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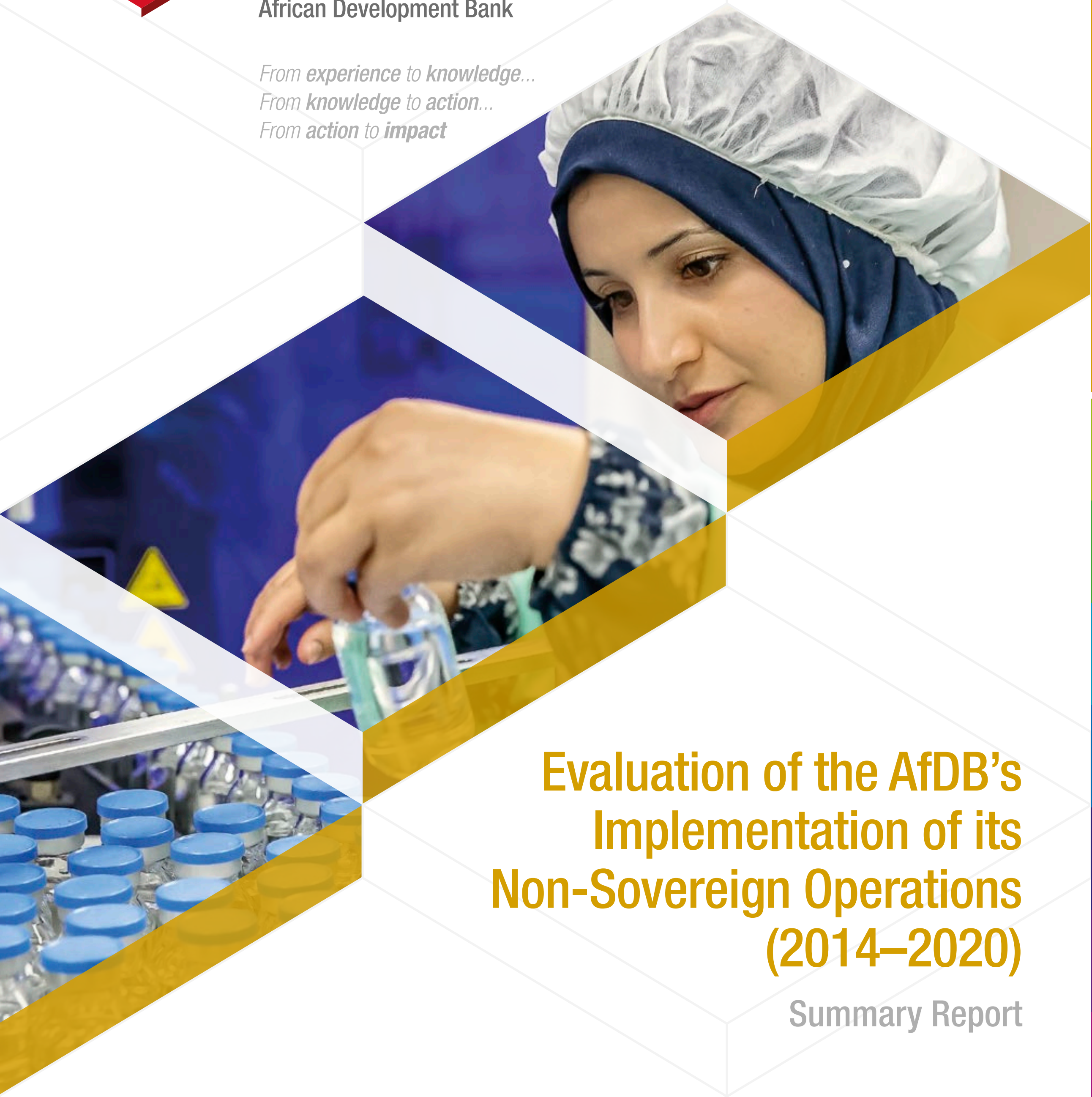

Evaluation of the AfDB's Implementation of its Non-Sovereign Operations (2014–2020)

Summary Report

AFRICAN DEVELOPMENT BANK GROUP

December 2022

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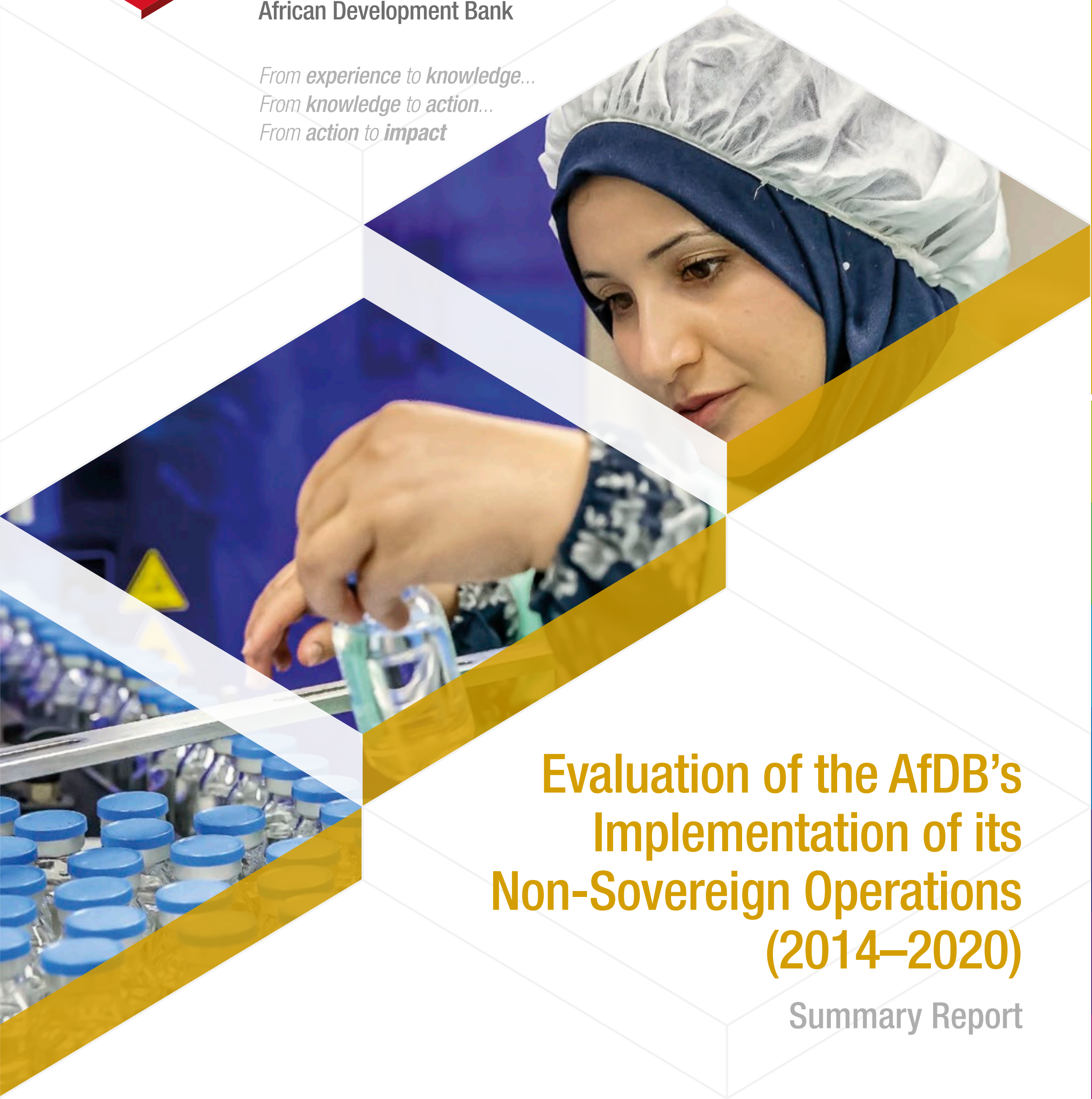

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Summary Report

AFRICAN DEVELOPMENT BANK GROUP

December 2022

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Evaluation of the AfDB's Implementation of its Non-Sovereign Operations (2014–2020) – Summary Report
IDEV Sector Evaluation, December 2022

Disclaimer

About the AfDB

The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs and providing policy advice and technical assistance to support development efforts.

About Independent Development Evaluation (IDEV)

The mission of Independent Development Evaluation at the AfDB is to enhance the development effectiveness of the institution in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

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Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
ADOA	Additionality and Development Outcome Assessment
AfDB	African Development Bank Group
BSO	Balance Sheet Optimization
CEDR	Comprehensive Evaluation of Development Results
CODE	Committee on Operations and Development Effectiveness
CRF	Crisis Response Facility
CSP	Country Strategy Paper
CSR	Corporate Social Responsibility
DAPEC	Delivery Accountability and Process Efficiency Committee
DBDM	Development and Business Delivery Model
DO	Development Outcome
DFIs	Development Finance Institutions
EDCC	Equity Deal-Flow Clearance Committee
EQ	Evaluation Question
E&S	Environmental and Social
ESS	Environmental and Social Safeguards
GCI	General Capital Increase
HQ	Headquarters
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
IO	Investment Officer
IQAP	Integrated Quality Assurance Plan
ISS	Bank’s Integrated Safeguards System
KPI	Key Performance Indicator
LIC	Low Income Country
LoC	Line of Credit
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MFW4A	Making Finance Work for Africa
MSME	Micro, Small and Medium Enterprise
MUA	Million Unit of Accounts
NPL	Non-Performing Loan
NSO	Non-Sovereign Operation
OpsCom	Operations Committee
PALOP	Group of Portuguese-Speaking African Countries
PESR	Energy Financial Solutions, Policy and Regulation department
PIFD	Financial Sector Development Department
PINS	NSO and Private Sector Support Department
PIVP	Private Sector, Infrastructure and Industrialization Vice-Presidency
PPP	Public Private Partnership
PPA	Project Performance Assessment
PPR	Portfolio Performance Review
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
RDGE	East Region Department
RDGS	South Region Department
RDNG	Nigeria Country Department
RMC	Regional Member Country
SME	Small and Medium Enterprise
SMI	Small and Medium Industries
SNFI	Fiduciary and Inspection Department
SNOU	Special Operations Unit
SNSP	Corporate Strategy and Policy Department
SO	Sovereign Operation
TA	Technical Assistance
TIC	Technical Investment Committee
TYS	Ten-Year Strategy
UA*	Unit of Account
USD	United States Dollar
WARR	Weighted Average Risk Rating
XSR	Expanded Supervision Report

* 1 Unit of Account (UA) = 1.30 United States Dollars (USD), as at September 2022.

Drug analysis at the MEDIS Pharmaceutical Laboratory, Tunisia

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 (PSD)[2] have remained unchanged. The main challenges to PSD 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, PSD 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 PSD 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 (RMCs), 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.

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 (EQs):

i. To what extent is the Bank's organizational setup for PSD 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 (MDB) 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 EQs, 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 RMCs' 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 PSD 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 PSD 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 (IQAP) 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 (AfDB/SNDR 2021a), the guidelines for the Credit Risk Management function (AfDB/CRC 2021b), and the Corporate Governance Manual (AfDB/SNDR 2021a) 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)[3] were established to support the Bank's Operations Committee (OpsCom) and Senior Management Coordination Committee (SMCC), 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 (ESAP). 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 (ISS) 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 PSD. 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 (NPLs) 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 PSD 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 (IOs), and the number of NSOs supervised by Bank Portfolio Officers (POs). 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 responsibities 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 (CSPs) 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 (ESS) 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 (TA) for E&S risk management can facilitate the enforcement of the Bank's ESS 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 (HQ) and Business Delivery Units in the regions contributes to strategic input and resource alignment.

Improved collaboration between HQ 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 IOs 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 OpsCom 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. ■

Inside the Malawi-Zambia One Stop Border Post

Workers at the Textile Park project, Benin

Introduction

Background

The evaluation of the African Development Bank Group's (AfDB or "the Bank") implementation of its Non-Sovereign Operations (NSOs) over the period 2014-2020 was conducted as part of Independent Development Evaluation (IDEV)'s work program. The evaluation follows on from IDEV's 2020 Evaluation of the AfDB's Private Sector Development Strategy (PSDS) 2013-2019.

Private Sector Development (PSD) remains a central pillar of the AfDB's involvement in Regional Member Countries (RMCs). Its importance was reasserted in the context of the African Development Fund's fifthteenth replenishment (ADF-15) (AfDB 2020a) and the Bank's seventh General Capital Increase (GCI-VII) (AfDB 2018a). In response, the Bank's Management committed to continuing the expansion of its NSOs in RMCs, while also strengthening operational guidelines to support the implementation of NSOs and the achievement of development results.

The evaluation is the result of consultations conducted by IDEV with members of the AfDB's Board of Directors and Senior Management. It responds to a strong demand among members of the Board of Directors and Senior Management for learning from the Bank's NSO processes, procedures, and institutional arrangements. The evaluation's primary audience (internal stakeholders) includes members of the AfDB's Board of Directors and their Advisors, members of the Bank's Senior Management, and staff directly or indirectly involved in the origination, structuring, and portfolio management of NSOs. External stakeholders include NSO clients and government officials, as well as bilateral and multilateral development agencies involved in sovereign (public) and non-sovereign (private) coordination, and the promotion of the investment climate and PSD in Africa.

Purpose and Objectives of the Evaluation

The purpose of this evaluation is to assess the relevance of the AfDB's institutional arrangements for NSOs, as well as the institution's efficiency and effectiveness in delivering on its NSO agenda. In so doing, the evaluation assesses the Bank (see Figure 1 and Technical Annex 1) through:

- The **relevance** of its NSO institutional arrangements;
- Its **effectiveness** in delivering on its NSO agenda;
- The **efficiency** of its NSO processes and coordination mechanisms in effect; and
- The identification of **lessons** from past experience.

The findings and lessons of this evaluation will inform the implementation of the Bank's 2021-2025 Private Sector Development Strategy (PSDS), as well as other Bank sector strategies, through:

- **Identifying** enabling and/or hindering operational factors and prerequisites for the successful implementation and enhanced development effectiveness of Bank NSOs;
- **Consolidating** learning from previous IDEV private sector and NSO-related evaluations by making evaluative evidence more readily available; and
- **Drawing lessons** for improved NSO project, portfolio, and institutional performance.

Evaluation Methodology and Limitations

Evaluation scope and questions

The evaluation focuses on NSOs as defined by the Bank in its NSO policy documents. In its Policy on Non-Sovereign Operations (AfDB 2018b), the Bank defines as NSOs all those operations financed through its private sector lending window on non-concessional terms and without requirements of a sovereign guarantee. Anchored on its 2013-2022 Ten-Year Strategy (TYS) as one of its five operational priorities,[4] PSD activities go beyond its non-sovereign private sector operations. The activities include other lending and non-lending interventions, many backed by sovereign guarantees in support of PSD, which represented about Units of Account[5] (UA) 3.6 billion in (loans and grants) approvals for the period covered by the evaluation.

The evaluation limits its scope to the 2014-2020 period. Over the period, the Bank approved 194 NSO transactions, representing a total investment of about UA 8.6 billion in debt and equity. The Bank also adopted a new Delivery and Business Development Model (DBDM) (AfDB 2016). The 2016 DBDM and its subsequent 2020 finetuning (the "One Bank approach", AfDB 2020e) aimed at effectively and efficiently delivering on the TYS and the High 5s, as well as maximizing development effectiveness in a resource-constrained environment.

The evaluation includes both retrospective and forward-looking dimensions. The evaluation is both summative and formative as it was undertaken in between two PSD strategic cycles (2013-2019 and 2021-2025). However, it is important to distinguish this evaluation from the IDEV evaluation of the Bank's previous 2013-2019 PSDS (IDEV 2020a). The 2013-2019 PSDS evaluation focused on the Strategy and assessed its contribution to the Bank's efficiency and effectiveness, with a view to informing the new 2021-2025 PSDS that was recently approved by the Board of Directors.[6] By contrast, this current evaluation focuses on the Bank's Non-Sovereign Operations and is designed to address the following four key Evaluation Questions (EQs):[7]

i. To what extent is the Bank's organizational setup for PSD 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 learned in relation to the implementation of the Bank's NSOs?

Methodological approach

The evaluation addresses the evidence gap with regard to NSOs by focusing on areas requiring further examination and evaluative evidence. In preparation for the evaluation, IDEV undertook a knowledge gap assessment across several private sector-related independent evaluation products, namely, cluster, thematic, synthesis, and corporate evaluations. It also consulted evaluation stakeholders during the scoping phase. The assessment found that operational aspects of NSOs requiring more scrutiny 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 Evaluation Cooperation Group's international Good Practice Standards. It has applied a mix of quantitative and qualitative methods to examine the EQs. In addition, the EQs and sub-questions were formulated along the three international evaluation criteria of relevance, efficiency, and effectiveness, that compose the Evaluation Matrix (see Table A2.1 in Technical Annex 2). Furthermore, the evaluation used a results-based approach in assessing the extent to which intended outcomes were achieved and contributed to RMCs' sustainable development (see Figure A2.1 in Technical Annex 2).[8]

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: (i) secondary sources of quantitative and qualitative data from documentary analyses; (ii) a synthesis of 22 IDEV private sector-related evaluations (hereafter "the evaluation synthesis") prepared during the period; (iii) an institutional assessment; (iv) primary sources of qualitative data from key informant interviews and focus group discussions; (v) Project Performance Assessments (PPAs) or case studies[9] (list in Technical Annex 4); and (vi) a Portfolio Performance Review (PPR) (see Table A2.2 in Technical Annex 2). The 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.

Methodological and data limitations

The design and implementation of this evaluation faced a number of challenges. To limit the impact of these challenges on the findings and conclusions of the evaluation, appropriate mitigation actions were introduced to the extent possible.

Key challenges to the design and implementation of this evaluation include:

- **The lack of timely availability of background documentation and data.**
- **The COVID-19 pandemic and associated travel restrictions and lockdowns.** These restrictions, as well as resource constraints, prevented the evaluation team from undertaking field missions to conduct benchmarking and collect the views of external stakeholders (development partners, governments, project sponsors and clients at local levels).
- **The limited number of Project Performance Assessments.** Due to the limited number of PPAs (10) carried out, it was difficult to aggregate the findings and draw definite and tangible conclusions on the way changes in business processes of NSO transactions have occurred following the introduction of the 2016 DBDM.

Mitigating actions were introduced to compensate for the challenges where possible. The measures include, but are not limited to:

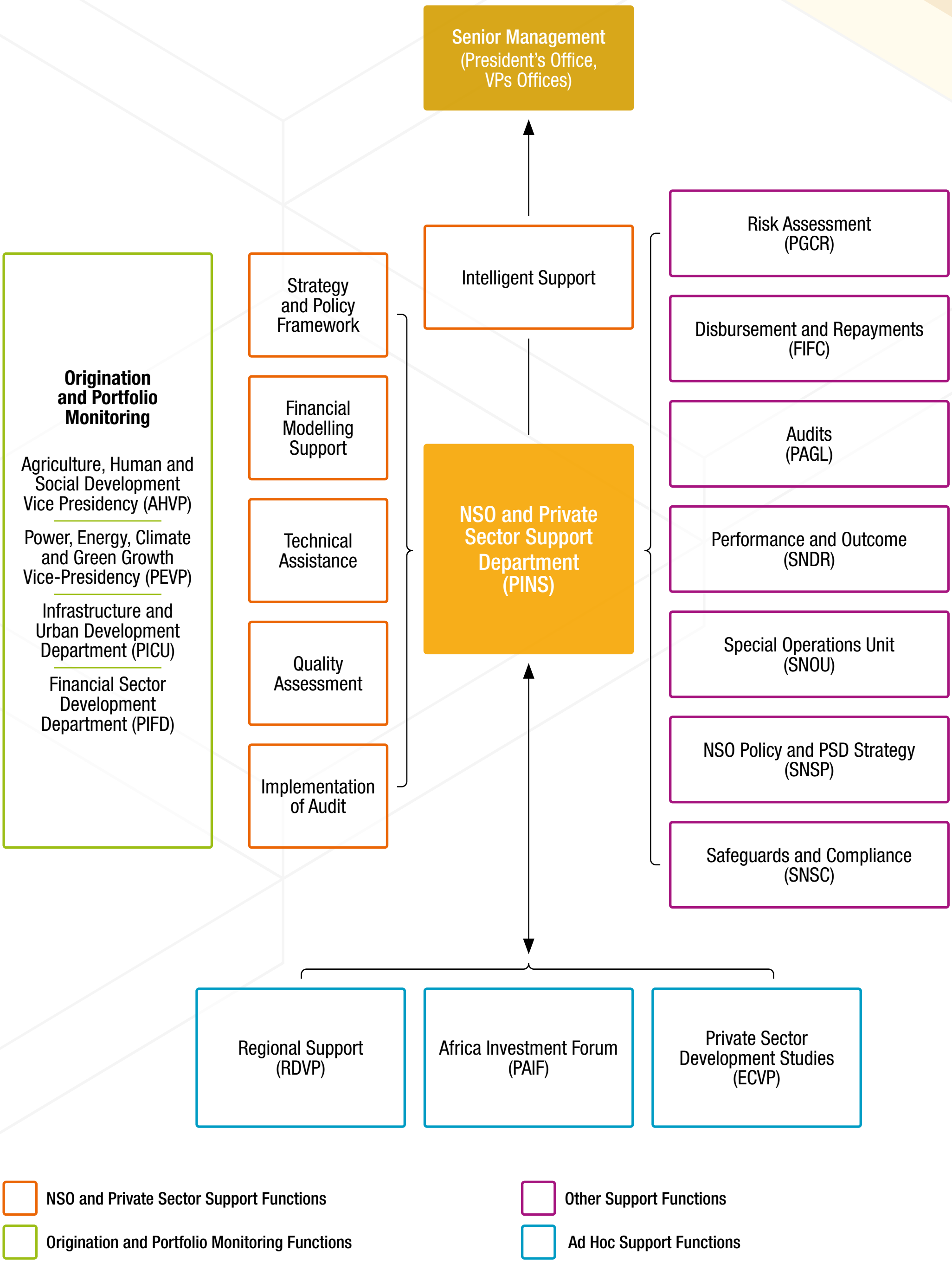
- Timely interactions with key relevant stakeholders to fill identified information gaps and help improve findings, conclusions, and lessons. A review of the integrated quality assurance mechanisms that guide NSOs (from inception to closure) was also conducted.
- The introduction of a fact-finding approach as opposed to a survey approach. In this context, the evaluation team focused on the relevance and seniority of the 70 interviewees (both Professional and Senior Management levels) directly or indirectly involved in NSOs at HQ, in the regions and the Country Offices. The evaluation team ensured that only the most recurrent evidence is reported.
- The use of previous IDEV private sector-related evaluations that include the views of sponsors, clients, co-financiers and other development partners as a line of evidence (see Table A2.3 in Technical Annex 2).
- Use of assessments produced by the PSDS Evaluation (IDEV 2020a) and 2014-2019 XSR Validation Synthesis (IDEV 2021a) to complement the 10 PPAs.

Structure of the Report

The summary report presents the main findings and conclusions of the evaluation. The first section provides the background and context on the Bank's NSO activities. The next section presents the main findings of the evaluation. The conclusions and lessons of the evaluation are presented in the last section of the report. ■

Goods from Zambia, being loaded onto trucks in Malawi

Figure 1: NSO Ecosystem - AfDB's Institutional Arrangements for NSOs



Source: Readapted from the AfDB Non-Sovereign Business Manual,2018.

Fideline Mahenge, agro-dealer in Mafinga, Tanzania

The Bank's Non-Sovereign Operations Context (2014-2020)

Private Sector Landscape in Africa

Opportunities and challenges

A vibrant private sector is widely recognized by the international community as an engine of more inclusive and green growth. The private sector is a major contributor to national income and the primary jobs creator and employer in Africa. It accounts for 90 percent of employment (including formal and informal jobs), 80 percent of the Gross Domestic Product (GDP), and 70 percent of total investment in Africa (AfDB 2020b). It delivers critical goods and services and contributes to tax revenues and the efficient flow of capital. It is increasingly being encouraged to help leverage environmental and social (E&S) opportunities, and mitigate the challenges of inclusive growth.

The private sector in Africa faces multiple challenges. Main challenges to PSD 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. Additional constraints include inadequate access to electricity and transport infrastructure, corruption, high tax rates, political instability, competition from the informal sector, and inadequate worker and management skills.

Changing landscape

The private sector landscape in Africa has significantly evolved in recent years. New actors are playing increasingly central roles in the national, regional, and international economic arenas, with many locally bred multinationals. The landscape is primarily composed of Small and Medium Enterprises (SMEs), with an increasing number of very small dynamic enterprises operating in fintech and building on opportunities created by the Fourth Industrial Revolution (4IR). However, the informal sector remains important in most of the Bank's RMCs, with its contribution to employment exceeding that of the regulated private sector. According to the World Bank (2017), the private sector provides up to 90 percent of the employment in the Low-Income Countries (LICs) in Africa.

Multiple factors have contributed to the reshaping of the private sector landscape in Africa. These include political, economic, social, and technological factors. This evolution of the sector comes with new opportunities and challenges. However, the most critical binding constraints to PSD, as set out above, remained unchanged. In several RMCs, PSD is also severely affected by climate change, fragility, insecurity and, more recently, by the disruptive effect of the COVID-19 pandemic.

The combined effects of these challenges are expected to continue transforming the private sector landscape for the foreseeable future. Many RMCs experienced drastic limitations of governments' fiscal resources and increased spending to maintain health structures and social protection. In addition, disruption of local, regional, and global value chains, private local and foreign direct investment, and trade have further deepened the distress of many African economies that remain largely dependent on extractive industries (AfDB 2020b, p. 7).

The Bank's Approach to PSD and NSOs

Strategic context of the Bank's support to NSOs

Private sector development has become a central pillar of the Bank's support to RMCs. The Bank's involvement in PSD in Africa started in the 1990s, with direct investments in support of private entrepreneurs and private equity. Prior to the rolling-out of the Bank's 2013-2022 TYS, which prioritizes PSD as one of its strategic pillars towards achieving sustained inclusive growth, the Bank had approved both a *2013-2019 PSD Strategy (AfDB 2012)* and a P*olicy on Non-Sovereign Operations (AfDB 2018c)*.

The Bank's 2013-19 PSDS was consistent with the twin objectives (i.e., inclusive growth and transition to green growth) of its 2013-2022 TYS. The Bank's 2013-2022 TYS is articulated around six operational initiatives, including PSD, to support RMCs in achieving its twin objectives. In this context, the Bank's 2013-2019 PSDS aimed at maximizing the institution's impact on the private sector in RMCs. The PSDS clarified the Bank's unique position to ensure linkages between its upstream policy work, and its SOs and NSOs. It also clarified that country programs were to be customized utilizing five principles, namely: (i) country ownership of the PSD agenda; (ii) selectivity in interventions; (iii) demonstration of additionality; (iv) attracting other partners; and (v) not compromising the Bank's financial integrity.

Over the implementation period of the 2013-2019 PSDS, the Bank scaled up its PSD interventions and leveraged on the synergy between its sovereign and non-sovereign windows. The institution increased its volume of NSOs from a yearly average of UA 567 million over 2000-2012 to UA 1.48 billion over 2013-2019. In so doing, the Bank channeled direct investments into transformative infrastructure and indirect financing through private equity funds and intermediaries to reach SMEs and underserved business segments. During the same period, the Bank also increased its interventions through NSOs in LICs, reaching a cumulative commitment of UA 3.06 billion, which corresponds to 30 percent of its total 2013-2019 NSOs commitment. Through its equity investments, the Bank created 741 enterprises of all sizes, predominantly in LICs.

The Bank's 2018 Policy on Non-Sovereign Operations consolidated the institution's policy provisions for NSOs, which were previously scattered across several documents. The Bank's Policy on Non-Sovereign Operations (AfDB 2018c) superseded the 2011 *Private Sector Development Policy*, revised in 2013 (AfDB 2013). It was approved with the purpose of clarifying: (i) the specific modalities and safeguards required for Bank lending without sovereign guarantees; and (ii) the specificities related to lending to commercial companies operating under different business models and governance frameworks than government entities.

The new Delivery and Business Development Model (DBDM)

Important institutitonal changes took place during the implementation period of the 2013-2019 PSDS. A new Delivery and Business Development Model (DBDM) was introduced in 2016 (AfDB 2016). The DBDM aimed at effectively and efficiently delivering on the TYS and the High 5s,[10] as well as maximizing development effectiveness in a resource-constrained environment. In this context, four main institutional changes over the 2013-2019 period are worth noting:

- Adoption of the High 5s priority areas;
- Transfer of the responsibility for origination of NSOs to the relevant Sector Complexes, with the Private Sector Support Department (PINS) serving as the central unit for overall coordination of the NSO portfolio, oversight and enforcement of standards, as well as monitoring and reporting;
- Centralized management of the NSO portfolio was disbanded and staff managing NSOs (loan origination) were dispersed across several Sector Departments and Regional Hubs; and

- Delivery responsibility for NSOs was reassigned between sectors and regions, changing more than once over the course of the reform.

The initial reform arrangements were reviewed and a revised version of the DBDM was shared among staff (2018-2019). This revised version of the DBDM was itself also replaced, in 2020, by new arrangements aligned with the "One Bank approach" articulated around three key principles, i.e., quality, delivery, and joint responsibility (AfDB 2020e). In this context, NSO management is now split into two workstreams: (i) project processing, monitoring and supervision; and (ii) strategic and corporate portfolio management. Sector Complexes are now responsible for all NSO origination, as well as a major part of portfolio management, and operational staff in other departments provide transaction support on legal issues, economic analysis (including for ADOA), E&S, credit, and integrity/anti-corruption. The Private Sector, Infrastructure and Industrialization Vice-Presidency (PIVP), through PINS, is now responsible for:

- A large part of portfolio coordination, standards enforcement, oversight, monitoring and reporting;
- Coordination and support role to other complexes in their NSO work; and
- Transaction processing support, including financial modeling, to Sector Departments.

Management continued institutional reforms with regard to NSOs in line with its commitments made in the context of the GCI-VII (AfDB 2019a) and ADF-15 replenishment (AfDB 2020a). The Bank's Management is committed to continuing the expansion of its NSO operations in RMCs, while strengthening operational guidelines to support the implementation of NSOs and results. In this context, Management decided on the recruitment of NSO Leads reporting to respective Regional Directors.[11] In addition, the Bank was in the process of determining the appropriate staffing based on its strategic staffing review ("right-sizing") and staff mapping across the organization. Meanwhile, clear accountability and assignment of functional responsibilities still remain an important pre-condition for the successful implementation of the DBDM and the "One Bank approach" (IDEV 2020a).

The AfDB 2021-2025 Private Sector Development Strategy

A new Strategy to support RMCs in achieving sustainable and inclusive growth through PSD was approved in January 2022.[12] It provides a comprehensive mandate to support RMCs to achieve sustainable inclusive growth through PSD within the "One-Bank approach" framework. The new PSDS's primary objective is to create the conditions under which the private sector can fully play its expected developmental role in all sectors, particularly in agriculture and industry. Under this new Strategy, the Bank promotes an integrated approach towards supporting job creation, socioeconomic inclusion, and long-term resilience and sustainability in RMCs.

The new Strategy strives to position the Bank by building on its core competencies and comparative advantages. To attain its objectives, the PSDS intends to build on the existing financial and non-financial instruments used by the Bank. The PSDS also ensures that the Bank fully leverages synergetic partnerships where it does not have a market advantage. It further builds on innovative financing instruments, advisory services, and capacity-building initiatives. All of these are underpinned by in-depth assessments and knowledge of the field characteristics and constraints. Assessment tools include country case studies, private sector diagnostics, sector assessments, private sector profiles and governance profiles.

Main Features of the Bank's NSO Portfolio (2014-2020)

Over the evaluation period, particularly after the introduction of the DBDM, the Bank's support to NSOs in RMCs has intensified. The institution approved 194 NSO transactions[13] valued at UA 8.6 billion over the period. This consisted of UA 7.9 billion in debt (project loans and Lines of Credit (LoCs), and UA 722 million in equity. NSO approvals averaged 35 transactions valued at UA 1.5 billion per year over the 2016-2019 period from its initial average of 21 transactions valued at UA 1 billion per year for the 2014-2015 period. Approval numbers nose-dived in 2020 to just nine transactions valued at UA 376 million due to the Bank's prioritization of budget support to RMCs to address the COVID-19 pandemic (see Figure A3.1 in Technical Annex 3). The four main patterns and trends that characterize the Bank's NSO portfolio for the period under study are as follows:

i. **The source of NSO financing is mainly the African Development Bank (ADB) window.** Most NSO transactions benefited from ADB financing (94 percent). Albeit to a smaller extent, NSO transactions also benefited from financing from other funds[14] (5 percent) and the ADF window (1 percent) (see Figure A3.2 in Technical Annex 3).

ii. **The Bank's NSO portfolio exposure is dominated by financial sector transactions.** The Bank supported a total of nine sectors through its NSO transactions (see Figure A3.3 in Technical Annex 3). Approvals are concentrated in the financial sector, which accounted for transactions valued at UA 4.3 billion, representing 53 percent of total NSO approvals. Efforts are underway by Management and NSO Sector Departments to develop pipelines of new real sector projects (see Figure A3.4 in Technical Annex 3), mainly to de-risk the portfolio from its financial sector concentration risks and enhance the achievement of sustainable development targets under the High 5s agenda.

iii. **Significant differences in terms of regional footprint.** The Bank's NSO portfolio is dominated by multinational transactions valued at UA 3.7 billion, representing 44 percent of total NSO approvals. Individually, the West region, led by Nigeria (UA 1.1 billion in approvals), is the primary beneficiary of the Bank's NSO support, with approvals valued at UA 1.9 billion, representing 23 percent of the institution's total exposure. The most underserved region of the continent in terms of Bank NSO financing remains the Central Africa region with support of UA 222.3 million, representing only 3 percent of NSO total exposure (Table 1). The Central Africa region is absent from the Bank's financial sector portfolio.

iv. **A limited number of NSO transactions in Portuguese-speaking African (PALOP) countries.** If language is factored in, it was only in 2020 that Portuguese-speaking RMCs, namely Mozambique[15] and Angola,[16] benefited from the Bank's NSO support. However, it is worth noting that the Bank approved a EUR 400 million Lusophone Compact Guarantee program to boost PSD.[17] ■

Table 1: Regional Distribution of the Bank's NSO Portfolio (2014-2020)

	Number of transactions	Commitments (UA million)	Percentage of commitments (%)
Multinational	88	3,790	44
North	18	630	7
West	43	1,990	23
Central	6	222.3	3
East	24	871.3	10
South	15	1,076	13
Total	**194**	**8,579.6**	**100**

Source: AfDB- SAP database.

Preparing fertilizers shipment at the Yara Tanzania Factory, Dar-es-Salaam

Kumulus Water project, Tunisia

Findings

Relevance

The evaluation assessed the extent to which the Bank's institutional arrangements for PSD 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.

Portfolio management structure

This sub-section assesses the institutional arrangements and practices in effect at the Bank to manage its NSO portfolio. The NSO portfolio management structure of the Bank is assessed through: (i) resources; (ii) risk management; (iii) supervision; and (iv) monitoring and evaluation (M&E).

Evidence from the evaluation synthesis, documentary reviews, and key informant interviews indicates that the Bank is now in a position to manage its NSO portfolio in an integrated manner in terms of resources, risks, supervision, and M&E systems.

In terms of resources, the evaluation found that efforts are ongoing to implement the Bank's Integrated Quality Assurance Plan (IQAP) through the recent review and enhancement of the institution's manuals, guidelines, tools, and the introduction of Technical Investment Committees (TICs) to share lessons, experience, and harmonize practices. The implementation of the IQAP to strengthen the quality of the Bank's NSOs stands at 80 percent completion. The institution also enhanced its manuals and operational guidelines/tools. The Selectivity Guidelines (AfDB/SNDR 2021a), the guidelines for the Credit Risk Management function (AfDB/CRC 2021b), and the Corporate Governance Manual (AfDB/SNDR 2021a) 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, TICs[18] were established to support OpsCom and SMCC, to speed up pre-approval scrutiny and to assess quality at entry, although their operationalization is on hold due to lack of clarity in the suggested rotational chairmanship.

However, the evaluation also found that more effort is required to incentivize NSO ecosystem staff to enhance project design, the achievement of DOs, and integrate lessons. The evaluation synthesis prepared in the context of this evaluation

Q1: To what extent is the Bank's organizational setup for private sector development relevant for supporting the delivery of the institution's NSO agenda?

The Bank's current institutional arrangements for supporting NSOs were found relevant to enable the successful design and implementation of operations, and portfolio management.

- The Bank is now in a position to manage its NSO portfolio in an integrated manner in terms of resources, risks, supervision, and M&E systems.
- The current organizational arrangements have the potential to facilitate sovereign (public) and non-sovereign (private) coordination.
- However, staffing levels (staff numbers and skills mix) were not found to be well-aligned with the portfolio size and sector composition, despite efforts undertaken in the context of the recent right-sizing exercise.

established that the link between Key Performance Indicators (KPIs) and approvals and disbursements created unbalanced incentives for Bank staff. The evaluation synthesis found that this culture, which favors approvals over project design quality, and disbursements over the achievement of DOs and capturing key lessons, is mainly due to: (i) inadequate and non-standardized training of Investment Officers and Portfolio Officers; and (ii) lack of clarity in roles and responsibilities, quality checks, and reporting lines between portfolio monitoring within PIVP and those in sector departments. The evaluation team was not able to assess the impact of standardized trainings (Task Manager Pathway, the Operations Academy, and the NSO Pathways) and those developed by the Special Operations Unit (SNOU) on project design quality and the achievement of DOs, as these had only been rolled out recently.

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 (ESAP). These issues include gender inclusion, gender-based violence and disability. In addition, the Bank's private sector databases did not systematically archive key E&S documents to allow for the verification of Integrated Safeguards System (ISS) compliance. Existing training on E&S issues for private sector operations staff was deemed to be not specific enough on the ISS requirements of various types of lending instruments, where some adjustments are required in terms of key E&S indicators to be included.

With regard to risk management, the creation of SNOU, the introduction of the Early Warning System, and the involvement of sector specialists in workout processes were found to be important steps for the Bank towards better managing risks associated with NSOs and protecting the Bank's assets. Though workouts and Non-Performing Loans (NPLs) are inherent to NSOs' design and implementation, ensuring that problematic projects are quickly transferred to SNOU is an important step towards protecting the Bank's assets. The Early Warning System involving the credit-risk monitoring team and the enhanced efforts to include remedial solutions for distressed NSOs were found important in addressing ailing transactions (IDEV 2019a) and portfolio performance in a timely way. According to interviews with sector representatives, SNOU has worked well since its creation. In addition, interviewed representatives from sector departments indicated the involvement of their respective sector specialists in the resolution of technical problems faced by clients. Two cases in point are that of Shelter Afrique, which resumed after resolution, and a water supply Public-Private Partnership (PPP) project in Rwanda.

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. In fact, according to staff interviewed, the Early Warning System is not yet automated and efficiently using disruptive technology (i.e., Artificial Intelligence and big data). In addition, the Global Client Management platform under the administration of PINS does not mirror early warning signals and the Environmental, Social and Governance (ESG) assessment. Furthermore, the current Bank NSOs Quality Assurance System lacks the support of an integrated data system across the NSO project cycle. Also, NSOs selected for PPAs (Senegal-CASL and the multinational Export Trading Group (ETG) LoC) in the context of this evaluation demonstrated that early assessment tools of projects' financially material[19] sustainability and clients' management capacity of ESG risks are lacking. Finally, the absence of an integrated system to adequately track and report on project risks and their effects on DOs was found to be limiting.

In terms of supervision, tools such as dashboards and Results Measurement Frameworks (RMFs) have proven to be powerful accountability mechanisms with respect to Sovereign Operations, but not for NSOs. The evaluation synthesis indicates that Bank NSOs are subject to regular supervisions by Portfolio Officers and are closely monitored by the credit risk team. But tools such as dashboards and RMFs convey very little information to the Board or have not been used to present NSO performance.

The supervision of Bank NSOs remains a problematic area that is mainly weakened by its focus, a weak culture of development effectiveness, the composition of supervision and M&E teams, and a lack of comprehensiveness of reporting. In this respect, findings from the evaluation synthesis indicate that: (i) regular supervisions of Bank NSOs mainly focus on administrative and fiduciary issues due to a persistent missing link between origination and portfolio monitoring; (ii) Annual Supervision Reports and XSRs are characterized by their low compliance with established procedures, limited resources for M&E during supervision, a deficiency in candor and a positive bias in assessing performance; (iii) the composition of supervision missions and M&E teams, as well as the timely submission of supervision reports, showed partial achievements; and (iv) the Bank NSOs were not credibly and comprehensively measured against their potential DOs, with a weak level of alignment between the project development rationale and logical frameworks in the PARs and the ADOA DOs.

Finally, evidence from the evaluation synthesis and interviews point to an insufficiently rigourous but institutionalized M&E system for Bank NSOs. The Bank' s supervision system for NSO transactions was unable to provide complementary information, such as: (i) a more precise and actionable assessment of risks to DOs; and (ii) improved accountability through better and harmonized results reporting. This led to poor tracking and reporting of achieved DOs and reduced the likelihood of effective risk mitigation during implementation. The issue is currently being corrected by the Bank under the IQAP (AfDB 2020d). In addition, evidence from the evaluation synthesis and interviews indicates that, with both Portfolio Officers and Investment Officers overstretched, the Bank visibly lacks sufficient staffing and skills to implement effective and efficient Self-Evaluation Systems and Processes (SESP), particularly in the areas of M&E and ESS. This shortcoming is aggravated by the weak capacity of the institution's SESP products to report and address cross-cutting issues, such as safeguards, gender, climate change and fragility.

PPAs[20] indicated that M&E and the reporting capacity of clients, mainly on E&S aspects, require more attention from the Bank. The Bank undertakes its fiduciary responsibilities in accordance with its operational processes, procedures, and policies, as NSO supervision is regularly undertaken. However, in the PPA projects, the Bank did not systematically assist its clients in developing tracking tools for intervention performance and results indicators. At the same time, the Bank did not consider developing its own tracking tools for sub-project performance and DOs, or provide Technical Assistance (TA) to support its clients' financial intermediaries. In addition, the Bank did not enforce its E&S standards and governance rules in some of its PPA NSO transactions. This was the case for the ETG multinational operation, where the Bank did not assist the company to mitigate and manage the E&S risks, despite it being cognizant of ETG's limited institutional capacity to implement E&S safeguards.

Sovereign and Non-Sovereign coordination mechanisms

This sub-section assesses the relevance of existing sovereign (public) and non-sovereign (private) coordination mechanisms for the implementation of Bank NSOs in the context of: (i) the DBDM and the "One Bank approach"; (ii) the previous (2013-2019) PSDS; and (iii) the management of cross-cutting issues.

Evidence from the evaluation synthesis, documentary reviews and key informant interviews indicate that the Bank's current organizational arrangements have the potential to facilitate public (sovereign) and private (non-sovereign) coordination. However, some *challenges remain with respect to public-private coordination in the context of country programs and cross-cutting issues.*

Evidence from the evaluation synthesis indicates that the challenge of ensuring timely synchronization and sequencing of reforms in the context of the DBDM constrained the division of labor between HQ, Regional Hubs, and Country Offices. Reforms aimed at improving proximity to clients through decentralization are a longstanding process. Findings from the evaluation synthesis and interviews point to the expectation that the DBDM would provide scope for faster disbursement and better portfolio management, better pipeline development, and better policy dialogue being constrained by a shortage of Task Managers, Investment Officers and sector experts. In this context, the reforms' objective of a clear and consistent division of labor between the Bank's HQ, Regional Hubs and Country Offices, based on complementarity and synergy, and with clear supervision and oversight, still has to materialize.

Evidence from the evaluation synthesis and interviews further indicates that the challenge of ensuring timely synchronization and sequencing of reforms in the context of the DBDM was also found to result in inconsistencies and confusion, as well as internal competition for scarce resources and decision-making authority. According to the evaluation synthesis and interviews, the process of developing an organizational structure to increase the share of private sector operations in a decentralized country-focused structure has been marred by inconsistencies, confusion and internal competition for scarce resources. Staff interviewed indicated that the "Pilot-Copilot" arrangement encouraged competition between Bank entities for scarce resources and decision-making authority. According to interviewees, the situation was exacerbated by the absence of clear definitions and criteria for "complex" and niche operations, and an updated, tailored and revised Delegation of Authority Matrix (DAM), which would describe the details of the portfolio lifecycle for all categories of operation.

Despite these challenges, some sector departments, such as the Financial Sector Department (PIFD), and Power System Development Department (PESD), are considered well integrated, with good sovereign and non-sovereign coordination mechanisms. However, the evaluation found that the majority of the stakeholders within the Bank are of a sovereign setting/background, and not always familiar with the specificities of the private sector. Interviewees believe that strategic decisions at sector policy or procedures levels may be taken without considering or reflecting the realities of the private sector in Africa. As a result, they feel that more operational coherence needs to be sought for more integrated decisions in other sector departments, particularly in handling technical aspects of NSO investments.

In terms of coordination mechanisms in the context of the previous 2013-2019 PSDS, the evaluation synthesis found that important linkages existed between SOs and NSOs, as evidenced in some case studies, but that these were rare. The same synthesis found that the Bank could have played a larger role with a potential link in sector-specific regulatory reforms and public sector funding for subsequent private sector investments, particularly in Transition States. In addition, indirect linkages, although less verifiable, were found where an improvement in the investment climate led to increasing private sector investment. Nevertheless, time-lags between upstream and downstream operations and coordination mechanisms can be significant.

The application of the "One Bank approach" in the context of support functions, such as credit and corporate governance risk and reporting on PSD SOs and NSOs, has not yet materialized. Interviews indicated that mitigating measures for NSO credit and corporate governance risks were not implemented in a timely manner and were not in line with the "One Bank approach", but instead focused on strengthening accountability for delivering quality and development impact in a matrix organization. In addition, there is still a need to enhance guidance for country programs in terms of ensuring linkages and sequencing between upstream SOs and downstream NSOs, and clarifying the responsibility for the coordination of all SO and NSO activities between PIVP, Sector Complexes, and Regional Hubs. In this perspective, the evaluation synthesis found evidence of insufficient guidance regarding the design of country programs in terms of the necessary linkages between the Bank's support to government, the private sector, and market development.

Regarding cross-cutting issues, some challenges hampering coordination were found to remain with respect to PPPs, gender mainstreaming, and fragility. The evaluation synthesis found that the absence of centralized resources or an incentive structure dedicated to dealing with PPP activities hampered coordination in this area and reduced the Bank's ability to seize business opportunities, cross-fertilization and learning around PPPs. In addition, entry points and M&E mechanisms for gender mainstreaming in the NSO project cycle and business processes have been unevenly formal and effective. The evaluation synthesis also remarked that gender-related indicators tend to focus on outputs rather than outcomes, with no systematic measure of the three gender pillars of the corporate Gender Strategy. Furthermore, the evaluation synthesis highlights an incompatibility of the Bank's business model with the needs of private sector actors in Transition States and a low level of application of the fragility lens to private sector operations. This incompatibility was due to a lack of synergy, low ownership of the AfDB's strategy for addressing fragility and building resilience in Africa at the Bank level, and insufficient training of sector and operational staff, in particular, the private sector staff.

Staffing and expertise

This sub-section assesses the extent to which the level of staffing/expertise has been relevant for supporting the Bank's ambition with regard to NSOs.

Evidence from the evaluation synthesis, documentary reviews, and key informant interviews indicated that staffing levels (numbers of staff and skills mix) were not well-aligned with the portfolio size and sector composition, despite efforts undertaken in the context of the recent right-sizing exercise.

In the views of interviewees, most Portfolio Monitoring and Investment Officers, as well as staff in support functions such as E&S, legal, and risk management, were found to be overstretched. Evidence from the evaluation synthesis indicates that organizational capabilities varied considerably by pillar and operational priority of the PSDS. Interviews echoed findings from the evaluation synthesis and suggest that efforts underway to manage staffing and expertise are so far having mixed effects. Interviewees expressed concerns about shortages of staff and about the staff skills mix not being well-aligned with countries' portfolios and the Bank's ambitions. NSO ecosystem staff interviewed also referred to a disproportionate staffing advantage in terms of number of IOs to support the International Finance Corporation (IFC) in certain RMCs. Typical examples used by staff and Management to support their views on staffing were those of Ethiopia and Egypt, where IFC operates with 30 and 90 Professional Level staff, respectively. By contrast, the Bank operates in these countries with one staff who is in charge of origination and portfolio management.

Reported insufficiencies in the level of staffing and the required skills to originate transactions, as well as efficiently and effectively implement critical support functions such as supervision and self-M&E, can represent both missed opportunities and risks for the Bank. The evaluation synthesis concluded that the number of quality assurance ecosystem staff supporting projects, such as risk and legal specialists, the ADOA team, fiduciary staff, and ESS experts, was not commensurate with portfolio growth. Similar to the Bank, comparator organizations have placed an increased emphasis on the supervision of E&S risks and better resourcing of their ESS teams. In addition, interviewed staff also highlighted a mismatch between what is seen as dominant Bank public sector "conservatism" and "risk aversion" in decision-making, and the realities of the private sector. The level of staffing is seen as a constraining factor to business development and the quality of project preparation, as well as a potential reputational risk and negatively affecting efficiency.

In response, Senior Management is working towards an optimization of resources in a resource-constrained environment. The challenge for Senior Management is to expand the Bank's PSD footprint by increasing the number and volume of viable NSO investment projects, moving from the financial to real sectors, and investing in LICs and Transition States, while also maintaining the quality of its investment portfolio. In this context, Senior Management is aware that Bank IOs operate in a challenging environment and under high pressure to deliver. With efforts ongoing to improve the situation under the strategic staffing initiative, the right-sizing exercise, and the approval of NSO Lead positions for each region, Senior Management is of the view that the best way to tackle the issue of resources is to optimize in order to "deliver the best with the resources that we have".

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) the management of its NSO portfolio; and (iii) in managing and using the NSO and private sector-related knowledge generated by the institution.

Development outcomes

This sub-section assesses the Bank's effectiveness in achieving NSO DOs (see Table A4.2 in Technical Annex 4) through: (i) the business success of its NSOs; (ii) the economic sustainability of its NSOs; (iii) the E&S effects of its NSOs; and (iv) the contribution of NSOs to PSD.

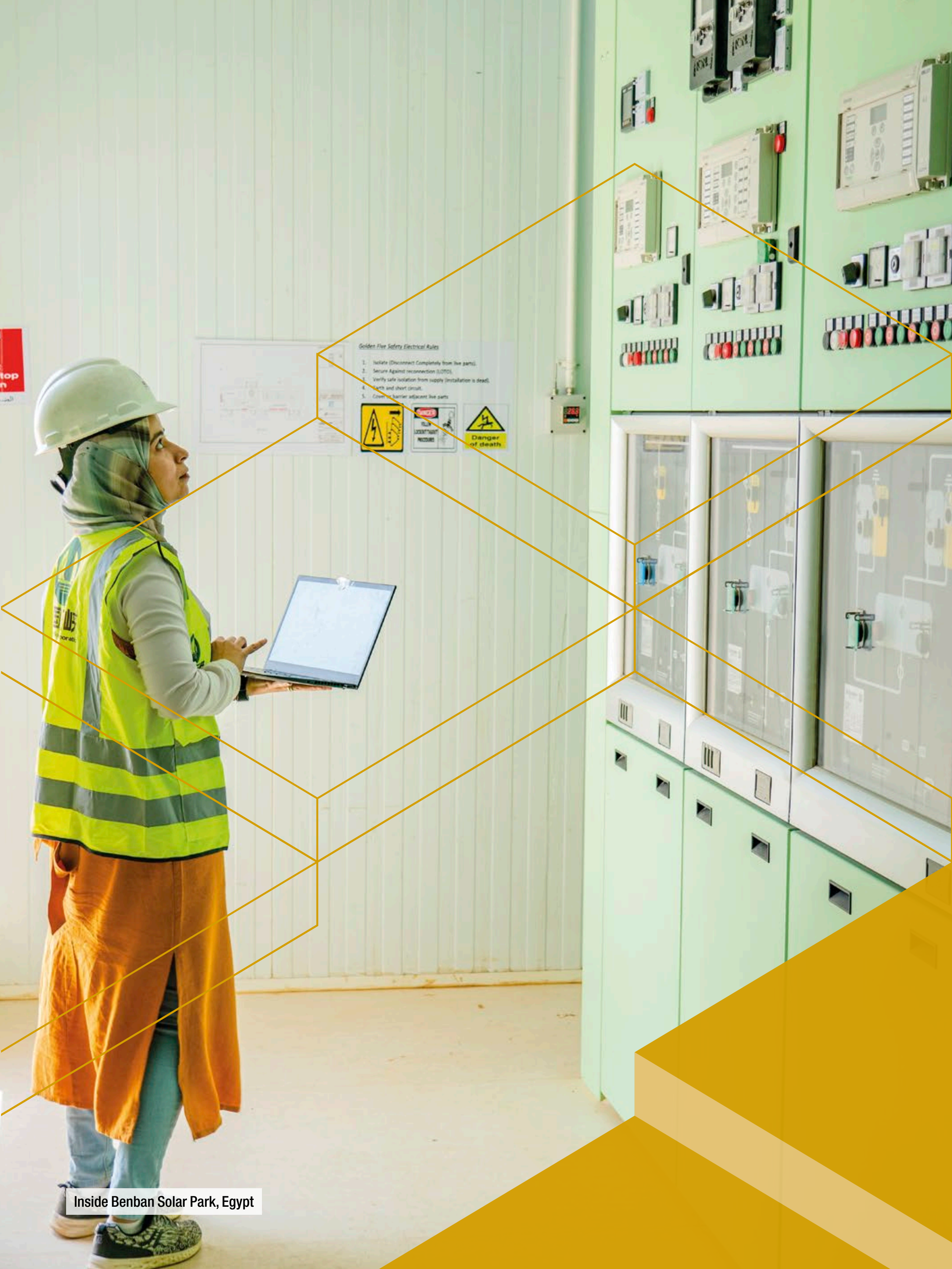
Evidence from the evaluation synthesis, key informant interviews, and Project Performance Assessments (PPAs) indicated that the Bank's NSOs achieved, or are likely to achieve, their intended outcomes, with most of them performing satisfactorily in terms of business success, economic sustainability, E&S effects, and contribution to PSD.

Overall, most NSOs were found to have had positive DOs. Based on results from the IDEV XSR Validation Synthesis, out of a total of 46 projects, 34 (74 percent) received a positive Overall Development Outcome rating (Mostly Successful and Successful). The most frequently awarded rating was Mostly Successful (18 projects, 39 percent), followed by Successful (16 projects, 35 percent). On the negative side, nine projects received negative ratings, with two projects being rated Highly Unsucessful. Finally, three projects were not rated by the XSR validation teams (Figure 2). Notwithstanding the overall positive rating, XSRs were not uniform in their reporting of

Q2: To what extent were the Bank's NSOs effective in achieving the expected Development Outcomes?

The Bank's performance in effectively delivering on its NSO agenda was found mixed.

- The Bank's NSOs were found to have achieved their intended DOs, with most NSOs performing satisfactorily in terms of business success, economic sustainability, E&S effects, and contribution to PSD.
- The Bank's performance in effectively managing its NSO portfolio is deemed mixed as key indicators such as the percentage of NPLs and the WARR are on an upward trend, with a negative outlook for the short and medium terms, due to a combination of endogenous and exogenous factors.
- Both the volume and quality of the Bank's knowledge products with respect to NSOs were found to have improved, although issues remain with their identification, accessibility, and dissemination. Efforts to step up the Bank's role as "the African knowledge institution" on PSD and NSOs have not yet had the desired effect, which is reflected in low non-financial additionality of the Bank's NSOs.



Inside Benban Solar Park, Egypt

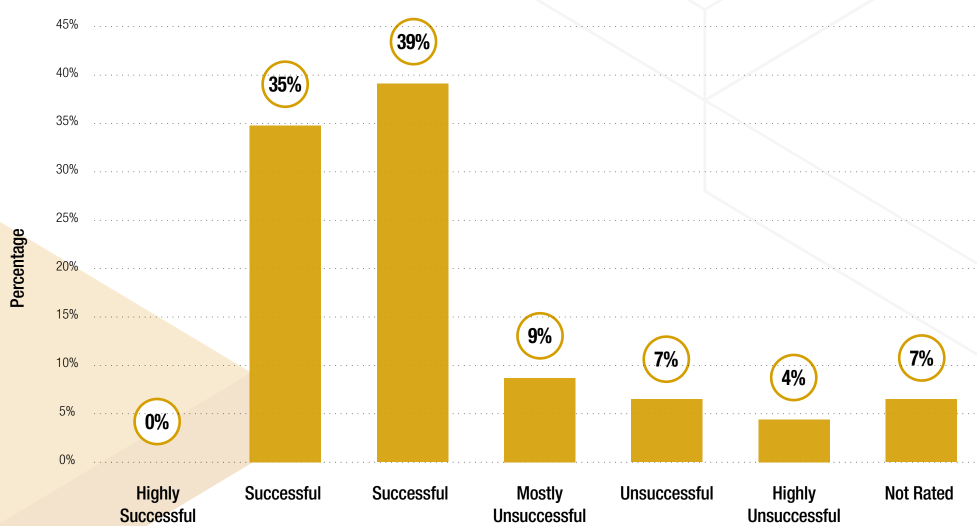
quantifiable data on the DOs of Bank interventions, such as turnover, employment, exports, foreign exchange savings, gender profile, etc.

The Bank is not adequately reporting on all the resources deployed for PSD and not fully capturing its DO footprint. There is a general lack of reporting on the achievements and DOs of TA packages provided by the Bank in 10 out of the 46 validated projects in the XSR Validation Synthesis. The reporting on TA in the XSRs, when present, was limited to output-level assessment, although the inclusion of TA packages appears correlated with a positive Overall Development Outcome. Indeed, the 10 projects that had TA packages geared towards improving the general, risk, or environmental management aspects of the borrower/beneficiary company had 100 percent positive ratings for Overall Development Outcome.

In terms of business success, most NSOs (63 percent) received positive ratings. Out of the 46 NSOs validated in the context of the XSR Validation Synthesis, 29 projects (63 percent) received a positive (Satisfactory and Highly Satisfactory) business success rating, while thirteen projects (28.3 percent) were rated Unsatisfactory and four (8.7 percent) Highly Unsatisfactory. The four projects with a Highly Unsatisfactory rating for business success comprised three real-sector projects, two loans to manufacturing companies and one senior loan to a power project.[21] The fourth project is an equity participation in a regional equity fund.

The Bank's NSOs made good business sense, with viable business models, as evidenced by their strong financial performance and resilience during the COVID-19 pandemic. In fact, business success was rated Satisfactory for seven out of 10 NSO projects selected for PPAs (see Table A4.1 in Technical Annex 4). The analysis of the projects' business success reflects sound financial health that allowed the client companies to navigate the challenged economic situation. In some cases, mainly making use of Lines of Credit, good achievements were obtained through improved efficiencies in processes, operational costs, innovations, and a boost in sales through strategic marketing and

Figure 2: Independent Validation Ratings of the Overall Development Outcome 2014-2019 (46 Projects)



Source: IDEV

targeted customer engagements. For infrastructure projects (rail and solar power), the companies' business model was found viable and projects' overall objective of fostering the development of the infrastructure was achieved. However, financial performance was rated Unsatisfactory in terms of Financial Internal Rate of Return (FIRR) and business objectives (measured through the Average Debt Service Coverage Ratio (DSCR), for example) for the remaining three cases, due to insufficient production capacity and an increase in charges in the last three years of administrative costs.

Most independently validated NSOs (35 projects, 76 percent) had positive economic sustainability, with three projects (6.5 percent) rated Highly Satisfactory. Ten projects (22 percent) were rated less than Satisfactory: nine projects (19.6 percent) Mostly Unsatisfactory and one project was rated Highly Unsatisfactory. Finally, one project was not rated. The independent validation confirmed the rating of Highly Satisfactory for the three top performing projects: two LoCs to financial intermediaries and one investment fund in the health sector.

PPAs undertaken in the context of the present evaluation indicate that economic prospects remain satisfactory for at least three out of 10 NSOs selected. The calculation of the Economic Internal Rate of Return (EIRR) was not done at appraisal for all the selected projects. Also, it was not possible to form a judgement on the economic performance in the absence of detailed and quality information on cost and benefit analysis. However, at least three out of 10 selected projects benefited from an economic impact assessment of the Capital Expenditure Program (CEP), which identified and quantified flows of benefits to several major groups, such as exporters, domestic consumers, local suppliers, infrastructure agencies, etc. Economic benefits for all groups assessed were positive and the overall economic prospects remain good for these projects.

However, the impact of sub-projects in the context of Bank credit facilities extended to financial intermediaries (LoCs) on the economy (job creation and government revenue contribution) is not verifiable. The evidence collected from the various reports suggests that sub-projects do exist and are active. However, their commercial viability and sustainability relative to their purposes cannot be ascertained. According to interviews conducted with PINS, some efforts have been initiated by Bank Management to address the issue with sub-project reporting. The recent interventions on indicator harmonization partly addresses these weaknesses. Specific indicators measuring access to finance by underserved populations, such as SMEs and women-owned SMEs, have been introduced, along with the requirement for sub-project level reporting by financial intermediaries. However, Management also recognized that there is still much room for improvement in terms of the depth and quality of sub-project level reporting.

The Bank took several initiatives that have scaled up the share of NSOs in the portfolios of Transition States. Upstream budget and institutional support were provided to improve the business climate and build the capacity of actors. Other downstream initiatives (loans, equity, PPPs, credit and risk, guarantees, PSD facility, etc.) have encouraged private businesses to invest in Transition States. However, private sector stakeholders in the four Transition States assessed that the conditions of access to the Bank's private sector window resources were not adapted to the realities of local SMEs/small and medium industries due to incompatibility of the Bank's business model with the needs of private sector actors in Transition States.

With regard to E&S effects, the bulk of NSOs were rated positively, but no project was rated Highly Satisfactory. Of the 46 projects assessed in the context of the IDEV XSR Validation Synthesis, 37 (80.4 percent) were rated Satisfactory on E&S effects. The E&S effects performance of the 46 validated projects in this instance is a substantial improvement from the situation in the previous Validation Synthesis (2011), where seven out of 14 projects were not rated because the available information was insufficient.

For most PPAs undertaken in the context of the present evaluation, cross-cutting issues were found to be Satisfactory and favorably taken into consideration through clients' Corporate Social Responsibility (CSR) components, or formal or informal social activities. Industrial or agriculture projects selected and some reputed financial intermediaries have included the implementation of CSR programs focused on environmental sustainability (tree planting), education by supporting the construction of school infrastructure, and by providing scholarships to certain students. CSR programs also supported the livelihoods of community members by providing advice and nets to small producers, farmers who received advice and training on land management, including support of women in income-generation activities. Other reputed financial intermediaries have contributed to inclusive growth and gender equality.

In one case study, revenue-generation activities did not take off due to the weak financial position of the company. Only training programs of employees and neighboring farmers were implemented, with a few training activities inside factories (firefighting and safety). Financial assistance extended to support worthy community programs as part of CSR focused on access to education, improving access to healthcare services, environmental care, responding to disasters and natural calamities, developing youth skills, and building financial literacy in small-scale businesses in the formal and informal sectors. However, in general, the extended LoCs were deemed to have only a marginal effect regarding cross-cutting issues.

Projects rated Unsatisfactory for this dimension mainly consisted of LoCs and equity investments. Still in the context of IDEV's XSR Validation Synthesis, eight projects (17.4 percent) were rated Unsatisfactory on cross-cutting issues and one was not rated. The eight projects that were rated Unsatisfactory by independent evaluation comprised six financial sector projects split evenly between LoCs and equity, one transport project (road), and one Infrastructure Investment Fund project (multinational).

Evidence of results for actual or high potential for a catalytic effect of the Bank's gender mainstreaming efforts are limited. Evidence from the evaluation synthesis indicates that infrastructure, transport, energy, program loans, and private sector operations performed the poorest in terms of gender mainstreaming. These sectors were not considered as gender-sensitive, and provided different entry points for gender mainstreaming, although having the potential to facilitate it with increased interest from clients. Evidence of results with actual or high potential for a catalytic effect is limited to the Bank's progress towards Economic Dividends of Gender Equality (EDGE) Certification, joint products with UN Women, financial commitments for the Affirmative Finance Action for Women in Africa (AFAWA) initiative, and the Global Gender Summit (the last two emphasizing the convening role of the Bank). Capacity building, through skills training and by funding sex- disaggregated statistics, was found to be the most common cross-cutting intervention across pillars and linked to promoting equitable employment for women.

Regarding contribution to PSD, the majority of NSOs were positively assessed. Of the 46 projects assesed in the context of the XSR Validation Synthesis, four were rated Highly Satisfactory and 33 were rated Satisfactory, i.e., 37 projects (80 percent) were rated positively. It was, however, difficult to make a definitive judgement of on the catalytic role and demonstration effect of the Bank's investments on the basis of PPAs, as the projects assessed have not yet reached their early operational maturity.

Transactions with Highly Satisfactory ratings belonged to various instruments and sectors. The four projects rated as Highly Satisfactory belonged to diverse instruments and sectors: (i) a multi-sector investment fund for mid-size companies; (ii) an investment fund in the health sector; (iii) a transport project; and (iv) an LoC to a financial intermediary. **Financial sector transactions represent the bulk (five out of seven) of the transactions with Unsuccessul ratings for this dimension.** Nine projects (20 percent) were rated Unsatisfactory on contribution to PSD. When excluding the two projects approved in 1995 and 1999, seven projects were rated Unsatisfactory on the PSD dimension. Five out of the seven projects were financial sector projects and two projects belonged to the telecommunication and power sectors.

In addition to development outcomes, the Bank's NSOs performed relatively well on (financial) additionality and investment profitability. Results from the evaluation synthesis suggest that the Bank's additionality was rated positive (Satisfactory or higher) in 89 percent of the 46 projects reviewed. Results from PPAs, on the other hand, indicate that the Bank's overall additionality is positive but mostly financial. Non-financial additionality was found marginal for most projects assessed in that category, with six out of nine having Unsatisfactory or lower ratings. (see also below under Knowledge Management). In terms of investment profitability, most projects assessed had positive ratings. In the PPAs, four out of five NSOs were rated Satisfactory or above. Similarly, the evaluation synthesis concluded that the Bank's investment profitability rating was positive (Satisfactory or higher) for 31 projects (67 percent), with three projects (6.5 percent) rated Highly Satisfactory and 28 projects (60.9 percent) rated Satisfactory. But, in the absence of a valid cost accounting system to determine the net profit contribution of loans and equity, it is difficult to assign an objective performance measurement of the profitability of NSOs to the Bank.

Overall, performance on this aspect was mainly found to have been 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.

Portfolio management

This sub-section assesses the Bank's effectiveness in managing its NSO portfolio through key indicators: (i) the percentage of NPLs; (ii) the Weighted Average Risk Rating (WARR); (iii) the number of Watchlist obligators; (iv) the number of waivers, amendments, and consents; and (v) the amount of NSO arrears.

Evidence from the evaluation synthesis, document reviews, and the portfolio performance review indicate that the Bank's performance in managing its NSO portfolio is mixed, as key indicators such as the percentage of NPLs and the WARR are on an upward trend, with negative outlooks in the short and medium terms. This is mainly due to a combination of endogenous and exogenous factors.

In recent years, Bank Management has made a significant effort to better monitor and manage risk involved with its NSO activities. The Bank's Senior Management is aware of risks caused by higher NPLs, delinquencies, obligators failing to meet their contractual obligations and not performing according to expectations, and growth of arrears. Indeed, the Bank's Management recognizes that: (i) a higher level of NPLs will erode its internal resource generation through increased impairment; (ii) delinquencies of watchlist obligators could occasion losses to the institution; (iii) obligators failing to meet their contractual obligations and not performing according to expectations represent a risk for the Bank; (iv) growth of arrears in the Bank's portfolio represents a risk for an impairment of profitability, provisioning, and a reduction of risk capital; and (v) write-offs could occur through forgone interest, principal payments, and a reduction of the Bank's portfolio asset base. The recognition of these risks has obliged the institution to undertake some key initiatives and actions to better monitor and manage the elements underlying the key performance indicators (see Table A5.1 in Technical Annex 5).

NPLs have continued their upward trend and are now above Management's target of 5 percent. The pressure on NPLs is expected to continue due to a combination of exogenous and endogenous factors. This raises concerns

about the stability of the Bank's NSO portfolio in the long run. The Bank's NPL ratio surpassed the target of 5 percent to reach levels of 7.4 percent in 2019 and 8.6 percent at the end of 2020 (see Figure A5.1 in Technical Annex 5). Despite active monitoring of problem projects by the Bank's Portfolio Management Teams and SNOU, the pressure on NPLs is expected to continue due to both endogenous and exogenous factors. At the time of the data collection for the evaluation, SNOU (2020 Annual Report) and PINS indicated that the NPL ratio was likely to continue increasing for the rest of 2021, primarily driven by the decline in the overall total NSO loan amount (denominator), a sustained period of commodity price declines, and the COVID-19 pandemic and the associated global economic uncertainties.[22]

The Bank's overall WARR for NSOs is also following the same upward trend as NPLs, but remains within target, at moderate risk, thanks to the Balance Sheet Optimization (BSO) initiative and the introduction of the sector-differentiated approach to better monitor WARR. At the end of 2020, both the Bank's debt and equity asset risk rating classes increased, to reach 4.17 (moderate risk) and 5.02 (high risk), respectively (see Figure A5.2 in Technical Annex 5). While within Management targets, these increased risks translated into pressure on the Bank's NSO portfolio. The Bank's NSO portfolio overall WARR, excluding BSO, reached 4.65, but thanks to the BSO initiative remains within the Management target at 4.17 (moderate risk).

Management introduced a sector differentiated approach as a result of decentralization and the BSO initiative to better monitor the WARR. Combined with the BSO initiative, the approach is expected to keep risk under control. The setting of WARR trigger limits is expected to act as an early warning signal that would allow sector departments to take swift remedial actions to avoid any breach of the WARR target. Although the BSO initiative has been effective in reducing the Bank's NSO portfolio risk profile,[23] an assessment of the effectiveness of the differentiated approach to WARR by sector would be premature. Only sector-specific WARR for the financial sector is below Management's target of 4.0. In addition, the risk profile of the energy sector, which was under control until 2019, has deteriorated in 2020 (Table 2).

This increased risk translated into extra pressure on the NSO portfolio that may continue in the coming years. Similar to the NPL ratio, the Bank's NSO WARR is also expected to remain under pressure mainly because of high-risk transactions in LICs and Transition States and increased migrations in the portfolio. Findings from the evaluation synthesis indicate that the Bank's support to PSD in LICs and Transition States is gaining momentum, with a twofold increase in lending volume since 2015. This was confirmed by the review of the Bank's NSO portfolio during the evaluation. In addition, the repayment of large trade finance loans and LoCs within the next few years is expected to release significant headroom for

Table 2: AfDB NSO WARR by Sector (2018-2020)

Sectors	2018	2019	2020
Agriculture & Soc.	4.25	4.29	4.49
Energy	3.62	3.87	4.15
Financial	3.25	3.31	3.14
Industry	4.16	4.34	4.79
Transport	4.10	4.18	4.51
Equity	4.89	4.85	5.51

Source: AfDB - PINS and PGRF data

further engagement in priority areas, but could also shift the WARR and NPLs upwards. From this perspective, a balanced mix between the financial and real sectors will continue to be critical in maintaining a sustainable risk profile and level of revenues for the AfDB.

Watchlist obligators have remained relatively stable, with a slight increase in the numbers and amounts in the past few years (2020-2021). Watchlist obligators have been mainly concentrated in the industry, energy, and transport sectors. The outstanding exposure of watchlist obligators in relation to the total Bank NSO outstanding portfolio for the 2018-2020 period remained relatively stable, at around 20 percent, and reached 22 percent in 2020. (see Table 3)

The combined effect of continued migrations to workout status in 2021 and a shrinking loan book could possibly see the NPL ratio double. Migrations to workout status have continued in 2021. Management is of the view that, combined with a shrinking loan book, the Bank could possibly see its NPL ratio grow to between 16 and 21 percent. According to SNOU (AfDB 2021b), at the end of March 2021, 26.9 percent of the NSO portfolio was on the Watchlist. These included 67.4 percent of the Watchlist portfolio in active monitoring, 13.3 percent in rehabilitation, and 19.3 percent in recovery. The increase in the proportion of Watchlisted projects in 2021 is mainly due to UA 257 million inflow into active monitoring and the shrinking total loan portfolio, which impacts the denominator.

Waivers, Amendments, and Consents (WACs) and restructuring registered a significant pick-up as a result of the observed impact of the COVID-19 pandemic on NSO borrowers. As a result of the pandemic in 2020, WACs and restructurings increased by 367 percent from 24 in 2019 to 112 in 2020 (AfDB 2020e). In 2020, the energy sector, private equity sector and transport sector jointly accounted for 61 waiver requests (72 percent of NSO waivers). Ninety-four WACs (84 percent of the total 112 WACs) were related to waiving non-financial terms of the Bank's investment. These WACs were occasioned by the challenging operating environment during the COVID-19 lockdown periods.

In recent years, NSO arrears have continously been on the rise and are also affected by the challenging operating environment created by the pandemic. Portfolio exposure for all arrears age classes have increased between 2018 and 2020. NSO arrears increased by 64 percent from UA 50.5 million in 2019 to UA 82.9 million in 2020. According to PINS (AfDB 2020f), this sharp increase in the amount of NSO arrears is mainly attributed to the challenging operating environment created by the pandemic. All arrears age classes increased between 2018 and 2020. Most obligators have remained those being in arrears for over six months. But their proportion has decreased in the three years to 2020 to reach 53 percent of obligators. This decrease, in relative terms, is mainly explained by relatively faster growth in obligators being in arrears for less than one month. Between 2019 and 2020, the latter

Table 3: Watchlist Migration in Number and Million Unit of Accounts (MUA) (2017-2020)

	2017		2018		2019		2020	
	Number	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Recovery	5	22.1	5	31.3	3	15.2	8	237.4
Rehabilitation	6	203.9	7	306.02	10	368.7	9	164.6
Active	27	927.5	29	677.46	27	606.1	25	653.5
Total	**38**	**1,153.7**	**41**	**996**	**40**	**976.3**	**42**	**1,055.5**

Source: AfDB- PINS data

class of obligators grew at a rate of 210 percent, much faster than the one to six months and over six-months classes, which grew at rates of 119 and 21 percent, respectively. (see Table 4)

Knowledge management

This sub-section assesses the Bank's effectiveness in terms of managing and using NSO knowledge at: (i) project level; (ii) sector level; and (iii) country level.

Evidence from the evaluation synthesis, documentary reviews, and key informant interviews suggests that both the volume and quality of the Bank's knowledge products with respect to NSOs have improved. However, issues remain with their identification, accessibility and dissemination. Efforts to step up the Bank's role as "the African knowledge institution" on PSD and NSOs have also not yet had the desired effect. This is reflected in low ratings for the non-financial additionality of the Bank's NSOs.

In terms of knowledge management at the project level over the evaluation period (2014-2020), Management introduced several initiaves with the objective of better equipping Investment and Portfolio Management Officers to perform their roles. The ADOA team engaged in a series of internal and external capacity-strengthening initiatives through presentations and knowledge dissemination events to introduce the framework (ADOA 2.0) to the NSO ecosystem and the Board of Directors, as well as to senior project staff from regional and national development finance institutions (DFIs) in Africa. In addition, evidence from interviews and the evaluation synthesis indicates that decentralized decision-making in the context of the DBDM complemented knowledge products and training, as well as individual engagements by the gender team. However, few were easily identifiable, accessible, or actively promoted through the Bank's website or communications.

In addition, the ADOA team joined forces with other international financial institutions to harmonize efforts, leading to the revision of the Harmonized Indicators for Private Sector Operations (HIPSO) to provide a deep-dive analysis and metrics for measuring development indicators. Furthermore, the ADOA team actively contributed to the G-7 Multilateral Development Bank (MDB) Task Force on Additionality in 2017. The Task Force was mandated to develop common principles and provide shared guidance on the governance and assessment of additionality across MDBs. In 2019, the Task Force also conducted research into trade finance, risk participation agreements, and long-term financing.

Moreover, the Bank has launched training courses to support Investment Officers and Portfolio Officers to perform in their roles. According to PINS and SNOU, a benchmarking assessment with sister institutions (IFC, Asian Infrastructure Investment Bank, etc.) was conducted and a database on lessons learned will be set up and made available to all NSO ecosystem staff and Task Managers. In this context, it is worth noting that IDEV also stores lessons and recommendations from self- and independent evaluations in the Evaluation Results Database (EVRD), which is publicly available. Furthermore,

Table 4: Arrears in MUA (2018-2020)

	2017		2018		2019	
	MUA	**%**	**MUA**	**%**	**MUA**	**%**
Less than one month	4.18	10	8.2	16	25.5	31
One to six months	5.84	14	6.2	12	13.6	16
Over six months	31.49	76	36.1	71	43.6	53
Total	**41.51**	**100**	**50.5**	**100**	**82.7**	**100**

Source: AfDB- PINS data

Malawi-Zambia One Stop Border Post

according to PINS, the approval of XSRs is now preceded by a stakeholder presentation of the XSR to members of the origination team, supervision team, and relevant sector representatives to appreciate the implementation and the documented lessons. This process aims to strengthen the "feedback loop" between portfolio monitoring and origination, and also responds to the new Delegation of Authority Matrix (DAM).

However, the lack of a definitive repository of knowledge on NSOs, weak capacity, and a lack of incentives to optimally assess and formulate lessons from the Bank's contribution and support to PSD may impede Management's efforts to improve knowledge management at the project level. Findings from PPAs and discussions with NSO ecosystem staff did not provide sufficient evidence on the Bank's additionality in terms of knowledge creation and utilization. The AfDB's support to CRDB Bank, for example, has provided additionality by strengthening the client's governance and standards, but missed the opportunity of additional non-financial contributions based on its knowledge acquired from a prior operation (a partial guarantee co-financed with the United States Agency for International Development). In addition, NSO ecosystem representatives observed that the Bank's projects' DOs were not properly documented, mainly on their E&S impacts.

Management and IDEV have invested significant efforts to produce NSO knowledge at the sector level. IDEV has made efforts to disseminate and share evaluation briefs and highlights of the findings and lessons from its coverage of NSOs through its 2014-2021 evaluations (see Table A2.3 in Technical Annex 2). Among others, IDEV evaluations covered the financial sector, in particular SMEs and financial intermediaries, the energy sector, and PPPs, mostly in the infrastructure sector, and a cluster evaluation of transport sector projects (2012-2019). The present evaluation found that some other sectors, such as the industry and mining sectors, were not sufficiently covered by IDEV evaluations undertaken during the 2014-2021 period. On the other hand, IDEV's high level evaluations, such as the Comprehensive Evaluation of Development Results (CEDR), contributed towards capturing lessons and generating knowledge, enabling new strategic orientations for NSOs and PSD. IDEV also disseminated knowledge through its magazine "Evaluation Matters" Second Quarter 2016, on Evaluation of Private Sector Development Assistance, which reviewed the role played by three MDBs in supporting SME development and how this role has evolved over time. The benchmarking review of SME support attempts to compare MDBs' new approaches and instruments in providing financing to SMEs, including how policies and emerging state trends in evaluating private sector operations. A recent webinar on IDEV's Evaluation of the Bank's Fragility and Resilience Strategy presented cases of private sector involvement in Transition States (March 2021).

The Making Finance Work for Africa (MFW4A) Partnership[24] has also renewed its website with new search features that help ensure better knowledge generation, and wider dissemination and sharing. MFW4A shares news, events, webinars, and blogs covering the financial sector and the finance industry. It holds a repository of African Country Financial Sector profiles and publications in the field of current interest (digitalization and fintech, access to finance of MSMEs and financial support in the post-COVID-19 period). This contributes to general knowledge regarding partners' financial policies, strategies, and operations, with a database on development partner projects (loans, guarantees, RPAs, PCG, trade finance, equities, bonds, TA and grants) on the African continent. Its contribution to global knowledge on financial sector policies, strategies and operations may assist Bank staff in structuring private sector transitions in RMCs' finance sectors.

According to PINS, the Knowledge Metrics Database (KMDB) was set up and populated with 1,625 metrics extracted from 53 transactions (IAMT Modeling Activities). These data are available for benchmarking eight groups of reference ratios on agriculture, the finance, infrastructure and social sectors, and are also offered on KMDB. A Covenant Management System (CMS) was also designed. Other activities are at various stages of implementation, such as the Equity Valuation Manual, which has been finalized but not populated, while the development of the Collateral Valuation Manual Template has been completed. These will be subject to managerial and Credit Risk Committee clearance (the rate of completion stands at 80 percent).

The least progress made was in the development and launch of an NSO Results Reporting System. Important activities where progress is anticipated are the Client Relationship Management (CRM) module and the Projects Pipeline Management module, and integration with other platforms, and the Marketing and Events Management module. Nonetheless, important milestones were achieved, including project kick-off, contracting, requirements analysis and reviews, functional requirements document signed off by all NSO Sector Departments, with the exception of one (AHWS), while the dynamics CRM Environment configuration is being finalized. The project is in its final stage, considering business users' feedback, according to a PINS update.

The identification, accessibility and promotion of NSO knowledge at the sector level produced by Management was found to be improved but uneven, and requires further centralization and rationalization. NSO ecosystem staff interviewed noted that a repository of legal issues of NSO projects exists but does not document all the lessons learned by sector, by financing instrument and by region. Collection and dissemination of lessons learned on origination, due diligence, handling and managing projects are important for better deals, but these have not been the strongest point of PINS and SNOU.

These units, in collaboration with SNDR3, are in discussion to build a database of lessons and provide training sessions in the Operations Academy for Bank staff, and put in place an interactive knowledge database such as the ones developed by comparators Asian Development Bank and Islamic Development Bank. In addition, Management is on its way to seize opportunities for more coordinated activities leveraged to create/generate knowledge at the Bank, country, and continental levels. However, some staff interviewed have indicated that insufficient resources are preventing the Bank from playing its role as a knowledge Bank, and from deploying its capacity to act as a knowledge broker, while promoting the non-financial additionality dimensions of its NSO interventions.

Furthermore, the Bank's use of knowledge to achieve non-financial additionality in its NSOs has lagged behind expectations. Indeed, the non-financial additionality of the Bank's NSOs (which includes elements such as knowledge work, technical assistance, advisory services and policy dialogue) was found to be marginal for most projects assessed in that category (six out of nine), with unsatisfactory or lower ratings. The Bank's non-financial additionality has mainly stemmed from its assistance for adoption of monitoring systems and reporting on E&S results or DO tracking systems. The Bank promoted the strengthening of clients' E&S reporting mechanisms, but missed opportunities to engage with clients in upstream and downstream advice on their managerial capacity. It also did not use its leverage to assist its client companies to engage in policy dialogue with governments and sector authorities on important sector issues such as import duty for imported rice, or to provide support for local producers and skills to increase agricultural production.

Regarding knowledge management at the country level, the decentralization process in the context of the DBDM was found to have contributed to a better knowledge of clients, increased production of knowledge products, and improved contribution to policy dialogue, particularly with respect to the High 5s priority areas. Evidence from the evaluation synthesis and interviews suggests that the Bank has produced an increasing number of knowledge products and the alignment of the matrix structure to the High 5s has had a positive impact. In addition, RMCs believe that the Bank's contribution to policy dialogue has improved since the introduction of the DBDM, confirming the design logic that being "closer to the client" would result in a better understanding of context and improve the relevance of Bank support. From this perspective, clients see the Bank as particularly strong in providing policy input and knowledge in relation to the High 5s and view the Bank's interventions as well-aligned with country priorities.

With respect to PPPs, the evaluation found that improvements in in-country institutional capacity as experienced with NSOs (e.g., infrastructure PPPs) were acquired over time. This was made possible through developing a core knowledge base of contractual arrangements and legal documentation required for PPP transactions, as well as building a track record offering greater comfort to private sector operators. However, the absence of dedicated experts, and the restructuring of the Bank's organization under the new DBDM, contributed to the inactivity of the regionally-assigned PPP hubs and the absence of a centralized repository of knowledge and experience in the Bank, with no cross-fertilization and learning. Under its Pillar 1, the Bank's recently approved PPP Framework for 2021-2031 (AfDB/Infrastructure and Urban Development Department 2021d) plans to create a community of PPP experts and practitioners in Africa. This will be done by promoting the involvement of African experts and advisors as much as possible, disseminating PPP knowledge and experience widely, and developing platforms for exchange and sharing of PPP knowledge.

Efficiency

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

Efficiency of operational processes

This sub-section assesses the efficiency of NSO operational processes throughout the project lifecycle through: (i) the efficiency of pre-approval processes; and (ii) the efficiency of implementation and supervision.

Evidence from the evaluation synthesis, documentary reviews, key informant interviews, PPAs, and the institutional assessment indicate that qualitative assessments over the past few years have pointed to a probable improvement in the efficiency of the Bank's NSO operational processes.

In terms of efficiency of pre-approval processes, the evaluation found that despite the slow implementation of the required adjustments and multiple internal challenges, some

Q3: To what extent are the Bank's operational processes with respect to NSOs and mechanisms for coordinating SOs and NSOs efficient for supporting the rapidly evolving needs of the AfDB's NSO ecosystem?

With multiple initiatives underway to improve delivery, it is premature to make a definitive judgement on the efficiency of processes and coordination mechanisms for the Bank's NSOs at this stage.

- Key institutional data and measurement framework(s) were found insufficient to effectively judge or measure changes to the set of values, beliefs, and behaviors that impact the performance culture.
- Qualitative assessments over the past few years have pointed out a likely improvement in the efficiency of the Bank's NSOs' operational processes.
- The DBDM objectives on coordination, based on complementarity and synergy with clear supervision and oversight, are not yet fully met.

improvements were noted. NSO operational processes are still regarded as cumbersome and sometimes judged ambiguous and redundant by staff. Both country and sector staff interviewed are of the view that the Bank's pre-approval processes are longer than those of most other DFIs. In their view, this is mainly due to: (i) staff overload; (ii) poorly defined communication lines; (iii) slow decision-making and feedback loops; (iii) poor coordination between HQ sector departments and Regional Offices; and (iv) insufficient flexibility. However, notwithstanding the slow pace of reforms, most staff interviewed recognized that efforts are underway to improve the situation.

Indeed, the evaluation found that expectations that the DBDM finetuning would provide scope for faster disbursements are still seeing mixed results. Evidence from interviews indicates that pipeline development, with increased proximity to clients, is still constrained by a reported shortage of Task Managers, Investment Officers and sector experts in the field. Staff working on the origination of NSO transactions are now spread across several sectors, but more than half of the staff work in the Financial Sector Department. The other half are spread across the Industry, Urban, Energy, Agriculture and Human Development Departments. However, interviews with staff and managers indicate that the introduction and implementation of the "One Bank approach" has improved the operational deployment and handling processes. Similarly, interviews suggest that the NSO coordination meetings with VPs and managers helped in streamlining processes and improved coordination for strong support of the entire energy, and other sector, value chains.

The Bank's screening, appraisal and structuring processes were found to be comprehensive, and proposals (or appraisal reports) adequately provided details on investments. The Bank was found to perform well in terms of overall work quality, with a good performance on the quality of its front-end work (screening, appraisal, and structuring). PPAs show that eight out of 10 projects assessed for that criterion received Satisfactory ratings or higher. All the NSOs selected for PPAs had their respective objectives assessed as highly relevant to country and sector strategies and national development programs. Similarly, results from the evaluation synthesis indicate that the Bank's front-end work quality was largely rated positive: the Bank's screening, appraisal, and structuring work was rated Satisfactory or higher in 36 projects (78 percent), with one project rated Highly Satisfactory.

Projects' commercial risks were adequately analyzed in the appraisal reports, including country, credit, operational, compliance, foreign currency and exposure risks. Commercial viability was also well analyzed, with an overview of projects' capital adequacy ratios, earnings, liquidity and management quality, etc. However, preliminary assessments, including risk assessments, additionality and development outcome assessments, and integrated ESS, have been of variable quality depending on the quality of the sponsors, investment and management companies. Also, due diligence analysis of assumptions underlying projects' operational targets and financial projections, as well as the managerial capacities of project companies in implementing and achieving the expected results, could be strengthened.

Regarding additionality, interviews with staff indicated that the ADOA system was relevant and added credibility to the screening and approval process of NSOs, and contributed to a results-based management culture in the Bank. The framework was found to be relevant and well-aligned with the Bank's TYS, High 5s, and business model (DBDM), as well as well-integrated into the NSO business cycle and the due diligence process. However, interviewees felt that the Bank's framework for assessing additionality and DOs (ADOA 2.0) did not provide a robust and sufficiently discriminatory assessment of the institution's additionality. Also, certain stakeholders (cited in IDEV's evaluation of the ADOA 2.0 Framework) felt that the efficiency of the process, which produces three to five ADOA notes over the course of the Bank's NSO processing cycle, could be improved.

The evaluation found that more attention could be paid to staffing resources for business development and project selectivity, and streamlining processes. The evaluation found that an absence of adequate and experienced staffing resources for project development with a scarcity of grants made the selectivity of projects an important undertaking. In addition, although the length of time needed to obtain Board approval has decreased, interviews suggest that NSO staff are overwhelmed due to a shortage of Task Managers and Investment Officers. This shortage of staff at the origin, exacerbated by slow responsiveness, creates bottlenecks that need attention. Moreover, the evaluation synthesis notes that the Bank's NSO pre-approval processes are less efficient than those of comparators based on: (i) a lack of risk-based differentiation among projects; and (ii) a larger number of sequential review and clearance stages.

With regard to the efficiency of implementation and supervision, the evaluation found a slight improvement over the period. Indicators of staffing efficiency (e.g., the number of operations being prepared or supervised per staff officer) were not readily available. However, in the context of the evaluation of the 2013-2019 PSDS, PINS prepared estimates of processing time and staffing intensity. The information provided indicates that the time taken from review to Board approval for the period 2013-2017 was estimated at 9.5 months, and this was reduced to 8 months during 2018-2019. It was also estimated that each Bank Investment Officer processed an average of 1.7 non-sovereign projects per year during 2013-2016, increasing to 1.8 non-sovereign projects during 2017-2019. Furthermore, it was estimated that each Bank NSO Portfolio Officer supervised an average of 8.2 non-sovereign projects per year during 2013-2016, increasing significantly to 10.1 non-sovereign projects during 2017-2019.

The evaluation also found that, despite recent efforts by the Bank to improve the usefulness and relevance of the supervision framework, the latter area and the Bank's M&E of NSOs can be further strengthened. The current NSO supervision framework was judged relevant and useful, thanks to the recent efforts made by Management. However, the lack of a strong monitoring and accountability system, as well as adaptation of actual KPIs to the current structure, represent the main bottlenecks for the implementation of the Bank's NSOs. Interviews conducted in the context of the present evaluation suggest that the monitoring and supervision of Bank NSOs should be improved and strengthened.

Indeed, monitoring and supervision remain areas in which the Bank performed unsatisfactorily based on results from PPAs. Five out of nine projects assessed for this criterion received an Unsatisfactory rating. This performance is explained by factors such as a lack of proper M&E (multinational - ETG), implementation issues, delays and management issues on the client's side, cumbersome Bank processes and significant draw-down periods, and sub-optimal supervision reporting with limited information on the status of projects. However, staff assigned to Country Offices seconding Portfolio Management Officers from HQ constitute evidence that the DBDM institutional arrangements have had a positive impact on the monitoring and supervision of operations. In addition, the evaluation also found instances where the monitoring and supervision requirements have helped establish a framework for improved E&S and governance standards (Transnet II).

Evidence from the evaluation synthesis points to insufficient attention being paid to DO reporting in supervising NSOs. According to the evaluation synthesis, the Bank still faces challenges in the capturing, monitoring and reporting of NSO DOs, despite efforts made to improve monitoring structures and templates. The absence of a harmonized (self-and independent) evaluation framework from origination to independent ex-post evaluation, and the alignment of strategic approaches, methodology and processes in assessing performance throughout the NSO project lifecycle, represented a constraining factor at the time of data collection. Harmonized guidelines for the preparation of Expanded Supervision Reports for private sector operations (and their independent Validation Notes) were approved in December 2021 to fill the identified harmonization gaps and provide more clarity in conducting each step of the extended supervision process at an early operating maturity stage. Separately, the ADOA 2.0 indicators were not systematically used as a baseline for ex-post supervision, and differences were observed between ADOA indicators and those in the RBLF of projects.

Efficiency of coordination mechanisms

This sub-section assesses the efficiency of SO-NSO coordination mechanisms through: (i) the responsibilities and relationships in the context of the Bank's NSOs; and (ii) synergies, complementarity, and sequencing in terms of the Bank's NSO activities.

Evidence from the evaluation synthesis, documentary reviews, key informant interviews, and the institutional assessment indicates that the DBDM's objectives on coordination, based on complementarity and syynergy with clear supervision and oversight, are not yet fully met.

In terms of responsibilities and relationships, the joint accountability between the Bank's Operational Complexes and Regional Hubs was reinforced through a formalized collaborative delivery system. Top-level KPIs were introduced to promote the "One Bank approach" model and reinforce accountability on critical operational areas. Senior Management adopted a small set of top-level KPIs to track the performance of the five Operational Complexes in delivering on the Bank's operational priorities. This joint accountability between the Business Delivery Units and the Sector Complexes provides the necessary impetus for collaborative delivery. The top-level KPIs and targets are cascaded down to directors and managers, in line with the scope of their responsibilities. The objective of this process is to ensure a clear line of sight on accountability for achieving operational targets across departments, Regional Delivery Units, Country Offices and divisions.

This formalized collaborative delivery system with dual accountability was found to have succeeded in promoting a stronger focus on the High 5s and greater portfolio diversity. The restructuring and subsequent reconfigurations of HQ were perceived by NSO ecosystem representatives interviewed as having contributed to a stronger focus on the High 5s, and to greater portfolio diversity and recognition initiatives. This was confirmed by the PPAs conducted in the context of this evaluation. As highlighted above in the portfolio section of this report, efforts geared towards portfolio balancing are underway to de-risk the portfolio from its financial sector concentration risks. This resulted in greater portfolio diversity articulated around the High 5s (see Figure A3.4 in Technical Annex 3).

However, the system was found to still require further adjustments in terms of coordination, improved communication and adequate budget allocation, as well as efficiency measures. In this context, the absence of proper coordination and improved communication between regions/ countries and sector departments, and the dual accountability system (with blurred lines of responsibilities between PIVP, Sector Complexes and Regional Hubs) may perpetuate the opportunistic mode of conducting NSOs. This situation fails to adequately serve the overriding objective of the DBDM to increase the Bank's efficiency and development effectiveness by strengthening accountability for results.

On the other hand, staff interviewed from both the public and private sector sides of the Bank feel that changing the NSO business development approach from opportunistic deal-sourcing to strategic portfolio construction should be a priority. From this perspective, the newly introduced Country Private Sector Profiles (CPSPs) are considered to be a way forward in streamlining the private sector pipeline, as they (and similar upstream work) have the potential to make a significant change to the NSO business development approach.

Similarly, interviews also indicated that issues in portfolio management were found to arise when NSOs were split among sectors, causing operational challenges for regional/country managers and Portfolio Management Officers in the field. Staff interviewed indicated that coordination between sector departments and Regional Hubs was sub-optimal. However, portfolio management staff and other NSO ecosystem staff interviewed are of the view that centralizing portfolio management for the private sector (as currently being handled with PINS, although other sectors are still lagging) is a positive step towards reducing fragmentation.

Furthermore, lack of communication has led to poor coordination with regional delivery units in, for example, some hiring of staff being carried out without HQ consultation. This has raised questions around the consistency and efficiency of the decentralization of decision-making and operational management. Some interviewees questioned the Bank's preparedness to reduce processes and streamline its procedures.

The recent Bank decision to appoint Sector Agnostic NSO Leads in regions is likely to improve coordination within and outside the Bank. Confusion about the private sector entry point at the Bank prompted the regional Directors-General (DGs) and managers' interest in a single-entry point for the private sector in the regions for more effective decentralization. Consequently, a decision was made to appoint NSO Leads (at Professional Level 2) in each regional business delivery unit to interact with internal (including DGs, sectors, and CSP teams) and external (including governments, clients) stakeholders when it comes to Bank NSOs. The NSO Lead role encompasses three different lenses: (i) a strategic lens to implement the Bank's PSDS at regional and country levels, while considering upstream SO policy, regulatory and business environment activities; (ii) a relationship management lens to coordinate Bank teams to deliver as "One Bank" and interact with clients and governments when it comes to NSOs and PSD; and (iii) a business development lens to attract private sector investors, while developing synergies between the Bank's public and private sector teams.

However, it is premature to make a definitive judgement on the impact of this decision on the coordination of the Bank's private sector activities. Some delays are noticed in the recruitment process to fill these positions due to the ongoing Strategic Staffing Review. In the view of the evaluation, to ensure efficiency and effectiveness of the role, it is critical that NSO Leads are provided with adequate decision-making responsibility and the necessary human and financial resources to engage with clients and coordinate activities, including greater consideration for the application of the fragility lens to NSOs, and a better synergy with SOs.

With respect to synergy, complementarity, and sequencing, the evaluation found that the current institutional configuration at the Bank has the potential to facilitate coordination between the sovereign and non-sovereign parts of the institution. Most staff interviewed agree that the introduction of NSO Coordination Meetings has been a step towards in addressing challenges associated with coordination. However, interviewed staff also indicated that, despite some visible improvements, SO-NSO coordination has been inefficient. Concerns were raised about inadequate coordination mechanisms between HQ sector departments and Regional Offices. In some sectors, such as energy, staff highlighted the inadequate coordination between SO and NSO teams at the origination, planning and business development stages. They note that resolving this issue with clear communication and consultative lines could result in a better anticipation of potential challenges during the planning phase.

An optimized integration between the Bank's SOs and NSOs is taking place and represents an important step towards coordination and building synergies. Putting in place a system of tracking and reporting on results achieved by NSOs, both at the financial and non-financial levels, has the potential to improve the escalation of issues in a timely manner and facilitate consolidation at the portfolio level. To optimize integration between the Bank's SOs and NSOs, a Results Reporting System for NSOs is currently being developed based on adjustments made to the existing Results Reporting System used for SOs. An increased focus on portfolio quality, results and lessons learned will be supported by other initiatives, including the enhancement of the Annual Portfolio Performance Review and the revisiting of the methodology for Country Portfolio Performance Reviews (CPPRs). This constitutes a step forward to enhanced SO-NSO coordination but should be reinforced at project initiation and origination, as well as in structuring and implementation.

In the energy sector, for example, the evaluation found that the current institutional arrangement makes good sense, as the sector is becoming more important in country development and regional integration. The Power System Development Department has trained SO staff to join NSO teams, whereas NSO Investment Officers joined the preparation and implementation of country/sector strategies. The energy sector also took the initiative to train Investment Officers via the Young Professionals (YP) program. In addition, the management of the energy portfolio going back to PINS was a good step, as it was not found to work well at the departmental level. Functional responsibilities were unclear at the beginning, with the pilot and co-pilot experience in the regions not well understood. But now, with the Bank moving towards regional and integrated power systems and policies, more clarity of roles and responsibilities is needed.

Some issues were found to persist with regard to the preparation of Country Strategy Papers and the preparation and implementation of NSOs. According to staff interviewed, the participation of HQ sector NSO staff in the development of CSPs is limited. Collaboration, planning, and strategy processes need to be improved between HQ and Business Delivery Units in the regions to facilitate the understanding of government constraints, requirements, and market needs, and ensure strategic input and resource alignment from HQ. This has the potential to improve the design and development of effective and efficient CSPs. The energy sector, for example, addressed this issue by placing IOs in Regional Offices to improve proximity to the market and become more market-oriented.

However, a balance should be found between the optimal use of available staff resources, governance, risk, conflicts of interest and portfolio quality. Evidence from interviews suggests that some sector departments in the NSO ecosystem are overloaded, with inadequate human and financial resources to meet clients' requests for support. This often creates delays and bottlenecks, slowing down critical delivery objectives of other NSO stakeholders, notably E&S and legal teams. This was the case of the South Africa Transnet-2 project, where the Bank was unable to honor its promise to provide Transnet with a Middle Income Country-grant to finance the E&S Due Diligence & Gap Analysis. ■

Assembling garments at the Textile Park project, Benin

Conclusions and Lessons

Conclusions

The evaluation assessed the relevance of the Bank's institutional arrangements for NSOs, the sovereign (public) and non-sovereign (private) coordination mechanisms, and the Bank's institutional effectiveness and efficiency with regard to delivering its NSO agenda over the 2014-2020 period. The findings and lessons of this evaluation are expected to inform the implementation of the Bank's 2021-2025 PSDS, as well as other sector strategies.

The evaluation concluded that current Bank institutional arrangements for supporting NSOs are relevant for enabling 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 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 (iv) 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 ESS and governance rules, can strongly contribute 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 outcome reporting. Similarly, providing TA for E&S risk management can facilitate the enforcement of the Bank's ESS 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 are necessary conditions 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 HQ and Business Delivery Units in the regions contributes to strategic input and resource alignment.

Improved collaboration between HQ 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 IOs in Regional Hubs 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 the Bank's 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 OpsCom 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 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. ■

Benin rural electrification project

Benban Solar Park, Egypt

Annexes

Technical Annexes 50

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Technical Annexes

Technical Annexes 1 to 6, are in the document titled, "NSO Evaluation Summary Report_Technical Annexes", which is available on the evaluation webpage.
https://idev.afdb.org/en/document/evaluation-afdbs-implementation-its-non-sovereign-operations-2014-2020

They are:

1. Non-Sovereign Ecosystem (NSEC)

2. Methodology

3. The AfDB Non-Sovereign Portfolio (2014-2020)

4. Development Outcomes Results

5. Key Initiatives for enhanced Portfolio Performance

6. Project Performance Assessment Rating Guidance

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Endnotes

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”.

3 These will bring together broad multidisciplinary teams to review NSO proposals, including members from regions, sectors, and technical units such as safeguards.

4 The TYS was designed to assist the RMCs to achieve more inclusive growth and a gradual transition to green growth. It identified five operational priorities: (i) Infrastructure Development; (ii) Regional Integration; (iii) Private Sector Development; (iv) Governance and Accountability; and (v) Skills and Technology. It also defined three areas of particular emphasis: (i) Fragile States; (ii) Agriculture and Food Security; and (iii) Gender.

5 The Unit of Account (UA) is the standard currency used by the AfDB and is the equivalent of the International Monetary Fund’s (IMF) Special Drawing Right (SDR).

6 A draft of the 2021-2025 PSDS was prepared in November 2020 and submitted to CODE for consideration in March 2021. The revised version of the 2021-2025 PSDS was approved by the Bank’s Board of Directors on January 19, 2022.

7 The key evaluation questions were defined based on a review of the literature, key stakeholders’ interests, and evaluation evidence gap assessment conducted by IDEV.

8 The evaluation framework presents the context of the evaluation, the inputs/activities and outputs, as well as the immediate/ intermediate and final outcomes and the impact of the Bank’s NSO support.

9 The sample was purposively selected out of a total number of 80 operations that have a disbursement ratio of 75 percent and above. Although the sample is not representative of the entire portfolio, it was purposively selected with the objective of establishing a fair representation of the mix of instruments, regions, country categories, and sectors. The Bank’s orientation of the a more balanced NSO portfolio with diversification into the real sector in ADF countries and fragile environment also served as selection criteria.

10 The High 5s priority areas are: (i) Light Up and Power Africa; (ii) Feed Africa; (iii) Integrate Africa; (iv) Industrialize Africa; and (v) Improve the Quality of Life for the People of Africa.

11 In 2019, Bank Management made the decision to hire NSO Managers in the regions, but finally decided to recruit NSO Leads instead. At the time that this evaluation was under completion, the hiring for these positions was frozen due to the ongoing strategic staffing review.

12 A draft of the 2021-2025 PSDS was prepared in November 2020 and submitted to CODE for consideration in March 2021. The Bank’s 2022-2025 PSDS was approved by the Board of Directors on January 19, 2022.

13 This figure does not include cancelled, terminated, and/or abandoned transactions.

14 These SPVs include the Private Sector Credit Enhancement Facility (PSF), the Clean Technology Fund (CTF), the EU Africa Investment Fund (AIP), the Global Environment Facility (GEF), the Strategic Climate Fund (SCF), and the Africa Growing Together Fund (AGTF).

15 US$400 million Senior Loan to co-finance the construction of Mozambique’s integrated Liquefied Natural Gas (LNG) plant.

16 US$32 million LoC to Banco Millenium Atlantico S.A. of Angola was approved in April 2020.

17 The partnership to accelerate inclusive, sustainable, and diversified growth of the private sector in the six Portuguese-speaking countries of Africa (PALOPs) was signed with the Bank and the Government of the Republic of Portugal in November 2018. The partnership builds on the use of equity participation and/or debt financing, and PPPs, guarantees, as well as TA with a focus on high-impact and transformative projects.

18 It will bring together a broad multidisciplinary team to review NSO proposals, including those from regions, sectors, and technical units such as safeguards.

19 Financially material sustainability issues are part of the ESG and sustainability information that are most useful for making financially related decisions. These issues are reasonably likely to impact the financial condition or operating performance of a private sector company and therefore are most important to investors, lenders and developers (Source: The Sustainability Accounting Standards Board (SASB). SASB Materiality Map)

20 The list of PPAs is available in Technical Annex 4.

21 Two of the three real sector projects belong to a very old body of approvals (1995 and 1999). The two remaining projects are more recent, approved in 2009 and 2011.

22 The actual impact of the pandemic on the NSO portfolio and NPLs cannot be accurately determined at this stage.

23 The BSO initiative positively impacted the WARR across all the NSO sectors.

24 MFW4A is an initiative to support the development of African finance sectors. It is a platform for African governments, the private sector, and development partners to coordinate financial sector development interventions across the continent, avoiding duplication and maximizing developmental impact. MFW4A partners share a common vision of innovative, sustainable, competitive and diverse African financial systems, providing near universal access by 2030, and offering a full range of products and services for the continent. MFW4A - Making Finance Work for Africa

IDEV

Independent Development Evaluation
African Development Bank

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.

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