

Ex-ante Evaluation

1. Name of the Project

Project: Private Sector Assistance Loan under the joint initiative titled EPSA for Africa
Loan Agreement: 02/20/2007, Loan Amount: 11,500 million yen, Borrower: The African Development Bank

2. Necessity and Relevance of JBIC's Assistance

There has been a recent increase in awareness of the importance of economic growth in realizing poverty reduction, and therein exists an emphasis on the significance of the private sector in leading that economic growth. Informal micro-sized manufacturers, service industries, and small-hold farmers, who account for the overwhelming majority of the African private sector, are engaged in local and small-size economic activities primarily in the urban areas. On the other hand, multinational enterprises which have few direct links with the local economy are conducting large-scale investments mainly in resource development, and plantations that cultivate cash crops for exporting. The private sector in Africa is thus becoming more bipolar in structure. In order to achieve economic development centered in the private sector of Sub-Saharan African countries, considering past experience such as in the economic development of Southeast Asian countries, it is believed that it is important to cultivate the small and medium-sized enterprises (SMEs) that stand in the middle.

However, the private sector in Africa faces issues surrounding its investment environment and structure as well as on the operational side, such as: 1) the insufficient development of the legal framework related to investment which is necessary for local economic activities, chiefly in regard to the establishment of property rights; 2) procedures for starting businesses are complicated and there is a high entry barrier guarding new investments, and; 3) fair judgment is not carried out despite the existence of a legal system. The private sector also faces structural issues, such as: 1) an underdeveloped domestic capital market with commercial banks that do not properly function, and, most notably, difficulty financing small to medium-sized enterprises (SMEs); 2) underdeveloped measures of assistance for cultivating business, and; 3) a lack of trust in private economic activities because the public sector dominated the economy for a long time. The current situation tells us that achieving economic growth will be difficult without first solving these issues.

The African Development Bank established the private sector assistance strategy in 2004, defining an assistance policy and target areas. The assistance policy placed cultivating micro-sized and small to medium-sized enterprises, developing the investment environment, strengthening financial systems, developing a competitive infrastructure, and promoting trade as the central issues for assistance in the private sector.

Specifically, in addition to developing a macroeconomic and investment environment through government-aimed financing, the strategy supports the activities of female entrepreneurs, developing infrastructure through partnerships between the public and the private, reusable energy, tourism through cultural heritage, and mining development through financing methods such as providing direct financing for the activities of private enterprises in Africa, a credit line for private banks and

microfinance organizations.

At the Asian-African Conference in April 2005, the government of Japan stated that it would double the amount of ODA to Africa over the course of three years, and announced EPSA as a concrete measure for assistance to Africa later on that same year at the Gleneagles Summit in July. The government of Japan and the African Development Bank have set the following five areas as their main areas for support: 1) developing an investment environment; 2) strengthening financial systems; 3) developing economic and social infrastructure; 4) cultivating micro-sized and small to medium-sized enterprises (SMEs); and 5) promoting direct investment and trade. Moreover, through utilizing two schemes including co-financed yen loans with the African Development Bank (ACFA: Accelerated Co-financing Facility for Africa) for the government, along with financial support for the private sector via the African Development Bank, EPSA will provide yen loans of up to US\$1 billion over the course of five years, and establish a trust fund* at the African Development Bank that will actualize technical support for cultivating micro-sized and small to medium-sized enterprises. (*The trust fund aims to be a multi-national fund with a base of US\$200 million. The government of Japan is prepared to contribute 20 percent to this over a five year time frame, and has provided US\$20 million at the start-up of the fund.)

Based on the awareness that economic growth is necessary for reducing poverty, JBIC's Basic Strategy of Japan's ODA Loan (FY2005-FY2007) states that priority areas when providing assistance to regions in Sub-Saharan Africa consist of developing a socioeconomic infrastructure that benefits a wide range of areas internationally, and developing the agricultural sector and private sector (i.e. cultivating local micro-sized and small to medium-sized enterprises, and developing an investment environment). Moreover, in regard to assistance, partnerships and cooperation will be promoted with the African Development Bank and other local development banks, and to provide assistance based on the comparative advantage that JBIC holds.

3. Project Objectives

This project aims to provide private enterprises registered as regional member countries of the African Development Bank with the business funding that they need through the provision of private sector loans from the African Development Bank, based on the bank's private sector assistance strategy. By doing this, the project's purpose serves to promote development in the private sector, and contribute to economic growth and poverty reduction driven by the private sector in regional member countries of the African Development Bank.

4. Project Description

(1) Target Area

Regional member countries of the African Development Bank Group.

(2) Project Outline

The project provides private businesses in African countries with the funds that they need through the utilization of a loan scheme, focused on the private sector from the African Development Bank Group. Specifically, the Private Sector Department (OPSM) of the African Development Bank selects, approves, and implements yen loans as a resource that is in accordance with EPSA. The

amount of funds allotted for the five-year term will be decided on after paying consideration to the demand for funds, at the annual meetings between the government of Japan and the African Development Bank.

(3) Total Project Cost/Loan Amount

11,500 million yen

(4) Schedule

This project is the first installment (FY2006–FY2008) for the five year (FY2006–FY2010) EPSA framework. The loan will be valid for implementation for two years following the signing of the Loan Agreement.

(5) Implementation Structure

- (a) Borrower: The African Development Bank
- (b) Executing Agency: Private Sector Department (OPSM)
- (c) Operation and Maintenance System: Same as (b)

(6) Environmental and Social Considerations

(a) Environmental Effects/Land Acquisition and Resident Relocation

- (i) Category: FI
- (ii) Reason for Categorization

This project is classified as Category FI because JBIC's funding is provided via a financial intermediary and therefore the sub-projects cannot be specified prior to JBIC's approval of funding, and those sub-projects are anticipated to have a negative impact on the environment under the "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations" (established April 2002).

(iii) Other

In accordance with JBIC environmental guidelines, the African Development Bank will consider and verify environmental and social conditions for the project when selecting sub-projects. Because the African Development Bank has allotted proper considerations to the environment and society when giving loans previously, it is believed that they will provide the same consideration for this project as well.

(b) Promotion of Poverty Reduction and Social Development (e.g. Gender Perspective)

With regard to loans to support micro-sized and small to medium-sized enterprises (SMEs), microfinance will be incorporated into the sub-projects allowing for the promotion of participation in economic activities from the less fortunate. Contributions will also be made to expanding micro-sized business operations and to increasing opportunities for the less fortunate to improve their income and reducing poverty through providing technical support for bettering production technology and business management. Moreover, as many entrepreneurs in Africa are women, a loan is planned for a sub-project that would support women entrepreneurs.

(7) Other Important Issues

None.

5. Outcome Targets

(1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Target (2007) (*note)
Private sector assistance strategy (2005-2007)	Implementing the strategy
Strengthening financial systems	Assistance to 14 financial intermediaries
Building economic and social infrastructure	Assistance in 5 projects for building infrastructure comprised of the participation of private enterprises
Cultivating micro-sized and small to medium-sized enterprises	Assistance for 6 pilot programs for female entrepreneurs, mutual guarantee systems

Note: Indicators based on private sector assistance strategy (2005-2007) of the African Development Bank.

6. External Risk Factors

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

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

It was learned from past ex-post evaluations that information must be regularly collected from implementing organizations regarding repayment and delinquency rates, and JBIC and the project's implementing agency must agree on a framework for monitoring the performance of the end user, and that framework needs to be incorporated into the project details when signing the loan agreement.

Taking in these lessons, the regular collection of information and agreement of a monitoring framework are included in the project details for this project.

8. Plans for Future Evaluation

- (1) Indicators for Future Evaluation: Implementing the private sector assistance strategy
- (2) Timing of Next Evaluation: After completing the final disbursement under the final Loan Agreement under the ESPA initiative.