

IDEV

Independent Development Evaluation
African Development Bank

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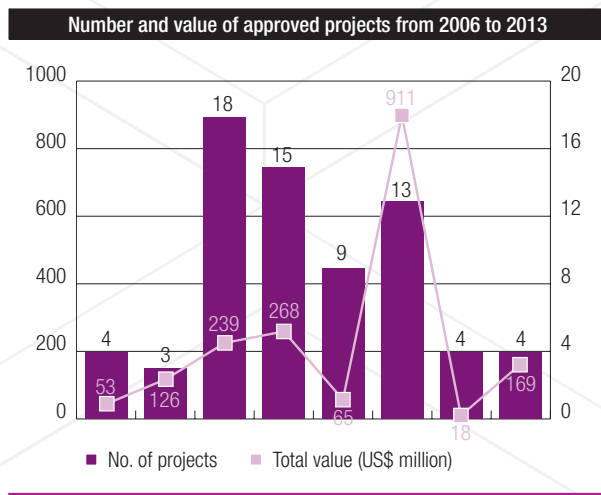
Evaluation of Bank Assistance to Small and Medium Enterprises (2006–2013)

Objective, scope and approach

The overall objective of the evaluation was to assess the relevance, effectiveness, additionality and sustainability of the African Development Bank's assistance to Small and Medium Enterprises (SMEs), including how efficiently the AfDB's structure and procedures support the design and delivery of operations. Specifically, the evaluation assessed the: 1) relevance of the Bank's approach to supporting SMEs; 2) results of the Bank's assistance to SMEs in terms of outputs, outcomes, impacts, and additionality of the Bank's intervention; and 3) efficiency of the Bank's approach to SME assistance, particularly its organizational set up, operational efficiency, and suitability of monitoring and evaluation (M&E) arrangements.

The evaluation covered a portfolio of 70 operations approved between 2006 and 2013 that specifically support SME development. It comprised 46 investment operations, 16 technical assistance grants, and 8 institutional support projects totaling approximately USD 1.9 billion, or about 3.7 percent of all Bank approvals.

The exercise involved a combination of desk work, including a review of the literature and all relevant documents from various sources as well as an in-depth portfolio review, and field work, including missions to six countries (Ghana, Kenya, Morocco, Tanzania, Togo, and Zambia) which among others interviewed key informants. The evaluation also benchmarked the Bank's operations, organizational setting, and procedures against two other multilateral development banks, namely the World Bank Group and the European Bank for Reconstruction and Development. The findings are based on the triangulation of



AFRICAN DEVELOPMENT BANK GROUP

Value of Targeted Small and Medium Enterprise Assistance

| Type of project | No. of projects approved | No. of projects committed | Value of projects approved | Value of projects committed |
|-----------------------|--------------------------|---------------------------|----------------------------|-----------------------------|
| | | | (US\$, millions) | |
| Investment operations | 46 | 39 | 1,821.5 | 957.1 |
| Technical assistance | 16 | 14 | 22.3 | 20.3 |
| Institutional support | 8 | 8 | 20.2 | 20.2 |
| Total | 70 | 61 | 1,864.0 | 997.6 |

qualitative (e.g. key informant interviews) and quantitative (e.g. results database) information originating from a mix of primary and secondary sources (interviews carried out during fieldwork, project documents, evaluations of SME support initiatives, etc.).

Main Findings

The AfDB's strategic orientation toward SMEs is relevant. The Bank has long recognized the importance of SME development in Africa, and this has been a recurrent theme in virtually all AfDB strategic and policy documents. However, no explicit SME strategy exists. The lack of a unified conceptual framework or clear SME definition impacts the comparability of SME assistance actions and results amongst projects, and thwarts the identification of target groups. One persistent gap in the AfDB's product mix is the limited use of local currency lending, which constrains the Bank's ability to effectively reach SME beneficiaries.

The relevance of the Bank's SME operations is moderately satisfactory. SME operations were often undermined by design weaknesses. A limited appreciation of clients' financial needs led to project cancellations in some instances. Financing agreements often lacked apt eligibility criteria for sub-loans. Consequently, while a significant share of the Bank's assistance nominally targeted SMEs,

in reality it is better categorized as generic private-sector development assistance. That said, post-2013 the SME focus has been considerably strengthened, more proactive, and operations are much more aligned with SMEs' financing needs.

SME assistance operations are also deemed moderately satisfactory in terms of effectiveness. Design flaws limited the Bank's ability to reach SMEs, resulting in underperformance for a majority of projects. While 90 percent of the 1,790 beneficiaries can be characterized as SMEs, they received just about 40 percent of the US\$622 million disbursed, with the difference going to large enterprises who on average received US\$2 million each as compared to US\$150,000 for SMEs. Only a few financial intermediaries expanded their SME portfolio and even fewer initiated new financial products for SMEs. On a positive note, however, the bulk of SME projects did well fiscally, experiencing few or no defaults.

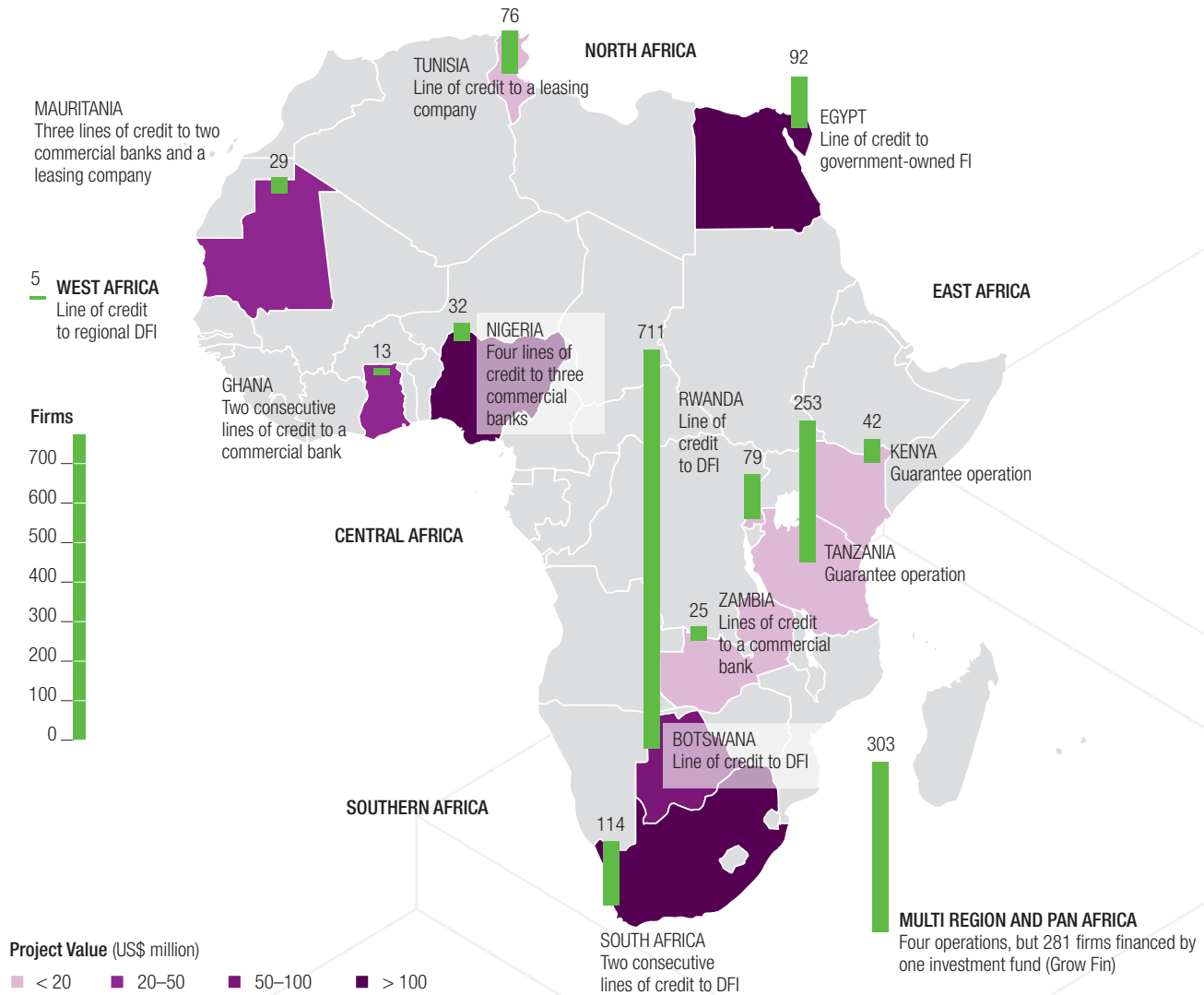
The additionality of the Bank's interventions is moderately satisfactory. The AfDB provides long-term funding and is a vital investor in a dozen equity funds, contributing to their commercial viability. That said, in light of the large share of financial institutions already supported by other donors, the Bank rarely played a catalytic role. In the case of equity funds, the Bank was hardly a first-round investor. The AfDB's non-financial additionality was also rather modest.



The AfDB's organizational set-up and procedures are deemed moderately satisfactory. Over the review period (2006-2013), on average, it took 10–12 months to process an investment operation (i.e., nearly twice the average approval time at the International Finance Corporation (IFC) or the European Bank for Reconstruction and Development (EBRD)). Furthermore, the Bank had twice as many approval gates, and a particularly arduous project clearance process – with all sovereign and non-sovereign investment operations going through five steps including Board of Directors approval. That said, some improvements were introduced for operations undertaken within the framework of the Africa Small and Medium Enterprise Program (ASMEP), and no issues arose with regard to disbursement of investment operations.

The AfDB's monitoring and evaluation arrangements are moderately unsatisfactory. The monitoring and evaluation of SME assistance operations is challenging and complex, requiring appropriate measuring tools and the collection of a significant mass of data. While tools for measuring the performance of SME assistance operations were developed in the framework of the ASMEP, deficiencies still exist in monitoring and in data collection. Client financial institutions were also less inclined to provide data in a timely manner, and AfDB staff somewhat hesitant to pressurize such clients.

Distribution of the Bank's Small and Medium Enterprise Beneficiaries



Recommendations

Based on the findings, the evaluation put forth eleven recommendations to the Bank's Management, summarized as follows:

1. Develop a comprehensive conceptual framework for SME assistance – possibly in the form of a dedicated strategy (covering all forms of SME assistance), similar to the practice at the EBRD.
2. Adopt an official definition of SME, to ensure that target groups are clearly defined. The ASMEP's definition of SME is a good starting point. The AfDB should also consider complementing a size-based definition with one based on loan size for operations with financial intermediaries.
3. Expand the use of local currency financing, as foreign exchange funding limits the AfDB's reach. The Bank should deploy efforts to translate the planned expansion of local currency operations under the ASMEP into concrete action.
4. Improve the design of investment operations, to reflect a more accurate assessment of Partner Financial Institutions' (PFIs) financial needs in order to drastically reduce cancellations. This should be accompanied by a realistic assessment of PFIs' propensity and capacities to effectively serve SME clients.
5. Diversify the range of client PFIs and countries of operation, to enable the Bank to work with a broad range of PFIs across the continent. A diversification of the portfolio is already envisaged by ASMEP, and the Bank should commit resources to turn this into concrete action.
6. Strengthen eligibility conditions to ensure that SMEs are effectively reached. In the case of PFIs, eligibility conditions must be well specified so that on-lending is aligned with the intended objectives.
7. Enhance the relevance of technical assistance and facilitate its implementation, such that it is tailored to the specific needs of each intermediary and well-aligned to the objectives of the associated lending or investment operations. To avoid delays in deploying technical assistance, the Bank should simplify

procurement procedures to better match the capabilities of beneficiaries.

8. Improve coordination among services involved in SME assistance, by setting up mechanisms (e.g. a community of practice) linking all staff involved in SME related operations, to achieve greater integration among the Bank's various services, while facilitating the sharing of experience and best practices.
9. Simplify project approval procedures by drawing on the experience gained with the simpler procedures incorporated in the ASMEP.
10. Improve the collection of information on project achievements, to better assess the performance of Bank assistance operations by gathering detailed information on financial intermediaries and beneficiaries. Loan agreements should also mandate PFIs to provide details of their lending or investment activities.
11. Establish a system for tracking results and reporting, similar to that in most MDBs (e.g. the Development Outcome Tracking System in IFC, and the Transition Impact Monitoring System in EBRD) to enhance results reporting on and monitoring of Bank assistance.



About IDEV

Independent Development Evaluation (IDEV) of the African Development Bank carries out independent evaluations of Bank operations, policies and strategies, working across projects, sectors, themes, regions, and countries. By conducting independent evaluations and proactively sharing best practice, IDEV ensures that the Bank and its stakeholders learn from past experience and plan and deliver development activities to the highest possible standards.

Management Response

Management welcomed the independent review of the Bank's Assistance to SMEs (2006-2013) – its relevance, additionality, effectiveness, sustainability, and efficiency of SME operations and the approach to SME development. The evaluation offered several insightful recommendations, many of which are in-line with Management's own findings, and are already being implemented. Management welcomed the opportunity to further refine the approach to SME assistance, as detailed in its Management Action Record.

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