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AFRICAN DEVELOPMENT BANK

2013-2017 PSD STRATEGY BACKGROUND REPORT NO. 1

Literature Review
and Institutional
Comparison

Independent Development
Evaluation Department

Centennial Group
International

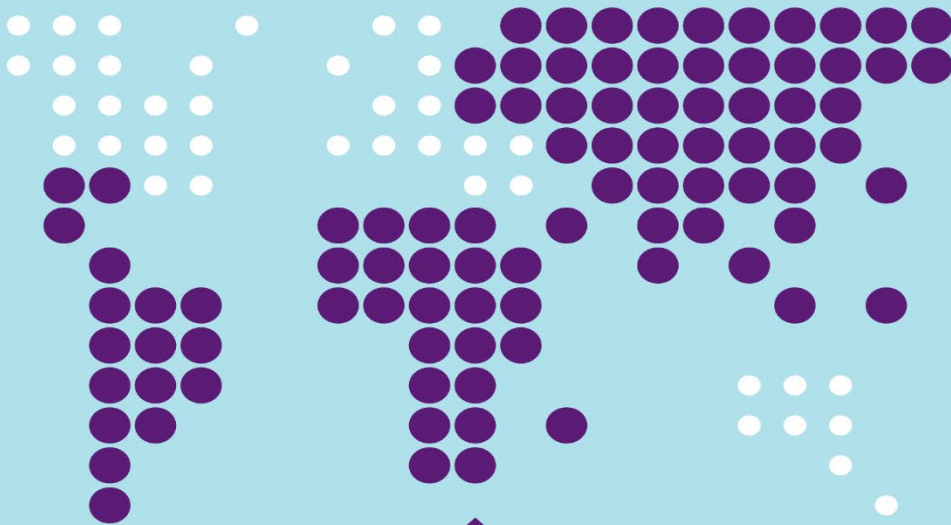


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ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
ADOA	Additionality and Development Outcome Assessment
AIB	Asian Infrastructure Investment Bank
AsDB	Asian Development Bank
AVCD	Agriculture Value Chain Development
CSP	Country Strategy Paper
DBDM	Delivery and Business Development Model
DFI	Development Finance Institution
EBRD	European Bank for Reconstruction and Development
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
IADB	Inter-American Development Bank
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
IsDB	Islamic Development Bank
MDB	Multilateral Development Bank
MENA	Middle East and North Africa Region
MFI	Micro Finance Institution
MSME	Micro, Small and Medium Enterprise
NSO	Non Sovereign Operation
ODA	Overseas Development Assistance
OECD/DAC	Organization for Economic Cooperation and Development/Development Assistance Committee
OOF	Other Official Finance
PCR/EN	Project Completion Report/Evaluation Note
PPI	Private Participation in Infrastructure
PPP	Public Private Partnership
PSD	Private Sector Development
PSDC	Private Sector Development Steering Committee
PSE	Public Sector Enterprise
RISP	Regional Integration Strategy Paper
RMC	Regional Member Country
RMF	Results Monitoring Framework
SDGs	Sustainable Development Goals
SSA	Sub Saharan Africa
TYS	Ten Year Strategy
UA	Unit of Account
UN	United Nations
WBG	World Bank Group
XSR/EN	Extended Supervision Report/Evaluation Note

EXECUTIVE SUMMARY

Introduction

- i. The PSD strategy was approved by the Bank's Board in 2013; its implementation horizon was initially expected to last until 2017. This was extended to June 2020 in order to provide time for an evaluation of the strategy by the Independent Evaluation Department and to prepare a new strategy for 2020-2024.
- ii. The PSD strategy was formulated in the context of a flagship report on PSD, the Bank's Ten Year Strategy and insights into the implementation experience from Bank PSD strategies over the previous two decades.
- iii. The vision of the strategy 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" and its objective was to "contribute to sustainable African development and poverty reduction by promoting broad-based economic growth through effective private sector development".
- iv. This background report to the evaluation of the strategy reviews the evolution of the PSD agenda in the Bank's institutional strategies based on the development community's PSD knowledge base and evaluative evidence and the impact of institutional policy changes on the Bank's PSD strategy and programs. It also reviews the experience of other MDBs with regard to private sector policy and strategy development, and operational benchmarking.

Main Findings

- v. **There is complete congruence between the Bank's Ten Year Strategy (2013-2022) and the PSD strategy.** The PSD Strategy is hence highly relevant to the achievement of the TYS. The review of Quality at Entry considered its contextual suitability and its design quality.
- vi. **Contextual suitability could have been improved with greater attention to analytical underpinnings and the Bank's delivery capacity.** Analytical underpinnings should have focused on: the impact of the Arab Spring; analysis of private investment; and a better understanding of productivity constraints. The strategy could also have more clearly defined the Bank's role based on its financing constraints, staffing skills and organizational arrangements for ensuring critical mass of skills.
- vii. **Design quality was consistent with the state of the art at the time of the strategy's preparation but there was no explicit Theory of Change and the Results Monitoring Framework did not directly measure outcomes.** First, the PSD Strategy did not have an explicit Theory of Change; its stated objective erroneously combined development impact

(i.e. sustainable development and poverty reduction in Africa) with desired outcomes (i.e. promoting broad-based economic growth, employment and inclusive development). Its stated outcomes are, hence, focused on the achievement of pillar level goals. Second, the PSD Strategy Results Monitoring Framework did not include indicators directly measuring outcomes (i.e. job creation, private investment or productivity).

- viii. **The Bank's PSD strategy appropriately did not define a single Africa-wide approach but could have provided more explicit guidance on adapting country level PSD programs and focusing on market system development.** Given that the private sector is present in most economic sectors, PSD is a multi-dimensional theme. PSD programs provide a mix of financial and non-financial instruments supporting enterprises and assist Governments in improving the investment climate and infrastructure. PSD strategies and interventions can be economy-wide, sector-specific or targeted at specific groups of firms or a combination thereof. Outputs of PSD strategies and interventions are, hence, highly context or country specific and donor support also varies considerably as a result. The strategy could, however, have provided more explicit guidance on particularly the balance of activities across the three pillars and the use of the direct (to private sector) and indirect (through Government) channels. The strategy could also have focused more explicitly on how individual operations were supporting overall market development by fostering innovation; generating demonstration effects; enhancing skills, capacities and governance structures at firm level; and supporting integration into value chains.
- ix. **The Bank also could have better aligned its separate but parallel PSD and Financial Sector strategies.** Since the new PSD and Financial Sector strategies are both under preparation, there is a unique opportunity for the Bank to ensure goal congruence, joint implementation planning and common monitoring and evaluation mechanisms.
- x. **The activities included under the three pillars of the Strategy were largely consistent with the evaluative evidence. They were relevant but effectiveness was impacted by challenges of attribution, scale, late engagement, and inadequate focus on market development, instrument mix and instrument selection and quality of targeting approaches.** Activities under the improving investment and business climate pillar were necessary but not sufficient conditions for PSD which led to attribution challenges and lack of clarity as to whether improved outcomes for businesses translated into improved outcomes for society. Activities under the expanding access to social and economic infrastructure pillar focused on Public Private Infrastructure through upstream policy reform, project preparation and project financing. While successful and sustainable, additionality was low due to late Bank engagement. Activities under the enterprise development pillar included a wide variety of financial instruments (e.g. lines of credit, equity, guarantees, microfinance) and non-financial support instruments (e.g. entrepreneurial and business training, matching grants for technology acquisition); these were at times targeted at particular types of enterprises, sectors or value chains. Effectiveness was impacted by: inadequate focus on market development; instrument mix and instrument selection; and quality of targeting approaches.

- xi. **During implementation, the Strategy was impacted by two major Bank initiatives: the High 5s and the Development and Business Delivery Model initiative.** The introduction of the High 5s resulted in a de facto or unintended ‘mainstreaming’ of PSD into Bank priority themes. The Bank’s results monitoring has shifted to High 5 achievements and monitoring per the PSD RMF has ceased. Given the wide range of PSD related activities in the High 5s, the Bank has de facto committed to a significant Private Sector Development agenda; the process of developing the new PSD strategy should therefore review and rationalize existing PSD related High 5 commitments prior to defining new programs. The DBDM implementation has led to a lack of clarity regarding PSD and caused confusion and encouraged competition between Bank entities for scarce resources and decision-making authority with responsibility being split across regions, sector complexes and the Private Sector, Infrastructure and Industrialization Vice Presidency (which has a central monitoring role). A ‘One Bank’ vision with three key principles i.e. quality, delivery and joint responsibility was introduced in January 2019 and implementation was expected to commence in January 2020.
- xii. **A comparison with other MDBs revealed that the Bank’s treatment of PSD issues was broadly consistent with those adopted by comparator institutions.** PSD was a part of institutional strategies though PSD strategies were not the norm in comparator institutions and even where available were fairly dated. Where PSD strategies were prepared, their elements were consistent with the three pillars of the Bank’s strategy.
- xiii. **The Bank has only 5 validated completion reports for Non-Sovereign operations approved during the PSD strategy period; operational benchmarking on the basis of such a small sample would not be representative and was not hence undertaken.** There is a rich data set from comparator institutions pointing to a wide variation of development outcomes, financial performance, economic sustainability and environmental and social performance. This is partly attributable to regional differences as is evident from disaggregated data from one comparator institution. There is a large cohort of NSOs approved during 2013-2015 which should be approaching completion reporting in the near future; operational benchmarking should be revisited when a sufficiently large number have been evaluated and validated.

I. Introduction

1. This literature review and benchmarking report is the first of three background reports in support of the African Development Bank Independent Development Evaluation's review of the Bank's 2013-2017 Private Sector Development Strategy (African Development Bank Group, 2013). Two additional reports (i.e. a country case studies report and a portfolio and institutional performance report) will supplement the analysis contained in this report.
2. This report has two objectives. First, based on the development community's PSD knowledge base and evaluative evidence, the report reviews the evolution of the PSD agenda in the Bank's institutional strategies and impact of institutional policy changes on the Bank's PSD strategy and programs. Second, it reviews the experience of other MDBs with regard to private sector policy and strategy development, and operational benchmarking.
3. The report consists of four sections. The introduction (this section) summarizes the key aspects of the PSD strategy and its links to the Ten Year Strategy. Section II reviews the design quality and contextual suitability of the strategy and its links to the High 5s. Section III describes implementation mechanisms and progress made. Section IV undertakes policy and strategy comparisons as well as operational benchmarking with comparator institutions.

I.1 The Bank's Ten Year Strategy and 2013-2017 PSD Strategy

4. **The PSD strategy was formulated in the context of a flagship report on PSD, the Bank's Ten Year Strategy and insights into the implementation experience from Bank PSD strategies over the previous two decades.**
 - The PSD Flagship Report (African Development Bank, 2011) highlighted key issues confronting private sector development in Africa including the legal and regulatory environment, developing and financing infrastructure, access to finance, human capital and skills development, corporate governance and entrepreneurship development. It identified the role of the Bank in helping Governments and the African private sector in addressing these issues.
 - The Ten Year Strategy (TYS) focused on two objectives to improve the quality of Africa's growth i.e. inclusive growth and the transition to green growth (African Development Bank Group, 2013a). It identified Private Sector Development (PSD) as one of five operational priorities¹. Under the PSD operational priority, the Bank

¹ The other four priorities were: infrastructure development; regional integration; governance and accountability; and skills and technology.

expected to “help Africa significantly expand domestic and foreign investment and promote African businesses and entrepreneurs” and focused on four key areas. First, advisory services and institutional support would be provided to improve the business environment and to strengthen the quality and effectiveness of public administrative services to enterprises. Second, investments would be made in infrastructure and skills development. Third, support would be provided for value-chain links and clusters, particularly in agribusiness and extractive industries. Finally, support would be provided to private enterprises through investments and institutional support. When feasible, solutions were expected to support and not substitute for private and commercially operated initiatives and institutions i.e. operations would crowd in commercial operators, rather than crowding them out.

- Under the PSD operational priority, the TYS also defined financial sector objectives: to deepen and expand financial and capital markets; provide equity and debt financing through the financial sector including through multi-country private equity funds; develop and deploy risk-sharing, risk mitigation and credit enhancement instruments; improve Africa’s financial infrastructure (including collateral registries, credit bureaus, credit ratings, and payment and settlement systems); mobilize public and private resources through syndication and combine concessional resources with non-sovereign guaranteed financing; provide trade finance; and enhance financial inclusion.
 - The strategy had been preceded by Bank PSD strategies over the preceding twenty three years i.e. the 1990 PSD strategy, the 2004 PSD strategy and the 2008 PSD strategy update. Key shortcomings from these strategies were identified and were expected to be addressed by the new strategy. These included: strategic drift resulting from unclear corporate priorities for PSD; insufficient attention paid to weak institutional environment and regulatory constraints; insufficient priority given to mainstreaming PSD within country and sector strategies; insufficient coordination between the Bank’s sovereign and non-sovereign operations; better balance between the Bank’s development objectives and risk management; and greater attention to financial sector development and financial intermediation.
5. The PSD strategy was approved by the Bank’s Board in 2013; its implementation horizon was initially expected to last until 2017. In June 2019, management provided a status update and requested the Board for an extension of the PSD strategy up to June 2020 in order to provide time for an evaluation of the strategy by the Independent Evaluation Department and to prepare a new strategy for 2020-2024 (African Development Bank Group, 2019a).
6. **The PSD strategy’s salient features were:**
- **Vision:** 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”.

- **Objective:** to “contribute to sustainable African development and poverty reduction by promoting broad-based economic growth through effective private sector development”.
- **Five operational principles** regarding the Bank’s role in PSD: ultimate ownership of the PSD agenda lies with RMCs; selectivity in interventions; demonstration of ‘additionality’ in intended interventions; attracting other partners in interventions; and Bank interventions not compromising its financial integrity.
- **Three pillars** i.e. improving investment and business climate, expanding access to social and economic infrastructure and enterprise development.
- **Three areas of special emphasis.** Fragile states, agriculture and food security, and gender; these areas of special emphasis were the same as those in the TYS.
- **Three outcomes** i.e. an enabling business climate supporting investment and the development of socially responsive enterprises; increased access to social and economic infrastructure; and a diverse, dynamic, entrepreneurial, innovative, and broad based enterprise sector, producing goods and services for domestic and foreign consumption.
- **Outputs** focused on the development of private sector capacities which would: support Regional Member Countries achieve more inclusive and environmentally sustainable economic growth; improved access to social and economic infrastructure; and enhanced competitiveness of the private sector across Africa.
- **Operational priorities.** 37 operational priorities were defined (**Table 1**).

Table 1: PSD Strategy Operational Priorities

Pillar 1 - Improving Africa’s investment and business climate
1. Policy initiatives that champion reducing the attraction of informal-sector activities
2. Initiatives to deepen and expand financial and capital markets
3. Initiatives to improve Africa’s financial infrastructure
4. Initiatives to improve innovation, entrepreneurship, knowledge and skills
5. Facilitate policy dialogue between regional, national, and, where necessary, sub-national private sector stakeholders
6. Initiatives that improve institutional and operational frameworks for public-private partnerships (PPPs)
7. Strengthening regional economic communities and national authorities
Pillar 2 - Expanding access to social and economic infrastructure
8. New infrastructure or rehabilitation initiatives
9. Maintain leadership role in continental infrastructure initiatives, such as New Partnership for Africa’s Development and Infrastructure Consortium for Africa
10. Initiatives strengthening access and capacities to deploy efficient and/or climate-proof infrastructure systems
11. Initiatives meeting Africa’s rising demand for energy, with an emphasis on clean energy and energy efficiency
12. Private infrastructure and public-private partnerships
13. Initiatives for export-oriented growth based on the development of effective Export Processing Zones
Pillar 3 – Enterprise development
Access to financial services and the supply of long-term capital
14. Partner with financial institutions (commercial and DFIs including banks, private equity funds, etc.) to facilitate intra-Africa investment and trade and enable them to give better service to MSMEs, traders and women
15. Work with governments and the private sector to establish technology-based business models to help the ‘unbanked’ and the ‘under-banked’

<p>16. Initiatives involving working directly with individual MSMEs to improve creditworthiness, financial literacy and growth potential</p> <p>17. Support direct financial assistance to enterprises through catalytic, long-term debt and equity, guarantees, loan syndications and underwriting, particularly initiatives in agribusiness, industrial modernization, extractive industries (mining, oil and gas) as well as regional integration and support mechanisms (social infrastructure, financial instruments, etc.) for local communities</p>
<p>Specific obstacles for MSMEs</p> <p>18. Review, and where necessary adjust the framework for supporting micro-finance investments and programs, particularly those aimed at entrepreneurship development.</p> <p>19. Fine-tune support to MSMEs through financial intermediaries given OPEV evaluation.</p> <p>20. Enhance technical assistance initiatives aimed at provision of financial services and non-financial needs and requirements of MSMEs</p> <p>21. Initiatives that systematically create opportunities to link local enterprises into the supply chain of international enterprises</p> <p>22. Initiatives that provide enterprises, including MSMEs, with incentives for promoting technologies and knowledge for greener industrial products</p> <p>23. Deepen partnerships with others involved in MSME development in Africa, including co-financing technical assistance programs</p>
<p>Weak value chain linkages</p> <p>24. Intra-regional investments and export value chains</p> <p>25. Improvements in market access for small farmers and MSMEs</p> <p>26. Improving capacity of Africa's producers, particularly manufacturers and related industries and helping link them to regional and international markets</p> <p>27. Ensuring access to information and knowledge</p> <p>28. Developing local skills and technological capabilities</p> <p>29. Supporting technology and skills transfer by facilitating private investment across borders</p> <p>30. Capitalizing on Bank's significant direct and indirect financing of large-scale enterprises and projects for demonstration effect</p> <p>31. Linking value chain development with green growth criteria and promoting public private partnerships</p>
<p>Areas of special emphasis</p>
<p>Fragile States:</p> <p>32. Strengthen support toward better business- and investment-enabling environments, taking into account challenges and opportunities in each of these states (Pillar I).</p> <p>33. Greater innovation in undertaking Bank-financed private sector operations through use of innovative risk mitigation instruments such as partial risk guarantees that provide private sector investors with comfort on the contractual undertakings of governments or state-owned entities (Pillar III)</p>
<p>Agriculture and food security:</p> <p>34. Investing in rural infrastructure (rural roads, irrigation, storage facilities, access to markets, conservation systems and supply networks). Wherever possible, support initiatives for building resilience to climatic shocks like droughts, promoting efficient and sustainable use of land, forest, water and other natural resources, and providing sustainable infrastructure.</p> <p>35. Sustained coordinated investment using an integrated value-chain approach and increased linkages with the private sector, by promoting PPPs in agricultural projects and programs.</p>
<p>Gender:</p> <p>36. Finalize the Bank Group's Gender Strategic Framework to guide Bank activities in gender mainstreaming, improve effectiveness of gender mainstreaming in operations and improve monitoring of results.</p> <p>37. Support initiatives to increase women's human capital – skills, management training, business mentors and networks; expand awareness of women's success as entrepreneurs; improve voice of women in investment climate policy circles; and level the playing field for women by emphasizing improving access to finance and education, eliminating gender bias in labor policies, land tenure and administration, and building skills in science, technology and entrepreneurship.</p>

II. Design Quality and Contextual Suitability

7. **There is complete congruence between the Ten Year Strategy and the PSD strategy and the PSD Strategy is hence highly relevant to the achievement of the TYS.** This congruence arises in part to the timing and sequencing between the two strategies. In fact, the TYS document clearly indicates that the PSD Strategy would guide the achievement of the goals of the operational priority on PSD. A comparison of the TYS PSD operational priority goals and the PSD strategy operational priorities (Table 1) confirm this alignment.
8. The PSD strategy is reviewed for its contextual suitability and design quality in the remainder of this section.

II.1 Contextual Suitability of the PSD Strategy

9. The assessment of contextual suitability focused on two aspects which should have been known at the time of design. First, the extent to which analytic underpinnings were appropriately utilized to ensure a ‘fit’ between the needs of African countries’ private sectors and support envisaged under the strategy. Second, the realism of the strategy i.e. the ambition of targets relative to the financial and staffing resources that the Bank could deploy in support of private sector development.

II.1.1 Improved Analytical Underpinnings

10. While the strategy focused on helping African countries recover from the aftermath of 2008 global financial crisis and on the need to do more in fragile states, it could have strengthened its analysis of three key issues:
 - **Impact of Arab Spring.** At the time that the strategy was written, the impacts from the Arab Spring had occurred in several countries in North Africa in terms of changes in political and governance environments and also on economic/growth prospects particularly the impact of these changes on domestic and foreign investment. While this subject received coverage in the 2012 African Economic Outlook, the PSD Strategy does not make a single reference to this important contextual development².
 - **Investment Analysis.** The strategy provided a positive picture regarding significant increases in FDI over the previous decade noting that FDI exceeded ODA. While over the longer term FDI had indeed increased significantly, over 2009-2012, FDI levels in Africa had remained invariant particularly for the lower income countries in Africa. The 40 ADF countries (as classified in 2013) had benefited from average annual inflows of \$31.5 billion during 2009-2012; this figure remained unchanged during 2013-2018. The 14 ADB countries benefited from average annual inflows of \$19.9 billion during 2009-2012; this amount

² The 2019 Strategy Extension indicates that the Strategy faced a challenging operating environment resulting, inter alia, from socio-economic transition. A footnote clarifies that this refers to the ‘Arabic Spring’.

declined to \$17.5 billion during 2013-2018³. The analysis could also have given greater attention to the sector composition of FDI and its impact on growth and job creation. For example, FDI in primary extractive sectors could be expected to have a limited impact on job creation.

- **Productivity.** The strategy primarily focused on improved infrastructure as the path to improving productivity with a more limited focus on agricultural productivity. Given the scarcity of investment capital, the strategy could have had a more significant focus on improving productivity in manufacturing/industry and services as a key avenue for private sector led growth.

II.1.2 Realism Regarding the Bank's Role Based on Its Financing and Staff Capacities

11. The strategy could also have more clearly defined the Bank's role based on its financing constraints, staffing skills and organizational arrangements for ensuring critical mass of skills. The strategy noted the risks of limited finance and capacity; however, it did not specify the Bank's role in the African aid architecture or clearly define its institutional capacity/skills constraints. The strategy should have taken into account the availability of Bank funding for Regional Member Countries especially since support differed markedly for concessional (i.e. African Development Fund) and non-concessional (from the African Development Bank balance sheet) funding. It should also have differentiated the capacity/skills available by pillar and the extent to organizational arrangements ensured the availability of critical mass for PSD skills.

12. Concessional Finance. The Bank should have been more conservative in setting targets for its impact in ADF countries in general and PSD programs in such countries in particular as it made a modest contribution - 5.4 percent of ODA disbursements during 2009-2012 - to the 40 countries to which it provided concessional funding/Overseas Development Assistance⁴. Similar to other MDBs, ADF concessional finance was provided to countries based on per capita income levels and market access with the terms of finance being determined by debt sustainability considerations. In addition to the overall modest levels of support, 58 percent of 2009-2012 funding was provided to ten countries and another 17 percent for regional programs⁵. Out of 40 countries eligible to receive concessional finance in 2013, 18 countries received annual disbursements of less than \$20 million per annum during 2009-2012, 8 countries between \$20 million to \$50 million and 14 countries received greater than \$50 million. Hence, the overall availability

³ Data from 2019 World Investment Report, Annex Table 1 (UNCTAD, 2019). There was considerable volatility at the country level.

⁴ Percentage calculated for ADF eligible countries as of 2013 classification (African Development Fund, 2013). During 2013-2017, the Bank's share reduced slightly to 5.1% which may have been in part due to changes in country eligibility. When including all African countries, the percentage is lower at 4.7 percent during 2009-2012 and 4.3 percent during 2013-2017.

⁵ Ten countries (in descending order of funds disbursed): Democratic Republic of Congo, Ethiopia, Tanzania, Kenya, Ghana, Uganda, Cote d'Ivoire, Mozambique, Burkina Faso, Rwanda and Mali. Centennial calculations based on OECD DAC Table 2a. The share increased slightly to 59 percent during 2013-2017.

of concessional finance from the Bank for all programs (including PSD) was extremely limited for a number of countries.

13. **Non-concessional Finance. The Bank played a more significant role in non-concessional finance in Africa providing 44 percent of Other Official Finance (OOF) during 2009-2012 for the 14 ADB countries⁶.** While the disbursement data does not separate the non-sovereign portion of the non-concessional finance, non-sovereign lending was impacted by Bank policies and prudential risk guidelines which limited the use of its balance sheet for non-sovereign finance. The PSD strategy's ambition could have been better calibrated given that the extent to which the Bank's non-concessional portfolio could grow based on existing capital constraints was known. In fact, during 2013-2017, the Bank's share of OOF to the 14 ADB countries reduced significantly to 23 percent due in part to a slight decline in the Bank's disbursements but primarily due to a significant rise in OOF from other donors.
14. **AfDB's technical expertise.** At the time of the strategy's formulation, the Bank had a lengthy history of functioning as an infrastructure bank focused on regional integration; it was, hence, well positioned to support infrastructure (the second pillar). The Bank had also significantly increased its private sector lending over the decade preceding the strategy and built up expertise in its private sector team and was therefore also reasonably positioned to support enterprise development (the third pillar). This situation changed significantly in 2015 when, during the move of headquarters from Tunis back to Abidjan, a significant number of its NSO staff left the Bank. However, this could not have been foreseen at the time the strategy was designed. Finally, the Bank had limited skills and staffing able to support activities under investment climate (the first pillar).
15. The absence of Bank staff skills and finance across the range of PSD programs should not in and of itself have been a major issue. Given the large thematic scope of PSD, no single donor has funded – or can be expected to have staffing skills – across an entire country PSD program. Donor programs usually fit within a larger sequenced country level PSD program which highlights the importance of country level PSD coordination mechanisms. The evidence suggests that even where donor coordination has existed for PSD, it has focused more on information exchange rather than more systematic approaches used in other sectors (e.g. Sector Wide Approaches). By more explicitly recognizing the differential availability of staffing skills across the range of specializations required, the strategy could have supported greater selectivity.

⁶ For all African countries, the percentage was slightly lower at 42 percent. ADB Countries (in descending order of funds disbursed during 2009-2012) were: South Africa, Botswana, Morocco, Tunisia, Egypt, Angola, Mauritius, Gabon, Seychelles and Equatorial Guinea. Algeria and Libya received no funding while Namibia and Eswatini were making repayments. Centennial calculations based on OECD DAC, Table 2b; data includes both sovereign and non-sovereign disbursements.

16. **Bank's organizational arrangements.** When the strategy was approved, there was a central organizational arrangement for the delivery of non-sovereign operations without a similar locus of responsibility for sovereign PSD operations. During implementation of the strategy – as a consequence of broader institutional reforms, responsibility for non-sovereign operations was fragmented across sector complexes and regions. Overall, (as discussed in a subsequent section), this led to the loss of a critical mass of staffing skills particularly as there was limited availability of institutional coordination mechanisms.

II.2 Design Quality

17. Design quality was reviewed from the perspective of the extent to which the strategy's Theory of Change (and results monitoring framework) reflected the state of knowledge in the available literature and evaluative evidence. The assessment of design quality focuses on two aspects. First, **the overall Theory of Change and the results framework.** Second, **the design of individual pillars** (i.e. the results chain within each pillar).

18. The assessment was based on the literature on private sector development which had been available at the time of the strategy's formulation. Three reports best capture the state of art at the time and each was underpinned by exhaustive reviews of literature. Two reports were global i.e. the World Bank's 2005 World Development Report (A Better Investment Climate For Everyone) and the 2013 World Development Report (Jobs). The third report – the Bank's PSD flagship report referred to in paragraph 4 distilled the applicability of global experience for the Africa region. For the evolution of the literature since the strategy's formulation, this report draws significantly on an IDEV synthesis report (African Development Bank, Independent Development Evaluation, 2016) which the Centennial Group had undertaken. Findings of that report have been updated with more recent developments in the literature.

II.2.1 Theory of Change and Results Framework

19. The PSD Strategy does not explicitly provide a Theory of Change (ToC); it only goes as far as defining the private sector⁷. The TYS, which it is closely aligned, also provides a definition of PSD as support for the development of a conducive policy environment and the provision of a range of financial and non-financial services. There is an implicit ToC based on the strategy's linkages among its vision, objective, strategic pillars, outcomes, outputs, activities and instruments (Figure 4 of the PSD Strategy reproduced below as **Figure 1**). The ToC is also implicit in the strategy's Results Monitoring Framework (RMF); key indicators are listed in **Table 2**. Both these elements were considered in the Evaluation's Approach Paper Intervention Logical Framework (**Figure 2**).

⁷ The private sector is considered as a basic organizing principle of economic activity where private ownership is an important factor, where markets and competition drive production and where private initiative and risk taking set activities in motion. This is the definition from the OECD's Development Assistance Committee's (DAC) guidelines i.e. Organization for Economic Cooperation and Development. 1995. Support of Private Sector Development. Development Cooperation Guidelines.

Figure 1: Implicit Theory of Change in PSD Strategy

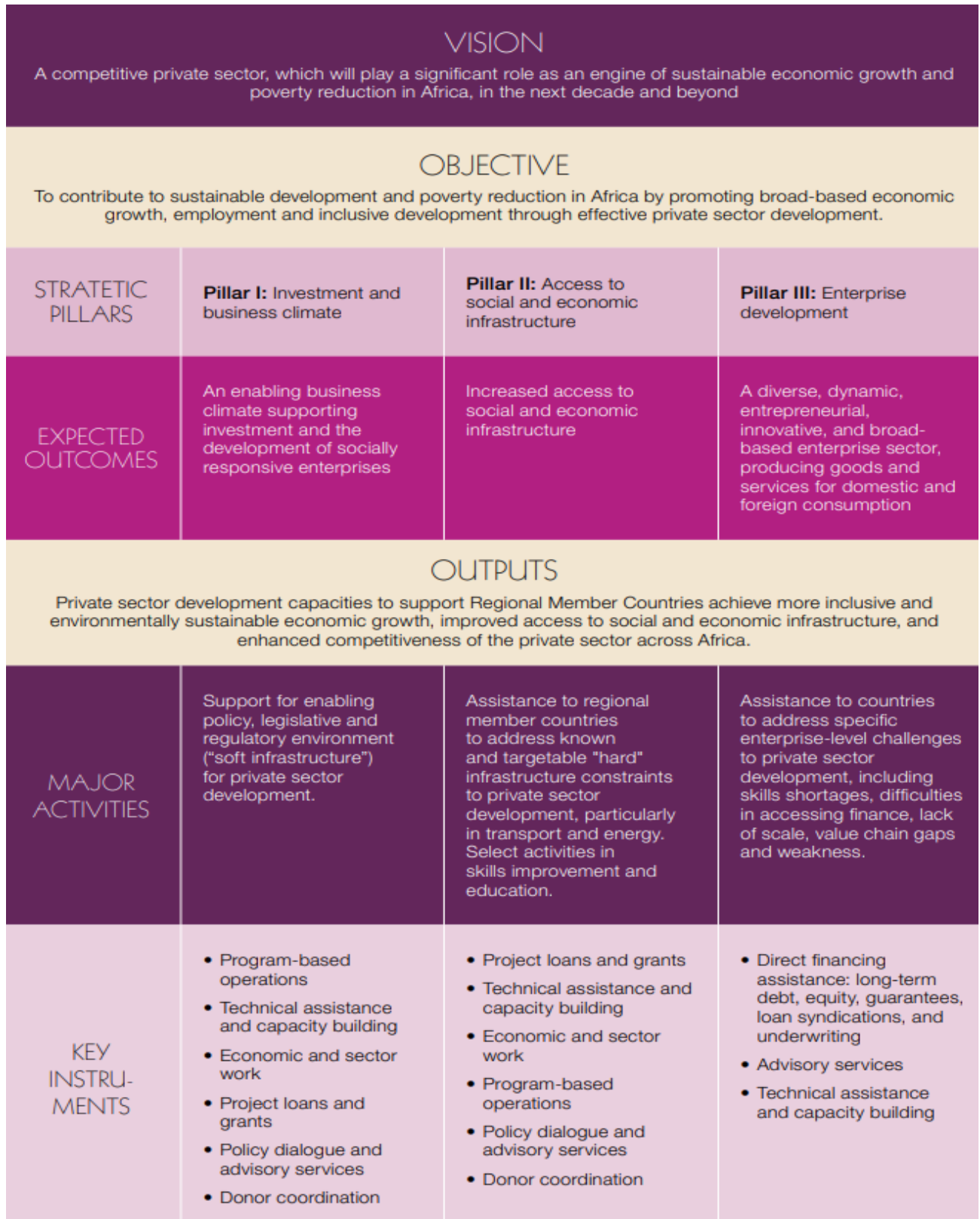
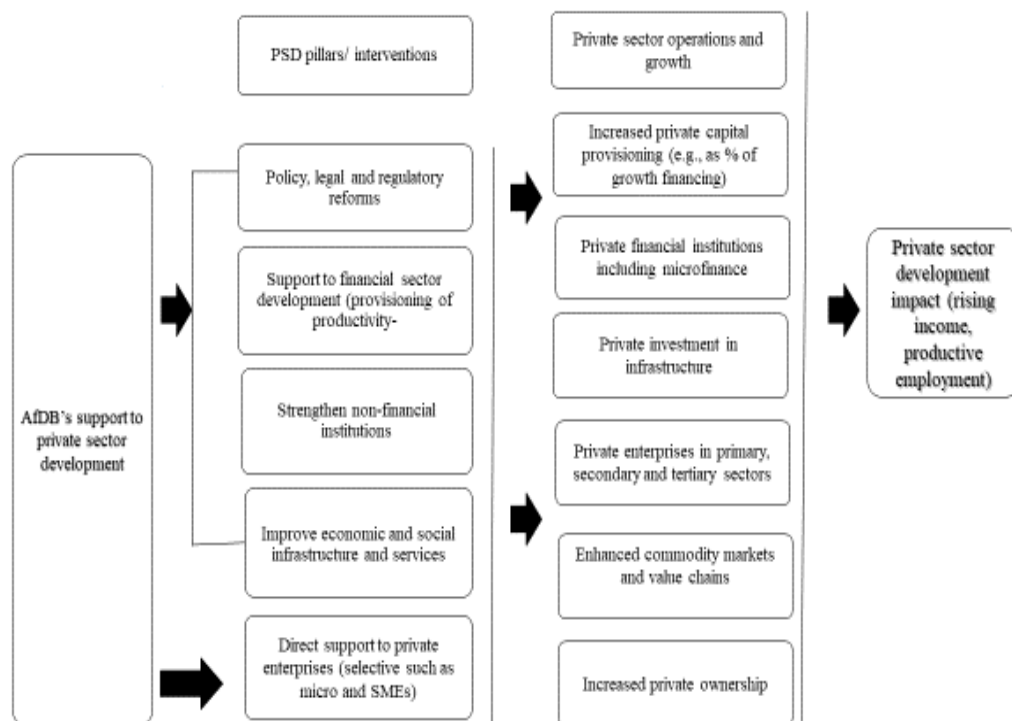


Table 2: PSD Strategy Results Management Framework Indicators

Indicator Type/Level	No. of indicators	Description of indicators
Africa's development progress in PSD Level 1	14	Unemployment rate index (including youth and women) Private sector share of employment; Global competitiveness index score Business start-up costs as a percent of GNI and start-up time Africa's share of global trade and intra-African trade Share of African countries with credit ratings of B and above Transparency International's Corruption Perceptions Index Country Policy and Institutional Assessment scores for property rights and rules-based governance FDI inflows and exports of goods and services (as percent of GDP) Ease of access to loans
Bank contribution to PSD in Africa Level 2	9	MW of power capacity installed Kilometers of roads constructed, rehabilitated and maintained % of local and regional suppliers in financing volume Project contributions to Government revenues SME turnover Total number of microcredits granted MSME credit as % of total financial intermediary operations No. of people benefiting from microfinance and social activities Total number of jobs created (including for women)
Bank Effectiveness Level 3	8	Multiplier effect of AfDB resources (including for NSO resources) Volume of non-sovereign financing arranged % of Bank PSD operations rated satisfactory Average preparation time for NSOs Share of CSPs with financial sector diagnostic Number of sovereign guarantee operations supporting PPPs Bank NSO portfolio loan impairment ratio Weighted average risk ratio of NSO portfolio
Bank efficiency Level 4	4	Share of private sector officers in the field or regional offices Number of business and investment environment enabling specialist professionals Share of NSO tasks managed from the field Vacancy rate for NSO process professional staff

Figure 2: Evaluation Approach Paper: PSD Intervention Logical Framework



20. The Strategy's implicit ToC was compared with the literature at each level (i.e. development impact, outcome and outputs) and linkages among them.

21. **Outcomes.** Private sector development contributes to three outcomes (i.e. job creation, increased investment and enhanced productivity and innovation) which support development impact (i.e. reduction in poverty and increased economic growth)⁸. The literature indicates that:

- **The private sector makes key contributions to poverty reduction through the creation of jobs.** Jobs – both formal and informal – are the principal pathway out of poverty. With over 90 per cent of jobs created by the private sector⁹, it would need to play a crucial role in reducing unemployment (over 200 million people in 2013) and creating new jobs (an additional 600 million jobs were estimated to be needed by 2020) (World Bank, 2012).

⁸ Beyond jobs, the poor also benefit from improved market access and connectivity. However, it has been difficult to estimate such benefits and monitor that they are reaching intended beneficiaries (e.g. micro and small enterprises).

⁹ There are challenges with measuring jobs created. Gross job creation (i.e. jobs created in firms supported by PSD interventions) can differ considerably from net job creation (i.e. after accounting for job losses in competitors and jobs that survive over time given the high failure rates among firms). Job multipliers (i.e. number of indirect jobs in suppliers and distributors for every direct job created) and induced jobs (increased economic activity resulting from greater spending) can provide a more complete picture (International Finance Corporation, 2013).

- **The private sector plays a key role in economic development as a source of investment and innovation.** The two main drivers of economic growth are private investment and productivity improvements. Several studies indicate that investment is the only robust determinant of economic growth and that private—but not public—investment is robustly correlated with growth. Many firm-level studies show that total factor productivity is higher in countries and regions within countries where the business environment is more hospitable. The 2015 UN General Assembly Resolution on the Sustainable Development Goals (SDGs) (United Nations, 2015) captures well the multiple roles that the private sector plays in economic development noting that: ‘domestic resources are first and foremost generated by economic growth, supported by an enabling environment at all levels’; ‘private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation’ and ‘the diversity of the private sector, ranging from micro-enterprises to cooperatives to multinationals.’

22. **The objective of the PSD strategy erroneously combines impact and outcomes; as a consequence the stated outcomes of the PSD strategy are focused on the achievement of pillar level goals.** The strategy’s stated objective is “to contribute to sustainable development and poverty reduction in Africa by promoting broad-based economic growth, employment and inclusive development through effective private sector development”. It, hence, combines development impact (i.e. sustainable development and poverty reduction in Africa) with desired outcomes (i.e. promoting broad-based economic growth, employment and inclusive development). Further, its three outcomes reflect pillar level goals (i.e. enabling business climate supporting investment and the development of socially responsive enterprises; increased access to social and economic infrastructure; and a diverse, dynamic, entrepreneurial, innovative, and broad based enterprise sector, producing goods and services for domestic and foreign consumption).

23. **The PSD Results Monitoring Framework does not include indicators directly measuring outcomes as specified in the literature.** The RMF has no indicators directly measuring job creation, private investment or productivity. It does, however, have indicators which partially or indirectly measure these three outcomes. Specifically, while there are no job creation indicators, there are indicators for private sector share of employment and unemployment rates. However, credible labor market data is scarce across Africa and even where such data is available it does not capture the prevalence of under-employment (arising from high levels of informality). Similarly, while there is no indicator for private investment, there is an outcome indicator measuring Foreign Direct Investment. Finally, while there are no measures of productivity (or proxies given the challenges with directly measuring productivity), there are outcome indicators that measure expert opinion/perception of the trajectory of progress (Global Competitiveness Index, credit ratings of African countries, Transparency International Corruption perception, Country Policy and Institutional Assessment scores for property rights and governance indicators, etc.).

24. **Outputs.** One of the key challenges with specifying the outputs of a PSD program is that since PSD is a cross-cutting theme, outputs can be specified in one or more of five dimensions. First, outputs can be specified at a sector level since the private sector exists in all types of productive activities i.e. agriculture, manufacturing and services or in areas that cut across e.g. agro-processing. Second, a PSD program addressing constraints in one sector may focus on other sectors where the constraints arise from; for example, a PSD program to address manufacturing sector constraints might address lack of access to dependable and affordable power (a service sector). Third, a PSD program addressing constraints in one sector may have differential impacts on different firms within the same sector; firm size is often an important determinant since, for example, larger firms can cope better with power shortages (e.g. by purchasing a generator) than medium-sized, small or micro enterprises. Fourth, a PSD program addressing constraints might itself provide opportunities for private sector growth; for example, private power generation is one of the available solutions for addressing power shortages. Fifth, a PSD program can include direct (i.e. support for private firms) and indirect (i.e. policy and regulatory reform, public infrastructure and other public goods) measures or a combination thereof; for example, private investment in power generation may require complementary tariff reforms to allow for cost recovery which makes private investment financially viable. **Given these multiple dimensions, outputs of PSD strategies and interventions are highly context or country specific and donor support also varies considerably as a result.**
25. **PSD outputs have to be tailored to country specific initial conditions and binding constraints.** The design of PSD support varies considerably depending on initial conditions (i.e. the role of the state in productive activities and provision of public goods; the absorptive capacity of the private and public sectors; and the level of formality/informality in the economy). PSD support must also be tailored to country specific binding constraints; these vary by country though the top five constraints often include access to or cost of finance, access to or price of power, burdensome business regulations, logistics and skilled labor. Customization requires robust diagnostics¹⁰, continuous dialogue between the Government, private sector and donors; and strong monitoring and evaluation to make adjustments as constraints evolve.
26. **PSD strategies and interventions can be economy-wide, sector-specific or targeted at specific groups of firms or a combination thereof.** PSD support can involve: a number of sectors; range of support instruments spanning short and long time horizons; and private, financial sector and public sector actors. While there is broad consensus on undertaking economy-wide measures which benefit all firms, there is more debate on the

¹⁰ Over the last decade, diagnostics have moved from a narrower focus on identifying constraints to systematically looking for, and acting on, opportunities to create markets and market constraints at the country level. This has resulted in a new generation of diagnostic tools (e.g. IFC's Country Private Sector Diagnostics) which undertake comprehensive and systematic country-level analytics.

effectiveness of ‘active’ measures which benefit only certain sectors or types of firms (e.g. Small and Medium Enterprises).

27. **Donor support for PSD can be provided through direct (support to private enterprises) and indirect (through Government) channels.** Private enterprises make decisions regarding the level of private investment and measures to enhance productivity; donors can support selected private enterprises through financing and technical assistance. Such support is usually provided through financial sector and other intermediaries since donors usually do not have the ability to engage with numerous private sector entities. Further, donors support national development programs and country level PSD strategies and programs which influence the decisions of private enterprises by increasing returns and/or reducing costs and risks¹¹.
28. **Consistent with the literature, the Bank’s PSD strategy appropriately did not define a single Africa-wide approach. The strategy could, however, have provided more explicit guidance on how to vary country level PSD programs – particularly the balance of activities across the three pillars and the use of the direct and indirect channels.** A single Africa-wide approach would have reduced relevance given the diversity of initial conditions (i.e. the level of private sector development) and the country specificity of constraints to job growth and enterprise development in Regional Member Countries (RMCs). However, the menu of 37 operational priorities was too broad and limited guidance was provided regarding how operational principles of selectivity were to be exercised at the country or sub-regional level¹². It would have been useful to specify alternative Theories of Change by country groupings or typologies which could have helped countries and Bank staff as the point of departure for country level PSD dialogue.
29. **The PSD Strategy and its RMF could have given greater attention to market systems development as an outcome.** The Bank’s Additionality and Development Outcome Assessment (ADOA) framework piloted in 2008 and introduced in 2009 has included “private sector development and demonstration effects” as one of the criteria rated for private sector operations. However, the RMF focuses on measuring direct contributions from Bank financing (power generated, increased SME turnover, contributions to Government revenues, etc.) and not on the Bank’s catalytic or market development impact¹³. The Bank can draw on project level approaches such as the Donor Committee on Enterprise Development’s Standard for Results Measurement (Donor Committee on Enterprise Development, 2017)¹⁴ as well as more holistic approaches such as the

¹¹ As noted in the 2005 World Development Report, Government policies and behaviors play a key role in shaping the investment climate through influencing the security of property rights, approaches to regulation and taxation (both at and within the border), the provision of infrastructure, the functioning of finance and labor markets, and broader governance features such as corruption (World Bank, 2004).

¹² The country case studies report provides an assessment on this aspect of selectivity in seven case study countries.

¹³ See also more detailed discussion in paragraphs 40 and 45.

¹⁴ DCED membership consists of Governments or development agencies from Austria, Australia, Denmark, Canada, Finland, Germany, Japan, Netherlands, Norway, Sweden, Switzerland and United Kingdom and other institutions i.e.

WBG/IFC Creating Markets Approach. A recent learning evaluation of that approach (World Bank Group, Independent Evaluation Group, 2019) notes that four potential avenues for supporting market creation including fostering innovation; generating demonstration effects; enhancing skills, capacities and governance structures at firm level; and supporting integration into value chains¹⁵. It also assessed results through sets of indicators i.e. increased size or reach of markets, enhanced competition, lower prices, enhanced environmental sustainability and market resilience standards; and provision of sustainable market access to the poor.

30. **The Bank also could have better aligned its separate but parallel PSD and Financial Sector** (African Development Bank, 2014) **strategies**. The Bank, like many donors, primarily provides enterprise level support indirectly through financial intermediaries; this allows Bank interventions to be undertaken at a ‘wholesale’ level while using in-country capacity of financial intermediaries to reach out to many individual private enterprises and firms. This agenda is covered by both the PSD and financial sector strategies; this increases the premium on ensuring consistent approaches across the two strategies¹⁶. **Since the new PSD and Financial Sector strategies are both under preparation, there is a unique opportunity for the Bank to ensure goal congruence, joint implementation planning and common monitoring and evaluation mechanisms.**

II.1.2 Design of Individual Pillars

31. The relative importance of the three pillars (using the number and volume of operations) provides the context for the analysis of the design of the pillars. Unfortunately, operations are not coded by pillar of the PSD strategy. Consequently, the sectoral composition of the sovereign and non-sovereign portfolio (Table 3) was used as a broad proxy as follows:

- Pillar 1: was supported by sovereign multi-sectoral operations which constituted 29 percent of the number of operations and 25 percent of commitment amounts. It should be noted that since these operations were Policy Based Operations, the volume is the total volume of such operations and a separate percentage for PSD could not be calculated;
- Pillar 2: was supported by infrastructure operations which constituted 18 percent of the number of operations and 19 percent of commitment amounts; and
- Pillar 3: was supported by financial sector operations as well as industry and services operations support. These constituted 53 percent of the number of operations and 56 percent of commitment amounts.

European Commission, Food and Agriculture Organization, IFC, International Labour Organization, Mastercard Foundation, OECD and the UN Industrial Development Organization. See Item 4 of the Standard (capturing systemic market change) and associated implementation guidelines.

¹⁵ This study evaluated the World Bank Group’s approach to creating markets by undertaking 16 case studies in 9 countries across three sectors (i.e. financial inclusion, agribusiness and Information Communications Technology).

¹⁶ This is not to suggest that a single strategy would have been appropriate as there are aspects of financial sector regulation and competition policy that go beyond the scope of a typical PSD strategy.

Table 3: Operations By Sector (2013-2019)

Sector	Sovereign Operations (No.)	Commitments (UA million)	Non-Sovereign Operations (No.)	Commitments (UA million)
Multi-sectoral	105	3,175	13	296
Infrastructure	1	1	74	2,551
Financial Sector	4	497	153	5,346
Industry and Services	4	14	59	1,847
Total	114	3,687	299	10,041

Note: Non-Sovereign classifications were consolidated. Infrastructure includes Power, Transport and Water; and Industry and Services includes Agriculture, Industry/Mining/Quarrying, Communications and Social.

- 32. The activities included under individual pillars were largely consistent with the evaluative evidence.** The literature pointed to the diversity of impact, effectiveness, efficiency and sustainability of various types of financial and non-financial interventions. Consequently, the assessment of the design of individual pillars drew more heavily on specific evaluations (**Boxes 1-4**) that can shed light on what does and doesn't work. The availability of several evaluations produced by the Bank's Independent Development Evaluation (IDEV) also allowed in most cases for confirmation of the consistency between the global evidence and the Bank's programs¹⁷.
- 33. Synthesis of Evaluation Findings Relevant for Pillar 1 (Improving Investment and Business Climate). Delivery of outputs has not always resulted in improved outcomes; where outcomes have been obtained, it is difficult to attribute them to only an improved investment/business climate alone. Relevance was high but it is unclear whether improved outcomes for businesses translated into improved outcomes for society.** Policy and regulatory reforms are necessary but not sufficient conditions for Private Sector Development; given that regulatory constraints were often listed among the most important business environment constraints, relevance was high. However, since priorities were established based on consultations with only the Government and/or private sector, it is unclear whether the improved outcomes for businesses translated into improved outcomes for society. Even within the business community, it is unclear whether benefits accrued to narrower vested interests or to the entire private sector. The Doing Business rankings were often used as outcome indicators but they reflect expert opinion regarding impact of reforms for a particular type of firm (i.e. a formal firm of a certain size usually in the capital city of a country); actual impact could vary considerably and this information is only available through broader firm surveys which are carried out more infrequently.

¹⁷ It should be noted that many Bank evaluations covered a period of time that was not synced with that of the PSD Strategy and was usually longer (covering a decade in most cases).

Box 1: Evaluations Included For Pillar I Synthesis

1. Dutch evaluation (Ministry of Foreign Affairs of The Netherlands, 2014) reviewed support (EUR 60 million) of business environment reforms. It noted that this area was more amenable to multilateral assistance (rather than multilateral assistance).
2. SECO evaluation (State Secretariat for Economic Affairs, Swiss Confederation, 2011) reviewed the limited funding support (CHF 41.4 million) which was implemented primarily through multilateral institutions. The SECO Evaluation covered 19 activities; 11 were focused solely on Business Environment Reform and 8 were multi-component. Activities covered include: business laws and company registration as well as sub-national activities and commercial financial sector.
3. European Union PSD evaluation (European Commission, 2013) reviewed activities - classified as Institutional and Regulatory Reform (Euro 196 million of commitments).
4. Asian Development Bank PSD Enabling Environment Evaluation (Asian Development Bank, Independent Evaluation, 2013) covered 89 program and Technical Assistance loans worth \$8.2 billion (or 8%) during the period 2000 to 2012. AsDB included support for financial sector regulatory reform (around 25% of the total) as well as the development of PPP frameworks in infrastructure.
5. World Bank Group Investment Climate Evaluation (World Bank Group, Independent Evaluation Group, 2014a) included 819 projects with investment climate interventions in 119 countries for a total estimated value of \$3.7 billion. It covered larger programs which included Technical Assistance as well as policy reform lending.
6. EBRD Investment Climate Support Activities Evaluation (European Bank for Reconstruction and Development, Evaluation Department, 2018). The evaluation covered support activities during 2005 to 2017 worth over Euro 50 million. It reviews 32 country strategies and contains four detailed case studies – three countries (Albania, Egypt and the Kyrgyz Republic) and one instrument (Business Ombudsman Council in Ukraine).
7. Bank's Evaluation of Private Sector Enabling Environment Cluster in Program Based Operations (African Development Bank Group, Independent Development Evaluation, 2019b). This cluster evaluation was part of an overall evaluation of PBOs approved during the 2012-2017 period. The evaluation focused on the process of preparing and supervising PBOs as well as on the specific final and intermediate outcomes obtained in five case study countries (i.e. Egypt, Ghana, Mali Morocco and Seychelles).

34. **Findings on the Bank's performance on Pillar 1 are consistent with broader findings i.e. high relevance and satisfactory outcomes but with challenges of attribution.** Pillar 1 activities were part of the Bank's Evaluation of Private Sector Enabling Environment Cluster in Program Based Operations (African Development Bank Group, Independent Development Evaluation, 2019b). This cluster evaluation confirmed the relevance of strengthening Private Sector Enabling and governance related reforms. The evaluation noted the need to balance a shorter-term focus on macro-fiscal stabilization with support for medium to longer term reforms in the business environment. The complementary nature of budget support and associated Technical Assistance was also noted as this would support continuous monitoring and engagement in policy dialogue which had been insufficient.
35. **Synthesis of Evaluation Findings Relevant for Pillar II Evaluations (Expanding Access to Social and Economic Infrastructure).** Delivery of outputs (upstream policy reform, project preparation and project financing) has been partially successful and at relatively modest financing levels. Even where development outcomes are achieved, data on impact on the poor is scarce. Private Participation in Infrastructure (PPI) is highly

relevant. Consistent with the portfolio definition, the synthesis focused on private participation in infrastructure. Three elements of support are usually provided as part of PPI i.e. upstream policy reform and institution building, project preparation and project financing. Only half of upstream policy reform and institution building are assessed as successful with design complexity, fiscal implications and political economy of reform processes as contributing challenges. Successful upstream operations had a significant impact on the design, structure and implementation of downstream PPP transactions. Lack of local skills and resources had a significant impact on downstream activities (i.e. preparation of PPP pipelines and bankable PPP projects) even though capacity building was usually included in programs. The completion rate of attempted transactions is low and as with the rest of infrastructure, managing Environmental and Social Safeguards is important.

Box 2: Evaluations Included For Pillar II Synthesis

1. Asian Development Bank Private Sector Operations evaluation (Asian Development Bank, Independent Evaluation, 2013). Around 60% of the PSD program (around \$6 billion) was focused on infrastructure with 50 percent being energy related.
2. Dutch Evaluation (Ministry of Foreign Affairs of The Netherlands, 2014). The Dutch program (over EUR 1 billion) focused primarily on energy, transport and water supply and sanitation. Two Dutch institutions (ORET and FMO/IDF) were significantly involved in delivery and regional (Africa) or globally focused infrastructure funds were the primary investment mechanisms.
3. Norfund Evaluation (NORAD, Evaluation Department, 2015). Norfund made a total of 118 investments worth 9.6 billion Norwegian Kroner in 80 countries between 2007 and 2013. Over 50% of Norwegian bilateral PSD support was channeled through Norfund and it was well aligned with Norwegian development policy and partner countries with its focus on renewable energy, agribusiness and financial institutions.
4. World Bank Group PPP evaluation (World Bank Group, Independent Evaluation Group, 2014b). PPP support had increased about threefold with lending, investments, and guarantees having risen both in absolute terms from \$0.9 billion to \$2.9 billion and in relative terms, from 4 percent to 7 percent between 2002 and 2012.
5. Inter-American Development Bank PPP evaluation (Inter-American Development Bank, Office of Evaluation and Oversight, 2017a). This evaluation considered IDB's PPP portfolio during 2006-2015 i.e. 145 operations with commitments of \$5.8 billion. Six country case studies were conducted (i.e. Brazil, Colombia, Dominican Republic, Guyana, Peru and Uruguay) which accounted for 70% of the portfolio.
6. Evaluation of The Bank's Utilization of the PPP Mechanism (African Development Bank Group, Independent Development Evaluation, 2019c). This evaluation considered the Bank's PPP portfolio during 2006-2017 i.e. 65 PPP-related operations (24 upstream and 41 downstream operations) in 29 RMCs, representing a total net commitment of about UA 2.7 billion. These operations covered all regions and consisted of lending (guarantees, project loans, institutional support loans, policy-based lending) and non-lending (grants, economic and sector work, and technical assistance) activities.

36. **Findings on the Bank's performance on Pillar II are consistent with broader findings i.e. high relevance, effectiveness in achieving outcomes and likely sustainability but low additionality due to late engagement.** Pillar II activities were considered under the Evaluation of The Bank's Utilization of the PPP Mechanism (African Development Bank Group, Independent Development Evaluation, 2019c). Sovereign operations had focused

on the development of PPP-enabling laws, regulations and institutions and not on creating a pipeline of potential PPP projects. Non-Sovereign Operations were largely relevant and effective¹⁸, with sustainability likely. There was limited financial and non-financial additionality since the Bank engaged late in the cycle typically after structuring and procurement have been concluded. The evaluation noted that the Bank did not have a clear PPP strategy, operational guidelines or directives or coordination mechanisms and made recommendations to improve these aspects.

37. Synthesis of Evaluation Findings Relevant for Pillar III (Enterprise Development). A wide variety of financial instruments (e.g. lines of credit, equity, guarantees, microfinance) and non-financial support instruments (e.g. entrepreneurial and business training, matching grants for technology acquisition) were utilized. Instruments were also targeted to particular types of enterprises as well as on particular sectors or value chains. Overall, relevance was high but results on effectiveness was mixed. Effectiveness was impacted by: inadequate focus on market development; instrument mix and instrument selection; and quality of targeting approaches.

38. High relevance for enterprise financing support. This rating was based on the fact that access to finance was among the top three to five constraints reported on enterprise surveys in almost all countries.

39. Mixed evidence on effectiveness of achieving outcomes.

- Obtaining data for measuring effectiveness was challenging given the significant use of intermediaries that needed to collect data on outcomes and outputs from beneficiary enterprises.
- Evidence on job creation from financing support is mixed or weak; some evidence of positive employment effects for skilled workers while other studies found no positive employment or innovation effects.
- Evidence on non-financing support reported growth in turnover and employees though attribution was an issue particularly given that better performing firms are often targeted. Other non-financing support achieved qualitative outputs (e.g. knowledge transfer) though effectiveness was low when cost per job created is taken into account.
- Since donors often provide ‘bundles’ of financial and non-financial support, it may not be feasible to separately evaluate outcomes for each.
- In the case of value chains which are multi-layered¹⁹, development outcomes varied depending on the areas focused upon.

¹⁸ A similar conclusion was also reached in the Bank’s NSO evaluation (African Development Bank Group, Operations Evaluation Department, 2013). That evaluation also concluded that more infrastructure projects enhancing regional trade and integration could have been identified and structured.

¹⁹ Value chains are multi-layered systems encompassing: commodity (production to aggregation, storage, processing and distribution to the end-consumers); input providers and financial and non-financial services; governance; market structure and broader enabling environment.

40. Effectiveness impacted by inadequate focus on market development. Given that volume of donor funding was relatively modest, donor funds were unlikely to ever meet market needs. Donors continued with 'gap filling' rather than adopting a primary focus on market development (for both financial and non-financial services).

- Direct donor support to beneficiaries was limited and inefficient. Lending directly to SMEs had higher transaction costs than providing support through Financial Intermediaries. Where larger enterprises were supported, there were challenges for DFIs in proactively identifying and developing operations.
- Since most operations were delivered indirectly through intermediaries (financial and/or non-financial) there was always some limited focus on market development. Selection and capacity building of intermediaries focused on leveraging project funds and disseminating good practices into the intermediaries' overall portfolio (e.g. application of rigorous Environmental and Social Safeguards or focus on improved corporate governance in final beneficiaries).
- In SME finance, most financial intermediaries already supported SMEs and/or received funding from other donors. Hence, demonstrating additionality was challenging unless operations provided better financing terms, longer maturities, new products and/or catalytic process improvements.
- In micro-finance, donor interventions had to pay attention to avoiding the use of market distorting subsidies to some institutions and affecting the sustainability of commercially oriented Micro-Finance Institutions.
- In non-financing support/Business Development Services programs, capacity building of intermediaries was challenging given the need to create new private intermediaries or utilize/repurpose public sector institutions.
- In value chain development, interventions with greater attention to multi-stakeholder platforms and market information systems had better outcomes than those focused on specific contractual arrangements. Supply chain programs also benefited from a broader market focus and inclusion of smaller suppliers and ensuring technology transfer.

41. Effectiveness impacted by instrument mix and instrument selection.

- The mix of financing and non-financing instruments mattered. In value chains development, for example, attention was given to capacity building for producers but less attention was given to developing financial services.
- There is an extensive literature questioning the effectiveness (and sustainability) of Lines of Credit. The positive evidence of equity finance has largely drawn from experience in developed countries. There is some evidence that expanding the range of instruments for SME lending (e.g. risk based guarantees, equity and technical assistance) is beneficial for sustainability of financial intermediaries.

42. Effectiveness impacted by targeting challenges such as poor beneficiary and activity selection. In the context of limited volume of assistance relative to market needs, beneficiary selection or targeting was key.

- Targeting of SMEs and microenterprises faced conceptual/Theory of Change shortcomings (objectives of targeting, firms being targeted and whether targeted interventions removed binding constraints) and practical challenges (weak diagnostics and ad hoc processes for selecting target markets and beneficiaries). Capacity of financial intermediaries (e.g. limited knowledge to assess credit risk of SMEs); and SMEs (e.g. to prepare bankable projects) also mattered.
- Demonstrating that a selected enterprise would not have undertaken the activity without donor support/subsidy (i.e. additionality) is also challenging.
- Where the financing or non-financing support contained a subsidy, there are also sustainability concerns (i.e. willingness to pay when subsidies ended).
- Effectiveness of value chain approaches also varied by targeting (i.e. commodities, geographical regions or poverty levels of participants).

Box 3: Evaluations Included For Pillar III Synthesis And Cross-Cutting Evaluations

Cross-Cutting Evaluations. Some evaluations were at program/sub-regional and country level and were used for synthesis in more than one pillar. These included:

1. Austrian Development Cooperation's Evaluation of its PSD activities (Austrian Development Cooperation, 2013). In addition to evaluating 10 projects with EUR 27 million of commitments, it assesses how PSD support fits within the broader ODA strategy and institutional arrangements. Its thoughtful findings in five key areas are broadly applicable to all donor PSD support.
2. Reviews of Dutch support for private sector development (Ministry of Foreign Affairs of The Netherlands, 2014) and a Mid-Term Review of the PSD Apps program (Technopolis Group, 2018). The first evaluation covered a total of EUR 3.3 billion (which constituted 9% of Dutch ODA) provided during the 2005-2012 period to 66 countries; about half the amount was spent through 6 central programs managed out of the Netherlands. This evaluation was a meta evaluation synthesizing 30 evaluations – 6 had an extensive analysis of effectiveness, 9 had a limited analysis and the remaining 15 had no analysis. The second assessment covered a program that, during 2014-2017, included 883 activities worth almost Euro 70 million focused on Government-to-Government cooperation, knowledge-to-knowledge cooperation; training for managers and entrepreneurs; incoming and outgoing missions; trade promotion fairs; matchmaking; seminars and round tables; studies; impact clusters; etc.
3. UK Independent Evaluations i.e. PSD evaluation (Independent Commission for Aid Impact, 2014); Business in Development evaluation (Independent Commission for Aid Impact, UK, 2015); and Inclusive Growth in Africa evaluation and update (Independent Commission for Aid Impact, 2017) (Independent Commission for Aid Impact, 2018). The PSD evaluation covered wealth creation activities covered under DFID's 2012-2013 budget which were estimated at GBP 614 million. The Business in Development evaluation covered DfID activities estimating that GBP 494 million was committed between 2012-13 and 2014-15 with substantial growth projected for 2015-16 (GBP 692 million). The Inclusive Growth evaluation and status update covered the evolution of DFID's strategy, growth diagnostics and portfolio in three African countries i.e. Ethiopia, Tanzania and Zambia.
4. Asian Development Bank's Private Sector Operations Evaluation (Asian Development Bank, Independent Evaluation, 2013). The Asian Development Bank evaluation covered 173 operations worth US\$10.7 billion committed over the 2000-2012 period. The evaluation reviewed 70 operational projects for which sufficient operational progress had been made to assess development outcomes.

5. Inter-American Development Bank's Evaluation of IDB-9 PSD Framework (Inter-American Development Bank, Office of Evaluation and Oversight, 2013a). This review covered the 2010-2013 period of implementation of IDB-9.
6. Inter-American Development Bank's Multilateral Investment Fund Program Evaluation (Inter-American Development Bank, Office of Evaluation and Oversight, 2013b). The evaluation covered 562 operations worth \$811 million over the 2005-2011 period. While funding provided under the Second MIF (MIF II) replenishment commenced in 2007, the evaluation covered a longer period to include projects which were under implementation during the MIF II period.
7. Asian Development Bank Pacific Private Sector Development Initiative Evaluation (Asian Development Bank, Independent Evaluation, 2018). This initiative covered 14 ADB Pacific countries. The program covered: access to finance, business law reform, state-owned enterprise (SOE) reforms, public-private partnerships (PPPs), the economic empowerment of women, and competition and consumer protection. Over 10 years, the PSDI launched 276 subprograms, of which 93 had been completed. Out of \$60.4 million in allocated funds, \$42.2 million had been disbursed.

Financing support evaluations included:

8. Norfund Evaluation (NORAD, Evaluation Department, 2015). A large proportion (43% of invested capital and 67% of portfolio value) were invested through the Statkraft Norfund Power Invest SA (SNPI) which is owned 40% by Norfund and operates commercially primarily in Latin America, Asia and European markets. 60% of investments were made through equity (including equity in SNPI); equity share falls to 27% without SNPI. About 20% of portfolio is in equity funds though new investments in funds have been decreasing as direct investments are made.
9. EU PSD Evaluation (European Commission, 2013). Access to finance constituted the largest percentage of support (Euro 559 million or 23%). The evaluation did not provide a breakdown of support provided at the macro, meso and SME levels – only micro-enterprise financing is separately identified. Activities included: support to improve the regulatory environment for financial institutions and encourage credit provision – particularly by supporting credit bureaus and collateral registries; support to intermediary organizations that help enterprises seek finance (to increase availability of financial products and services); supporting enterprises, including small and micro-enterprises that face difficulties accessing finance (improve capacity of enterprises to access products and services). There is some overlap between this evaluation and the separate one covering EIB (discussed below).
10. EIB Evaluation of Support to Private Equity Funds in Facility for Euro-Mediterranean Investment and Partnership and African, Caribbean and Pacific countries (European Investment Bank, Operations Evaluation, 2013). Investments in 88 funds with commitments of Euro 781 million between 1990 and 2012 were included. The actual evaluation covered 12 funds including 7 FEMIP and 5 ACP with vintage between 1995 and 2002 so that a close to full investment cycle would have occurred prior to evaluation.
11. World Bank Group SME Evaluation (World Bank Group, Independent Evaluation Group, 2014c). This covered \$10 billion in lending and US\$1.4 billion in equity funds. US\$10 billion of lending was undertaken through intermediaries including US\$2.5 billion lent through 27 Lines of Credit by the World Bank and US\$7.5 billion through 212 operations by IFC. The Evaluation also reviewed IFC's investment in 70 SME funds with commitments of US\$1.4 billion and MIGA's provision of Political Risk Insurance to SME funds. The IFC equity funds portfolio is heavily focused on Sub-Saharan Africa (43% of funds) and South Asia.
12. Asian Development Bank Private Sector Equity Investments Evaluation (Asian Development Bank, Independent Evaluation, 2019). This evaluation reviewed 67 private sector equity commitments of \$1.8 billion made during 2006 to 2017. This consisted of: \$853 million in 33 direct equity investments and \$943 million through 34 Private Equity Funds.
13. EIB Intermediated Lending Evaluation (European Investment Bank, Operations Evaluation, 2017). This evaluation reviewed EUR 1,240 million committed during 2010-2015. This included EUR 891.3 million in Global Loans and EUR 349 million in Loans for SMEs and/or mid caps.
14. Inter-American Development Bank Group Financial Intermediary Lending Evaluation (Inter-American Development Bank, Office of Evaluation and Oversight, 2016). This evaluation assessed investments made

during 2005-2014 through 466 operations through financial intermediaries worth over US\$17 billion. It included an in-depth review of 131 FI investments.

15. EBRD Credit Lines Evaluation (European Bank for Reconstruction and Development, Evaluation Department, 2018). This evaluation covered market context, strategies and 672 operations (including 374 new approvals) during 2011-2015 period.
16. EBRD Equity Operations Evaluation (European Bank for Reconstruction and Development, Evaluation Department, 2017b). This evaluation reviewed the active equity portfolio whose investment cost at the end of 2016 was €6.0 billion, compared with a fair value of €5.5 billion and which constituted 20 per cent of the EBRD's total portfolio. Direct equity, accounted for 76 per cent of the equity portfolio with investments in private equity funds representing the balance.
17. Bank's NSO evaluation (African Development Bank Group, Operations Evaluation Department, 2013). This covered a portfolio of 137 investments worth UA 3.9 billion approved between 2006 and 2011. Loans constitute 83% of the commitments (with senior loans constituting around half of that amount and lines of credit about a third of the amount) and equity investments the balance of 17%. Technical assistance provided in conjunction with financing support was also considered in the evaluation though not separately evaluated.
18. Bank's Equity evaluation covering investments made in 31 Equity Funds with commitments of UA 537 million (African Development Bank Group, Independent Development Evaluation, 2015).

Non-financial (knowledge) support evaluations included:

19. Two Dutch evaluations were utilized i.e. PSD Support (Ministry of Foreign Affairs of The Netherlands, 2014) and Market Development (Ministry of Foreign Affairs of the Netherlands, 2015). The first evaluation covered two areas of non-financing support including Market Development and Private Sector Investment Support. Market Development Support included strengthening business support organizations, market information programs, knowledge and skills transfer programs and programs for export support. The basic premise was that more market knowledge and better market information will lead to better access to markets. Programs focused on exports or regional or global value chain development. The second evaluation focused on the Dutch Centre for Promotion of Imports from Developing Countries (CBI) which had expenditures amounting to 1/3 of the overall market development program. This program provided an Export Coaching Program directly to individual firms or through intermediary Business Support Organizations. The Private sector investment support involved direct provision of up to EUR 0.5 million to 100 enterprises annually in agriculture and energy in 50 countries.
20. DANIDA Business to Business Programme Evaluation (DANIDA, Ministry of Foreign Affairs of Denmark, 2014). The program provided DKK 855 million – around \$150 million – to Danish businesses. Total costs were closer to DKK 1050 million when including the costs of administration including at Danish Embassies. It promoted the establishment of long-term, sustainable and commercially viable partnerships with companies in program countries. The program consisted of three phases: contact, pilot and project phase and the maximum amount per participant was DKK 5 million.
21. EU PSD program (European Commission, 2013). The EU program included EUR 1.21 billion or over 50 percent of all assistance focused on non-financing support including Enterprise Competitiveness (EUR 758 million or 32% of all PSD support) and Investment Promotion (EUR 452 million or 19% of commitments). EU PSD Support included Enterprise Competitiveness programs in 102 countries in all regions. Support was focused at the meso level working with business development service providers, chambers of commerce and technical/training institutions. It also included non-financial support for SMEs and improving enterprise management. Interventions included BDS, industrial upgrading, cluster development, value chain analysis and support to chambers of commerce and industry.
22. World Bank Group SME Evaluation (World Bank Group, Independent Evaluation Group, 2014c) and Investment Climate Evaluation (World Bank Group, Independent Evaluation Group, 2014a). The SME Evaluation covered US\$688 million committed during 2009-2012 and IFC Advisory Services with expenditures of \$170 million; and the Investment Climate Evaluation covered World Bank Matching Grants which was the most common form of SME intervention including 47 projects (30% of projects) particularly in Sub-Saharan Africa (30 out of 47 projects). It also reviewed 272 IFC Advisory Services projects with

about ¼ related to Business Development Services and nearly another ¼ for linkage products. Finally, it reviewed 159 investment promotion activities with a value of US\$10 million.

23. EBRD Small Business Support Program Evaluation (European Bank for Reconstruction and Development, Evaluation Department, 2017). The SBS program for the period 2011-2015, the program implemented activities in 26 countries for a total budget of over €95 million.

Value chain development^{a/} and Supply Chain/Backward Linkages evaluations Included:

24. IFAD Value Chain Development Evaluation (IFAD, Independent Office of Evaluation, 2019). Between 2007 and 2018, 62 percent of the number of projects in IFAD's portfolio were considered to be value chain relevant. The evaluation selected a sample of 77 projects in 29 countries.
25. EBRD Supply Chains and Backward Linkages Study (European Bank for Reconstruction and Development, Evaluation Department, 2016). This study focused on eight case studies (nine projects) with SCBL objectives drawn from 100 projects. 10 country strategies were also reviewed.
26. Bank's cluster evaluation of Agricultural Value Chain Development (African Development Bank Group, Independent Development Evaluation, 2018). This study focused on nine countries and nine different agricultural value chains as case studies. Finally, the agricultural value chain development evaluation covered nine different value chains in nine countries.

Small and Medium Enterprise Support evaluations included:

27. Evaluation of the effectiveness of European Development Finance Institutions (EDFI) support for SME development in Africa (European Development Finance Institutions, 2014). The evaluation sample covered banks in Ghana, Kenya, Tanzania, Uganda and Zambia which had received support from one or more of four EDFI institutions (DEG, FMO, Norfund and Proparco) as debt and/or equity accompanied by TA. Total equity amounts are unspecified though total loan amounts provided to each institution are identified.
28. BIO evaluation (Royaume de Belgique, 2012). This evaluation covered support to SMEs over the period 2007 to 2011; the portfolio size had reached EUR 398 million in 2011 up from EUR 125 million in 2007. There was a significant focus on Africa (EUR 149 million) and on multiregional support (EUR 61 million). Financing was provided through: local financial institutions; investments in equity funds; direct provision of loans and equity to SMEs (50% for agro industries); and local currency loans. Financing was roughly 40% for equity and 60% for loans and mezzanine products. Grants were provided to financial intermediaries (to enable them to improve their SMEs or microfinance activity) and to enterprises to strengthen management and governance capacities.
29. Dutch financial sector support (Ministry of Foreign Affairs of The Netherlands, 2014). The evaluation includes the FMO/MASSIF program which provided around Euro 145 million (48%) of its support to SMEs.
30. World Bank support for SMEs (World Bank Group, Independent Evaluation Group, 2014c). Targeted SME projects represented about 7 percent of projects and 2 percent of commitment value. This includes: 27 lines of credit (14 financial intermediary loans, 9 specific investment loans, and 4 adaptable program loans) represented 51 percent of the commitment value; 47 matching grant projects which constitute 17 percent of commitment value; 37 BDS projects represent 15 percent of commitment value; 15 value chain linkage projects constitute 8 percent of commitment value; and risk-sharing facilities, grants, and other A2F projects account for balance.
31. IFC support for SME equity funds (World Bank Group, Independent Evaluation Group, 2014c). IFC Support through Equity Funds consisted of \$1.4 billion in 70 funds targeted at SMEs. South Asia and Sub-Saharan Africa (SSA) host most projects with India alone hosting 15 IFC-financed funds. 43% of regionally focused funds are in SSA. IFC participates in funds' advisory or investment committees and provides advice to funds' managers. 15 TSME fund projects evaluated; invested more than \$1 billion in 196 companies, with investments ranging from \$100,000 to \$2.2 million.
32. Inter-American Development Bank Evaluation of IIC Direct Support to SMEs (Inter-American Development Bank, Office of Evaluation and Oversight, 2017b). This evaluation reviewed 177 direct SME lending operations from 2006 to 2015, amounting to a total of about US\$219 million.
33. Update on WBG Support to SMEs (World Bank Group, Independent Evaluation Group, 2018). This synthesis updated the 2014 evaluation looking at evaluations during FY2014-FY2018.
34. Evaluation of Bank Assistance to SMEs evaluation (African Development Bank Group, Independent Development Evaluation, 2015). This evaluation covered a large sample of 70 operations with \$1.9 billion

of commitments. 46 investment operations (accounting for 98% of commitments) consisted of lines of credit (80%) and equity funds (12%). 16 TA grants (mostly complementing lines of credit) and 8 institutional support projects were included. There were also 15 Policy Based Operations (\$962 million) which included some SME issues. Finally, AfDB had a pioneering role in credit guarantees (through the launch of the Africa Guarantee Facility).

Micro-Finance Evaluations Included:

35. World Bank Group Financial Inclusion Evaluation (World Bank Group, Independent Evaluation Group, 2015). This evaluation covers over \$8.5 billion of commitments – around 3% of WBG commitments between FY07-13. This included: World Bank lending (\$4.229 billion) and IFC lending (\$4.042 billion) which was accompanied by MIGA guarantee activities; IFC Advisory Services; and World Bank analytical activities. WBG (particularly IFC) has provided \$1.42 billion of support to MFIs. While this amount is only a fraction of the total market size, by spreading this support over a large range of MFIs, the financing and Technical Assistance has benefited MFIs which cover 39% of total market lending volume.
36. Asian Development Bank's microfinance evaluation (Asian Development Bank, Independent Evaluation, 2012). This evaluation covers 88 projects providing US\$2.8 billion in support to 21 countries over 2000-2010. This includes: 13 program and sector development loans (US\$1.9 billion); 12 project and private sector development loans (US\$0.8 billion); 13 projects with micro-finance components (US\$0.08 billion) and 50 grants for Technical Assistance (US\$0.07 billion). The evaluation reviews 78 projects which provided US\$2.5 billion.
37. EU support for micro-enterprises (European Commission, 2013). EU Support for micro-enterprises amounted to Euro 48 million. It supported global activities (such as funding for CGAP) and country level activities (which focused largely on macro level regulatory reform and meso level capacity building support pulling back from providing lines of credit to MFIs).
38. Dutch support for micro-credit (Ministry of Foreign Affairs of The Netherlands, 2014). Dutch micro-credit support (Euro 81 million) provided through the FMO/MASSIF program was evaluated. The evaluation contains limited information regarding outcomes though it notes the challenges surrounding micro-credit – both with regard to targeting but also with regard to the potential use for consumption vs. investment and impact on household welfare. Finally, the need to combine finance with technical support and advisory services and to pay greater attention to the institutional context is noted.
39. Bank's microfinance evaluation (African Development Bank Group, Independent Development Evaluation, 2014). The evaluation reviewed commitments of UA 338 million in 94 projects in 35 countries. 83% of disbursements for refinancing and investing in MFIs; 13% for capacity building; 2% for improving regulatory framework and 2% for MFI networks. This constituted 0.9% of all Bank approvals over the period and 7.2% of financial sector approvals. 5 countries captured 2/3 of amount including Egypt (UA 103 million); Mali (UA 37 mm); Ethiopia (UA 35 mm); Uganda (UA 25 mm) and Tanzania (UA 20 mm). Five instruments were used: direct support to retail FIs; indirect support to retail FIs through investment vehicles and commercial banks; funding channeled through Government or state owned wholesalers for retail institutions, market infrastructure and policy work; funding channeled through budget support; and Trust funded support to retail level and market infrastructure.

a/ There is a significant overlap between value chain development and agriculture (as an area of special emphasis).

43. **Findings on the Bank's performance under Pillar III are consistent with the broader evaluated experience.** This conclusion is drawn from the four available evaluations were: NSO portfolio (African Development Bank Group, Operations Evaluation Department, 2013); Bank assistance to SMEs (African Development Bank Group, Independent Development Evaluation, 2015); agriculture value chain development (AVCD) (African

Development Bank Group, Independent Development Evaluation, 2018) and the forthcoming Financial Sector Evaluation²⁰.

44. **Overall, relevance of Bank operations was rated high in all evaluations.** For example, the NSO evaluation noted that the Bank's portfolio consisted of projects expected to have positive development outcomes and/or Bank additionality.

45. **Effectiveness of Bank operations was rated as moderately satisfactory to satisfactory.** Operations utilizing intermediaries had problems with obtaining data regarding results on end beneficiaries. **Effectiveness was impacted by:**

- **Inadequate focus on market development.** All evaluations noted that the Bank's private sector operations were focused on investment activity with less focus on broader market reforms. For example the SME evaluation noted that the focus was greater on provision of finance relative to other areas of interventions (investment climate reform, financial market infrastructure, market access, etc.). The AVCD noted that given the complexity of value chain systems and changing markets, a primary focus on financing increases in commodity production without considering the entire value chain resulted in economic and financial losses.
- **Instrument mix and instrument selection.** For example, the NSO evaluation noted that relatively little use had been made of instruments such as guarantees, trade finance facilities and technical assistance. Similarly, the AVCD noted that the Bank did not provide the full package of support for targeted commodities.
- **Quality of targeting approaches.** The NSO evaluation noted that the Bank's reach to micro and small enterprises was not always evident. Despite SMEs being a recurrent theme in strategic and policy documents, there was no dedicated SME strategy, SME assistance lacks a unified conceptual framework and there was no harmonized definition of SMEs. The AVCD identified the need for ensuring that design of operations actually resulted in benefits for targeted groups of participants, particularly women.

46. **Areas of Special Emphasis: Synthesis of Evaluation Findings.**

- **Agriculture and agribusiness interventions** demonstrated the applicability of PSD approaches for poor people in rural areas. Donor PSD programs in agriculture and agribusiness were well aligned with Government programs and relevant even when support reached the poor indirectly (e.g. through use of their labor or through increasing food security). The effectiveness of agricultural PSD programs varied based on: strength of the country implementation strategies (including Government commitment and the role for public-private dialogue during

²⁰ The Financial Sector evaluation was not available but the Centennial Group was provided with draft background reports. Given the scope of this evaluation, evaluations with a primary focus on financial sector operations were excluded i.e. the Microfinance Evaluation (African Development Bank Group, Independent Development Evaluation, 2014) and the Equity Evaluation (African Development Bank Group, Independent Development Evaluation, 2015) where ¾ of commitments were through funds.

formulation); types of intervention (including policy reforms); and involvement of the private sector in implementation (given weaknesses in public sector entities). It had been relatively easier to integrate large farmers into value chains and supply chains than smallholders; their capacity constraints required customized packages of financing solutions and advisory services. The Bank did not have an evaluation of PSD in agriculture other than the cluster evaluation of agricultural value chains discussed in the previous section.

- **Gender.** The evaluations did not provide sufficient information regarding the benefits accruing to women entrepreneurs from broader donor PSD programs. Gender targeted PSD interventions were extremely limited and it was not possible to estimate their additionality. In the absence of gender disaggregated indicators for all projects it is not possible to state whether targeted projects performed better than interventions that did not target women entrepreneurs. *The Bank has an ongoing Gender Evaluation* (African Development Bank Group, Independent Development Evaluation, 2019d) which could potentially shed light on PSD aspects given that the current Gender Strategy includes legal status and property rights; and economic empowerment as two of its three pillars.
- **Fragile States.** Evaluated investment projects in fragile states performed similarly to those in non-fragile states indicating the feasibility of implementing developmentally and financially successful projects in complex and risky fragile state environments. However, it was difficult to significantly scale up lending volumes particularly since the cost of preparation and supervision is about twice in Fragile States. Stronger results were associated with larger investment sizes and larger economies – characteristics that may be limited in Fragile States and may constrain scaling up engagement. Quality of clients in Fragile States was strong; while this likely supported positive outcomes it may also indicate a degree of risk aversion to work with new types of clients. Blended finance could help support projects with high financial risk perceptions, but it did not provide significant risk reduction in nonfinancial risk areas. Evaluated advisory services interventions in Fragile States performed below those in non-fragile countries but capacity building and absorptive capacity in Fragile States were important needs. Reforming business environments was a necessary condition in the medium term but not sufficient to overcome constraints to private investment in Fragile States. *The Bank's evaluation of its support to fragile states* (African Development Bank Group, Operations Evaluation Department, 2012) makes limited references to PSD support in part due to the fact that such support was limited in fragile states. It indicates that the Bank made 'some contribution' to improved economic production, especially in rural areas, in four case study countries through agricultural improvements; increased access to micro-credit for entrepreneurs; reduced import taxes/tariffs for agricultural inputs; and support for private sector development. It notes that one of the missed opportunities relates to capacity and institutional development of non-state actors, including the private sector, in the state building and peacebuilding processes.

Box 4: Evaluations Utilized for Areas of Special Emphasis

Agriculture and agribusiness interventions evaluations included:

1. IFAD Evaluation of its PSD strategy (IFAD, Independent Office of Evaluation, 2011). The evaluation covers an implementation period of 7 years (2005-2011). However, the focus of the evaluation is not specifically on the portfolio since 2005 but a comparison of changes in activities before and after its 2005 strategy.
2. EBRD Agribusiness Sector Evaluation (European Bank for Reconstruction and Development, Evaluation Department, 2015). This evaluation covers agribusiness investments constituting around 10 percent of the EBRD's annual investments and around 40 per cent of its portfolio; between 2010 and 2013, this amounted to a cumulative commitment amount of Euro 2.1 billion with actual disbursements of Euro 1.93 billion. The evaluation reviewed 26 projects (22 percent) of the 118 projects signed between 2011 and 2013 and rated the overall effort at successful (on a four-point rating scale). With regard to PSD, 57 policy dialogue and Technical Cooperation activities worth Euro 20 million and undertaken in collaboration with the UN's Food and Agriculture Organization were included.
3. Australian Rural Assistance Development Review (AusAID, Office of Development Effectiveness, 2012). This review covers around AUD 180 million of assistance provided to six countries (Cambodia, East Timor, Indonesia, Papua New Guinea, Solomon Islands and Vietnam).
4. Norfund support for agribusiness (NORAD, Evaluation Department, 2015). Norfund support included agribusiness as a modest activity—averaging 3.5% of the portfolio reaching a maximum of 6%.
5. The Bank did not have an evaluation of PSD in agriculture other than the cluster evaluation of agricultural value chains discussed in the previous section.

Gender. The evaluations did not provide sufficient information regarding the benefits accruing to women entrepreneurs from broader donor PSD programs. The Bank has an ongoing Gender Evaluation (African Development Bank Group, Independent Development Evaluation, 2019) which could potentially shed light on PSD aspects given that the current Gender Strategy includes legal status and property rights; and economic empowerment as two of its three pillars.

Fragile States evaluations included:

6. IFC's Engagement in Fragile and Conflicted Affected Situations (World Bank Group, Independent Evaluation Group, 2019). The report synthesized findings from 56 IFC investment projects that were evaluated between 2005 and 2018. Close to half the projects (43 percent) were in Sub-Saharan Africa; 50 percent of these projects successfully achieved their development outcomes; 46 percent each achieved project business success and investment outcomes. These results compared with 54, 48 and 64 respectively for all Fragile States and 58, 50 and 68 respectively for non-fragile states.
7. The Bank evaluation of its support to fragile states (African Development Bank Group, Operations Evaluation Department, 2012) makes limited references to PSD support in part due to the fact that such support was limited in fragile states. It indicates that the Bank made 'some contribution' to improved economic production, especially in rural areas, in four case study countries through agricultural improvements; increased access to micro-credit for entrepreneurs; reduced import taxes/tariffs for agricultural inputs; and support for private sector development. It notes that one of the missed opportunities relates to capacity and institutional development of non-state actors, including the private sector, in the state building and peacebuilding processes.

III. PSD Strategy and the High 5s

47. Mid-way through the PSD Strategy implementation period, the Bank began to further define its TYS priorities under five areas of interventions known as the High 5s, namely: Feed Africa, Light Up and Power Africa; Industrialize Africa; Integrate Africa; and Improve the quality of life for the people of Africa. Each High 5 also further defined programs which were within the ambit of the PSD strategy and lengthened the time horizon and results; the strategy documents for the High 5s spelt out priorities for the period 2016-2025. This topic is discussed at further length in the section on results (Section II.1.3).
48. The introduction of the High 5s has resulted in a de facto or unintended ‘mainstreaming’ of PSD into Bank priority themes. This assumption is borne out by undertaking a detailed comparison of the PSD relevant content of each High 5 using the three pillars of the PSD strategy (**Table 4**). There has also been a concurrent shift from monitoring progress of the PSD strategy towards monitoring progress in implementing the High 5s strategies; for example, the Bank’s Annual Development Reviews and the 2016-2025 Results Measurement Framework focus on the High 5s.

Table 4: PSD and the High 5s

Strategy and Objectives	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
<p>Industrialize Africa (African Development Bank Group, 2016a)</p> <p>Three objectives i.e. develop industrial sector to ensure inclusive and resilient growth and accelerate structural transformation; integrate Africa into the regional and international value chains to enhance added value; and boost competitiveness and productivity by expanding supply of business services to maximize impact on the performance of manufacturing and vice-versa.</p> <p>Activities clustered under two pillars i.e. scaling up the development of enterprises along value chains and expanding supply of services and six flagship programs.</p>	<p>Funding for Technical Assistance, capability building, and budget support to policy reform including a conducive macroeconomic environment, regulatory reform and policy dialogue. Along with its partners, engage in upfront policy support and dialogue and development of targeted industrialization programs consistent with national and regional industrial policies.</p> <p>Support 20 capital markets across Africa over the next decade in promoting depth and growth in both senior markets and alternative exchanges; increasing market integration within Africa’s five regions; increasing guarantee interventions in capital markets; supporting the introduction of new products and services in 10 capital markets; broadening the scope of the existing indices and creating a USD 500 million African Domestic Bond Fund and financing 10% of the fund.</p>	<p>Support development of industrial infrastructure & PPP frameworks by developing 30 PPP units across Africa and helping them structure their initial deals. Increase investment by UA 10 billion in annual approvals (all sources) by 2025, including Bank investments and mobilized investments. During 2016-2019, UA 2.4 billion of direct industrial sector investments in various value chains (excluding financial sector, Special Economic Zones and other infrastructure) is expected to occur through both direct lending as well as financial sector intermediation.</p> <p>Support governments with technical assistance and infrastructure investment (e.g. power, transport, Information Communications Technology) in industry clusters at the national level and subsequently expand this drive to potentially develop regional industrial clusters.</p>	<p>Contribute to developing an effective support structure for enterprise entry and expansion, with particular focus on SMEs. Increase lines of credits to SMEs to reach UA 380 million annually over the next decade, compared to ~UA 100 million per year currently. In addition, provide technical assistance to SME-focused entities (including incubation platforms, potentially driven by UN Industrial Development Organization, and financial institutions). Finally, facilitate and implement linkage projects in the relevant private sector investments, to connect SMEs to larger and more established businesses.</p> <p>Set up a connectivity platform to share information as honest broker. Host an Africa Investment Forum every two years and organize and manage smaller-scale regional investment forums every other year, alternating across Africa’s five big regions.</p>

Strategy and Objectives	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
<p>Light Up and Power Africa (African Development Bank Group, 2016b). Contribute towards delivering universal access by addressing seven strategic themes.</p>	<p>Advice and support to Governments in designing policies and setting up efficient sector regulation and governance, focusing on cost reflective tariffs, building credible counter-parties, developing and strengthening public private partnership frameworks and ensuring appropriate risk allocation. Standardized Independent Power Producer procurement program to be developed in 30 countries. Funding pool to deliver new projects scaled up through greater leverage on the financial markets and significantly increasing availability and use of blended finance to increase the pool of concessional finance available for new projects, and buying down certain categories of private sector risk. Eventual goal to roll out waves of country-wide energy ‘transformations’ in close collaboration with Governments and coordinating major development institutions to launch end-to-end energy system turnarounds. Programs include energy system planning, restructuring of the national regulatory environments, matching donors to targeted interventions, and bringing in the private sector to drive development of capacity and connections.</p>	<p>Expand infrastructure access. First, utility companies provided technical assistance for capacity building, restructuring (unbundling, privatization and concessions) and operations improvement (loss reduction and revenue recovery). Second, number of bankable energy projects dramatically increased by focusing on aggregating project development capital. Third, ‘bottom of the pyramid’ energy access programs would increase availability of financing for small scale on-grid and off-grid access solutions and adoption of clean cooking solutions and supporting the implementation of innovative and affordable payment mechanisms. Fourth, accelerating major regional projects and driving integration including: development of regional power projects by providing technical and legal advisory support (e.g. transmission optimization and multi-entity Power Purchase Agreement frameworks); bankability of regional projects and contribute to funding (e.g. early-stage funding and guarantees); and supporting the development of regional power markets.</p>	<p>Project development finance could be channeled through private sector organizations, including private sector financing and legal institutions. The availability of the funding pool (described above) would also increase the scope for the private sector in energy.</p>

Strategy and Objectives	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
<p>Feed Africa (African Development Bank Group, 2016c). Seven key enablers. Strategy indicates that AfDB will only selectively intervene.</p>	<p>Improved agribusiness environment including: policy reforms for land tenure, input subsidies, incentives for local production and processing, financial sector deepening and regional integration and trade; improving agricultural statistics; land tenure reform; TA for agricultural development banks; private sector associations' capacity building and agribusiness environment indices.</p> <p>Agricultural finance expanded through: Continental Risk-sharing Facility (comprising loans and guarantees) to catalyze private investment and bank lending; Non-Bank SME Finance and Capacity-Building to SME funds as well as surrounding ecosystem players (e.g. credit bureaus and data analytics providers); Project Finance Facility to support value chain strengthening through project development, advisory services and structured finance to advance PPPs and other infrastructure projects; trade finance facility; sovereign risk support by scaling up African Risk Capacity Initiative; diaspora bonds; and agricultural insurance.</p>	<p>Increased investment in hard and soft infrastructure including: accelerating development of enabling hard infrastructure (energy, water, transport, logistics, Information Communications Technology) projects within the overall Bank infrastructure pipeline as well as with outside partners; building of market infrastructure/centers to integrate value chains and build service infrastructure such as warehouses, cold storage units and feeder roads; and farmer e-registration to facilitate direct distribution of input vouchers and other vital services to farmers.</p>	<p>Provide capital for domestic input production, extend concessional financing to lower the costs of input purchases for farmers, and broker off-take agreements with large agricultural buyers; partner with RMCs to create equipment hiring enterprises and complementary manufacturing and repair workshops; develop agro-dealer supply systems to guarantee steady supply of inputs and uptake of final produce; and support effective private sector led approaches to the provision of farmer extension services.</p> <p>Post-Harvest Loss Prevention Facility for producers and retailers and creation of a window for leasing equipment by agricultural cooperatives and SMEs; increasing the number of licensed warehouses that can be used by African commodity exchanges; agro-processing zones and corridors; and establishing agriculture commodity exchanges.</p>

Strategy and Objectives	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
<p>Regional Integration Policy and Strategy (African Development Bank Group, 2018). Initiatives across the continent to: increase prospects for cross-border economic linkages and value-added; provide access to regional and global markets for landlocked countries; and strengthen corridors that will enable business development, job creation, and increased flows of goods, services and people.</p> <p>Strategy explicitly gives greater recognition to the role of private and financial sectors in regional integration with the Bank excepted to: support the private sector in playing an active role in policy advocacy and dialogue with the public sector; strengthening regional frameworks for business environment; information dissemination to support innovative frontier industries (e.g., bio-tech, green technologies for power generation); and use of Public-Private Partnerships.</p>	<p>Augment tangible regional infrastructure investments with complementary capacity development, policy and regulatory reforms, harmonization and trade facilitation in energy, transport and Information Communications Technology.</p> <p>Trade and investment activities: trade policy and market integration; trade and transport logistics facilitation; business environment reforms; competitiveness enhancement and value chain development; and knowledge management and cross-cutting issues.</p> <p>Financial integration initiatives: liberalization of financial services at the regional and continental level, backed by appropriate and suitable regulation and self-regulation as required; expanding/integrating markets and strengthening market connectivity, including enhanced participation by non-traditional lenders and investors (e.g., fin-tech, technology companies); regional stock exchanges and cross-exchange listings; developing services such as insurance, leasing, factoring, franchising and non-bank financial institutional services.</p>		

Strategy and Objectives	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
<p>Jobs For Youth (African Development Bank Group, 2016d). Three strategic levers: integration, innovation and investment. Different aspects of the PSD agenda are included under each lever. Integration includes a focus on strategic procurement under which the Bank would conduct assessments and provide financial and technical assistance as needed in order to increase the use of local content through country, sector, and project-level assessments and economic studies to determine the potential of using preference criteria to promote contracts to local firms. The Bank will also provide additional funding and support to discover innovative ways to increase local content – including increased support to joint ventures involving local firms – with the intention of bringing successful solutions to scale.</p>			<p>Major focus on flagship programs. Rural Microenterprise: agriculture-based micro enterprises including provision of agricultural inputs, crop production, post-harvest handling, transport and trading. ENABLE (Empowering Novel Agri-Business Led Employment) Youth: incubate larger scale agri-businesses, access to finance (including risk sharing facility), enabling environment and training Skills Enhancement Zones: demand-led training and job placement programs within industrial clusters. Computational Thinking: Digital literacy, logical thinking, and complex problem-solving curricula in secondary schools. Coding for Employment: Develop premier coding academies and match graduates with employers. Boost Africa Investment Fund: blended finance and multi-partner initiative supporting start-up and early stage SMEs. Includes an Investment Program, a Technical Assistance Facility, and an Innovation & Information Lab. Affirmative Finance Action for Women in Africa: dedicated facility addressing the needs of women entrepreneurs in Africa.</p>

49. **The process of developing the new PSD strategy should review and rationalize existing PSD related High 5 commitments prior to defining new programs under the next PSD strategy.** Given the wide range of PSD related activities in the High 5s, the Bank has de facto committed to a significant Private Sector Development agenda even before a new strategy is developed. Moreover, the time horizon for the High 5s – which extends to 2025 – is also likely to be the time horizon for the next PSD strategy. Hence, it is important for the PSD strategy development process to include a thorough review of the existing High 5 strategy.

IV. Strategy Implementation: Design and Progress

IV.1 Implementation Measures Identified at Design

50. The PSD strategy identified several implementation challenges and a set of leadership, ownership and partnership measures to address these challenges. A mid-term review of the strategy was projected to occur during the third year of the strategy.
51. The leadership actions were expected to include:
- A high-level Private Sector Development Steering Committee (PSDSC) to be set up with a mandate, inter alia, to ensure that the Strategy was translated into a consolidated, results-focused organizational business plan, with a clear timeline that matched Bank activities for implementation of the Strategy. It was also expected to consolidate and update the Bank's policy framework for NSO, including greater coherence between the Bank's Risk Management Framework and its strategic objective of supporting more NSOs in low income countries; and ensuring that NSOs are not merely opportunistic, but part of CSP and RISP programming.
 - Preparation of a new Financial Sector Development Policy and Strategy to replace the 2003 Financial Sector Policy.
 - Clarifying links to programming and budget. The (to be prepared) PSD business plan was expected to identify the Strategy's implications on the Bank's administrative budget.
52. The ownership actions were expected to include:
- Private sector assessments for each RMC carried out by Country Teams and private sector development related knowledge products.
 - Selectivity enshrined in CSPs and RISPs by tailoring Bank PSD assistance to RMCs to country circumstances.
 - 'One Bank' teamwork in preparation and implementation monitoring of PSD interventions through aligning the Bank's non-sovereign operations with country and regional strategies and strengthening the PSD orientation of sovereign operations.
 - The Bank's African Development Institute and other institutions would roll out a program for capacity building for Bank staff, as well as RMC officials.
 - Strengthen the Bank's sector strategy papers so that they better describe interventions needed for effective private sector participation particularly in transport and energy and recruit and maintain staff to effectively manage the Bank's non-sovereign portfolio.
 - Implement an institutional capacity-building program to equip decentralized staff with requisite tools, skills and budget for PSD and, if necessary recruit new staff. The Bank's Business Opportunity Seminars would strengthen the participation of local African enterprises in Bank-financed projects.

53. Partnership actions would include:

- Strategic partnerships with other development partners, including DFIs, policy research institutions, universities and governments and engage with the private sector through CEO fora, regional, national and sub-national business trade groups.
- Resources would be mobilized to support PSD knowledge products and advisory services (discussed under ownership actions).
- Strategic initiatives at national, regional, and global levels including partnerships hosted at the Bank.
- New partnerships with Brazil, China, India, Russia, Turkey and Singapore, as well as global funds, Islamic funds, private foundations, African and other Sovereign Wealth Funds and central banks. Close collaboration with the African Union, UN Economic Commission for Africa, the World Economic Forum, and other fora to support Africa's private sector. Engagement with diaspora to leverage remittances, including through diaspora bonds and other innovative financing.

IV.2 Implementation Progress

54. **It is not feasible to report on implementation progress consistent with the PSD Strategy's Results Measurement Framework since there is no Monitoring and Evaluation system.** There does not appear to have been systematic tracking and updating of RMF indicators relative to baseline values (where these were originally estimated). Since 2016, institutional monitoring of progress (particularly of Level 1 – outcome – and Level 2 – output indicators) is being undertaken based on the High 5s; only a handful of indicators from the PSD Strategy's RMF are being monitored (African Development Bank Group, 2019b). The review of implementation progress, hence, focuses on the implementation actions identified in the strategy.

55. During the early years, some of the measures identified were implemented. First, the PSDC was established. Second, the PSD Business Plan was prepared and reviewed by Bank senior management. Third, the financial sector strategy was prepared in 2014 (African Development Bank, 2014). However, the Mid-Term Review of the strategy was not held as the focus shifted from the PSD strategy to the High 5s as previously discussed.

56. The implementation of the PSD strategy was significantly impacted by the introduction of the Development and Business Delivery Model (DBDM) in 2016. The DBDM consisted of 5 pillars i.e. move closer to the client to enhance delivery, reconfigure Headquarters to support the regions to deliver better outcomes, strengthen performance culture to attract and retain talent, streamline business processes to enhance efficiency and effectiveness, improve financial performance and increase development impact. There were two key issues that affected PSD: the organizational dispersion of staff managing

non-sovereign transactions; and the changes in delivery responsibility between sectors and regions.

57. **NSO staff organizational dispersion.** Staff working on the origination of NSO transactions are now spread across several sectors; more than half work in the Financial Sector Department and the other half are spread across industry, urban, energy, agriculture and human development. The Private Sector Department staff provide transaction processing support including for financial modeling to sector staff. Staff working on NSO portfolio management are split between the Financial Sector Department and Private Sector Department; the latter which supports all non-financial sector NSO supervision. Operational support staff are considered part of the NSO 'ecosystem' and provide support on both sovereign and NSO transactions; such staff provide legal, economic analysis (including for ADOA), environment & social, credit and integrity/anticorruption skills.
58. The DBDM included an effort to utilize the new decentralized country focused organizational structure to increase the share of private sector operations/Non Sovereign Operations. At first, decision-making authority was devolved to the regional and country managers. This changed in October 2017 when a revised division of labor between Regions and Sector Complexes was specified for portfolio management with the introduction of a "Pilot – CoPilot" arrangement which specified primary and secondary roles and responsibilities for both sovereign and NSOs, under shared Key Performance Indicators. For NSOs which were growing rapidly and considered more complex and riskier than sovereign operations, Sector Complexes were given primary responsibility and regional offices, secondary responsibility. This was expected to allow for optimal use of the Bank's private sector expertise (located largely within Sector Complexes at headquarters) and make use of existing accountability (of Sector Complexes for delivery of the High 5s). Complex and innovative ("niche") operations were considered a joint responsibility, but Sector Complexes were tasked to manage these. Sector Complexes were expected to be responsible for project monitoring and supervision, while strategic and corporate portfolio management was to remain centralized.
59. A recent DBDM evaluation (African Development Bank Group, Independent Development Evaluation, 2019a) notes that the implementation of these arrangements caused confusion and encouraged competition between Bank entities for scarce resources and decision-making authority. The evaluation notes that even at a strategic level there is lack of clarity regarding 'private sector development' which is an important focus across all High 5s. Potentially, responsibility is split across regions, sector complexes and the Private Sector, Infrastructure and Industrialization Vice Presidency (which has a central

monitoring role). There were inconsistencies between country priorities (as established in the Country Strategy Paper prepared by regions) and NSOs (initiated by Sector Complexes at Headquarters). The Delegation of Authority Matrix did not clearly describe responsibilities across the portfolio lifecycle for all categories of operations and there was lack of clarity regarding definitions and criteria for “complex” and “niche” operations. In 2018, the lead responsibility for complex and niche operations was handed back to RDVP.

60. The dispersion of PSD staff and the changing sector/regional responsibilities have posed particular challenges. In January 2019, the President announced that the Pilot-Co-Pilot arrangement would be replaced by new arrangements aligned with the ‘One Bank’ vision with three key principles i.e. quality, delivery and joint responsibility. The key elements of the One Bank implementation are: change management and communication (including risk management, tracking progress and retaining flexibility); business processes (revised Delegation of Authority matrix and new Presidential Directive on Operations Review and Approval Processes, updated Operations Manual and the Wakanda program); people management (clarifying reporting arrangements and functional home departments, right-sizing and strategic staffing analysis, organizational fine-tuning, staff movements and Talent Boards); budget management (budget coefficients, training to support budget reforms,); and tools for joint accountability (refined Key Performance Indicators, annual work programme and Service Level Agreements). Implementation was expected to commence as of January 2020.
61. The Non-Sovereign Operations Policy was approved by the Board in September 2018. It defines the eligibility requirements under which the Bank may provide financing or investment without sovereign guarantees to private and public entities that meet specific eligibility requirements (including regional development finance institutions). The policy also covers Public-Private Partnerships and Special Purpose Vehicles that would be eligible for consideration as NSOs. Under this Policy, the Bank may provide financing to non-sovereign operations subject to four conditions: (i) the borrower or investee is a private enterprise or an eligible public sector enterprise; (ii) the operations are financially sound; (iii) they should result in satisfactory development outcomes, including supporting or creating opportunities for private sector development; and (iv) the Bank brings additionality, which could be either financial or non-financial.
62. The NSO Policy covers the following: objectives and guiding principles; the Bank’s privileges, exemptions, and immunities; eligibility requirements, including the domicile of clients and counterparties; investment criteria; financing operations, equity investments and support to financial institutions; intermediate jurisdictions; knowledge-based

operations; procurement, fiduciary and integrity safeguards; environmental and social safeguards; portfolio and risk management; and information disclosure.

63. The NSO Policy states that, in line with the Bank's PSD Policy, reinforcement of markets by open and fair competition is one of its core principles. Support to eligible Public Sector Enterprises is included to: meet development objectives in sectors that are vital to development but where private operators have not shown appetite for investment; and to promote private sector development in RMCs, including supporting orderly privatization of public sector enterprises (PSEs), wherever that is a feasible and desirable option. However, it would have been important to more explicitly understand whether the absence of private appetite for investment is due to legal/regulatory protections for PSEs or due to the dominance of PSEs in a given industry/ market.
64. While it is too early to evaluate the impact of changes introduced by this policy, changes in composition of loans approved in 2019 would be reviewed under the Portfolio Review and Institutional Performance Report.

V. Benchmarking with Comparator Institutions

65. The list of comparator institutions drew upon many of the Multilateral Development Banks (MDBs) that were involved with the formulation of the harmonized Principles of Additionality in Private Sector Operations.

V.1 PSD Policy and Strategy Comparisons

66. The comparator MDBs were divided into two categories:

- *MDBs with sovereign and non-sovereign operations under one institution.* Three institutions were reviewed under this category i.e. the Asian Development Bank (AsDB); the European Bank for Reconstruction and Development (EBRD); and the Asian Infrastructure Investment Bank (AIIB); and
- *MDBs with sovereign and non-sovereign operations implemented through separate institutions.* Three institutions were reviewed under this category i.e. the Inter-American Development Bank Group (IADB), the Islamic Development Bank Group (IsDB) and the World Bank Group (WBG).

67. For each MDB, the overall institutional/corporate strategy was reviewed. Thereafter, PSD strategies were reviewed; if a PSD strategy was not available, the treatment of private sector issues in major sectoral or thematic strategies was analyzed. **Tables 5 and 6** below provide the detailed findings of this analysis with the key highlights noted below.

- **PSD is an element in most institutional strategies.** This is not unexpected given its importance in poverty reduction (which most MDBs focus on). However, it is often not directly a priority but an enabler in achieving stated priorities.
- **PSD strategies are not the norm in most of the MDBs and even where available, they are fairly dated.** In fact, the AfDB PSD strategy is the most recent one available. This may be due to the fact that increasingly PSD is being seen as a key element of institutional strategies.
- **Elements of PSD strategies (where available) are similar to the pillars of the AfDB PSD strategy** i.e. investment climate, infrastructure (particularly private provision) and support to enterprises.
- **Non-sovereign operations (as a proportion of total finance) are usually quite low (between 2-15%).** Only one MDB, EBRD, has a significant proportion of NSOs (at around 85%). New commitments as a proportion of total annual commitments are generally higher (between 5-22%) which suggests an increased focus on providing finance to the private sector. Only one MDB has indicative targets for the number and/or volume of NSO operations.

Table 5: MDBs with combined sovereign and non-sovereign operations

Topic	AsDB	EBRD	AIIB
PSD in Institutional Strategy	<p>Strategy 2030²¹. PSD actions embedded in seven operational priorities: addressing remaining poverty and reducing inequalities; accelerating progress in gender equality; tackling climate change, building climate and disaster resilience and enhancing environmental sustainability; making cities more livable; promoting rural development and food security; strengthening governance and institutional capability; and fostering regional cooperation and integration. AsDB’s dual mandate (i.e. pursue development impact and ensure additionality while ensuring profitability and commercial sustainability) in NSOs emphasized. NSOs = 1/3 of number of operations by 2024. NSO funding to have \$2.50 co-financing by 2030.</p>	<p>The (first) article of incorporation states “The purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative...” Strategic and Capital Framework 2020 has three strategic priorities i.e. resilience; integration; and common global and regional challenges with embedded PSD elements. For example, the Small Business Initiative is included under resilience, the Small Business Support program under integration and the Private Sector Food Security Initiative under addressing global and regional challenges.</p>	<p>Institution commenced operations in 2016 with mandate to support high-quality, sustainable infrastructure investment and enhanced connectivity in Asia. PSD content of corporate priorities (i.e. pursuing strategic directions, serving clients and scaling up operations, bolstering financial sustainability and building the institution) as yet unclear. Corporate Strategy under development in 2019.</p>
PSD Strategy	<p>2000 PSD Strategy and 2006 PSD Revised Strategic Framework. Three strategic ‘thrusts’: establishing an enabling policy and institutional environment; promoting public sector</p>	<p>No PSD strategy. PSD embedded in various sector strategies. For example, 2019-2023 agribusiness strategy focus areas (i.e. enhanced productivity and value addition,</p>	<p>No PSD strategy. Strategy on Private Capital Mobilization for Infrastructure identifies three areas i.e. partnering, leading and creating markets. Non-Sovereign Backed Financing as % of</p>

²¹ Prior to July 2018, AsDB implemented Strategy 2020 which had three agendas: inclusive growth, environmentally sustainable growth, and regional integration. Operations focused on five core specializations and five drivers of change, including private sector development and Non-Sovereign operations. SOs supporting PSD and NSOs were expected to reach 50% of number and volume of annual operations by 2020.

Topic	AsDB	EBRD	AIIB
	goods and services; and making direct private sector investments. Given differing status of the private sector, Country Partnership Strategies to include roadmaps for priority sectors (lending and non-lending interventions, sequencing and PSD instruments). Business plans to cover sovereign and non-sovereign operations. Three quantitative targets (proportion of NSO operations; proportion of sovereign operations with PSD content; and co-financing ratio).	sustainable agribusiness, inclusive value chains, strengthened market links, innovative and affordable financing and improved business conduct and standards) are primarily PSD related. Similarly, 2019-2023 energy strategy's four strategic directions (decarbonization and electrification, well-functioning energy markets, cleaner oil and gas value chains and energy-efficient and inclusive economies) include PSD actions.	the portfolio is a monitoring indicator. Strategy on Investing in Equity notes that "Equity investments can support AIIB's objectives through market signaling, institution building and the improvement of the enabling environment over time". Expected impact through the creation of role model companies following good ESG practices and support to small-scale and innovative projects in dynamic sub-sectors.
Private Sector Operations (% of total portfolio)	Portfolio: 7% non-sovereign. 2018 commitments: 16% non-sovereign.	Portfolio: 85% non-sovereign. 2018 investment: Non-sovereign breakdown not available.	Portfolio: 10% non-sovereign. 2019 commitments: Non-sovereign breakdown not available.

Notes:

Asian Development Bank: Outstanding 2018 portfolio included loans \$106.4 bn (\$5.3 non-sovereign), \$1.5 bn equity and \$1.3 bn non-sovereign guarantees. 2018 commitments were sovereign \$17.1 bn and non-sovereign 3.1 bn.

EBRD: Outstanding portfolio included loans Euro 24.6 billion (including 4.4 bn sovereign) and equity/shares 4.7 billion. 2018 commitments stood at Euro 9.5 bn (sovereign and non-sovereign breakdown not available).

AIIB: Outstanding portfolio included sovereign \$6.2 bn to non-sovereign \$ 0.7 bn.

Table 6: MDBs with sovereign and non-sovereign operations under separate institutions

Topic	IADB	IsDB	WBG
PSD in Institutional Strategy	<p>First Update to the Institutional Strategy 2010-2020, 2015. Three objectives (and embedded PSD areas): lower inequality and poverty (include all population segments in financial markets and provide inclusive infrastructure and infra services); increase productivity and innovation (develop quality human capital, establish smart institutional frameworks and provide adequate knowledge and innovation ecosystems); and enhance economic integration (improve regional infrastructure, insert firms into value chains and converge integration policies and instruments). Second Update, 2019. Areas of emphasis revised to: promoting technology and innovation, increasing resource mobilization and strengthening work on cross-cutting issues (i.e. gender, climate change and institutional capacity/rule of law).</p>	<p>The Road to the SDGs. The President’s Programme: A New Business Model for a Fast Changing World, 2019. Three development goals: inclusiveness through competitive value chains, cooperation on green industrial innovation and resilience through a global network of developers. Six operational results are sought as core focus areas: improving access to market information, opening up the national planning processes, doing business the Industry 4.0 way, building green value chain enabling infrastructure, repositioning Islamic finance for development and building resilient market systems. Many of the goals and focus areas are significantly focused on PSD.</p>	<p>Forward Look – A Vision for the World Bank Group in 2030. Three priorities (and relevant PSD themes): meeting key operational commitments (including creating markets under the mobilization theme), improving the business model (incentives for collaboration across the Group), and strengthening financial capacity.</p>
PSD Strategy	<p>PSD strategy (Delivering the Renewed Vision for the IDB Group Merge out, 2015) focused on the creation of IDB Invest. There are three strategic pillars i.e. selectivity, systematic approach and development effectiveness. These are supported through five priority business areas i.e. increase MSMEs’ access to finance and TA, promote infrastructure</p>	<p>No publicly available PSD strategy. Strategy prepared in 2011 (by Monitor Group) but not presented to Board.</p>	<p>WBG PSD Strategy, 2002 had two main aspects i.e. extending the reach of markets (including improving the investment climate and direct support for private firms) and improving basic service delivery (including private participation in infrastructure, private provision of</p>

Topic	IADB	IsDB	WBG
	for development, support innovation and technological development, enhance private provision of basic goods and services and foster green growth and three 'transversals' i.e. gender and diversity, environmental and social sustainability and enabling environment.		social services and output based aid). The strategy is dated. IFC launched IFC 3.0 in December 2016. This strategy rests on two pillars: a more deliberate approach to market creation, especially in IDA and Fragile and Conflicted Affected Situations and through upstream engagement; and mobilizing new sources of funds to support private sector solutions.
Institutions	IaDB, IDB Invest and IDB Lab ²² (Trust Fund administered by IaDB previously known as Multilateral Investment Fund)	IsDB, ICD, ITFC and ICIEC	World Bank, IFC and MIGA
Private Sector Operations (% of total Group portfolio)	Portfolio: 2% non-sovereign. 2019 commitments: 5% Non-Sovereign.	Portfolio and annual commitments: breakdown not available	Portfolio: 15% Non-sovereign. 2019 commitments: 22% non-sovereign (includes 5% gross issuance).

Notes:

Inter-American Development Bank: Portfolio consists of loans of \$79.5 billion and IDB Invest's development related investments of \$1.7 billion. 2018 commitments consist of IaDB \$14.3 billion and IDB Invest growth (implied net commitments) \$743 million.

Islamic Development Bank: 2018 Approvals. IsDB ID 0.764 bn, ICD ID 0.347 bn, ITFC ID 3.686 bn and ICIEC 3.440 bn. While ICD is entirely private sector oriented, other entities (i.e. IsDB, ITFC and ICIEC) finance both public and private sector operations which are not separately identified.

World Bank Group: Portfolio consists of sovereign \$345 billion (IBRD \$193 billion, IDA \$152 billion) and non-sovereign \$63 billion (IFC \$43 billion and MIGA \$23 billion). 2019 commitments consist of \$46.4 bn sovereign out of total \$59.7 billion.

²² Trust Fund administered by IaDB; previously known as Multilateral Investment Fund.

V.2 Operational Benchmarking

68. Operational benchmarking was expected to compare the Bank’s results for non-sovereign operations with those published by the Asian Development Bank (AsDB); the International Finance Corporation (IFC); and the European Bank for Reconstruction and Development (EBRD). The comparator organizations annually publish data on results which have been compiled from project completion reports which have been validated by their Independent Evaluation Departments. This data is largely comparable as the comparators utilize a common evaluation framework i.e. the Evaluation Cooperation Group’s Good Practice Standards on Private Sector Operations (Evaluation Cooperation Group, 2012).
69. **The Bank has only 5 validated completion reports for Non-Sovereign operations approved during the PSD strategy period; operational benchmarking on the basis of such a small sample would not be representative and was not undertaken.** Of the 299 non-sovereign operations included in the portfolio, only 10 have reached Early Operating Maturity and prepared Extended Supervision Reports (XSRs). Further, only half of these XSRs have been validated by IDEV through Extended Supervision Report Evaluation Notes (XSRENs) (Table 7).

Table 7: Non-Sovereign Operations: Availability of Completion Reports

Period	Extended Supervision Reports (XSRs)	Extended Supervision Report Evaluation Notes (XSRENs)
Operations approved during 2004-12 and completed/closed during 2013-2018	10	7
Operations approved from 2013 onwards and completed/closed during 2013-2018	10	5
Total	20	12

70. **Table 8** below presents indicators presented by comparator organizations. The data sets varied slightly across comparators with some reporting three year averages while others reported single year data. It should be noted that the projects for which validated results are available largely pre-date the implementation period of the Bank’s PSD strategy. Given that the comparators also operated in very different country settings, an effort was made to obtain Africa specific data. However, this was feasible only for IFC²³.

²³ Cooperation from the World Bank Group’s Independent Evaluation Group and EBRD’s Evaluation Department in providing the data to IDEV is gratefully acknowledged.

Table 8: Operational Results of Comparator DFIs

	AsDB	IFC	IFC SSA	IFC North Africa	EBRD
No. of projects validated	34	253	48	19	19
Projects approval Year	NA	CY08-CY12	CY08-12	CY08-CY12	NA
Completion Reporting Year	FY16-18	CY15-CY17	CY15-17	CY15-CY17	FY18
Development Outcomes					
- Success rate (by number)	56%	45%	38%	42%	79%
- Success rate (by volume)	NA	53%	53%	43%	NA
- Financial performance/project business outcomes	74%	39%	29%	37%	47%
- Economic sustainability	NA	41%	40%	42%	68%
- Environmental/Social Performance		72%	63%	88%	
Work Quality					
- NSO processing time (months)	8.7	NA	NA	NA	NA
- Performance during/at implementation	96%	75%	60%	74%	NA
- Additionality	65%	NA	NA	NA	85%
Investment Profitability					
- NPLs	2.8%	4.3%	NA	NA	4.7%
- Loan loss reserves	0.8%	4.7%	NA	NA	4.4%

Notes:

Asian Development Bank: Development Effectiveness Review, 2018 (Asian Development Bank, 2019) and 2018 Financial Report (Asian Development Bank, 2018). Expected loss percentages used for NPLs. Credit rating = 9.2 out of 14. NSO processing time for 2018.

IFC: WBG Results and Performance, 2018 (World Bank Group, Independent Evaluation, 2019) and FY2019 Financial Statements (International Finance Corporation, 2019). Quality of Supervision ratings used for performance during implementation.

IFC SSA: Projects in Botswana, Cameroon, Côte d'Ivoire, Ethiopia, Ghana, Kenya, Liberia, Malawi, Mauritania, Namibia, Nigeria, Senegal, Seychelles, South Africa, Tanzania, Uganda, Zambia and regional.

IFC MENA: Projects in Egypt, Morocco and Tunisia (AfDB countries) and Iraq, Jordan, Kuwait, Lebanon, West Bank and Gaza and Regional.

EBRD: Annual Evaluation Review 2018 (European Bank for Reconstruction and Development, Evaluation Department, 2019) and Financial Report 2018 (European Bank for Reconstruction and Development, 2019). EBRD additionality indicators were based on self-evaluation and not on validated evaluation. EBRD indicators could not be separately presented for Africa as there were no validated evaluations for Africa; 6 self-evaluations were available for Egypt (3), Morocco (2) and Tunisia (1).

71. Some key findings were:

- Success (in achieving development outcomes) varied considerably by institution ranging from 45% for IFC to 56% for AsDB to 79% for EBRD. IFC's success rate was even lower in both Sub-Saharan Africa (38%) and Middle East and North Africa (42%);
- Financial performance ranged from 39% for IFC to 47% for EBRD to 74% for AsDB. IFC's success rate was even lower in both Sub-Saharan Africa (29%) and Middle East and North Africa (37%).
- Economic sustainability was slightly better than financial performance for IFC (41%) and significantly better for EBRD (68%). IFC's success rate on this indicator was better (than financial performance) in both Sub-Saharan Africa (40%) and Middle East and North Africa (42%).
- Non-performing loans ranged from 2.8% in AsDB to 4.3% in IFC to 4.7% in EBRD. The Bank's non-performing loans stood at 5.7% in 2018 and a range of between 2.5-7.6% during the 2013-2018 period.

It should be noted that the above results include both financial sector operations and non-financial sector operations.

72. The evaluation results from the benchmarked DFIs also revealed some other patterns:

- **Sector distribution of successful projects varied across DFIs.** In AsDB, infrastructure operations were rated as more successful than finance²⁴. This pattern was similar to that in IFC up to 2017 but as of 2018, the two sectors had similar success rates²⁵.
- **Unsuccessful ratings** were driven by weak development results or unclear monitoring indicators (AsDB) and by poor project preparation quality and the quality of the DFI's own front-end work (IFC).
- **Poor additionality.** In most cases, development impacts were difficult to estimate. This was particularly true when the market or sector served by the project was large and growing rapidly, sometimes with the aid of government policies and subsidies. Results were difficult to attribute to specific projects in cases where financing was available from other sources or was deemed likely to have been mobilized from the market (AsDB) or in projects with co-financing (EBRD).
- **Profitability ratings.** These also showed similar patterns to overall development outcomes in the case of AsDB with Infrastructure projects (mainly in energy, transport, and water) achieving higher satisfactory ratings for profitability (92%) than finance projects (65%).
- **Disconnect between country and sector strategies.** The EBRD energy and transport evaluations found that country strategies focused on outcomes whereas sector strategies focused more on outputs and transactions (in the case of NSOs).

²⁴ NSOs in infrastructure (38% of completed projects) had higher success rates (62%) than finance projects (59% of reviewed projects) which had slightly lower success rates (55%).

²⁵ Until 2017, 69% of infrastructure projects had better than moderately satisfactory outcomes as compared with 58% of finance projects. However, in 2018, both sectors achieved only 48% successful outcomes.

73. Operational benchmarking should be revisited when a sufficient number of XSRs and XSRENs become available. Since projects need to reach Early Operating Maturity to be evaluated, there is usually a lag of 3-4 years from project commencement to the preparation of XSRs and XSRENs. This would suggest that projects which entered the portfolio during the early years of the PSD strategy (i.e. 2013-2015) would be ready for completion reporting by 2020. There is a large cohort of 108 NSOs approved during 2013-2015 which should hence be approaching completion reporting in the near future; when a sufficiently large number have been evaluated and validated the operational benchmarking should be revisited.

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