Ex-Ante Evaluation

Private Sector Investment Finance Division 2
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

(1) Country: Eastern and Southern Africa
(2) Project site / Target area: Eastern and Southern Africa
(3) Project name: Support to Development of Economic Base in Eastern and Southern Africa
(4) Loan Agreement: December 14, 2023

2. Background and Necessity of the Project

(1) Current State and Issues of the Region and the Priority of the Project

The novel coronavirus disease (hereinafter referred to as "COVID-19") is prevalent worldwide, and has had a very serious impact on the whole of Africa. In 2020, due to prolonged constraints on socio-economic activities, the entire continent of Africa recorded its lowest GDP growth rate ever, at -2.1%. Governments across the continent are carrying out economic recovery programs through public spending and other fiscal measures to facilitate recovery of economies affected by the COVID-19 pandemic. According to the African Development Bank (hereinafter referred to as "AfDB"), Africa exhibited signs of recovery from the COVID-19 pandemic in 2021, as the GDP growth rate rebounded to 5.1%. Nevertheless, the outlook for the African economy became uncertain once more due to the spike in commodity prices triggered by the Russia-Ukraine crisis that erupted in February 2022, alongside the Federal Reserve's interest rate hikes. Africa's GDP growth rate slowed to 4.0% in 2022. The AfDB expects this trend to continue into 2023 and 2024. Least Developed Countries (hereinafter referred to as "LDCs") are especially vulnerable to external shocks and have difficulties in responding adequately to them on their own. To achieve sustainable development of the economy and society, they must urgently (1) develop infrastructure, (2) foster manufacturing and other industries, and (3) improve the access of businesses to finance, for reasons stated below.

First, in its annual report, the Eastern and Southern African Trade and Development Bank (hereinafter referred to as "TDB") states that those of its member countries which experienced comparatively minor impacts from the COVID-19 pandemic have typically prioritized investments in infrastructure and diversified industries. Among them are Kenya, Tanzania, Djibouti, Ethiopia, and Rwanda, as these countries have invested in the development of railways, roads, ports, and other infrastructure. They all saw a decrease in their GDP in 2020, although the decline was limited compared to the average among the TDB members. The AfDB also reports that 53% of roads in Africa are unpaved and only half of the population across the continent has access to roads throughout both the rainy and dry seasons. Another challenge for Africa is the low logistics efficiency caused by the aging of railways and inadequate port facilities.

In terms of the second challenge, development of manufacturing and other industries, many African countries, including LDCs, rely heavily on the export of commodities such as gold, diamonds, oil, and grains. For instance, in Zambia, copper accounts for 60% of its total exports. Uganda relies on agricultural products for 80% of its exports, and Sudan on gold for 40-50%. These economies are all monocultural. Monoculture economies are vulnerable to external shocks such as poor weather conditions affecting agricultural yields and fluctuations in international prices of commodities (e.g., gold and copper), making them less stable compared to diversified economies. They cannot achieve sustainable growth without developing domestic industries, and these efforts are crucial for making their economies more resilient to external shocks. Manufacturing, an industry expected to generate higher value-added, can develop only when businesses make investments in plant and equipment. However, sufficient capital spending has not been made so far, because local commercial banks primarily provide short-term, high-interest loans, which small and medium-sized enterprises (hereinafter referred to as "SMEs") would find weigh heavily on their financial statements. Development of industries must be promoted by providing larger amounts of financial services over longer periods.

For the third challenge, improvement of financial access, an issue related to the second, access to finance for micro, small, and medium enterprises (hereinafter referred to as "MSMEs") in Africa is among the top priorities. SMEs, which exclude micro businesses, provide 80% of the jobs in Africa. With 44 million SMEs located in Sub-Saharan Africa, the development of MSMEs in the region has a significant impact on its economic and social growth. However, statistics show that 82.6% of MSMEs in Africa lack access to finance, with women and young people facing particularly limited financial access. It is necessary to provide easier access to finance for private businesses, including MSMEs, through local financial institutions in member states in order to achieve socio-economic stability through job creation and poverty reduction.

This project provides a loan to the TDB, enabling the regional development bank, servicing 25 countries in Africa, to on-lend the funds to businesses in those 17 least developed countries (LDCs) among the TDB members which are vulnerable to external shocks, such as the COVID-19 pandemic and the Russia-Ukraine crisis. This project aims to assist recovery of their economies and societies after the COVID-19 pandemic, the Russia-Ukraine crisis, and other challenges, and the loan will be used for infrastructure development, industrial growth, and financial inclusion.

(2) Japan's and JICA's Policy and Operations in the Region

At the TICAD 8, held in Tunisia in 2022, Japan adopted the "Tunis Declaration." It states that to realize a resilient Africa that Africa itself aims to achieve, promotion of private-sector investment, support for sustainable industrial development, development of business environments, securing of sound development financing, promotion of quality infrastructure investment, and other efforts must be made for the economy and society of Africa in the wake of severe impact by the COVID-19 pandemic and the Russia-Ukraine crisis. The project is also in line with three of the 20 business strategies JICA formulated in its "JICA Global Agenda" to address challenges for developed countries - No. 1 Urban and Regional Development (Urban management for livable and sustainable cities), No. 2 Transportation (The world where all people and goods move safely and freely), and No. 4 Private Sector Development (Fostering private enterprises and support economic growth in developing countries). As shown above, this project also aligns with the aid policies of Japan.

(3) Other Donors' Activities

The World Bank, AfDB, French Development Agency (AFD), KfW Development Bank, etc., provide loans to the TDB.

3. Project Description

(1) Project Description

(i) Project Objective(s): This project aims to support infrastructure development, industrial promotion, and financial inclusion in 17 LDCs among the TDB members which are vulnerable to external shocks, such as the COVID-19 pandemic and the Russia-Ukraine crisis, by providing a loan to the TDB, a regional development bank servicing 25 countries in Africa.

(ii) Project Component(s): A loan made by JICA for this project are lent as a project loan from the TDB further to LDCs among the TDB members to finance sovereign and non-sovereign entities engaging in infrastructure development, industrial promotion, or financial inclusion for recovery of the economy and society in Eastern and Southern Africa after the COVID-19 pandemic and the Russia-Ukraine crisis. Loans made by co-financing banks (Citigroup and SMBC) to the TDB are further lent by the latter as its trade finance or project loans.

(iii) Beneficiaries of the Project (Target Group): Governments and private-sector entities in the 17 countries classified as LDC among the TDB members.

(2) Total Project Cost: 240 million EUR

(3) Project Implementation Schedule (Cooperation Period): To end in December 2036

(4) Project Implementation Structure

1) Borrower: The Eastern and Southern African Trade and Development Bank

2) Guarantor: None

3) Implementing Agency: The Eastern and Southern African Trade and Development Bank

(5) Collaboration and Sharing of Roles with Other Donors: Nothing in particular.

(6) Environmental and Social Consideration

1) Environmental and Social Consideration
   (i) Category: FI
   (ii) Reasons for Categorization: This is according to the "Japan International Cooperation Agency Environmental and Social Consideration Guidelines" (announced in January 2022, and hereinafter referred to as JICA Environmental Guidelines), as in this project the subprojects could not be specified before JICA's financing agreement, but those types of subprojects are assumed to have an impact on the environment.
   (iii) Others/Monitoring: In this project, the borrower classifies each subproject into categories based on the company's environmental and social consideration system, the legal system of each country, and the JICA Environmental Guidelines, and it has been confirmed by a review that they will take the necessary countermeasures applicable to each category. Furthermore, it has been agreed with the borrower that they will not carry out subprojects that are classified as Category A in the JICA Environmental Guidelines (projects in protected areas and important natural habitats, or projects involving the large-scale relocation of residents, large-scale deforestation, the large-scale modification of land, etc.).

(7) Cross-Sectoral Issues: None in particular.

(8) Gender classification: [Not applicable] ■GI (Gender mainstreaming needs investigation and analysis items)

Reasons for Categorization: Although gender mainstreaming needs were investigated, the project stopped short of planning any initiatives that included specific indicators and were helpful to gender mainstreaming.

(9) Other important issues: Nothing in particular.

4. Targeted Outcomes

(1) Quantitative Effect

Outcomes (operation and effects indicators)

Indicators	Baseline (Actual value at the end of December 2023)	Target (December 2028) [5 years after the date of the final disbursement]
Development of infrastructure, promotion of industrial capital investment, financial inclusion, etc.	N/A	Scheduled to be set when the subprojects are selected.

(2) Qualitative Effects: Recovery of the economy and society of LDCs in Eastern and Southern Africa affected by the COVID-19 pandemic and the Russia-Ukraine crisis. Improvement of the ability of their industries to generate value-added, etc.

(3) Internal Rate of Return: Since this is a bank loan project, the Economic Internal Rate of Return (EIRR) and the Financial Internal Rate of Return (FIRR) are not

calculated.

5. Prerequisites and External Factors

(1) Prerequisites: Nothing in particular.
(2) External Factors: Nothing in particular.

6. Lessons Learned from Past Projects

We learned from "The result of the ex post evaluation of the Private Sector Assistance Loan under the Joint Initiative Titled EPSA for Africa (NSL I-III) (evaluated in 2015)" to the AfDB that (1) the target indicator, if possible, should be set provisionally for a proposed subproject, then after the object of the subproject is confirmed, the target should be reset based on the nature of the subproject, and (2) if the effects of the project will be demonstrated over a range of time, achievements over several years should be considered as an indicator. Based on these lessons, the target was set when the subproject was confirmed, and the evaluation point was set for five years' time, as the effects of the project can be expected to appear after several years.

7. Evaluation Results

This project, designed to provide long-term loans to TDB to support development of the economic and social base in LDCs in East and Southern Africa, is expected to generate great development effects. Medium and long-term funding is required for infrastructure development, support for capital investment in manufacturing and other industries, and improvement in financial access, although private-sector financial institutions have difficulty in assuming long-term risks of TDB by themselves. Support from JICA's Private Sector Investment Finance is greatly needed.

8. Plan for Future Evaluation

(1) Indicators to Be Used: As shown in Section 4.
(2) Future Evaluation Schedule: Ex-post evaluation is expected 5 years after the date of the final disbursement (around December 2028).

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