Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Organization:	The African Development Bank
Project:	Fifth Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa
Loan Agreement:	September 16, 2014
Loan Amount:	30,690 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 for the entirety of Africa, after dropping to 3.4% in 2011 from 5.0% the previous year due to the Arab Spring, has been recovering steadily despite the global economic slowdown. In 2013, the continent of Africa showed steady growth at 4% while the global economy expanded at 3%. If the global economy continues this gradual recovery, the African economy is expected to grow by 4.8% in 2014 and up to 5% to 6% in 2015, recovering to levels seen before the Arab Spring.

Since the economic growth of Africa depends mainly on exports, which have increased due to a sharp rise in the prices of primary commodities (particularly energy and mineral resources), the continent has made little progress in efforts to diversify its economy. Although African exports grew 6.1% in 2012 due partially to higher commodity prices, they accounted for only 3.5% of global exports. To diversify its economy and promote exports to other regions, the continent needs to increase the number of production bases from international corporations, reform trade schemes, and improve trade infrastructures.

The current economic growth rate is not sufficient to achieve the reduction target of the population in poverty, one of the Millennium Development Goals (economic growth at an annual rate of 7% is necessary). It is also important to increase the population of people who can benefit from economic growth. Unemployment rates, mainly among younger generations, are still high across the continent. Some countries are seeing a widening of income gaps and a lowering of health and educational standards. Under these circumstances, it is important to assist the continent's private sector to achieve higher economic growth, increase employment opportunities, and reduce poverty.

However, it is believed that corporate activities in Africa are hindered by a shortage of electric power, means of transport, limited access to finances, and other challenges. At the same time, the public sector cannot secure the budgets necessary for infrastructure development due to harsh fiscal conditions. In addition, small businesses have difficulty receiving financial assistance from financial institutions.

(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 its board of directors in April 2013, aims to achieve "inclusive and green growth" with private sector development being one of the five priorities for achieving this goal.

In May 2013, the board approved the Private Sector Development Policy in line with the strategy. This policy made private sector development a key priority in all sectors of the AfDB Group, adopting the following three strategic pillars:

(i) Improving the business environment
(ii) Improving access to socio-economic infrastructure (both hard and soft infrastructure)
(iii) Boosting corporate involvement

In July, the board approved the Private Sector Development Strategy (2013–2017), which detail concrete implementation policies for the three strategic pillars in line with the Private Sector Development Policy.

The Project aims to assist the AfDB in achieving the Private Sector Development Strategy by meeting the credit demand of private enterprises in Africa through the AfDB's investment and financing for the private sector. The Project will also help achieve private sector-led economic growth and poverty reduction in Africa.

(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 as a measure to assist Africa through ODA loans.

The EPSA initiative covers five fields of Africa's private sector development: (1) improving the investment climate, (2) strengthening the financial sector, (3) improving the socioeconomic infrastructure, (4) supporting small and medium-sized enterprises, and (5) facilitating trade and direct investment. The initiative provides ODA loans worth up to a total of one billion dollars over five years through two schemes: (1) co-financing with the AfDB for the governments of developing countries (Accelerated Co-Financing Scheme for Africa [ACFA]) and (2) private sector assistance loans via the AfDB. In addition, the governments of Japan and Austria have established within the AfDB a multi-donor trust fund named "Fund for African Private Sector Assistance (FAPA)," which provides technical assistance to foster small and medium-sized enterprises.

Since the EPSA initiative started, promoting private investment in Africa had been an important issue. The Camp David Summit of the G-8 in May 2012 agreed to launch a New Alliance for Food Security and Nutrition, which aims to mobilize private funds to improve Africa's food security. In response to these movements, the Japanese government announced an additional one-billion-dollar ODA loan over five years from 2012 to 2016 under a new EPSA initiative (EPSA2) in June 2012. In addition, Prime Minister Abe, in his visit to Ethiopia in January 2014, committed to doubling the assistance to two billion dollars for the same period.

JICA gives priority to private sector assistance through the EPSA initiative in "1. promoting economic growth (private sector development, trade and investment, and natural resources)," one of the six pillars of assistance through TICAD V.

(4) Other Donors' Activity

As the World Bank Group has renewed its awareness, particularly since the Arab Spring, of how important it is to create employment opportunities, the World Bank, the International Finance Corporation and the Multilateral Investment Guarantee Agency (MIGA) have made integrated efforts to assist in the development of the private sector, offering 90 percent of new jobs created. In 2013, the group lent 4,380 million dollars (14 percent of the group's total financing) for financial and private sector development, the second largest amount of lending after that for rural development (15 percent) in terms of lending by category.

The US Agency for International Development (USAID), focusing on promoting economic growth through private sector assistance, implemented the African Global Competitiveness Initiative (AGCI) worth 200 million dollars from 2006 to 2010. Under the initiative, the organization improved the business environment, provided training for private enterprises, and improved access to finances, among other efforts. In 2001, they also launched Global Development Alliances, a framework aimed to facilitate private sector-led economic growth, and have since conducted public-private partnership projects based on proposals by private enterprises.

The British government, considering private sector development in Africa as a priority issue, has provided technical assistance to transport infrastructure projects and helped make border crossings more efficient through assistance in simplifying customs clearance procedures under the African Free Trade Initiative, one of the components of the White Paper on Trade and Investment for Growth published in 2011.

(5) Necessity of the Project

In 2013, the AfDB unveiled their long-term strategy, private sector policy, and private sector assistance strategy, reinforcing its position that private sector development was one of the priority fields of assistance for Africa. At TICAD V in 2013, the Japanese government specified the promotion of economic growth (private sector development, trade and investment, and natural resources) as one of the three pillars of their assistance and included the EPSA initiative in this pillar. Prime Minister Abe, in his visit to Africa in January 2014, committed to doubling the amount of assistance through EPSA2. 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 to IV) worth 60.52 billion yen have been approved, and a total of 27 sub-projects in Africa have been endorsed to encourage the development of regional banks, local banks, and local private companies in a wide range of sectors that include manufacturing, infrastructure, financial services, and agriculture.

Against this background, a loan request for the Project worth 300 million dollars was made in April 2014. As explained earlier, the Project will be conducted as a part of the EPSA initiative to provide financial assistance to the private sector in Africa through the AfDB, which has experience, know-how, and networks related to investment and financing for the private sector. The ODA loan to the Project is highly necessary and valid because the Project is consistent with the assistance policies of the Japanese government and JICA.

3. Project Description

(1) Project Objectives

Under the EPSA initiative, the Project provides business funds needed by private enterprises located and registered in the regional member countries of the AfDB through the bank's investments and loans for the private sector. The funds will facilitate the implementation of sub-projects by private enterprises under the initiative and their transition to commercial operations. The Project will help the bank achieve the Private Sector Development Strategy, thereby contributing to private sector-led economic growth and poverty reduction in the regional member countries.

(2) Project Site: Regional member countries of the AfDB

(3) Project Components

The Project provides ODA loans to the AfDB as part of the funds of investments and loans of its Private Sector Department, which will supply necessary funds to regional banks, local banks, and local private enterprises located and registered in the regional member countries of the AfDB. The target sectors include manufacturing, infrastructure, financial services, and agriculture.

(4) Total Project Cost

30,690 million yen (fully covered by ODA loans)

(5) Schedule

The Project is scheduled to start in September 2014 and end in September 2019 (a total of 60 months from the initial loan disbursement). Project Completion is defined when the entire loan is expended. (September 2019).

(6) Project Implementation Structure

1) Borrower: The African Development Bank

2) Execution 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 provides loans to a financial intermediary based on the JICA Guidelines for Environmental and Social Considerations (issued in

April 2010), but sub-projects cannot be identified prior to JICA's approval of loan and such sub-projects may have an environmental impacts.

(iii) Other: In the Project, the AfDB is supposed 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

The Project may involve investment and financing to support microfinance institutions as well as micro-enterprises3) 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 supporting female entrepreneurs.

(8) Collaboration with Other Schemes and Donors

Sub-projects currently proposed include those co-financed (including investment) by the IFC, the European Investment Bank (EIB), the Kreditanstalt fur Wiederaufbau (German Reconstruction Credit Institute; KfW), PROPARCO, and other donors.

4. Targeted Outcomes

(1) Quantitative Outcomes

1) Outcomes (Operation and Effect Indicators) (calculated at an exchange rate of 1.54 US dollars to 1 UA*)

Indicator	Baseline (2012)	Target (2015)
AfDB loans to private enterprises (**)	UA 640 million (disbursement-based)	UA 1,058 million (disbursement-based)

(*) Unit of Account: Calculation unit used by the AfDB as its reporting currency

(**) The targeted outcome is an outcome related not only to the use of the Project, but an outcome related to all private sector assistance projects of the AfDB.

2) Internal Rate of Return: The internal rate of return of the whole Project is not calculated because it is impossible to identify sub-projects in advance.

(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 Past Projects

1) The ex-post evaluations of Thailand's Environmental Protection Promotion Program and other past projects show that when an execution agency, as a borrower of ODA Loan, directly provides capital investment funds to end users, it is necessary to establish a system for regularly monitoring the use of facilities and equipment construed or installed.
2) Findings from previous Private Sector Assistance Loan projects (I, II, and III) show that JICA's technical cooperation projects had limited collaboration with private enterprises receiving sub-loans in the Project, other projects, local banks, and other parties. Japanese companies operating locally also had insufficient collaboration with these parties.

(2) Application of Lessons Learned from Past Projects

1) Putting lesson 1) above to use, JICA will semiannually monitor the progress of sub-projects and the repayment and delinquency rates of end users based on progress reports from the AfDB. JICA has already established a framework for discussing any concerns and problems with the AfDB. The AfDB's Private Sector Department can conduct local monitoring with department staff assigned to its field offices in 12 African nations.
2) Putting lesson 2) above to use, in the Private Sector Assistance Loan project (IV), JICA opened a website for the EPSA initiative and started providing information on the initiative in Japanese, English, and French. In the Project, JICA will hold seminars in South Africa, Kenya, and other African countries to introduce Private Sector Assistance Loans. To these seminars, JICA will invite Japanese companies operating locally and local small and medium-sized companies benefiting from JICA's technical cooperation projects. This will improve productivity and accomplish other purposes, providing the necessary information to these companies and strengthen JICA's cooperation with them. In addition, JICA will conclude partnership agreements with local financial institutions receiving sub-loans in the Project and promote cooperation with industrial policy advisers.

7. Plan for Future Evaluation

(1) Indicators to be Used

The AfDB's investments and loans to private enterprises

(2) Timing

After the completion of the last provision of Private Sector Assistance Loan project under the new EPSA initiative announced in 2012