Independent Development Evaluation
African Development Bank

*From **experience** to **knowledge**...*
*From **knowledge** to **action**...*
*From **action** to **impact***

An IDEV **XSR Validation Synthesis**

Synthesis Report on the Validation of 2014–2019 Expanded Supervision Reports

Redacted version

AFRICAN DEVELOPMENT BANK GROUP

February 2021

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Synthesis Report on the Validation of 2014–2019 Expanded Supervision Reports – Redacted version
An IDEV XSR Validation Synthesis, February 2021

About the AfDB

The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs and providing policy advice and technical assistance to support development efforts.

About Independent Development Evaluation (IDEV)

The mission of Independent Development Evaluation at the AfDB is to enhance the development effectiveness of the institution in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

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Contents

Contents

List of Figures

List of Tables

Abbreviations and Acronyms

ADF	African Development Fund
AfDB	African Development Bank
ADER	Annual Development Effectiveness Review
ADOA	Additionality and Development Outcome Assessment
CODE	Committee on Operations and Development Effectiveness
DBDM	Development and Business Delivery Model
DFI	Development Finance Institution
E&S	Environmental and Social
ECG	Evaluation Cooperation Group
EIRR	Economic Internal Rate of Return
FI	Financial Intermediary
FIRR	Financial Internal Rate of Return
GPS	Good Practice Standards
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
IRR	Internal Rate of Return
LOC	Line of Credit
MDB	Multilateral Development Bank
NPL	Non-Performing Loan
NSO	Non-Sovereign Operation
PIFD	Financial Sector Development Department
PINS	Non-Sovereign Operations and Private Sector Support Department
RMCs	Regional Member Countries
RG	Reference Group
SME	Small and Medium Enterprise
SNDR	Delivery, Performance Management & Results Department
RMF	Results Measurement Framework
SME	Small and Medium Enterprises
TYS	Ten-Year Strategy
UA	Unit of Account
XSR	Expanded Supervision Report
XSR-EN	Expanded Supervision Report Evaluation Note

Executive Summary

Background

The African Development Bank Group (AfDB, or the Bank) undertakes self-evaluation of its non-sovereign operations (NSOs) through the Expanded Supervision Reports (XSRs) produced by the designated operations departments for projects that reach Early Operating Maturity. Independent Development Evaluation (IDEV) subsequently reviews the XSRs and produces an XSR Evaluation Note (XSR-EN) for each XSR as well as a synthesis report for the period under review (2014–2019). The exercise has been carried out in line with the Good Practice Standards (GPS) for Private Sector Operations[1] issued by the multilateral development banks' Evaluation Cooperation Group (ECG).

The Bank produced 73 XSRs during the period under review (2014–2019), representing an approval amount of UA 1.97 billion, termed the "reported portfolio" in this synthesis exercise. This reported portfolio represents the entire body of NSO self-evaluation evidence available for IDEV validation. This report synthesizes findings from the validations of 46 of these 73 XSRs, conducted during the years 2015– 2020, referred to as the "synthesis portfolio". The synthesis portfolio represents 63% coverage of the "reported portfolio" by volume.

The findings of the review are expected to be disseminated widely to the Bank's Board, management and staff, and shared with the public through discussions, workshops, printed reports, IDEV activities and the Bank's website.

Objective

The objectives of this assignment included: (i) Results Reporting: The Synthesis report aims at reporting the aggregate, independently validated project level results of Bank private sector operations in a clear, concise, and accessible format. (ii) Contribute to Learning: This is achieved by disseminating the lessons derived from experience and eventually feeding this learning into future Bank operations to increase the effectiveness, efficiency, and work quality of Bank operations in RMCs. (iii) Build Self-Evaluation Capacity: The report will contribute to improvement in the quality and coverage of future XSRs produced by the Bank's operations departments.

Methodology Used

The Synthesis Report aggregated the results of Bank projects in line with the Bank's framework for evaluating private sector operations, which is the 2012 Guidelines for the Preparation of Expanded Supervision Reports and Expanded Supervision Report Evaluation Notes[2]. The guidelines are in line with the 4th edition of the ECG Good Practice Standards for Evaluation of Private Sector Investment Operations, which focus on the following four evaluation dimensions.

i. The Development Outcome (business success, economic sustainability, environmental and social effects, and private sector development);

ii. The Investment Performance (profitability of investments for the AfDB);

iii. The Bank's Work Quality (screening, appraisal, structuring and supervision); and

iv. The Bank's Additionality (the Bank's unique input and/or value added as a Development Finance Institution).

In selecting the 46 projects for validation from the wider 73 XSR population IDEV opted for a broadly representative sample that could support higher level evaluations. With a coverage ratio of 63%, caution is recommended in inferring strong causal chains across the entire Bank NSO portfolio. However, the findings from the 46 validations still offer strong heuristic value. The projects in the synthesis portfolio are well-diversified, drawing from a range of sectors including the financial sector and the real sector, and different instruments (loans, equity and guarantees). Therefore, characteristics of this validated cohort of projects as well as the findings of this synthesis report are expected to contribute to learning about performance and success drivers of Bank NSOs.

Findings

Assessing compliance with the Bank's XSR process

As per the Bank's guidelines, NSO projects are eligible for XSRs when reaching Early Operating Maturity. However, the Bank is not following good practice in terms of maintaining a database for the population of net approvals and tracking in what year each investment was included by meeting the requirements for inclusion into this population. Monitoring for Early Operating Maturity by project type and self-evaluating all projects reaching operating maturity has not taken place in a systematic manner. From a sample of 87 NSOs approved over the 2011–2014 period which IDEV estimates were eligible for an XSR, only 29 XSRs (33%) were actually produced. Accordingly, the 73 XSRs from 2014–2019 could represent a biased sample that does not accurately reflect the performance of the Bank's NSO portfolio. Indeed, in the 2011–2014 NSO projects reaching early maturity, the incidence of workout projects was lower in the group of projects with XSR than the group of projects without XSR. Over the past decade, the Bank has been successful in internalizing the process of undertaking XSRs and improving the quality of XSRs, but not the process of selecting projects for the XSR exercise.

Overall development outcome of Bank interventions

The development outcome rating summarizes the impact of the project on the development of the host country or region, and implicitly the extent to which the project has contributed to fulfilling the Bank's mandate of economic development and poverty alleviation in regional member countries. The rating is a synthesis of the ratings of four sub-dimensions, namely: Business Success – financial performance and fulfilment of project objectives; Economic Sustainability; Environmental and Social Performance; and Contribution to Private Sector Development.

Overall, the operations reviewed resulted in a positive development outcome. The synthesis found that for the 46 evaluated interventions, 34 projects realized positive results that, on balance, met or exceeded specified financial, economic, environmental, and social performance benchmarks and standards, i.e. an overall success rate of 74%. For the four sub-dimensions which make up the overall development outcome, the majority also received positive ratings: Business Success 63%, Economic Sustainability 76%, Environmental and Social Effects 80% and Private Sector Development 80%.

The inclusion of Technical Assistance (TA) in projects was correlated with an overall positive development outcome. The 10 projects which had TA packages had 100% positive ratings for overall development outcome. However, reporting on the outcomes of the TA packages which accompanied lending and investment operations in the XSR was limited. Accordingly, the Bank is not adequately reporting on all the resources deployed for Private Sector Development and is not fully capturing its development outcome footprint.

The Bank's investments of UA 1.97 billion contributed to the creation, sustainability, and growth of private enterprises. The effects of the interventions created positive outcomes outside the businesses financed which influenced the local economy around these enterprises via the creation of positive externalities, improvement of infrastructure, the provision of cheaper and higher quality goods and/or services, and/or the internalization of new technology. Finally, Bank interventions improved the conditions conducive to the flow of funds to private enterprises via deepening of financial intermediation and improvement in access to financial services by private enterprises. Notwithstanding the overall positive rating, XSRs were not uniform in their reporting of quantifiable data on development outcomes of Bank interventions such as turnover, employment, exports, foreign exchange savings, gender profile, etc.

The drivers of overall good development outcome performance included the quality of the sponsor/management, good front-end work by the Bank in terms of structuring the project, as well as the inclusion of technical assistance components aiming at improving governance, environmental management or risk management practices by the borrower or sponsor company.

The Bank's investment profitability

The Bank's Investment Profitability is essential to its long-term sustainability as a development finance institution and central to accomplishing its long-term corporate goals. This performance dimension assesses the extent to which the Bank has realized to date, and/or expects to realize over the remaining life of the project, the income that was expected at the time of approval of the intervention.

The Bank's Investment Profitability rating was rated positive (satisfactory or higher) for 31 projects (67%), with 3 projects (6.5%) rated highly satisfactory and 28 projects (60.9%) satisfactory. A less than satisfactory rating was assigned to 15 projects (33%), with 11 projects (23.9%) rated unsatisfactory and 4 projects rated highly unsatisfactory. Most of the projects rated less than satisfactory for Bank Investment Profitability were old projects (12 of the 15, 80%), all approved before 2011, and two of them were workout projects approved in 1995 and 1999, respectively. However, there are five projects approved between 2011 and 2013 that are classified as workout projects for which no XSR was written.

The Bank's work quality

This performance dimension assesses the quality of the Bank's front-end work on the intervention, which includes Screening, Appraisal, and Structuring; and how professionally the Bank has undertaken its Administration and Supervision of the interventions under review. How has the reporting requirement been implemented over the lifetime of the project? Finally, did the Bank keep itself well informed of all material developments related to the project during implementation?

The Bank's front-end work quality is largely rated positive. The Bank's Screening, Appraisal, and Structuring work was rated satisfactory or higher in 36 projects (78%) with one project rated highly satisfactory. Out of the remaining ten projects, nine were rated unsatisfactory and one highly unsatisfactory. In these projects, the main reason for the weak ratings was overly optimistic financial and operational assumptions at origination.

The Bank's Supervision and Administration performance was largely rated positive. Thirty-five (35) projects (76%) were rated satisfactory or higher for supervision and administration. The remaining 11 projects (24%) were rated unsatisfactory. The rating of the Bank's Supervision and Administration of NSO projects has improved considerably when compared to the findings of the 2011 XSR validation synthesis. In the 2011 synthesis report, a satisfactory or higher rating was attributed to only 21% of projects.

The Bank's additionality

As per the 2012 XSR and XSR-EN guidelines, the Bank's Additionality measures what Bank financing brings to the project over and above commercial financiers. It is based on a counterfactual assessment of how the project would have proceeded without the Bank's financing. This dimension is measured through two sub-indicators: financial additionality and non-financial additionality.

Overall, the Bank's Additionality was rated positive ('satisfactory' or higher) in 89% of the 46 projects reviewed. However, only 6 projects (13%) were rated 'highly satisfactory'. Four (4) projects were rated 'unsatisfactory' and one was not rated. The review found that two forms of Additionality (financial and non-financial) were present in 39 (85%) of the validated projects. The Bank's financial Additionality was present in the form of better currency matching (foreign exchange lending), longer maturities as well as grace periods.

Rating disconnect

The rating disconnect is the difference between the percentage of projects rated positively (satisfactory and higher) by Bank Management in XSRs and the percentage rated positively (satisfactory or higher) by IDEV in the XSR-EN. The XSRs Overall Investment Profitability Ratings had a relatively high disconnect between Management and IDEV ratings (9%), showing a large gap between how Management and independent evaluation view the Bank's Investment Profitability in the 46 validated projects. The second biggest gap was in the Bank's Work Quality with a disconnect of 8% between self and independent ratings. Finally, the Overall Development Outcome and Bank's Additionality ratings both had a relatively low disconnect (6% and 7%, respectively).

Quality assessment of XSRs

IDEV's quality assessment rated 9 of the 46 XSRs (19.6%) Highly satisfactory, and 34 (73.9%) Satisfactory, bring the total number of projects with a positive quality rating to 43 (93.5% of all validated reports). Only 3 reports (6.5%) were rated unsatisfactory overall and none highly unsatisfactory. This compares favorably with the 2011 XSR validation synthesis, in which 20% of the reports were rated Unsatisfactory. Notwithstanding the overall high positive rating for the quality of XSRs, large room for improvement remains in the area of identifying and formulating lessons.

Recommendations

IDEV makes the following recommendations:

Recommendation 1: The Bank should ensure that Non-Sovereign Operations reaching early operating maturity are systematically self-evaluated. The process covering the entire project results cycle should be better aligned with the Bank's guidelines between the relevant parties (PINS, PIFD and SNDR). This process should include the practice of maintaining the net approval population of projects and strict monitoring for early operating maturity for this population of projects.

Recommendation 2: The Bank should do more to collect credible information on development results. This is more important in financial intermediary operations. Such information should include some of the basic variables (turnover, employment, exports, gender profile, etc.), which are key for measuring and tracking of project economic and financial indicators. Including such reporting requirements in the loan agreement is a good start. Relevant templates that are designed to facilitate the tracking of project results should be used during supervision.

Recommendation 3: The Bank should place more emphasis on reporting the outcomes of its Technical Assistance and advisory operations. Specific frameworks, guidance and templates for reporting on Bank TA operations, which take into consideration the specificities of these interventions, should be developed. Accordingly, supervision and XSR missions should place the assessment of TA operations at par with lending and investment operations.

Recommendation 4: Improve the quality of XSR preparation. There is a strong need to improve the Bank's capacity for identifying and formulating lessons in XSRs, since refining them at the validation stage is sub-optimal and could result in the loss of valuable lessons of experience. The Bank should develop specific guidance on lessons that provides sufficient distinction between findings, lessons, and recommendations. Moreover, emphasis should be placed on improving staff capacity to rate project performance in order to reduce or close the gap between self and independent ratings. Knowledge events and trainings on how to rate project performance and how to formulate lessons should also be provided to operations staff responsible for producing XSRs. ■


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Management Response

Management welcomes IDEV Synthesis Report on the Validation of 2014–2019 Expanded Supervision Reports (XSRs). The report's analysis and conclusions are timely, given IDEV's recent revision of the Guidelines for the Preparation of XSRs for Private Sector Operations, which will serve as a basis for the Bank to evaluate its non-sovereign operations (NSOs) going forward[3]. The Bank has streamlined the process for conducting good XSRs and it is continuing to strengthen results measurement and reporting; going forward, it will place more emphasis on reporting the outcomes of its technical assistance (TA). In this note, Management responds to the principal issues raised in IDEV's report and presents actions – planned and ongoing – that relate to IDEV's recommendations.

Introduction

The expanded supervision report (XSR) is a tool the Bank uses to evaluate its non-sovereign operations (NSOs). The XSR rates projects' performance, measuring their development results at early operating maturity[4] and conveying findings, lessons learnt, and recommendations. XSRs are instrumental in improving subsequent Bank interventions and designing better projects.

Management welcomes IDEV's validation Synthesis Report. The report finds that NSOs generated positive development outcomes overall. Most positive results were observed in the areas of business success, economic sustainability, environmental and social effects, and private sector development.

The report identified key lessons and success factors that contributed to positive results including working with good sponsors, establishing good front-end work and integrating non-lending assistance.

The findings, lessons learnt, and recommendations also come at the right time, as Management has begun to revise the XSR template as part of the Bank's Integrated Quality Assurance Plan (IQAP). Several insights from the report will improve XSRs going forward:

- **The profitability of the Bank's investments is on the right track and the quality of the Bank's work at both origination and supervision has improved** since IDEV's last XSR validation synthesis report.
- **NSOs' early operating maturity is being monitored, but stricter tracking is advised** to systematically identify NSOs as they become eligible for self-evaluation.
- **Stronger results reporting, especially for financial intermediary operations**, should be pursued by increasing clients' commitment to measuring core indicators.
- **Reporting on the outcomes from NSOs' TA components should be emphasised** by developing frameworks and templates for this purpose.
- **The Bank should build staff's capacity to prepare XSRs**, among other things by identifying lessons learnt. This will help staff design better NSOs.

Overall, IDEV's recommendations will enhance the design and comprehensiveness of the NSO self-evaluation process presently under revision.

Adherence to the XSR Process

IDEV recognises that over the past decade, the Bank has successfully internalised the XSR process, improving XSRs. The Bank has continued to perfect the process by assessing the maturity of operations in the portfolio and selecting operations eligible for the XSR exercise at the time that best informs lessons learnt and allows the extent of the development outcomes to be assessed accurately. Early operating maturity has been defined in the NSO Business Manual as per Bank guidelines.

Management agrees that the process of selecting projects for the XSR exercise needs to be more systematic. Management also acknowledges challenges to implementation. The present process captures the spirit of Bank guidelines for early operating maturity. Nonetheless, Management draws attention to challenges, usually pertaining to resources constraints (staff and budget), that jeopardise full compliance with the requirement that all NSOs that reach early operating maturity conduct an XSR.

Management has undertaken concrete actions to adhere more closely to XSR guidelines. As part of the IQAP, the Bank committed to revising the XSR tool to strengthen guidance on capturing lessons. It also committed to setting up a Results Reporting System for NSOs[5]. These two actions will integrate recommendations from the validation Synthesis Report – such as automating the triggers for conducting an XSR and in line with the forthcoming Revised Guidelines.

The XSR tools are being revised and the forthcoming Results Reporting System for NSOs is being implemented in consultation with IDEV and in collaboration with the NSO and Private Sector Support Department (PINS), the Quality Assurance Department (SNOQ), and the Financial Sector Development Department (PIFD).

Collecting Credible Information

Management agrees on the need to collect credible core information on development results, without which assessments are inaccurate. This said, Management notes challenges with the reliability, availability, and timeliness of certain data – for instance, some results metrics at the country level. Furthermore, some operations in the sample reviewed by IDEV began prior to the institutionalisation of the Additionality and Development Outcomes Assessment (ADOA) Framework and were therefore not required to assess core indicators ex ante and track them ex post. ADOA's modus operandi includes designing a development outcome's reporting template to be included in legal agreements with NSO clients. This process is now automatically triggered by Board approval, and the Bank's Office of the General Counsel and Legal Services (PGCL) ensures that results tracking is part of yearly reporting covenants.

Management confirms that for recent NSOs, several new steps will increase the collection of reliable indicators of core development outcomes. More precisely, project concept and appraisal report templates were recently revamped to focus more strongly on assessing and tracking standardised indicators. The templates provide revised results-based logical frameworks (RBLFs) for five types of NSO instruments, and Investment Officers are required to populate the RBLFs with clear baselines, targets, and outcome and output indicators. Guiding notes referring to the standardised development outcome reporting templates are included to ensure that the same RBLF indicators are tracked across NSOs and throughout the project lifecycle. The templates' lists of indicators per NSO instrument and sector are designed to be attached to legal agreements with NSO clients as a reporting covenant. The indicators in the templates are also consistent with the indicators in the ADOA framework and the Harmonized Indicators for Private Sector Operations (HIPSOs), agreed upon by 27 development finance institutions.

Equally important, the new operational guidelines for the RBLF that are currently being finalised by the Quality Assurance Division are expected to strengthen the Bank's results planning and measurement practices, including for NSOs. The guidelines clarify the importance of a theory of change on which to base a RBLF; they provide teams with a clearer template and unequivocal guidance and definitions, and they strengthen the use of standard corporate indicators such as ADOA indicators and indicators from the Results Measurement Framework.

The Bank will also strengthen its capacity to measure results by hiring five Quality, Results and Monitoring Officers who will be posted to the regions to advise NSO and sovereign operations task teams on results planning, amongst other things. The officers will make RBLFs more robust and relevant so that they give clients a solid basis from which to track development results ex post.

Reporting the Outcomes of Technical Assistance and Advisory Operations

Management notes the finding about the role of TA in enhancing NSOs' overall development results and fully concurs with the recommendation to strengthen TA reporting and assessment frameworks when combining TAs with other lending and investment instruments.

In line with this recommendation, Management has initiated the design of a Technical Assistance and Business Advisory Services framework. Its objective is to identify evaluation tools and metrics that measure the impact of TA projects and linked interventions. Standard and specific TA output, outcome and impact indicators, linked to the type of TA (business linkages, access to finance, etc.) will be highlighted and differentiated from the development impact indicators of the supported NSOs. These indicators will be integrated into the supervision/XSR tools.

Improving the Bank's Capacity to Prepare XSRs

Management agrees with the need to improve the Bank's capacity to prepare XSRs and has already defined actions to address some of the weaknesses observed in the formulation of lessons and staff's capacity to rate project performance.

Management plans to build staff's capacity to formulate lessons from findings from the XSR exercise. Capacity will be built through online "NSO Pathway" courses, which include a module entitled, "Project post-evaluation and results measurement phase" that discusses lessons learnt for NSOs.

The forthcoming Revised Guidelines for the Preparation of XSRs provide clear guidance on the methodology used to rate project performance for each type of NSO. Management welcomes these guidelines and will integrate them into the design of the XSR template in order to reduce the gap between self-evaluated and independent ratings.

Moving Forward

XSR self-evaluation is instrumental to improving the quality at entry of the Bank's NSOs and preserving institutional memory. It is a reference for multiple stakeholders within the Bank and informs external communications about the Bank's development effectiveness.

It is therefore crucial that the XSR adequately capture development results, specifics about the instruments used, the context in which NSOs take place, findings, lessons learnt, and recommendations. To achieve this, the XSR's rating methodology must continue to adapt to different types of NSO instruments and leave less room for subjectivity. Considerable efforts to this end have been made over the past 12 months and Management is committed to continuing to improve the XSR process/tool.

Conclusion

The Synthesis Report on the Validation of 2014–2019 Expanded Supervision Reports (XSRs) underlines several areas for improving XSR processes and tools. Management is pleased to convey that actions to address these areas have been initiated and that enhancements to the XSR process and XRS tools are already underway. Details are provided in the Management Action Record.

<table>
<tr><th colspan="2">Management Action Record</th></tr>
<tr><th>IDEV's recommendation</th><th>Management Response</th></tr>
<tr><td colspan="2">Recommendation 1: The Bank should ensure that Non-Sovereign Operations reaching early operating maturity are systematically self-evaluated.</td></tr>
<tr><td>▌The process covering the entire project results cycle should be better aligned with the Bank's guidelines between the relevant parties (PINS, PIFD and SNDR).

▌This process should include the practice of maintaining the net approval population of projects and strict monitoring for early operating maturity for this population of projects.</td><td>Agreed – Management welcomes this recommendation and is undertaking further actions in this regard.

Further actions:
▌PINS will consult with IDEV and work jointly with PIFD, SNOQ, and CHIS to finalise the revision of the XSR tool and set up the Results Reporting System for NSOs (as per the IQAP) that will integrate the recommendations from IDEV's synthesis report. The expected deliverables under this action are i) a revised XSR Template and rating methodology; and ii) enabling the initiation, generation and approval of the XSR report in the forthcoming Results Reporting System for NSOs. (PINS, Q4 2021).

▌PINS will work with PIFD, SNOQ, and CHIS to automate the triggers for initiating the XSR exercise in the forthcoming Results Reporting System for NSOs as per the forthcoming revised XSR guidelines. The expected deliverables under this action are i) defining the EOM for each NSO instrument in line with Bank guidelines; and ii) accordingly defining a system specification in the forthcoming Results Reporting System for NSOs to inform on all NSOs that reach EOM and are eligible for the XSR exercise within a given year. (PINS, Q4 2021).</td></tr>
<tr><td colspan="2">Recommendation 2: The Bank should do more to collect credible information on development results.</td></tr>
<tr><td>▌This is more important in financial intermediary operations, such information should include some of the basic variables (turnover, employment, exports, gender profile, etc.), which are key for measuring and tracking of project economic and financial indicators.

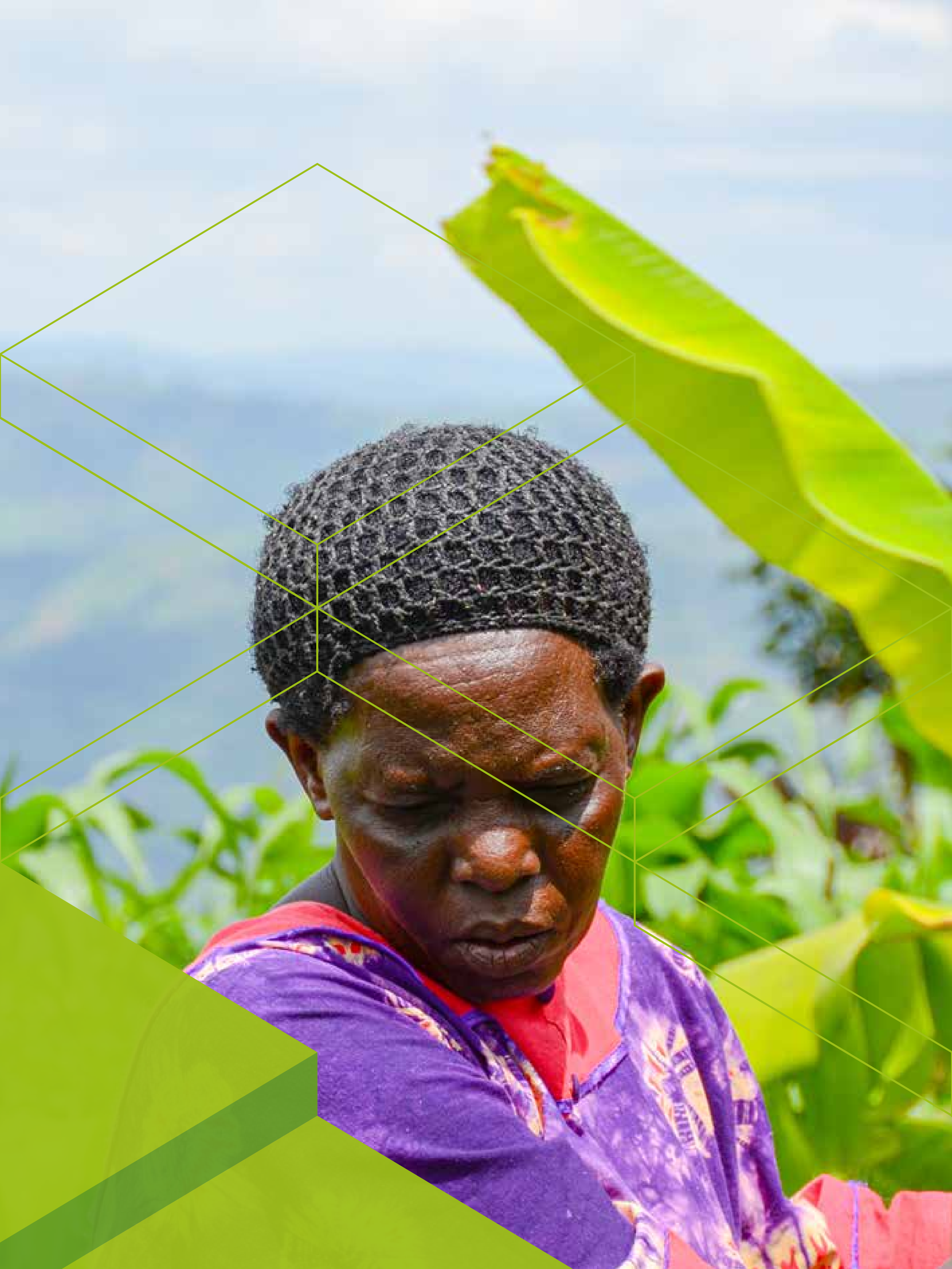
▌Including such reporting requirements in the loan agreement is a good start. Relevant templates that are designed to facilitate the tracking of project results should be used during supervision.</td><td>Agreed – Management fully agrees with this recommendation.

Ongoing actions:
▌As communicated in Management's response[6] to IDEV's 2013–2019 Private Sector Development Strategy Evaluation, SNOQ will work with SNDR and the units engaged in NSOs to finalise new operational guidelines for RBLFs (including for sovereign operations and NSOs). An additional supporting toolkit will place increased focus on defining a theory of change for key sectors and instruments, with relevant outcome and output indicators. This exercise will also contribute to the planned review of the Bank's Results Measurement Framework (SNOQ, Q1 2021).

▌As communicated in Management's response[7] to IDEV's 2013-2019 Private Sector Development Strategy Evaluation, and as part of the Integrated Quality Assurance Plan, PINS is revamping the NSO results framework with harmonised development indicators per instrument/sector as per the ADOA framework and the HIPSO list for designing, assessing, approving, and implementing NSOs, alongside enhanced monitoring and reporting on results The expected deliverables under this action are i) revised PCN and PAR templates for each of the main NSO instrument type (Corporate Loan, Project Finance, Direct Equity, Private Equity, Line</td></tr>
</table>

Management Action Record	
IDEV's recommendation	**Management Response**
	of Credit); ii) creating standardized lists of indicators per instrument and sector that are in line with the ADOA framework and HIPSO. These are to be referenced in guiding notes in the revised PCN and PAR template. The guiding notes instruct origination teams to use the standard lists of indicators when filling out the RBLF, thereby ensuring harmonization of results assessed ex ante and tracked ex post. The list is to be included in the legal documentation as reporting covenant and used for the yearly supervision. **(PINS, Q1 2021)**. - To strengthen the Bank's capacity to measure results, SNOQ is recruiting five Quality, Results and Monitoring Officers to advise operations teams on results planning and make RBLFs more robust and relevant to prepare a solid basis for the ex post tracking of development results from clients **(SNOQ, Q2 2021)**.
Recommendation 3: The Bank should place more emphasis on reporting the outcomes of its Technical Assistance and advisory operations.	
- Specific framework and guidance and templates for reporting on Bank's TA operations, which should take into consideration the specificities of these interventions should be developed. - Accordingly, supervision and XSR missions should place the assessment of TA operations at par with lending and investment operations.	**Agreed** – Management fully agrees with the recommendation. **Further actions:** - PINS will develop a Technical Assistance and Business Advisory Services framework, with guidance and templates for reporting on Bank's TA operations. The objective is to identify evaluation tools and metrics that measure the impact of TA projects and linked interventions. Standard and specific TA output, outcome and impact indicators, linked to the type of TA (business linkages, access to finance, etc.) will be highlighted and differentiated from the development impact indicators of the supported NSOs. The expected deliverable under this action is the development of a Technical Assistance and Business Advisory Services framework. **(PINS, Q2 2021)**.
Recommendation 4: Improve the quality of XSRs preparation.	
- There is a strong need to improve the Bank's capacity for identification and formulation of lessons learned in XSR, since refining them at the validation stage is sub-optimal and could result in the loss of valuable lessons of experience. There should be specific guidance on lessons that provides sufficient distinction between findings, lessons, and recommendations.	**Agreed** – Management fully agrees with the recommendation. **Further actions:** - PINS will coordinate with SNOQ to build staff's capacity to formulate lessons learnt from the findings of the XSR exercise. Capacity will be built through online "NSO Pathway" courses, which include a module titled, "Project post-evaluation and results measurement phase" that discusses lessons learnt for NSOs. (SNOQ and PINS, Q2 2021). - The forthcoming Revised Guidelines for the Preparation of XSRs provide clear guidance on the methodology used to rate overall project performance for each type of NSO. Management welcomes these guidelines and will integrate them into the design of the XSR template in order to reduce the gap

Management Action Record	
IDEV's recommendation	**Management Response**
▪ Moreover, emphasis should be placed on improving staff capacity to rate project performance in order to reduce or close the gap between self and independent ratings. ▪ Knowledge events and trainings on how to rate projects performance and how to formulate lessons learned should also be provided to operations staff responsible for producing XSRs.	between self-evaluated and independent ratings. The expected deliverable under this action is a revised XSR Template and rating methodology that is in compliance with the forthcoming Revised Guidelines for the Preparation of XSRs. (PINS, Q4 2021).



Introduction

Background

This synthesis report aggregates the ratings and findings contained in Independent Development Evaluation's (IDEV's) desk-based Evaluation Notes on Expanded Supervision Reports (XSR-ENs) and in the Expanded Supervision Reports (XSRs) produced by the Bank's operations departments. The report provides an overall picture of the performance and lessons of the Bank's Non-Sovereign Operations (NSOs) as well as the compliance, quality and coverage of the NSO self-evaluation system in the period under review (2014–2019).

The XSR is a product of the Bank's self-evaluation system and represents a critical component of the monitoring and supervision work undertaken by the Bank's operations departments. The XSR aims at capturing the intermediate development outcomes of the intervention. The current format of the XSR is adopted from the Multilateral Development Banks' Evaluation Cooperation Group (MDB-ECG) Good Practice Standards for the Evaluation of Private Sector Operations[8] (November 2011, 4th Edition), and the Bank's 2012 Guidelines for the Preparation of Expanded Supervision Reports and Expanded Supervision Report Evaluation Notes[9].

The Expanded Supervision Report Evaluation Notes (XSR-ENs) are desk-based project-level independent evaluation products carried out by IDEV on the XSRs released to the Board for information. The XSR-ENs validate the Development Outcomes reported in the XSRs and the self-evaluation performance ratings, assess the quality of XSRs in terms of scope, coverage, and rating judgment; and finally, recommend future actions if there is a need for further in-depth assessment of the project's performance and results. The in-depth assessment of projects' development results is currently undertaken by IDEV as part of programmed cluster evaluations.

During the period under review (2014–2019), the Bank produced 74 XSRs. One of the XSRs is of very sub-standard quality and could not be included in the validation process. Accordingly, only a total of 73 projects worth UA 1.97 billion were considered as the "reported portfolio" in this synthesis exercise. This reported portfolio represents the entire body of NSO self-evaluation evidence available for validation by IDEV during the timeframe under review. A list of the 73 XSRs is included in Annex 1. IDEV completed the validation of 46 XSRs out of the total of 73. The 46 XSR-ENs represent approximately 63% coverage of the "reported portfolio" mentioned above by volume. The 46 XSR-ENs make up the "synthesis portfolio" considered in this report for reporting validated performance. A comprehensive list of the 46 projects is included in Annex 1.

Objective

This synthesis report aims to achieve the following three main objectives:

i. **Results reporting.** Private Sector Development is recognized as an engine of sustainable and inclusive economic growth. The Bank, as the premier financial development institution on the continent, continues to expand its private sector operations in its areas of focus to reduce poverty and support sustainable growth in Africa. Therefore, the synthesis report aims at reporting the aggregate, independently validated project level results of Bank private sector operations in a clear, concise, and accessible format.

ii. **Contribute to learning.** The Bank fosters knowledge to ensure high-quality operations and to enhance the capacity of its clients in Regional Member Countries (RMCs), while striving to improve the quality and effectiveness of its operations. The report also aims at improving future private sector interventions by the Bank. This is achieved by disseminating the lessons derived from earlier experience and feeding this learning back into future Bank operations in a positive feedback loop to increase the effectiveness, efficiency, and work quality of Bank interventions.

iii. **Build self-evaluation capacity.** IDEV continues to build evaluation capacity within the Bank and on the continent through various initiatives and partnerships. It also makes efforts to strengthen the evaluation function within the Bank, via support to improving the Bank's self-evaluation systems[10]. The report supports building self-evaluation capacity within the Bank by providing an assessment of the quality and coverage of XSRs and by showing the disconnect between self and independent ratings of project performance. The report will contribute to improvement in the quality and coverage of future XSRs produced by the Bank's operations departments.

Approach and Limitations

The Synthesis Report aggregated the results of Bank projects in line with the Bank's framework for evaluation of private sector operations which is the 2012 Guidelines for the Preparation of Expanded Supervision Reports and Expanded Supervision Report Evaluation Notes. The guidelines are in line with the 4th edition of the MDB/ECG Good Practice Standards for Evaluation of Private Sector Investment Operations, which focuses on the following four evaluation dimensions (see the separate Technical Annexes for the full rating scale):

i. **Development outcome** (business success, economic suitability, environmental and social effects, and private sector development)

ii. **Investment performance** (profitability of investments for the AfDB)

iii. **The Bank's work quality** (screening, appraisal, structuring and supervision)

iv. **The Bank's additionality** (the Bank's unique input and/or value added as a Development Finance Institution)

It is worth mentioning that IDEV has recently completed an exercise to review and revise the evaluation framework for NSO operations, with a view to harmonizing it with the evaluation of sovereign operations (SOs). The exercise aims at supporting the "One Bank" principle by enabling the harmonization of results reporting between public and private sector operations. It is also intended to promote comparability of development results across projects and initiatives and enable the synthesis of development results across sectors, themes, and country programs. The revised framework will enable comparability while at the same time preserving the specific features of Non-Sovereign Operations. Notwithstanding this exercise, the current XSR-EN synthesis utilizes the existing private sector evaluation guidelines mentioned above, because the cohort of XSRs covered in this exercise belongs to the years 2014–2019 and was produced using the existing 2012 XSR guidelines. In the future, the new revised framework should ideally be applied both for self-evaluations and for the validations undertaken by IDEV.

As mentioned before, IDEV validated a total of 46 XSRs, covering 63% of the available 73. Over the course of the IDEV work program periods that apply to this exercise (2013–2015, 2016–2018 and 2019–2021), IDEV committed to varying levels of validation of XSRs – a fixed number, a percentage (50%), and a fixed number again. Due to this mix of commitments, for this validation and synthesis exercise, IDEV opted to validate an overall sample of XSRs that is (1) broadly representative of the underlying XSRs; and (2) would also support ongoing higher-level evaluations. The potential for selection bias exists and caution is recommended in inferring strong causal chains across the entire Bank NSO portfolio. Nevertheless, the findings from the 46 projects still offer strong heuristic value. As described in section 5, the projects in the synthesis portfolio are well-diversified, drawing from a range of sectors including the financial sector and the real sector[11], and using different instruments, including loans, equity and guarantees. Therefore, the characteristics of this validated cohort of projects as well as the findings of this synthesis report are expected to contribute to learning about the performance and success drivers of Bank NSOs.

Strategic Context of the Bank's Non-Sovereign Operations

In 2013 the Bank approved its Ten-Year Strategy (TYS) for the period 2013–2022, aimed at achieving the two-pronged objectives of inclusive growth and transition to green growth in Africa. The strategy focused on five operational priority areas, which are: (i) Infrastructure development; (ii) Regional Integration; (iii) Private Sector Development; (iv) Governance and Accountability; and (v) Skills and Technology. Across the five priority areas, special emphasis was placed on the important cross-cutting issues of Fragility, Gender Equality, Agriculture and Food Security.

In 2016, the Bank restructured its operational programming around five operational priorities designated as "the High 5s", which are: (i) Light up and Power Africa, (ii) Feed Africa, (iii) Industrialize Africa, (iv) Integrate Africa and (v) Improve the Quality of Life for the people of Africa. Light up and Power Africa aims at achieving universal access to electricity in Africa by 2025. Feed Africa seeks to use Africa's competitive advantage in agriculture to drive economic structural transformation and inclusiveness by attracting private investments into agriculture and agribusiness. Industrialize Africa aims at Enterprise Development and industrialization. The Integrate Africa Strategy supports market integration across the continent through both hard and soft infrastructures to create market and growth opportunities for African economies. As part of the restructuring exercise, the Bank also approved the Development and Business Delivery Model (DBDM) and the Decentralization Action Plan on April 22, 2016 and June 22, 2016, respectively. The new DBDM reorganized the ecosystem of the Bank's non-sovereign operations and expanded the number of departments originating and processing NSOs.

Private Sector Development (PSD), which is one of the five operational priority areas in the Bank's Ten-Year Strategy, was guided by the 2013–2019 PSD Strategy.[12] The strategy had three pillars: (i) Improving Africa's Investment and Business Climate; (ii) Access to Socio-economic Infrastructure; and (iii) Promotion of Enterprise Development. Bank operations guided by the strategy aimed at supporting PSD in RMCs via both its sovereign and non-sovereign interventions in a complementary manner. The PSD Strategy's vision was to support the development of "a competitive private sector that will be an engine of sustainable economic growth, generating a decent work environment that offers productive employment in Africa in the next decade and beyond". Its objective was to "contribute to sustainable African development and poverty reduction by promoting broad-based economic growth through effective private sector development". Financial sector development has also historically been an area within PSD where the Bank placed strong emphasis. A full-fledged strategy for financial sector development was approved by the Bank in 2013 to provide detailed guidance on improving access to finance for private enterprises in RMCs. The premise behind this was the idea that access to finance is a main enabler to the creation and development of private enterprise.[13]

The 2014–2019 Reported Portfolio of 73 XSRs

This chapter reviews aspects related to the set of 73 XSRs produced by the Bank during the period under review (2014–2019), hereafter also called the "Reported Portfolio". It provides a brief description of the reported portfolio, discusses compliance of the XSR process with the Good Practice Standards (GPS) during the above-mentioned timeframe i.e. with the process of including projects reaching early operating maturity into the XSR process and the inclusiveness of reporting on XSRs in the Annual Development Effectiveness Review (ADER).

The 73 XSRs produced in 2014–2019 belong to a diverse body of projects approved between 1995 and 2016. However, the majority of the XSR population (67 of 73, 92%) belong to projects approved between 2008 and 2016. During the period under review (2014–2019) the Bank did not track early operating maturity for projects in the NSO portfolio, so it is not possible to know exactly how many projects were eligible for inclusion in the XSR exercise during this timeframe. This evaluation used a proxy of material disbursement (50% and above) to estimate the population of projects that would be eligible for inclusion in the XSR exercise and applied it to the 2011–2014 period. After applying the criteria, a total of 87 projects out of 126 NSOs approved from 2011–2014 (69%) were found eligible. Out of those 87 eligible projects, 29 (33%) were found to have been self-evaluated, and 58 projects had not. There were no clear criteria for the selection of projects for XSRs, resulting in the possibility of a selection bias. Details of the mapping of XSRs by approval year as well details of the assessment of XSR coverage is included in annex 2.

To account for the possibility of selection bias, IDEV assessed the prevalence of non-performing loans (NPLs) among the 58 projects without XSRs, and the 29 projects with XSRs belonging to the 2011–2014 NSO Mature portfolio of 87 projects. On the one hand, there is only one project among the 29 projects with XSRs that is in "rehabilitation/recovery"[14], putting the ratio of NPLs at 3.5%. On the other hand, there are 5 projects among the 58 mature projects without an XSR that are classified as "rehabilitation/recovery", putting the NPL ratio for this group of projects at 8.6%. This is an indication that the selection of projects for XSR was associated with a low incidence of workout projects. This selection bias places a limitation on the representativeness of the results reported in this synthesis exercise.

The XSRs produced by the Bank's operations departments are used for reporting results to the Board of Directors, stakeholders, and the public through inclusion in the Bank's flagship Annual Development Effectiveness Review Report (ADER) produced each year by the Delivery, Performance Management and Results department (SNDR). Each cohort of XSRs produced within a particular year is included in the ADER of the following year. For the years 2014–2019, the Bank produced a total of 73 XSRs, and SNDR reported on 59 of these in the ADER.[15]

The Synthesis Portfolio of 46 Validated Projects

IDEV validates project level self-evaluation reports for both public sector Project Completion Reports (PCRs) and private sector XSRs. Each cohort of PCRs and XSRs produced in a particular year and selected for validation is validated by IDEV in the following year. IDEV's validation products are the PCR-EN and the XSR-EN. IDEV receives XSRs annually from operations departments and uploads the reports into the Evaluation Results Database (EVRD, accessible at evrd.afdb.org). Table 1 below shows the 2014–2019 XSRs and the corresponding IDEV XSR-ENs. During the timeframe under review, IDEV produced a total of 46 XSR-ENs on a total number of 73 XSRs. IDEV's selection of XSRs for validation entailed selecting a broadly representative sample of the underlying XSRs, with particular focus on projects that give support to ongoing higher-level evaluations. Accordingly, the XSRs validated by IDEV, collectively, exhibit strong similarities with the characteristics the larger population of XSRs in terms of sectoral distribution, use of instrument, as well as the regional profile of operations. Finally, IDEV also assessed the prevalence of non-performing loans (NPLs) among the 46 projects with XSR-ENs and one project in the synthesis portfolio of 46 XSRs that is in "rehabilitation", putting the ratio of NPLs in the synthesis portfolio at 2.2%. ■

Table 1: Validation coverage by IDEV: XSRs vs. XSR-ENs (2014–2019)

	2014	2015	2016	2017	2018	2019	Total
Number of XSRs	11	4	12	13	18	15	**73**
Number of XSR-ENs (IDEV)	4	1	9	10	9	13	**46**
Coverage %	36	25	75	77	50	87	**63**

Characteristics of the Reported and Synthesis Portfolios

The Reported portfolio of 73 projects and the Synthesis portfolio of 46 show strong similarities in terms of sectoral coverage, instruments as well as regional presence.

The sectoral coverage of the Synthesis portfolio of 46 XSR-ENs followed most of the characteristics of its underlying population (the reported portfolio). The majority of projects in both portfolios belonged to interventions in the financial sector which represented approximately 65% in the synthesis portfolio and 56% in the reported portfolio. The similarities continued with the Power and Multi-sector projects coming equally as second and third sectors in terms of number of projects in both portfolios. Table 2 below shows the sectoral composition of both portfolios.

When comparing the use of instruments between the Reported portfolio and the Synthesis portfolio, the percentages show strong similarities. The largest portion of the funds in both portfolios was deployed via Lines of Credit (LOC) to financial intermediaries (Table 3). LOCs were used to deploy 43% of the funds in reported portfolio, but a higher 51% in the synthesis portfolio. Loans come as the

Table 2: Sectoral comparison between reported and synthesis portfolios

	Sector	Reported portfolio	(%)	Synthesis Portfolio	(%)
1	Finance	41	56.2	30	65.2
2	Power	7	9.6	3	6.5
3	Multi-sector	6	8.2	3	6.5
4	Transport	6	8.2	2	4.4
5	Industry & Mining	6	8.2	4	8.7
6	Agriculture & agribusiness	3	4.1	1	2.2
7	Social	2	2.7	2	4.4
8	Telecommunication	2	2.7	1	2.2
	Total	**73**	**100**	**46**	**100**

Table 3: Instrument comparison between reported and synthesis portfolio

	Instrument	Reported portfolio (UA million)	(%)	Synthesis portfolio (UA million)	(%)
1	Line of Credit	1,595.8	42.7	1,010.1	51.3
2	Loans	1,526.2	40.9	433.8	22.0
3	RPA	363.8	9.7	363.8	18.5
4	Equity Funds	224.7	6.0	142.4	7.2
5	Equity Participation	22.0	0.6	20.3	1.1
6	TA Grant	2.1	0.1	-	-
	Total	**3,735**	**100**	**1,970.4**	**100**

Table 4: Regional profile of reported and synthesis portfolio

	Region	Reported portfolio	(%)	Synthesis portfolio	(%)
1	Multinational	30	41.1	20	43.5
2	West	16	21.9	13	28.3
3	East	11	15.1	7	15.2
4	South	10	13.7	3	6.5
5	North	4	5.5	2	4.4
6	Central	2	2.7	1	2.2
	Total	**73**	**100**	**46**	**100**

second instrument in both portfolios, with Risk Participation Agreements (RPAs), equity funds and equity participations occupying similar ranks, albeit with varying percentages. The instrument analysis contained in the below confirms the fact that results and lessons derived from the synthesis portfolio would in this case be representative and relevant to the overall portfolio of projects subjected to XSRs.

The similarities between the synthesis portfolio and the reported portfolio also extend to the regional distribution of the operations, which appears identical in this case. The largest share of projects in both portfolios, 41% and 43% respectively, are multinational operations (Table 4). The distribution of the remaining operations is almost mirrored in the two portfolios with the West, East, South and Central Regions enjoying the same ranking in both portfolios and with very similar percentages of projects.

The sectoral, instrument and regional coverage of the 46 XSR-ENs validated by IDEV has adequate similarities to the population of 73 XSRs. This fact lends more confidence to the results synthesized from the XSR-ENs and makes such results and lessons more relevant in terms of informing future private sector interventions at the Bank.

Performance of the Synthesis Portfolio

The following provides IDEV's assessment of the synthesis portfolio according to the above-mentioned evaluation dimensions: Development Outcome, Investment Performance, the Bank's Work Quality, and the Bank's Additionality. The full rating scale can be found in the Technical Annexes.

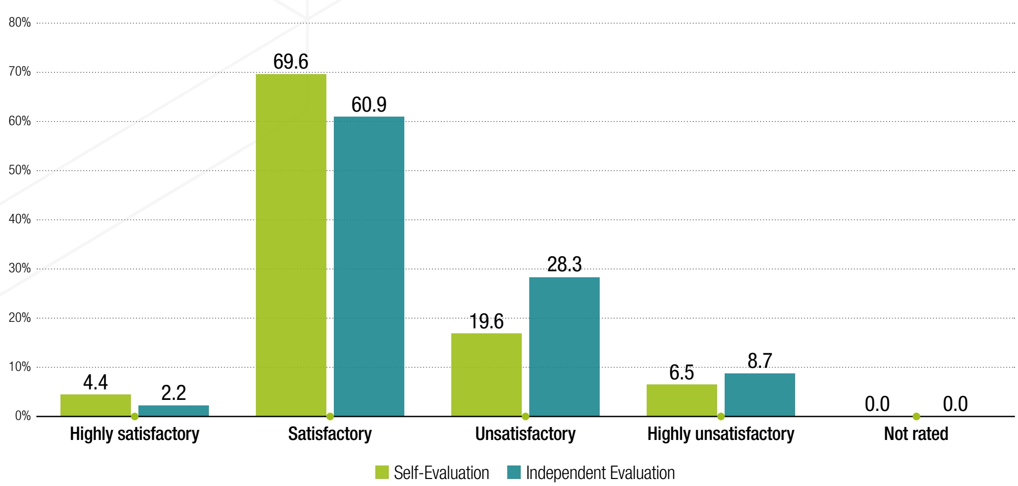
Development Outcome

Business success

Project/company Business Success measures the project's actual and projected financial impact on the company's overall financial performance. Project Business Success is thus concerned with the commercial performance of the project, as measured by the financial returns accrued to the shareholders and credit holders of the project company. Business Success is usually measured using the Financial Internal Rate of Return (FIRR) as a metric for profitability of the venture. It is also worth noting here that the criteria for rating the Business Success dimension award a positive rating when the project repays its debt and yields an acceptable return for shareholders. However, below the above-mentioned benchmark, there could be spectrum of performance levels that would be rated less than satisfactory before the project reaches the point of "distress". Therefore, projects awarded a 'negative' Business Success rating are not necessarily projects in distress.

Out of the 46 validated projects, only one project (2.2%) received a rating of Highly Satisfactory. However, 29 projects (63%) received a positive (Satisfactory + Highly Satisfactory) Business Success rating. Thirteen projects (28.3%) were rated 'Unsatisfactory' and four (8.7%) Highly Unsatisfactory. The independent validation downgraded four projects[16] on business

Figure 1: Business success ratings



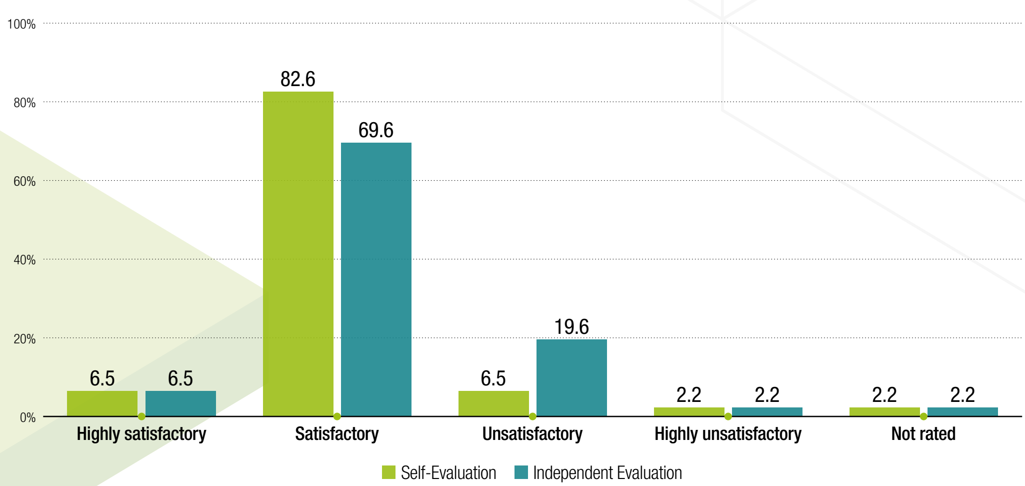
success, reducing the number of projects rated Satisfactory from 32 to 28 and positive ratings from 74% to 63%. The four projects with a Highly Unsatisfactory rating for Business Success were composed of three real-sector projects, two loans to manufacturing companies and one senior loan to a power project. The fourth project is an equity participation in a regional equity fund. Two of the three real-sector projects belong to a very old body of approvals (1995 and 1999). The two remaining projects are more recent, approved in 2009 and 2011.

Economic sustainability

This performance dimension measures the wider economic benefits accruing to the economy/society by virtue of the project's existence and its operations. Such benefits accrue to the wider stakeholders of the project in the country of concern, and include economic growth, improved people's living standards, and poverty reduction. The Economic Internal Rate of Return (EIRR) is a metric used in measuring the project's economic sustainability. However, if the calculation of the EIRR is not possible, other proxies could also be used. Positive performance on this dimension is correlated with Business Success. Typically, only successful/profitable companies would create jobs, pay taxes to Government, and provide a positive demonstration effect. On the other hand, loss-making companies are likely to shed staff, carry tax credits into the future, and mostly set a negative demonstration effect on Private Sector Development in their respective sectors.

Most of the independently validated projects (35 projects, 76%) had positive economic sustainability, but only three projects (6.5%) were Highly Satisfactory. Ten projects (22%) were rated less than satisfactory, mostly (9 projects, 19.6%) Unsatisfactory and one project Highly Unsatisfactory. Finally, one project was not rated. Independent evaluation lowered the ratings for Economic Sustainability for six projects[17] from Satisfactory to Unsatisfactory, reducing the percentage of positive ratings from 89.13% to 76.09%. The independent evaluation confirmed the rating of Highly Satisfactory for the three top performing projects. The three projects with a Highly Satisfactory rating for Economic Sustainability were two Lines of Credit to financial intermediaries and one investment fund in the health sector. On the other hand, the single project rated as Highly Unsatisfactory is the same real-sector project which belongs to a very old body of approvals (it was approved in 1999[18]) and was subject to a workout process.

Figure 2: Economic sustainability ratings



Environmental and social effects

Environmental and social sustainability include the project's impacts on the physical environment and social issues, which also include occupational health and safety. Environmental and social performance should be evaluated against compliance with the Bank-specified environmental and social safeguard standards and requirements at the approval stage of the project and at the time of self-evaluation against the effects of the project itself on its surrounding environment.

Of the 46 projects, 37 (80.4%) were rated Satisfactory on Environmental and Social Effects, but no projects were rated Highly Satisfactory. Eight projects (17.4%) were rated Unsatisfactory and one was not rated. The independent validation lowered the ratings for all five projects rated in the XSRs as Highly Satisfactory[19]. The eight projects which were rated Unsatisfactory by independent evaluation were composed of six financial sector projects split evenly between Lines of Credit and Equity, one transport project (Road), and one Infrastructure Investment Fund project (multinational). The Environmental and Social Effects performance of the 46 validated projects in this instance is a substantial improvement from the situation in the previous validation synthesis (2011), where seven out of 14 projects were not rated because the available information was insufficient.

Private sector development

This performance dimension is concerned with the effects of the Bank's interventions on strengthening the performance of financial intermediaries such as commercial banks and stock exchanges and the general creation of conditions conducive to the flow of private capital into productive investment promoted by private enterprises. Moreover, this dimension is also concerned with impacts such as increased competition, improved regulation governance and transparency, privatization, technological advancements, and general infrastructure improvements.

As is the case with Business Success and Economic Sustainability, Private Sector Development is also related to the two former dimensions. This is meaningful when taking into consideration the strong demonstration effects that profitable/successful companies manage to set in their respective sectors/countries by virtue of their successful and profitable operation. Successful companies have a strong demonstration effect by proving that investments in

Figure 3: Environmental and social effects ratings

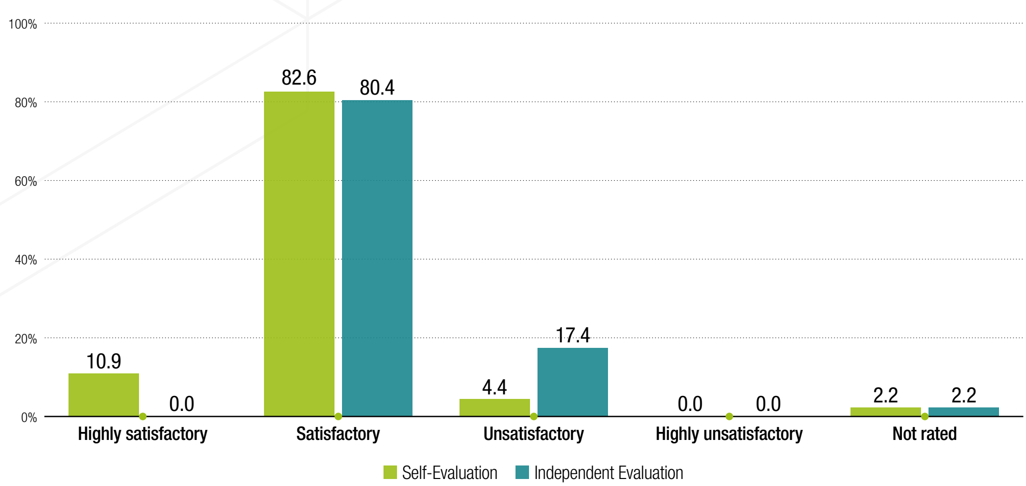
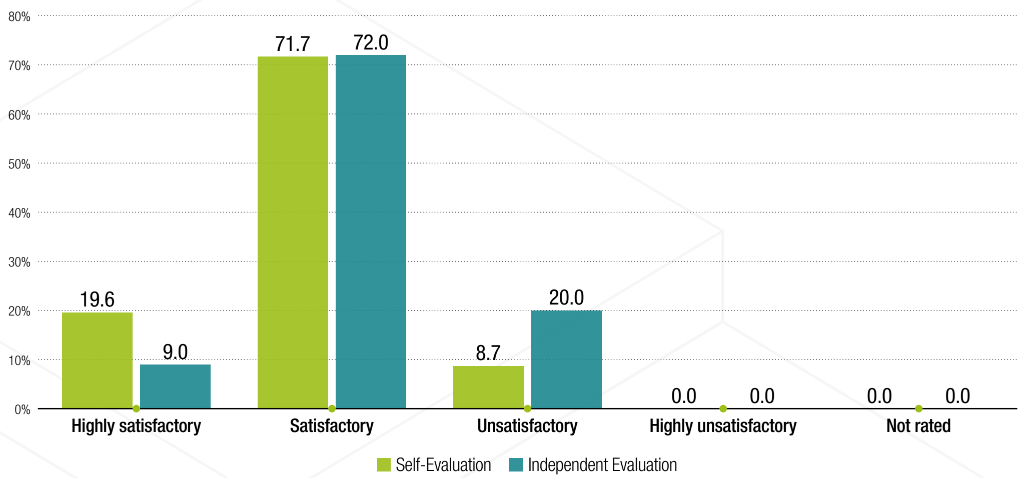


Figure 4: Private sector development ratings



their sector are profitable and thus they inadvertently invite new entrants to the sector/industry and enhance investments in the sector.

Of the 46 projects, 4 were rated Highly Satisfactory and 33 Satisfactory, i.e. 37 projects (80%) were rated positive. Nine projects (20%) were rated Unsatisfactory on private sector development.

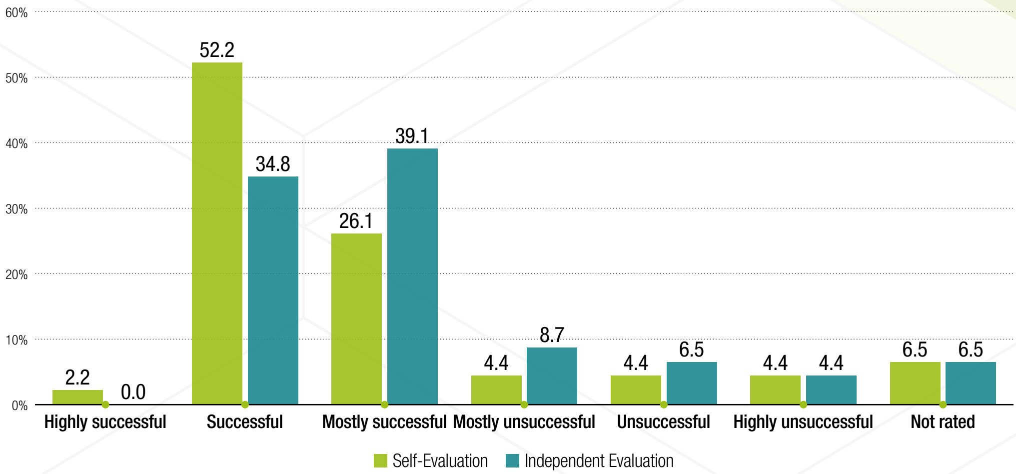
The four projects rated as Highly Satisfactory belonged to diverse instruments and sectors: (i) a multi-sector investment fund for mid-size companies; (ii) an investment fund in the health sector; (iii) a transport project; and (iv) a line of credit to a financial intermediary. When excluding the two projects approved in 1995 and 1999, we arrive to 7 projects rated Unsatisfactory on the Private Sector Development Dimension. Five out of the 7 projects were financial sector projects and two projects belonged to the telecommunication and power sectors.

Overall development outcome of Bank interventions

The development outcome rating summarizes the impact of the project on the development of the host country or region, and implicitly the extent to which the project has contributed to fulfilling the Bank's mandate of economic and social development in regional member countries. The rating is a synthesis of the ratings of four sub-dimensions, namely: Business Success; Economic Sustainability; Environmental and Social Performance and Contribution to Private Sector Development. The rating is on a six-point scale[20] while the ratings of the four sub-dimensions of the development outcome dimension are each on a four-point scale[21]. The six-point scale provides more granularity for the development outcome rating.

Overall, the operations reviewed resulted in a positive development outcome. The Bank's investments of UA 1.97 billion contributed to the creation, sustainability, and growth of private enterprises. The effects of the interventions created positive outcomes outside the businesses financed which influenced the local economy around these enterprises via the creation of positive externalities, improvement of infrastructure, the provision of cheaper and higher quality goods and/or services, and/or the internalization of new technology. Finally, Bank interventions improved the conditions conducive to the flow of funds to private enterprises via deepening of financial intermediation and

Figure 5: Overall development outcome ratings



improvement in access to financial services by private enterprises.

A total of 34 projects (74%) received a positive Overall Development Outcome rating (Mostly Successful and Successful) from IDEV. The most frequently awarded rating was 'mostly successful' (18 projects, 39%), followed by Successful (16 projects, 35%). On the negative side, nine projects received negative ratings, with 2 projects being Highly Unsuccessful. Finally, three projects were not rated by the XSR validation teams. Notwithstanding the overall positive rating, XSRs were not uniform in their reporting of quantifiable data on the development outcome of Bank interventions such as turnover, employment, exports, FX savings, gender profile, etc.

The 74% positive rating of the Overall Development Outcome dimension for Bank projects compares favorably to the ratings awarded to International Finance Corporation (IFC) projects by the Independent Evaluation Group (IEG) of the World Bank. Indeed, in the most recently published[22] validated ratings on a cohort of IFC investment projects[23], IEG awarded a mostly successful or better rating to only 45% of the projects.

There is a general lack of reporting on the achievements and outcomes of Technical Assistance[24] packages provided by the Bank in 10 out of the 46 validated projects. The reporting on TA in the XSRs, when present, was limited to output-level assessment, although the inclusion of TA packages appears correlated with overall positive development outcome. Indeed, the 10 projects which had TA packages geared towards improving the general, risk, or environmental management aspects of the borrower/beneficiary company had 100% positive ratings for overall development outcome. Accordingly, the Bank is not adequately reporting on all the resources deployed for Private Sector Development and not fully capturing its development outcome footprint.

Investment Profitability

The Bank's Investment Profitability is essential to its long-term sustainability as a development finance institution and central to accomplishing its long-term corporate goals. This performance dimension assesses the extent to which the Bank has realized to date, and/or expects to realize over the remaining life of the project, the income that was expected at the time of approval of the intervention.

Figure 6: Bank's investment profitability ratings

The Bank's Investment Profitability rating was rated positively (satisfactory or higher) for 31 projects (67.4%), with 3 projects (6.5%) rated Highly Satisfactory and 28 (61%) Satisfactory. Fifteen projects (33%) were rated less than satisfactory (11 or 24% Unsatisfactory and 4 or 9% Highly Unsatisfactory). Twelve of the 15 projects (80%) rated negatively for Bank Investment Profitability are old projects, with all of them approved before 2011 and two being workout projects approved in 1995 and 1999, respectively. However, there are five projects approved between 2011 and 2013 that are classified as workout projects that were not covered by XSRs.

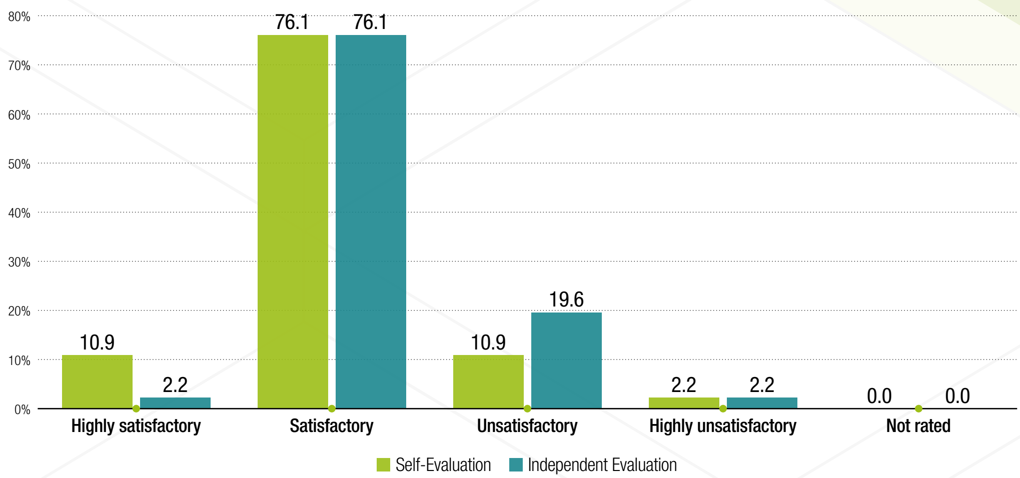
Work Quality

Screening, appraisal and structuring

This performance dimension measures how well the Bank has done its front-end work (Screening, Appraisal, and Structuring). Specifically, it assesses whether the Bank had an efficacious role in designing projects. The relevance of the project to the Bank's mandate, country and sector policies, and strategies, as well as the due diligence undertaken by the Bank on the borrower and the structuring of the deal, are all taken into consideration when assessing this performance dimension. The assessment takes into account the principal variances between expectations at approval and actual outcomes as well as compliance with the relevant guidelines.

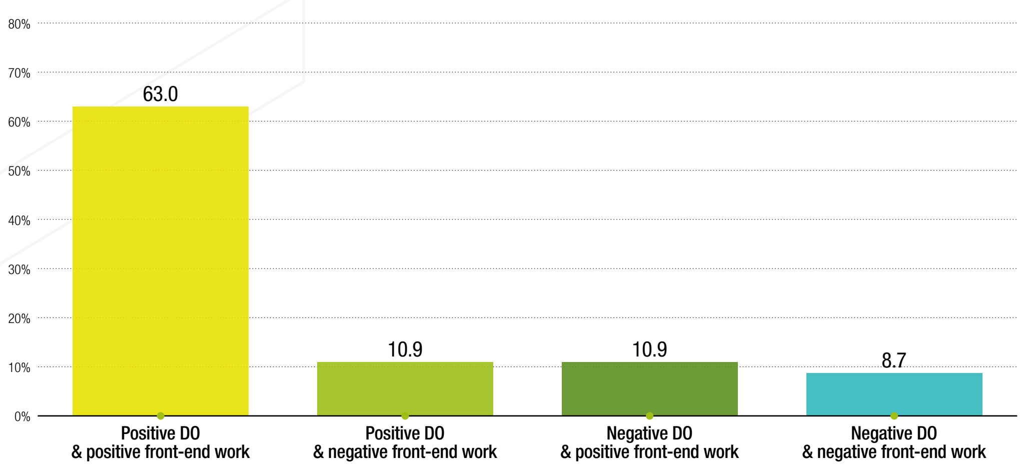
For most projects (36, 78%), the Bank's front-end work quality was rated positively, with one project rated Highly Satisfactory. Of the remaining ten projects, nine were rated unsatisfactory and one Highly Unsatisfactory. The main reasons for negative ratings for this performance dimension were overly optimistic financial and operational assumptions, or assumptions about the monitoring or reporting practices by the borrower that did not take place. It is important to consider that 9 projects were approved prior to 2009. These projects might not reflect the current standards and quality assurance practices at the Bank, which have progressed during the last decade. The improvements included from 2009 onwards include the mandatory use of log-frames in investment proposals and the full implementation of the Additionality and Development Assessment (ADOA) framework. Indeed, 4 of the 10 projects with a negative rating were approved prior to 2009, and the only project receiving a highly unsatisfactory rating was approved in 1999.

Figure 7: Screening, appraisal & structuring ratings



There is a relationship between front-end work quality and Overall Development Outcome. All 29 projects (63%) with a positive Overall Development Outcome rating also had a positive Screening, Appraisal, and Structuring rating. In these projects, the quality of projects' structuring, accurate financial and operational assumptions made during origination, as well as the due diligence work and choice of project sponsor or company had a strong effect on the overall success of the project. It is also worth mentioning that quality front-end work is a supporting condition but not sufficient to guarantee positive overall outcomes. It is safe to say that no matter how proficient the Bank's front-end work, there are always risks associated with engaging in private ventures and external factors (macroeconomic conditions) associated with which could affect outcomes.

Figure 8: Development Outcome vs. front-end work



Supervision and administration

This performance dimension assesses how professionally the Bank has undertaken its supervision of the interventions under review. How have the reporting requirements been implemented over the lifetime of the project? Did the Bank keep itself well informed of all material developments related to the project during implementation and did it respond quickly when needed?

The Bank's Supervision and Administration was largely rated positively. Thirty-five (35) projects (76%) were rated satisfactory or higher on supervision and administration. Eleven (11) projects (24%) were rated Unsatisfactory, none Highly Unsatisfactory. The ratings of the Bank's Supervision and Administration of NSO projects have improved considerably when compared to the findings of the 2011 synthesis, when only 21% of projects were rated Satisfactory or higher for supervision.

Although largely rated positively, the Bank's Supervision and Administration work on the projects was characterized by some shortcomings. There was no use of standardized formats/templates for reporting. As supervision reports were in most cases the Bank's usual Back to Office Reports (BTORs), no standardized format for supervision was utilized. Where Project Supervision Reports were available, they were mostly very brief, and did not contain updated project results data. Moreover, combined supervision reports, where the report discusses the supervision missions of more than one project in the same report, were also prevalent and did not provide sufficient detail on the evaluated project. Finally, most supervision reports focused on implementation, not on outcomes; this is of course natural at the start of the project's lifetime, but not years into its implementation.

Additionality

As per the 2012 XSR and XSR-EN guidelines, the Bank's Additionality measures what the Bank brings to the project over and above commercial financiers. It is based on the counterfactual assessment of how the project would have proceeded without the Bank's financing. This dimension is measured through two sub-indicators: financial additionality and non-financial additionality. The rating for Additionality is a synthesis of the two underlying subcomponents. Financial Additionality measures the special

Figure 9: Supervision and administration ratings

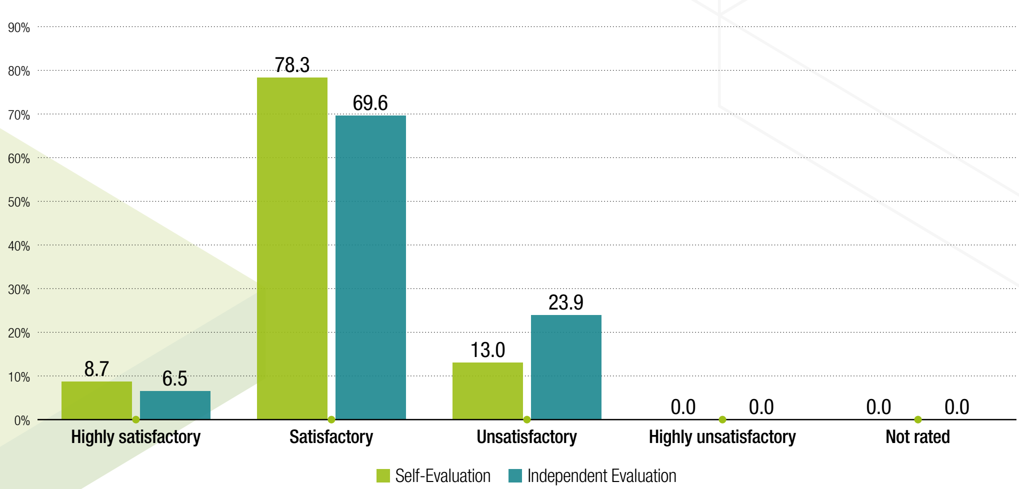
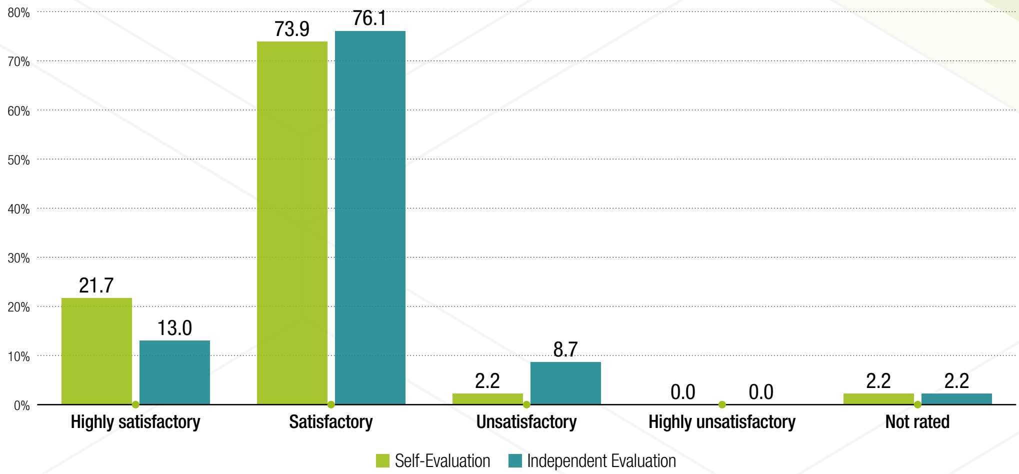


Figure 10: Bank's additionality rating



contribution that the Bank's funding offers the client that would otherwise not have been offered by other financiers. Non-financial Additionality measures the Bank's contribution to reducing the project's risk profile, design, or functioning.

The Bank's role and contribution[25] (additionality) was rated positive (satisfactory or higher) in 89% of the projects reviewed (41 of 46), but highly satisfactory in only 6 (13%). Four (4) projects (9%) were rated Unsatisfactory and one project was not rated. Most projects (39, 85%) featured both forms of Additionality (financial and non-financial), much more than in the 2011 synthesis, where only 14% did.[26]

The Bank's financial additionality was mostly present in the form of better currency matching (foreign exchange lending), longer maturities as well as grace periods. The nonfinancial additionality consisted mostly of TA packages, which aimed at improving the capacity of the borrower/sponsor to utilize the funds, to improve the institution's risk management, credit analysis capacity, environmental, social and/or governance practices. Notwithstanding the high positive ratings and prevalence of the Bank's non-financial actionality, most XSRs did not contain adequate reporting on the outcomes of the TA packages, or how the systems[27] that the TA intended the borrower to establish have been functioning.

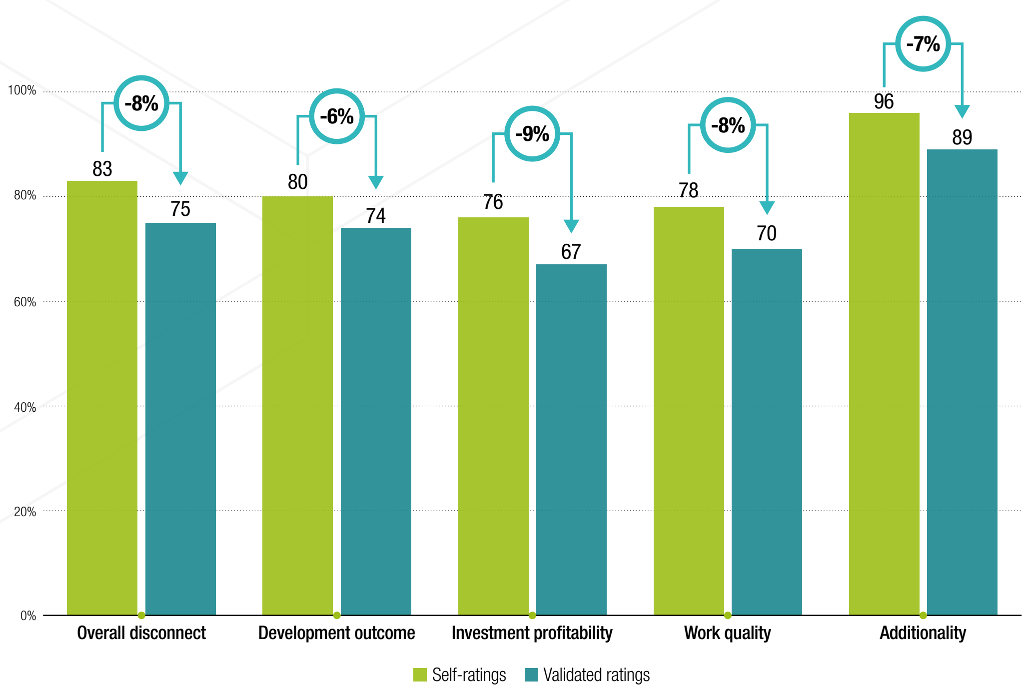
Management Self-Ratings, IDEV's Validated Ratings and Rating Disconnect

The purpose of independent validation of self-reported ratings is to ensure the accuracy and credibility of the project performance reporting system. This is done in part by providing an analysis of the disconnect between self and independent ratings of project performance across the four main outcome dimensions. The ultimate objective is of course for the self and independent ratings to converge over time, and for the ratings disconnect to be brought to a minimum. The ratings disconnect is the difference between the percentage of projects rated positively (satisfactory and higher) by Management in XSRs and the percentage rated positively (satisfactory or higher) by IDEV in the XSR-ENs.

To this end, the XSR validation exercise has contributed to refining Bank Management's self-reported outcome ratings, resulting in a final

Figure 11: Ratings disconnect between Management and IDEV positive outcome ratings

(%)



disconnect of 8 percentage points for the share of projects with positive outcome ratings (Figure 11). While IDEV's validated results show that 75% (34 of 46) of projects have achieved an overall positive outcome rating, Management's self-reported ratings point to a higher rate of 85% (39 of 46 projects). Different outcome dimensions' ratings contributed to the overall ratings disconnect, mostly due to different interpretations about the available evidence by the self and independent ratings but in some cases combined with lack of information.

Among all the subdimensions, the overall Investment Profitability ratings had a high disconnect between Management and IDEV ratings – the variance stood at 9%, the largest divergence between how Management and independent evaluation view the performance. ■

XSR Process, Budget and Results of Quality Assessment

XSR Process and Budget

The process of producing XSRs at the Bank is usually undertaken by external consultants who are hired by the responsible departments. This is done to maintain a certain level of impartiality in the XSR exercise and in the analysis and project ratings. Engagement with stakeholders in the reference group for this synthesis report revealed that the process of undertaking XSR missions is usually smooth and stakeholders (project sponsors) welcome the XSR missions and give consultants full cooperation and access to all requested information on project performance. However, where the XSR was planned during a stage of exit or restructurings, sponsors requested the postponement of XSR field work until completion of the exits and/or restructuring process to avoid any interference during such a sensitive time for the project.

In terms of time and budget, each XSR requires –on average– 30 days to arrive at a zero-draft report after the consultant has been selected. The average consultancy and staff cost of a single XSR is usually between USD 14,000 and USD 20,000 for the consultant writing the XSR and the Bank Task Manager who accompanies the consultant during the field mission. The cost of course varies depending on the daily rate of the consultant, the distance travelled, and the length of field work required to fully and adequately verify project results. Table 5 details the XSR process steps and duration (minimum and maximum) from the perspective of Bank operations staff[28].

Results of the Quality Assessment of XSRs

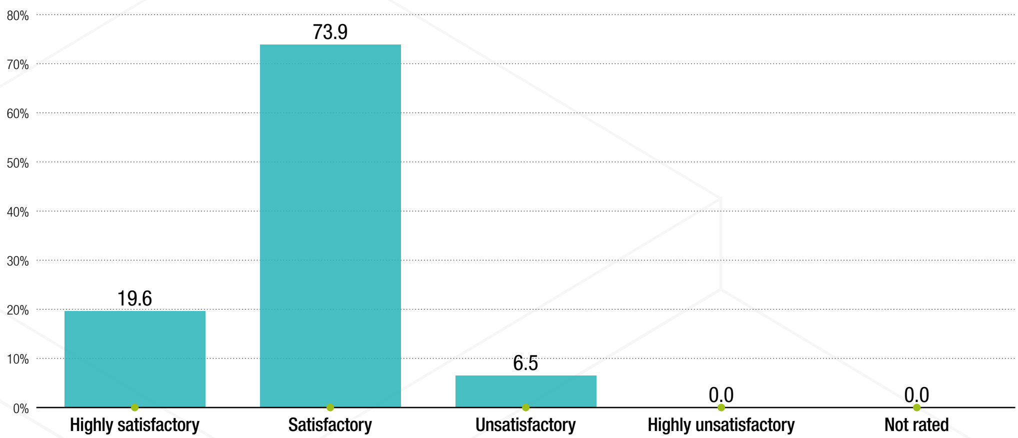
Since the practice of undertaking self-evaluation was introduced at the Bank in 2008 and fully internalized by 2011, it has now been more than nine years since the full implementation of this exercise, and the Bank has become very familiar with the system, scope and format of XSRs. This has led to substantial improvement of XSR quality, particularly when compared to the findings of the earlier synthesis done in 2011. Indeed, the Bank's XSR reports are now quite comprehensive in covering all project aspects. All validated XSRs provided adequate analysis of project objectives, expected results, as well as project implementation issues, project status and context. Notwithstanding the improvement in quality, several gaps were found in terms of responding to scope. Chief among these are the issue of not rating

Table 5: XSR process and duration

Process Step	Days (Min)	Days (Max)
Consultant selection (Budget, TOR and recruitment)	15	20
Upstream preparations (document review & mission planning)	7	15
Field work	4	10
Drafting XSR report	10	15
First draft to final report	7	15
Total	**43**	**75**

Source: Based on responses by departments undertaking XSR exercise.

Figure 12: XSR quality assessment ratings
(% of projects)



some of the performance dimensions and the issue of not reporting on the outcomes of the Technical Assistance components.

IDEV rated the quality of 9 XSRs (20%) Highly satisfactory, and 34 (74%) Satisfactory, i.e. 43 (93%) positive. Only 3 XSRs (6.5%) were rated Unsatisfactory, none Highly Unsatisfactory. The percentage of XSRs with negative quality ratings in this synthesis is approximately a third of that in the 2011 synthesis (20%). More details on XSR quality rating results (satisfactory or higher) are included in annex 5.

Notwithstanding the positive quality rating which attests to the increased knowledge of the Bank about the XSR tool, some of the sub-dimensions received a relatively lower rating. Soundness of judgment on project's development outcome as assessed based on business success; economic sustainability; environmental and social sustainability and Private Sector Development was rated relatively lower (78% positive), mostly due to attributing some development outcomes to the Bank's projects without providing supporting evidence.

Another area of relatively low positive ratings is soundness of judgment on the Bank's Work Quality, which received 74%.[29] This is due to various reasons, ranging from not considering lessons from previous similar projects, to not reporting adequately on the performance or development outcome of sub-projects in the case of financial intermediation projects. There is also the issue of not making reporting on development results a part of the agreement with the borrower/client. In the worst rated cases, the Bank did not carry out the supervisions as planned.

The quality of formulating lessons, which is a key part of the reports since it serves and fulfils the learning objective from these evaluations, were also rated relatively low (78%). Many lessons reviewed by IDEV were evaluation findings or recommendations to the Bank, rather than conclusive and actionable lessons of experience. Moreover, some of the lessons were less geared towards the Bank or its staff and more to the client company. In many cases the lessons had to be re-written or paraphrased by IDEV during the validation process.

Lessons and Drivers of Success

In validating the 46 XSRs, IDEV found that lessons presented in individual XSRs are usually difficult to understand, idiosyncratic and not widely applicable. Oftentimes, the lessons in the XSRs are findings and/or recommendations. Significant effort goes into reformulating those lessons to become "real lessons" during the process of validation. The lessons are subsequently included in the EVRD so they are available to all[30]. In this regard, the validation as an evaluation tool clarifies lessons, and in the synthesis, the most prominent lessons that are clear, frequent and generic are selected.

The main lessons and success drivers from the 2014–2019 XSRs are related to factors that appear to have a direct, causal effect on the success of the intervention and its realization of its intended development outcome. They are suitable and valuable to the NSO portfolio as a whole.

i. **Working with good sponsors[31] is the most deterministic factor in overall project success.** The quality of the sponsor managing the project/company is critical to the project's business success, which in turn is essential if the project is to realize its intended development outcome. A good sponsor could be a sponsor with sound market knowledge, a comparative advantage, deep pockets (for cost overruns or trading losses), trustworthy, and/or an experienced manager or leader in the industry or sector where the project is implemented. Finally, good contacts in the local economy for sourcing suppliers or for hiring local sub-contractors are all important.

ii. **Good front-end work is instrumental to the assessment and achievement of targeted development results.** This success driver is related to the previous one, because good front-end work is crucial to assessing the quality of the sponsor implementing the project. Moreover, good front-end work is imperative for having balanced and realistic assumptions on future operational and financial performance of the project as well as on the reporting or monitoring requirements by the borrower/sponsor. Notwithstanding, it is also equally important to stress that good front-end work is a necessary condition for project success, but private sector ventures have their inherent risks.

iii. **Non-lending assistance is correlated with higher rates of project success. Well-designed Technical Assistance packages that accompany lending or investment operations were associated with higher levels of overall project success.** These include improving the general management, governance, environmental and risk management aspects. This is especially important because the capacity needs of private enterprises in Africa are as important as the financial needs, and this is also more relevant when the borrowing company or sponsor is breaking into a new area of the market or if the company is in the small and medium enterprise segment.

iv. **There is an element of innovation in the Bank's use of instruments.** Although the Bank still places strong emphasis on debt financing via whole-sale lines of credit, which channel relatively large volumes of funds via financial intermediaries, the Bank has shown its ability to deploy a broad range of instruments to achieve specific objectives. This is the case for investment in equity funds, where the number of operations and the volume of resources mobilized by the Bank has been impressive. Moreover, there is a propensity of projects financed via equity funds (particularly in North Africa) to bring better, higher quality, or newer products into the market.

Recommendations

IDEV makes the following recommendations:

Recommendation 1: The Bank should ensure that Non-Sovereign Operations reaching early operating maturity are systematically self-evaluated. The process covering the entire project results cycle should be better aligned with the Bank's guidelines between the relevant parties (PINS, PIFD and SNDR). This process should include the practice of maintaining the net approval population of projects and strictly monitoring for early operating maturity for this population of projects.

Recommendation 2: The Bank should do more to collect credible information on development results. This is more important in financial intermediary operations. Such information should include some of the basic variables (turnover, employment, exports, gender profile, etc.) that are key for measuring and tracking project economic and financial indicators. Including such reporting requirement in the loan agreement is a good start. Relevant templates that are designed to facilitate the tracking of project results should be used during supervision.

Recommendation 3: The Bank should place more emphasis on reporting the outcomes of its Technical Assistance and advisory operations. Specific frameworks, guidance and templates for reporting on the Bank's TA operations, which take into consideration the specificities of these interventions, should be developed. Accordingly, supervision and XSR missions should place the assessment of TA operations at par with lending and investment operations.

Recommendation 4: Improve the quality of XSRs preparation. There is a strong need to improve the Bank's capacity for identifying and formulating lessons in XSRs, since refining them at the validation stage is sub-optimal and could result in loss of valuable lessons of experience. The Bank should develop specific guidance on lessons that provides sufficient distinction between findings, lessons, and recommendations. Moreover, emphasis should be placed on improving staff capacity to rate project performance in order to reduce or close the gap between self and independent ratings. Knowledge events and trainings on how to rate project performance and how to formulate lessons should also be provided to operations staff responsible for producing XSRs. ■

Annexes

Annex 1: XSRs Produced in 2014–2019 and Validations by IDEV

Over the 2014-2019 period, Bank Management produced 73 XSRs (Table A1.1), and IDEV validated 46 of these.

Table A1.1: XSRs produced in 2014–2019

#	SAP code	Project name	XSR date	XSR-EN
1	P-ZM-BB0-001	Swarp Spinning Mills Limited (SSML)	2014	Yes
2	P-EG-BC0-001	Windsor Garden City Hotel	2014	
3	P-CI-BB0-002	Drop Ivoire s.a.	2014	Yes
4	P-UG-FAB-004	Bujagali Hydro Power Project	2014	
5	P-CD-HA0-001	Advans Banque Congo	2014	Yes
6	P-RW-KB0-001	Rwanda Private Sector Federation Capacity Building Project	2014	
7	P-DJ-D00-001	Doraleh Container Terminal	2014	
8	P-ZM-HAB-001	Enhancing the Zambian SMEs Competitiveness and Access to Finance	2014	
9	P-Z1-AAZ-006	Agri-Vie' - Agri Business Investment Fund	2014	
10	P-Z1-GB0-011	New Dawn Satellite Company	2014	Yes
11	P-CM-FAA-002	Dibamba Power Development Company	2014	
12	P-Z1-KE0-012	The Pan African Infrastructure Development Fund (PAIDF)	2015	Yes
13	P-Z1-HAA-023	AfricInvest Fund II	2015	
14	P-NG-GB0-004	Shared Telecoms Infrastructure Project	2015	
15	P-NG-HAB-009	Senior LoC to Guaranty Trust Bank Plc	2015	
16	P-Z1-K00-068	Maghreb Private Equity Fund II	2016	Yes
17	P-LR-HA0-001	Access Bank Liberia Equity	2016	Yes
18	P-NG-DB0-008	Lekki Toll Road Project	2016	Yes
19	P-Z1-IB0-013	The Africa Health Fund LLC	2016	Yes
20	P-ZM-HB0-002	PULSE Financial Services Limited of Zambia	2016	
21	P-ZM-HAZ-001	Zambia National Commercial Bank - LOC & PCG	2016	Yes
22	P-Z1-IB0-014	Investment fund for health in Africa (IFHA)	2016	Yes
23	P-Z1-AAZ-008	The GEF Africa sustainable forestry fund (ASFF)	2016	
24	P-CI-HA0-001	MicroCred Côte d'Ivoire	2016	Yes
25	P-NA-HB0-001	TrustCo Finance (Pty) Limited	2016	
26	P-Z1-KE0-007	EAIF(I&II) - Emerging Africa Infrastructure Fund	2016	Yes
27	P-UG-FAB-005	Buseruka/Kabalega Hydropower Project	2016	Yes
28	P-Z1-HAA-020	Atlantic Coast Regional Fund I (ACRF I)	2017	
29	P-Z1-HAA-024	Aureos Africa Fund	2017	Yes
30	P-ZA-HA0-003	Industrial Development Corporation (IDC) - LoC	2017	
31	P-Z1-HA0-004	African Export - Import Bank (AFREXIMBANK)	2017	Yes
32	P-Z1-BZ0-002	Catalyst Fund I	2017	Yes
33	P-RW-HAA-004	Banque Rwandaise de Developpement	2017	Yes
34	P-RW-HAB-001	Line of Credit for Bank of Kigali	2017	Yes
35	P-Z1-HAA-032	West African Development Bank (BOAD) - Line of credit (II)	2017	Yes
36	P-NG-HB0-001	African Reinsurance Company "Africa-Re"	2017	Yes

#	SAP code	Project name	XSR date	XSR-EN
37	P-KE-FAA-001	Thika Thermal Power Project	2017	Yes
38	P-ZA-HAA-009	Development Bank of Southern Africa (DBSA) - 5th Line of Credit	2017	
39	P-Z1-HAA-016	Trade and Development Bank (TDB) - Line of Credit and Equity	2017	
40	P-Z1-HB0-006	PTA Re-insurance Company (ZEP-RE)	2017	Yes
41	P-ET-BB0-001	Derba Midroc Cement	2018	
42	P-Z1-KE0-010	Argan Infrastructure Fund (ARIF)	2018	
43	P-Z1-K00-028	8 Miles LLC Fund	2018	
44	P-Z1-HAB-007	Line of Credit for Ecobank Transnational Incorporated	2018	Yes
45	P-RW-FG0-001	Kivu Watt Project	2018	Yes
46	P-Z1-HAA-075	Troisième Prise de participation au capital de la BOAD	2018	
47	P-NG-HAA-003	Export-oriented SME program - Line of Credit to NEXIM Bank	2018	Yes
48	P-MA-BAA-002	Prêt pour le financement du programme d'investissement de OCP	2018	Yes
49	P-UG-HA0-002	Housing Finance Bank Limited	2018	Yes
50	P-Z1-HAA-041	Line of Credit to Africa Finance Corporation, AFC	2018	Yes
51	P-NG-HAB-022	Rand Merchant Bank Nigeria Limited	2018	Yes
52	P-NG-HA0-005	Line of Credit for Fidelity Bank Plc	2018	Yes
53	P-Z1-HAA-050	LOC for Eastern & Southern African Trade & Development Bank (TDB)	2018	Yes
54	P-NG-HAB-017	LOC III to Zenith Bank	2018	Yes
55	P-TN-FD0-006	Prêt d'entreprise pour gazoduc du sud tunisien (Nawara)	2018	
56	P-ZA-DC0-010	Corporate Loan to Transnet I & II	2018	
57	P-Z1-H00-042	BOAD Ligne de credit III Tranche A, Tranche B et don FAPA	2018	
58	P-Z1-FAB-007	Itezhi Tezhi Power Corporation	2018	
59	P-Z1-HAA-022	West Africa Emerging Markets Fund	2019	Yes
60	P-Z1-AAZ-007	Africa Agriculture Fund (AAF)	2019	Yes
61	P-TG-DD0-001	Lome Container Terminal Project	2019	Yes
62	P-NE-HAB-001	Sonibank - Ligne de crédit de 13 Millions d'Euros	2019	Yes
63	P-Z1-HAB-011	RPA between AfDB & Standard Chartered Bank (SCB)	2019	Yes
64	P-NG-HAB-016	Stanbic IBTC Bank PLC	2019	Yes
65	P-MZ-HAB-001	Line of Credit for Moza Banco SA	2019	Yes
66	P-Z1-HAA-056	RPA between the AfDB and Afreximbank	2019	Yes
67	P-BF-HB0-001	Ligne de Crédit de 2,5 millions d'euros - Fidelis Finance SA	2019	Yes
68	P-Z1-HAB-020	RPA between the AfDB and First Rand Bank (FRB)	2019	Yes
69	P-Z1-HAB-044	RPA between the AfDB & Sumitomo Banking Corporation (SMBCE)	2019	Yes
70	P-MR-HAB-007	BCI en Mauritanie - Ligne de Crédit de 10 Millions de dollars EU	2019	Yes
71	P-TZ-HAB-009	CRDB Bank Limited Line of Credit 2015	2019	Yes
72	P-GH-DA0-001	Ghana Airports Company Limited (GACL)	2019	
73	P-Z1-D00-032	Nacala Rail and Port Project	2019	

Annex 2: Mapping and Coverage of the Reported Portfolio

As detailed below, the 73 XSRs produced in 2014–2019 belong to a diverse body of approvals ranging from 1995 to 2016. However, three XSRs belong to projects approved prior to the year 2000 and are for workout projects which remained in the NSO portfolio for a long time and have been subject to a lengthy liquidation process. Accordingly, the majority of the XSR population (96%) belong to the 2008–2016 body of approvals. Table A2.1 below is intended for mapping XSRs by release year (evaluation year) to their project approval year to follow good practice. It should not however be inferred that the 2014–2019 XSRs represent all the XSRs produced by the Bank on its private sector operations, or that the 2014–2019 XSRs should cover all Bank NSO approvals. The Bank started producing XSRs in 2009 and the practice was fully internalized by 2011. Accordingly, the Bank produced a significant number of XSRs in 2009–2013 and those XSRs covered a corresponding number of Bank NSO approvals. However, these reports do not fall under the scope of this synthesis which covers XSR results, quality, coverage and process for the years 2014–2019.

Table A2.1: 2014–2019 XSRs mapped by project approval year

	1995	1997	1999	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
XSR year														
2014	1	1	1	1	**4**	**2**	**1**							**11**
2015				1		**2**	**1**							**4**
2016					**6**	**1**	**2**	**3**						**12**
2017				1		**1**	**5**	**4**		1	1			**13**
2018					**1**		**3**	**5**	3	2	3		1	**18**
2019						**1**	**1**	**1**		2	4	4	2	**15**
Total	**1**	**1**	**1**	**3**	**11**	**7**	**13**	**13**	**3**	**5**	**8**	**4**	**3**	**73**

Assessing Compliance with the XSR Process

As per the Bank's guidelines, projects are eligible for XSRs when reaching early operating maturity. The process involves the following steps:

- Type and standing of the comparator organization;
- The population should be comprised of projects that have reached early operating maturity as per the time frame defined in the guidelines;
- Projects should be included in the designated population only once;
- The population should include all closed projects, regardless of whether or not they have reached early operating maturity;
- IDEV and PINS/operations should disclose how they defined the population and the criteria for including or excluding projects in line with the three criteria above.

However, the above-mentioned process has not been followed during the timeframe under review. No monitoring of early operating maturity for projects[32] has taken place. It is therefore not possible to know exactly how many NSOs should be subjected to an XSR. Accordingly, in order to assess how well the practice of including mature projects in the XSR exercise has been maintained, a specific approval timeframe was constructed. This timeframe starts in 2011, when the XSR practice was fully internalized at the Bank, and stops with 2014, since from 2015 onwards approvals would be too recent to expect a high number of projects to have reached early operating maturity.

The synthesis employed a proxy for early operating maturity to define projects eligible for XSR from among all 2011–2014 approvals. Using this proxy, the population of eligible projects is made up of projects with material disbursement, i.e. 50% and above[33]. As seen in Table A2.2 below, the Bank approved a total of 126 NSO projects in 2011–2014; among those 126 projects, only 87 projects have 50%+ disbursement.

Table A2.2: 2011–2014 NSO approvals with material disbursement

Approval year	No. of approved NSOs	NSOs with material disbursement	%
2011	32	29	91
2012	21	14	67
2013	33	22	67
2014	40	22	55
Total	**126**	**87**	**69**

As already mentioned above, the approval portfolio of 2011–2014 represents an optimal and specific range of approvals to which the 2014–2019 XSRs cohort will be mapped to assess coverage and compliance with good practice of including projects as they reach early operating maturity into the XSR process. A total of 87 projects (69%) in the 2011–2014 body of approvals approval have seen material disbursement and is at least five years post approvals at the time of this assessment, which prima facie makes them eligible for the XSR process.

The Table A2.3 compares the 2014–2019 XSRs to the 2011–2014 approvals which have material disbursement. Overall, the Bank produced 29 XSRs on a total of 87 project approvals with material disbursement, representing a coverage ratio of 33%. The highest coverage ratio is found for projects approved in the earliest year (2011). Accordingly, as per the proxy chosen above, 58 projects reached early operating maturity during the time frame (2011–2014) and were not included in the XSR process. Engagement with stakeholders revealed that resources in terms of budget and staff-time are the main reason behind not fully covering all operations maturing each year, and that to cover all mature projects, allocated budget for self-evaluation activities would need to be ramped up. The average XSR requires 59 days and a budget of USD 17,000 to be finalized.

Table A2.3: XSR coverage of 2011–2014 approvals[34]

Approval year	2011	2012	2013	2014	Total
Approved projects with material disbursement	**29**	**14**	**22**	**22**	**87**
XSR year					
2014	-	-	-	-	**-**
2015	-	-	-	-	**-**
2016	3				**3**
2017	4		1	1	**6**
2018	5	3	2	3	**13**
2019	1		2	4	**7**
Total XSRs	**13**	**3**	**5**	**8**	**29**

Assessing Selection and Performance Bias

To assess the possibility of selection bias, IDEV assessed the prevalence of non-performing loans (NPLs) among the 58 projects without XSRs, and the 29 projects with XSRs belonging to the 2011–2014 NSO Mature portfolio of 87 projects. On the one hand, there is only one project in the 29 projects with XSRs that is in "rehabilitation/recovery"[35], putting the ratio of NPLs at 3.5%. On the other hand, there are 5 projects among the 58 mature projects that have no XSR classified as "rehabilitation/recovery", putting the NPL ratio for this group of projects at 8.6%. This is an indication that the selection of projects for XSR was associated with a low incidence of workout projects. This selection bias places a limitation on the representativeness of the results reported in this synthesis exercise.

Table A2.4: Incidence of NPLs in projects with vs. projects without XSR

	No. of projects	No. of workout/rehabilitation projects
2011–2014 mature projects	87	6
Of which projects with XSR	29	1
Of which projects without XSR	58	5

Annex 3: Self and Validated Ratings for Each Performance Dimension[36]

Table A3.1: Business success rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	2	4.4	1	2.2	63
Satisfactory	32	69.6	28	60.9	
					% negative
Unsatisfactory	9	19.6	13	28.3	37
Highly unsatisfactory	3	6.5	4	8.7	
					% not rated
Not rated	-	-	-	-	-
Total	46		46		

Table A3.2: Economic sustainability rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	3	6.5	3	6.5	76.1
Satisfactory	38	82.6	32	69.6	
					% negative
Unsatisfactory	3	6.5	9	19.6	21.7
Highly unsatisfactory	1	2.2	1	2.2	
					% not rated
Not rated	1	2.2	1	2.2	2.2
Total	46		46		

Table A3.3: Environmental and social effects rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	5	10.9	0	-	80.4
Satisfactory	38	82.6	37	80.4	
					% negative
Unsatisfactory	2	4.4	8	17.4	17.4
Highly unsatisfactory	0	0.0	0	-	
					% not rated
Not rated	1	2.2	1	2.2	2.2
Total	46		46		

Table A3.4: Private sector development rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	9	19.6	4	9	**80.4**
Satisfactory	33	71.7	33	72	
					% negative
Unsatisfactory	4	8.7	9	20	**19.6**
Highly unsatisfactory	0	0.0	0	0	
					% not rated
Not rated	0	0.0	0	0	**0**
Total	**46**		**46**		

Table A3.5: Overall development outcome rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly successful	1	2.2	0	0.0	**73.9**
Successful	24	52.2	16	34.8	
Mostly successful	12	26.1	18	39.1	
					% negative
Mostly unsuccessful	2	4.4	4	8.7	**19.6**
Unsuccessful	2	4.4	3	6.5	
Highly unsuccessful	2	4.4	2	4.4	
					% not rated
Not rated	3	6.5	3	6.5	**6.5**
Total	**46**		**46**		

Table A3.6: Bank's investment profitability rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	6	13.0	3	6.5	**67.4**
Satisfactory	29	63.0	28	60.9	
					% negative
Unsatisfactory	7	15.2	11	23.9	**32.6**
Highly unsatisfactory	4	8.7	4	8.7	
					% not rated
Not rated	0	0.0	0	-	**0**
Total	**46**		**46**		

Table A3.7: Screening, appraisal and structuring rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	5	10.9	1	2.2	78.3
Satisfactory	35	76.1	35	76.1	
					% negative
Unsatisfactory	5	10.9	9	19.6	21.7
Highly unsatisfactory	1	2.2	1	2.2	
					% not rated
Not rated	0	-	0	-	-
Total	46		46		

Table A3.8: Overall development outcome vs. screening, appraisal and structuring

Positive DO & positive front-end work	Positive DO & negative front-end work
63.0%	10.9%
Negative DO & positive front-end work	Negative DO & negative front-end work
10.9%	8.7%

Table A3.9: Supervision and administration rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	4	8.7	3	6.5	76.1
Satisfactory	36	78.3	32	69.6	
					% negative
Unsatisfactory	6	13.0	11	23.9	23.9
Highly unsatisfactory	0	-	0	-	
					% not rated
Not rated	0		0		
Total	46		46		

Table A3.10: Bank’s additionality rating

Rating	Self-evaluation	%	Independent validation	%	% positive
Highly satisfactory	10	21.7	6	13.0	89.1
Satisfactory	34	73.9	35	76.1	
					% negative
Unsatisfactory	1	2.2	4	8.7	8.7
Highly unsatisfactory	0	0.0	0	-	
					% not rated
Not rated	1	2.2	1	2.2	2.2
Total	46		46		

Annex 4: Validated Ratings by Performance Dimension

Table A4.1: Validated ratings by performance dimension for the 46 XSR-ENs

(No. of projects)

<table>
<tr><th></th><th>HUS</th><th>US</th><th>MUS</th><th>MSU</th><th>SU</th><th>HSU</th><th>Not rated</th><th>Total</th></tr>
<tr><td>A) Development outcome*</td><td>2</td><td>3</td><td>4</td><td>18</td><td>16</td><td></td><td>3</td><td>46</td></tr>
<tr><th></th><th colspan="2">HU</th><th colspan="2">U</th><th>S</th><th>HS</th><th>Not rated</th><th>Total</th></tr>
<tr><td>A1) Business success</td><td colspan="2">4</td><td colspan="2">13</td><td>28</td><td>1</td><td></td><td>46</td></tr>
<tr><td>A2) Economic sustainability</td><td colspan="2">1</td><td colspan="2">9</td><td>32</td><td>3</td><td>1</td><td>46</td></tr>
<tr><td>A3) Environmental effects</td><td colspan="2"></td><td colspan="2">8</td><td>37</td><td>1</td><td>46</td><td></td></tr>
<tr><td>A4) Private sector development</td><td colspan="2"></td><td colspan="2">9</td><td>33</td><td>4</td><td></td><td>46</td></tr>
<tr><td>B) Investment profitability</td><td colspan="2">4</td><td colspan="2">11</td><td>28</td><td>3</td><td></td><td>46</td></tr>
<tr><td>C) Bank's work quality</td><td colspan="2">1</td><td colspan="2">9</td><td>35</td><td>1</td><td></td><td>46</td></tr>
<tr><td>C1) Screening, appraisal & structuring</td><td colspan="2">1</td><td colspan="2">9</td><td>35</td><td>1</td><td></td><td>46</td></tr>
<tr><td>C2) Supervision & administration</td><td colspan="2"></td><td colspan="2">11</td><td>32</td><td>3</td><td></td><td>46</td></tr>
<tr><td>D) Bank additionality</td><td colspan="2"></td><td colspan="2">4</td><td>35</td><td>6</td><td>1</td><td>46</td></tr>
</table>

* HUS: Highly Unsuccessful; US: Unsuccessful; MUS: Mostly Unsuccessful; MSU: Mostly Successful; SU: Successful; HSU: Highly Successful
HU: Highly unsatisfactory; U: Unsatisfactory; S: Satisfactory; HS: Highly Satisfactory

Table A4.2: Validated ratings by performance dimension for the 46 XSR-ENs

(% of projects)

<table>
<tr><th></th><th>HUS</th><th>US</th><th>MUS</th><th>MSU</th><th>SU</th><th>HSU</th><th>Not rated</th><th>Total</th></tr>
<tr><td>A) Development outcome*</td><td>4.4</td><td>6.5</td><td>8.7</td><td>39.1</td><td>34.8</td><td></td><td>6.5</td><td>100</td></tr>
<tr><th></th><th colspan="2">HU</th><th colspan="2">U</th><th>S</th><th>HS</th><th>Not rated</th><th>Total</th></tr>
<tr><td>A1) Business success</td><td colspan="2">8.7</td><td colspan="2">28.3</td><td>60.9</td><td>2.2</td><td></td><td>100</td></tr>
<tr><td>A2) Economic sustainability</td><td colspan="2">2.2</td><td colspan="2">19.6</td><td>69.6</td><td>6.5</td><td>2.2</td><td>100</td></tr>
<tr><td>A3) Environmental effects</td><td colspan="2"></td><td colspan="2">17.4</td><td>80.4</td><td></td><td>2.2</td><td>100</td></tr>
<tr><td>A4) Private sector development</td><td colspan="2"></td><td colspan="2">19.6</td><td>71.7</td><td>8.7</td><td></td><td>100</td></tr>
<tr><td>B) Investment profitability</td><td colspan="2">8.7</td><td colspan="2">23.9</td><td>60.9</td><td>6.5</td><td></td><td>100</td></tr>
<tr><td>C) Bank's work quality</td><td colspan="2">2.2</td><td colspan="2">19.6</td><td>76.1</td><td>2.2</td><td></td><td>100</td></tr>
<tr><td>C1) Screening, appraisal & structuring</td><td colspan="2">2.2</td><td colspan="2">19.6</td><td>76.1</td><td>2.2</td><td></td><td>100</td></tr>
<tr><td>C2) Supervision & administration</td><td colspan="2"></td><td colspan="2">23.9</td><td>69.6</td><td>6.6</td><td></td><td>100</td></tr>
<tr><td>D) Bank additionality</td><td colspan="2"></td><td colspan="2">8.7</td><td>76.1</td><td>13.0</td><td>2.2</td><td>100</td></tr>
</table>

* HUS: Highly Unsuccessful; US: Unsuccessful; MUS: Mostly Unsuccessful; MSU: Mostly Successful; SU: Successful; HSU: Highly Successful
HU: Highly unsatisfactory; U: Unsatisfactory; S: Satisfactory; HS: Highly Satisfactory

Annex 5: XSR Quality Assessment Ratings

Table A5.1: XSR quality assessment ratings overall

Rating	No. of projects	%	% positive
Highly satisfactory	9	19.6	**93.5**
Satisfactory	34	73.9	
			% negative
Unsatisfactory	3	6.5	**6.5**
Highly unsatisfactory	0	0.0	
			% not rated
Not rated	0	0.0	
Total	**46**		

Table A5.2: Validation dimensions

Validation dimension	Satisfactory or higher (No. of projects)	%
A. Validation of analysis		
Adequacy of analysis of project objectives, expected results & formulation (including the indicators/benchmarks, consistency with appraisal & subsequent revision)	42	91.3
Adequacy of analysis of project implementation, status and project context	42	91.3
Soundness of judgment on project's development outcome as assessed based on business success; economic sustainability; environmental and social sustainability and private sector development	36	78.3
Soundness of judgment on the Bank's investment profitability	42	91.3
Soundness of judgment on the Bank's Work Quality	34	73.9
B. Validation of overall conclusions		
Responsiveness of the XSR to its scope	35	76.1
Reliability of the overall analysis	42	91.3
Impartiality and consistency in individual indicator and rating judgment	36	78.3
Consistency of overall performance dimension ratings with individual rating components	42	91.3
Appropriateness and completeness of conclusions, identified issues, lessons and recommendations	36	78.3

A four-point scale is to be used for rating the quality of the XSR. The four points are defined as follows:

4 = Highly satisfactory. No significant qualifications. Use the Rating Validation Sheet for purpose of confirmation;
3 = Satisfactory. Some qualifications, but generally acceptable. Use the Rating Validation Sheet format for purpose of confirmation and analysis as required;
2 = Unsatisfactory. Qualifications calling for adjustments/improvements of the XSR analysis using the Rating Validation Sheet;
1 = Highly unsatisfactory. Significant qualifications, calling for significant improvements of the XSR. This rating may call for thorough review of documents to prepare the Rating Validation Sheet. There may also be a need to conduct field mission.

References

African Development Bank (AfDB), *Revised Guidelines for Expanded Supervision Reports and Expanded Supervision Reports Review Notes*, July 2012

The Evaluation Cooperation Group (ECG), *GPS on the Evaluation of Private Sector Operations, Fourth Edition*, November 2011

African Development Bank (AfDB), *work program (2014 – 2016) for the Independent Evaluation Department (IDEV)*, November 2013

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African Development Bank (AfDB), *work program (2019 – 2021) for the Independent Evaluation Department (IDEV)*, February 2019

African Development Bank (AfDB), *At the Center of Africa's Transformation, Strategy for 2013–2022*, 2013

African Development Bank (AfDB), Annual Development Effectiveness Review (ADER), 2016

African Development Bank (AfDB), B*ank Group Results Measuring Framework (2016 – 2025)*, April 2017

African Development Bank (AfDB), *Supporting the Transformation of the Private Sector in Africa, Private Sector Development Strategy 2013–2019*, July 2013.

Endnotes

1 https://www.ecgnet.org/documents/4795/download

2 ADB/BD/WP/2012/106

3 The 2014–2019 XSRs and validation covered in IDEV's Synthesis Report were governed by the Bank's 2012 Guidelines for the Preparation of XSRs and XSRENs. IDEV, in collaboration with PINS, recently reviewed these guidelines. The forthcoming Revised Guidelines will become effective in 2021 after approval.

4 As per the Bank's 2012 Guidelines for the Preparation of XSRs, all NSOs that achieve early operating maturity (EOM) are eligible for self-evaluation and hence prepare an XSR. EOM is determined by project type and other criteria such as the level of disbursement and co-financing, generation of operating revenues, duration since approval, audited financial statements etc.

5 The Results Reporting System (RRS) for NSO is an adjustment of the existing RRS system developed under SAP for SOs taking into account the specificities of the NSO instruments and clients. This adjustment will facilitate the consolidation and reporting of results from both SO and NSO operations.

6 Recommendation 2, Action 1

7 Recommendation 5, Action 3

8 https://www.ecgnet.org/documents/4795/download

9 ADB/BD/WP/2012/106

10 See for example its recent evaluation of the Bank's self-evaluation systems and processes: http://idev.afdb.org/en/document/evaluation-banks-self-evaluation-systems-and-processes.

11 Where investments are made directly to enterprises instead of through financial intermediaries. This could include projects in Agriculture, Industry, Building and Construction, and Services.

12 The strategy was originally intended for 2013-2017 but subsequently extended to 2019. See also IDEV's Evaluation of the 2013-2019 Private Sector Development Strategy: http://idev.afdb.org/en/document/evaluation-afdbs-private-sector-development-strategy-2013-2019.

13 See also IDEV's Evaluation of the Bank's Role in Increasing Access to Finance in Africa: http://idev.afdb.org/en/document/evaluation-banks-role-increasing-access-finance-africa-thematic-evaluation.

14 Rehabilitation/Recovery are collectively referred to as "workout projects" at the Bank. All workout projects can be considered Non-Performing.

15 SNDR receives XSRs from operations departments each year. The 14 XSRs not reported on were not received by SNDR.

16 The performance of the four projects in this dimension have fallen below the benchmarks for satisfactory performance.

17 The evidence provided in XSR and XSR-EN for those projects merited a downgrade of the ratings.

18 This is the same 1999 approved project which received the Highly Unsatisfactory Business Success Rating.

19 The XSRs did not provide adequate information to justify the highly satisfactory rating.

20 The six-point rating scale in respect of the Overall Development Outcome is Highly Successful, Successful, Mostly Successful, Mostly Unsuccessful, Unsuccessful and Highly Unsuccessful.

21 The four-point rating scale with respect to the sub-dimensions is Highly Satisfactory, Satisfactory, Unsatisfactory and Highly Unsatisfactory.

22 Results and Performance of the World Bank Group 2018

23 A total of 253 investment projects approved in 2009–2013 and evaluated by 2018

24 The Bank does not have guidelines for evaluation of technical assistance or advisory operations.

25 The term 'role and contribution' is used interchangeably with the term 'additionality' in the 2012 guidelines.

26 Projects in the current synthesis report benefited from the full implementation of the ADOA framework in 2009 which brought strong attention to the additionality criterion in project selection, assessment and approval.

27 Such as risk management systems and environmental management desks.

28 This data was obtained from the ERG member departments undertaking XSR Exercises.

29 This is the lowest positive rating among all sub criteria for XSR quality.

30 The EVRD is available to Bank staff via the Bank's intranet and to the general public via evrd.afdb.org

31 This is a recurring success factor in many NSO projects. However, it is more so for infrastructure projects with complicated structures, potential for construction delays, cost overruns, sub-contracting and strong need for sponsor expertise.

32 The GPS indicate that net approval population projects reaching early operating maturity should be subject to an XSR.

33 Projects with zero or disbursement below 50% have been excluded.

34 This table shows how many of the mature projects in the Bank's 2011–2014 NSO approvals have an XSR. It should be noted that the remaining number of 2014–2019 XSRs have been excluded from this table. This is because the remaining number of XSRs produced in 2014–2019, which are 44 reports, belong to either 1995–2010 approvals (37 reports), or 2015–2016 approvals (7 reports).

35 Rehabilitation/Recovery are collectively referred to as "workout projects" at the Bank. All workout projects can be considered Non-Performing.

36 The full rating scale is set out in the Technical Annexes

IDEV

Independent Development Evaluation

African Development Bank

An IDEV **XSR Validation Synthesis**

About this evaluation

The African Development Bank Group undertakes self-evaluation of its non-sovereign operations through Expanded Supervision Reports (XSRs) produced by the designated Bank departments for projects that reach Early Operating Maturity. Independent Development Evaluation subsequently reviews a sample of these XSRs and produces an XSR Evaluation Note for each XSR reviewed, as well as a synthesis report for the period under study, in this case, 2014–2019.

This report synthesizes findings from the validations of 46 of the 73 XSRs produced over the period, which represent 63% coverage by volume. The report assessed compliance with the Bank's XSR process, the quality of the XSRs, the development outcome of Bank interventions, and the Bank's investment profitability, work quality and additionality.

Based on the conclusions of the validation, IDEV drew lessons and formulated relevant recommendations for the Bank.

IDEV

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