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## Evaluation of the AfDB's Utilization of its Public Private Partnership Mechanism (2006-2017)

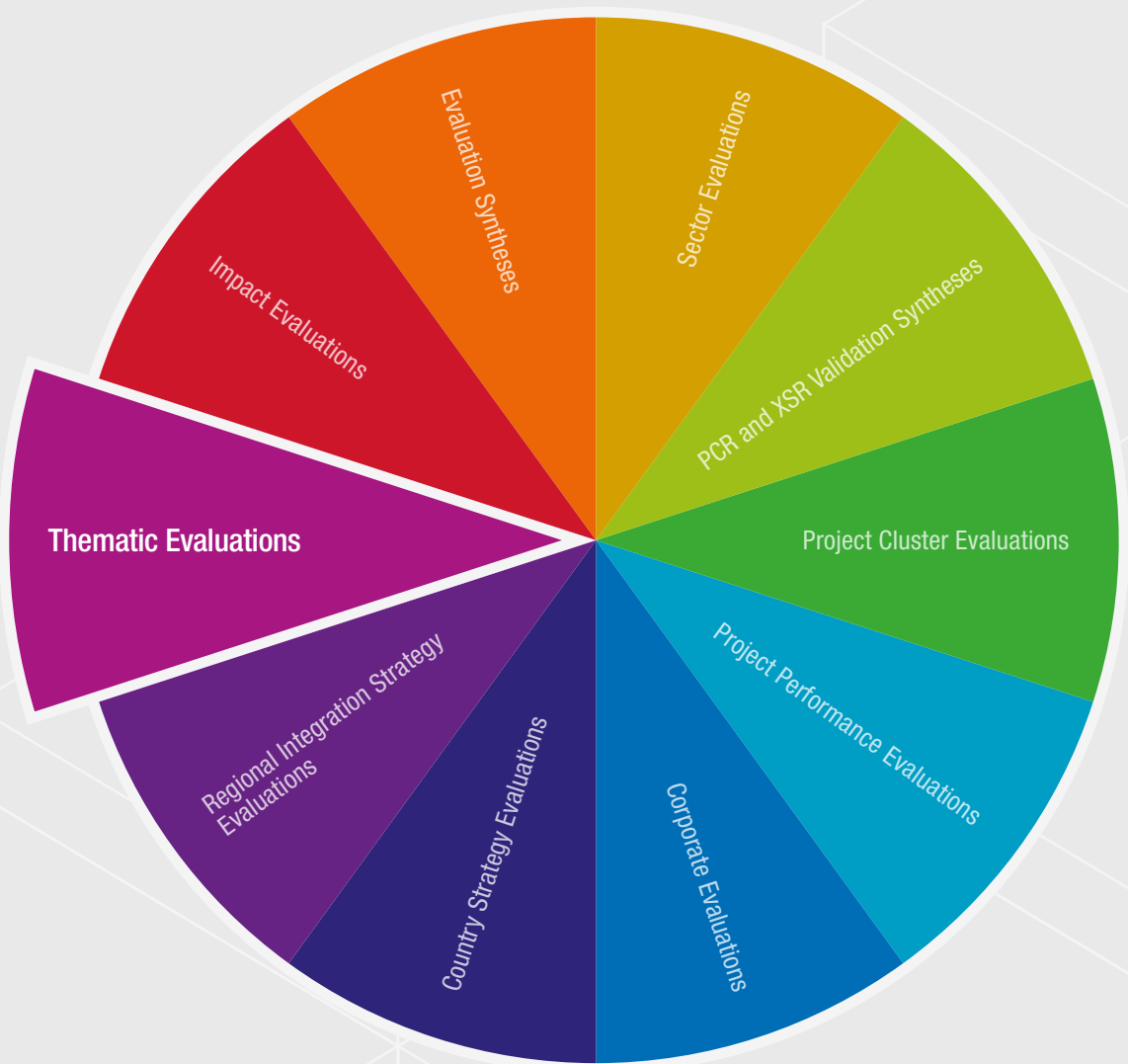
Executive Summary



AFRICAN DEVELOPMENT BANK GROUP

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# Executive Summary

## Context and purpose

African countries and development institutions use the Public Private Partnership (PPP) mechanism to respond to the dual challenge of substantial infrastructure investment gaps and fiscal constraints faced by governments. However, while PPPs are high on the agenda of African policymakers, the size of the PPP market in Sub-Saharan Africa remains relatively small. Five countries account for almost half of all the PPPs in Africa, while 17 countries have fewer than three PPPs, and six countries have no PPPs at all. Given the infrastructure gap and the level of capacity of its Regional Member Countries (RMCs) to identify, develop and procure infrastructure PPPs, there is a critical need for the African Development Bank Group (“the Bank” or “AfDB”) to support PPP projects.

This evaluation provides key stakeholders (AfDB Board, Senior Management, RMCs, authorities, development partners and civil society organizations) with credible evidence on the Bank's role in supporting PPPs, the potential for PPPs to promote sustainable social and economic development, and the extent to which this potential is currently being realized. Furthermore, the evaluation identifies lessons and recommendations pertaining to the Bank's support to RMCs using the PPP mechanism that will guide and inform the design of the new AfDB Group Private Sector Development Strategy, and the implementation of the AfDB's High 5s, the 2013-2022 Ten-Year Strategy (TYS), and the Industrialization Strategy.

The objectives of this evaluation are:

- i. To assess the extent to which the Bank's PPP interventions have achieved development results;
- ii. To assess the extent to which Bank PPP interventions have been well-managed;
- iii. To identify factors that enable and/or hinder successful implementation and achievement of development results; and
- iv. To harvest lessons from past experience to inform the Bank's future use of its PPP mechanism.

The Bank's involvement in PPP activities in RMCs consists of preparing the enabling policy and regulatory environment “upstream” through its public sector window, together with transaction support and finance “downstream” through both the public and private sector windows.

This evaluation reviewed AfDB's PPP interventions in terms of policies, strategies and projects for the period 2006-2017. The project-level assessment is based on the portfolio of Bank operations that were identified as PPP interventions. Between 2006 and 2017, the AfDB approved 65 PPP-related operations (24 upstream and 41 downstream operations) in 29 RMCs, representing a total net commitment of about UA 2.7 billion (USD 3.8 billion). These operations covered all regions of the continent and consist of both lending (guarantees, project loans, institutional support loans, policy-based lending) and non-lending (grants, economic and sector work, and technical assistance) activities.

## Methodology

The evaluation is based on a “Theory-of-Change” approach. This approach places the Bank's PPP operations within the countries' respective development contexts by assessing: (i) the extent to which expected PPP outcomes are achieved and contribute to sustainable development; and (ii) the conditions and reasons for the achievement of, or failure to achieve, these outcomes. The evaluation relies on mixed methods for collecting and analyzing

the required data at project, sector, corporate and country levels. This includes the use of multiple lines of evidence, which helps to mitigate the data limitations, especially on project performance. The evidence is synthesized from seven background reports: 11 project results assessments (PRAs), non-lending reviews, five country case studies, sector syntheses, a portfolio review, and a benchmarking study. The main challenges for the evaluation included the lack of a clear official PPP definition, and limited data on PPP project outcomes.

### The Bank's strategic framework and institutional arrangements for PPPs

The Bank has neither an overarching and formal strategy, nor operational guidelines and directives for PPPs. It has generally addressed PPPs within its corporate and sectoral strategies, and country strategy papers (CSPs), which consider PPPs mostly as a cross-cutting issue. The rationale for the Bank's PPP interventions is established based on the Bank's long-term strategic priorities, as defined by the TYS 2013-2022, and reflected in the High 5s. The sectoral strategies of the Bank also encourage the use of PPPs. The Bank's policies and strategies, while mentioning PPPs, do not have a consistent PPP definition.

The Bank has no formal coordination mechanisms directed toward PPPs, facilitating concerted efforts across its departments, nor a central PPP unit. Instead, it has a decentralized PPP matrix approach. This means that several units within the Bank handle PPP activities, with occasional overlaps, and without the necessary coordination.

### PPP performance

The Bank's PPP interventions are largely relevant and effective, with the benefits likely to be sustained. However, both financial and non-financial additionality of the Bank is limited, mainly because of the late stage of the Bank's involvement, typically after the structuring and procurement stages.

### Upstream and downstream support performance

**Upstream performance:** Upstream PPP operations are in alignment with the operational priorities in the Bank's 2008-12 Medium-Term Strategy, and 2012-2017 Private Sector Strategy, defined as part of the TYS 2013-22. They are also in line with RMC needs and priorities.

A significant part of the Bank's upstream support to PPPs focused on the development of PPP-enabling laws and regulations, and the development of capable PPP institutions. Very few interventions focused on creating a pipeline of potential PPP projects. Upstream operations contribute to the development of capable institutions, and good governance and regulations for economic growth, which are part of the operational priority of governance and accountability.

All five upstream PPP operations completed by 2017 achieved their targeted outputs. However, their expected outcomes and long-term impact could not be established, because of the absence of measurement of the outcomes and impact. Reporting on upstream PPP operations focused largely on the completion of specific tasks and deliverables. More importantly, the identification of non-lending interventions is not coordinated with the identification of lending interventions.

**Downstream performance:** The Bank's downstream PPP support involved 41 operations during the review period. It performed well in terms of relevance, effectiveness and sustainability. These operations were directed toward financing parts of the total investment requirements for infrastructure projects being implemented on a PPP basis. The focus of this downstream PPP support was largely in areas that were defined by the Bank's corporate and sector strategies and policies. The PPP interventions were also aligned with the financing strategies, including using innovative models, co-financing with other multilateral development banks (MDBs) and commercial banks and using risk mitigation instruments, among others.

The Bank has been involved in some of the most transformative and pioneering PPP projects in the region. The Bank's downstream interventions established some of the first successful demonstrations of PPP models in some sectors and RMCs.

Throughout the period under review, the AfDB's PPP interventions have focused almost exclusively on the transport and energy generation sectors, matching its specific sectoral intentions. The interventions were also largely aligned with the countries' needs and priorities.

Most of the downstream interventions (88 percent of the sample interventions) achieved their targeted outcomes and impact satisfactorily. As the Bank's PPP interventions were targeted toward large economic infrastructure projects, they improved access to infrastructure facilities and services, and indirectly access to social services.

In addition, the Bank's downstream interventions performed satisfactorily in terms of the contributions to important cross-cutting objectives, including inclusive growth and access, the green economy, women and youth employment, and other social benefits.

From an institutional strengthening perspective, the primary contribution of the Bank's interventions has been in demonstrating the use of PPPs.

In most PPP projects, the Bank's downstream interventions came after the PPP transactions had been structured and procured. As a result, the contribution of the Bank in structuring or strengthening the transactions was limited.

The delivery of services by the Bank's PPP operations is likely to be sustained. Except for two interventions that are still not commissioned, all other sample interventions largely indicate sustained delivery of services. Financial sustainability, and environmental and social safeguards are largely satisfactory. However, financial sustainability is challenged by the lack of measuring and monitoring the fiscal impact

of PPPs by the Bank, especially contingent liabilities. Furthermore, the sustainability of the Bank's PPP services is exposed to multiple risks.

## The Bank's performance in managing interventions

In managing PPPs, the Bank was reactive and demand-driven, and also innovative, but it was challenged by implementation delays, and inadequacies in quality at entry and supervision and monitoring activities.

While the Bank was largely reactive and demand-driven in the PPP space, other MDBs are moving toward a more proactive approach in order to identify a deal pipeline, with more programmatic and strategic approaches for undertaking PPP operations.

The Bank innovated in managing its PPP operations by using different financing and risk management instruments to provide financing solutions customized to project and sector needs. These included hybrid solutions in the blended-finance spectrum.

Multiple PPP interventions experienced implementation delays caused by inadequate information about the baseline conditions, technical challenges with the equipment, changes in the constitution of the PPP companies, and inadequate coordination between government departments.

The Bank does not have any mechanism to measure its own cost and time efficiency in administering and managing its PPP interventions. In addition, the Bank did not conduct least-cost option analysis to establish cost efficiency in most cases.

The quality at entry of the Bank's PPP interventions has largely been satisfactory, although with inadequacies reported in areas such as the due diligence of the procurement process and private promoters, the establishment of non-financial additionality, and the quality of results-based logical frameworks.

There were also inadequacies in supervision and monitoring activities, especially considering that PPPs have different and more in-depth requirements for monitoring and supervision due to their continuously evolving risk profile.

## Synergies and coordination

### **Synergies and coordination inside the Bank:**

All elements for PPP support are present in the Bank, but in different areas and departments, with limited coordination and synchronization. Most of the projects demonstrate successful coordination between all the key departments and units of the Bank, as evidenced by the operational status of the PPP interventions. However, there are some instances of inadequate coordination between the public sector and private sector operations of the Bank. According to interviews with stakeholders, there is scope to improve coordination between the sectoral and regional complexes, and between the country teams and headquarter teams. In addition, there is inconsistent collaboration between the public sector and private sector teams within the Bank, and between the sectoral and regional complexes within the Bank. Also missing is a centralized repository of knowledge and experience, hindering cross-learning within the Bank.

### **Coordination with development actors outside the Bank:**

As a typical practice, the role of various donors and MDBs is coordinated at the country level, based on the allocation of sectors and themes. Other MDBs consulted during the evaluation indicated areas for improvement, such as the harmonization of long-term plans with other MDBs, the establishment of mutual reliance initiatives, more active participation in multi-donor activities and the simplification of coordination processes.

The Bank worked closely with the respective RMC government agencies. The responsiveness of the Bank, its contextual understanding, its partnership-based approach and its support to investor confidence were all appreciated. The low visibility

of the Bank's plans and activities compared with other MDBs, limitations in country staff capacity, and restrictive approval processes were indicated as areas for improvement. Specifically, stakeholders perceive that the Bank's approval processes relating to environmental and social safeguards are restrictive compared with co-lenders, especially because some of the processes impede timely availability of funds for the project company. The administrative processes of the Bank are perceived as being more time-consuming than those in other MDBs.

## Recommendations

From the evaluation's findings and conclusions, the Bank should consider the following recommendations:

### ***At the Strategic Level:***

- Clearly define a strategic framework for the Bank's participation in the PPP agenda continent-wide to improve internal efficiency, and PPP effectiveness and impact;
- Develop and promote standard classification/flagging criteria for PPPs to facilitate PPP management, and knowledge creation and sharing;
- Strengthen and improve coordination between upstream and downstream interventions. The upstream interventions can facilitate the identification of a project pipeline as potential targets for downstream operations (PPP effectiveness and impact);
- Continue strengthening PPP expertise in teams that interact with RMC governments, especially in the areas of project identification and establishing the preliminary business case;
- Continue strengthening communication with external stakeholders on the Bank's PPP agenda in specific sectors;

- Review the existing products and solutions, and map them across the PPP value chain. In addition, the Bank should package multiple solutions for comprehensive support to RMCs, and ensure that the Bank's in-country staff are capable of proactively offering the solutions to RMC governments; and
- Establish a project knowledge repository, and leverage this repository to guide project development and implementation in RMCs.

***At the Operational Level:***

- Continue strengthening the pre-approval due diligence process;
- Continue strengthening PPP performance monitoring and reporting, and risk management mechanisms;
- Continue strengthening post-approval processes, including contract and relationship management; and
- Establish appropriate mechanisms to measure the Bank's own cost and time efficiency in administering and managing its PPP interventions.





## About this Evaluation

This report presents a summary of the findings of the independent evaluation of the AfDB's utilization of its Public-Private Partnership (PPP) mechanism over the period 2006-2017. Given the emphasis placed on PPPs as a means of closing Africa's infrastructure gap and promoting social and economic development, the objectives of the evaluation were: (i) to assess the extent to which the AfDB's PPP interventions achieved development results; (ii) to assess the extent to which the AfDB's PPP interventions have been well-managed; (iii) to identify factors that enable and/or hinder the successful implementation and achievement of development results; and (iv) to harvest lessons from experience to inform the AfDB's future use of its PPP mechanism.

The evaluation followed a Theory-of-Change approach and relied on mixed methods for collecting and analyzing data at project, sector, corporate and country levels, which included the use of multiple lines of evidence synthesized from seven background reports, 11 project results assessments, non-lending reviews, five country case studies, sector syntheses, a portfolio review, and a benchmarking study.

The evaluation found that the AfDB's PPP interventions are largely relevant and effective, and the Bank was found to be innovative and demand-driven in the management of PPPs. A number of challenges were identified including implementation delays; inadequacies in quality at entry, supervision, and monitoring activities; lack of a formal strategy, operational guidelines and directives for PPPs; as well as absence of a central repository of knowledge and experience on PPPs.

The evaluation made recommendations for the AfDB's Management to consider at the strategic and operational levels, in order to improve internal efficiency and the effectiveness and impact of PPPs on the African continent.



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