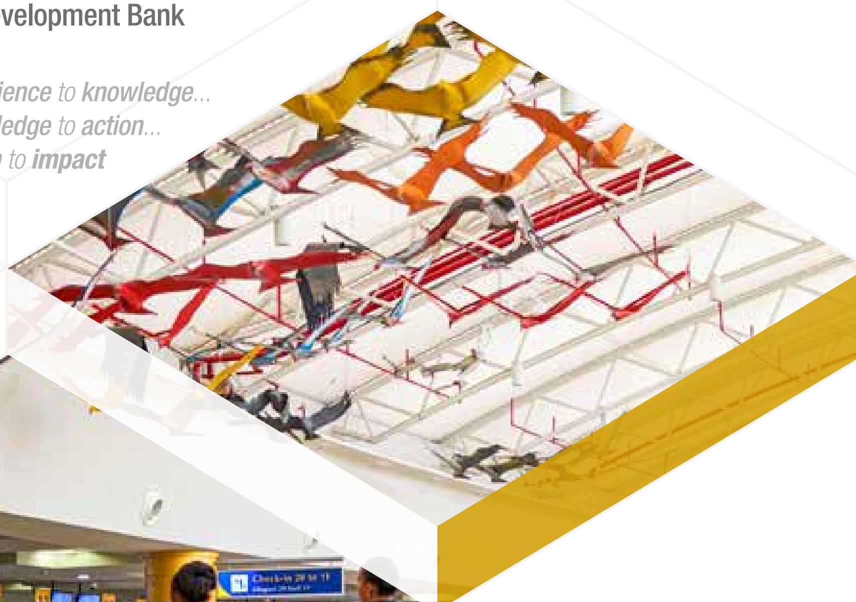
IDEV

Independent Development Evaluation
African Development Bank

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

An IDEV **Sector Evaluation**



Evaluation of the AfDB's Private Sector Development Strategy (2013–2019)

Executive Summary

AFRICAN DEVELOPMENT BANK GROUP

July 2020

IDEV conducts different types of evaluations to achieve its strategic objectives

Executive Summary

Background

The African Development Bank's Ten-Year Strategy (TYS) 2013–2022 focused on improving the quality of Africa's growth through inclusive growth and the transition to green growth. Private Sector Development (PSD) – the provision of a conducive policy environment and a range of financial and non-financial services to support the private sector – was one of the five operational priorities of the TYS and was further defined through the 2013 PSD Strategy. This strategy was initially expected to be implemented over a four-year period (2013–2017), but its implementation was extended to 2020.

What was Evaluated?

The Independent Development Evaluation (IDEV) at the AfDB conducted an evaluation of the Bank's 2013 PSD Strategy. This strategy had three pillars, namely: (i) improving the investment and business climate; (ii) expanding access to social and economic infrastructure; and (iii) enterprise development. It also included the three areas of special emphasis in the TYS, namely, (i) fragile states; (ii) agriculture and food security; and (iii) gender. PSD support for each Regional Member Country (RMC) was expected to be customized from a large menu of 37 operational initiatives based on country-specific constraints confronting the private sector. As one of the few institutions in Africa that supports both governments and the private sector, through Sovereign Operations (SOs) and Non-Sovereign Operations (NSOs), the Bank was expected to play a unique role by combining upstream policy work and lending operations, and ensuring stronger linkages between its support to governments and to both large and small businesses.

Purpose of the Evaluation

The primary purpose of this evaluation was to take stock of, and assess, the ongoing implementation of the 2013–2017 PSD Strategy, and its contribution to the Bank's efficiency and effectiveness. This evaluation will inform the new PSD Strategy that is currently under preparation by the AfDB management and expected to be completed by 2020.

The evaluation, to the extent possible, focused on the following core questions:

- To what extent has the Bank's support for PSD been relevant?
- To what extent did the Bank's public sector interventions and initiatives foster private sector enablers to achieve their objectives?
- To what extent were development outcomes of the private sector operations achieved?
- What has been the Bank's rating in terms of work quality, profitability and additionality?
- What key factors have influenced the performance of the PSD pillars and interventions?

Methodology Used

The evaluation was guided by the Bank's Independent Evaluation Policy, the Organization for Economic Co-operation & Development – Development Assistance Committee (OECD-DAC) evaluation criteria and the latest Evaluation Cooperation Group (ECG) Good Practice Standards for public sector (ECG 2012) and private sector (ECG 2011) operations. The evaluation is based on the Theory of Change (ToC). The construction of the ToC identified relevant issues underscoring the complexity of the environment in which the Bank operates to deliver results in the context of the PSD Strategy. The evaluation used a mixed-method (quantitative and qualitative) approach that triangulated several information sources to answer the evaluation questions.

Three background reports were prepared, namely (i) a literature review and institutional benchmarking report; (ii) a country case-studies report that synthesized findings from seven countries; and (iii) a portfolio review and institutional performance background report. Given the thematic nature of PSD, several existing evaluations were also utilized to supplement the background reports. The key data limitation was the limited availability of validated self-evaluations for SOs and NSOs that had been approved since 2013. The mitigation measure was the inclusion of several other evaluations that also contained syntheses of project-level evaluations.

Findings

Relevance. The PSD Strategy was found to be highly relevant to the achievement of the TYS. However, it could have included an explicit theory of change and its design could have been more contextually suitable. The application of the PSD Strategy in RMCs was also highly relevant, though there is need for a greater focus on market systems development generally, as well as in specific areas, e.g., to address regional disparities or to support small and medium enterprise (SME) development. Moreover, the strategy could have defined criteria to better balance the NSO portfolio between operations through financial institutions and real sector operations, providing more direct demonstration effects. The Bank's increased strategic focus on five priority areas of action – the High 5s – and monitoring the performance of the High 5s at the same time reduced attention for monitoring of the PSD Strategy itself.

Effectiveness. Sovereign operations satisfactorily supported improvement in the investment and business climate. While they addressed an important and necessary condition for private sector growth, they would not in isolation have been able to improve job, investment and growth outcomes. The effectiveness of NSOs varied depending on the sector supported - financial sector NSOs had uncertain effectiveness for private sector beneficiaries, particularly SMEs; infrastructure NSOs and Public-Private Partnerships (PPPs) had satisfactory effectiveness, but limited additionality; and industrial NSOs had to balance the tension between market development impact and financial sustainability. Linkages between SOs and NSOs were important but rare, and evident in some case-study countries, with the Bank usually responsible for ensuring linkages since governments were usually not involved in NSOs. However, there were no clearly designated institutional responsibilities for ensuring linkages within the Bank. While the PSD program's sovereign-NSO linkages are important in any country, they are particularly crucial in fragile states where the Bank could play a larger role.

Institutional Performance. The Bank does not report on its SO and NSO PSD portfolios in an integrated manner. The Bank's NSO portfolio management focuses significantly on risk capital utilization and provides more limited attention to risk/return and the profitability of individual sector and product lines. The Bank has committed, as part of its Integrated Quality Assurance Plan, to a series of actions to improve NSO monitoring. Since the introduction of organizational changes within the Bank, indicators of staffing efficiency (e.g., number of operations being prepared or supervised per staff officer) have not been readily available. Qualitative assessments over the past few years have pointed to a likely deterioration in institutional efficiency.

Recommendations

IDEV makes the following recommendations:

Recommendation 1: Adapt the institutional arrangements for PSD operations in the Bank to maximize development effectiveness, efficiency and synergies, and ensure there is an overall view of the objectives, activities and results of all PSD activities.

Recommendation 2: Strengthen linkages between the Bank's PSD sovereign and non-sovereign operations at the country/regional levels by scaling up country diagnostic tools for prioritizing investment climate constraints and developing a High 5 PSD program checklist.

Recommendation 3: Carry out an in-depth analysis of the effect of NSO operations on SMEs to deepen the understanding of what works, and to strengthen the Bank's additionality and development outcomes.

Recommendation 4: Increase the Bank's PSD operations in low-income and transition countries.

Recommendation 5: Improve the quality of PSD strategy design, management, measurement, and the reporting of results.

IDEV

Independent Development Evaluation

African Development Bank

An IDEV **Sector Evaluation**

About this evaluation

This report synthesizes the findings, lessons and recommendations from an evaluation of the implementation of the AfDB's Private Sector Development (PSD) Strategy over the 2013–2019 period. The evaluation will inform the new PSD Strategy that is currently under preparation by AfDB Management. PSD, which entails the provision of a conducive policy environment and a range of financial and non-financial services to support the private sector, is one of the five operational priorities of the AfDB's Ten-Year Strategy (2013–2022) and was further defined through the PSD Strategy adopted in 2013.

The evaluation found that the contextual suitability of the Strategy's design was limited, and direct measurement of outcomes was inadequate. The effectiveness of non-sovereign operations varied depending on the sector supported, and their use in in fragile states was limited. Qualitative assesments over recent years have pointed to a likely deterioration in institutional efficiency.

Despite limited availability of validated self-evaluations for sovereign and non-sovereign operations approved since 2013, five main lessons and recommendations with key priority areas of action were identified. The lessons emphasize the importance of analysis of financing and capacity constraints; common guidance for designing PSD programs; and a well-focused results measurement framework. Recommendations concern the Bank's institutional arrangements for PSD operations; the linkages between its sovereign and non-sovereign operations at country/regional level; its PSD operations in low-income and transition countries; and the quality of PSD strategy design, management, measurement and reporting of results.

IDEV

Independent Development Evaluation
African Development Bank

African Development Bank Group
Avenue Joseph Anoma, 01 BP 1387, Abidjan 01, Côte d'Ivoire
Phone: +225 20 26 28 41
E-mail: idevhelpdesk@afdb.org

idev.afdb.org

Design & layout: CRÉON • www.creondesign.net