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Independent Development Evaluation
African Development Bank

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

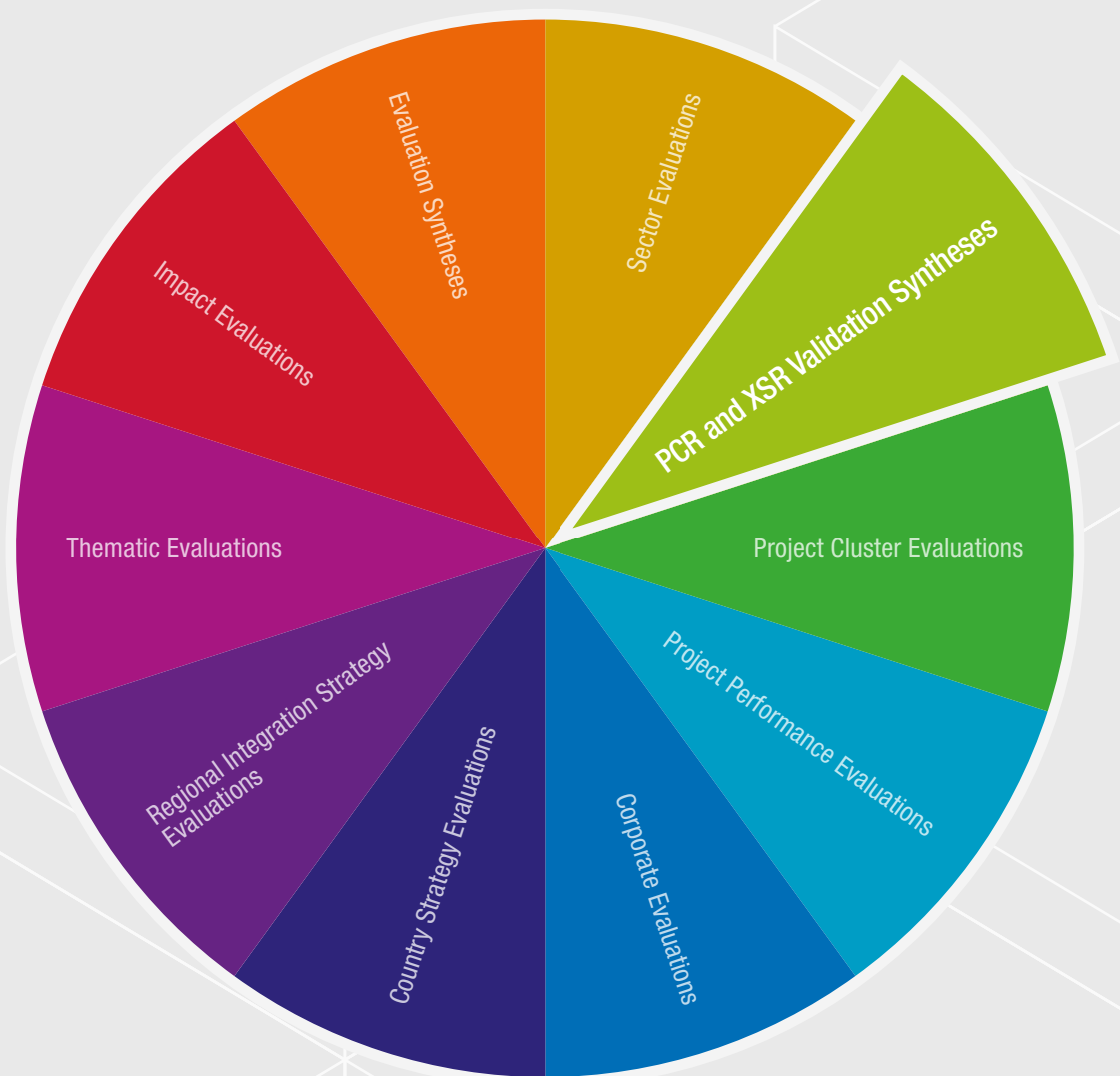
Executive Summary



AFRICAN DEVELOPMENT BANK GROUP

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IDEV conducts different types of evaluations to achieve its strategic objectives



Executive Summary

Background

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

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

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

Objective

The objectives of this assignment included: (i) Results Reporting: The Synthesis report aims at reporting

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

Methodology Used

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

- i. The Development Outcome (business success, economic sustainability, environmental and social effects, and private sector development);
- ii. The Investment Performance (profitability of investments for the AfDB);
- iii. The Bank's Work Quality (screening, appraisal, structuring and supervision); and
- iv. The Bank's Additionality (the Bank's unique input and/or value added as a Development Finance Institution).

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

Findings

Assessing compliance with the Bank's XSR process

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

Overall development outcome of Bank interventions

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

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

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

The Bank's investments of UA 1.97 billion contributed to the creation, sustainability, and growth of private enterprises. The effects of the interventions created positive outcomes outside the businesses financed which influenced the local economy around these

enterprises via the creation of positive externalities, improvement of infrastructure, the provision of cheaper and higher quality goods and/or services, and/or the internalization of new technology. Finally, Bank interventions improved the conditions conducive to the flow of funds to private enterprises via deepening of financial intermediation and improvement in access to financial services by private enterprises. Notwithstanding the overall positive rating, XSRs were not uniform in their reporting of quantifiable data on development outcomes of Bank interventions such as turnover, employment, exports, foreign exchange savings, gender profile, etc.

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

The Bank's investment profitability

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

The Bank's Investment Profitability rating was rated positive (satisfactory or higher) for 31 projects (67%), with 3 projects (6.5%) rated highly satisfactory and 28 projects (60.9%) satisfactory. A less than satisfactory rating was assigned to 15 projects (33%), with 11 projects (23.9%) rated unsatisfactory and 4 projects rated highly unsatisfactory. Most of the projects rated less than satisfactory for Bank Investment Profitability were old projects (12 of the 15, 80%), all approved before 2011, and two of them were workout projects approved in 1995 and 1999, respectively. However, there are five projects

approved between 2011 and 2013 that are classified as workout projects for which no XSR was written.

The Bank's work quality

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

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

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

The Bank's additionality

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

through two sub-indicators: financial additionality and non-financial additionality.

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

Rating disconnect

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

Quality assessment of XSRs

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

XSRs, large room for improvement remains in the area of identifying and formulating lessons.

Recommendations

IDEV makes the following recommendations:

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

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

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

Recommendation 4: Improve the quality of XSR preparation. There is a strong need to improve the Bank's capacity for identifying

and formulating lessons in XSRs, since refining them at the validation stage is sub-optimal and could result in the loss of valuable lessons of experience. The Bank should develop specific guidance on lessons that provides sufficient distinction between findings, lessons, and recommendations. Moreover, emphasis should be

placed on improving staff capacity to rate project performance in order to reduce or close the gap between self and independent ratings. Knowledge events and trainings on how to rate project performance and how to formulate lessons should also be provided to operations staff responsible for producing XSRs. ■



About this evaluation

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

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

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



IDEV

Independent Development Evaluation
African Development Bank

African Development Bank Group
Avenue Joseph Anoma, 01 BP 1387, Abidjan 01, Côte d'Ivoire
Phone: +225 27 20 26 28 41
E-mail: idevhelpdesk@afdb.org

