

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the project

Organization:	The African Development Bank
Project:	Forth Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa
Loan Agreement:	December 16, 2013
Loan Amount:	9,480 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 the entire continent of Africa, which slowed down to 3.4% in 2011 (from 5% in 2010) due to the Arab Spring, is expected to accelerate to 4.5% in 2012 and 4.8% in 2013 thanks to the economic recovery of Northern Africa and the continued brisk economic activities of Sub-Saharan Africa. However, there are concerns that the European debt crisis may decrease the number of African exports and the earnings of its service and tourism industries, leading to a drop in direct overseas investment and money transferred from Europe.

The current economic growth is not enough to achieve the poverty reduction target, one of the Millennium Development Goals (economic growth at an annual rate of 7% is necessary); it is necessary to have a greater number of people benefitting from economic growth. In Africa, however, corporate activities are hindered by electricity shortages, shipping shortages, limited access to finances, and other challenges. In addition, the public sector of Africa cannot secure the budgets necessary to develop infrastructure due to harsh fiscal conditions while small businesses are struggling to receive financial assistance from financial institutions.

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

The Private Sector Development Strategy announced by AfDB in January 2008 gives priority to (1) supporting private enterprises, (2) strengthening financial systems, (3) building competitive infrastructure, (4) promoting regional integration and trade, and (5) improving the investment climate. A mid-term review of projects of the Private Sector Department conducted by AfDB in February 2010 emphasized the need to expand loans to the private sector in order to recover from the financial and economic crises in Africa. This called for aggressive investment and financing, with consideration to the allocation of funds to low-income countries and priority given to development effectiveness and additionality. The Private Sector Development Policy

and the Private Sector Development Strategy (2013–2017) approved by AfDB's Board of Directors in May 2013 and July 2013, respectively, are built around three strategic pillars: (1) Invest and Business Climate (improving the investment climate of national and local governments and assisting with the promotion of domestic, overseas, regional, and extra-regional investment and trade); (2) Access to Social and Economic Infrastructure (assisting with public-sector and private-sector activities in energy, transport, local projects telecommunications, agriculture, health, education, and other sectors); and (3) Enterprise Development (financial assistance and advice for entrepreneurs, value-chain development, SME activities, trade, privatization, M&A, and other similar activities). In accordance with the Policy and Strategy, AfDB is planning to continuously focus on private sector development. The Project aims to assist AfDB in achieving the Private Sector Development Strategy by meeting the credit demand of private enterprises in Africa through AfDB's investment and financing for the private sector.

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

At the Gleneagles Summit in July 2005, the Japanese government announced the Enhanced Private Sector Assistance for Africa (EPSA) initiative, a joint initiative for developing Africa's private sector, as its policy for assisting Africa through ODA loans. The EPSA initiative gives assistance to African countries for five years under three schemes: co-financing for developing countries (Accelerated Co-Financing Facility for Africa [ACFA]); private sector assistance loans via AfDB (Non-Sovereign Loan [NSL]); and technical cooperation through AfDB's fund for private sector assistance (Fund for African Private Sector Assistance [FAPA]). In May 2012, the Japanese government announced that it will extend the initiative to 2016 in order to provide ODA loans worth 1,000 million dollars over five years from 2012 to 2016. While under the extended EPSA initiative, four projects co-financed with AfDB (ACFA) (for five countries) have been approved for a total of 32,230 million yen, the Project is the first project of private sector assistance loans via AfDB.

(4) Other Donors' Activity

The International Finance Corporation (IFC), giving strategic priority to investment climate improvement, assistance to SME, and proactive project development, provided Sub-Saharan African countries with investments and loans worth 2,150 million US dollars in the World Bank fiscal year of 2011 and worth 2,733 million US dollars in the World Bank year of 2012 (up 27% from the previous year).

(5) Necessity of the Project

The Project aims to assist AfDB in achieving the Private Sector Development Strategy by, under the EPSA initiative, financing the private-sector development efforts of AfDB, which has the experience, know-how, and networks concerning assistance to Africa's private sector. Since the Project is consistent with the assistance policies of the Japanese government and JICA, it is highly necessary and adequate for JICA to support the Project.

3. Project Description

(1) Project Objectives

Under the EPSA initiative, the Project provides the business funds needed by private enterprises located and registered in the regional member countries of AfDB through AfDB's investments and loans for the private sector. This will help 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) Target Area: Regional member countries of AfDB.

(3) Outline of the Project

The Project provides ODA loans to AfDB as the capital of its investments and loans and AfDB's Private Sector Department supplies the necessary funds to the private enterprises located and registered in the regional member countries of AfDB. The Project finances AfDB projects approved in or after FY 2011 (from January to December). 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

The scale of the Project will be determined in accordance with AfDB's Private Sector Development Strategy and the Investment and Loan Approval Plan. The loan amount for this fiscal year will be 9,480 million yen (100 million US dollars) (calculated at an exchange rate of 94.8 yen to the dollar).

(5) Schedule

The Project is scheduled to start in December 2013 and end in December 2015. Project completion is defined when disbursement is made (December 2015).

(6) Project Implementation Structure

- 1) Borrower: 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

(i) Category: FI

(ii) Reason 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.

(iii) Other: In the Project, AfDB is to categorize sub-projects in accordance with the JICA Guidelines for Environmental and Social Considerations (proclaimed in April 2010) and take actions required for each category.

2) Poverty Reduction

The Project may involve investment and financing to support micro-enterprises.

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

The Project may involve investment and financing to support female entrepreneurs.

(8) Collaboration with Other Schemes and Donors: None

(9) Other Important Issues:

In December 2012, JICA and AfDB held a seminar for Japanese companies and explained AfDB's screening process and other issues in order to encourage them to use the EPSA initiative. If sub-projects involve financing for financial institutions, the names of the borrowing financial institutions and other information will be made available on the websites of AfDB's Headquarters and External Representation Office for Asia to enhance the convenience of Japanese companies.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicators) (calculated at an exchange rate of 1.51 US dollars to 1 UA)

Indicators	Target (2015)
Loans to private enterprises	UA 1,100 million (on the basis of approved loans)
Syndicated loans	UA 350 million (on the basis of approved loans)
Ratio of loans to poor countries to total loans to the private sector	50%
Total investments in joint investment projects for the private sector	UA 4,650 million (on the basis of approved investments)
Trade finance to the private sector	UA 333 million (on the basis of approved loans)

(Note 1) The target values are not effects related only to the use of the Project, but effects related to AfDB's private sector assistance as a whole.

(Note 2) Trade finance to the private sector is included in the loans to private enterprises.

2) Internal Rate of Return: Not calculated as sub-projects cannot be identified.

- (2) Qualitative Effects: Promotion of private investment, strengthening of financial systems, and infrastructure development using private funds

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 similar projects

The ex-post evaluations of Environmental Protection Promotion Program (Thailand) and other past projects show that when an executing agency, as a borrower of two step loans, directly provides capital investment funds to end users, it is necessary to establish a system to regularly monitor the use of facilities and equipment constructed or installed.

(2) Lessons Learned Applicable to This Project

In the Project, JICA will also receive AfDB's reporting on and monitor the progress of sub-projects and the rates of repayment and delayed repayment by end users.

7. Plan for Future Evaluation

(1) Indicators to be Used

Loans to private enterprises, amount of co-finance projects, the ratio of loans to poor countries to total loans to the private sector, the total investments in joint investment projects for the private sector, and trade finance to the private sector

(2) Timing

After the completion of the last disbursement of ODA loans under the new EPSA initiative announced in 2012.