Ex-Ante Evaluation

Private Sector Investment Finance Division 2,
Private Sector Partnership and Finance Department,
Japan International Cooperation Agency

１． Name of the Project

（１） Country: the Republic of South Africa ("South Africa")
（２） Project Site / Target Area：the whole country
（３） Project name: Project to Promote Sustainable Finance in South Africa ("the Project")
（４） Loan Agreement: January 27, 2026

２． Background and Necessity of the Project

（１） Current State and Challenges of the Sustainable Finance Sector in South Africa and the Background of the Project

South Africa's GDP reached approximately USD 403 billion in 2024, accounting for around 20% of total GDP in Sub-Saharan Africa and positioning the country as a key driver of the regional economy. However, despite its economic significance, employment remains a major challenge. The unemployment rate stood at 32.1%, with young people accounting for approximately 60% of the unemployed population, making youth unemployment a significant social issue.

Micro, Small and Medium-sized Enterprises (MSMEs) play a critical role in South Africa's employment structure. Of the approximately 3 million MSMEs operating in the country, they collectively employ around 13.4 million people, representing 53.5% of the total labor force of 25.07 million. Furthermore, approximately 30% of MSME owners are under the age of 35, underscoring the sector's importance in maintaining and expanding stable employment opportunities for young people. Nevertheless, South Africa faces a financing gap equivalent to 13.7% of GDP for MSMEs, including businesses owned by women and youth. Gender disparities are particularly pronounced: while 11% of male-owned MSMEs report challenges in accessing finance, the figure rises to 23% for female-owned MSMEs. In addition, approximately 72% of MSMEs operate in the informal sector, further constraining financial inclusion. (Sources: Statistics South Africa, 2023; FinMark Trust, 2024; Trading Economics, 2024; IFC, 2025)

At the same time, South Africa continues to face a severe electricity supply shortage. Since 2022, scheduled power outages (load shedding) have occurred frequently, amounting to 3,773 hours of outages and resulting in 11,529 GWh of curtailed electricity supply in 2022 alone. Furthermore, 84% of the country's electricity generation mix is dependent on coal-fired power. In response, the Government of South Africa has introduced the Integrated Resource Plan (IRP), which aims to increase the share of renewable energy generation to 39.6% by 2030 while reducing the share of coal-fired generation to 43% (Source: IEA, 2022). Under its Nationally Determined Contribution (NDC), South Africa has also committed to reducing annual greenhouse gas emissions to 398–510 million tCO_2e by 2025 and 350–420 million tCO_2e by 2030, with the long-term goal of achieving carbon neutrality by 2050. Accordingly, the promotion of sustainable economic growth through both job creation and a green energy transition has become a key policy priority.

Against this backdrop, South Africa has been actively developing policies and frameworks for sustainable finance. As a member of the Sustainable Finance Working Group (SFWG), established under the Italian G20 Presidency in 2021 to mobilize greater public and private capital towards the objectives of the Paris Agreement and the 2030 Agenda for Sustainable Development, the South African government has advanced domestic sustainable finance initiatives. Sustainable finance refers to financial instruments and mechanisms designed to address environmental and social challenges, including climate change, while supporting the transition to a sustainable economy (Source: OECD). In 2017, South Africa's National Treasury, in collaboration with regulators and industry associations, established a working group to develop a national sustainable finance framework. This effort culminated in the publication of "Financing a Sustainable Economy" in 2020. Internationally, South Africa has demonstrated leadership in this area by convening the first SFWG meeting under its G20 Presidency in January 2025 and leading efforts to consolidate and assess progress on sustainable finance initiatives across G20 member countries. As such, South Africa is expected to play a leading role in advancing sustainable finance both domestically and globally.

The borrower under this project, FRB, is the second-largest private-sector bank in South Africa. FRB established a Sustainable Finance Framework in November 2024 that is aligned with international standards, including those of the International Capital Market Association (ICMA) and the SA government's policy direction, and is actively promoting sustainable finance initiatives within the country. In particular, FRB maintains the largest MSME loan portfolio among South African private-sector banks and is committed to enhancing financial inclusion for MSMEs as well as supporting the adoption of renewable energy solutions through its lending activities. Through these efforts, FRB contributes meaningfully to addressing South Africa's policy priorities and advancing the development of sustainable finance as a leading private financial institution.

（２）Japan's and JICA's Policy and Operations in Sustainable Finance Sector in South Africa

Japan's Country Development Cooperation Policy for the Republic of South Africa (October 2017) identifies "accelerated growth and upliftment of the poor" as its overarching objective and states that Japan will provide support that contributes to poverty reduction through accelerated economic growth, job creation, and the promotion of investment. By facilitating increased lending for sustainable finance activities, this Project is expected to contribute to the creation of stable employment opportunities through the promotion of MSMEs in South Africa and is therefore fully aligned with the Government of Japan's development cooperation policy.

The JICA Country Analysis Paper for South Africa (March 2024) identifies "Strengthening the Human Resource Base for Accelerated Growth" as a priority area and includes an Industrial Human Resource Development Program. The paper states that, with respect to Kaizen, JICA will establish training mechanisms to improve quality and productivity and to sustainably disseminate Kaizen skills throughout the manufacturing sector. Particular emphasis is placed on enhancing the competitiveness of South Africa's manufacturing industry, especially in the automotive sector, while positioning the country as a hub for regional cooperation in Southern Africa. As this Project aims to promote financial inclusion for MSMEs, including those owned or managed by women and youth, and supports the development of South Africa's manufacturing sector, it is consistent with the objectives of this program.

JICA has provided continuous support for industrial development in South Africa through initiatives such as the dispatch of an Industrial Human Resource Development Advisor (2011–2018), the Industrial Policy Dialogue (2015–2016), and the dispatch of an Automotive Industry Human Resource Development Advisor (2017–2020). Since 2022, JICA has also been implementing the technical cooperation project "Quality and Productivity Improvement (Kaizen) Project." The project focuses on developing human resources capable of providing Kaizen guidance to small and medium-sized enterprises and promoting the wider dissemination of Kaizen practices. Synergies are therefore expected between the financial inclusion supported under this Project and JICA's ongoing efforts to enhance industrial development through Kaizen-based productivity improvement and capacity building.

（３） Other Donors' Activities

N/A

３． Project Description

（１） Project Description

① Project Objective

The objective of the Project is to advance financial inclusion for MSMEs, including women and young people by/through providing relatively long-term loan to FRB to promote their sustainable finance activities, thereby expanding employment and social participation opportunities for women and young people in the country and contributing to its sustainable economic growth.

② Project Beneficiaries（Target Group）

Direct Beneficiaries: MSMEs and Women MSMEs receiving loans from FRB

Ultimate Beneficiaries: People employed by MSMEs and Women MSMEs, and people who benefit from MSMEs and Women MSMEs services

（２） Project Cost: JICA portion, 100 million US dollars

（３） Schedule: The loans will be fully repaid in October 2032 when the Project completion

（４） Project Implementation Structure

１） Borrower: FRB

２） Guarantor: N/A

３） Implementing Agency: FRB

（５） Collaboration and Sharing of Roles with Other Donors: Co-Financing with DEG, FMO and Proparco (combined project size: 400 million US dollars)

（６） Environmental and Social Consideration

Category: C

Reason for Categorisation: It is judged under the JICA Environmental and Social Considerations Guidelines (promulgated in January 2022) that the undesirable effects of the Project on the environment are minimized.

（７）Cross-Sectoral Issues:

This Project involves lending to MSMEs. Support for MSMEs is not explicitly excluded under South Africa's Nationally Determined Contribution (NDC) submitted pursuant to the Paris Agreement. Furthermore, the NDC emphasizes the importance of collaboration and partnership with the private sector in achieving the country's climate and sustainable development objectives. Accordingly, the Project is considered consistent with, and not contradictory to, South Africa's NDC commitments and policy framework.

（８）Gender Category:

Gender-related Projects GI(S) Gender Activity Integration Projects

<Details of Activities/Reason for Categorisation> This Project seeks to address gender-related challenges faced by women business owners and entrepreneurs, whose economic opportunities are often constrained by traditional male-dominated social norms, limited access to finance and professional networks, and unequal access to educational opportunities. To address these barriers, the Project includes a specific target and indicator aimed at increasing the proportion of lending to women-owned and women-led MSMEs (WMSMEs) within the overall MSME loan portfolio. Furthermore, the Project is expected to apply for certification under the 2X Challenge (Financing for Women). In addition to satisfying the foundational requirements relating to Governance and Accountability, the Project is expected to meet the criteria under Pillar 3 (Employment), with women accounting for at least 45% of employees together with the applicable qualitative requirements. It also satisfies the prerequisite under Pillar 2 (Leadership), with women representing more than 10% of senior management positions. In addition, the Project is expected to meet the requirements under Pillar 6 (Portfolio), as more than 30% of the investee and borrower companies within the portfolio are expected to qualify under the 2X Challenge criteria. Accordingly, the Project intends to seek formal recognition as a 2X Challenge-aligned transaction.

（９）Other Important Issues: NA

４. Targeted Outcomes

（１）Quantitative Effects

Outcomes (Operation and Effect Indicators)

Indicator	Baseline (June 2025)	Target (June 2030)
Total balance of Eligible Sub-Loans to Eligible Sub Borrowers defined as MSMEs under the Accordion Lender's (JICA) Facility.	R 97,621 million	R 130,500 million
Total number of Eligible Sub Borrowers* defined as MSMEs under the Accordion Lender's (JICA) Facility.	88,662	102,500
of which, total number on lent from the Accordion Lender's (JICA) loan(*)	0	1,351
Number of Women MSME clients allocated to the Accordion Lender's (JICA) loan of Accordion to be allocated)	0	405
of which, the amount on lent to Women MSMEs from JICA's loan of the Accordion Lender's (JICA) (**)	0	30 million USD

(*) As the full amount of the JICA loan will be on-lent to MSMEs, the amount of MSME loan commitments generated through the JICA financing is expected to be equivalent to the JICA loan amount. Therefore, no separate indicator has been established for this metric.

(**) It is planned that approximately 30% of the JICA loan proceeds will be allocated to this component.

For reference purposes, the following indicators will also be monitored: (i) FRB's outstanding sustainable finance portfolio; (ii) the number of loans provided under financial inclusion initiatives; (iii) the implementation status of non-financial support and financial literacy programs related to financial inclusion; and (iv) the proportion of MSME borrowers that are owned or managed by entrepreneurs aged 35 years or younger within the overall MSME loan portfolio.

（2）Qualitative Effects: Promotion of financial inclusion for MSMEs and women-owned and women-led MSMEs (WMSMEs) that are beneficiaries of the JICA-funded credit line; enhancement of business growth; creation, stabilization, and expansion of employment opportunities; increased social and economic participation of women and youth; and contribution to South Africa’s sustainable economic growth.

（3）Internal Rate of Return: Since this is a bank loan project, Internal Rate of Return (IRR) is not calculated.

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

In previous private sector investment operations involving lending to financial institutions in Africa, deterioration in asset quality and profitability resulting from adverse macroeconomic conditions during the COVID-19 pandemic was identified as a key risk. In South Africa, the pandemic caused a significant economic downturn, with GDP contracting by approximately 8% between FY2019 and FY2020. FRB also experienced a deterioration in profitability and prudential indicators during this period.

However, the appraisal confirmed that FRB maintained positive net profits even under such severe external shocks. Furthermore, from the following year onward, the bank achieved continued credit growth while actively managing and resolving non-performing loans, resulting in improvements in both profitability and financial soundness indicators. These developments demonstrate that FRB possesses a sufficiently resilient financial base capable of withstanding external shocks.

During project implementation and monitoring, continuous attention will be paid to macroeconomic developments and the Bank’s compliance with key financial covenant indicators.

7. Evaluation Results

This Project is aligned with South Africa’s development challenges and policy priorities, as well as with the Government of Japan’s and JICA’s development cooperation policies and analytical frameworks. The Project is expected to contribute to the achievement of SDG 5 (Gender Equality), SDG 7 (Affordable and Clean Energy), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure), SDG 13 (Climate Action), and SDG 17 (Partnerships for the Goals). Accordingly, the significance of supporting this Project through JICA’s Private Sector Investment Finance operations is considered substantial.

８. Plan for Future Evaluation

（１）Indicators to be Used

As indicated in Sections 4.

（２）Future Evaluation Schedule

Ex-post evaluation is planned approximately 5 years after the LA signing.

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