

## Ex-Ante Evaluation

### 1. Name of the project

Organization:	The African Development Bank
Project:	Sixth Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa
Loan Agreement:	September 8, 2015
Loan Amount:	35,880 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

In 2013, Sub-Saharan Africa marked an economic growth rate of 5.2%, in contrast to the sluggish growth of 3% in the rest of the world. The region's growth was estimated to have slowed to 5% and 4.5% in 2014 and 2015, respectively, mainly owing to the outbreak of Ebola and a fall in oil and commodity prices. However, growth picked up to 5.1% in 2016. Robust growth is expected to continue, reaching 5.4% by 2020 (IMF World Economic Outlook, April 2015).

The greatest challenge for the governments of African countries today is to achieve sustainable and inclusive economic growth in order to maintain social and political stability. This requires not only suitable macroeconomic policies, but also improved access to key public services (e.g., public health, education, and security), as well as improved institutions and laws for ensuring growth in the private sector. Job creation, initiatives for poverty reduction and human development in general, combined with increased economic diversity, can achieve political and social stability.

Vibrant corporate activities are vital for economic diversification, but many obstacles remain in Africa. For instance, the business environment is not developed in terms of legal and tax systems, power and transport infrastructures are inadequate, industries are short of necessary human resources, and there is limited access to finance services particularly among small businesses.

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

The AfDB's long-term strategy (2013–2022), approved by the Board of Directors in April 2013, aims to achieve inclusive and green growth. Private sector development is among the five priorities for achieving this goal.

In May 2013, in line with the strategy, the board approved the Private Sector Development Policy, which made private sector development a key priority in all sectors of the AfDB Group. Accordingly, in July of the same year, the board specified

three strategic pillars in the Private Sector Development Strategy (2013–2017).

- (i) Developing a conducive business environment
- (ii) Enhancing access to socio-economic infrastructure (both hard and soft infrastructure)
- (iii) Boosting corporate activities

The Project specifically targets Pillars (ii) and (iii) to achieve the AfDB's Private Sector Development Strategy by meeting the financing needs of private African companies through AfDB's investments and loans for the private sector. In this manner, the Project fosters the economic growth and poverty reduction, led by the private sector in Africa.

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

In July 2005, during the G8 Summit, the government of Japan announced Enhanced Private Sector Assistance (EPSA) for Africa, 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) Accelerated Co-financing Scheme for Africa (ACFA) with AfDB
- (ii) Private Sector Assistance Loans (NSL) through AfDB
- (iii) Fund for African Private Sector Assistance (FAPA) for technical assistance by AfDB

In May 2012, following up to EPSA, the government of Japan announced additional assistance worth 1 billion dollars through EPSA-2 over the five years from 2012 to 2016. In January 2014, during his visit to Ethiopia, Prime Minister Abe committed to double the assistance through EPSA-2 to 2 billion dollars.

In addition, assistance to the private sector through EPSA is prioritized in one of the six pillars of assistance through TICAD V—namely, "I. Promoting private sector-led growth."

Under these EPSA initiatives, the government of Japan has provided private sector assistance loans in five phases through the AfDB (approved budget of 92.21 billion yen) and co-financing with the AfDB for developing countries (approved budget of 1.132 billion yen for 18 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

In 2013, the AfDB unveiled their long-term strategy, followed by their private sector policy and development strategy. In so doing, the bank reinforced its position that private sector development was a priority. Likewise, during TICAD V in 2013, the government of Japan also identified the promotion of private sector-led growth as one of the three pillars of their assistance. EPSA-2 is part of that pillar. During his visit to Africa in January 2014, Prime Minister Abe committed to double the amount of assistance through EPSA-2. As such, both the AfDB and the Japanese government place private sector development at the core of their assistance.

Since 2006, private sector assistance loans (Phases I–V) worth 92.21 billion yen have been approved. A total of 33 sub-projects in Africa have been endorsed to encourage the development of regional banks, local banks, and private companies in a wide range of sectors including manufacturing, infrastructure, financial services, and agriculture.

Against this background, in February 2015, a loan request for the project worth 3 million US dollars was made. As explained earlier, the Project is conducted as a part of EPSA-2 to provide financial assistance to the private sector in Africa through the AfDB, providing the experience, know-how, and network involved in investment and financing in the continent. The ODA loan to the Project is quite necessary and highly valid considering that the commitment by EPSA-2 and measures proposed in TICAD V are consistent with the assistance policy of the Government of Japan and JICA.

### **3. Project Description**

#### (1) Project Objectives

Under EPSA-2 initiative, the Project provides funds needed by private enterprises located and registered as a regional member country of the AfDB through its investments and loans for the private sector. The funds will facilitate the implementation of sub-projects under EPSA-2, as well as their transition to commercial operations. The achievement of the Private Sector Development Strategy of the AfDB in this manner will encourage private sector-led economic growth and poverty reduction among the member countries in Africa.

#### (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 regional banks, local banks, and private enterprises located and registered in the regional member countries of AfDB. The target sectors include manufacturing, infrastructure, financial services, and agriculture.

### (4) Total Project Cost

35,880 million yen (fully covered by ODA loans)

### (5) Schedule

Planned project life of 60 months, from September 2015 to September 2020. The Project is completed once the entire loan is expended.

### (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) Partnership and Coordination with Other Projects and Donors

Many past sub-projects were co-financed by various other donors, including IFC, EIB, KfW, DEG, FMO, AFD/PROPARCO, DBSA, PTA, and BOAD.

For instance, the Eastern Africa Submarine Cable System (EASSy, a sub-project endorsed in Phase II of the private sector assistance loan) was co-financed with partners such as IFC, EIB, KfW, DBSA, AFD/PROPARCO, and DBSA. Financing for the East Africa Development Bank (EADB, a sub-project endorsed in Phase V of the private sector assistance loan) was also co-financed with other partners, such as FMO and DEG.

### (8) Environmental and Social Consideration/Poverty Reduction/Social Development

#### 1) Environmental and Social Consideration

- (i) Category: F1
- (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

Funding and loans may be extended to microfinance institutions, as well as small and micro enterprises.

#### 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.

(9) Other Important Issues:

None

#### **4. Targeted Outcomes**

(1) Quantitative Outcomes

1) Outcomes (Operation and Effect Indicators)

Indicator	Achievement (2013)	Target (2017)
AfDB's loans to private enterprises	UA 1,040 million (on the basis of disbursement)	UA 1,700 million (on the basis of disbursement)

\* Exchange rate in August 2015: 1 UA = 1.39 USD

\* The targeted outcome is intended not only for the effective implementation of the Project, but more broadly for supporting AfDB's assistance to the private sector.

2) Internal Rate of Return: The internal rate of return of the whole Project is not calculated, because it is impossible to specify sub-projects in advance. Meanwhile, sub-projects whose internal rate of return can be individually calculated in advance will be targeted in monitoring and evaluation by JICA.

(2) Qualitative Effects

Stimulation of private investments, reinforcement of financial system, and infrastructure development with private funding

#### **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 "Micro, Small, and Medium Enterprises Energy Saving Project" in India and other evaluations revealed an inadequacy in the monitoring system for secondary lending by executing agencies, and tracking of the repayment progress of initial loans. These evaluations pointed out the difficulty in gaining an understanding of the actual situation through evaluation research, and the limited sustainability of the outcomes. Accordingly, the findings suggest the need to reach an

agreement on monitoring, and tracking the progress of repayment among parties concerned during the appraisal process.

In addition, the ex-post evaluation (FY2012) of the "Two-step Loan Project for Small Enterprise Development and Environmental Conservation" in Mongolia and other evaluations pointed out that the completion of the project put an end to data collection involving necessary indicators for measuring the achievements of targets of small enterprises that received secondary lending. This finding suggests the importance of a system for an executing agency to continuously measure project outcomes by themselves.

## (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 so forth. While these reports make it possible to check the progress of ongoing sub-projects, there were no clear rules for reporting eventual outcomes after the completion of these sub-projects.

During the appraisal process, an agreement was made to collect ex-post evaluation reports for each sub-project, although they are the internal documents of the AfDB. Before authorizing any sub-project, the project appraisal report or a similar document will be examined to make sure it includes a requirement for the recipient of loans from the AfDB to share relevant information with the AfDB, and thereby ensure collection of necessary information by the AfDB. In addition, a request will be made with the AfDB to agree with their targets in sub-projects that are of particular interest to JICA, so that JICA can observe the project sites.

In fiscal 2015, an ex-post evaluation will be conducted with Private Sector Assistance Loans (I)–(III) to reflect the findings to the Project and other projects in the future.

## **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