Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department,
Japan International Cooperation Agency (JICA)

1. Name of the Project

Country: Sub-Saharan African countries[1]
Project: Project for Impact Investment to Support SMEs in Sub-Saharan African Region[2]
L/A Signing Date :August 30, 2019
Investee: I&P Afrique Entrepreneurs II LP

2. Background and Necessity of the Project

(1) Current State and Issues of the Private Sector in Sub-Saharan Africa
In Sub-Saharan Africa (Hereinafter referred to as "the Region"), where 43% of the total population is 15 years old or younger and 60% is 25 years old or younger, the youth population (14-24 years old) will continue to grow, surpassing China by 2020 and India by 2030, and the total population is projected to double from 960 million in 2015 to 2.12 billion by 2050 (United Nations, 2017).

However, many countries in the Region are still highly dependent on primary commodities such as minerals, oil resources, and agricultural products. While foreign direct investment has been increasing owing to growing attention to the Region as a manufacture base and consumer market against the background of the expansion of the market, the industrial structure is fragile and has a low employment absorption rate, which is one of the Region's issues. According to the World Bank (2015), 450 million people are expected to newly enter the labor market from 2015 to 2035 in the Region. However, among them, only 100 million people can secure stable employment if demand for labor continues to increase at the same pace. This raises concerns about the risk of a destabilizing society due to the rising youth unemployment rate and the creation of a hotbed for terrorist activities in the future.

Under such circumstances, SMEs in the Region contribute 30% of GDP and 45% of employment (International Finance Corporation (hereinafter referred to as "IFC"), 2010), and further development of these enterprises are essential in order to solve the above-mentioned issues. In the Region, however, the accumulation of information on SMEs' credit has not progressed, and it remains difficult to assess SMEs' risks appropriately. As a result, the opportunities for SMEs to obtain funds from local financial institutions at an appropriate cost level have been limited (the so-called "financial vacuum (Missing Middle)" phenomenon), and accordingly, the opportunities for SMEs to expand business have also been limited. In fact, 84% of the Region's SMEs cannot receive the necessary financing, and the financing gap is estimated to have reached 140 billion US dollars (IFC, 2013). In addition, the limited opportunity for SME managers to receive appropriate advice owing to insufficient public support for SMEs

[1] Under the Limited Liability Partnership Agreement, the Fund invests in countries of the Economic Community of West African States (ECOWAS), countries of the Economic Community of Central African States (ECCAS), countries in the Indian Ocean (Mauritius, Madagascar, and Comoros), and East African countries, mainly Kenya and neighboring countries.
[2] According to the Limited Liability Partnership Agreement of the Fund, small and medium-sized microfinance institutions with loans outstanding of up to 40 million euros are included.

in each country is another factor hindering the growth of SMEs in the Region.

In view of this situation, it is highly important to invest in SMEs and support management capacity building of SMEs in the Region for the purpose of promoting industrial diversification and job creation.

(2) Japan and JICA's Assistance Policy for Sub-Saharan Africa:
In the TICAD VI Nairobi Declaration (August 2016), the Government of Japan stated that it would work to strengthen the role of the private sector, including private investment, public-private partnership, business reform, and increased access to funds, in order to realize the "Promotion of economic structural reform through economic diversification and industrialization." JICA also listed the promotion of public-private partnerships and business partnerships and making efforts for industrial structural transformation as its priority policies in its Africa Regional Strategy (February 2017). In addition, JICA has provided intensive support for human resource development of SMEs, including technical cooperation utilizing *Kaizen*[3], which has been deployed in nine African countries since TICAD V. Over 30,000 human resources have already been developed. In order to provide more comprehensive support for SMEs in the future, creating a platform that includes financial support is being aimed for. This project is consistent with the above-mentioned policies of the Japanese government and JICA. This project also contributes to Goal 8 (Decent work and economic growth), Goal 9 (Industry, innovation and infrastructure) and Goal 17 (Partnership for the Goals) of SDGs.

3. Project Description

(1) Project Objective:
The objective of the Project is to promote the industrial diversification and the creation of job opportunities by investing in and providing technical support to growing SMEs engaged in projects such as agriculture, manufacturing, finance, ICT, health, and education through investment in the impact investment fund, thereby contributing to stable economic growth in the sub-Saharan African region centering on French-speaking Africa.

(2) Project Site/Target Area: Mainly French-speaking countries in Sub-Saharan Africa

(3) Project Outline:
① Investment Amount: 7.0 million Euros (Investment ratio：7.6%. Prospected ratio at the end of final close.)
② Outline of Project Plan: Investment and technical support for SMEs through the Fund. Dividends from the investee fund are obtained mainly on the basis of the returns secured by the sale of the investee's shares.
③ Total Project Cost: 92 million Euros (Prospected amount at the end of final close.)

(4) Schedule:
The investment period is from December 2017 to December 2022. The fund is planned to last through December 2027.

3 Efforts to solve problems developed in the Japanese manufacturing industry by continuously eliminating waste and improving quality and productivity through a bottom-up approach led mainly by field workers.

(5) Environmental and Social Consideration / Poverty Reduction / Social Development:

① Environmental and Social Consideration

a) Category: FI

b) Reasons for Categorization: Sub-projects of this project cannot be specified prior to JICA's approval of the funding in the JICA Guidelines for Environmental and Social Considerations (Promulgated in April 2010), and it is assumed that those sub-projects have a potential environmental impact.

c) Others/Monitoring: In this project, all selected investment projects will be categorized according to the JICA Guidelines for Environmental and Social Considerations and the guidelines formulated by the Fund following IFC's social and environmental consideration standards, and necessary measures will be taken for the relevant categories. None of the sub-projects will fall under Category A.

② Promotion of Poverty Reduction: This project is designed to support poverty reduction through supporting for SMEs which provide services for low-income people.

③ Promotion of Social Development: Gender category

[Gender issues] ■GI (S) (Integrated gender activity project)

Activities / Reason for Categorization: Some of the sub-projects aim to promote the economic empowerment of women by supporting SMEs with a high proportion of female employees or with a female manager.

(6) Collaboration with Other Donors[4]:IFC, EIB, Proparco (France), BOAD, DGGF (the Netherlands), and BIO Invest (Belgium) have joined as Limited Partners (Hereinafter referred to as "LP"). AfDB has also decided to participate in the project at the Final Close.

[4] "EIB" refers to the European Investment Bank, Proparco is a French overseas economic cooperation promotion company, "BOAD" refers to the West African Development Bank (Banque Ouest Africaine de Developpement), "AfDB" refers to the African Development Bank, "DGGF" refers to the Dutch Good Growth Fund, which is a national fund provided by the Dutch government to support the overseas expansion of SMEs in the Netherlands and local enterprises in emerging countries, and "BIO Invest" refers to the Belgian Investment Company for Developing Countries.

4. Targeted Outcomes

(1) Quantitative Effects:

Indicator	Baseline (2018) [Actual Value]	Target (2027) [Fund Closure Year]
Number of investments	4	33
Net IRR*	0%	[Undisclosed]
Number of jobs created	N/A	[●] persons **
Percentage of companies operating in Least Developed Countries or Fragile States ***	N/A	70%****
Percentage of companies implementing green projects	N/A	50%****
Percentage of female managers among investees	N/A	20%*****
Percentage of female employees in investees	N/A	45%*****

*Net IRR — IRR less fund operating expenses (Euro base)
** 50% increase in direct employment in the portfolio companies as a whole over the Fund's equity-holding period
*** Least Developed Countries (LDCs) are categorized according to the definition prescribed by the UN Committee for Development Policy. Fragile States are those on the World Bank's published list (2017).
LDCs (Latest list as of December '18): Angola, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, Sierra Leone, Senegal, South Sudan, Sudan, Togo, Uganda, United Republic of Tanzania, and Zambia.
Fragile States: Burundi, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Eritrea, Gambia, Guinea-Bissau, Madagascar, Mali, Sierra Leone, Somalia, South Sudan, Sudan, Togo, and Zimbabwe.
**** Meeting the Fund's ESG / Impact Goals
***** Performance of Fund I

(2) Qualitative Effects:
The creation of jobs and industrial diversification by improving access to finance for SMEs and strengthening SMEs' management capabilities in Sub-Saharan Africa.

5. Lessons Learned from Past Projects

(1) Evaluation Results of Similar Cases:
The ex-post evaluation of the Rural Enterprise Development Fund Project in India states that it was necessary to sufficiently confirm whether the investee companies can be ensured by checking the pipeline list composed of the investment candidates. A lesson was also learned in the effectiveness of evaluating the ability of fund managers as investors and the securing in advance of the authority to replace fund managers when necessary.

(2) Lessons Learned for This Project
Based on the evaluation results, it has been confirmed that the Fund has sufficient candidates through checking the pipeline list. We have also confirmed through

interviews with existing LPs that the investment team of the Fund is highly regarded and that the replacement criteria and the procedures, including prior approval of LPs, have been properly established on the LPA.

6. Evaluation Results

This project is consistent with the issues facing Sub-Saharan Africa as well as the cooperation policies of Japan and JICA, and surely contributes to SDGs' Goal 8 (Decent work and Economic Growth), Goal 9 (Industry, Innovation, and Infrastructure) and Goal 17 (Partnership for the Goals). Accordingly, there is a strong need for JICA to support the implementation of this project.

7. Plan for Future Evaluation

(1) Indicators to be Used
Same as 4.(1).

(2) Timing: Immediately after Fund Closing (Scheduled) (2028)

End