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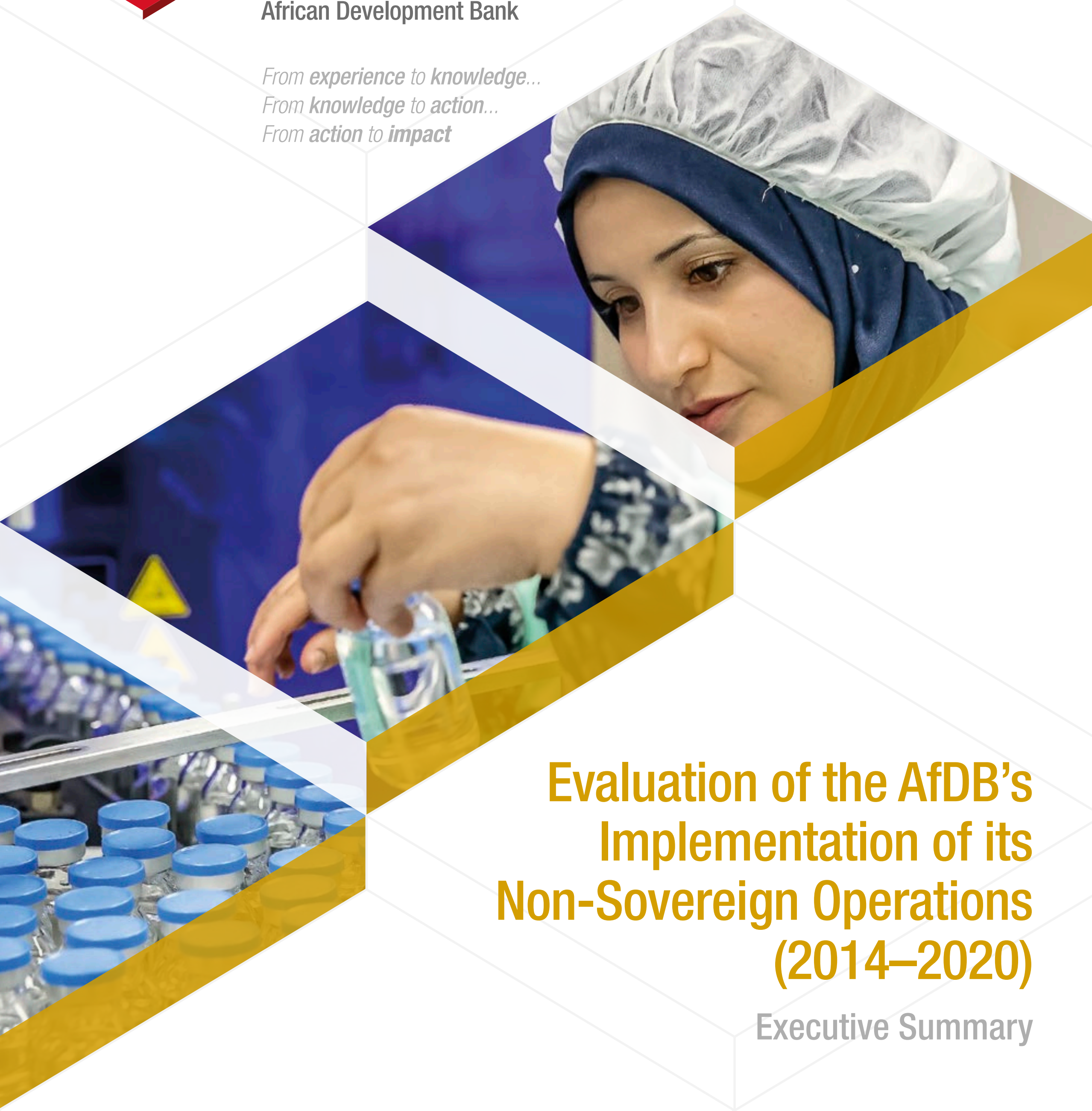

Evaluation of the AfDB's Implementation of its Non-Sovereign Operations (2014–2020)

Executive Summary

AFRICAN DEVELOPMENT BANK GROUP

December 2022

Executive Summary

Background

As part of its work program, Independent Development Evaluation (IDEV) has conducted an evaluation of the African Development Bank Group's (AfDB or "the Bank") implementation of its Non-Sovereign Operations (NSOs)[1] over the period 2014-2020. The evaluation follows on from IDEV's 2020 Evaluation of the AfDB's Private Sector Development Strategy 2013-2019, and serves to inform the Implementation Plan of the new Bank Private Sector Development Strategy (PSDS) for the 2021-2025 period.

The private sector is widely recognized as an engine for inclusive and green growth. In addition to the emergence of new actors playing increasingly central roles in national, regional, and international arenas, political, economic, social, and technological factors have contributed to significantly changing the private sector landscape in Africa. However, the most critical binding constraints to private sector development[2] have remained unchanged. The main challenges to private sector development in Africa include: (i) the lack of a conducive business environment; (ii) lax rules and regulations; (iii) inadequate infrastructure and services; and (iv) insufficient access to finance.

The Bank started direct investment in support of the private sector and private equity in 1990. Today, private sector development has become one of the institution's strategic pillars towards achieving the twin objectives of its 2013-2022 Ten-Year Strategy (TYS): inclusive and green growth. Over the implementation period of the previous 2013-2019 PSDS, the Bank scaled up its private sector development interventions and leveraged on the synergy between its sovereign and non-sovereign windows. More recently, in the context of the African Development Fund's fifthteenth replenishment (ADF-15) and the seventh General Capital Increase (GCI-VII), the Bank committed to continue the expansion of its NSOs in Regional Member Countries, while strengthening operational guidelines to support the implementation of NSOs and the achievement of development results.

Purpose and Scope

The purpose of this evaluation is to assess the relevance of the AfDB's institutional arrangements for NSOs, its effectiveness and efficiency in delivering on its NSO agenda, and the identification of lessons that can help to inform the implementation of the 2021-2025 PSDS, as well as other relevant Bank strategic frameworks.

In doing so, the evaluation seeks to: (i) identify prerequisites and enabling and/or hindering operational factors for the successful implementation and enhanced development effectiveness of Bank NSOs; (ii) consolidate learning from previous IDEV private sector and NSO-related evaluations by making evaluative evidence more readily available; and (iii) draw lessons for improved NSO project, portfolio, and institutional performance.

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1 The AfDB defines Non-Sovereign Operations (NSOs) as "operations financed by the Bank through its private sector lending window on non-concessional terms and without the requirements of sovereign guarantees". By contrast, Sovereign Operations (SOs) refer to "Financing, advisory services, or technical assistance support rendered by the Bank to a Government or departments of a Government of a Regional Member Country (or Governments of Regional Member Countries), which, if it is offered on loan terms, is subject to be repaid under the terms formally agreed upon between the Bank and the Government (or Governments)".

2 The AfDB defines Private Sector Development as "Sustained expansion, transformation, diversification, improvement in the quality of goods and services supplied, growth in productivity and international competitiveness, and real increase in value-added of the private sector".

This evaluation includes both retrospective and forward-looking dimensions, as it was undertaken in between two PSDS cycles (2013-2019 and 2021-2025). However, it is important to distinguish this evaluation from IDEV's evaluation of the Bank's previous 2013-2019 PSDS. The PSDS evaluation took stock of the implementation of the Strategy and assessed its contribution to the Bank's efficiency and effectiveness, with a view to informing the preparation of the new 2021-2025 PSDS that was approved by the Board of Directors in January 2022. In contrast, the present evaluation will primarily inform the implementation plan of the 2021-2025 PSDS and was designed to address the following four key Evaluation Questions:

i. To what extent is the Bank's organizational setup for private sector development relevant for supporting the delivery of the institution's NSO agenda?

ii. To what extent were the Bank's NSOs effective in achieving the expected Development Outcomes (DOs)?

iii. To what extent are the Bank's operational processes with respect to NSOs and mechanisms for coordinating Sovereign Operations (SOs) and NSOs efficient for supporting the rapidly evolving needs of the AfDB's NSO ecosystem?

iv. What lessons can be drawn in relation to the implementation of the Bank's NSOs?

The evaluation focuses on NSOs as defined by the Bank in its NSO policy documents. The evaluation limits its scope to the 2014-2020 period. Over this period, the Bank approved a total of 194 non-sovereign transactions valued at Units of Account (UA) 8.6 billion in debt and equity. The Bank also adopted a new Development and Business Delivery Model (DBDM). The 2016 DBDM and its subsequent 2020 finetuning (the "One Bank approach") aimed at effectively and efficiently delivering on the TYS and the High 5s operational priorities, while maximizing development effectiveness in a resource-constrained environment. The evaluation tried to compare the pre-DBDM and post-DBDM periods. It took the Bank's operating model as given and did not attempt to evaluate the model itself. In 2023, IDEV will undertake a comparative study of Multilateral Development Bank operating models.

Methodology

Evaluation approach

The Bank has existing evaluative evidence on its NSOs, but IDEV and stakeholders consulted during the scoping phase of this evaluation identified gaps. The evaluation addresses the evidence gap on NSOs by focusing on areas requiring further examination and evaluative evidence, which include: (i) coordination mechanisms between private and public sector support; (ii) pre-approval due diligence of NSOs; and (iii) the development effectiveness of the Bank in delivering its NSO agenda.

The evaluation was guided by the AfDB Independent Evaluation Policy and the international Good Practice Standards for evaluation. It applied a mix of quantitative and qualitative methods to the Evaluation Questions, which were formulated along the three international evaluation criteria of relevance, efficiency, and effectiveness. Furthermore, the evaluation used a results-based approach in assessing the extent to which intended outcomes were achieved and contributed to Regional Member Countries sustainable development.

The evaluation was designed to ensure that findings and lessons are based on strong evidence. The evaluation has drawn evidence from six separate sources, allowing for wide triangulation of most findings. These sources of evidence include primary sources of qualitative data from key informant interviews and focus group discussions, as well as Project Performance Assessments (PPAs), or case studies. They also include secondary sources of quantitative data from documentary analyses, a Portfolio Performance Review (PPR), the Synthesis Report on the Validation of 2014-2019 Expanded Supervision Reports (XSRs), and an Evaluation Synthesis of 22 IDEV private sector-related evaluations prepared during the period and Management's uptake thereof, as well as a review of Management updates on organizational and institutional reforms, including NSO business processes and manuals. These data have been systematically organized using appropriate classification, and analyzed. The conclusions and lessons were internally and externally peer-reviewed and validated by the Evaluation Reference Group.

Limitations and mitigating measures

The design and implementation of this evaluation faced a number of challenges. These include: (i) the lack of timely availability of background documentation and data; (ii) an unprecedented challenge for in-person interviews with key relevant NSO sponsors, clients, co-financiers and other development partners; (iii) the COVID-19 pandemic associated lockdowns and travel restrictions; and (iv) the low number of PPAs.

To limit the impact of these challenges on the findings and conclusions of the evaluation, appropriate mitigation actions were introduced to the extent possible. These measures include, but are not limited to: (i) timely interactions with key relevant stakeholders to fill identified information gaps and help improve findings, conclusions, and lessons; (ii) the introduction of a fact-finding approach as opposed to a survey approach, with a focus on the relevance and seniority of interviewees; (iii) the use of previous IDEV private sector-related evaluations that include the views of sponsors, clients, co-financiers and other development partners; and (iv) the use of data produced by the evaluation of the 2013-2019 PSDS and the 2014-2019 XSR Validation Synthesis Report to complement the 10 PPAs.

Findings

Relevance

The evaluation assessed the extent to which the Bank's institutional arrangements for private sector development are relevant for supporting the delivery of its NSO agenda through: (i) the main pillars of its portfolio management structure; (ii) its sovereign (public) and non-sovereign (private) coordination mechanisms; and (iii) its staffing and expertise.

The Bank's current institutional arrangements for supporting NSOs were found to be relevant to enable successful design and implementation of operations and portfolio management. Furthermore, the current organizational arrangement has the potential to facilitate public-private coordination. However, staffing levels (numbers of staff and skills mix) were not found to be aligned with the portfolio size and sector composition, despite efforts undertaken in the context of the recent right-sizing exercise. Overall, the Bank's organizational setup for private sector development was found to be relevant for supporting the delivery of the institution's NSO agenda.

The implementation of the Bank's Integrated Quality Assurance Plan to strengthen the quality of its NSOs stands at 80 percent completion. The institution also enhanced its manuals and operational guidelines/tools. The Selectivity Guidelines, the guidelines for the Credit Risk Management function, and the Corporate Governance Manual were revised. In addition, standardized Development Outcome (DO) indicators for NSOs per instrument/sector as per the Additionality and Development Outcome Assessment (ADOA) framework and the Harmonized Indicators for Private Sector Operations (HIPSO) list were completed. Furthermore, Technical Investment Committees (TICs) were established to support the Bank's Operations Committee and Senior Management Coordination Committee, to speed up pre-approval scrutiny and assess quality at entry, although their operationalization is on hold due to the lack of clarity in the suggested rotational chairmanship.

The evaluation also identified gaps in the guidance provided for the Bank's NSOs with regard to the coverage of emerging cross-cutting issues in the Environmental and Social Assessment Procedures. In addition, the Bank's private sector databases did not systematically archive key Environmental and Social (E&S) documents to allow for the verification of Integrated Safeguards System compliance.

Finally, the evaluation recognized that the creation of the Special Operations Unit (SNOU), the introduction of an Early Warning System, and the involvement of sector specialists in workout processes are important steps for the Bank towards better managing the risks associated with NSOs and protecting the Bank's assets. However, the Bank is not yet deemed to be optimally managing the risks associated with its NSOs. The evaluation found that there is still room to enhance and integrate the institution's risk management systems in terms of capacity/skills, use of disruptive technology, and communication.

Effectiveness

This section assessed the extent to which the Bank was effective in delivering on its NSO agenda through: (i) the achievement of DOs; (ii) its management of its NSO portfolio; and (iii) in managing and using the NSO and private sector-related knowledge generated by the institution.

Evidence from the evaluation synthesis, the PPAs, and the PPR indicates that the Bank's performance in delivering on its NSO agenda has been mixed. The Bank's NSOs have generally achieved their intended DOs, with most of the operations performing satisfactorily in terms of business success, economic sustainability, environmental and social effects, and contribution to private sector development. This performance is mainly driven by the quality of transactions' design to achieve DOs that are strategically aligned with Bank priorities as well as clients' needs and countries' development priorities, the Bank's handling and processing of deals, and the quality of sponsors and companies running the project.

In terms of managing its NSO portfolio, the Bank's performance was found to be mixed, as key portfolio indicators such as the percentage of Non-Performing Loans and the Weighted Average Risk Rating (WARR) are on an upward trend, with negative outlooks for the short and medium terms.

Finally, the evaluation found that both the volume and quality of Bank knowledge products with respect to NSOs have improved, although issues remain with their identification, accessibility, and dissemination. However, efforts to step up the Bank's role as "the African knowledge institution" on private sector development have not yet had the desired effect. This is reflected in the non-financial additionality dimensions of its NSO interventions, which were found to be marginal for most projects assessed (six out of nine with unsatisfactory or below ratings). This performance is mainly driven by factors such as missed opportunities by the Bank to engage with clients in upstream and downstream advice on their managerial capacity.

Efficiency

The evaluation also assessed the extent to which the operational processes and coordination mechanisms with respect to NSOs (from inception to closure) and the "One Bank approach" were efficient in supporting the rapidly evolving needs of the AfDB's NSO ecosystem.

With regard to pre-approval processes, the evaluation noted some improvements in terms of screening, appraisal, structuring, the level of detail of investment proposals, and the relevance of the ADOA 2.0 framework. However, the evaluation also found that there is still scope to strengthen due diligence analysis and improve the disbursement speed, portfolio management, staffing resources for business development, and project selectivity, as well as streamlining processes for NSOs.

With respect to the efficiency of implementation and supervision of Bank NSOs, the evaluation noted a slight improvement in the average time from review to Board approval, the number of NSOs processed by Bank Investment Officers, and the number of NSOs supervised by Bank Portfolio Officers. However, despite recent efforts by the Bank to improve the usefulness and relevance of the supervision framework, both the monitoring and evaluation (M&E) function and DO reporting for NSOs were found to require further strengthening.

In terms of responsibilities and relationships, the joint accountability between the Bank's Operations Complexes and Regional Hubs, reinforced through a formalized collaborative delivery system, was found to have promoted a stronger focus on the High 5s and greater portfolio diversity. In addition, the decision to appoint Sector Agnostic NSO Leads in the regions is likely to improve coordination within and outside the Bank. However, the evaluation also notes that the collaborative delivery system still requires some adjustments in terms of coordination, improved communication, adequate budget allocation, and efficiency measures.

Finally, the evaluation found that the integration between the sovereign and non-sovereign sides of the Bank is being optimized and represents an important step towards coordination and building synergies. However some challenges still persist with regard to the preparation of Country Strategy Papers and the preparation and implementation of NSOs.

Overall, the evaluation found that given that there are multiple initiatives underway to improve delivery, it is premature to make a definitive judgement on the efficiency of the Bank's NSO operational processes and coordination mechanisms. Key institutional data and measurement framework(s) were found to be insufficient to effectively judge/measure changes in behaviors, values, and ways of working that impact the performance culture. Despite that weakness, qualitative assessments over the past few years have pointed out a likely improvement in the efficiency of both the Bank's NSO operational processes and coordination mechanisms.

Conclusions

The evaluation concluded that the Bank's current institutional arrangements for supporting NSOs are relevant for enabling the successful implementation of operations and portfolio management. The evaluation also notes that the Bank's effectiveness in delivering on its NSO agenda has had mixed results. The evaluation concluded that it is premature to make a definitive judgement on the efficiency of the Bank's NSO operational processes and coordination mechanisms. Finally, the evaluation formulated a set of lessons to strengthen the future implementation of the Bank's NSOs. Specifically, findings from the evaluation highlighted the importance of: (i) M&E and reporting on the capacity of clients for the achievement of DOs; (ii) the quality of the sponsors and their respective management for the achievement of DOs and project success; (iii) coordination and communication for more strategic portfolio construction and enhanced operational coherence; (iv) the swift transfer of problematic projects to SNOU and the involvement of sector specialists in the resolution of technical problems faced by clients, to protect the Bank's assets; and (v) the operationalization of relevant committees and sub-committees bringing together expertise from across the NSO ecosystem for better coordination.

Lessons

The following are the key lessons from this evaluation:

Lesson 1: Assessing and strengthening clients' capacity to implement M&E systems, as well as E&S Safeguards and governance rules, can contribute strongly to the successful performance of AfDB NSOs.

Assisting in the development of tools to track the performance of sub-projects in achieving targeted DOs has the potential to facilitate the supervision of NSOs and ex-post DO reporting. Similarly, providing Technical Assistance for E&S risk management can facilitate the enforcement of the Bank's E&S Safeguards and governance rules.

Lesson 2: Expanding the Bank's role and contribution beyond financial additionality to also assess and advise on clients' managerial capacity, when necessary, can enhance the chances of success.

A thorough assessment of project sponsors, company management, country and market conditions, market dynamics, project concept, configuration and costs is a necessary condition for NSO structuring. However, the robustness of the pre-approval due diligence processes is not sufficient to prevent overly ambitious assumptions of projects' operational targets and financial projections, as well as the managerial capacities of project companies in implementing and achieving the expected results. Specific analysis in this area would therefore add value.

Lesson 3: Close collaboration between Sector Complexes at AfDB Headquarters and Business Delivery Units in the regions contributes to strategic input and resource alignment.

Improved collaboration between Sector Complexes and regional Business Delivery Units contributes to a better understanding of client governments' priorities and constraints, requirements, and market needs by Sector Complexes. The energy complex, for example, benefited from placing Investment Officers in Regional Offices to improve proximity to the market and market orientation.

Lesson 4: Coordination and optimal communication channels between project teams and SNOU are key to swiftly addressing problematic projects.

Relaying important information in a timely manner between Project Monitoring Officers, SNOU, financial accounting, and credit risk teams can facilitate the application of corrective measures to mitigate risks associated with operations and protect Bank assets.

Lesson 5: Committees such as the TICs and EDCC can enhance SO-NSO coordination at various phases of projects, and thereby contribute to success.

The TICs are intended to bring together a range of specialized expertise outside the project team, to enhance scrutiny of different project dimensions and supplement the Banks Operations Committee to ensure that all Bank NSOs are financially sound, consistent with the Bank's operational programs, and aligned with its overarching objectives, strategies and policies. The Equity Deal-Flow Clearance Committee (EDCC) a subcommittee of the TIC with a focus on equity transactions–can contribute by maintaining a holistic application of the Bank's corporate strategies and by ensuring that capital is available for strategic initiatives. It is therefore important to operationalize these committees to enable them to play their roles. ■

An IDEV **Sector Evaluation**

About this evaluation

Independent Development Evaluation (IDEV) has conducted an evaluation of the African Development Bank Group's (AfDB or "the Bank") implementation of its Non-Sovereign Operations (NSOs) over the period 2014-2020. NSOs are operations that the Bank supports through its private sector lending window. Over this period, the Bank approved a total of 194 non-sovereign transactions valued at USD 11.192 billion. This evaluation follows on from IDEV's 2020 Evaluation of the AfDB's Private Sector Development Strategy 2013-2019. The aim of the evaluation was to assess the relevance of the AfDB's institutional arrangements for NSOs, its effectiveness and efficiency in delivering on its NSO agenda and to identify lessons to inform the implementation of the Bank's 2021-2025 Private Sector Development Strategy, as well as other related Bank strategies.

The evaluation found that the Bank's current organizational arrangement had the potential to facilitate public-private coordination, as some sector departments were well integrated, with good coordination mechanisms among NSOs and public sector operations. However, staffing levels were not well aligned with the portfolio size and sector composition despite efforts undertaken in the context of a recent Bank right-sizing exercise. The evaluation also noted that despite the use of powerful accountability mechanisms, the supervision of NSOs remained problematic. This was due to heavy focus on administrative and fiduciary issues, little progress towards a culture of development effectiveness, the composition of supervision teams, and a lack of comprehensiveness of reporting.

The evaluation highlighted lessons around assessing and strengthening clients' capacities, internal collaboration, coordination and communication within the Bank, and the expansion of the Bank's role and contribution beyond financial additionality.

IDEV

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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

Design & layout: CRÉON • www.creondesign.net

idev.afdb.org