Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the project

Organization:	The African Development Bank
Project:	Seventh Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa
Loan Agreement:	June 15, 2017
Loan Amount:	34,410 million yen
Borrower:	The African Development Bank

2. Background and Necessity of the Project

(1) Achievements (Current State) and Issues in Africa's Private Sector

The economic growth rate of Sub-Saharan Africa was estimated to be 1.4% in 2016, but it is expected to recover to 2.6% in 2017 and 3.5% in 2018. This recovery can be attributed to the expanded resource production of Nigeria and other resource-rich countries, as well as the recovery of resource prices (IMF World Economic Outlook, April 2017).

The economic growth driver of Sub-Saharan Africa is the private-sector activities of the regional countries, which generate about 66% of the regional investment, 80% of the regional output, and 90% of the regional full-time and part-time employment. It is thus essential to promote private-sector activities in order to have stable economic growth (Private Sector Development Strategy 2012–2017, AfDB).

Promotion of private-sector activities in Africa, however, is hindered by a poor business environment such as legal and tax systems, shortages of electricity, transport and other infrastructure, a shortage of human capital, limited access to finances (particularly for micro, small and medium enterprises) and other challenges. In fact, Sub-Saharan countries rank an average of 143rd out of 190 countries in the World Bank's Doing Business index (2017). In the World Bank's Enterprise Surveys (averaging values taken from 2005 to 2014), 41.2% of the respondent enterprises see access to finance as a major business obstacle in the region (c.f. 26.7% average for all countries).

(2) Private Sector Assistance Policy of the African Development Bank (AfDB) and the Priority of the Project

In July 2013, the AfDB adopted the Private Sector Development Strategy (2013–2017) to tackle the challenges of private sector development in Africa, as mentioned above. This Strategy is built around the three pillars described below. The Seventh Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa (the "Project"), which aims to meet the credit demand of private enterprises in Africa through

AfDB's investment and financing for the private sector, helps the AfDB address the second and third pillars.

(i) Improve the business environment by supporting government efforts to establish legal systems and policies, as well as reform tax systems

(ii) Improve access to socio-economic infrastructure (both hard and soft infrastructure)

(iii) Boosting corporate activities by improving enterprises' access to finance and their business capabilities

(3) Japan and JICA's Policy and Operations in Africa's Private Sector

At the G8 summit in July 2005, the Japanese government announced the "Enhanced Private Sector Assistance for Africa (EPSA)" initiative, which included ODA loan assistance worth 1 billion dollars over the period of five years. EPSA is designed to assist African countries through the following three schemes. The Project corresponds to the second scheme.

(i) Co-finance with AfDB for the developing countries (Accelerated Co-Financing Facility for Africa [ACFA])

(ii) Private sector assistance loans via AfDB (Non-Sovereign Loan [NSL])

(iii) Technical assistance through AfDB's fund (Fund for African Private Sector Assistance [FAPA])

As the Yokohama Declaration 2013 adopted at the Fifth Tokyo International Conference on African Development (TICAD V) in June 2013 includes "private sector-led growth" as one of its strategic approaches, the Project, which assists the private sector, is consistent with this approach. The Nairobi Implementation Plan adopted at TICAD VI (held in Nairobi, Kenya in August 2016) is built around three pillars, one of which is "promoting structural economic transformation through economic diversification and industrialization." This pillar aims to assist Africa's small and medium enterprises and other private-sector organizations by providing financing, including co-financing with the AfDB and other international development banks. In addition, the Japanese government launched the Enhanced Private Sector Assistance for Africa 3 (EPSA3) initiative at TICAD VI, announcing a private sector assistance package worth three billion-dollars in cooperation with the AfDB over three years from 2017 to 2019.

Under these EPSA initiatives, the government of Japan has provided private sector assistance loans in six phases through the AfDB (approved budget of 128.09 billion yen) and co-financing with the AfDB for developing countries (approved budget of 159.54 billion yen for 22 projects).

(4) Other Donors' Activity

Many donors, as well as development and financial agencies, have already been engaging in private sector development. Their assistance to Africa is expanding in scale.

The World Bank Group treats job creation as one of its priorities, and it provides a wide range of assistance from policy-level assistance for developing investment environment to investment in private companies and projects. Likewise, the European Commission (including the European Investment Bank), Islamic Development Bank Group, and British Department for International Development (DfID) also provide assistance both at the policy level and individual company level.

Other donors from developed countries that actively engage in this sector include USAID, Dutch Entrepreneurial Development Bank (FMO), PROPARCO (development financial institution) of France, and German Investment Corporation (DEG). As emerging donors, the OPEC Fund for International Development (OFID), Export-Import Bank of India, Export-Import Bank of China, and Export-Import Bank of South Korea are carrying out their projects in the sector.

(5) Necessity of the Project

As a part of EPSA2, the Project aims to provide private sector financial assistance through the AfDB, which has experience, knowledge, and networks concerning investment and financing for the private sector of Africa. The Project is consistent with Japan and JICA's policies, such as Japan's commitment under EPSA2 (providing ODA loans worth two billion dollars over five years from 2012 to 2016) and the provision of assistance announced at TICAD V and TICAD VI. The Project also contributes to the achievement of SDGs (Goal 8 "Inclusive and Sustained Economic Growth" and Goal 9 "Promotion of Inclusive and Sustainable Industrialization"). Accordingly, the ODA loan to the Project is quite necessary and highly valid.

3. Project Description

(1) Project Objectives

The Project provides funds needed by private enterprises located and registered in the regional member countries of the AfDB through AfDB's investments and loans for the private sector. This will help the AfDB achieve the Private Sector Development Strategy, thereby contributing to economic growth led by the private sector and the reduction of poverty in the regional member countries.

(2) Project Site: Regional member countries of AfDB

(3) Project Components

The Project provides ODA loans to the AfDB as a part of its investment and loan operations. More specifically, the Project supplies the necessary funds to sub-regional banks, local banks, and local private enterprises located and registered in the regional member countries of AfDB. AfDB selects projects not considered to be ineligible projects, such as projects in countries ineligible for ODA, as sub-projects in accordance with the JICA Guidelines for Environmental and Social Considerations (April 2010) and submits the sub-projects list to the Japanese government and JICA.

(4) Total Project Cost

34,410 million yen (fully covered by ODA loans)

(5) Schedule

The Project is scheduled to start in June 2017 and end in May 2022 (a total of 60 months). Project completion is defined when the entire loan is expended (May 2022).

(6) Project Implementation Structure

1) Borrower: The African Development Bank

2) Execution Agency: Same as the above

3) Operation and Maintenance System: Same as the above

(7) Environmental and Social Consideration/Poverty Reduction/Social Development

1) Environmental and Social Consideration

(i) Category: FI

(ii) Reason for Categorization: Under the JICA Guidelines for Environmental and Social Considerations (issued in April 2010), the Project is considered as a project in which sub-projects cannot be identified before JICA endorses them for financing and may have an impact on the environment.

(iii) Other: In the Project, the AfDB is to categorize sub-projects in accordance with the JICA Guidelines for Environmental and Social Considerations (issued in April 2010) and take actions required for each category. Sub-projects do not include Category A projects.

2) Poverty Reduction

The Project will contribute to poverty reduction because provision of loans for microfinancing is being considered as sub-projects and will expand the activities of micro, small and medium enterprises, offering more opportunities for the poor to have a higher income.

3) Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, and Consideration for People with Disabilities)

Funding and loans may be extended to sub-projects targeting female entrepreneurs.

(8) Collaboration with Other Schemes and Donors: None

4. Targeted Outcomes

(1) Quantitative Outcomes

1) Outcomes (Operation and Effect Indicators) (calculated at an exchange rate of about 1.39 US dollars to 1 UA, rate as of the last day of January 2017)

Indicators	Baseline (2015)	Target (2024) [Two years after completion]
AfDB's investments and loans to private enterprises	UA 1,495 million (on the basis of disbursement)	UA 2,890 million (on the basis of disbursement)

(2) Qualitative Effects: Promotion of private investment, strengthening of financial systems, promotion of infrastructure development using private funds, and having an impact on women

(3) Internal Rate of Return: The internal rate of return for the entire Project is not be calculated as sub-projects cannot be identified beforehand.

5. External Factors and Risk Control

Macroeconomic crisis: Countries where private enterprises receiving a loan are located and registered may face a sudden economic and financial crisis and see a deteriorating macroeconomic situation, which may adversely affect individual corporate activities.

6. Findings and Lessons Learned from Past Projects

(1) Findings from Past Projects

The ex-post evaluation (FY2012) of JICA's ODA loan project for India "Micro, Small, and Medium Enterprises Energy Saving Project" and other evaluations suggest the need to reach an agreement on monitoring and awareness of repayment progress among parties concerned when the loan applications are screened, as monitoring systems for secondary lending by executing agencies and the awareness of repayment progress of initial loans were insufficient.

According to the ex-post evaluations (FY2015) of the first to third NSL projects, the AfDB did not publicly announce the use of Japanese ODA loans for sub-projects because it did not designate 25 separate sub-projects to be evaluated out of the first to third NSL projects from other private sector projects by the AfDB. The evaluations point out that not many AfDB's officials in charge, enterprises and organizations receiving an investment or loan, and end users knew the use of Japanese ODA loans for sub-projects due to the absence of public relations efforts.

(2) Application of Lessons Learned from Past Projects

Twice a year, the AfDB reports to JICA on disbursement to sub-projects, principal and interest payments, arrears and dividend payments, project progress, and environmental and social considerations. Before endorsing any sub-project, JICA will examine whether the appraisal report contains the information on an obligation for borrowers of AfDB's loans to share necessary information with the AfDB to ensure that the AfDB can gather the necessary information. JICA will check the repayment progress in the semi-annual report also. In addition, for sub-projects in which JICA has a great interest, JICA will ask the AfDB to obtain borrowers' consent for on-site inspections, conducted by JICA's Headquarters or overseas offices (in the Project, there may be sub-projects of three-step loans to end users through the AfDB and intermediary financial institutions).

For public relations efforts, the AfDB agreed to announce on its website that approved sub-projects are NSL projects using Japanese ODA loans. JICA will monitor the website to ensure that the AfDB updates such information in a timely manner when the AfDB selects sub-projects and concludes an investment and financing contract.

7. Plan for Future Evaluation

(1) Indicators to be Used

AfDB's investments and loans to private enterprises

(2) Timing

Two years after the completion of the Project