment," "Strengthening Financing Systems," "Building Competitive Economic and Social Infrastructures," and "Promoting Trade." Subsequently, in the *Strategy Update for the Bank's Private Sector Operations* (issued in January 2008; for years 2008–2010), AfDB additionally listed "Supporting Private Enterprises" as one of its priorities and emphasized the importance of supporting MSMEs for private sector development.

At the time of ex-post evaluation, in the *Private Sector Development Policy*[9] (issued in May 2013) and *Supporting the Transformation of the Private Sector in Africa: Private Sector Development Strategy 2013–2017*[10] (issued in July 2013), AfDB also aimed at contributing to sustainable development and poverty reduction in Africa by facilitating economic growth in a wide range of areas through private sector development.

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[6] All the quantitative indicators that were set at the time of appraisal have been used as a reference only for the evaluation.

[7] A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

[8] ③: High, ②: Fair, ①: Low

[9] The original is available through the link at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/Private%20Sector%20Development%20Policy%20of%20the%20AfDB%20Group.pdf

[10] The original is available through the link at: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/2013-2017_-_Private_Sector_Development_Strategy.pdf

Also, in AfDB's RMCs, which have been beneficiaries of this Project, it has been commonly recognized that economic growth is essential for achieving poverty reduction and that the private sector is key for economic growth. This is evidenced by the fact that national development strategy papers, such as the Poverty Reduction Strategy Paper (PRSP)[11], prepared by AfDB RMCs, have become to specify the promotion of private investment, support of MSMEs, and development of the financial sector as their priority policies.

Therefore, this Project is highly relevant to the development policies of AfDB and its RMCs.

3.1.2 Relevance to the Development Needs of AfDB and its RMCs

In Africa, private sector-led economic growth has been impeded mainly by the underdeveloped financial sector and poor infrastructure at the time of appraisal and, to a lesser degree, even at the time of ex-post evaluation. Because financial systems are still weak in African countries, it has been difficult for MSMEs to receive loans essential for the growth of their businesses. Although stock and bond markets have expanded since the time of appraisal, both the number of listed companies and market capitalization are limited. Therefore, the broadening and deepening of capital markets have continued to be an issue. In Sub-Saharan Africa as a whole, the growth rate of credit to private sector as % of GDP (11.9% in 2007 to 15.7% in 2014) has not caught up with the growth rate of commercial bank deposits as % of GDP (17.8% in 2007 to 23.5% in 2014[12]) – an indication that part of the growth in bank deposits has been absorbed by the public sector. Although access to finance at the time of ex-post evaluation has improved compared to that at the time of appraisal[13], there continue to exist great needs.

In many African countries, infrastructure for transport and telecommunications, as well as utilities such as power, gas, and water, have not been sufficiently developed, and their service delivery is inefficient. Prices are high, and supplies are often unstable. Yet it is fiscally challenging for most African countries to substantially increase budgets for infrastructure. Also, due to high risk perception against projects in Africa, it is unrealistic

[11] This is an approach adopted by the International Monetary Fund (IMF) and the World Bank in 1999 for promoting economic growth and poverty reduction. It aims to integrate developing countries' development strategies into international organizations' assistance policies effectively. It is prepared by the government of a developing country in cooperation with domestic stakeholders and international organizations

[12] Source: World Bank, Global Financial Development (2016)

[13] Number of bank accounts per 1,000 adults in Sub-Saharan developing countries increased from 60.8 to 157.7 between 2006 and 2014. (Source: World Bank GFD)

to expect the construction of large-scale infrastructure being carried out by the private sector alone. Therefore, there have been growing expectations for infrastructure construction through the support to PPP or an Independent Power Producer (IPP) to improve the efficiency of service delivery. Although the number of PPP projects in Africa is still limited at the time of ex-post evaluation, it is expected to increase in the future.

As for a potential risk that AfDB loans interfere with the private financial intermediaries' lending, no concern for crowding out has been corroborated[14]. Despite high economic growth in African countries, the presence of private financial institutions has increased or has been at least maintained. This is probably due to the fact that AfDB's NSOs lend at market rates.

Therefore, this Project is highly relevant to the target countries' development needs. In addition, no crowding out has been caused by AfDB's lending.

3.1.3 Relevance to Japan's ODA Policy

At the time of appraisal in 2006, in the *Medium-Term Strategy for Overseas Economic Cooperation Operations* (issued in April 2005; for years 2005–2008), JICA listed the construction of economic and social infrastructure and private sector development in the Africa region as priority in terms of region and policy. Also, JICA specified the following priority areas: the establishment of policies and systems, such as institutional finance; attraction of private investments through the improvement of the investment climate; trade promotion; and promoting PPP in the construction of infrastructure. Moreover, "support for financial assistance to small and medium enterprises and local industries" was specified in the Yokohama Action Plan (2008–2012) of the 4th Tokyo International Conference on African Development (TICAD) in 2008.

Through TICAD and others, the Japanese Government has declared that "poverty reduction through economic growth" is one of the priority areas in the support to Africa, and has

[14] Unlike the previously mentioned analysis on the crowding out of business borrowers due to the public sector borrowing requirement to finance domestic public debt, analysis here was conducted on the risk of crowding out of private financial institutions' lending due to AfDB's lending. According to the data on the GDP growth rate, banks' loans, and deposit balance to GDP, the real GDP growth rate between 2006 and 2015 has continued to be high in Sub-Saharan Africa; the lowest growth rate was 3.8% in 2015, whereas the highest rate was 7.6% in 2007. During this period, commercial banks' loans and deposit balance to GDP were generally on a slowly increasing trend, and the number of adults having bank accounts per 1,000 has been increasing steadily from 60.8 to 157.7 between 2006 and 2014. Particularly, in Kenya, the bank sector has developed considerably: the number of adults having bank accounts per thousand increased from 158 in 2006 to 1,110 in 2014; total deposits to GDP increased from 24.2% in 2006 to 60.4% in 2014; and commercial banks' total lending to GDP increased from 21.1% in 2006 to 50.6% in 2014. (Source: IMF, International Financial Statistics (2016))

regarded EPSA, which aims at poverty reduction through private sector-led economic growth, as part of the effort. Also, all the subprojects carried out under this Project are related to the priority areas specified in EPSA.

Therefore, this Project is highly relevant to Japan's ODA policy.

3.1.4 Relevance to Appropriateness of Project Planning and Approach[15]

While JICA provides the Accelerated Co-Financing Facility for Africa (ACFA) for sovereigns under EPSA, it gives loans to non-sovereigns through AfDB's private-sector operations.

AfDB's expertise and experience in equity investment and loans in the private sector in Africa had been made use of in the face of drastic changes in the external environment, such as the global financial crisis in 2008 and the Arab Spring, which began in 2011. When the global financial crisis occurred, AfDB immediately gave loans to Development Financial Institutions (DFIs) and commercial banks to secure liquidity and restore economic stability. Consequently, only one bank in Nigeria went bankrupt in 2009 because of the crisis (the bank was not directly related to this Project)[16]. Although AfDB carried out many projects in North African countries, where investment risks had been regarded as low, it became difficult to maintain its credit rating when the Arab Spring began in 2011 and the internal credit ratings of many projects got downgraded. Yet AfDB decreased its risk exposure in the North African region and succeeded in maintaining the rating of AAA by introducing a more detailed risk assessment system and swapping credits with other DFIs. As a result, risks continue to be extremely limited for JICA's recovery of loans from AfDB and the risk of damage to loan values.

Therefore, the approach adopted for this Project to give loans through AfDB, which has a high credit rating and has rich expertise and experience in investing equity and extending loans in the private sector in Africa, is highly appropriate[17].

[15] In this evaluation, analysis was conducted on the appropriateness of the approach that JICA adopted by giving loans through AfDB for private sector development in Africa.

[16] According to answers to the questionnaire to AfDB Private Sector Department

[17] However, because AfDB is an international financial institution and its industry category is bank, it has self-imposed limitations on the total size of equity investment it can undertake based on the risk capital, from the viewpoint of securing and maintaining financial health. Accordingly, if the total amount of AfDB's equity investment reaches the upper limit (15% of the risk capital), no funds procured by means of loans (even ODA loans) can be used for any investment projects. (It becomes necessary to procure funds through capital increase.)

In light of the above, this Project has been highly relevant to the development plan and development needs of AfDB and its RMCs, as well as Japan's ODA policy. Therefore, its relevance is high.

3.2 Efficiency (Rating: ③)

3.2.1 Project Outputs

For the purpose of this evaluation, the following approach has been adopted: it is assumed that a loan that JICA gives as a project input had been changed into a project output when the loan was disbursed; the amount of disbursed loans is defined as a project output; and the expiry of the disbursement period is defined as the time of output completion. Based on these assumption and definition, analysis has been conducted as to whether an input was efficiently transformed into an output (see the "Project Inputs" section).

3.2.2 Project Inputs

3.2.2.1 Project Cost

The amount of loans actually disbursed was almost according to plan (see Table 1).

Table 1 Amount of JICA's Assistance Loans

Phase	Planned amount (Million yen)	Actual amount (Million yen)	Achievement rate
Assistance Loan (I)	11,500	11,401	99.9%
Assistance Loan (II)	32,100	32,100	100%
Assistance Loan (III)	8,440	8,400	99.5%

Source: Materials supplied by JICA

3.2.2.2 Project Period

The planned time of completion of this Project is defined as the end of the disbursement period; that is, two years after L/A comes into effect, whereas the project completion is defined as the date the disbursement is completed. All the loans had been completed within the disbursement period according to the plan. More specifically, Assistance Loan (I) was completed in October 2008, which was before March 2009, the planned time of completion. Assistance Loan (II) was completed in March 2010, although the completion had been scheduled for October that year. Assistance Loan (III) was completed in October 2013 as planned.

3.2.3 Results of Calculations of Internal Rates of Return (Reference only)

The internal rates of return had not been calculated even at the time of appraisal and were not calculated. (However, profitability for each subproject was evaluated in "3.3 effectiveness.")

In light of the above, both the project cost and project period were mostly as planned. Therefore, efficiency of the Project is high.

3.3 Effectiveness[18] (Rating: ③)

3.3.1 Quantitative Effects (Operation and Effect Indicators)

As mentioned in "2.3 Constraints during the Evaluation Study," the target values of the operation indicators (number of approved projects by sector, amount of loans, and share of financing by type of country), which were set at the time of appraisal, had been chosen in terms of all AfDB NSOs. Therefore, whether the targets had been achieved or not was judged based on data on all NSOs during the relevant period, and the results of analysis were added to the evaluation as a secondary reference. In addition, although target values of the operation indicators had been set for a single year, the number of approved projects, the amount of loans, and the share of approved projects all fluctuated widely from year to year. Thus, whether the targets had been achieved or not was comprehensively judged from trends in the data on all NSOs, and the results were only used as a secondary reference. The analytical results of these indicators, which were used for the evaluation as a secondary reference, including the operation indicator set additionally in the next section (share of the amount of JICA's approved Assistance Loans to the total amount of AfDB's approved NSOs), are generally consistent with the evaluation results at the subproject level, as shown in the subsequent sections. Therefore, the information of secondary reference appears to increase the persuasiveness of the final evaluation results.

(1) Operation Indicator: Ratio of JICA's Assistance Loans to AfDB's New Non-Sovereign Operations (NSOs)

The total amount of Assistance Loans approved under this Project is about 52 billion yen, and the share of this amount to the total amount of approved NSOs during the period between 2007 and 2011, when this Project had been approved, was 5.7 percent. Yet the amount of loans for NSO has greatly increased since 2007 when Assistance Loan (I) was approved (see Figure 2). Since Dr. Donald Kaberuka assumed the Office of President in 2005, AfDB has placed greater emphasis on private sector development, along the lines with the *Report of the High-level Panel–Investing in Africa's Future: The AfDB in the 21st Century*, the *Mid-term Strategy 2008–2012*, and the *Long-term Strategy 2013–2022*. Under

[18] Sub-rating for Effectiveness is to be evaluated by taking into account that for Impact.

these circumstances, Assistance Loans (I to III) have been appreciated by AfDB as having played a catalytic role that financially helped AfDB's large expansion of private-sector operations[19]. (The amount of NSOs declined in 2012 because lending fulfilled its role as a measure for ensuring liquidity and restoring economic stability to cope with a global financial crisis, and projects were temporarily suspended in North African countries due to the Arab Spring.)

(Unit: USD million)

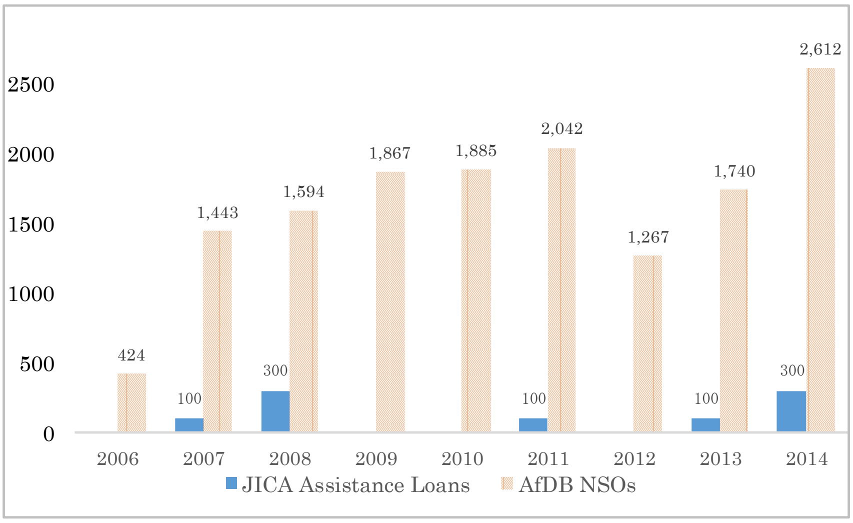

Figure 2 AfDB Non-Sovereign Operations (NSO) and JICA Assistance Loans, 2006-2014

Source: Prepared by the authors based on materials provided by AfDB's Private Sector Department (2016)

Note: Among JICA's Assistance Loans (I in 2007), (II in 2008), (III in 2011), (IV in 2013), and (V in 2014), Assistance Loans (I to III) are related to this Project.

(2) Operation Indicator: Number of AfDB's New Approved Non-Sovereign Operations (NSOs) by Sector (for a Secondary Reference)

The indicators (Table 2), which were set at the time of appraisal for Assistance Loan (I), have met their targets in all sectors as of 2007, by exceeding the targeted number of 25 subprojects in total, when compared against all NSO data[20].

Table 2 Operation Indicators: Number of Approved AfDB NSOs by Sector

Indicator	Target value for Assistance Loan (I)
	2007
Number of approved subprojects for "Strengthening Financial Systems"	Support to 14 financial intermediaries

[19] Securing stable financial back-support through JICA's loans also gives a sense of security to AfDB (Source: answers to the questionnaire to AfDB's Private Sector Department and interviews with the Department)

[20] According to answers to the questionnaire to AfDB's Private-Sector Department

Number of approved subprojects for "Building Economic and Social Infrastructure"	Support to 5 infrastructure projects with private participation
Number of approved subprojects for "Supporting MSMEs"	Support to 6 pilot programs, targeting woman-owned enterprises, mutual enterprise guarantee schemes, etc.

Source: Answers to the questionnaire to AfDB Private Sector Department (2016)

(3) Operation Indicators: Amount of AfDB's New Private Sector Financing, Share of Financing by Type of Country (for a Secondary Reference)

Judging from a general trend based on all NSO data, new private sector financing had grown fairly steadily over the period, and the target values were almost met (see Table 3). (As for single year target values, however, that for 2010 was achieved, while the actual value for 2012 was lower than the target.) Also, the actual share of financing in low income countries, on average, nearly reached the target of 40 percent over the period. The reason the share of financing in middle income countries relatively decreased from 2008, while the share of financing of regional and multinational projects increased from that year is that the loans to DFIs within the region increased to cope with the global financial crisis in 2008, whereas the number of projects in middle income countries in North Africa became lower than expected due to the Arab Spring in 2011.

Table 3 Amount of AfDB's NSO Loans, Share of Financing by Type of Country

(Unit: in millions of Unit of Account[21])

Indicator	Target value		Actual value			
	for Assistance Loan (II) 2010	for Assistance Loan (III) 2012	2006	2007	2008	2009
New Private Sector Financing	1,000	1,200	282	913	1,035	1,191
Share of Financing in Low Income Countries	40%	40%	72% (204)	30% (277)	41% (428)	43% (513)
Share of Financing in Middle Income Countries	40%	40%	26% (73)	57% (519)	21% (221)	8% (97)
Share of Financing of Regional and Multinational Projects	20%	20%	2% (5)	13% (116)	37% (386)	49% (582)

Indicator	Actual value					
	2010	2011	2012	2013	2014	**Total (2006-2014)**
New Private Sector Financing	1,224	1,330	825	1,130	1,803	9,732
Share of Financing in Low Income Countries	19% (232)	48% (642)	18% (149)	34% (384)	41% (737)	37% (3,565)

[21] The Unit of Account (UA) is equivalent to IMF's Special Drawing Rights (SDR) and the reporting currency of AfDB.

Share of Financing in Middle Income Countries	43% (530)	25% (330)	26% (217)	0% (1)	39% (701)	28% (2,690)
Share of Financing of Regional and Multinational Projects	38% (462)	27% (358)	56% (459)	66% (744)	20% (364)	36% (3,477)

Source: AfDB Private Sector Department (2016)

Note: Because two subprojects covered by Private-Sector Assistance Loan (I) were approved in 2006, they are included in the 2006 data. In addition, because the share of approved subprojects is greatly fluctuated by the influence of large subprojects when judged on an yearly basis, the weighted average between 2006 and 2014 (nine years) has been shown in the "Total" column. The amount of loans is the cumulative total over that period.

3.3.2 Qualitative Effects (Other Effects)

At the time of the appraisal of Assistance Loan (I), it had been proposed that the implementation and progress of the private-sector development strategy should be measured by the following qualitative indicators: "Improving the Investment Climate," "Strengthening Financial Systems," "Building Competitive Infrastructure," "Supporting MSMEs," and "Promoting Trade and Overseas Direct Investment." For Assistance Loan (III), "Promoting Private Investments," "Strengthening Financial Systems," and "Developing Infrastructure Using Private Funds" were proposed as indicators. Because this Project had been carried out as part of EPSA by the Japanese Government along the line of AfDB's private sector development strategy, this evaluation has adopted an evaluation framework that equates the extent to which the outcome of each of the five priority areas has been achieved to the project outcome as a whole, or the project objective. More specifically, the summary of the achieved results at the subproject level for each of EPSA's five priority areas –"Improving the Investment Climate," "Strengthening Financial Systems," "Building Economic and Social Infrastructure," "Supporting MSMEs," and "Promoting Trade and Direct Investment"– was evaluated as the development outcome. Furthermore, to judge the effect of the Project as a whole, additional indicators on the strengthening of financial systems – "AfDB's level of satisfaction with ODA loans" and "Significance of Japanese ODA loans at the time of the financial crisis"– have been selected.

<u>(1) Effect Indicator: Implementation and Progress of Private Sector Development Strategy (at the Subproject Level[22])</u>

[22] The amount of loans given under this Project is equivalent of about 5.7% of the total amount of new NSOs approved by AfDB between 2007 and 2011. Because AfDB has not opened a special account for this Project, regardless of whether subprojects have been approved by JICA, it is appropriate to consider that JICA's loans have been pooled together with other financial sources and have been uniformly distributed to all AfDB NSOs. Given that the share of AfDB's contribution to the funding needs of the subproject is about 15% on average, the share of the contribution of JICA loans at the subproject level is estimated to be less than 1% on average. For the purpose of this evaluation, however, irrespective of the actual flow of funds, it is assumed that funds from JICA have been used only for the 25 subprojects approved by JICA, and the evaluation has focused on

Table 4 shows the frequency distribution of the 25 subprojects across EPSA's five priority areas[23]:

Table 4 Number of Subprojects by EPSA Priority Area

Priority Area	Improving the Investment Climate	Strengthening Financial Systems	Building Economic & Social Infrastructure	Supporting MSMEs	Promoting Trade & Direct Investment
No. of subprojects	1	16	6	14	1

Note: Because a subproject may be related to more than one priority area, the sum total exceeds 25.

Table 5 shows a summary of the authors' ratings on the subprojects according to DAC's five evaluation criteria and JICA's rating flowchart, which have been made from the interviews and/or questionnaire surveys of AfDB and investee institutions/borrowers, as well as AfDB's own evaluations. (As for each evaluation criterion, the rating of "3" indicates High, "2" indicates Fair, and "1" indicates Low.)

Table 5 Rating Results of Subprojects based on DAC's Five Evaluation Criteria – Frequency Distribution

Evaluation	Relevance	**Effectiveness / Impact**	Efficiency	**Sustainability**	**Overall Rating**
「3」	22	**13**	9	**12**	—
「2」	3	**11**	14	**8**	—
「1」	0	**1**	2	**5**	—
「A」	—	—	—	—	**9**
「B」	—	—	—	—	**10**
「C」	—	—	—	—	**3**
「D」	—	—	—	—	**3**

A summary of the authors' ratings on effectiveness/impact for all the 25 subprojects based on DAC's five evaluation criteria shows that 13 subprojects are rated at "3," 11 subprojects are rated at "2," one subproject is rated at "1," and thus more than half of the subprojects are rated at "3." Also, four of the 11 subprojects given a "2" rating are rated at "3" in other priority areas, as subprojects can be related to more than one priory areas. Therefore, 17 out of the 25 subprojects (68 percent) may be regarded as being rated at "3."

the performance of the 25 approved subprojects. The problem of how much of the outcome of each subproject can be attributable to JICA loans has not been considered in this evaluation.

[23] As pointed out, this frequency distribution does not cover the entire NSOs. In the areas of Improving the Investment Climate and Promoting Trade & Direct Investment, projects targeting governments and those improving job training schools have been actively carried out by Governance & Finance Management Department (OSGE) and Human Development Department (OSHD), respectively.

If these subprojects are given a rating of “2.5,” the average rating of the 25 subprojects would be 2.56, which is closer to the “High” rating than the “Fair” rating. Moreover, the results of overall ratings show that 19 out of the total 25 subprojects (76 percent) are evaluated as “A (highly satisfactory)” or “B (satisfactory)”[24].

When sub-ratings on Effectiveness and Impact for the subprojects are compared across priority areas, nine out of 16 subprojects for “Strengthening Financial Systems” are rated at “3,” whereas seven out of 14 subprojects for “Supporting MSMEs” are rated at “3.” On the other hand, four out of six subprojects for “Building Economic and Social Infrastructure” are rated at “3.” One project for “Improving the Investment Climate” and another project for “Promoting Trade and Direct Investment” are both rated at “3”[25].

Although only one subproject is directly related to “Improving the Investment Climate,” the volume of the businesses supported and investments insured by the relevant investee institution/borrower has grown steadily, and the fact that investment climates have improved significantly for private enterprises has been confirmed.

Although financial data available for some subprojects for “Strengthening Financial Systems” were limited, the financial stability and health of borrower banks and the gross revenues of investee institutions in 14 out of 16 subprojects have improved and shown the expected results. In addition, the direct effects of the loans on the increase in banks’ lending to private companies and the expansion of available bank services have been observed at the subproject level.

[24] However, the authors have not adopted a method that simply treats the share of highly evaluated subprojects to all the subprojects as a measure of achievement of this Project. If such a figure was regarded as a measure of achievement of the Project, it would be equivalent of treating the level of achievement of each subproject that received a High rating as 100%, whereas treating that of a project having received a Fair or Low rating as 0%. In reality, the level of achievement in terms of the target cannot be 0% even in the case of a badly reviewed subproject. Also, the level of achievement of a subproject that received a good review can exceed 100% in terms of its target. Although the level of achievement of each subproject has not been rated in percentages in this evaluation, if it is assumed, according to the authors’ rough estimates, that the average level of achievement of the target is 95% among the 13 subprojects rated at “3,” and that of achievement is 75% among the 11 subprojects rated at “2,” and 40% for the project rated at “1,” the weighted average would be 84%. The authors’ judgments that led to the final evaluation results can be explained by the similar thought process like this.

[25] Because the number of subprojects is limited, no statistically significant difference has been found. In addition, because the 25 target projects are not a random or representative sample of all NSOs in the same period, analytical results cannot be generalized beyond the 25 subprojects. According to the results of analysis of the subprojects, there is no clear relationship between the scheme adopted and the development outcomes observed, in each priority area. Also, no hypothesis that is worth investigating was found. Interviews with AfDB Independent Development Evaluation Department also confirmed that AfDB had not found any relationship between the scheme and the development outcomes at the subproject level.

Regarding "Building Economic and Social Infrastructure," a shortage of services has been eased to some extent through an increase in the volume of service supply, and thus the expected direct effects have been observed in all six subprojects. However, there was only one subproject where the expansion of supply volume had resulted in a decrease in prices.

Regarding "Supporting MSMEs," 12 out of 13 subprojects that could be examined have indicated that the management of end-user firms had been improved and employment had been generated, and thus expected outcomes were observed to a certain extent. However, there were some cases where some of the end users that had received equity investments or loans were neither a small nor a medium enterprises in a regular sense of the word, which has weakened the positive impact of the subprojects. AfDB has not set up its own MSME standards and respected the definition provided by its investee institutions/borrowers. Because the definition of MSMEs differs across countries and/or depending on their specific laws, it is appropriate for AfDB not to force its own definition to investee institutions/borrowers. As a consequence, however, it is pointed out that the image of MSMEs to be targeted sometimes diverged between AfDB and investee institutions/ borrowers.

There is only one subproject directly related to "Promoting Trade and Direct Investment." The volume of the businesses supported and investments insured by the relevant investee institution/borrower has increased from about 8 billion US dollars at the end of 2011 to 21 billion US dollars at the end of 2015.

<u>(2) Effect Indicators: Additional Indicators on Strengthening Financial Systems</u>

"Level of AfDB's satisfaction with ODA loans" and "Significance of Japanese ODA loans at the time of the financial crisis" were added to the effect indicators on the strengthening of financial systems at the entire Project level. It was confirmed by answers to the interviews and questionnaires to the parties concerned that the AfDB Treasury Department has been highly satisfied with the ODA loans whose long-term loan period of 40 years reduces the average value of outstanding liabilities per term. Also, as mentioned, AfDB has expanded its private sector operations since 2005 after Dr. Kaberuka assumed the office of President, and it has been appreciated by AfDB that Japanese ODA loans under EPSA played an important role in financially supporting the expansion of NSOs (see Figure 2).

Furthermore, L/A for JICA's Assistance Loan (II) was signed in September 2008, when the global financial crisis broke out, and thus the Assistance Loan (II), together with the Assistance Loan (III), which was signed in October 2011, had helped display the Japanese

Government's resolve to support the financial sector in Africa. In particular, a loan to one investee institution/borrower had been made just after the financial crisis started, and thus JICA loans are likely to have contributed to the stabilization of the financial sector in Africa[26].

In light of the above, on qualitative effects, it can be confirmed that expected development outcomes have taken place at the subproject level, which is the primary focus of this evaluation. Also, at the entire Project level, it can be confirmed by the indicators on Strengthening of Financial Systems that JICA loans have contributed to the stabilization of the financial sector in Africa.

As for quantitative effects, target values have been set at the time of the appraisal in terms of all AfDB NSOs (not just the subprojects for this evaluation). And, if it is evaluated using all the NSOs, "the target number of subprojects by sector," one of the operation indicators, has been achieved. Judging from trends in the corresponding period, other operation indicators of "New Private Sector Financing" and "Financing in Low Income Countries," have been almost achieved. For the indicators that missed targets (such as "Financing in Middle Income Countries"), reasonable explanations existed (the global financial crisis and the influence of and the appropriate response to the Arab Spring).

Moreover, the amount of NSOs has greatly increased since 2007 when JICA's Assistance Loan (I) was approved (the amount in 2007 was 3.4 times the one in the previous year). By interviews with stakeholders, the Assistance Loans (I to III) were also found to have some positive effects on the development of the private sector in Africa. When the global financial crisis occurred, they contributed to the securing of liquidity in the Afircan financial sector and the stabilization of the economy. The results of these quantitative effects complement the high evaluation results for Effectiveness on the basis of the development outcomes at the subproject level.

Therefore, based on this comprehensive evaluation, the effectiveness of this Project is high.

3.4 Impacts

3.4.1 Intended Impacts

[26] Because JICA and AfDB signed a L/A for this Project after prospective subprojects had been identified, however, most of the subprojects under the Assistance Loans (I) and (II) had already been approved by the time the financial crisis broke out. In addition, most of the subprojects under the Assistance Loan (III) were to finance private equity funds, except in a few cases.

(1) Impact Indicators: Macroeconomics Data (for a Secondary Reference[27])

At the time of appraisal for the Assistance Loan (II) (in 2008), RMCs' economic growth rates, poverty reduction rates and amounts of overseas direct investments had been listed as impact indicators. In addition, at the time of the Assistance Loan (III) (in 2011), the share of successful businesses, number of newly employed persons, and amount of foreign direct investments had been listed as impact indicators. In Table 6, as more specific indicators, changes over time of the real GDP growth rate, the growth rate of real GDP per capita, the poverty rate, the amount of private investment, and the value of trade between African countries and other regions are shown[28].

Table 6 Impact Indicators: Macroeconomics Data

Indicator	2006	2007	2008	2009	2010
Real GDP growth rate (%)	6.1	6.0	4.5	2.1	5.4
Growth rate of real GDP per capita (%)	3.2	3.2	1.6	-0.7	2.5
Poverty rate (USD 1.90 per day; purchasing power parity as of 2011) (%)	n/a	n/a	47.8	n/a	46.1
Private investment (gross private fixed capital formation) to GDP (%)	13.8	14.5	15.3	14.2	13.9
Africa's total trade with other regions* (USD billion)	665.8	782.7	1,010.2	692.8	930.0

Indicator	2011	2012	2013	2014
Real GDP growth rate (%)	2.8	3.9	4.4	4.5
Growth rate of real GDP per capita (%)	1.4	1.1	1.6	1.6
Poverty rate (USD 1.90 per day; purchasing power parity as of 2011) (%)	44.4	42.7	n/a	n/a
Private investment (gross private fixed capital formation) to GDP (%)	13.5	14.2	14.8	14.6
Africa's total trade with other regions* (USD billion)	1,080.1	1,192.6	1,148.8	n/a

Source: World Bank's World Development Indicators (2016), except for the indicator with *, which is based on African Economic Outlook (2016)

Since 2006, real GDP has been steadily expanding. Real GDP per capita has also been increasing, except in 2009 when negative growth was recorded due to the global financial crisis. Accordingly, the poverty rate decreased by about five percentage points in four years between 2008 and 2012. Although private investment to GDP decreased after the global financial crisis in 2008, it has risen since 2012 and has almost returned to the level before

[27] As mentioned above ("2.3 Constraints during the Evaluation Study"), it is unrealistic to assume that the outcomes at the subproject level directly contribute to the impact at the macro level. Because there is no simple correlation found between economic growth or poverty reduction at the regional or national level and the performance of subprojects, the impact indicators at the macro level were examined but were not taken into account in the final evaluation results.

[28] Except for the value of trade between African countries and other regions, the data cover developing countries in Sub-Saharan Africa only. With regard to the share of successful businesses and the number of newly employed persons, they were analyzed and taken into account in the evaluation of Effectiveness when data were available at the subproject level.

the global financial crisis. Moreover, although the (nominal) value of trade dropped significantly for a short period of time after the financial crisis, it has already exceeded the level before the crisis.

(2) Impact Indicators: Achievement of Private Sector Development Strategy (Sector Level)

To the extent that reliable data were available for each priority area, whether the subprojects under this Project have achieved expected outcomes were examined not only at the level of investee institutions/borrowers but also at the sector level in the targeted countries and regions of equity investment and loans.

As for the "Improving the Investment Climate" area, the number of member countries that receive services provided by the relevant investee institution/borrower of the subproject steadily increased. The member countries have benefitted from the trade insurance that covers political risks and credit risks. As the investee institution/borrower has underwritten insurance that covers high-risk countries, the investment climate in Africa has improved.

In the area of "Strengthening Financial Systems," as shown by increases in total loans to GDP and total deposits to GDP, there have been positive impacts, such as an increase in bank loans to the private sector, expansion of available banking services, and development of stock markets. (For details, see the next section.)

In the area of "Building Economic and Social Infrastructure," although there have been significant positive impacts, they have not led to improvement in users' satisfaction in some cases. Only three out of six cases confirmed the impacts at the user level such as the reduction of user prices, ease of traffic congestion, and decrease in the frequency of blackouts.

As for the "Supporting MSMEs" area, it was not possible to obtain sufficient data necessary for analyzing whether the subprojects had contributed to the growth of industries/sectors where end users do business. Still, based on end user survey results, positive impacts of AfDB's equity investment and loans were confirmed in some cases. (For details, see the section after the next one.)

In the area of "Promoting Trade and Direct Investment," as mentioned on p.17, the volume of businesses supported and investments insured by the investee institution/borrower has increased from about 8 billion US dollars at the end of 2011 to 21 billion US dollars at the end of 2015. Consequently, the provision of insurance has promoted trade and direct investment to high-risk countries.

(3) Impact Indicators: Additional Indicators on Strengthening Financial Systems

To further evaluate the strengthening of financial systems through the examination of trends in the expansion of available banking services in the targeted countries of the Project, “total commercial bank deposits to GDP” and “total commercial banks loans to GDP” have been selected as additional impact indicators in the financial sector. As in Tables 7 and 8, both “total commercial bank deposits to GDP” and “total commercial bank loans to GDP” had increased all in Kenya, Mauritius, Nigeria, Tanzania, Togo, Tunisia, and Zambia, suggesting that the expansion of available banking services and the strengthening of the private financial sector have both made progress.

Table 7 Impact Indicator: Total Commercial Bank Deposits to GDP

(Unit: %)

Country	2004	2014
Kenya	24	60
Mauritius	107	161
Nigeria	15	20
Tanzania	17	43
Togo	27	46 (2013)
Tunisia	46	60 (2013)
Zambia	18	21

Source: IMF International Financial Statistics (2016)

Note: 2013 data are used for Togo and Tunisia as they are the most recent ones available.

Table 8 Impact Indicator: Total Commercial Bank Loans to GDP

(Unit: %)

Country	2004	2014
Kenya	22	50
Mauritius	56	76
Nigeria	13	14
Tanzania	8	29
Togo	18	39 (2013)
Tunisia	54	69 (2013)
Zambia	7	13

Source: IMF International Financial Statistics (2016)

Note: 2013 data are used for Togo and Tunisia as they are the most recent ones available.

(4) End User Level Analysis

For the purpose of examining the development outcomes of the subprojects at the end user level, end user interviews had been conducted for the subprojects where site visits were made (except for the infrastructure subprojects). For all the end-user firms surveyed, their revenues (sales), profit and employment had improved after receiving equity investment or loans, confirming positive impacts at the end-user level. For example, micro-financial bank's loans had directly contributed to an individual's or micro enterprises' investments in plant and equipment and expansion of businesses. Sales from the three businesses, for which data could obtained through end-user surveys, turn out to have dramatically increased after the loans by 40 percent, 100 percent, and 580 percent, respectively. Due to high risk perception in markets and limited supply of funds to MSMEs, if end users had not been able to receive the loans, the expansion of businesses would have progressed on a more limited scale and more slowly, even if alternative financing services had been available from the market[29].

3.4.2 Other Impacts

3.4.2.1 Impacts on the Natural Environment

AfDB has established the Environmental and Social Management System (ESMS) of an international standard, and has specified and applied the detailed Environmental and Social Assessment Procedures (ESAP) at each stage of the project cycle such as subproject formation, preparation, appraisal, implementation, supervision, and completion. Consequently, AfDB's presence in the subprojects encouraged a number of investee institutions, borrowers, and end users to adopt global best practices and standards on environmental and social considerations.

Yet, one investee institution/borrower has not prepared any required annual environmental report and has not set up an environmental unit to monitor compliance despite AfDB's repeated requests (Extended Supervision Report (XSR), 2013). Because DFIs other than AfDB have also faced similar problems, it is likely to be primarily the investee institution/borrower's fault. Similarly, another investee institution/borrower has still not revised its lending examination manual according to the environmental and social evaluation guidelines, although the investee institution/borrowerrecognized a revision is necessary. On the whole, however, these cases were exceptional and no particular negative impact on the natural environment has been recognized.

3.4.2.2 Land Acquisition and Resettlement

At one subproject, a tract of land (238 ha) had been acquired to construct a hydropower plant, and about 800 to 900 households have received compensation or moved to a resettlement village according to the Community Development Action Plan (CDAP). The CDAP had been approved by the National Environmental Committee, the Ministry of

[29] However, the results of the end-user survey cannot be generalized beyond the surveyed end users. Because the number of visited end users was limited and the selection of end users to visit was left to the organizations receiving equity investments or loans, the problem of selection bias needs taking into account.

Energy, AfDB, and others. To carry out the CDAP, the project company had invested more than 20 million US dollars and had a staff of 36 persons. Because the dam construction site was regarded as a sacred land by the local people and the legal system in that country is relatively advantageous to those who have to resettle, some residents filed a complaint on the amount of compensation during the construction period. In the resettlement village, however, the residents have been provided with such benefits as brick houses, schools, clinics, electricity, and guidance on how to cultivate crops. As a result, their standard of living has been significantly improved compared to the prior to the resettlement[30]. Moreover, as "vulnerable households," households headed by women and the elderly have received special support, such as the provision of household goods, and no problem has occurred.

In another subproject to construct roads, the Resettlement and Compensation Action Plan (RCAP) was also prepared for the resettlement and land acquisition for roadside residents along AfDB's guidelines, after consultations with AfDB and other parties concerned. As resettlement and land acquisition have been done according to the RCAP, there has been no special problem identified about resettlement and land acquisition. Based on AfDB's responses to the questionnaire, no resettlement and land acquisition have been confirmed to have taken place except for the above two cases.

3.4.2.3 Gender Impacts

As for gender, since the official introduction of the framework of Additionality and Development Outcomes Assessment (ADOA) in 2009, a framework that evaluates and monitors issues among others those related to gender equality –such as employment and ownership of the means of production– as well as issues related to social inclusion –such as women's access to infrastructure and finance– has been established. In at least 11 of the 25 subprojects, (11 out of 15 subprojects since 2009), the target number and share of women in employment have been set. In these 11 subprojects, the target has been confirmed to be achieved in three subprojects, whereas it has not been met in one subproject. In the remaining seven, it was not possible to determine whether the target has been achieved, because the data were not available or the period by when the achievement of target is expected to become measured has been set in 2016 or later. No negative gender impact has been recognized.

3.4.2.4 Synergy Effects with Related Projects

[30] Based on site inspection and an interview survey on stakeholders.

One subproject and its related ACFA project could get completed by the mutual complementation of both projects, and demonstrated high synergy effects through the provision of Assistance Loans to the private sector under EPSA and the assistance of ACFA.

In addition, technical cooperation using FAPA[31] was given in at least six subprojects and has been utilized for the capacity development of investee institutions/borrowers on credit risk analysis and environmental assessment. On the other hand, there is an internal evaluation on one project, which points out that AfDB has not played a very active role other than the provision of funds. Nethetherless, AfDB plans to promote further cooperation between EPSA and FAPA in a more systematic manner for more subprojects in the years to come.

In light of the above, this Project has largely achieved its objectives. Therefore, effectiveness and impact of this Project are high[32].

Box: AfDB's Role in the Financial Sector in Africa

Compared with Asian emerging economies, the expansion of available financial services in Africa has been considerably behind, particularly in Sub-Saharan countries. Because the past colonial rules by the developed countries had continued for a long time, the bank sector has been dominated by foreign global banks, and thus the given environment did not promote domestic private savings. This phenomenon can be understood at a glance when bank deposits as % of GDP are compared between East Asian countries and Sub-Saharan African countries.

[31] For example, one investee institution/borrower received support in preparing an accounting procedure manual, received training for improvement of capacities to examine risks and carry out accounting procedures, and was given technical support for the selection and procurement of software, and upgraded systems to the IAS/IFRS standards.

[32] As mentioned above (footnote in p.14), although the share of JICA loans' financial contribution is no more than 1% on average at the subproject level, given a large number of beneficiary subprojects, JICA's loans may have greatly contributed to the impacts of this Project.

(Unit: %)

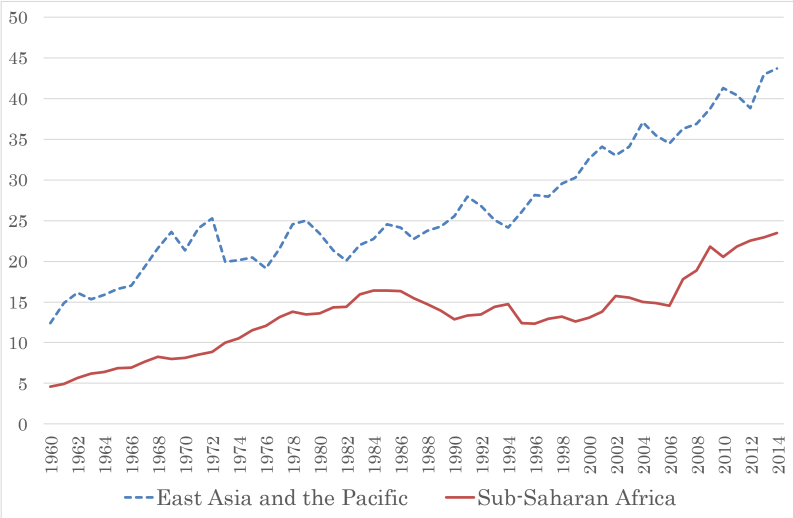

Figure: Bank Deposits to GDP over Time

Source: World Bank, Global Financial Development (2016)

Against this backdrop, AfDB has been working hard for the development of the financial sector in African countries. In 2014, AfDB issued the *Financial Sector Development Policy and Strategy, 2014–2019 (Revised)*[33] (hereinafter "*Financial Sector Strategy*") and, since then, has made more strategic and comprehensive efforts to develop the financial sector. The *Financial Sector Strategy* promotes a vision of "vibrant, innovative, robust and competitive financial systems, both domestic and regional" and aims "to contribute to increasing access to finance, deepening Africa's financial institutions and markets at regional member countries and regional level while supporting financial stability."

To achieve this objective, AfDB has set two pillars: "increasing access to financial services for the underserved" and "broadening and deepening Africa's financial systems." More specifically, the strategy suggests that AfDB is to strengthen regional DFIs through the provision of knowledge and finance, capacity building, and coordination, along with other practices. For accomplishing this, AfDB has proposed that cooperation with regional DFIs and DFIs in each country should be promoted through other international organizations and the Association of African Development Finance Institutions (AADFI). In fact, AfDB has alreay been making cooperation in some corners through equity investment, loans, and technical assistance. Though equity investment is known to have high additionality as a means of proving high-risk capital, even in loans, long-term funds, which are difficult to

[33] The original is available through the link at: http://www.afdb.org/en/news-and-events/article/afdb-board-approves-financial-sector-development-policy-and-strategy-2014-2019-13677/

obtain in Sub-Saharan countries, have been supplied. Moreover, the provision of technical assistance enhances the financial institutions' capacities.

Accordingly, AfDB plays a fundamental role in supporting not only the financial aspect but also the managerial aspect of the directed credit institutions that support Sub-Saharan countries' financial sector, which had been fragile in the past.

3.5 Sustainability (Rating: ②)

This section evaluates sustainability based on JICA-approved 25 subprojects.

3.5.1 Institutional Aspects of Operation and Maintenance

Interviews with AfDB and its investee institutions/borrowers and answers to questionnaires sent to them indicate that no serious problems have existed on organization and human resources in most subprojects. Also, because there was no subproject that had a major problem in the credit appraisal and monitoring system, the basic "operation and maintenance systems" have been judged to be established. However, because the provision of loans and equity investment to MSMEs in developing countries is inevitably accompanied by high risks, it is necessary to continue to strengthen the credit appraisal and monitoring systems of investee institutions/borrowers.

3.5.2 Technical Aspects of Operation and Maintenance

Most regional DFIs, private financial institutions, and private equity funds in the subprojects usually have managers and professional staff with high academic backgrounds and rich experience, and no serious problem has been found on capacities and/or qualifications of the management and the staff of the investee institutions/borrowers in the subprojects. Although a few organizations have turn out to be vulnerable, it can be judged from the evaluated subprojects as a whole that they have been equipped with the basic "technical aspects of operation and management."

3.5.3 Financial Aspects of Operation and Maintenance

While markets are expected to grow in many subprojects, there has been a concern that competition is getting severe and currency risk is coming to the surface[34]. Although the expected internal rate of return (IRR) was lower than that estimated at the time of appraisal in many subprojects, this is probably because the targets had been set too optimistically at the time of appraisal (see the "Recommendations" section). Although it was too early to

[34] Although AfDB gives loans in US dollars or euros, recipients usually gain revenues in local currency. Therefore, if the value of local currency falls, recipient's burden of repayment will increase.

calculate investment returns for many private equity funds, at least, some subprojects appear uncertain when and if they would become profitable, at the time of ex-post evaluation. Therefore, the status of the "financial aspects of operation and maintenance" is fair.

3.5.4 Analysis by Priority Area

A summary of the authors' sub-ratings on "sustainability" for the subprojects shows that 12 subprojects are rated at "3," another eight are rated at "2," and the remaining five are rated at "1." Twelve out of the 25 subprojects (48 percent) gained the highest rating of "3." When the distribution of ratings is compared across priority areas, 10 out of 16 subprojects for "Strengthening Financial Systems" are rated at "3," whereas seven out of 14 subprojects for "Supporting MSMEs" and only one out of six subprojects for "Building Economic and Social Infrastructure" are rated at "3." There is only one subproject for "Improving the Investment Climate" and "Promoting Trade and Direct Investment" respectively, and both of them are rated at "3".

Although there is only one project for "Improving the Investment Climate," an improvement in investment climate for private enterprises is highly sustainable. In the area of "Strengthening Financial Systems," whereas many banks' financial stability and health have improved, it takes time to be able to judge the financial returns of investee private equity funds. In the area of "Building Economic and Social Infrastructure," there were a couple of cases where state companies had delayed their payments to project companies (electric power companies), causing a concern for sustainability. Moreover, there was a case where the project itself had been taken over by a local government from a private company. In the area of "Supporting MSMEs," there are many cases where the management of end user firms has been improved. Yet there are also cases where no prospects of securing profits have been observed yet. There is only one project for "Promoting Trade and Direct Investment" but the increase of trade and direct investment is highly sustainable owning to the provision of insurance by the investee institution/ borrower.

3.5.5 Financial Condition

In a majority of the subprojects, the repayment of principal and payment of interest to AfDB have been according to schedule, and no arrears have occurred. Nevertheless, some subprojects had delays in payment. Private sector projects in Sub-Saharan Africa tend to have high commercial and country risks. In particular, infrastructure projects take much time to complete and involve various stakeholders, and thus it is important to form and maintain relationships with parties concerned and to manage risks well.

In light of the above, the current status of finance is fair.

In sum, 20 out of the 25 subprojects (80 percent) are rated as “3 (High)” or “2 (Fair)” with regard to the sub-ratings on sustainability. (The average rating for the target 25 subprojects is 2.28 out of the possible 3.0, closer to the “Fair” rating than to the “High” rating.) In most of the subprojects, no serious problem has been found in the “institutional aspects of operation and maintenance” or the “technical aspects of operation and maintenance.” Yet, some projects have not been very reassuring as it was not certain when and if they would become profitable in the “financial aspects of operation and maintenance.” Moreover, the repayment of principal and/or payment of interest to AfDB has been behind schedule in some subprojects. Some minor problems have been observed in terms of financial aspects of operation and maintenance. Therefore, sustainability of the project effects is fair.

4. Additionality (for a Secondary Reference)

Because this Project is the first of the JICA Assistance Loans targeted at the private sector in the entire Africa through AfDB, analysis from a perspective of additionality (i.e., additional effects), as well as the five evaluation criteria, has been conducted here while taking into account the unique nature of this Project. The analysis of additionality itself has not been added to the overall evaluation[35].

4.1 Macro-Level, Inducing Effect on Private Sector Investment

“Credit to private sector as % of GDP” has been set as an additional indicator for additionality in the financial sector. As shown in Figure 3, credit to private sector (that is, private sector borrowing) as % of GDP increased between 2004 and 2015 in all target countries, indicating that more funds have been provided to the final beneficiaries at the macro level.

[35] However, as demonstrated by the case where JICA loans’ contribution to the expansion of AfDB’s assistance has increased Effectiveness of the Project, some additional effects may have been indirectly taken into account through one or more of the five evaluation criteria.

(Unit: %)

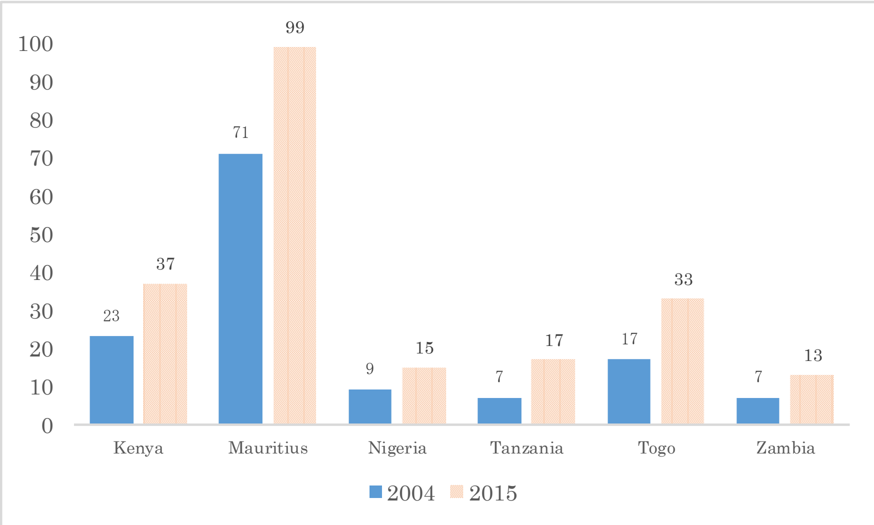

Figure 3 Credit to Private Sector to GDP
Source: IMF International Financial Statistics (2016)

As mentioned on p.8, there is no concern that AfDB's lending has been crowding out or preventing private financial institutions from increasing lending.

4.2 Expansion of AfDB's Assistance

As mentioned above (footnote on p.14), the amount of approved JICA Assistance Loans (I to III) accounts for 5.7 percent of the total amount of NSOs between 2007 and 2011. The amount of NSOs has greatly increased since 2007 when Assistance Loan (I) was approved. This indicates that Assistance Loans (I to III) were provided in a timely manner as AfDB placed more emphasis on private sector development[36] (see Figure 2). In addition, the disbursement of AfDB loans to the private sector (see Figure 4) shows that there tend to be a spike in the amount of disbursed loans in the years when Assistance Loans (I to III) were approved as in 2007, 2008, and 2011, and the year immediately after them. This suggests that JICA Assistance Loans partially helped the expansion of AfDB private-sector operations.

[36] In addition to JICA Assistance Loans, other contributing factors that had enabled the expansion of AfDB's private sector investment include a tripling of the capital by the sixth General Capital Increase (GCI) in May 2010 and an increase in the proportion of AfDB's budget allocation to NSOs relative to sovereign operations.

(Unit: UA million)

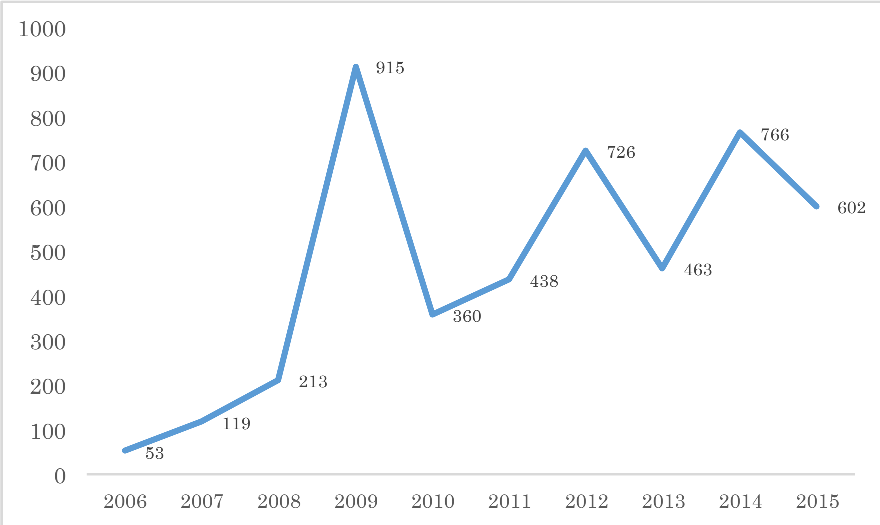

Figure 4 AfDB Private Sector Loan Disbursements
Source: AfDB Private Sector Department (2016)
Note: Loans only, excluding equities, grants, and technical assistance

4.3 Awareness of Japan's ODA

AfDB has not distinguished the 25 projects from other NSOs, and no case where the use of ODA loans had been publicized at the subproject was found. AfDB's portfolio managers in charge of JICA's endorsed projects were generally not very aware of ODA loans, either. Investee institutions/borrowers and end users have hardly been aware of JICA loans. Because AfDB makes loans at market rates, to avoid misunderstanding of investee institutions/borrowers, AfDB has no incentive to let them know about the procurement of funds at low interest rates. As mentioned above (footnote on p.14), the estimated share of JICA loans' contribution at the NSO project level becomes, on average, less than one percent. This actual situation on the ground may has been reflected in the low awareness among investee institutions/borrowers and end users against ODA loans.

AfDB issues a press release just after the Board of Directors approves a project (by consent of investee institutions/borrowers). Thus, if the Japanese side could approve the project at the time of the press release, AfDB would be able to mention JICA's Assistance Loans. However, because JICA and AfDB sign an L/A after the determination of prospective projects, JICA's Assistance Loans have not been mentioned in any press release. Because information on the project is provided to AfDB's Japanese Executive Director two weeks prior to a meeting of the Board of Directors, the Assistance Loans can be mentioned in a press release if the Japanese Executive Director show his or her support for the project at the meeting. However, this option seems unrealistic because of the time constraint.

In recent years, AfDB has begun to adopt the programmatic approach such as the "SME Program" that approves a series of projects at a program level. Through press releases about such projects, AfDB has publicized JICA Assistance Loans under EPSA and technical cooperation through FAPA.

When site visits were conducted, a few investee institutions/borrowers requested that JICA make capital subscription. Also, it is worth considering for JICA to make loans in Sub-Saharan Africa through DFIs other than AfDB, as it may increase awareness of Japanese ODA.

4.4 Benefits to Japanese Companies

As a secondary impact, this Project had been expected to be beneficial to Japanese firms. Thus, its potential effect was examined as one of additionalities in this section, though no evidence of the Project's contribution to Japanese firms has been found. Although a Japanese general trading company had participated in a subproject, as an EPC contractor[37], the company was not aware that JICA had made a loan to the subproject through AfDB. Because that subproject is believed to have been carried out even without JICA loan, no special contribution was recognized in terms of the Japanese company's participation in the project. On the other hand, firms that have benefited from the investee institution/ borrower's trade insurance include a Japanese trading company and a sales company of a Japanese electronics manufacturer. And thus, it was confirmed that the Project has helped the expansion of businesses by the Japanese firms in Africa[38].

5. Conclusion, Lessons Learned and Recommendations

5.1 Conclusion

This Project aims to develop the private sector in Africa, which plays a leading role in economic growth, by supplying necessary funding to private enterprises in African countries through the private-sector equity investment and loan schemes of the AfDB.

[37] It is a contractor that comprehensively undertakes a series of processes for plant construction, including engineering design, procurement of materials and equipment, and construction works. EPC is an abbreviation for Engineering, Procurement and Construction.

[38] Although the Project has primarily provided funding for lending to financial institutions, it has not set up opportunities for Japanese firms to learn and access these funding sources. More recently, however, the Project has started hosting signing ceremonies for MOUs and informational seminars for Japanese firm, based on the lessons learnt from the fact that no matcing opportunities nor publicity campaigns had been set up.

This Project is highly relevant to AfDB's long-term development strategy and private sector development policy, development needs of AfDB RMCs, and Japan's assistance policy. Therefore, its relevance is high. This Project has played a catalytic role that financially helped the large expansion of AfDB's private-sector operations since 2007. When the global financial crisis occurred in 2008, this Project also contributed, to a limited extent, to AfDB's agile implementation of measures for securing the liquidity and stability of the financial sector in Africa. Also, at the subproject level, the local banks that had received credits through this Project have improved their financial stability and health, and gross revenues of the financial institutions that had received equity investments have generally been on an upward trajectory, whereas the management of end-user firms has shown a tendency to be strengthened. Furthermore, the infrastructure subprojects that received loans have helped alleviate the shortage of services through an increase in their supplies. Therefore, its effectiveness and impact are high. Because both the project cost and the project period have been within the range of the plan, the efficiency is high. When examined the system for operation and maintenance at the subproject level, the Project turned out to have no major problem in terms of institutional and technical aspects. However, the outlooks for some subprojects have not been very reassuring as it was not certain when and if they would become profitable financially. Therefore, the sustainability of this Project is fair.

In light of the above, this Project is evaluated to be highly satisfactory.

5.2 Recommendations

5.2.1 Recommendations to the Executing Agency

<u>(1) Setting the Realistic Targets of Indicators at the Time of Appraisal</u>

The target values of the indicators that AfDB set at the time of the appraisal of the subprojects have often turned out to be overly optimistic estimation of investment returns or development outcomes. For example, the internal Expanded Supervision Report (XSR) (before the validation of the independent evaluation department) frequently gives high marks even if the targets of the essential indicators have not been met. The evaluators may often give an very good evaluation to the subproject even if the targets of the indicators are not met, by not measuring rigorously the extent to which the target has been achieved. It would be desirable to set more realistic target values at the time of appraisal for all subprojects, while being conscious of monitoring/evaluation to be conducted at the subsequent project implementation stage.

<u>(2) Agreeing on the Definition of MSMEs with Investee Institutions/Borrowers</u>

AfDB has not defined MSMEs but respected the definition adopted by investee institutions/ borrowers. Because the definition of MSMEs differs across countries and/or according to its law, it is appropriate not to force a uniform definition in the sense that the definition of MSMEs is to be determined on a case-by-case basis along with the project objective after a sufficient consultation with clients. However, in some subprojects for supporting MSMEs, the definition used by the investee institutions/borrowers was different from AfDB's understanding due to insufficient communication. Consequently, in some subprojects, the firms that received sub-loans or investments had no resemblance to the firms that are usually called MSMEs. AfDB should communicate closely with the investee institutions/borrowers, formulate a certain definition of target MSMEs in a subproject along with the project objective, and agree on the definition with the investee institutions/borrowers in advance.

5.2.2 Recommendations to JICA

<u>(1) Lessons from AfDB</u>

AfDB, as an international organization, has made strong positive efforts to adopt best practices through its highly professional staff members' exchanges with other regional development banks and the World Bank group in their respective areas of expertise. For example, the Independent Development Evaluation Department has separated its staff in charge of non-sovereign projects from those in charge of sovereign projects, and has been making use of highly professional expertise by assigning non-sovereign projects to those who have expertise in finance. Moreover, through activities and exchange with the Evaluation Cooperation Group (ECG), AfDB has started efforts to apply the corporate value assessment; that is, using the weighted average cost of capital (WACC) as benchmark against which the rate of returns of the project is measured to evaluate non-sovereign opearations. Organizationally, the Independent Development Evaluation Department has established a structure that is independent from operations to guarantee its objective, independent evaluation. It would be beneficial for JICA to take advantage of opportunities to exchange and work together with AfDB, and where desirable, to learn and adopt international best practices from AfDB.

5.3 Lessons Learned

<u>(1) Selecting More Appropriate Indicators for Evaluation of Subprojects</u>

For this Project, no subproject-level indicators were set a priori. And, with regard to the indicators and their target values set at the time of appraisal, there were the following two problems, which are related to Effectiveness in particular:

- Because the target values were set in terms of all NSOs, including operations other than the target operations of this Project, they were not appropriate for judging the effectiveness of the target operations.
- Because the target amount of loans was set for a single year, its evaluation may be influenced by the situation surrounding that year, and thus is not very objective.

In light of the above, in case evaluation is made at the subproject level, it is necessary to pay attention to the following two points on the evaluation indicators in future projects, if a similar project like this one would be conducted:

- Specific target values of indicators should be set provisionally for possible subprojects at the time of appraisal, if possible. Subsequently, they should be revised once the selection of subprojects has been made, by taking into account the characteristics of the subprojects. At the time of appraisal, the concept and logic of how to set target values should be clarified.
- When project outcomes are expected to emerge in a medium- or longer-term, results based on plural or multiple years should be considered for the indicator.

In addition, although the economic growth rate and the poverty reduction rate were used as indicators to measure impact at the macro level, it is hard to assume causal relationships between outcomes at the subproject level and impacts (mid- and long-term outcomes) at the macro level (as inputs at the subproject level are considerably limited compared to the scale at the macro level). Therefore, if assistance like this Project continues, it would be desirable to use result indicators at the macro level only for a secondary reference and analyze the impact of the project as a whole by an aggregated impact of all subprojects, as attempted in this evaluation.

Comparison of the Original and Actual Scope of the Project

Item	Plan	Actual
(1) Project Outputs	ODA loans (I) 11,500 million yen (II) 32,100 million yen (III) 8,440 million yen	ODA loans (I) 11,491 million yen (II) 32,100 million yen (III) 8,400 million yen
(2) Project Period	(I) Feb. 2007 to Mar. 2009 (26 months) (II) Sep. 2008 to Oct. 2010 (26 months) (III) Oct. 2011 to Oct. 2013 (25 months)	(I) Feb. 2007 to Oct. 2008 (21 months) (II) Sep. 2008 to Mar. 2010 (19 months) (III) Oct. 2011 to Oct. 2013 (25 months)
(3) Project Cost		
Amount Paid in Foreign Currency	(I) 11,500 million yen	(I) 11,491 million yen
Amount Paid in Local Currency	None	None
Total	11,500 million yen	11,491 million yen
Japanese ODA Loan Portion	11,500 million yen	11,491 million yen
Exchange Rate	Not applicable	Not applicable
Amount Paid in Foreign Currency	(II) 32,100 million yen	(II) 32,100 million yen
Amount Paid in Local Currency	None	None
Total	32,100 million yen	32,100 million yen
Japanese ODA Loan Portion	32,100 million yen	32,100 million yen
Exchange Rate	Not applicable	Not applicable
Amount Paid in Foreign Currency		
Amount Paid in Local Currency	(III) 8,440 million yen	(III) 8,400 million yen

Total	None	None
Japanese ODA Loan		
Portion	8,440 million yen	8,400 million yen
Exchange Rate	8,440 million yen	8,400 million yen
	Not applicable	Not applicable