

## Ex-ante Evaluation

<b>I . Name of the Project</b>
Project: Second Private Sector Assistance Loan under the joint initiative titled EPSA for Africa Loan Agreement: 09/11/2008, Loan Amount: 32,100 million yen, Borrower: The African Development Bank
<b>II . Necessity and Relevance of JBIC's Assistance</b>
<p>Annual average economic growth in the Africa region was a mere 2.7% in the 1990's, but climbed to 4.3% in the 5 years from 2000 to 2005 and in 2006, finally reached to 5.7% exceeding the world average of 4.6%. However, the situation remains of underachieving economic growth of 7%, that is said to be required in order to meet the Millennium Development Goal to halve the population living the poverty, and it is required to further accelerate economic growth.</p> <p>The importance of the role of the private sector in Africa's economic growth has been recognized, and poverty reduction strategies made by African countries, there is a shift from social sector centered policies to policies such as small and medium sized enterprise development, agriculture community based production enhancement and fostering the financial sector which will lead to private sector development and private investment, the driving force of economic growth.</p> <p>Economic activities in Africa's private sector are mainly by micro, small and medium enterprises (MSME's), which are dominantly individual or family-run and are not an institutionalized body corporation. Since these activities are not institutionalized, they are often uncounted in the GNP and its contribution to economic growth is limited. In order to solve this situation by fostering MSMEs, it is necessary to first solve the investment environment, structural and operational problems including 1) development of the legal framework related to investment, especially the establishment of property rights, 2) clarification and streamline of procedures for starting businesses, and 3) establishment of the legal system. The private sector also faces structural problems such as 1) development of the domestic capital market, 2) measures of assistance for cultivating business, and 3) establishment of trust in private economic activities.</p> <p>The African Development Bank (AfDB) established its private sector assistance strategy in 2004, defining its assistance policy and target areas. The assistance strategy placed cultivating MSMEs, developing the investment environment, strengthening financial systems, developing a competitive infrastructure, and promoting trade as the central issues for assistance in the private sector.</p> <p>In 2007, the assistance strategy was revised for the period of 2008 to 2010, but the central issues have not changed. The business plan included in the assistance strategy plane for approval of 1 billion UA(Unit of Account) for the 3 years, and the sector allocation set as 40% for infrastructure, 30% for industry and services and 30% for financial intermediary. For the financial intermediary sector, weight is put on enhancing collaboration with regional financial institutions on one hand and on the other micro finance and projects related to MSMEs. Infrastructure development projects using private sector finance and its know-how of management in the form of Public and Private Partnership are a continuing preference in the policy.</p> <p>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 for Africa (Enhanced Private Sector Assistance for Africa)" as a concrete measure for assistance to Africa later on that same year at the Gleneagles Summit in July. The government of Japan and AfDB set the</p>

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 MSMEs; and 5) promoting direct investment and trade. Moreover, through utilizing two schemes including co-financed yen loans with AfDB (ACFA: Accelerated CO-financing Facility for Africa) for the government, along with financial support for the private sector via AfDB, EPSA will provide yen loans of up US\$1 billion over the course of five years, and establish a trust fund\* at AfDB that will actualize technical support for cultivating MSMEs. (\*The government of Japan has provided US\$20 million at the start-up of the fund.) So far, under ACFA, 5 projects totaling up to approximately 191 million Japanese Yen have been approved, and first phase of the private sector assistance loan to AfDB totaling up to 115 million Japanese Yen has approved in 2007.

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 MSMEs, and developing an investment environment). Moreover, in regard to assistance, partnerships and cooperation will be promoted with AfDB and other local development Banks, and to provide assistance based on the comparative advantage that JBIC holds.

### **III. Project Objectives**

This project aims to provide private enterprises located and incorporated in regional member countries of AfDB with the business funding that they need through the provision of private sector loans from AfDB, 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 private sector in regional member countries of AfDB.

### **IV. Project Description**

#### 1. Target Area

Regional member countries of AfDB

#### 2. Project Outline

The project provides funds necessary by private enterprises located and incorporated in regional member countries of AfDB, through the loan and investment operations of the Private Sector Department (OPSM) of AfDB by extending Japanese yen Loan to AfDB. The amount of the loan will be in line with the Borrowing Plan of AfDB and business plan of OPSM, and will be decided based on the result of the annual meeting between the government of Japan and AfDB.

#### 3. Total Project Cost/Loan Amount

32,100 million yen

#### 4. Schedule

This project is the second phase of the private sector assistance loan to AfDB under EPSA, and will provide funds for the period of FY 2008 to FY2010 for projects approved by AfDB.

## 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

- ① Category: FI
- ② 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).

- ③ Other

In accordance with JBIC environmental guidelines, Gender, Climate & Sustainable Development Division of AfDB will consider and verify environmental and social conditions for the project when selecting sub-projects. AfDB has allotted proper considerations to the environment and society for previous loans and therefore is determined that they will provide the same consideration for project as well.

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

With regard to loans to support MSME, microfinance will be incorporated into the sub-projects allowing for promotion of participation in economic activities from the less fortunate. Contributions will also be made to expanding micro-sized business operations to increasing opportunities for the less fortunate to improve their income and reducing poverty.

## 7. Other Important Issues

None.

## V. Outcome Targets

### (1) Evaluation Indicators (Operation and Effect Indicator)

Indicator	Target (2010)
New loans and investments to the private sector	1 billion UA (based on approval amount)
Loans and investments to low income countries	40% of total approval amount
Loans and investments to middle income countries	40% of total approval amount
Loans and investments to regional and cross-border projects	20% of total approval amount

Note: Economic growth rate, poverty reduction rate and overseas direct investment amount of the regional member of the African Development Bank will be set as Impact indicators.

#### **VI. External Risk Factors**

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

#### **VII. Lessons Learned from Findings of Similar Projects Undertaken in the Past**

It was learned from past ex-post evaluation 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 monitoring framework are included in the project details for this project

#### **VIII. Plans for Future Evaluation**

1. Indicators for Future Evaluation:

New loans and investments to the private sector, loans and investments to low income countries, loans and investments to middle income countries, and loans and investments to regional and cross-border projects

2. Timing of Next Evaluation:

After completion of the final disbursement under the final Loan Agreement under the ESPA private sector assistance loan.