

ODA loan

Ex-ante evaluation

1. Name of the Project

Project: Third Private Sector Assistance Loan under the Joint Initiative titled EPSA for Africa

Loan agreement signed on: October 17, 2011

Loan amount: ¥8,440,000,000

Borrower: The African Development Bank

2. Background and Necessity of the Project

(1) Developmental Achievement (present state) and Issues in the Private Sector in Africa

Africa successfully achieved a satisfactory economic growth of 4.9% on an annual average during the period from 2000 to 2008. Its economic growth rate, however, dropped by half to 2.8% in 2009 due to rapid reductions in demand in advanced countries and other nations and decreases in capital flows such as foreign remittances and direct investments triggered by the global financial crisis that took place at the end of 2008. As a result, the economy of Africa remained stagnant up to 2010, when there emerged some countries that began to take a path towards economic recovery amidst prolonged economic recession in European countries and USA. The economic growth rate rose to approximately 4.9% in 2010 on the average in Africa. However, it still hovers lower than the economic growth rate of 7% required for reducing by half the proportion of people living in poverty, which is one of the Millennium Development Goals. That is, it is needed to accelerate the economic growth further. A huge majority of the private sector in Africa that supports the above economic growth is constituted of SME and micro enterprises, but their access to business assistance from domestic capital markets and the governments remains limited. In addition, it is difficult for African countries to substantially increase their expenditures for infrastructure development. In order to raise the efficiency of infrastructure service delivery, it is essential to develop infrastructure through public private partnership (PPP), and it is expected to provide high quality public services at low prices while cutting back public investment spending.

(2) Private Sector Support Policy of the African Development Bank (AfDB) and the Meaning of the Project

AfDB formulated the Private Sector Support Strategy (2005-2007, hereinafter referred to as Support Strategy) in 2004. Its central issues are the development of SME and micro enterprises, improvements in the investment environment, strengthening of financial systems, development of competitive infrastructure, and promotion of trades. Based on the Support

Strategy, AfDB planned to approve investments and loans amounting to UA¹670 million for the private sector in a period of three years, and in fact approved an amount of UA1,393 million, which was more than double the initial target. The Support Strategy was renewed in 2007, and as against its approval plan for an amount of UA1,550 million (2008~2009), an amount of approximately UA2,200 million was achieved. In February 2010 AfDB carried out the mid-term review of the projects supported by the Private Sector Department, which demonstrated that it would be necessary to expand loans to the private sector for recovery from financial and economic crises in Africa. Thus, AfDB will further move ahead with its plan for investment and loan. This project aims to finance the projects approved by AfDB based on its Support Strategy.

(3) Assistance Policy and Past Assistance of Japan and JICA in the Private Sector in the African Region

At the Summit in Gleneagles held in July 2005 the Japanese government announced the Joint Initiative (EPSA²) for developing the private sector in Africa as assistance policy for Africa by utilizing Japanese ODA loans. In specifics, it offers Japanese ODA loans with a ceiling of one billion dollars in total in five years under the two schemes, the Accelerated Co-financing Scheme for Africa (ACFA³) for the governments of developing countries and private sector assistance loan via AfDB, to the following five major fields; 1) improvements in the investment environment, 2) development of financial markets, 3) development of economic and social infrastructure, 4) assistance for SME and micro enterprises, and 5) promotion of trades and direct investment. Up to this point, eleven cases (for six countries) were approved in a total amount of ¥51,081 million under the ACFA scheme, whereas under the private sector assistance loan two cases were approved in a total amount of ¥43,600 million.

(4) Other Donors' Activity

The Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group, guarantees an amount of \$1.5 billion as an initiative for the financial sector. The International Finance Corporation (IFC) plans to provide private sector assistance amounting to \$6 billion for global trade finance, micro-finance, infrastructure, and bank recapitalization fund as assistance under the crisis response initiative. The African Trade Finance Program amounting to one million dollars was established in February 2009 as a contribution of IFC to the TICADIV.

(5) Necessity of the Project

As a part of EPSA by the Japanese government, a request was received for an amount of 200 million US dollars in total concerning this project subsequent to the Private Sector

¹ Unit of Account: It is the unit of currency used by AfDB, and the value of a unit of account is equivalent to one SDR.

² Enhanced Private Sector Assistance for Africa

³ Accelerated Co-financing Scheme for Africa

Assistance Loan (I) (a loan amount of 11.5 billion yen in 2007) and the Private Sector Assistance Loan (II) (a loan amount totaling to 32.1 billion yen in 2008). This project aims to support the private sector that is the driving force of economic growth. Its two predecessor projects, private sector loan (I) and (II), were smoothly implemented. Hence, as a part of EPSA, to offer loans to support the private sector based on the AfDB's Support Strategy via AfDA that has experience, knowhow, and networks in funding the private sector in Africa is consistent with the assistance policies of Japan and JICA. Thus, it is highly necessary and relevant to extend support to EPSA with Japanese ODA loans.

3. Project Description

(1) Project Objectives

The project offers business funds required by private enterprises that are located and registered in the regional member countries of AfDB through its investment and loan for the private sector based on EPSA in order to develop the private sector, thereby contributing to economic growth and poverty reduction led by the private sector in the regional member countries of AfDB.

(2) Target Area: Regional member countries of AfDB

(3) Outline of the Project

This project provides Japanese ODA loans to AfDB as the capital of its investments and loans. Then, AfDB's Private Sector Department supplies the funds to the private enterprises that are situated and registered in the regional members of AfDB as their necessary capital. The Private Sector Department of AfDB designates a project as a subproject when it judges that the evading requirements such as ODA's non-target country are not applicable to the project. Such project will be then categorized based on the JICA Guidelines for Environmental and Social Considerations (April 2010) and proposed to the Japanese government and JICA.

(4) Total Project Cost

Under this project, the project's size is to be decided every year in light of an annual discussion between the Japanese government and AfDB based on the AfDB's Private Sector Support Strategy and the Investment and annual Borrowing Program. The loan amount for this fiscal year is set at ¥84.4 billion (equivalent to about 100 million dollars) based on the annual discussion among the Japanese government, JICA and AfDB held in November 2011 (Exchange rate at the time of evaluation: One USD = ¥84.4)

(5) Schedule

This project is the third phase of the private sector assistance loan via AfDB under EPSA and provides funds to the projects approved by AfDB on and after its fiscal year 2009 (January ~ December 2009).

(6) Project Implementation Structure

- 1) Borrower: The African Development Bank
 - 2) Executing Agency: Private Sector Department
 - 3) Operation and Maintenance System: Same as the above
- (7) Environmental and Social Consideration/Poverty Reduction/Social Development:
- 1) Environmental and Social Consideration
 - ① Category: FI
 - ② Reasons for Categorization

This project grants loans to a financial intermediary based on the JICA Guidelines for Environmental and Social Considerations (proclaimed in April 2010), but subprojects cannot be specified prior to JICA's approval of loan and such subprojects may give an impact on environment.
 - ③ Other / Monitoring

Under this project, AfDB confirms environmental and social considerations including categorization, disclosure of information and environmental review in compliance with the JICA Guidelines for Environmental and Social Considerations (proclaimed in April 2010).
 - 2) Promotion of Poverty Reduction

The project will contribute to poverty reduction through expanding business activities by micro enterprises and increasing the opportunities to raise incomes of people in poverty.
 - 3) Promotion of Social Development (e.g. gender perspective, control measure for infectious diseases including AIDS, participatory development, consideration for persons with disabilities, etc.)

It is planned to offer loans to support female *entrepreneurs*.
- (8) Collaboration with Other Donors:
- The project is implemented in collaboration with eleven ACFA projects as of June 2011 that have been implemented since the Road Improvement and Transport Facilitation Program on the Southbound Bamako-Dakar Corridor in Senegal for which L/A was concluded in March 2006.
- (9) Other Important Issues
- None in particular

4. Targeted Outcomes

(1) Quantitative Effects

1) Operation and Effect Indicators

Effect indicator	Target value (2012)
Benefit for the private sector	UA1,200 million (on the basis of

	pre-approval)
Benefit for low-income countries	40% (ratio of the projects in low-income countries)
Benefit for middle-income countries	40% (ratio of the projects in middle-income countries)
Benefit for regional and cross border projects	20% (ratio of regional and cross border projects)

Under this project, data on the success rate of business, the number of newly created jobs, and the amount of overseas direct investments will be collected and utilized if possible, as outcome/impact indicators.

2) Internal Rate of Return: Will not be calculated.

(2) Qualitative Effects

Promotion of private investments, strengthening of financial system, and infrastructure development by private fund, etc.

5. External Factors and Risk Control

Macroeconomic risk: There is possibility that countries where the private enterprises receiving loans are located and incorporated will face rapid economic and financial crisis, worsening the macroeconomic situation, and it is also possible that impact will apply a burden on individual business activities.

6. Lessons Learned from Past Projects

The lessons learned from the past ex-post evaluation on two-step loans are that: 1) it is needed to collect information continuously from the executing agency as to repayment rate and rate of delayed payment and 2) it is essential that JICA and the executing agency agree on a framework for monitoring the achievements of the party of the investment/loan contract, which should be included in the plan at the time of signing L/A.

Both of the above two lessons are reflected in 1) continuous information gathering and 2) the agreement on the monitoring framework and in the content of the project's plan.

7. Plan for Future Evaluation

(1) Indicators for Future Evaluation:

New loans and investments to the private sector, loans and investments to low income countries, loans and investments to middle income countries, and loans and investments to regional and cross-border projects

(2) Timing of Next Evaluation:

After completion of the final disbursement under the final Loan Agreement under the

ESPA private sector assistance loan.