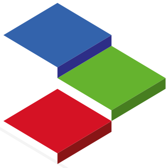

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Evaluation of the AfDB's Private Sector Development Strategy (2013–2019)

Summary Report

AFRICAN DEVELOPMENT BANK GROUP

July 2020

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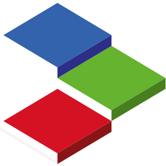

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July 2020

ACKNOWLEDGMENTS	
Task managers:	**Foday Turay**, Chief Evaluation Officer, IDEV.1; **Tesfaye Teklu**, Consultant, IDEV.1
Team members	**Boubacar Ly**, Evaluation Officer, IDEV.1; **Stephanie Yoboue**, Consultant, IDEV.1; **Agnes R. Mpho**, Intern, IDEV.1
Consultant:	Centennial International Group led by Gaiv Tata
Internal peer reviewers:	**Albert-Enéas Gakusi**, Chief Evaluation Officer, IDEV.1; **Khaled Ibn Waleed Hussein Samir**, Principal Evaluation Officer, IDEV.1; **Latefa Camara**, Evaluation Officer, IDEV.1; **Jeannot Ngoulma**, Junior Consultant, IDEV.2
External peer reviewer:	**Fredrik Korfker**, Independent Evaluation Consultant
Internal Bank Reference Group:	Agricultural and Rural Finance Department (AHFR.1); Governance and Public Financial Management Coordination Office (ECGF); Microeconomic, Institutional and Development Impact Department (ECMR.2); NSO and Private Sector Support Department (PINS); Transport and Logistics Department (PICU.4); Energy Policy, Regulation and Statistics Department (PESR.1); Financial Solutions Department (PESR.2); Trade Finance Department (PIFD.3); Director General- East (RDGE.0); Regional Manager 4 Portfolio and Implementation Support (RGDE.4); Nigeria Country Office (RDNG.0); Corporate Performance and Accountability Department (SNDR.1); Corporate Strategy and Policy Department (SNSP.1)
Knowledge management officers:	**Magdaline Nkando,** Knowledge Management Consultant, IDEV.3; **Marc Ghislain Bappa,** Knowledge Management and Communications Junior Consultant, IDEV.3
Other assistance/ contributions provided by:	**Myrtha Diop**, Senior Administrative Assistant, IDEV.0; **Henda Ayari**, Team Assistant, IDEV.1; **Ruby Adzobu-Agyare**, Secretary IDEV.0; **Clement Mensah**, Consultant, IDEV.1; **Venceslas Kouakou**, Junior Consultant, IDEV.1
Special thanks to:	PINS Team especially **Mme Kodeidja Diallo**, Director, PINS.0; **Lemine Mohamed**, Ag. Manager, PINS.1; **Suraj Balogun**, Manager, PINS.2; **Mohamadou Hayatou**, Chief Private Sector Strategy Officer; **Hamidou Gassimbe**, Senior Analytic Officer
Division manager:	**Rufael Fassil**
Evaluator General:	**Roland Michelitsch; Karen Rot-Münstermann** (Acting)

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Evaluation of the AfDB's Private Sector Development Strategy (2013–2019) – Summary Report
IDEV Sector Evaluation, July 2020

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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.

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

Photography: AfDB Project Flickr
Original language: English - Translation: AfDB Language Services Department
Design & layout: CRÉON – www.creondesign.net

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Abbreviations and Acronyms

ADER	Annual Development Effectiveness Review
ADF	African Development Fund
ADOA	Additionality and Development Outcome Assessment
AFD	French Development Agency
AfDB	African Development Bank
CSP	Country Strategy Paper
DBDM	Development and Business Delivery Model
DFI	Development Finance Institution
DG	Director General
ECG	Evaluation Cooperation Group
ECVP	Economics Vice Presidency (Chief Economist and Vice President for Economic Governance and Knowledge Management)
FDI	Foreign Direct Investment
HQ	Headquarters
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
IsDB	Islamic Development Bank
KPI	Key Performance Indicator
MDB	Multilateral Development Bank
MSME	Micro, Small and Medium Enterprise
NDP	National Development Plan
NPL	Non-Perfoming Loan
NSO	Non-Sovereign Operation
OECD-DAC	Organisation for Economic Co-operation & Development – Development Assistance Committee
PCREN	Project Completion Report Evaluation Note
PIVP	Vice Presidency for Private Sector, Infrastructure and Industrialization
PPI	Private Participation in Infrastructure
PPP	Public-Private Partnership
PSD	Private Sector Development
PSDC	Private Sector Development Steering Committee
RMCs	Regional Member Countries
RMF	Results Measurement Framework
SME	Small and Medium Enterprises
SO	Sovereign Operation
TYS	Ten-Year Strategy
UA	Unit of Account
WBG	World Bank Group
WARR	Weighted Average Risk Rating

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Executive Summary

Background

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

What was Evaluated?

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

Purpose of the Evaluation

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

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

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

Methodology Used

The evaluation was guided by the Bank's Independent Evaluation Policy, the Organization for Economic Co-operation & Development – Development Assistance Committee (OECD-DAC) evaluation criteria and the latest Evaluation Cooperation Group (ECG) Good Practice Standards for public sector (ECG 2012) and private sector (ECG 2011) operations. The

evaluation is based on the Theory of Change (ToC). The construction of the ToC identified relevant issues underscoring the complexity of the environment in which the Bank operates to deliver results in the context of the PSD Strategy. The evaluation used a mixed-method (quantitative and qualitative) approach that triangulated several information sources to answer the evaluation questions.

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

Findings

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

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

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

Recommendations

IDEV makes the following recommendations:

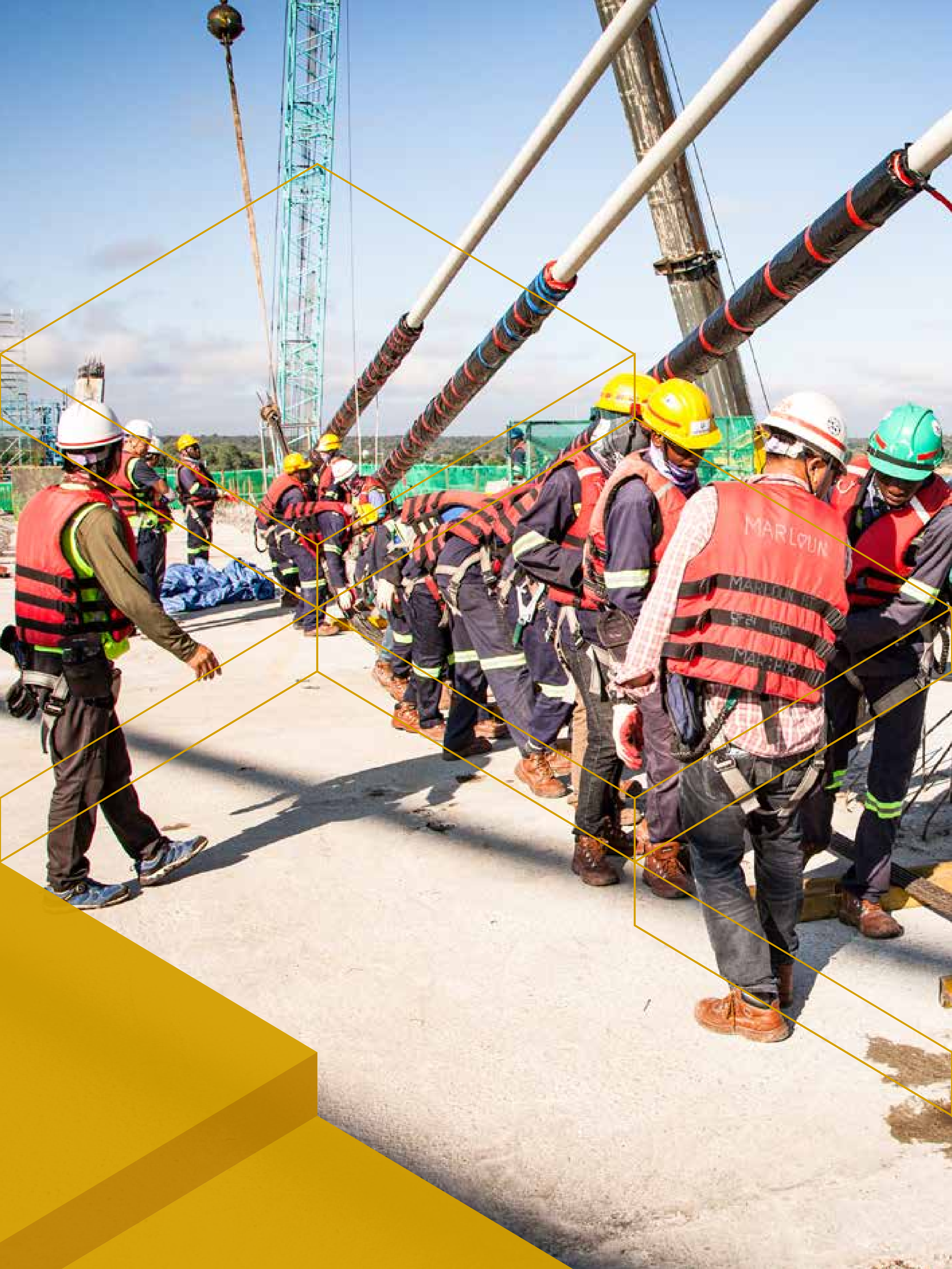
Recommendation 1: Adapt the institutional arrangements for PSD operations in the Bank to maximize development effectiveness, efficiency and synergies, and ensure there is an overall view of the objectives, activities and results of all PSD activities.

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

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

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

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

Management welcomes IDEV's evaluation of the 2013–2017 Private Sector Development (PSD) Strategy (implementation extended to 2020). The evaluation's analysis and conclusions are timely as Management is developing the new 2021–2025 PSD Strategy, which will reflect the changes that have occurred in the African PSD landscape as well as the Bank's internal reorganisation. This note presents Management's responses to key issues raised by the evaluation and provides ongoing and foreseen actions in line with IDEV's recommendations.

Introduction

The Ten-Year Strategy (TYS) and the Private Sector Development (PSD) Strategy aim to support Regional Member Countries (RMCs) in achieving their development goals by helping to deepen PSD including the business environment, infrastructure development, enterprise development, and the development of a robust financial system.

Management welcomes IDEV's evaluation and takes note of its recommendations. The following six key insights will help improve the quality of the Bank's PSD support going-forward and will guide the new strategy:

- **Increased collaboration with development partners**. Complex reforms require adequate collaboration among development partners.
- **More systematic multilevel support approach**. The achievement of medium to long-term structural reforms requires multilevel and sustained support.
- **Increase of medium/long-term engagement**. Sustainable results achieved by building on a well-established medium to long-term program of reforms through investment lending, technical assistance and policy dialogue.
- **Better ex-ante scrutiny**. Effectiveness of operations is influenced by the due diligence and quality of the project design, including the logic of intervention and the role played by complementary inputs such as analytical work, policy dialogue and Technical Asisstance.
- **Better reporting**. Implement a robust M&E system focusing on outcomes as an integral part of the life cycle of PSD interventions with indicators on anticipated impact on poverty reduction.
- **Alignment of resources to Operations' design and implementation**. To achieve the objectives underlying Non Sovereign Operations (NSOs), the staffing and technical assistance infrastructure should be tailored to the programs and projects under implementation.

The evaluation is also timely, given that the Bank has made several key commitments under GCI-VII capital increase and ADF-15 replenishments, that will impact the Bank's engagement with private sector, including continuing to expand NSO in ADF countries, reinforcing synergies between ADB and ADF windows, and implementing a systematic and coordinated approach (leveraging partnerships with deeper expertise) to supporting reforms to improve the enabling environment. Furthermore, within the framework of the ADF-15 replenishment, the Bank recognizes that a strong and dynamic African private sector is fundamental to achieving inclusive growth and building resilience.

The Bank has committed to significantly scale up its NSO operations, including in ADF countries and Transition

States, and has in this regard enhanced the capacity of the Private Sector Facility. This will help lift PSD binding constraints in the business environment, support critical infrastructure development, and ease access to finance with an optimal mix of financial instruments.

Relevance of the PSD strategy

Management welcomes the fact that IDEV recognizes the strong relevance of the three pillars of the PSD Strategy - improving Africa's investment and business climate; expanding business access to quality social and economic infrastructure, and; directly promoting enterprise development. The strategy has been strongly aligned with both the needs of RMCs and the Bank's strategic orientation.

Management also recognizes that the new PSD Strategy will need to be developed on the basis of an explicit and realistic theory of change. The theory of change will focus on measuring AfDB's additionality and development outcomes that build on the synergies between SO and NSO interventions. The ensuing result framework will include indicators for operational efficiency as well as measures of profitability for NSO. In addition, Management recognizes that the strategy could have been more selective at the country level, with ambitions better tied to limited available headroom, particularly for sovereign operations in ADF-countries. These lessons will be reflected in the new strategy that will be more firmly linked to the High Five Strategies.

Effectiveness of the PSD strategy

Between 2013 and 2019, the Bank financed 140 sovereign PSD related operations amounting to UA 4.39 billion, and 319 NSO projects valued at UA 11.04 billion. Management wlecomes the fact that IDEV found a positive contribution of these investments in enhancing the business climate in RMCs, even though there is a need for the subsequent strategy to better measure the actual contributions to key outcomes such as employment, investments and growth dynamics of countries.

Management further agrees on the need for the new strategy to strike a better balance between non-sovereign support to the financial sector and the real sector. Through a more systematic, strategic and proactive approach, management will idenitfy private sector clients in the real sector to engage. In addition, we will work closely and innovatively with our financial sector clients to de-risk investments in the real sector, including in agriculture, women-enabled-businesses, SMEs, where the Bank is currently committed to grow its business.

IDEV's evaluation also concludes that efforts to target SMEs has had mixed success. While we agree, we believe that the evaluation would have benefited from a deeper analysis of three key elements: (i) The challenge of categorizing MSMEs - micro, small, medium enterprises - and the dichotomy of the formal vs. informal sector and its impact on PSD; (ii) Beyond categorizing or framing the SME landscape, findings and insights on the overall MSME and entrepreneurship ecosystem and how the bank supported them - or not; and (iii) SMEs' access to market through the development of value chains.

Support to FIs versus to Real Sector (SMEs). IDEV observes that the Bank has not been sufficiently effective in using its financial sector assistance to provide assistance to the real sector, particularly SMEs. Inadequate tracking of lines of credit and inadequate enforcement have resulted in the Bank disporportionately benefiting large businesses as opposed to SMEs, yet the latter make up the majority of Africa's private sector and are a key provider of employment and usually more constrained in access to finance. Although efforts have been made to address this problem in recent years, the Bank has struggled to ensure that the majority of lines of credit so earmarked, benefitted targeted SMEs.

All the same, the Bank has to continue to work with financial intermediaries such as commercial banks if it is to address access to finance challenges for

SMEs with scale, as we do not have the capacity or operational structure to directly lend to most SMEs. In addition, the Bank continues to partner with other DFIs (such as IFC), bilateral partners (such as PROPRACO-AFD and SIDA) and UN agencies (UNDP), to design initiatives aimed at supporting SME development including capacity building technical assistance. The Bank will continue to further strengthen the capacity of its financial institutions clients to strategically pursue the SME financing business line, including in areas such as SME financing product development, risk management, portfolio monitoring and efficient use of technology, thereby enabling them to better serve SMEs. Furthermore, the Bank will pursue strategic partnerships with FIs which have a specific focus on SME businesses.

Infrastructure and Public Private Partnerships (PPPs): IDEV notes that infrastructure NSOs and PPPs - amounting to nearly a quarter of NSO approvals - ranked well in terms of effectiveness, but that the Bank's involvement had limited additionality, due to the fact that it invested in these transactions post structuring and procurement phases.

The Bank has played and continues to play a significant role in most major PPP projects on the continent. In many instances, the Bank was mandated lead arranger or co-lead in these investments. The Bank's involvement yielded significant additionality including financial additionality where the Bank's longer-term financing and guarantee instruments resulted in longer debt tenures than would have otherwise been available from commercial lenders; and where the Bank's involvement mobilized both commercial and other DFI financiers. Some examples of the transformative projects where we had clear additionality include Dakar Integrated Belt, NACALA transport corridor and GAC. Management recognizes however, that while the Bank has achieved some success in the PPP interventions it has supported, such involvement has largely been provided in an opportunistic, unstructured, uncoordinated and reactive manner and without a corporate-wide strategic approach.

This is why Management agrees that there is a critical need to undertake necessary strategic and institutional actions to position the Bank as a leader and the to-go-to development partner for PPP projects in Africa. Following IDEV's 2019 Evaluation of the Bank's utilization of PPP Mechanism, Management developed a Bank-wide PPP Framework to provide the needed strategic direction and determine focus areas and priorities for achieving a leadership position in the development of sustainable PPP projects in Africa. The Framework is currently under preparation and will be submitted for Board consideration before the end of 2020.

Fragile Countries: We broadly agree that 'funding for non-sovereign operations in fragile states was limited'. During the period of evaluation, NSO in fragile states were 11% of the total number of NSO operations at the Bank, but 4% of the total lending commitments. While it may be unclear whether this is supply related (i.e. based on country risk considerations) or demand related (i.e. lack of quality NSO opportunities), it is important in the interest of serving all RMCs to pay special attention to this challenge.

The key challenges of increasing NSO in fragile and transition countries are typically related to the lack of bankable opportunities to invest in, caused in part by lack of requisite capacity to structure bankable projects, smaller size of projects, less developed legal, regulatory and institutional frameworks, and that the level of risk the Bank will take is likely to result in higher levels of NPLs and write-offs than the Bank's risk appetite currently accommodates.

The Fragile States Department (RDTS) stated in the Management Response to IDEV's Evaluation of the Bank's Fragility Strategy, that:

"*To increase investments in NSOs in transition States, the NSO and Private Sector Support Department (PINS) is working with the Transition States Coordination Office (RDTS) on a range of actions, including (i) the review of NSOs operational tools to better tailor them to fragile situations,*

(ii) improvement of NSOs readiness and identification of more investment opportunities in transition States, (iii) building synergies between NSOs and sovereign operations through the development of country-led platforms; (iv) strengthening of blended financing as the optimum financing and de-risking approach of the Bank's commitments in transitions States; and (v) establishment of a formal Development Finance Institution (DFI) collaboration mechanism to maximize the impact of collective interventions in Transition States."

Management has in addition committed to addressing NSO needs of LICs and fragile states using the Private Sector Facility, which has been increased in ADF-15. In addition, we will explore opportunities for increased blended financing, deepened collaboration with other development partners, and to harness synergies from working together. We will also explore with the Treasury and Finance departments how to mitigate risks associated with the increased deepening of NSO operations in fragile countries within the Bank's current risk appetite.

Institutional performance

Management agrees on the need to systematically report, and in an integrated manner, on its SO and NSO portfolio. In this regard, the Annual Development Effectiveness Review can be improved by including metrics to measure the impact of private sector development.

Management notes the need to deliver on the commitment to strengthen mechanisms for mitigating NSO credit risks including a credit readiness filter and a closing memo to validate key risks. In addition, Management agrees on the need for providing more granularity on portfolio information, including on NPLs, and profitability of the different parts of the NSO portfolio.

Furthermore, the Bank's project completion rating practices needs to be enhanced. IDEV noted that in the list of projects reviewed for this evaluation, for SOs, there were 15 completion reports (PCRs), of which nine were validated (project completion report validation reports; PCRENs). In the case of NSOs, the number extended supervision reports (XSRs) was 10 (out of 108 expected), and four for validated XSRs (XSRENs).

Management also notes that since the introduction of the DBDM and other organizational changes within the Bank, indicators of staffing efficiency have not been readily available. This may therefore have impacted the Bank's institutional performance.

Management agrees that beyond the issue of approvals, staff KPIs should also focus on quality at entry, and effectiveness of project monitoring and supervision. Staff should be rewarded for foreseeing and addressing problems that may stand in the way of effective portfolio performance.

As the Bank implements its 'One Bank' vision to improve the DBDM, it will be important to re-emphasize this.

Moving forward

The Bank has recently completed two major resource mobilization exercises, the Fifteenth Replenishment of the ADF (ADF-15) and the Seventh General Capital Increase (GCI-VII). The Bank recognizes that a strong and dynamic African private sector is fundamental to delivering on these initiatives, and for achieving inclusive growth and building resilience. This will help lift PSD binding constraints in the business environment (leveraging partnerships with deeper expertise), support critical infrastructure development, and ease of access to finance for enterprises, with an optimal mix of financial instruments. The Bank has also committed to significantly scale up its NSOs in the ADF countries and Transition States. Lastly, the new PSD strategy will also be firmly aligned with the High 5s.

Conclusions

The valuable lessons and recommendations in the IDEV evaluation report will clearly inform the development of the new PSD Strategy. In addition, they will inform how to engrain better coordination within the Bank, as well as need for a collaborative results-driven partnership between the various complexes, in order to guarantee delivery on the new PSD strategy.

It is noteworthy that most of the recommendations are aligned with the policy commitments of the GCI VII capital increase and the ADF-15 replenishment.

<table>
<tr><th colspan="2">Management Action Record</th></tr>
<tr><th>IDEV's Recommendation</th><th>Management's Response</th></tr>
<tr><td colspan="2">Recommendation 1: Adapt the institutional arrangements for PSD operations in the Bank to maximize development effectiveness, efficiency and synergies and ensure there is an overall view of the objectives, activities and results of all PSD activities.</td></tr>
<tr><td>▌The Bank should give careful consideration to again having a single Complex manage all NSO operations. At a minimum, clear responsibility for coordinating the implementation of all sovereign and non-sovereign PSD activities should be given to PIVP.
▌In improving institutional arrangements, the Bank should: clarify division of responsibility and accountability between PIVP, Sector Complexes and regional hubs.
▌Ensure that staffing requirements and skills mix are aligned with the NSO portfolio size and sector composition.
▌Reward/incentivize joint activities (i.e. sequencing between SOs and NSOs, project origination and resource mobilization) through corporate, departmental and individual KPIs. Some of these activities may already be underway as part of the One Bank implementation.</td><td>AGREED - Management welcomes IDEV Recommendations. Further actions are being undertaken in line with these recommendations in the preparation and implementation of the 2021–2025 PSD Strategy and related Business Plans
Further actions:
▌PIVP will work with PEVP and AHVP to reorganize the institutional arrangements for NSO to address the fragmentation of PSD operations as recommended. The consolidation in NSO across the various complexes will focus on Portfolio and Equity operations, and not Sector Lending Origination operations (PIVP, Q4 2021).
▌PIVP, PEVP, AHVP and ECVP to discuss and agree (at a minimum) that: (i) institutional responsibility and accountability within the Bank for PSD coordination between SOs and NSOs will reside in PIVP; and (ii) PIVP will undertake this role in close coordination with ECVP. The discussions are intended to clarify what this means in day-to-day operations so that expectations are well managed (PIVP, Q3 2021).
▌In line with the One Bank approach, PINS will work with PIVP and CHHR to finalise the terms of reference and recruitment of five (5) NSO Regional Managers (NRM) positions to be based in regional hubs to ensure better delineation of responsibility and full accountability of Sector Departments and the Regional Hubs (PINS, Q4 2020).
▌PIVP will work with the other complexes to reduce and re-prioritize the strategic priorities currently underpinning each of the High 5s (PIVP, Q2 2021).</td></tr>
<tr><td colspan="2">Recommendation 2: Strengthen linkages between the Bank's PSD sovereign and non-sovereign operations at country/regional level by scaling up country diagnostic tools for prioritizing investment climate constraints and developing a High 5 PSD program checklist.</td></tr>
<tr><td>▌In collaboration with other development partners, the Bank should deploy diagnostic tools to prioritize investment climate constraints at country/regional level and sharpen selectivity in PSD interventions in selected High 5 areas.
▌A High 5 PSD program checklist, based on a Theory of Change linking sovereign and non-sovereign programs, should be developed so that once a country team identifies a particular High 5, it has a template available for use/customization.</td><td>AGREED - Management fully agrees with this recommendation.
Further actions:
▌SNOQ will work with the units engaged in PSD and NSOs, and SNDR, when finalizing new operational guidelines for the results based logical framework (including for SOs and NSOs). The guidance will place increased focus on defining a theory of change for key sectors and instruments, with relevant outcome and output indicators. This exercise will also link in with the planned review of the Bank's RMF (SNOQ, Q1, 2021).</td></tr>
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<tr><th>IDEV's Recommendation</th><th>Management's Response</th></tr>
<tr><td colspan="2">Recommendation 3: Carry out an in-depth analysis of the effect of NSO operations on SMEs to deepen the understanding about what works and to strengthen the Bank's additionality and development outcomes.</td></tr>
<tr><td>▪ To expand the reach of FI operations to SMEs, the Access to Finance Evaluation has made recommendations regarding improving target setting, better instrument design and verification that funding is reaching the targeted beneficiaries and having the desired development outcomes. These recommendations are reconfirmed by this evaluation.
▪ Further, the Bank needs to establish how real sector support provided through NSOs is reaching SMEs (e.g., through support to value chains) and to assess the relative effectiveness of both approaches in order to determine the overall balance in the NSO portfolio.</td><td>AGREED - Management fully agrees with the recommendation.
Further actions:
▪ In developing the new PSD Strategy, more clarity will be introduced in the use of existing financial instruments and new ones will be developed to ensure better alignment with the respective sectors (real and financial). Actions under way on product re-engineering and co-guarantee platform will inform the design of NSO programs and projects consistent with countries; specific profile (PINS, Q4 2021).
▪ PIVP will work with AHVP and other complexes and departments in consolidating the various initiatives undertaken by several institutional groups under a single integrated SME program. As our primary mechanism for delivering on Access to Finance for SMEs is through financial intermediaries (primarily commercial banks and other financial institutions), the resulting consolidation will be articulated in the new Financial Sector Strategy which is due to be completed by Dec 2020 (PIFD, Q4 2020).</td></tr>
<tr><td colspan="2">Recommendation 4: Increase the Bank's PSD operations in low-income and transition countries.</td></tr>
<tr><td>▪ Improving the business environment through SOs, including small but crucial technical assistance operations.
▪ Supporting NSOs in High 5 areas by giving greater weight to PSD additionality and catalytic effects in prioritizing operations.
▪ Continuing efforts to enhance viability of investments in fragile environments by de-risking investments; and coordinating with other international financial institutions (IFIs) to manage risks and catalyze participations of private investors.</td><td>AGREED - Management fully agrees with the recommendation.
Further actions:
▪ As already communicated in the Management Response of the IDEV evaluation of the 2014–2019 Strategy for Addressing Fragility and Building Resilience in Africa, we intend to do the following: continue to deploy the existing de-risking and guarantee instruments; and, RDTS will work with PINS, PIFD, PITD, FIST, FIRM and relevant units to explore options under ADF-15 to strengthen the Bank's financing instruments towards improving business environment and increasing NSOs and SME operations in transition states (PINS and RDTS, Q4 2022).
▪ Management will strengthen its collaboration with other IFIs to leverage synergies from joint or coordinated delivery in transition states (PINS and RDTS, Q2 2021).</td></tr>
<tr><td colspan="2">Recommendation 5: Improve the quality of PSD strategy design, management, measurement and reporting of results.</td></tr>
<tr><td>▪ The next PSD strategy needs to establish realistic expectations about the Bank's role in PSD in Africa, based on its comparative advantage, financing availability, risk appetite and delivery capacity.
▪ Particular attention needs to be given to the results framework and Theory of Change linking outputs, outcomes and impacts.
▪ A more targeted set of indicators should be used while ensuring a dual focus on the development impact and the profitability of the NSO portfolio.
▪ Finally, given the importance of learning from ongoing activities, address the backlog in evaluations of PSD operations.</td><td>AGREED - Management fully agrees with this recommendation.
Further actions:
▪ PIVP will undertake a bank wide analyses with PEVP, AHVP, ECVP, and SNSP on the lessons learned from the elapsed PSD Strategy implementation, the changes in the PSD landscape (including the likely sustained impacts of the COVID-19 impacts) and the other exogenous as well internal constraints (including delivery capacity, financing constraints and risk appetite) to clearly outline the Bank's realistic role in PSD (PIVP, SNSP Q4 2021).
▪ PIVP will work with SNDR in the review of the Results Measurement Framework (RMF) taking place in 2020 and will address the issues flagged by IDEV in the new PSD Strategy (PIVP, Q4 2020).
▪ As part of the Integrated Quality Assurance Plan, PINS is working on a new NSO results framework with harmonised development indicators per instrument/sector as per the ADOA framework and the HIPSO list for design, assessment, approval and implementation, alongside enhanced monitoring and reporting on results (PINS, Q1, 2021).</td></tr>
</table>

Introduction

Background

The Bank's Ten-Year Strategy (TYS) 2013–2022 focused on improving the quality of Africa's growth through inclusive growth and the transition to green growth (African Development Bank Group, 2013a). The private sector is considered a key contributor to growth and poverty reduction in Africa, as it has created nine-tenths of jobs, three-fourths of economic output and two-thirds of investments. Consequently, Private Sector Development (PSD) – the provision of a conducive policy environment and a range of financial and non-financial services to support the private sector – was one of the TYS's five operational priorities (Highs 5s) and was further defined through the 2013 PSD Strategy (African Development Bank Group, 2013b). This strategy was initially expected to be implemented over a four-year period (2013–2017), but its implementation horizon was subsequently extended to 2020. It was implemented through both Sovereign Operations (SOs) and Non-Sovereign Operations (NSOs).

Evaluation Purpose, Framework and Methods

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

The four objectives of the evaluation were to:

- Assess the relevance of the 2013 PSD Strategy;
- Assess effectiveness of implementation of the PSD Strategy's pillars;
- Evaluate the Bank's institutional performance in managing PSD operations; and
- Identify key factors that explain the Bank's performance in PSD and distill lessons for utilization by the successor strategy.

Evaluation framework. The evaluation was guided by the Bank's Independent Evaluation Policy (African Development Bank Group, Independent Development Evaluation, 2019d), the OECD-DAC evaluation criteria (OECD DAC, 1991) and Quality Standards for Development Evaluation (OECD DAC, 2010), and the 2012 Good Practice Standards of the ECG (Evaluation Cooperation Group, 2012). Regarding the evaluation of SOs, the evaluation criteria prescribed for public sector operations were utilized, i.e., relevance, effectiveness, efficiency, sustainability and impact. In addition, the Bank's performance was measured with regard to quality at entry and quality of supervision. For NSOs, the evaluation criteria prescribed for private sector operations were utilized, i.e., financial profitability, economic sustainability, environmental and social performance, and PSD effect. In addition, the Bank's performance was measured for financial and non-financial additionality; investment profitability; work quality during screening, appraisal and structuring; and supervision and administration.

Evaluation questions. The following five main questions guided the evaluation:

a. To what extent has the Bank's support for PSD been relevant?

b. To what extent did the Bank's public sector interventions and initiatives foster private sector enablers to achieve their objectives?

c. To what extent were development outcomes of the private sector operations achieved?

d. What has been the Bank's rating in terms of work quality, profitability and additionality?

e. What key factors have influenced the performance of the PSD pillars and interventions?

Evaluation methods. The evaluation utilized mixed methods for data collection and analysis. Data collection methods included document review, field visits, key informant interviews and group discussions. In total, 85 stakeholders (including the Bank's Board members and staff) were interviewed. The evaluation triangulated information collected from different sources and utilized it to analyze and establish credible evaluation evidence.

Three background reports were prepared, i.e., a literature review and an institutional comparison and benchmarking report; a portfolio review and institutional performance report; and a country case-studies report (that synthesized findings from seven countries). Seven countries were purposively selected to ensure diversity in country income categories; the presence of both SO and NSO approvals; a sufficient number of non-financial sector NSOs[1]; and representativeness of the sub-regions. Three case studies included country visits (Côte d'Ivoire, Kenya and Morocco) and four case studies were based solely on desk reviews

(Democratic Republic of Congo, Nigeria, Sierra Leone and South Africa).

Given the evaluation questions, several recent and ongoing evaluations were also found to be relevant and supplemented the background reports. These included IDEV's Access to Finance Evaluation; the Public-Private Partnership Mechanism Evaluation (African Development Bank Group, Independent Development Evaluation, 2019a); the evaluation of the Private Sector Enabling Environment Cluster of Policy Based Operations (African Development Bank Group, Independent Development Evaluation, 2019b); the Quality at Entry Evaluation (African Development Bank, Independent Development Evaluation, 2018a); the Quality of Supervision and Exit Evaluation (African Development Bank, Independent Development Evaluation, 2018b); and the Delivery and Business Development Model Evaluation (African Development Bank Group, Independent Development Evaluation, 2019c).

Evaluation limitations. The key data limitation was the limited availability of validated self-evaluations for SOs and NSOs that had been approved since 2013. The mitigation measure was the inclusion of the other evaluations - as described in previous paragraph - since these also contained syntheses of project-level evaluations.

Structure of the Report

The report is organized into six sections. The first section introduces the topic of the evaluation and defines the evaluation framework and methodology. The following section summarizes the key features of the PSD Strategy and the institutional context during its implementation. The third section reviews relevance vis-à-vis the institutional strategy and the Bank's strategies in selected member countries. This is followed by a review of trends in the Bank's PSD approvals and the effectiveness of its PSD operations. The fifth section assesses the Bank's institutional performance. Finally, the last section summarizes key conclusions and lessons, and makes recommendations.

The AfDB's Private Sector Development Strategy (2013–2019) and its Implementation

Context

The Bank's first PSD Strategy was adopted in 1990 (African Development Bank Group, 1990) with the objective of fostering economic and social development of RMCs through the direct promotion of private enterprises. A new private sector window was established and started operation in 1991 on a pilot basis to allow the Bank to gain experience in financing the private sector.

The 2004 PSD Strategy (African Development Bank, 2004) and its 2008 update (African Development Bank Group, 2008) focused on five inter-related strategic areas, namely (i) improving the investment climate; (ii) supporting private enterprises; (iii) strengthening financial systems; (iv) building competitive infrastructure; and (v) promoting regional economic integration through trade, investment and labor flows. Therefore, the 2004 PSD Strategy expanded the scope of the 1990 PSD Strategy from NSOs to include sovereign activities supporting investment climate and business environment reforms.

In 2013, the Bank defined a Ten-Year Strategy (TYS) focused on two objectives to improve the quality of Africa's growth, i.e., inclusive growth and the transition to green growth (African Development Bank Group, 2013a). It identified PSD as one of the five Bank's operational priorities (High 5s)[2]. Under this priority, the Bank focused on four key areas, namely: (i) advisory services and institutional support to improve the business environment, and to strengthen the quality and effectiveness of public administrative services to enterprises; (ii) investments in infrastructure and skills development; (iii) support for value-chain links and clusters, particularly in agribusiness and extractive industries; and (iv) support to private enterprises through investments and institutional support. The TYS's PSD operational priority included financial sector objectives, i.e., to deepen and expand financial and capital markets; provide equity and debt financing through the financial sector; develop and deploy risk-sharing, risk mitigation and credit enhancement instruments; improve Africa's financial infrastructure; mobilize public, private resources and concessional resources; provide trade finance; and enhance financial inclusion.

In 2013, the Bank adopted a PSD policy (African Development Bank Group, 2013c) and produced an updated/new PSD Strategy. This strategy identified key shortcomings in the previous PSD strategies including unclear corporate priorities for PSD; weak institutional environment and regulatory constraints; insufficient priority in mainstreaming PSD within country and sector strategies; insufficient coordination between the Bank's sovereign and non-sovereign operations; lack of balance between the Bank's development objectives and risk management; and the need for greater attention to financial sector development and financial intermediation.

Key Design Features of the PSD Strategy (2013–2019)

The 2013–2019 PSD Strategy's vision was to support the development of "a competitive private

sector that will be an engine of sustainable economic growth, generating a decent work environment that offers productive employment in Africa in the next decade and beyond". Its objective was to "contribute to sustainable African development and poverty reduction by promoting broad-based economic growth through effective private sector development".

The strategy clustered activities under three pillars, namely: (i) improving investment and business climate; (ii) expanding access to social and economic infrastructure; and (iii) enterprise development. It also included the three TYS areas of special emphasis, namely: (i) fragile states; (ii) agriculture and food security; and (iii) gender. It sought to accomplish three outcomes, i.e., an enabling business climate supporting investment and the development of socially responsive enterprises; increased access to social and economic infrastructure; and a diverse, dynamic, entrepreneurial, innovative, and broad-based enterprise sector, producing goods and services for domestic and foreign consumption. Outcomes and outputs, as well as the Bank's delivery and management of PSD operations, were tracked through a four-level Results Management Framework (RMF) with 35 indicators (Box 1).

The 2013–2019 PSD Strategy included 37 operational initiatives (see Box 2 for illustrative examples), which could be utilized to support RMCs. As one of the few institutions in Africa that was (and is) able to support governments, as well as the private sector, the Bank was expected to be uniquely positioned to ensure linkages between its upstream policy work and its sovereign and non-sovereign operations (SOs and NSOs). Country programs would 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.

Box 1: The PSD Strategy Results Measurement Framework

The results measurement framework was structured around four levels with a total of 35 indicators to monitor progress.

Private sector development in Africa (Level 1 – 14 indicators). Unemployment rate index (including youth and women); private sector share of employment; Global Competitiveness Index score; business start-up costs as a percent of Gross National Income and start-up time; Africa's share of global trade and intra-African trade; share of African countries with credit ratings of B and above; Transparency International's Corruption Perceptions Index; Country Policy and Institutional Assessment scores for property rights and rules-based governance; Foreign Direct Investment (FDI) inflows and exports of goods and services – as percent of Gross Domestic Product (GDP) – and ease of access to loans.

Bank contribution to private sector development in Africa (Level 2 – 9 indicators). Power capacity installed (MW); roads constructed, rehabilitated and maintained (km); local and regional suppliers in financing volume (%); project contributions to government revenues; SME turnover; total number of microcredits granted; MSME credit as a percentage of total financial intermediary (FI) operations; number of people benefiting from microfinance and social activities; and total number of jobs created (including for women).

Bank efficiency in delivering private sector development operations (Level 3 – 8 indicators). Multiplier effect of AfDB resources (including for NSO resources); volume of non-sovereign financing arranged; Bank PSD operations rated satisfactory (%); average preparation time for NSOs; share of Country Strategy Papers (CSP) with financial sector diagnostic; number of sovereign guarantee operations supporting PPPs; Bank NSO portfolio loan impairment ratio; and the weighted average risk ratio of the NSO portfolio.

AfDB management of private sector operations (Level 4 – 4 indicators). Share of private sector officers in the field or regional offices; number of business and investment environment enabling specialist professionals; share of NSO tasks managed from the field; and vacancy rate for NSO process professional staff.

Box 2: Operational Priorities in the 2013–2019 PSD Strategy

A total of 37 operational priorities were identified under the three pillars and the three areas of special emphasis. Illustrative examples are provided below.

Pillar I (Improving the investment climate). Policies to reduce attractiveness of informal sector activities; and improvement in innovation, entrepreneurship, knowledge and skills.

Pillar II (Expanding access to social and economic infrastructure). Building and rehabilitating infrastructure; leadership role in continental infrastructure partnerships; and private infrastructure and public-private partnerships.

Pillar III (Enterprise development). This included efforts to support private enterprises through:

> **Providing access to financial services.** Supply of long-term capital to facilitate intra-Africa investment and trade, and enable better service to MSMEs, traders and women; establish technology-based business models to help the 'unbanked' and 'under-banked'; and support direct financial assistance to enterprises.
>
> **Addressing specific obstacles for MSMEs.** Support micro-finance investments and programs for entrepreneurship development; enhance technical assistance for provision of financial services and non-financial needs and requirements of MSMEs; and link local enterprises into supply chain of international enterprises.
>
> **Strengthening weak value chain linkages.** Improvements in market access for small farmers and MSMEs, and in access and capacity of Africa's manufacturers; support of technology and skills transfer through cross-border private investment; and providing demonstration effects from the Bank's significant direct and indirect financing of large-scale enterprises and projects.

Areas of special emphasis. Specific activities under the three pillars would be emphasized in:

> **Fragile states**. Strengthen better business- and investment-enabling environments; and greater use of innovative risk mitigation instruments, such as partial risk guarantees to complement Bank-financed private sector operations.
>
> **Agriculture and food security**. Investments in rural infrastructure; sustained coordinated investment using an integrated value-chain approach; and promoting PPPs in agricultural projects and programs.
>
> **Gender.** Finalize the Bank Group's Gender Strategic Framework; support initiatives to increase women's human capital; expand awareness of women's success as entrepreneurs; improve voice of women in investment climate policy circles; and level the playing field for women.

Implementation of the PSD Strategy and New Institutional Initiatives

The 2013–2019 PSD Strategy defined implementation arrangements focused on leadership, ownership and partnership, including the following key measures: a high-level Private Sector Development Steering Committee to prepare a consolidated, results-focused organizational business plan, with a clear timeline and oversee implementation; a new Financial Sector Development Policy and Strategy; strengthening sector strategies to enhance private sector participation, particularly in transport and energy; preparation of private sector assessments in RMCs; strengthening the PSD orientation of SOs; better integration of NSOs into Country Strategy Papers (CSPs) and Regional Integration Strategy Papers (RISPs); and an updated NSO policy framework to ensure greater coherence between risk management and greater financing in low-income countries. A mid-term review of the strategy was to be undertaken during the third year of its implementation.

Implementation commenced well during the early years (e.g., the establishment of the PSD Steering Committee and approval of the Financial Sector Development Policy and Strategy in 2014). However, momentum subsequently stalled, with the PSD RMF not used to monitor progress and the mid-term review not undertaken. The PSD Strategy's implementation was overtaken by two new institutional initiatives, i.e., the High 5 priorities and the Development and Business Delivery Model.

High 5s. In 2016, the Bank increased its strategic focus on five priority areas of action, the High 5s, namely Feed Africa; Light Up and Power Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa. Each of the High 5 Strategies defined programs that had a significant focus on PSD. The PSD priorities and activities in the High 5s were similar to those included under the operational priorities of the PSD Strategy (see Box 2 and Table 1).

Development and Business Delivery Model (DBDM). The DBDM was also introduced in 2016 (African Development Bank, 2016). This sought to move the Bank closer to its clients to enhance delivery; reconfigure headquarters to support the regions to deliver better outcomes; strengthen a performance culture to attract and retain talent; streamline business processes to enhance efficiency and effectiveness; improve financial performance; and increase development impact. An evaluation of the DBDM had highlighted two key aspects that affected PSD programs (Box 3) (African Development Bank Group, Independent Development Evaluation, 2019c). First, centralized management of the NSO portfolio was disbanded and staff managing NSOs were dispersed across the organization; staff working on loan origination were spread across several sector departments, and those working on supervision were also to monitor and supervise their respective projects.

Table 1: PSD in the High 5s – Illustrative Examples

High 5 Strategy	Improving Investment and Business Climate	Expanding Access to Social and Economic Infrastructure	Enterprise Development
Feed Africa (African Development Bank Group, 2016c).	Improved agribusiness environment. Expanded agricultural finance.	Increased investment in enabling hard infrastructure projects within pipeline. Market infrastructure to integrate value chains.	Concessional financing for input purchases. Equipment leasing by agricultural cooperatives and SMEs.
Light Up and Power Africa (African Development Bank Group, 2016b).	Develop and strengthen public private partnership frameworks and ensuring appropriate risk allocation.	Increase bankability of regional energy projects through early-stage funding and guarantees.	Channel project development finance through private sector organizations, including private sector financing and legal institutions.
Industrialize Africa (African Development Bank Group, 2016a). Scale up enterprise development along value chains and expanding supply of services.	Technical assistance and budget support for policy and regulatory reform. Support 20 capital markets across Africa and create and finance 10% of US$500 million African Domestic Bond Fund.	Increase approvals by 2025 by UA 10 billion, including Bank mobilized investments. Develop 30 PPP units across Africa and help structure initial deals.	Increase lines of credit to SMEs to reach UA 380 million annually over the next decade, compared to ~UA 100 million per year currently. Provide technical assistance to SME-focused ecosystem.
Regional Integration Policy and Strategy (African Development Bank Group, 2018c). Recognizes role of private and financial sectors in regional integration.	Trade policy and market integration; trade and transport logistics facilitation; and business environment reforms. Liberalization of financial services at regional and continental level.		
Jobs for Youth (African Development Bank Group, 2016d).			Agriculture-based micro enterprises; Empowering Novel Agri-Business Led Employment (ENABLE); Boost Africa Investment Fund; Affirmative Finance Action for Women in Africa.

Secondly, delivery responsibility was reassigned between sectors and regions, changing more than once over the course of the reform. As the latest iteration of the DBDM (i.e., the 'One Bank' approach) was just commencing, almost all internal stakeholders (i.e., Board members [Executive Directors and Advisers], managers and staff) interrviewed emphasized that clear accountability and assignment of functional responsibilities would be an important pre-condition for the successful implementation of the next PSD Strategy.

The two initiatives also shifted the focus of the Bank's RMF to monitoring progress against the 2016–2025 targets in the High 5 strategies, as well as other indicators included in the DBDM (African Development Bank Group, 2019b). Indicators included under the PSD RMF were no longer tracked unless they were included as indicators under the two new initiatives. Hence, only a limited number of the PSD RMF indicators continued to be monitored.

In 2018, the Bank adopted an integrated policy on NSOs (African Development Bank Group, 2018a). The policy clarified that eligible NSOs could include: private sector operations (more than 50 percent of their capital held privately), including the private dimension of PPPs; eligible public sector enterprises (with more than 50 percent of their capital held publicly but operate autonomously as commercial entity); and enclave projects sponsored by RMCs.

Box 3: PSD Program Implementation – The Impact of the DBDM

At the launch of the DBDM, it was clear that PSD was an important theme across all High 5s and that implementation would need to be coordinated across the regions, the sector Bank Complexes (which are responsible for the delivery of the High 5s) and the Vice Presidency for Private Sector, Infrastructure and Industrialization. At the start, decision-making authority was devolved to the regions for all operations – SOs and NSOs. In October 2017, a new division of labor ('Pilot – CoPilot') was introduced distinguishing between primary and secondary roles and responsibilities for both SOs and NSOs under shared Key Performance Indicators (KPIs). For the origination of NSOs, sector Complexes had primary responsibility, while regions had secondary responsibility. With regard to portfolio management, sector Complexes were to be responsible for project monitoring and supervision, while strategic and corporate portfolio management was to remain centralized. Initially, the location of the centralized function and the division of tasks was unclear. Over time, the arrangement has evolved so that the sector Complexes undertake project monitoring and supervision, while PIVP undertakes strategic and corporate portfolio management. However, for financial sector NSOs (which constitute about half the NSO portfolio), different departments within PIVP undertake both day-to-day and strategic portfolio management. There has been a lengthy and continuing process of changing institutional and functional responsibilities, over which time, there was increasing internal competition for scarce budget and staff resources. There was also some impact on client facing programs in some cases where CSP priorities and NSOs initiated by sector Complexes were not aligned.

In January 2019, it was announced that new arrangements aligned with the 'One Bank' Vision would be put in place. It took until early 2020 for detailed design to be completed and for implementation to commence. However, there are still remaining uncertainties. For example, while NSO managers are expected to be hired in the regions, their exact purview remains to be defined. Similarly, the Bank is in the process of determining appropriate staffing based on its strategic staffing review ("rightsizing"). It will be important to have clarity in institutional and functional arrangements ahead of the start of implementation of the next PSD Strategy.

Relevance of the PSD Strategy

The relevance of the PSD Strategy is reviewed from three perspectives: its design quality based on global knowledge; its internal relevance (i.e., its alignment with the Bank's internal institutional priorities); and its external relevance (i.e., its use in Bank programs in RMCs).

Design Quality

The PSD Strategy's design was largely consistent with approaches utilized by the development community at the time of its design and at present. The private sector contribution to economic development and poverty reduction is perceived as occurring through three main channels: job creation, increased investment, and enhanced productivity and innovation. The private sector, particularly in Africa, faces several constraints. At the time of the PSD Strategy's formulation, key constraints were identified in the areas of legal and regulatory environment, developing and financing infrastructure, access to finance, human capital and skills development, corporate governance and entrepreneurship development. Governments addressed PSD constraints through national development programs and country-level PSD strategies and programs. These were economy-wide, sector-specific or targeted at specific groups of firms or a combination thereof. By increasing returns and/or reducing costs and risks, governments influenced the investment and hiring decisions of private enterprises (World Bank, 2004). Development partners, including the Bank, supported national programs and/or private enterprises, either directly or through financial sector and other intermediaries.

Consistent with this approach, the PSD Strategy had a hierarchy of vision, objective, strategic pillars, outcomes, outputs, activities and instruments. It supported governments through the first and second pillars, which focused on improving the business and investment climate, and funding high priority social and economic infrastructure. It supported private sector enterprises and commercially oriented State-Owned Enterprises (SOEs) through the third pillar. This was done directly for larger enterprises, and through financial and other intermediaries in RMCs, in the case of SMEs.

There were three main design shortcomings, namely a lack of explicit Theories of Change, inadequate outcome measurement, and limited contextual suitability of design.

Lack of explicit Theories of Change (ToCs). The PSD Strategy did not have an explicit ToC This may have been by design since a single Africa-wide ToC was not feasible given the diversity of initial conditions (i.e., the level of PSD) and the country specificity of constraints to job growth and enterprise development. There was, however, an implicit ToC based on the linkages within the vision, objective, strategic pillars, outcomes, outputs, activities and instruments, and the RMF indicators. However, by remaining with a broad and implicit ToC, and a large menu of 37 operational priorities, the strategy provided limited to no guidance on how to exercise selectivity at the country level. It could have provided guidance through the use of country groupings, typologies or archetypes and specifying for each such grouping, for example, the relative balance of activities across the three pillars, as well as the best linkages between sovereign and non-sovereign activities.

Inadequate direct measurement of outcomes. The RMF did not directly measure outcomes, i.e., job creation, private investment or productivity. It did partially or indirectly measure these outcomes

but with a multiplicity of indicators; the focus on the key outcomes thus became diffused. In place of job creation indicators, the RMF included indicators for private sector share of employment and unemployment rates. However, credible labor market data are scarce across Africa and even where such data are available, they do not capture the prevalence of under-employment (arising from high levels of informality). Similarly, in place of an indicator for private investment, there is a partial indicator measuring FDI. Finally, there are no measures of productivity (or proxies given the challenges with directly measuring productivity), but there are multiple indicators measuring expert opinion/perception of the trajectory of progress (Global Competitiveness Index, credit ratings of African countries, Transparency International's Corruption Perception Index, Country Policy and Institutional Assessment scores for property rights and governance indicators, etc.).

Limited contextual suitability of design. The strategy could have had stronger analytical underpinnings, and calibrated its expectations regarding results based on availability of funding and its own delivery capacity. First, stronger analysis could have been conducted of African economic developments, particularly the Arab Spring. Similarly, deeper analysis of investment trends would have indicated that the positive continent-wide trend was benefiting low-income countries in only a limited manner. Finally, there was limited productivity analysis beyond the benefits from improved infrastructure. Secondly, the strategy could have better calibrated its ambition based on more realistic assumptions about funding availability. There was limited availability of funding for SOs in countries receiving concessional finance. Private sector funding for several countries with higher country risk ratings was also likely to be limited due to risk/prudential concerns. Finally, the Bank could have better assessed its own delivery capacity based on existing staffing skills and organizational capabilities, which varied considerably by pillar and operational priority.

Internal Relevance

The PSD Strategy was highly relevant to the achievement of the TYS. There is complete congruence between the TYS and the PSD Strategy, and the PSD Strategy was hence highly relevant to the achievement of the TYS. This congruence arises in part to the timing and sequencing between the two strategies. In fact, the TYS document clearly indicates that the PSD Strategy would guide the achievement of the goals of its PSD operational priority.

The PSD Strategy was also highly relevant to the High 5s. However, at the same time that PSD activities expanded under the High 5s, there was reduced attention to the PSD Strategy itself. As previously noted, the Bank introduced its High 5 strategies, i.e., Feed Africa, Light Up and Power Africa; Industrialize Africa; Integrate Africa; and Improve the Quality of Life for the People of Africa in 2016. Each High 5 has significant PSD content, including linkages between policy reforms and investment/financing activities, and results for each area were defined for the 2016–2025 period. However, even as the Bank's PSD activities increased and were defined for a longer period of time, there was reduced attention to the PSD Strategy itself. Country strategies and institutional monitoring reports (e.g., the Annual Development Effectiveness Review) were and are being framed around the High 5s and the monitoring of the PSD RMF is occurring only to the extent that its indicators were included in the monitoring of the High 5s.

PSD Strategy and Bank Programs in Regional Member Countries

The PSD objectives of the Bank's Country Strategy Papers (CSPs) were well aligned with countries' national development plans and country PSD priorities. The Bank's CSP processes have been designed to ensure that country strategies are well grounded in National Development Plans (NDPs). In most African countries, PSD is a core priority and, hence, the Bank's CSPs also often include PSD as a pillar or cross-cutting theme (Box 4).

While this broad congruence between NDPs and CSPs is encouraging, the Bank needs to do more country PSD diagnostics and analysis to ensure that CSPs address country-specific PSD binding constraints. Diagnostic work identifying the constraints to PSD in the country is crucial given the considerable variation in initial conditions, i.e., the role of the State in productive activities and provision of public goods; the absorptive capacity of the private and public sectors; and the level of formality/informality in the economy. In addition to being suitable for country conditions, PSD support must be tailored to country-specific binding constraints. While these vary by country, the top five constraints often relate to access to or cost of finance, access to or price of power, burdensome business regulations, logistics and skilled labor. Moreover, the impact of constraints can vary by size of enterprise, sector and geographical region. Consequently, a significant investment is needed in firm-level surveys and analysis of findings to prioritize constraints; dialogue between the government, private sector and development partners to identify measures to address constraints; and project monitoring and evaluation to make adjustments as constraints evolve.

While the Bank needs to increase attention to diagnostics, there is considerable scope for it to work collaboratively with, and leverage of, ongoing initiatives of private associations, think tanks and other development partners. For example, there are

Box 4: PSD in Selected Country Strategy Papers

The PSD content of most CSPs reviewed was aligned with National Development Plans (NDPs).

Côte d'Ivoire: 2012–2015 NDP focused on business climate, financing stability and access, governance, institutions, and regional integration and 2016–2020 NDP, included developing strategic infrastructure, regional integration and global trade. CSPs for 2013–2017 and 2016–2020 demonstrate significant continuity in improving the business environment, increasing financial access, building infrastructure (energy and transport), and developing agriculture value chains.

Kenya: Vision 2030 (2008–2030) focuses on a globally competitive and prosperous nation, and is being implemented through a series of medium-term plans with a consistent focus on PSD. Three consecutive CSPs (i.e., 2008–2012, 2014–2018 and 2019–2023) have been aligned with the national development strategy and included a PSD-focused pillar.

Morocco: The National Strategy for Sustainable Development 2030 addresses the main PSD constraints, i.e., business climate, SMEs' access to medium- and long-term financing, skills mismatch, infrastructure (power and transport), and the relatively large informal sector. The CSP's pillars focus on green industrialization by SMEs and the export sector; and improving the quality of life through jobs for youth, women and in rural areas.

Democratic Republic of Congo: The 2011–2015 Growth and Poverty Reduction Strategy Paper emphasized consolidation of peace and improving governance, development of strategic infrastructure, and regional integration. The subsequent National Strategic Plan for Economic and Social Development included priorities on improving the business climate to foster private investment in key sectors (such as tourism) and promoting free movement of goods and people. These areas were supported by the 2013–2017 CSP and its 2019–2020 extension.

Nigeria: The 2017–2020 Economic Growth and Recovery Plan outlines the development priorities. While the 2013–2017 CSP pre-dated this plan, both its pillars were consistent with its goals and the CSP was extended by 24 months (to December 2019) to fully align with its implementation.

South Africa: 2013–2017 CSP had pillars aligned with the Government's National Development Plan goals of job creation and inclusive growth. The 2018–2022 CSP further focuses on addressing the infrastructure shortcomings needed to improve the connectivity of townships and rural areas with highly developed metropolitan areas.

Sierra Leone: The 2013–2017 CSP addressed drivers of fragility identified in the Third Poverty Reduction Support Paper 2013–2018 and promoted broad-based PSD by improving the business environment through structural and regulatory reforms, SME development and agribusiness and agro-processing. The updated 2018–2019 CSP continued the emphasis on PSD including on energy and transport/roads improvements.

ongoing and long-standing data gathering initiatives e.g., the World Bank Group-supported enterprise surveys, as well as newer diagnostic products such as country and sector studies related to PSD.

PSD Country Program Design

In addition to limited diagnostics, as previously noted there was insufficient guidance regarding country program design, i.e., linking impact, outcomes and project level outputs, differentiating the balance of activities across the three pillars, and defining linkages between support to the government and the private sector. This led to weaknesses in PSD program design, particularly in linkages between sovereign and non-sovereign operations, and market development impact. Nevertheless, there were positive examples in some of the case-study countries.

The Bank was responsible for ensuring linkages between SOs and NSOs, since governments are usually not involved in the structuring of NSOs. Conceptually, it is feasible to identify, on an ex-ante basis in a CSP, potential sovereign and non-sovereign operations that could support each other. However, in practice, NSOs arise more opportunistically and on an ad hoc basis. When such NSOs are developed, governments are usually not involved unless they provide an assurance or sovereign guarantee when supporting a PPP or the NSO concerns a SOE. Hence, the primary responsibility for identifying linkages usually fell on Bank management and staff. However, there were no clearly designated institutional responsibilities for ensuring linkages within the Bank.

Linkages are complex to develop given the different financing windows. Approval decisions for sovereign and non-sovereign operations are made separately, and using different rules of access since operations are funded from different windows within the Bank. Resource availability for sovereign operations in general was more limited for RMCs receiving concessional funding from the African Development Fund (ADF) relative to those borrowing from ADB. Moreover, PSD sovereign operations were usually a small proportion of total

sovereign borrowing. Funding for NSOs came from ADB's balance sheet. Given that financial sustainability was a key consideration, country risk determined the volume of non-sovereign funding and countries with higher risk perception received limited funding (e.g., in Sierra Leone, there was only one private sector operation in 2013–2019). There were also examples of the Bank using special funds (e.g., Climate Investment Funds) as a source of concessional finance to help increase the financial viability of NSOs.

Positive examples of linkages do exist. Two potential types of linkages were observed. First, there were directly verifiable linkages, i.e., where sector-specific regulatory reform and public sector funding set the stage for subsequent private sector investments. In Kenya, geothermal energy was supported through sector-specific regulatory reform and sovereign operations using both Bank financing and special funds to finance public investments in geothermal steam drilling and collection, which were perceived as too risky for the private sector to finance. This led to ADF guarantees in support of three Independent Power Producers (IPPs) and non-sovereign financing for two out of the three sponsors. Secondly, there were indirect linkages that were less verifiable, i.e., where improvement in the investment climate were assumed to lead to increasing private sector investment but the 'line of sight' from one to the other couldn't be verified. In Côte d'Ivoire, sovereign operations supporting investment climate reforms were subsequently accompanied by agriculture sector investments. In both direct and indirect cases, there can be significant time lags between upstream and downstream operations. For example, in the Kenya case, the reform process transpired over more than a decade. Similarly, in Morocco, investment climate reforms were accompanied by few NSOs during the 2012–2016 CSP period, but a significant pipeline during the 2017–2019 period.

Market development impact. The Bank focuses on "private sector development and demonstration effects" as one of the criteria for selecting (and subsequently assessing) NSOs. It considers the impact of the project on issues such as competition, market expansion, private ownership and entrepreneurship, development of financial institutions and markets, and the standards of corporate governance, etc. While it is only one among several project design considerations, it plays a critical role in ensuring lasting development impact. Moreover, considerations of market development impact should be elevated from the project level and be considered at the level of the country PSD program from four perspectives, namely: (i) fostering innovation; (ii) generating demonstration effects; (iii) enhancing skills, capacities and governance structures at firm level; and (iv) supporting integration into value chains.

Three observations regarding market development impact arise from the review of country PSD programs. First, even at the project level, NSOs investing in the real sector need to better distinguish between financial viability arising out of improving productivity and that resulting from market dominance or special regulatory advantages. This should be an important consideration when lending to large enterprises or SOEs. Secondly, at the country PSD program level, consideration needs to be given to the outreach and differential impact that financial and real sector operations have vis-à-vis SMEs. Currently, PSD programs in countries with more mature financial sectors (e.g., Morocco, Nigeria and South Africa) tend to have greater proportion of FI operations, but the impact on SMEs has been difficult to measure. In the case of real sector operations, the extent to which such operations target and reach SMEs (e.g., through value chains) is not systematically measured. Finally, the market-development approach can be expanded to consider both sovereign and non-sovereign operations, and be used to focus on specific aspects such as intra-country regional disparities and spatial inequality, or types of enterprises (e.g., SMEs). For example, the planned support in the 2018–2022 South Africa CSP for infrastructure investments connecting townships and rural areas to developed metropolitan areas can be considered to constitute such a targeted market development effort.

Effectiveness of PSD Operations

This section presents the findings related to the performance of the PSD Strategy; the PSD portfolio composition; and the performance of the sovereign PSD portfolio and the NSO portfolio.

Approval Trends

The Bank's PSD programs consisted of a portion of overall sovereign operations relevant for PSD and all non-sovereign operations. Over the seven-year period (i.e., 2013–2019), there were 140 sovereign PSD-related operations with approved amounts of UA 4 384 billion, and 319 non-sovereign operations, with approved amounts of UA 11.043 billion. Figure 1 presents the approvals by year; on average, PSD approvals constituted 35 percent of all Bank approvals.

Sector composition. The SO and NSO approvals had significantly different sector composition (Table 2). The majority of the sovereign PSD operations (both by number and approval amount) were classified as multi-sectoral. NSOs were distributed across several sectors: the financial sector (50% of the number of operations and 52% of the total approval amount), infrastructure (24% by number and 27% by amount) and industry and services (21% by number and 18% by amount)[3].

Figure 1: PSD Sovereign and Non-Sovereign Approvals (2013–2019)

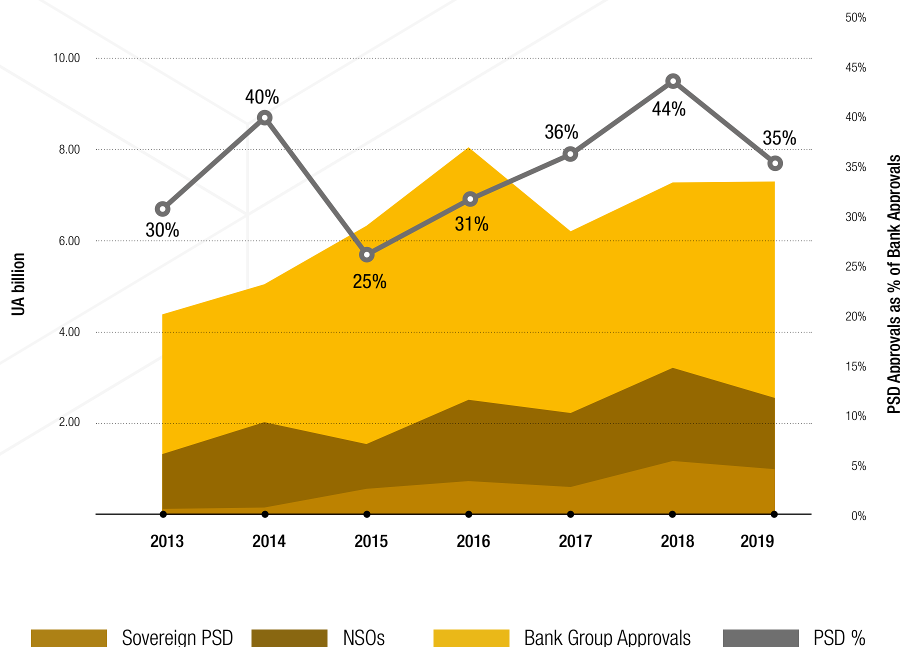


Table 2: Operations Classified by Sector (2013–2019)

Sector	Sovereign Operations		Non-Sovereign Operations	
	Number	Approvals (UA million)	Number	Approvals (UA million)
Financial Sector	4	497	161	5,790
Infrastructure	1	1	77	2,956
Industry and Services	4	14	68	2,000
Multi-sectoral	131	3,872	13	296
Total	**140**	**4,384**	**319**	**11,043**

Note: Non-Sovereign classifications were consolidated. Infrastructure includes Power, Transport and Water, and Industry and Services include Agriculture, Industry/Mining/Quarrying, Communications and Social.

Sub-regional distribution. The distribution of PSD approvals using the Bank's sub-regional country groupings indicated significant differences depending on whether the number of operations or approvals were considered (Table 3). The West region had 40 percent of the number of SOs but only 15 percent of the approval amount. While there were operations in 13 countries, the average size of each operation was relatively small. Conversely, the North region had only 11 percent of the number of SOs but 48 percent of the approval amount due to large operations in Egypt and Morocco. NSOs showed more consistency between the number of operations and approval amount with multi-regional operations and operations in the West region (with significant approvals in Nigeria, Côte d'Ivoire and Ghana) accounting for 67 percent of the number of operations and 68 percent of approvals.

Approvals by country classification[4]. There were three country categories including: (i) access to concessional resources (category A or ADF countries); (ii) access to non-concessional resources (category C or ADB countries); and (iii) access to both concessional and non-concessional resources (category B or blend countries). Table 4 provides the number of operations and approval amounts.

Approvals by country category differed for SOs (based on the number of operations and approval amounts) but was largely consistent for NSOs (i.e., for both number of operations and approval amounts).

- **Sovereign operations**. Category A countries had 51% of the number of SOs but only 17% of the approval amount, whereas Category C countries had 24% of the number of operations but 75% of the approval volume. The larger

Table 3: Sub-Regional Distribution of Approvals (2013–2019)

Region	Sovereign Operations		Non-Sovereign Operations	
	Number	Approvals (UA million)	Number	Approvals (UA million)
Central	22	1,029	10	177
East	17	210	46	1,185
North	16	2,109	20	652
South	12	337	28	1,502
West	55	660	97	3,205
Multi Region	18	38	118	4,323
Total	**140**	**4,384**	**319**	**11,043**

Table 4: Approvals by Country Classification (2013–2019)

Country Category	Sovereign Operations		Non-Sovereign Operations	
	Number	Approvals (UA million)	Number	Approvals (UA million)
Category A (ADF-only)	72	724	99	2,395
ADF-Only – Fragile	48	278	36	425
ADF-Only – Non-Fragile	13	251	31	785
ADF-Gap a/	11	195	32	1185
Category B (Blend)	15	319	65	2,582
Blend	12	299	32	884
Graduating b/	3	20	33	1,698
Category C (ADB-only)	34	3,299	37	1,743
Not Classifiable by Category	19	41	118	4,323
Total	**140**	**4,384**	**319**	**11,043**

a/ ADF Gap countries are countries above operational cut-off not assessed as creditworthy which receive ADF loans on hardened terms.

b/ Graduating Countries are eligible on an exceptional basis for ADF loans on hardened terms during a two- to five-year phasing-out period.

Note: Country category status as of February 2018 (https://www.afdb.org/en/about-us/corporate-information/african-development-fund-adf/adf-recipient-countries). Country categories may have changed during the 2013–2019 period.

approval amount could in part be driven by the size of country GDP and country demand for PSD programs, but it is likely that the smaller size of resources available for ADF countries also played a role.

- **Non-sovereign operations**. 37% of the number of NSOs and 39% of approval amounts were for multi-regional operations. This high proportion resulted from Bank operations supporting general and sector-specific regional private equity investments, trade finance Lines of Credit (LOCs) and risk participation agreements (RPAs), and real sector investments in pan-African enterprises. It also makes it difficult to fully demarcate the use of non-sovereign resources by country category.

- **Fragile States**. SOs in fragile States were 34% of the number of operations but only 6% of the approval amount. NSOs in fragile States were 11% of the number of operations and 4% of the approval amount. The Bank's estimate of its NSOs in fragile States is much higher at 15% of approvals. There are two main reasons for this difference. First, the evaluation defined fragile States at a fixed point in time whereas the Bank list of countries changes. In particular, with the inclusion of Mozambique and its 2019 NSO approvals of UA 329 million, the fragile State approval amount increases by 77%, higher than the evaluation's estimate. Secondly, the Bank estimated that an additional approval amount of UA 830 million of multinational approvals was likely to be utilized in fragile States[5]. Irrespective of whichever estimate is utilized, the Bank's programs in fragile States are constrained. Underlying factors include small pools of sovereign resources (African Development Fund), scarcity of private sponsors, and the Bank's limited risk appetite for NSO lending in such countries, even taking into account the presence of innovative instruments (e.g., the Private Sector Credit Enhancement Facility).

Instruments. Sovereign operational instruments included Policy Based Operations (PBOs), Technical Assistance and Investment Loans (Table 5). PBOs constituted 44% of the number of operations and 79% of the approval amount. As expected, TA (and similar) loans constituted 46% of the number of operations but given small unit size were less than 5% of the approval amount.

Table 5: Sovereign PSD Operations by Instrument (2013–2019)

Instrument	Number	Approvals (UA million)
Policy Based Operations	62	3,463
Investment Loans	14	713
Technical Assistance, Emergency and Transition Support	64	209
Total	**140**	**4,384**

Non-sovereign operations made significant use of debt instruments (LOCs and project loans), which constituted 62% of the number of operations and 76% of the approval amount. Guarantees amounted to another 16% of approvals; these included Trade Finance associated Risk Participation Agreements, which had grown significantly over the 2013–2019 period. Equity investments constituted 8% of total approvals (Table 6).

PSD Portfolio Performance

The Bank's annual portfolio performance assessment provides information on the riskiness of its non-sovereign portfolio This is important given the relationship between financial returns and underlying portfolio risk. Non-sovereign portfolio risk is a function of underlying sector, country and instrument characteristics, as well as project-specific considerations. Since financial returns should be commensurate with risk in the case of NSOs, the Weighted Average Risk Rating (WARR) of the NSO portfolio is an important measure[6]. Figure 2 indicates that the Bank's non-sovereign debt portfolio risk rating fluctuated between low to moderate risk, and the Bank's non-sovereign equity portfolio risk rating was between moderate to high risk over the review period. It should be noted that, even though equity risk is higher, given the relatively low weight of equity investments in the overall non-sovereign portfolio, the portfolio WARR largely tracks changes in the debt WARR[7]. The overall non-sovereign portfolio WARR increased between 2013 and 2017, before declining slightly during 2018 and 2019.

Given that the Bank's operations are geographically concentrated in Africa, it is difficult to compare its results with those of other DFIs. As a result, the Bank benchmarks its risks using African-specific information from the Global Emerging Markets Risk database. As per this database, the Bank's performance (i.e., a default rate of 4.3% with a standard deviation of 1.86%) is well under the 2018 Africa benchmark (i.e., a default rate of 8.3% with a standard deviation of 3.63%).

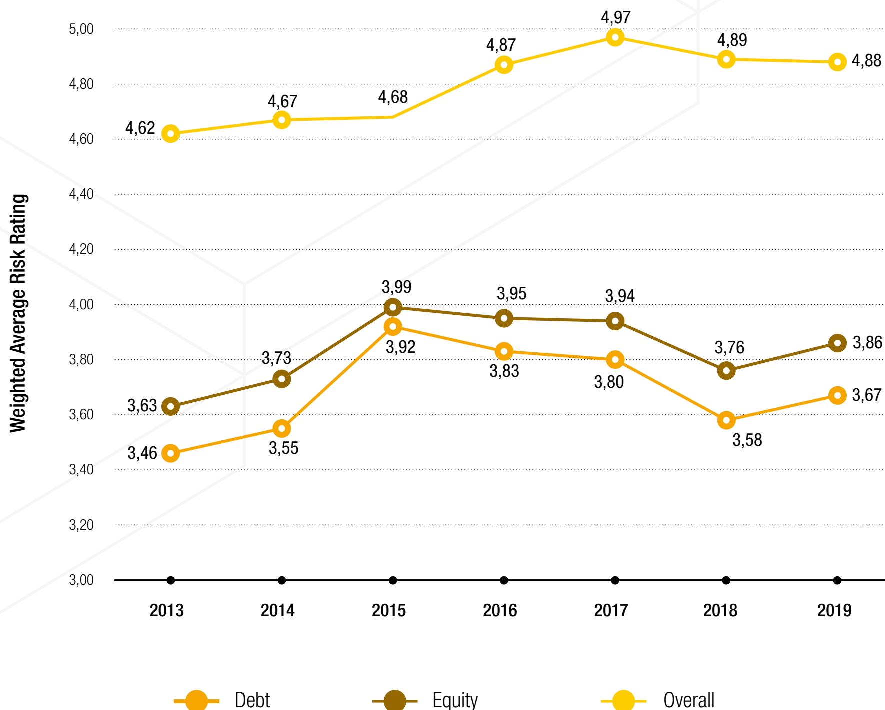
Table 6: Non-Sovereign PSD Operations by Instrument (2013–2019)

Instrument	Number	Approvals (UA million)
Line of Credit	97	3,827
Project Loan	101	4,586
Equity	61	890
Guarantees	59	1,732
Other and Unidentified	1	8
Total	**319**	**11,043**

Sovereign operations satisfactorily supported improvements in the investment and business climate. While this addressed an important and necessary condition for private sector growth, by itself, it is not sufficient to improve job, investment and growth outcomes. PBOs, which constituted the majority of sovereign PSD funding, satisfactorily supported policy and regulatory changes. However, such operations usually combined a focus on private sector enablers with efforts to improve other macro-economic or public financial management objectives. Such operations were also sometimes accompanied by parallel TA operations. Since policy reforms were necessary but not sufficient conditions for improving outcomes and PBOs are often co-financed with other development partners, there were challenges with attributing outcomes sought by the PSD Strategy, i.e., jobs, investment and productivity, to such operations.

Of the nine PBOs with Project Completion Report Evaluation Notes (PCRENs), the performance outcomes of seven were rated satisfactory[8]. Furthermore, the evidence from the recent Evaluation of Private Sector Enabling Environment Cluster (PBO cluster evaluation[9]), which covered most of the PSD-related PBOs in 2013–2017,

Figure 2: Weighted Average Risk Rating of the Non-Sovereign Portfolio



Notes: FY2019 ratings are provisional.

Risk Class: Very Low Risk (Scale 1+, 1, 1-, 2+, 2 , 2-); Low Risk (3+, 3, 3-), Moderate Risk (4+, 4, 4-, 5+, 5), High Risk (5-, 6+, 6, 6-), Very High Risk (7, 8, 9, 10).

also supported the effectiveness of Bank PBOs in improving the investment and business climate. In this regard, the PBO cluster evaluation highlighted the importance of: (i) the strategic relevance of PBOs in satisfying the development objectives of the Bank, and those of the RMCs and development partners; (ii) stable macroeconomic context, good public sector governance (including procurement rules) and improved access to key (e.g. energy) infrastructure for creating a conducive private sector environment; (iii) sustained multi-level support in PBO design, programming, implementation and post-implementation for the achievement of medium- and long-term structural reforms; (iv) appropriate dialogue, and technical support for the systematic and strategic use of the PBO instrument; (v) adequate collaboration among development partners including the Bank for successful government implementation of complex reforms in key areas.

Effectiveness of non-sovereign operations varied depending on the sector supported - financial sector NSOs had uncertain effectiveness for private sector beneficiaries, particularly SMEs; infrastructure NSOs/PPPs had satisfactory effectiveness but limited additionality; and industrial NSOs had to balance the tension between market development impact and financial sustainability.

Financial sector NSOs, which constitute half of the NSO approvals, provide support to enterprises through financial intermediation (e.g., LOCs, private equity funds, guarantees, etc.). Intermediaries are expected to collect data regarding development outcomes from private enterprises and provide this to the Bank. However, data reporting has been incomplete, and even when available, data focused more on financial results than on development outcomes. This has resulted in uncertainty regarding the effectiveness of financial sector NSOs, particularly when the operations sought to target SMEs.

The Access to Finance evaluation also confirms the above findings. It indicates that the Bank's financial sector operations are relevant, since access to finance, (as well as deepening financial markets and safeguarding stability) remains critically important to development in Africa. However, the high relevance and priority given to access to finance was not reflected in CSPs. The Bank's financial sector operations were seen as mostly providing temporary or gap-filling solutions that address symptoms and do not address the root causes of constricted financial access. Operations were considered to have satisfactorily met the needs of financial intermediaries and to be sustainable, since the supported intermediaries are closely supervised by regulatory authorities. However, it is unclear if they have met the needs of, and ensured sustainability of, MSMEs and underserved individuals.

Two of the country case studies (i.e., Nigeria and South Africa) had significant financial sector NSO portfolios and also highlighted the challenges with obtaining development impact information. In the South Africa case study, it was noted that limited data on development impact arose from a lack of reporting requirements in earlier loan agreements (which required more financial rather than development impact reporting). In Nigeria LOC operations, it was noted that development outcomes (including gender and geographical/regional spread) could not be appropriately measured due to lack of suitable M&E systems.

Infrastructure investments, particularly Private Participation in Infrastructure, which constitute one-quarter of the NSO approvals, were largely relevant and effective with likely sustainability. Two of the seven PBOs with satisfactory ratings in the sample of nine were for power infrastructure. The country case studies also point to improving in-country institutional capacity as experience with NSOs (e.g., infrastructure PPPs) was acquired over time. For example, an increased number of energy transactions in Kenya helped to develop a core knowledge base of contractual arrangements and legal documentation required for PPP transactions. Experience also contributed

to building a track record, which augmented the Government's credibility and offered greater comfort to private sector operators. This was evidenced by later projects not needing the same level of Bank guarantees as the earlier projects.

The recent PPP evaluation also provided collaborative evidence on the effectiveness of non-sovereign PPP support. A significant part of the Bank's sovereign support to PPPs focused on the development of PPP-enabling laws and regulations, and the development of capable PPP institutions. Very few interventions focused on creating a pipeline of potential PPP projects. Sovereign operations contributed to the development of capable institutions, and good governance and regulations for economic growth. The Bank's NSO PPP support focused on energy and transport, and performed well in terms of relevance, effectiveness and sustainability. The Bank was involved in the first successful demonstrations of PPP models and improved access to infrastructure facilities and services, and indirectly, access to social services. However, in most NSO PPPs, the Bank was involved after the transactions had been structured and procured, and thus had only a limited contribution. While sustainability was likely, fiscal impact of PPPs, especially contingent liabilities, was not being monitored by the Bank.

The AfDB's Institutional Performance

This section draws on different measures of institutional performance to assess effectiveness.

Institutional Performance Monitoring

Institutional performance monitoring and reporting was challenging for the Bank. Institutional performance indicators focus on key aspects of the Bank's effectiveness and efficiency, but these data have not been publicly available since 2016. In the 2013 Non-Sovereign Operations Evaluation (African Development Bank Group, Operations Evaluation Department, 2013) a number of indicators were included, namely the average time from review to Board approval; the average number of projects per investment officer; the average number of projects per portfolio officer; changes in number of staff working on NSOs; and financial resources provided through administrative budgets. However, for at least the past four years, such indicators have not been available in the Annual Portfolio Performance Reviews (APPRs)[10].

Some institutional performance indicators are included in the Annual Development Effectiveness Review (ADER) but they are not separately provided for PSD sovereign and non-sovereign programs (African Development Bank Group, 2017). The ADER tracks under its Level 3 indicators—four effectiveness dimensions (i.e., development impact, quality and speed of operations, portfolio performance, and knowledge and advisory services) and under its Level 4 indicators—four efficiency dimensions (i.e., location vis-à-vis the client, financial performance and resource mobilization, value for money and staff engagement, and development and productivity). Unfortunately, the report does not consider PSD separately, or separately by sovereign and non-sovereign operations, and hence cannot be used for assessing institutional performance.

Furthermore, the Bank publishes annual updates of self-evaluated portfolio performance results. However, the performance of the Bank's sovereign PSD operations is not available, as there is no thematic 'tagging'. The Bank Group's 2019 Annual Portfolio Performance Review (APPR) presents consolidated performance ratings for its sovereign and non-sovereign portfolio (African Development Bank Group, 2020). Currently, sovereign projects are not thematically 'tagged' as supporting PSD and, hence, the report does not as it does for sectors readily provide information on the performance of sovereign PSD operations. This report and previous Annual Reviews of Portfolio Performance of the Non-Sovereign Portfolio provide information on NSOs.

While focusing significantly on risk and risk capital utilization, the Bank's annual reporting gave limited attention to risk/return, and the profitability of individual sector and product lines. The Bank does not compare, for example, the weighted average interest rates on different parts of its NSO portfolio to the Non-Performing Loans (NPLs) to assess risk-reward tradeoffs and does not report on the financial profitability of its NSO portfolio. Such data would be needed for a better understanding of how different sectors and/or product lines have contributed to the Bank's profitability.

Regarding project completion reporting, the number of completion reports, especially extended supervision reports (XSRs) and validated XSRs was limited. At project completion, ratings are typically assigned as part of self-evaluation completion reports for both SOs and NSOs, and the reports are then independently validated by IDEV. There were only a limited number of operations in the 2013–2019 approval list for which completion reports and

validated completion reports were available. For SOs, there were 15 project completion reports, of which nine were validated (project completion report validation reports; PCRENs). In the case of NSOs, the number was 10 (out of 108 expected) for XSRs, and four for validated XSRs (XSRENs). The basis for the selection of the 10 out of the eligible NSOs for XSR was not explicit. Furthermore, the available validated reports were not sufficiently diversified by instrument – all 10 SOs were PBOs and all four NSOs were financial sector operations.

The lack of information on most institutional performance indicators occurred at the same time that the Bank implemented major changes in institutional responsibilities as discussed previously. As the Bank implements its 'One Bank' vision to improve the DBDM, it will be important to re-emphasize the institutional monitoring indicators for NSOs and to introduce PSD as a theme for SOs.

Resource Mobilization

The ADER reports on resources mobilized. Starting with the 2017 ADER (i.e., from 2016 results onwards), the Bank commenced reporting on resource mobilization (Table 7). The target for public sector resource mobilization was UA 5.0 billion annually, which was reached in 2018. The PSD sovereign projects accounted for about 62% of the resource mobilization target for 2018. During the period 2016–2018, the Bank invested one UA to generate close to three UA in co-financing. The target for private sector mobilization, which concerned only NSOs, was set at UA 6.4 billion annually (i.e., between 38 and 44% of the annual target) has been achieved.

Sovereign Operations (SOs)

As already indicated above, the available evidence on Bank performance regarding PSD-related SOs and NSOs was limited. The PCREN evidence indicates satisfactory Bank performance. Bank performance was rated as satisfactory or better in eight out of nine PBOs with PCRENs. Bank performance was only unsatisfactory for one of the nine PBOs. However, Quality at Entry (QaE) and Quality of Supervision (QoS) remain challenging, as concluded by IDEV's recent QaE and QoS evaluations (African Development Bank, Independent Development Evaluation, 2018a & b[11]). These evaluations found weaknesses in the QaE tools and the compliance with the QoS quality and standards. Other important QaE and QoS challenges concern the following:

- Weak evaluability of both PBOs and NSOs: PBOs and institutional support projects tend to be less evaluable than investment projects, and evaluability was weakest in NSOs (PBO evaluation 2018).

- Lack of an integrated operational data management system for better results performance monitoring and reporting for SOs and NSOs. Results performance monitoring and reporting for SOs and NSOs was rated twice. The QoS evaluation assessed that around half the SOs reviewed had satisfactory quality of results performance monitoring, but only one-quarter of NSOs had satisfactory project monitoring and reporting (and only 10 percent of financial sector NSOs).

Responding to the quality evaluations, the Bank has committed to introducing an integrated results planning and tracking system for NSOs. This should be implemented in a timely manner,

Table 7: Resource Mobilization (UA billion)

Resource Mobilization	2016	2017	2018
From Public Sector	3.5	3.4	5.0
Of which for PSD SOs (n=24)	0.86	0.41	3.12
From Private Sector	2.8	2.8	2.4

and in conjunction with and consistent with the 'One Bank' delivery approach, which focuses on strengthening accountabilities for delivering quality and development impact in a matrix organization.

Non-Sovereign Operations (NSOs)

As some of the previous sections cover certain aspects of Bank work quality and role in respect of NSOs, this section only provides the available additional evidence.

NSO performance monitoring and reporting presented a huge challenge. While efforts to improve client reporting of performance were bearing fruit, further improvement was warranted. In particular, there were still challenges with development outcome reporting, particularly for financial sector operations, affecting both supervision and completion reporting. The quality of lessons learned in completion reports required improvement, as did timely validation. The latter issue is starting to be resolved.

The Private Sector Department prepared estimates of processing time and staffing intensity for purposes of this evaluation. The time taken from review to Board approval for the period 2013–2017 was estimated at 9.5 months, reducing to 8 months during 2018–2019. It was estimated that each Bank investment officer processed an average of 1.7 non-sovereign projects during 2013–2016, increasing to 1.8 non-sovereign projects during 2017–2019. Furthermore, it was estimated that each Bank portfolio officer supervised an average of 8.2 non-sovereign projects during 2013–2016, increasing significantly to 10.1 non-sovereign projects during 2017–2019.

Furthermore, Bank work performance in the non-sovereign projects with XSRENS was rated as satisfactory or better in only 15 out of 19 evaluations[12]. In addition, with regard to the 19 NSOs reviewed, the Bank's additionality (financial additionality and non-financial) was rated as satisfactory or better for 17 of the NSOs. As previously noted, these results of the Bank performance need to be taken with caution, as the sample is small and not representative of all operations in the NSO portfolio[13]. The sample was the available XSRENs.

Institutional Performance on Risk Management

The Bank portfolio risk ratings were discussed earlier. While some of the risk factors are outside the direct control of the Bank, there is considerable scope for active portfolio management through credit risk reviews at entry, monitoring risks in the active portfolio (through ratings and watch lists) and taking actions such as cancellations, identification of non-performing loans, provisions and write-offs to manage the portfolio (Table 8).

The key measures the Bank has taken in managing risk in its NSO portfolio include:

- Cancellation of more than UA 1 billion of projects during the review period with most of the cancellations occurring during FY2016–2018.
- Between 20 to 30 percent of the portfolio was closely monitored as part of the institutional watchlist of risky projects for most of the review period.
- Recognition of Non-Performing Loans ranging between 2.5% to 7.6% of the portfolio over the 2013–2019 period. In 2019, higher levels of NPLs were recognized for the mining and energy sectors (24.5% and 11.7% of NPLs, respectively) while financial sector NPLs were only 0.5% of that portfolio.
- Write-offs (UA 89.6 million during the review period) were on average 2.3% of the outstanding portfolio. However, for both write-offs and NPLs, one has to keep in mind that owing to the fast-growing portfolio and the time lag before NPLs and write-offs occur, these figures may be understated compared with a stable portfolio.

The Quality of Supervision and Exit evaluation noted improvements in credit risk monitoring and

Table 8: Key Indicators of Portfolio Management

Amounts in UA million	2013	2014	2015	2016	2017	2018	2019*
Write-offs (principal)	5.5	0.00	0.00	5.6	60.0	18.5	0.00
Arrears	28.2	42.4	47.0	42.8	56.0	41.5	50.5
Non-Performing Loans	98.9	90.8	239.0	334.5	170.8	248.0	222.4
Watchlist Projects	774.4	1,071.0	534.1	992.0	1,140.0	996.0	990.0
Cancellations	45.2	113.9	38.3	195.2	178.2	365.8	86.9
Outstanding Portfolio[14]	3,180	3,660	3,830	4,430	3,830	4,350	4,360
Memo Items:							
Non-performing Loans (Percent)	3.1%	2.5%	6.2%	7.6%	4.5%	5.7%	7.4%
Watchlist (Percent)	24.4%	29.3%	13.9%	22.4%	29.8%	22.9%	22.7%
Watchlist (No. of Obligors)	29	30	25	34	40	41	41

Notes: FY2019 data are provisional.

enhanced efforts for distressed operations (African Development Bank, Independent Development Evaluation, 2018b). Early warning credit risk alerts were noted as important. The team-based approach (involving portfolio, credit risk and financial accounting staff) for problem projects was relevant but needed strengthening. Enhanced efforts for distressed operations through the Special Operations Unit (SOU) was important for project and portfolio performance.

The Bank has committed to strengthening mechanisms for mitigating NSO credit risks and increasing attention to NSO corporate governance risks. These activities should be implemented in a timely manner and in conjunction with, and consistent with, the 'One Bank' delivery approach. In the Management Action Record, the Bank agreed to strengthen mechanisms for mitigating NSO credit risks, including a credit readiness filter and a closing memo to validate that key risks were addressed. It also agreed to increase attention to NSO corporate governance risks. It is important that the Bank implement this commitment in a timely manner. It is also crucial that these changes should be implemented in conjunction with the 'One Bank' delivery approach, which focuses on strengthening accountabilities for delivering quality and development impact in a matrix organization.

Conclusions and Recommendations

Conclusions

The Bank's 2013 PSD Strategy supported the implementation of one of the five operational priorities under the Bank's Ten-Year Strategy. It had three pillars, namely: (i) improving the investment and business climate; (ii) expanding access to social and economic infrastructure; and (iii) enterprise development. It also included the three areas of special emphasis in the TYS, i.e., fragile States, agriculture and food security, and gender. PSD support for each RMC was expected to be customized from a large menu of 37 operational initiatives based on country-specific constraints confronting the private sector. As one of the few institutions in Africa that supports both governments and the private sector (through sovereign and non-sovereign operations), the Bank was expected to play a unique role by combining upstream policy work and lending operations, and ensuring stronger linkages between its support to governments, and to both large and small businesses.

Relevance. The PSD Strategy was highly relevant to the achievement of the TYS. However, it could have included an explicit Theory of Change and its design could have been more contextually suitable. The application of the PSD Strategy in RMCs has also been highly relevant, though there was need for a greater focus on market systems development generally, as well as in specific areas (e.g., to address regional disparities or to support SME development). Moreover, the strategy could have defined criteria to better balance the NSO portfolio between indirect/intermediary operations, which influenced the behavior of financial institutions and real sector operations providing more direct demonstration effects. The Bank's increased strategic focus on five priority areas of action (the High 5s) further expanded the scope of the Bank's PSD activities, and at the same time, there was reduced attention of monitoring of the PSD Strategy itself.

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

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

Lessons

There were five main lessons identified which could be applicable Bank's PSD Strategy and programming:

- Good alignment with institutional strategy is a necessary condition, but the lack of a thorough analysis of financing and capacity constraints led to lack of realism in the ambition of the PSD Strategy. Therefore, effectiveness of operations is influenced by the due diligence and quality of the project design, including the logic of intervention and the precise role played by complementary inputs, such as analytical work, policy dialogue and Technical Assistance.

- In the absence of common guidance for designing PSD programs, there was wide variation in the customization of PSD country/regional programs and High 5 PSD priorities, with lost opportunities to maximize the benefits of combining sovereign and non-sovereign activities.

- Lack of clarity in delivery responsibilities and institutional arrangements for PSD operations generally and NSOs in particular resulted in challenges in the smooth implementation of the PSD Strategy;

- The Bank Group's 2016–2025 results measurement framework (RMF) was less useful as its PSD indicators were not measured. The RMF should be an integral part of the life cycle of PSD interventions (i.e., design, implementation, completion and post completion) and provide indicators on anticipated impact on poverty reduction. Furthermore, a sharper focus on fewer indicators would have increased the probability of more systematic monitoring; and

- The Bank did not fully understand the balance of sectors and instruments that would best support the needs of target groups of private sector beneficiaries (e.g., SMEs).

Recommendations

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

- The Bank should give careful consideration to again having a single Complex manage all NSO operations. At a minimum, clear responsibility for coordinating the implementation of all sovereign and non-sovereign PSD activities should be given to PIVP;

- In improving institutional arrangements, the Bank should: clarify division of responsibility and accountability between PIVP, sector Complexes and regional hubs;

- Ensure that staffing requirements and the skills mix are aligned with the NSO portfolio size and sector composition; and

- Reward/incentivize joint activities (i.e., sequencing between SOs and NSOs, project origination and resource mobilization) through corporate, departmental and individual KPIs. Some of these activities may already be underway as part of the 'One Bank' implementation.

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

- In collaboration with other development partners, the Bank should deploy diagnostic tools to prioritize investment climate constraints at country/regional level and sharpen selectivity in PSD interventions in selected High 5 areas; and

- A High 5 PSD program checklist, based on a credible Theory of Change linking sovereign and non-sovereign programs, should be developed so that once a country team identifies a particular High 5, it has a template available for use/customization.

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

- To expand the reach of financial institutions operations to SMEs, the Access to Finance Evaluation has made recommendations regarding improving target setting, better instrument design and verification that funding is reaching the targeted beneficiaries, and having the desired development outcomes. These recommendations are reconfirmed by this evaluation.
- Furthermore, the Bank needs to establish how real sector support provided through NSOs is reaching SMEs (e.g., through support to value chains) and to assess the relative effectiveness of both approaches in order to determine the overall balance in the NSO portfolio.

Recommendation 4: Increase the Bank's PSD operations in low-income and transition countries. The complementary measures recommended are:

- Improving the business environment through SOs, including small but crucial Technical Assistance operations;
- Supporting NSOs in High 5 areas by giving greater weight to PSD additionality and catalytic effects in prioritizing operations; and
- Continuing efforts to enhance viability of investments in fragile environments by de-risking investments; and coordinating with other IFIs to manage risks and catalyze participations of private investors.

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

- The next PSD Strategy needs to establish realistic expectations about the Bank's role in PSD in Africa, based on its comparative advantage, financing availability, risk appetite and delivery capacity;
- Particular attention needs to be given to the results framework and Theory of Change linking outputs, outcomes and impact;
- A more targeted set of indicators should be used, while ensuring a dual focus on the development impact and the profitability of the NSO portfolio; and
- Finally, given the importance of learning from ongoing activities, address the backlog in evaluations of PSD operations.

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Endnotes

1. Given the parallel work being undertaken under the Access to Finance evaluation, country work under this evaluation focused on non-financial sector NSOs.
2. The other four priorities were: infrastructure development; regional integration; governance and accountability; and skills and technology.
3. The 2013–2019 NSO approval amount is similar to the end–2019 portfolio (UA 11.1 billion). Sector composition is also similar at: 51% financial sector; 27% infrastructure; and 22% industry and services. Source: 2019 Annual Review of Portfolio Performance.
4. The country classification utilized were those under the Bank's credit policy. These are determined using two criteria, i.e., per capita income relative to a threshold and creditworthiness to sustain the non-concessional financing.
5. Management uses an approximate methodology to allocate the portion of approvals from relevant multinational operations if such operations included fragile states. A ratio of the number of fragile countries to the total number of countries covered was used to estimate funding. This method does not differentiate for country size or other variables and its alignment with actual approvals from multinational operations in fragile states requires verification.
6. While IDEV does not independently validate this risk measurement, they are reported on as part of the annual financial statements and hence reviewed by the external auditors.
7. The riskiness of the portfolio is managed and partially improved/mitigated through Balance Sheet Optimization which involves exposure exchange with other MDBs; the WARR ratings in this report are before such optimization.
8. As indicated in the section concerning institutional performance, these nine PBOs are not a representative sample, and the PCRENs were desk-based.
9. The PBO cluster evaluation was part of an overall evaluation of PBOs approved during the 2012–17 period.
10. See 2016 (African Development Bank Group, 2017), 2017 (African Development Bank Group, 2018b) and 2018 (African Development Bank Group, 2019d) NSO Portfolio Annual Reviews and 2019 ARPP (African Development Bank Group, 2020).
11. Both quality evaluations cover a significant portion of the PSD Strategy's implementation period. They cover all sovereign and non-sovereign operations approved between 2013 and 2017 for the QaE study, and the period 2012–2017 for the QoS study.
12. The 19 XSRENs cover two sets of NSOs; (i) those approved in 2013–2017 (5); and (ii) those approved in before 2013 and reached operating maturity in 2013–2019 (14).
13. IDEV's forthcoming XSR synthesis evaluation will provide more information in this respect.
14. This refers to only disbursed amounts.

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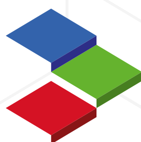


IDEV

Independent Development Evaluation

African Development Bank

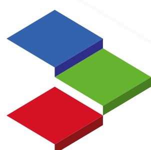
An IDEV **Sector Evaluation**

About this evaluation

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

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

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



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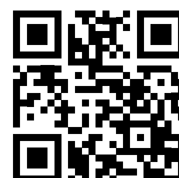
Independent Development Evaluation
African Development Bank

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



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