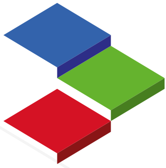

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Cluster Evaluation Report

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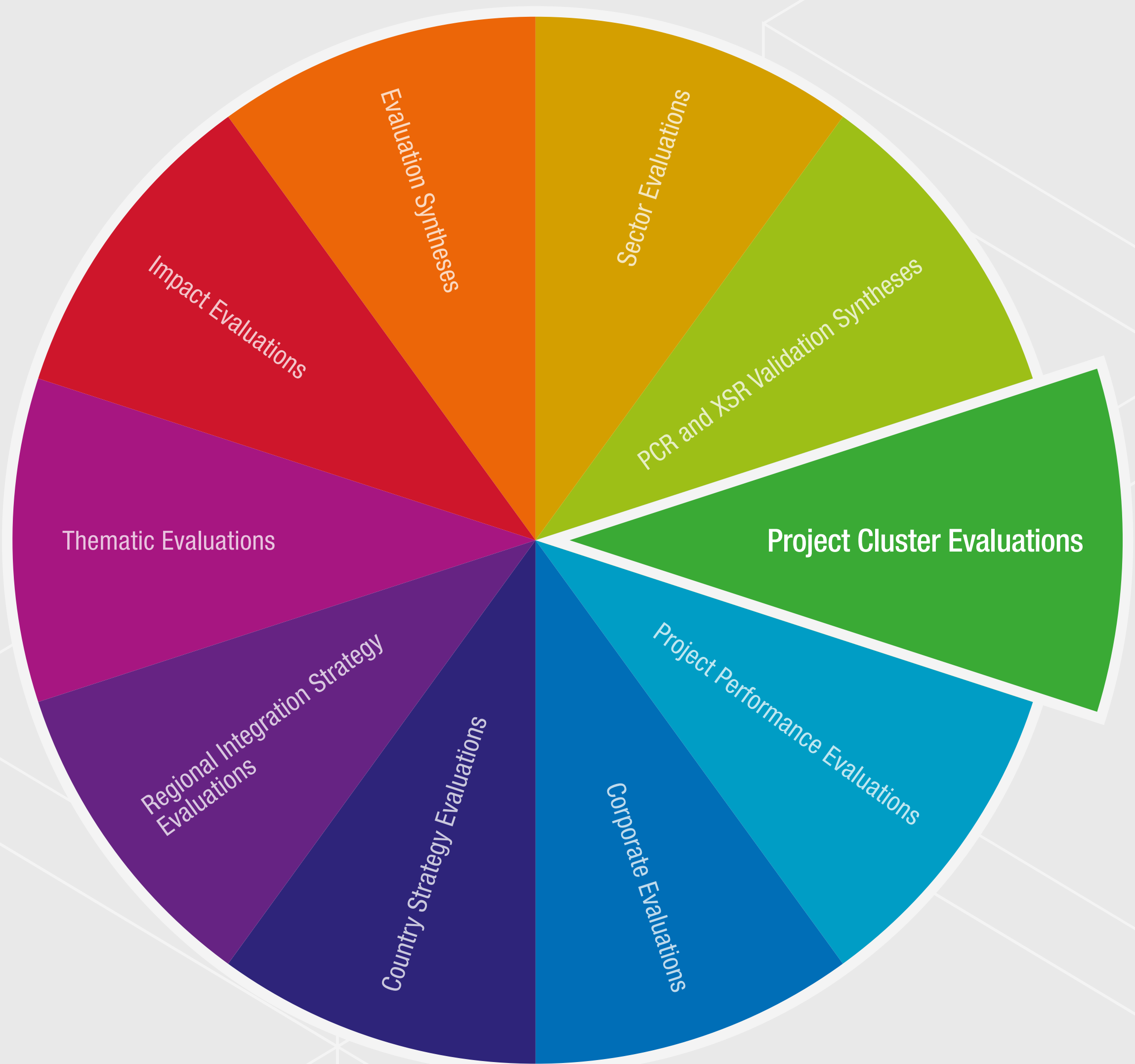

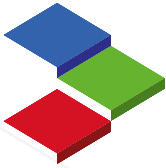

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Special thanks to	Financial sector development and private sector development managers and staff; regional and country office managers and their respective financial sector experts. Managers and staff of the financial intermediaries as well as end-beneficiaries met. The contribution of Grace Kyokunda at different steps of the evaluation is highly appreciated.
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Evaluation of the AfDB's Role in Increasing Access to Finance in Africa - Cluster Evaluation Report
IDEV Project Cluster 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.

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Photography: IDEV & Pixabay.
Original language: English – Translation: AfDB Language Services Department
Design & layout: A Parté Design

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Abbreviations and Acronyms

ADFI	African Digital Financial Inclusion Facility
AfDB	African Development Bank
CSP	Country Strategy Paper
EADB	East African Development Bank
ESG	Environmental, Social and Corporate Governance
FAFIN	Fund for Agricultural Finance in Nigeria
FSDH	FSDH Merchant Bank Limited
FSDPS	Financial Sector Development Policy and Strategy.
IDEV	Independent Development Evaluation
IFI	International Financial Institution
IMF	International Monetary Fund
FI	Financial Intermediary
LOC	Line of Credit
MFI	Micro-Finance Institution
MSME	Micro, Small and Medium Enterprises
PACBA	Agrobusiness Bank of Burkina Faso
PAR	Project Appraisal Report
PBO	Policy-Based Operation
PCG	Partial Credit Guarantee
PIFD	Financial Sector Development Department
RISP	Regional integration strategy papers
RMC	Regional Member Country
RPA	Risk-Participation Agreement
SME	Small and Medium Enterprises
TA	Technical Assistance
TDB	Eastern and Southern African Trade and Development Bank
TFLOC	Trade Finance Line of Credit
ZEP-RE	PTA Reinsurance Company

Glossary

Instruments	Description	Type of beneficiaries	Date of introduction
Risk Participation	Operations allowing the beneficiary to 'sell' its exposure to the Bank in order to reduce its financial risk exposure.	Non-Sovereign Organizations	2013
Sector Policy-Based Operations	Operations to provide budgetary support to countries or regions combined with institution/capacity building and a platform for continuous policy dialogue to support policy reforms.	Sovereign Organizations	2011 for PBO dedicated to the financial sector
Equity Funds	Provision of risk capital (usually equity) to specialized operators (equity funds) to invest in enterprises.	Non-sovereign Organizations	1971
Equity Investment	Acquisition of equity in the capital of financial institutions and/or provision of debt that can be assimilated to capital (subordinated debt).	Non-sovereign Organizations	2007
Guarantees	Instruments to allow reduction of the risk borne by intermediaries, who in case of default can recoup (part of) their loss.	Sovereign and Non-Sovereign Organizations	1998
Lines of Credit	Provision of credit to financial institutions that use the credit proceeds for on-lending.	Sovereign and Non-Sovereign Organizations	1969
Trade Finance Lines of Credit	Provision of credit to financial institutions dedicated to trade finance, usually with shorter tenor.	Sovereign and Non-Sovereign Organizations	Trade finance program introduced in 2013 as successor to the Trade Finance Initiative launched in 2009 to respond to the global economic crisis
Technical Assistance	Provision of grants to fund technical assistance to borrowers.	Sovereign and Non-Sovereign Organizations	Over time

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Executive Summary

Context, Objective and Scope

This report presents a synthesis of an evaluation of clusters of financial sector development operations extended by the African Development Bank (AfDB, the Bank) to financial institutions and governments in seven countries selected from the five African regions. Selected operations contributing to financial sector development were evaluated in the following countries: Burkina Faso and Nigeria in Western Africa, Cameroon in Central Africa, Namibia in Southern Africa, Kenya in Eastern Africa, and Egypt and Tunisia in Northern Africa. Egypt was selected as the country hosting the headquarters of the African Export-Import Bank (Afreximbank), which benefited from the AfDB's trade finance operations and lends to financial institutions in several African countries.The synthesis is one of the deliverables of the evaluation of the AfDB's Role in Increasing Access to Finance in Africa undertaken by the Independent Development Evaluation (IDEV) as part of its 2018–2019 Work Program. Access to finance is one of the three pillars of the Bank's 2014 Financial Sector Development Policy and Strategy (FSDPS). The other pillars are deepening financial markets and safeguarding the stability of Africa's financial systems. The evaluation aims to draw lessons from the implementation of the FSDPS in order to inform the preparation of the new financial sector development strategy[1].

Methodology and Limitations

The evaluation assessed the relevance, design, effectiveness, efficiency and sustainability of 32 financial sector development operations approved from 2011 to 2018, and organized in clusters by financial instruments. The evaluation also explored the AfDB's additionality, or its potential to distort markets, as well as the AfDB's coordination with authorities and other development partners. The evaluation purposefully focused on countries in which the AfDB had multiple operations using different instruments during the period under consideration (there was, however, only one operation in Cameroon). The 32 operations were approved for UA 2,364.6 million, which represented 27.2 percent of the total amount approved between 2011 and 2018 for financial sector development[2]. These included 15 Lines of Credit (LOCs), five Trade Finance Lines of Credit (TFLOC), three Risk Participation Agreements (RPAs), six equity participations, two grants/technical assistance, and one Policy-Based Operation (PBO). Areas of work where the AfDB has increased its focus after 2014, for example, the development of capital markets, are underrepresented in the sample, which covers the 2011–2018 period. The fieldwork took place between 22 May and 22 July 2019. Quantitative and qualitative information was collected in response to the evaluation questions using individual and focus group interviews, desk reviews, statistical data analysis and direct observation.

The main difficulties that were encountered consisted of collecting the relevant information and the fungibility of resources, limiting the attribution of the achievements to AfDB support. Thus, the performance of the operations is focused on the contribution of AfDB support to financial sector development objectives. The draft report for each country was shared with the field operation teams for their comments. Also, each draft country report benefited from the comments of two external peer reviewers. Finally, the results presented in this synthesis report were reviewed by the consultants recruited in each country and by the reference group members of the evaluation, who met on 26 February 2020 to discuss the draft report and thereafter sent written comments.

Summary of Main Findings

Access to finance remains a key constraint to private sector development and the economic inclusion of low-income populations. The selected countries cover a range of the financial sector at different levels of development. Despite progress over the past decade, access to finance remains a key constraint for private sector development in all the selected countries. A common feature of the countries observed is the dominance of the banking sector and the underdeveloped nature of capital markets, which limits enterprises' options in accessing finance. In some countries, banks enjoy sufficient levels of liquidity and are generally well capitalized (e.g., Burkina Faso, Namibia, Nigeria and Kenya). However, in other markets, banks lack liquidity and show relatively high levels of non-performing loans (e.g., Tunisia and Cameroon). Capital markets are underdeveloped in all the evaluated countries. This weak development of domestic and regional stock markets limits still further enterprises' access to capital.

The high priority given to access to finance in the FSDPS and partner countries is not reflected in the AfDB's country strategy papers (CSPs) for selected countries. All countries in the sample see access to finance, and financial inclusion in particular, as a priority for economic development and an enabler of other development goals, such as rural development, employment and women's economic empowerment. CSPs refer to the financial sector mostly as a channel to improve financing for priority sectors but do not place sufficient emphasis on the need to build strong, sustainable and resilient financial systems. Hence, the strategic priority given to financial sector development by member countries and the FSDPS is not always reflected in the AfDB CSPs.

AfDB operations were in line with FSDPS and relevant to their respective country contexts. AfDB operations mostly focused on channeling long-term funding to priority sectors of the economy. Given the broad scope of the FSDPS and significant gaps in financial sector development, the AfDB's operations were in line with the FSDPS and country needs, but they mainly focused on providing resources to financial intermediaries for on-lending to the real economy. Many other constraints that are mentioned in partner countries' strategies and the FSDPS remain unaddressed. These include weak payment systems, regulatory constraints, lack of innovation and informality, among others.

While the fieldwork focused on countries in which the AfDB had multiple financial sector operations (apart from Cameroon where there was only one operation), there was no evidence that these operations were part of a coherent Bank strategy toward financial sector development in these countries. The lack of thorough financial sector diagnostics to understand the underlying constraints may have contributed to the weak strategic clarity and focus. Except for the operations evaluated in Tunisia, the AfDB's financial sector operations are decided on their case-by-case viability and do not represent a coherent set of interventions that jointly contribute to achieving the FSDPS objectives. The lack of a Bank vision for financial sector development at the country level is also reflected by the fact that the AfDB is not visible as a leader in policy dialogue on financial sector development.

Insufficient definition of target groups and broad intended development outcomes limited the AfDB's role in advancing access to finance for the underserved. Development outcomes and the end-beneficiaries were not clearly defined in project appraisal reports and in reporting. Despite the fact that LOCs often target specific underserved and excluded population segments (such as the rural population, women and young people), information was missing in many cases. In other cases, available information shows that the intended targets represented only a small part of the portfolio of client institutions benefiting from the AfDB's LOCs. LOC objectives loosely refer to access to finance, but without defining clear targets, especially regarding reaching underserved target groups such as women and youth. Furthermore, the positioning of Small and Medium Enterprise (SME) finance as a driver of growth and job creation led to a focus on high-growth SMEs, not the underserved. While the focus on strong SMEs makes sense from a private sector development perspective (for instance, to promote enterprises' development for job creation), it risks insufficiently advancing access to finance for the underserved. The diverse financial needs of households and individuals, other than business needs (e.g., management of shocks, reduction of vulnerability/poverty, women's empowerment, access to other basic services) are hardly considered in project designs. This raises questions of strategic clarity and whether operations are effectively targeting SMEs and the underserved and excluded segments of the population.

The efficiency of the AfDB's financial sector development operations was partially satisfactory. More than half of the evaluated operations were efficiently prepared and implemented. Others faced time overruns which, in some cases, led to additional costs for clients or missed lending opportunities. Even in operations where efficiency was satisfactory, clients stated that processes were overly prolonged apart from those for repeat operations. Among the main reasons advanced to explain the situation were onerous conditions as requirements prior to disbursement, inefficient communication and the lack of an automated procurement system.

The Bank's operations tend to provide temporary solutions to financial sector development barriers. The AfDB provides much needed long-term funding to its target markets and has often helped clients access additional funding from International Financial Institutions (IFIs). However, the lack of long-term funding was addressed only temporarily through supporting end-beneficiaries via financial intermediaries. The AfDB supported regulated, financially sustainable institutions, but the likelihood that it will continue serving underserved target groups beyond the period of AfDB support is questionable. This is because most operations did not address the underlying constraints that prevent financial institutions from serving the underserved segments of the population and the economy, including SMEs. Such constraints include insufficient capacity and willingness to serve certain segments of the market, weak regulation and supervision, lack of competition, existence of information asymmetries, and high transaction costs and risks. These factors also contribute to the high interest rates prevailing in African financial sectors (Beck et al. 2011). Also, a reflection on innovative ways to increase access to finance through digital and other alternative delivery channels is largely absent from the evaluated portfolio, despite the disrupting role that technology plays in a number of African financial sectors. More recently, the AfDB has become more active in supporting the development of capital markets and digital financial services. However, these operations are not sufficiently mature and only a few are included in the sample of this evaluation[3].

Suggestions to Consider

Strategic considerations to strengthen the AfDB's role in access to finance

Conduct sector diagnostics that identify barriers to access to finance. CSPs and the subsequent selection of instruments and partners should be based on thorough financial sector diagnostics to address market failures and systemic constraints with the right instruments. Diagnostics could build on sectoral and thematic studies[4], existing studies conducted by other funders and abundant information from Making Finance Work for Africa (MFW4A). Diagnostics should go beyond analyzing the banking sector, and also consider how existing financial service providers and their offerings meet the needs of different segments of Micro, Small and Medium Enterprises (MSMEs) and the population. Financial sector experts should work closely with in-country and regional economists, not only when carrying out country diagnostics but also when preparing country and regional notes and strategy papers.

Define intended financial sector development outcomes at the country and regional levels. The AfDB can have more transformational impact if its operations contribute to a clear and shared vision for financial sector development, and financial and non-financial instruments are used in a complementary way to support strong partners (both private and public). There is a need to develop a more comprehensive narrative of how financial sector development in Africa contributes to private sector development, and to explain its links with increased productivity and economic development at the regional/country levels. CSPs and Regional Integration Strategy Papers (RISPs) or any other strategic framework with a country or regional focus should include clear objectives for financial sector development operations, with related outcomes. These objectives should stand at the same level as development objectives of other sectors and be broken down into result indicators when designing the operations.

Be more explicit on how operations contribute to address financial sector development constraints in the long run. Based on binding constraints identified in the diagnostics, project appraisal reports (PARs) should articulate how supporting specific institutions and the use of relevant instruments will contribute to the three pillars of financial sector development. A more diverse range of instruments and potential measures (e.g., capital market development,

investing in financial infrastructure, etc.) to increase the availability of long-term funding should be considered during project design, not only LOCs. All operations should formulate a theory of change that is based on existing knowledge and is specific to the country or regional context and target groups.

Suggestions to improve the benefits for the intended target groups

Better define and measure the project development outcomes and the benefits for target groups. PARs should include specific, measurable financial sector development indicators in their results frameworks, including indicators that measure access to finance for the underserved. Indicators need to be defined at all levels: the financial sector, and the client and end-beneficiary levels. Wherever possible, the AfDB should use standard indicators of financial inclusion and/or indicators used in countries' financial inclusion strategies. Monitoring requirements and indicators should be discussed with partners upfront and be tracked during supervision missions. The role of investment officers in supervision missions should be revisited and clarified and, if necessary, there should be increased capacity dedicated to monitoring and supervision. For further reflection on impact management systems, the AfDB could consider applying the Operating Principles for Impact Management to ensure that impact considerations are integrated throughout the investment lifecycle. This is an emerging practice for development finance institutions and impact investors alike (see https://www.impactprinciples.org/principles).

A clear definition of what constitutes an SME needs to be included in the PARs and embedded in the CSPs. Definitions used by operations are often not clarified in the PARs, making it difficult to assess the contribution of the AfDB to SMEs. The AfDB should identify and target firms that require its support and for which it has a comparative advantage in supporting. If the AfDB uses the definitions of Regional Member Country (RMC) governments, partner financial institutions or other IFIs, it should define a methodology for measuring and aggregating impacts at the portfolio level. The strategic review of the AfDB's SME support operations (Genesis Analytics 2018) provides a detailed analysis, together with suggestions on how to tackle the challenge of defining SMEs. The Africa SME Program's working definition and practice of verifying that applied definitions can be considered an SME target group in a specific context is a step in the right direction.

Build on effective approaches to support SME finance. Supporting SMEs to contribute to growth and inclusive economic development requires addressing financial and non-financial barriers, which is best done by a dedicated team that can aggregate all SME-related initiatives. Having a dedicated team helps attract the right expertise and is more likely to set the right incentives for SME finance, which can be skewed toward larger transactions if SME finance is bundled with other operations that tend to require larger ticket sizes. Further increasing the capacity of the AfDB's 2013 Regional Africa SME Program could be a good step.

Moving from a pipeline approach to a portfolio approach. The AfDB could explore different approaches to improve the focus on intended target beneficiaries. Instead of determining a list of projects (pipeline approach) for guiding the on-lending to the intended target groups, the AfDB could test defining targets at the portfolio level (portfolio approach). Combined with tighter and strengthened M&E capacity of partners, portfolio-level targets (e.g., the number, volume and the percentage of SME loans in the overall lending portfolio) might lead to better results. However, at the strategic level, there needs to be a reflection on how to reconcile objectives such as maximizing the financial inclusion of the underserved and job creation. Along the same lines, clearer strategic objectives for on-lending to companies in fragile states could help increase the AfDB's impact in some of the countries that are most in need.

Narrowing the gender gap in access to finance requires a more deliberate approach. So far, women are mentioned alongside other population groups as intended end-beneficiaries of financial sector development operations. However, the PARs tend to lack specific considerations of how operations help reduce the gender gap in access to finance. There is broad evidence that women face multiple regulatory, cultural, social and economic barriers that hinder their access to formal financial services, and their participation in the economy more broadly (Morsy 2020). These barriers cannot be addressed through targeted lending only but require a gender-transformative approach to financial inclusion. The AfDB should reflect on how it can be more deliberate in advancing women's financial and economic inclusion through its different instruments, and how it can become more gender sensitive as an institution. This will require developing a credible results chain on how an operation is likely to address the barriers. It also implies obtaining more gender-disaggregated data on access to finance for women, with a baseline, targets and effective monitoring.

Suggestions on the range of instruments and their use for financial sector development

The AfDB should increase awareness and usage of its Partial Credit Guarantees (PCGs) among investees. The AfDB gained useful learning from its experience with the PCG in Cameroon, which should be documented and made accessible internally to build staff awareness and capacity. PCGs are a useful addition to the suite of instruments if properly structured, priced and monitored. They can be used to encourage lending to more innovative, and potentially riskier and more dynamic, activities and companies. PCGs can also be used to encourage financial intermediaries to lend to underserved market segments, sectors and fragile states, with higher perceived or real risks. While the PCG extended to Cameroon in 2015 was limited to hedging the exchange rate between the U.S. dollar and the euro, in the Senegal PCG in 2018 it was possible to track the flow of funds from the special account in which the Eurobond proceeds were held to the actual investment projects, classified according to the AfDB's High 5s.

Consider lending in local currencies. Restrictions on providing LOCs in local currencies limit their relevance and applicability. The AfDB should consider providing local currency loans and, whenever possible, leverage existing mechanisms to promote local currency financing, such as the Africa Local Currency Bond Fund (ALCBF).

Use Technical Assistance (TA) to strengthen institutions that drive sector development. A needs assessment should be conducted prior to providing technical assistance (TA) to identify capacity gaps. The AfDB could reflect further on how providing TA to a specific institution can contribute to financial sector development more broadly (e.g., by introducing an innovative financial service). The AfDB could provide advisory services to the financial sector, especially in new and emerging areas such as climate and green financing.

Suggestions to position the AfDB as a key player in financial sector development

Improve outreach and the depth of relationships with sector stakeholders, including clients. The AfDB should inform stakeholders of the financial sector policy and strategy, maintain channels of communication with the clients, and organize regular follow-up meetings to improve the efficiency and effectiveness of the operations.

Leverage the AfDB's policy influence and expertise to facilitate policy dialogue. The AfDB needs to purposefully engage in policy and regulatory dialogue aimed at addressing constraints, and strengthen regulatory environments and supervision of the financial sector. This should include working in close cooperation with, or leveraging initiatives by, other development partners such as the World Bank Group, the International Monetary Fund (IMF), and local advocacy and industry associations.

Consider increasing the resources for regional integration operations aimed at fostering regional integration around access to finance. Given the increasing role now being played by cross-border, regional or continental banks in Africa, it is paramount to support operations aimed at fostering the regional integration of financial sectors. This should help to harmonize rules and procedures at the regional level, especially among francophone and anglophone countries.

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Introduction

Background, Scope and Objectives of the Evaluation

This report presents a synthesis of an evaluation of clusters of financial sector development operations extended by the African Development Bank (AfDB, the Bank) to financial institutions and governments in seven countries selected from the five African regions. The synthesis is one of the deliverables of the evaluation of the AfDB's Role in Increasing Access to Finance in Africa undertaken by the Independent Development Evaluation (IDEV) as part of its 2018–2019 Work Program. The evaluation is meant to distill learning from the implementation of FSDPS in order to draw lessons and make recommendations on the design and implementation of the new strategy planned to be discussed by the Board in November 2020. Selected operations contributing to financial sector development were evaluated in the following countries: Burkina Faso and Nigeria in Western Africa, Cameroon in Central Africa, Namibia in Southern Africa, Kenya in Eastern Africa, and Egypt and Tunisia in Northern Africa. Egypt was selected as the country hosting the headquarters of the African Export-Import Bank (Afreximbank), which benefited from the AfDB's trade finance operations and lends to financial institutions in several African countries.

Access to finance is one of the three objectives of the FSDPS approved in October 2014 for the period 2014–2019. This evaluation focuses on the first objectiveof the FSDPS, namely: *"Increasing access to a range of quality, reliable, and affordable financial services geared to the needs of all segments of society, paying particular attention to reaching the traditionally underserved (including women and youth) through the most effective approaches, including innovations consistent with the requirements of financial stability."* The two other objectives are deepening financial markets and safeguarding the stability of Africa's financial system (AfDB 2014). In addition to this report, the evaluation is composed of a policy and strategy review, a portfolio review and a final summary report to be considered by the Committee of Development Effectiveness. Findings from the country case studies are presented by clusters of financial instruments extended by the AfDB to financial institutions and governments in the selected countries.

The purpose of the fieldwork was to complement and validate the findings emerging from the policy and strategy review, and the portfolio review. The evidence base for this synthesis report is the qualitative and quantitative data gathered through the country case studies. The country-level data collection assessed the relevance, design, effectiveness, efficiency and sustainability of 32 financial sector operations approved between 2011 and 2018 in the seven countries. The fieldwork further examined whether any unintended results had materialized and identified key factors that drove performance. Finally, the fieldwork assessed the AfDB's additionality, or its potential distortions of the financial markets, as well as the AfDB's coordination with authorities and other development partners.

Methodology and Constraints

Seven countries were selected for the fieldwork out of the 32 countries where the AfDB had financial sector development operations during the period 2011–2018. The evaluation purposefully focused on countries in which the AfDB had multiple operations during the period under consideration, apart from Cameroon where there was only one operation. The criteria used to select the countries for the fieldwork included regional distribution, the diversity of financial instruments used in the country, implementation status, and the public and private

character of the operations. A selection of operations with a regional or multi-country focus were included in the case studies from Egypt and Kenya (see the methodological note in Annex 1). The 32 operations were approved for UA 2,364.6 million, representing 27.2 percent of the total amount approved between 2011 and 2018 for financial sector development, from which UA 618 million was withdrawn for cancelled operations[5]. These included 15 LOCs, five TFLOC, three RPAs, six equity participations, two grants/technical assistance, and one PBO. While the sample is not statistically representative of the AfDB's financial sector development portfolio, it covers a range of operations and countries, which helped demonstrate a number of qualitative findings. Areas of work where the AfDB has recently increased its focus, for example, the development of capital markets, are underrepresented in the sample of operations adopted between 2011 and 2018.

Mixed methods were used to gather a balanced view of the AfDB's role in increasing access to finance through the selected operations.

- Quantitative data collection included an Excel file containing financial and socioeconomic indicators to be filled out by AfDB clients and selected end-beneficiaries of the operations evaluated, the AfDB's internal databases on the operations evaluated, and secondary data collected on the financial sector of the selected countries. The information was collected during and after the fieldwork.

- Qualitative methods included relevant document review and semi-structured interviews with the task managers for the operations evaluated, clients, selected end-beneficiaries, development partners in selected countries, and stakeholders from the public and private sectors. Relevant documents comprised appraisal reports, supervision reports, back-to-office reports and completion reports.

The fieldwork took place between 26 May and 22 July 2019. The planning and coordination of the fieldwork was supported by the AfDB's regional offices, country offices and their respective financial sector experts. The evaluation also benefited from close coordination with the Financial Sector Development Department (PIFD), which reviewed the methodology, country case studies and this synthesis report. AfDB operational staff did not take part in interviews with direct clients of the AfDB when there was an apparent conflict of interest. Emerging findings and suggestions from the fieldwork were discussed with AfDB country or regional offices at the end of the evaluation missions, except in Namibia where there is no field office, and Egypt where the case study focused on the AfDB's support to Afreximbank and not on financial sector development in Egypt itself.

A four-point rating scale was used to rate the operations. The ratings summarize the assessment of operations' performance against the evaluation criteria of relevance, design, effectiveness, efficiency and sustainability, in addition to AfDB performance and that of its clients (Table 1). The evaluation responds to the following key questions detailed in the Annex 1:

- Were financial sector operations aligned with the priorities and guiding principles stated in the Policy and Strategy?

- Did financial sector operations address constraints in financial sector development?

- Did the operations address real issues standing in the way of access to finance?

- Were the development objectives achieved?

- Was the implementation timely and cost effective?

- Are the results achieved sustainable?

- What was the Bank's role in fostering policy dialogue and improving the enabling environment?

Table 1: Evaluation Rating Scale

Score	Rating	Explanation
4	Highly satisfactory	Good performance against all or nearly all aspects considered
3	Satisfactory	Good performance against the majority of aspects
2	Unsatisfactory	Good performance only on some aspects
1	Highly unsatisfactory	Good performance against few or no aspects

- What was the client's performance (captured in the evaluation of sustainability in this report)?

Constraints that were encountered in the evaluation process were mostly linked to difficulties in accessing the relevant information. The evaluation team faced difficulties in recruiting local consultants conversant with evaluations and the financial sector. Consultants faced difficulties in collecting the relevant information in a short timeframe, especially information that the AfDB's clients do not usually collect in a systematic way. The inconsistent definition of target groups and development objectives posed challenges for the assessment of relevance and the effectiveness of operations. During the fieldwork, long distances made it difficult to reach beneficiaries operating far from RMC capitals. While the consultants played an active role, the team leader led the interviews to make sure that all aspects of the evaluation were covered. Although interviews were also carried out with selected sub-borrowers, the performance of the operations focused on the contribution of AfDB support to partner financial intermediaries or governmental institutions visited. The draft report for each country was shared with the operations departments for their comments. Each draft report also benefited from the comments of two external peer reviewers. The results presented in this report were reviewed by the consultants recruited at each country level and by the reference group members of the evaluation, who met on 26 February 2020 to discuss the draft report and thereafter sent written comments. Difficulties encountered during the fieldwork and the long quality assurance process resulted in delays in producing the draft reports and consequently a delay in finalizing this synthesis report.

Report Structure

This section has 5 sections. First is the introduction. The following section provides an overview of the state of financial sector development in the countries covered by the fieldwork, with particular consideration of trends in access to finance for the underserved. It further describes the main tenets of the AfDB's country and regional strategies, and the evaluated financial sector development operations in the selected countries. The third section discusses the relevance, design, effectiveness, efficiency and sustainability of the financial sector development operations covered in the seven countries. The performance of the AfDB is further discussed in this section. The fourth section provides a summary of the main findings and the final section presents suggestions to consider for the design and implementation of the future financial sector development strategy.

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Financial Sector Development and the Bank's Country Strategies

The State of Financial Sector Development in the Selected Countries

African financial sectors have made significant progress, which is reflected by the country case studies. The diversification of financial service providers, notably the emergence of pan-African banks and the positive disruption caused by digital financial services, has stimulated innovation and a deepening of financial sectors in Africa. As European and other international banks have retreated from African markets in the aftermath of the 2007/2008 global financial crisis, African banks have succeeded in filling some of the gaps. A more detailed appreciation of high-level financial sector trends in the selected countries is included in the country case studies and the Policy Review.

The countries studied in the fieldwork represent a range of financial sectors at different levels of development. In some countries, banks enjoy sufficient levels of liquidity and are generally well capitalized (e.g., Burkina Faso, Namibia, Nigeria and Kenya). However, in other markets, banks lack liquidity and show relatively high levels of non-performing loans (e.g., Tunisia and Cameroon). A common feature of the countries observed is the dominance of the banking system within the countries' financial sector. Capital markets are considered underdeveloped in all the evaluated countries[6]. The limited development of domestic and regional stock markets limits further access to capital for African enterprises that would qualify for this source of financing.

Access to finance remains a key constraint, with negative effects on private sector development and the economic inclusion of low-income populations. In four of the selected countries, the level of credit to the economy provided by the financial sector (as a percentage of GDP) increased (Table 2), while two countries showed negative trends (Kenya and Nigeria). Despite this progress, access to finance remains a key constraint for private sector development. SMEs and microenterprises are the backbone of African private sectors. Micro-enterprises represent 97 percent of businesses in Africa, and few of these are formally registered (Genesis Analytics 2018). SMEs, microenterprises and specific sectors of the economy, for example agriculture, find it particularly difficult to access financial services. The share of formal firms with a bank loan or credit line varies from 11.4 percent in Nigeria to 53.6 percent in Tunisia (Table 2), with three of the selected countries showing values at or below the average for Sub-Sahara Africa (SSA). Informal microenterprises are much less likely to have access to a bank loan or credit line.

Access to finance for the underserved has seen significant progress. In all selected countries with the exception of Nigeria, financial access as measured by the share of adults who have a basic transaction account at a formal institution, advanced significantly between 2014 and 2017 (Table 3). Burkina Faso and Cameroon, both starting from relatively low levels of financial access, saw increases of 29 and 23 percentage points, respectively, largely driven by the rapid expansion of mobile money accounts. In Burkina Faso, more adults now have a mobile account than an account at a financial institution. Kenya's level of formal financial access (82 percent) is third to that of the Seychelles (95 percent) and South Africa (90 percent). Also, in Kenya, where a range of financial services is available via mobile accounts, the percentage of adults relying on informal services[7] only declined from 26.8 to 6.1 percent in the period 2009–2019 (FSD Kenya 2019). Tunisia, despite its relatively well-developed banking sector, lags behind in terms

Table 2: Credit to the Economy and Firms' Access to Credit in Selected Countries

Countries	Credit to economy by financial sector (% of GDP)		% of firms with a bank loan/line of credit	Number of bank branches per 100,000 adults
	2014	2018	Last available year	2018
1. **Burkina Faso**	30.7	34.0	28.4 (2009)	2.83
2. **Cameroon**	14.9	19.3	14.2 (2016)	2.19
3. **Kenya**	44.7	39.1	33.9 (2018)	5.03
4. **Namibia**	55.5	59.1	21.7 (2014)	14.70 (2016)
5. **Nigeria**	21.6	21.2	11.4 (2014)	4.30
6. **Tunisia**	81.1	93.9	53.6 (2013)	22.04
Average SSA**	33.2	39.7	21.7	
Average MENA**	55.72	67.53	31.2	

* Egypt is not included, as the case study focused on regional operations only.
** Excludes high-income countries.
Source: World Bank Enterprise Survey and IMF Financial Access Survey.

of financial access, with only 37 percent of adults having an account at a formal institution. According to the World Bank's Global Findex Database (Demirgüç-Kunt et al. 2018), the share of adults with an account in Nigeria has slightly receded. However, EFInA's Access to Financial Services in Nigeria 2018 Survey (EFInA 2018) measured an increase in the number of banked people from 38.3 to 39.7 percent between 2016 and 2018. Access to an account is a first step, but people only benefit if they actually make use of their accounts. However, while access to formal financial services has improved, usage lags behind (Global Findex 2018). This can be due to low financial literacy or the lack of a diversified product range that responds to clients' diverse financial needs, among other factors. For example, the market penetration of insurance services is still very low in most countries and people continue to rely mainly on informal savings services.

Women's access to financial services still lags behind. Women are still less likely than men to have access to an account in all the selected countries (Table 3). Youth and rural populations also remain more likely to be excluded from formal financial services (Global Findex 2018).

Underserved segments are still essentially served by microfinance institutions. Microfinance institutions continue to play a significant role in providing financial services to individuals and businesses that are insufficiently served by the traditional banking sector. Depending on their license, microfinance institutions can provide credit only, or a broader range of financial services including savings, remittances and insurance. In Burkina Faso, Cameroon and Nigeria the microfinance sector is very dynamic with hundreds of licensed institutions, some of which are organized in federations. However, some suffer from very high levels of non-performing loans and regulators have had to intervene to revoke licenses (e.g., 19 licenses were revoked in 2018 in Burkina Faso) or support the consolidation of the sector. In Kenya, microfinance institutions have experienced a decline, which can be attributed to the expansion in digital financial services provided by mobile network operators, banks and, more recently, Fintech providers offering digital loans. However, they still play an important role in serving low-income people and small businesses. In Tunisia, where microfinance institutions remain limited to credit only, the sector has developed significantly since 2011, but remains below its estimated market potential (Tunisia Financial Inclusion Strategy, 2018–2022).

Table 3: Access to Finance Trends in Selected Countries

Country	% of adults with an account		% of women with an account		% of adults with a mobile money account	
	2014	2017	2014	2017	2014	2017
1. **Burkina Faso**	14	43	13	34	3	33
2. **Cameroon**	12	35	10	30	2	15
3. **Kenya**	75	82	71	78	58	73
4. **Namibia**	59	81	57	81	10	43
5. **Nigeria**	44	40	34	27	2	6
6. **Tunisia**	27	37	21	28	1	2
Average SSA*	34	43	30	37	12	21
Average MENA*	33 (2011)	43	26 (2011)	35	n.a.	6

* Excludes high income countries. Sources: Global Findex, World Bank. SSA: Sub-Saharan Africa; MENA: Middle East and North Africa.

The trade finance gap is seen as a serious barrier to trade in Africa. Trade of African countries represents only 3 percent of total global trade and, even within the region, trade lags in comparison with other regions in the world. There is currently insufficient trade finance capacity in Africa to support the needs of the continent's importers and exporters. The AfDB's recent market survey covering 260 domestic banks in 44 countries estimated the trade funding gap to be around US$100 billion per year, which is an indication of market failure and a major barrier to international trade both within Africa and with the rest of the world (Kuffour 2019). This situation is compounded by the de-risking phenomenon (international banks retrenching from perceived high-risk markets) further due to Basel III and IV, and the new regulations around anti-money laundering and terrorism financing (AfDB 2018; ICC 2016; SWIFT 2016). However, while there is a shortage of trade finance, a multitude of other factors affect intra-regional trade, restricting demand for trade finance, including a lack of, or inadequate, infrastructure, regulatory environment, governance and insecurity, etc.

Financial Sector Policies or/and Strategies in the Selected Countries

Financial inclusion is a key priority for the AfDB's RMCs, as exemplified by countries' financial sector development strategies. All countries covered by the fieldwork have adopted a national financial inclusion strategy (Nigeria, Tunisia, Namibia, Burkina Faso and Cameroon), or a national development strategy with a financial inclusion component (Kenya). Other financial sector development priorities include increasing competition in the banking sector, efficiency in financial intermediation, modernization of payment systems, capital market development, and innovation, which includes the digitization of financial services and Islamic finance. Namibia, Nigeria, Kenya and Tunisia have conducted studies to measure the level of financial inclusion or regularly collect data against standardized financial inclusion indicators.

RMC governments are concerned with high fees, interest rates and charges practiced by financial institutions. According to the country case studies, several countries have taken measures to address the relatively high costs of accessing and using formal financial services. Such measures include regulatory reforms that increase competition and promote alternative delivery channels, such as agent banking and controlling interest rates. While there is much debate on the effectiveness of interest rate caps and some evidence that they exacerbate exclusion, several countries have introduced (or are considering) such measures. In the case of Kenya, the introduction of an interest rate cap in 2016 led to a reduction of traditional banking services, which has particularly affected SMEs that are perceived as being high risk (Ferrari, Masetti and Ren 2018; Mehnaz and Zia 2018; see also https://chimpreports.com/kenyatta-capping-interest-rates-hurt-kenyas-economy/).

The changing financial sector landscapes require adapting regulations and supervision. With the emergence of new types of financial service providers and business models, such as e-money issuers, Fintechs, and cross-border or pan-African banks, countries need to adapt their regulatory frameworks and strengthen their supervision based on new types of risks. This requires increased collaboration at the regional level to improve cross-border oversight (Derreumaux 2019; Beck et al. 2011).

Financial Sector Development in the AfDB's Country and Regional Strategies

Financial sector development is positioned primarily as a contributor to enhancing industrial and trade competitiveness in the Bank's Regional Integration Policy and Strategy (2014–2023) and the Bank's Industrialization Strategy. The Regional Integration Policy and Strategy outlines multiple ways in which the Bank can leverage financial sector development to contribute to regional integration, namely through the harmonization of financial governance and standards, the development of regional financial markets, and the strengthening and harmonization of payment systems. It further refers to the AfDB's role in strengthening domestic financial institutions and improving access to finance for disadvantaged sectors. The AfDB's Industrialization Strategy includes a flagship program aimed at "growing liquid and effective capital markets", thereby recognizing the role of capital markets in raising and channeling funding to the industrialization of African economies. The only explicit intended result related to financial sector development included in the Regional Integration Strategy's results framework is "Regional financial market integration improved and financial infrastructure strengthened" under Pillar II, which positions financial market development mainly as a means to enhance industrial and trade competitiveness. There is no indicator related to access to finance in the results framework that measures the implementation of the Regional Integration Strategy.

Country strategy papers (CSPs) position financial sector development as a means to reach private sector development objectives. The FSDPS (2014–2019) supports the Bank's vision for the financial sector as a catalyst for Africa's economic transformation. This vision is reflected in the CSPs, which refer to financial sector development mostly as a means to improve financing for priority sectors or infrastructure projects. Financial sector development operations are also seen to contribute to improved governance, job creation and employability, the business climate and competitiveness. As such, financial sector development is positioned as an enabler of private sector development, rather than as a standalone development objective. Other objectives put forward in the FSDPS, namely payment systems that support digital financial services, deeper national and regional capital markets, better financial infrastructure, or improved financial sector policies, are largely absent from the CSPs.

None of the selected countries' CSPs included explicit, measurable targets on access to finance, which is in stark contrast to the priority

given to financial access by partner countries. In line with the above positioning of financial sector development as a contributor to real sector growth, CSPs emphasize the financial needs of businesses, including SMEs, and priority sectors of the economy. However, CSPs do not give any consideration to the diverse financial needs of households and individuals, or financial inclusion as a driver of social inclusion, inclusive growth or poverty reduction. Neither the FSDPS nor RISPs or CSPs address the potential trade-off in terms of development results between supporting access to finance for high-growth SMEs, and supporting access to finance for underserved and vulnerable populations. CSPs fail to mention innovative ways to increase access to finance, or how to leverage the mobile payment ecosystem as a driver of innovation and a basis for economic development.

The AfDB's Financial Sector Development Operations in Selected Countries

A total of 32 AfDB operations were evaluated during the fieldwork, including 22 operations targeting the domestic financial sector and 10 multinational operations. 15 of the evaluated operations were approved between 2011 and 2014, and 17 thereafter. Of the 32 evaluated operations, 23 were still ongoing, five closed, one terminated, one completed, and two approved[8]. While the sample is not statistically representative of the AfDB's financial sector development portfolio, it covers a range of operations and countries, which helped to demonstrate a number of qualitative findings[9].

The evaluated operations can be categorized by instruments into six clusters: LOCs, TFLOCs, PCGs/RPAs, equity participations, grant/technical assistance and PBOs. Only one PBO was evaluated in the fieldwork. However, during the period covered by the evaluation, four financial sector development PBOs were approved, two in 2011–2014 and two in 2015–2018. Three were approved in Morocco and one in Tunisia. Morocco was excluded from the sample as its operations had been covered by prior IDEV evaluations (Table 4).

Table 4: Overview of Sampled Operations in Selected Countries

Country	Region	LOC	TFLOC	Partial credit guarantee/ risk participation agreement	Equity participation	Grant, TA	Policy-based operation
1. **Burkina Faso**	West	2				1	
2. **Cameroon**	Center			1			
3. **Kenya**	East	1	1				
4. **Namibia**	South	2					
5. **Nigeria**	West	6	1		2		
6. **Tunisia**	North	2	1			1	1
Multi-country focus (Egypt and Kenya case studies)		2	2	2	4		
# of operations		15	5	3	6	2	1
Amount UA (million)		**1,035.7**	**431.7**	**573.1**	**83.5**	**9.5**	**231.0**

Most operations contribute to Pillars I and/or II of the FSDPS. The most common objective of the AfDB's financial sector development operations stated in the PARs is "improving access to long-term funding, including for SMEs". This objective relates to Pillar I "increasing access to financial services for the underserved", as it emphasizes access to finance for SMEs, as well as Pillar II "broadening and deepening Africa's financial systems", where "increased supply of long-term funding" is explicitly mentioned as an expected outcome. Out of the 32 evaluated operations, six intended to contribute to financial stability and governance (Pillar 3) and four operations supported large pan-African or regional financial institutions.

Many expected outcomes cited in the FSDPS are not reflected in the portfolio of operations. While all selected operations are in line with the FSDPS, there are many intended outcomes that are left unattended by the AfDB's operations. Rare are operations that contribute to improved payment systems, branchless banking or digital finance, innovative products (e.g., digital finance, Islamic finance, etc.) and skills development for entrepreneurs, including women and youth. While not part of the sample, one notable exception was an ADF grant of UA 15 million to finance the East African Community Payment and Settlement Systems Project approved in 2012. A similar operation was approved in July 2008, the West African Monetary Zone Payment System Development Project covering Gambia, Guinea, Liberia and Sierra Leone. Its completion report was completed in December 2018. More recently, the African Digital Financial Inclusion Facility (ADFI), launched in June 2019 in partnership with the Bill & Melinda Gates Foundation, the Agence Française de Développement (AFD) and the Government of Luxembourg, is meant to financial inclusion through advancing digital financial services[10].

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Performance of the Evaluated AfDB Operations

Relevance

Lines of Credit

Overall, the LOCs provided by the AfDB were relevant. LOCs increase the supply of medium to long-term funding, which is an intended outcome of the FSDPS's Pillar 2. In other regions, for example, Latin America and the Caribbean, the lack of liquidity is surpassed by informality among SMEs as the main barrier for access to finance (OVE 2016). In Africa, access to long-term funding remains a significant challenge, including in all markets observed during the fieldwork. Through its LOCs, the AfDB aimed to support access to finance for SMEs and priority sectors for economic development. Furthermore, the AfDB aimed to contribute toward regional integration through the LOCs to the Eastern and Southern African Trade and Development Bank (TDB) and the East African Development Bank (EADB).

LOCs provided by the AfDB responded to client needs. In general, the AfDB's LOCs met clients' needs and were meant to increase access to finance by helping them better serve their respective clients, engage in new lending activities (e.g., the Commercial Bank of Africa, Kenya) or expand their portfolios. Clients cited the longer maturity of AfDB LOCs as a key element of the AfDB's additionality, which helped clients mitigate maturity mismatches. This echoes findings from the PIFD Portfolio Review (PIFD 2018). In Namibia and Tunisia, the AfDB mitigated the impact of the economic recession and political instability by providing countercyclical lending through LOCs. Beyond the long-term funding provided by the AfDB through LOCs, client financial institutions also benefited from the signaling effect of being an AfDB client, which in some cases helped attract further investors.

LOCs that were accompanied by TA measures were appreciated by clients. Five of the 15 LOCs evaluated in the sample were complemented with various TA measures. Training and guidance on Environmental, Social and Corporate Governance (ESG) was highly appreciated by many clients and some would have liked additional support (e.g., Zenith and Access Bank in Nigeria). Clients were unanimous in confirming that the AfDB played an important role in advancing ESG reporting.

Low risk of market distortion. Considerations of distortion risks are covered only in very general terms in the PARs. Due to the significant shortage of long-term funding in the selected countries, the risk of market distortion or crowding-out of other lenders was found to be low. Indeed, the fieldwork found no evidence of market distortion. LOCs were priced competitively and at rates comparable with those of other IFIs.

The rationale for LOCs is based on superficial market analysis, which leads to constraints being addressed only temporarily. There is no evidence of the AfDB undertaking broader financial sector diagnostics to understand the underlying constraints that limit the supply of long-term funding in the countries covered. This might help explain the intense use of LOCs. The AfDB's financial sector development portfolio seems to be driven by instruments, rather than by the financial sector development challenges and/or market failures that need to be addressed. The fieldwork found that other potential measures (e.g., capital market development, investing in financial infrastructure, etc.) to increase the availability of long-term funding were not sufficiently considered during project design (e.g., in Burkina Faso and Kenya). The analyses provided in the PARs focus mainly on the partner institution and do not provide a thorough analysis

of the market failures that lead to the undersupply of long-term funding. While liquidity shortages in a market may justify the use of LOCs, they provide only a temporary increase in funding supply. They do not address the underlying constraints that restrict the availability of long-term funding in a market, such as financial institutions' unwillingness to finance long-term investments and institutional investors choosing to buy government bonds instead of providing the needed long-term financing.

The heavy focus on LOCs leaves many other constraints unattended. While LOCs are a relevant instrument to provide liquidity for on-lending to sub-borrowers, their contribution to access to finance for underserved and financial sector development is questionable. An earlier evaluation of the effectiveness of LOCs found that "*the impact of LOCs in promoting financial inclusion in terms of extending access to financial services to unbanked people still has to be demonstrated*" (IDEV 2018). Given that LOCs represent a large share of the AfDB's financial sector development portfolio (60 percent between 2011 and 2014, and 34 percent between 2015 and 2018), other constraints that hinder financial sector development have not received sufficient attention and funding, thereby limiting the relevance of the AfDB's contribution to RMCs' financial sector development. For example, the country case study on Kenya found that "*More could have been done to facilitate access to finance for underserved segments such as small enterprises, women and youth and low-income earners as envisioned in AfDB's Private Sector Development Strategy (2013–2017) and Financial Sector Development Policy and Strategy (2015–2019)*". Earlier evaluations came to similar findings. While after the adoption of the FSDPS the share of LOCs in the overall financial sector development portfolio declined, there was a sharp increase in TFLOCs (from 5 percent during 2011–2014 to 27 percent during 2015–2018), which also fail to address the underlying constraints in the financial sector (IDEV 2019).

Trade Finance Lines of Credit

Trade finance lines of credit (TFLOCs) are a relevant instrument for promoting regional and international trade. Pillar 2 of the FSDPS refers to "supporting intra and inter-regional trade and investment" as one of the objectives of the AfDB's support to financial intermediaries (FIs). The TFLOCs provided to intermediaries in selected countries were in line with this objective. The TFLOCs eased the challenges facing correspondent banks in providing trade finance facilities to their clients (e.g., in the case of the FSDH Merchant Bank Limited, FSDH, Nigeria[11]). In Tunisia and Nigeria, the AfDB's TFLOCs came at the right time and played a counter-cyclical role during the Tunisian revolution in 2011, and also when there was a dramatic decrease in revenue in Nigeria due to the collapse in the oil price. Meanwhile, other lenders retreated due to the political and economic instability. In Nigeria, the AfDB's intervention complements the government's initiatives to support indigenous SMEs and emerging corporates via direct funding through the MSME Development Fund facility (a Central Bank of Nigeria intervention fund) and also complements the Central Bank of Nigeria and Nigeria Export-Import Bank's creation of two trade finance support credit lines to export-led and import-led businesses.

In all the selected cases, TFLOCs responded to substantial country needs for trade finance. The provision of TFLOCs enhanced clients' capacity to facilitate greater credit access to more enterprises, predominantly medium-sized companies and large corporations. To some extent, SMEs also benefited from improved access to trade finance. However, there are not enough available data to assess the AfDB's contribution.

Given the large gap in trade finance, lending via Afreximbank in addition to the direct provision of TFLOCs was in line with market needs. The provision of trade finance packages that combined TFLOCs, equity participations and risk guarantees addressed the multiple needs of Afreximbank and enabled it to strengthen its capital base and attract

additional investors. The trade finance packages were also complementary with funding provided by other IFIs.

Risk-Participation Agreements and Partial Credit Guarantees

The risk-participation agreements (RPAs) provided as part of the trade finance packages to Afreximbank were relevant. The RPAs allowed Afreximbank to reduce its risk capital charge and freed up scarce capital to underwrite additional business.

Innovative but complex partial credit guarantee (PCG) operation in Cameroon. In the case of Cameroon, the use of a PCG to cover the foreign exchange risk of a Eurobond emission, albeit innovative and potentially useful, was not relevant because the preparation and emission modalities of the Eurobond itself were unsatisfactory.

Equity Participations

Equity participations were relevant, in line with country strategies, and met client needs. Equity participations were used mostly for highly strategic partnerships and in four out of the six cases with intended development outcomes of a regional scope. For example, by investing in PTA Reinsurance Company (ZEP-RE) and EADB based in Kenya—both financial institutions with a regional market focus—the AfDB contributed to its goal of promoting greater regional integration and development. In addition, it contributed to the diversification of financial services in target markets. In Nigeria, the AfDB's equity investments helped establish and strengthen local development finance institutions, namely the Development Bank of Nigeria and the Fund for Agricultural Finance in Nigeria (FAFIN), whose missions are aligned with the AfDB's.

The AfDB invested in institutions that provide important support functions in the financial sector. Through its equity investments, the AfDB helped to strengthened institutions that are necessary for the financial sector to work efficiently. Thereby, the investments benefit the whole system rather than just a single institution, likely having a far greater impact. For example, strengthening a reinsurer serves many different insurance providers in the market and is an important support function for an insurance market to develop. In the case of ZEP-RE, the re-insurer also has a training academy focused on developing the insurance and reinsurance sectors of the region through training and technical skills development. By strengthening support functions such as re-insurance, funding for agriculture finance, or skills development, the AfDB contributed to Pillars 2 and 3 of the FSDPS and responded to market needs.

Equity participations led to direct and indirect contributions to access to finance. In Nigeria, the equity participation in the Development Bank of Nigeria led to increased lending to SMEs via the AfDB's partner financial institutions and, through its investment in FAFIN, the AfDB contributed to increasing access to medium/long-term funding for high-growth agricultural and agri-business SMEs[12]. The AfDB's other equity participations were less designed to directly improve access to finance for underserved and excluded segments of the population or small businesses. However, by strengthening support functions that benefit the whole financial sector, these target groups nonetheless benefit indirectly.

Grants/Technical Assistance

The AfDB's support of the Agrobusiness Bank in Burkina Faso (PACBA) responded to unmet funding needs of the agriculture sector. However, it is questionable whether the refinancing of the government's capital participation of FCFA 5 billion was the most appropriate option to support PACBA, as other types of relevant accompanying measures to support PACBA could have been considered in addition to TA for agricultural insurance and warehouse receipt systems.

TA was relevant to support SME access to finance in Tunisia. The grant of EUR 2.838 million from the Multi-donor Trust Fund for Transition Countries, which was provided to launch a country-wide program to prepare SMEs' access to the capital market in Tunisia, was relevant. The project was aligned with two pillars of the FSDPS, namely the deepening of financial markets and governance. It also responded to the country's needs and was a good example of where the AfDB's support helped develop a capital market and improve access to longer-term funding sources.

Policy-based operations

AfDB support for modernizing the Tunisian financial sector was highly relevant. The only PBO assessed in the fieldwork was budget support in the form of a loan of EUR 268 million for two years extended to the Republic of Tunisia. The Financial Sector Modernization Support Program was highly relevant, a view that was shared by the Ministry of Finance and all involved financial sector actors. The focus on SME financing, microfinance, insurance, private equity, and financing of regional development was aligned with Tunisia's priorities and needs, as well as with the AfDB's priorities. It was one of the four PBOs approved during the period 2014–2018 that fostered policy dialogue and contributed to the cross-cutting pillar of the FSDPS (financial stability and governance).

Design Quality of the AfDB's Financial Sector Development Operations

Lines of Credit

The analysis of the appraisal reports and interviews with key stakeholders during the fieldwork indicates that the LOCs were designed by skilled teams. In general, clients appreciated the competence and professionalism of the AfDB's teams that prepared the LOCs. The design of LOCs tended to be demand-driven and based on the needs assessments of client institutions. In some cases, TA needs were diagnosed during these assessments and led to additional TA measures being provided by the AfDB, for example, for the implementation of better monitoring systems or the integration of ESG management.

The assertion in the previous paragraph notwithstanding, the design quality of LOCs showed some weaknesses in the intervention logic. While the design of all but two of the LOCs was found to be satisfactory from a financial-instrument perspective, all LOCs showed weaknesses in their intervention logic as development operations. The PARs do not convincingly explain how a LOC to a client financial institution contributes to the intended development objectives. The hypothesis that providing liquidity to a financial institution to serve a specific underserved target group sustainably increases access to finance for this target group does not hold, as lenders tend to fall back to lending to their usual clients once the LOC expires. A strategic review of the AfDB's SME support operations found that *"The provision of a line of credit does not transform the bank's risk appetite with respect to lending to an SME"* (Genesis Analytics 2018). Providing LOCs is less likely to produce the intended results for disadvantaged SMEs and population segments. The intervention logic is even more problematic in fragile states, where transaction costs and perceived or real risks are dissuading lenders. Although previous evaluations have repeatedly questioned the impact of LOCs on the intended end-beneficiaries (IDEV 2018), this hypothesis continues to underpin the justification for LOCs.

The intended financial sector development outcomes and targeted end-beneficiaries are not sufficiently defined at the project design. PARs loosely refer to access to finance, but without defining clear targets. Even where SMEs are defined as a target group, the lack of clear definitions makes targeting difficult and, in several cases, LOCs have benefited mostly large corporates or high-growth SMEs (e.g., Coris in Burkina Faso and Access Bank

in Nigeria). In addition, the development outcomes defined in the PARs often relate to private sector development objectives, such as the number of jobs created, which are hard to attribute to a LOC and are rarely tracked by the AfDB's clients. Due to the lack of clear definitions of underserved target groups, combined with strong pressure to demonstrate results in job creation, AfDB staff tended to focus on LOCs to financial intermediaries that on-lent to high-growth enterprises and sectors, not the ones that employ underserved target groups. Therefore, smaller, less mature and informal SMEs were often left behind. This raises questions regarding strategic clarity and whether operations are effectively targeting underserved and excluded segments of the population and SMEs.

Weak internal coordination or consultation with development partners and clients led to implementation weaknesses. In the case of the LOC to the Tunisian APEX MSME facility, the eligibility criteria for participating financial institutions were too stringent and resulted in delays in the allocation of funds. While there was close coordination with the World Bank and the Government of Tunisia during the design stage, the issues that arose at the start were not addressed in a coordinated manner during implementation.

Restrictions on providing LOCs in local currencies limited the relevance and applicability of LOCs. In Burkina Faso and Tunisia, lending in euros led to unfavorable pricing of LOCs compared with offers in the local currency. In addition, clients benefiting from long-term loans (e.g., Coris) face exchange-rate risks in case that FCFA-euro parity is abandoned. In Namibia, despite the LOC terms being competitive, AfDB clients would have preferred local currency financing instead of loans in South African rand. In Nigeria, Central Bank of Nigeria regulations prohibit banks from on-lending U.S. dollar-denominated loans to companies that do not have U.S. dollar receivables. This resulted in LOC funding being on-lent to companies with U.S. dollar receivables instead, which tended to be larger corporates as opposed to SMEs.

Trade Finance Lines of Credit

Overall, the design of TFLOCs was satisfactory. Appraisal teams had the necessary skills and the design of TFLOCs was based on assessments of client needs. The Bank provided a package of complementary instruments to reduce Afreximbank's capital constraints (equity investment), enhance its credentials as an emerging confirming bank (RPA), and expand its capacity to provide vital liquidity support to IFIs and corporates in Africa (TFLOC). The ultimate objective was to enhance Afreximbank's role in promoting trade and regional integration in line with its mandate and strategic plan. The PARs contained an adequate assessment of commercial viability, and logical results frameworks with clearly identified development outcomes that were aligned to trade finance business plans. Some shortcomings that were identified related to the results framework and the non-measurement of cross-cutting issues relating to gender, youth, rural and urban beneficiaries.

Target beneficiaries were not clearly defined. As was the case with LOCs, the PARs did not sufficiently define and quantify the target beneficiaries of TFLOCs.

Conditions, pricing and repayment schedules could have been better adapted to clients' needs. The Commercial Bank of Africa stated that the bullet repayment structure (a lump sum payment for the entirety of an outstanding loan at maturity) of the TFLOC was not suitable because it forced the institution to suspend lending toward the end of the facility in order to enable it to collect installments from beneficiaries to make its repayments. In Nigeria and Kenya, clients also lamented the high pricing of the TFLOC.

Risk-Participation Agreements and Partial Credit Guarantees

In Cameroon, the credit risk guarantee itself was well-designed from a technical standpoint. The AfDB deserves credit for designing an innovative and complex operation. However, given that the Eurobond issue was not well founded, not mature and unlikely to lead to intended development objectives, the design was unsatisfactory. The partner government did not have the necessary capacity to manage such a complex operation, the Eurobond design process was not sufficiently documented and its preparation was weak. This is illustrated, for example, by the fact that Eurobond issuance was not included in the annual budget.

The design of the RPAs within trade finance packages to Afreximbank was satisfactory. This included a relevant screening, a quality due diligence and a strong screening. However, some requirements prevented an effective use of the facility for the second package. Afreximbank is involved in large deals whereas the RPA for the second package required that Afreximbank finance SMEs. As a consequence, this meant that 40 percent of the RPA amount approved for the second package remained unused, as explained in the section on efficiency.

Equity Participations

There is no explicit theory of change that explains how operations lead to sector development. Despite the strong relevance of the AfDB's equity participations for the development of the financial sector, equity participation designs did not explicitly explain how these investments contributed to sector-level outcomes. Development outcomes tended to focus on other development goals (e.g., food security in the case of FAFIN, Nigeria) or the performance of the client, rather than development of the financial sector. For example, the Bank's investment in ZEP-RE was expected to deepen insurance markets (household, micro and SME segments), and subsequently reduce consumers' and businesses' vulnerability to shocks. However, ZEP-RE focused on building its capacity to finance large-scale projects on the continent (projects currently covered by foreign re-insurers). Nevertheless, re-insurance is a precondition for developing insurance markets and ZEP-RE further contributed to market development by: establishing national reinsurance companies in Uganda and Ethiopia; providing training on fire and engineering risks; and certifying new professional entrants in the reinsurance sector, among others. While ZEP-RE did not directly help to improve access to finance for underserved segments, it helped to build the precondition for a more inclusive and diversified financial sector.

The AfDB leveraged equity investments to advance the integration of ESG principles. ESG principles were checked during due diligence and, if weaknesses were discovered, the AfDB then assisted its clients to embed ESG principles into their operations. In the case of FAFIN (Nigeria), this may have led to extra effort for the client, which had to adopt the AfDB's template even though it was already in compliance with IFC's ESG template.

Grants/Technical Assistance

Mixed design quality of grants/technical assistance. In Tunisia, the grant to facilitate access to finance for SMEs was complementary with other AfDB operations in the country. The grant followed an innovative approach to enable SMEs to raise funding on the capital market and from private equity funds. In the case of Burkina Faso, lessons learned were not taken into account in the project design. The design of the AfDB's support to PACBA was unsatisfactory, as it did not build on lessons learned from past experiences that had shown the limitations and challenges of state-owned agriculture banks. It also failed to acknowledge current experiences in the country with warehouse receipt systems and agricultural insurance.

Policy-based Operations

The AfDB's support was aligned with the partner country's vision. Through budget support, the AfDB supported Tunisia's vision for developing its financial sector, with an emphasis on capital markets development and financial access for the underserved. This policy-based operation was also a good example of coordination with other international organizations and financial sector stakeholders in Tunisia upfront, which contributed toward the robust project design.

Effectiveness

Lines of Credit

LOCs were effective in providing long-term funding otherwise unavailable in target markets. In most cases, the LOCs were disbursed and used, given that there was a shortage of long-term funding in all the target markets. Overall, clients respected the financial obligations and were able to make effective use of the funds provided by the AfDB. Eight out of the 13 LOCs in the sample fully or partially attained the intended results as defined in their PARs. However, given that development indicators lacked clarity and were not always in line with the intended financial sector development objectives, there was insufficient evidence of the effectiveness of LOCs in contributing to financial sector development in the selected countries. This finding is in line with an earlier evaluation of LOCs stating that *"The effectiveness of LOCs is often questionable because information at the end-beneficiary level for analyzing the development results through the evaluation criteria is missing"* (IDEV 2018).

Only two LOCs (Fortis Microfinance Bank in Nigeria and APEX LOC Tunisia) clearly missed their objective of providing target groups with long-term funding. In the case of Fortis, based on its weak corporate governance indices, it suffered severe liquidity crises leading to the revocation of its license. Information from the Central Bank of Nigeria revealed that appropriate documentation was lacking to verify the existence of the on-lent loans to the stated SMEs, thus confirming the *highly unsatisfactory effectiveness* of this LOC. In the case of Tunisia, the funding was difficult to access due to unrealistic eligibility criteria for participating financial institutions, which represented a significant lost opportunity as only 70 percent of the funding was used. In comparison, a LOC provided in parallel by the World Bank was fully disbursed and an additional tranche was later approved.

LOCs provided only limited benefits for the intended target groups. Several LOCs targeted specific excluded population segments, such as the rural population, women or youth. However, in many cases there was no information available on whether these target groups had benefited from the LOCs, due to weak internal reporting systems of clients. Some clients pointed out that reporting requirements and results indicators had been discussed insufficiently, or too late in the negotiations of the LOC. In some cases where information was available, it showed that the intended targets represented only a small part of the portfolio of client institutions benefiting from the AfDB's LOCs (e.g., LOCs in Burkina Faso, Nigeria and Kenya). In two cases in Nigeria (Access Bank[13] and Wema Bank) clients were not able to lend to the intended target businesses due to regulatory requirements, but the AfDB could have adjusted the LOC terms or intended outcomes. Furthermore, the pipeline approach—which suggests that the AfDB has control over the end-beneficiaries—did not help to improve targeting, as projects approved and actually implemented were often different.

Conflicting objectives undermined effectiveness. Quantitative development indicators were mostly defined with a focus on job creation and the number of enterprises funded, but remained vague on the types and profiles of the end-beneficiaries. This provided clear incentives for clients to fund larger enterprises, as these posed lower risk, and were more likely to absorb funding and create

jobs. As a consequence, small enterprises and other underserved groups remained excluded. For example, Coris Bank International in Burkina Faso did not finance Micro-Finance Institutions as intended in its PAR, and thereby missed an opportunity to reach low-income people, particularly women and farmers, and thus to contribute toward advancing financial inclusion. In some cases, there was a clear mismatch between the intention to enhance access to finance for women and the types of enterprises funded by clients (e.g., mostly sectors that employed men).

Trade Finance Lines of Credit

The TFLOCs provided by the AfDB mostly attained their intended results. Through financial intermediaries, trade finance facilities were extended to African corporations, including SMEs, and thereby contributed to international trade. The TFLOC facility to the Commercial Bank of Africa in Kenya is still to be fully disbursed to end borrowers and as such the realization of outcomes could not be assessed. In general, it was a daunting task for the evaluation to verify the effects of TFLOCs on trade because the relevant information was not available.

The benefits for targeted end-beneficiaries were not clear. Due to a lack of information on final beneficiaries of trade finance facilities, the fieldwork could not verify the profile and size of the end-beneficiaries, and whether they corresponded with the intended target beneficiaries.

Risk-Participation Agreements and Partial Credit Guarantees

The effectiveness of the PCG in Cameroon was unsatisfactory. While some intended results were achieved, this PCG involved serious risks linked to the increased public debt becoming unsustainable. Also, the utilization of funds raised through the Eurobond issuance was highly unsatisfactory, as it was not in line with the objectives initially defined and that would have justified the AfDB's guarantee.

The effectiveness of the RPAs to Afreximbank was satisfactory. RPAs enabled Afreximbank to extend its trade finance commitments with additional issuing banks thanks to the risk-sharing facility. RPAs provided designated limits for Afreximbank's African trade business, which allowed the confirming banks to handle transactions in a timely manner.

Equity Participations

Equity participations mostly led to the intended results. As intended, the equity investments in Afreximbank and ZEP-RE contributed to regional development. The investment in ZEP-RE helped the insurer provide coverage to more enterprises and projects across the region, and helped crowd in capital from the German development finance institution, Deutsche Investitions und Entwicklungsgesellschaft (DEG), given the improved credit rating associated with the AfDB.

Through its equity participations, the AfDB has contributed toward the good governance of client institutions, which is in line with the cross-cutting pillar of the strategy. The AfDB provided advice through its representatives on investee boards and was effective in supporting clients with the implementation of ESG principles. To take one example, in Kenya, for ZEP-RE, the Bank's representative on its Board enhanced the overall quality of its corporate governance and capacity. The Bank's representative was instrumental in helping the insurer come up with solutions to the expropriation risk in fragile states such as Zimbabwe and South Sudan, and also in Ethiopia where it is challenging to transfer funds out of the country. In addition, ZEP-RE also received assistance to improve the structure of its investment function.

Grants/Technical Assistance

Both grants covered in the fieldwork are in their early stages, which limits the assessment of their effectiveness.

Policy-based Operations

The AfDB's support to the Government of Tunisia through a PBO was effective at various levels. The operation enabled the government to move its financial sector reform agenda forward despite the post-revolutionary instability. The achievement of objectives included in the results framework was satisfactory. The provision of budget support dedicated exclusively to the financial sector, as opposed to previous multi-sector support, allowed it to focus on, and cover in depth, multiple components of the financial sector: financial inclusion; access to finance to MSMEs in the regions; insurance; and capital markets and governance. Out of the 21 components of the results framework, 15 were fully achieved, three were partially achieved and three not achieved.

Efficiency

Lines of Credit

Long and cumbersome approval processes limited the efficiency of LOCs and led to missed lending opportunities for clients. The efficiency of seven out of 13 LOCs was unsatisfactory, mainly due to time overruns in the approval phase, which led to additional costs for clients and/or missed lending opportunities. Even for those LOCs where efficiency was satisfactory overall, clients stated that processes were prolonged compared with other IFIs. Delays were caused both by the AfDB and the clients. One factor that caused delays was the failure to meet conditions prior to disbursement by clients, with some clients questioning the relevance and nature of these conditions. Other factors were due to the AfDB, including the lack of automated procurement processes (e.g., Tunisia), long and costly legal procedures, or insufficient coordination across teams.

Once approved, implementation of LOCs was efficient. LOCs are an efficient mechanism to channel large amounts of funding to intended beneficiaries. Especially in Nigeria, clients appreciated the AfDB's responsiveness and the relationship with staff. Zenith, Access Bank and the Development Bank of Nigeria (all AfDB clients in Nigeria) stated that AfDB staff were quick to respond to challenges and issues brought to their notice during appraisal and implementation period, and that a good relationship existed with the AfDB team. An extreme case where challenges in implementation were not effectively and timely managed was the APEX facility in Tunisia.

The results of the AfDB's collaboration with other IFIs were mixed. In Nigeria, the AfDB collaborated well with other IFIs such as the World Bank, the European Investment Bank and KfW Development Bank during the appraisal process for the LOC to the Development Bank of Nigeria. In the case of the LOC to the Tunisian APEX facility, the AfDB collaborated closely with the World Bank during the preparation phase. However, collaboration was insufficient during implementation, which resulted in the AfDB's LOC remaining underused, while World Bank's facility was fully used leading to the approval of an additional tranche.

Due diligence was not able to anticipate the risk of failure. In the case of Fortis (Nigeria), AfDB received a no objection letter from the Central Bank of Nigeria and conducted a due diligence around the same time as another IFI. This other IFI declined to lend to Fortis based on industry and regulatory revelations. A similar exhaustive due diligence exercise, including stakeholder consultations and collaboration with other IFIs, could have revealed information on the internal challenges that Fortis was facing, which might have influenced the AfDB's lending decision.

Trade Finance Lines of Credit

The efficiency of the TFLOCs was overall satisfactory. Some delays were experienced due to legal procedures in the case of the TFLOC to FSDH Merchant Bank, Nigeria. Delays in the disbursement of a TFLOC to the Commercial Bank of Africa, Kenya, were mostly due to the internal issues in the Commercial Bank of Africa, including high liquidity at the point of TFLOC disbursement and a lack of a clear lending pipeline. The TFLOC to Banque de l'habitat, Tunisia, was disbursed soon after signing and the only aspect that is still under discussion is a request for TA.

Risk-Participation Agreements and Partial Credit Guarantees

The efficiency of providing RPAs as part of a trade finance package was satisfactory for the RPA for the first package but unsatisfactory for the RPA for the second package. An AfDB supervision mission in May 2019 observed that the RPA of the second package was underutilized and suggested increasing the threshold of eligible transactions to better align the conditions with Afreximbank's typical transaction volumes. The two RPAs had the same conditions applied to them.However, for the second RPA, Afreximbank changed its approach, preferring to focus on larger deals, whereas the AfDB had requested the financing of SMEs. Hence, 40 percent of the second-package RPA was not utilized.

The PCG for currency risk hedging was complex and inefficient. While the actual swap was set up efficiently, the negotiations and project management between the AfDB's team and Cameroonian counterparts were lengthy and required mobilizing costly expertise. Also, the process was not sufficiently documented, which limited the learning for teams structuring similar deals in the future. The Eurobond was finally issued after a five-month delay that resulted in a higher interest rate, which constrained the government by limiting the final amount of the Eurobond issue.

Equity Participations

Overall, the efficiency of equity participation operations was satisfactory. However, delays in the process for equity participations were noted in all cases. Some of these delays were due to legal agreements and delays in obtaining government approvals (the Development Bank of Nigeria), but a lack of clarity on which teams within the AfDB should handle certain requests also led to further delays (FAFIN). In Kenya, the turnaround time on the Bank's decision to participate in ZEP-RE's rights issue lasted close to one year, forcing ZEP-RE to hold off/delay some investment decisions. This was potentially costly for the insurer.

Grants/Technical Assistance

The grant to the Tunisian Stock Exchange for the SME project has only just started. Therefore, the efficiency of the operation could not be assessed. Procurement of a firm to provide TA to SMEs proved to be complex, given that both AfDB and government procedures had to be respected. The approval and signature process for the TA to PACBA was efficient. However, there were some delays in disbursements because the Government of Burkina Faso failed to meet the conditions prior to disbursement.

Policy-based Operations

Time-efficiency in terms of the disbursement and implementation of budget support to the Government of Tunisian was highly satisfactory. The sector work and consultation processes started two years before the operation was approved. These consultations with key beneficiaries, under the coordination of the Tunisian authorities, enabled a better understanding to be developed of the areas on which the operation should focus. This preparation contributed to the quality of the design of the operation. In addition, the operation built on the AfDB's previous financial sector interventions. These aspects contributed to the efficiency of the

operation. Therefore, the operation complied with the schedule in terms of the disbursement and implementation, and the operation was completed within two years, as initially planned. The operation also showed satisfactory monitoring of development outcomes as demonstrated in the PCR.

Sustainability

Lines of Credit

The AfDB's client financial institutions improved their financial performance and funding base. Most financial institutions that benefited from the AfDB's support through LOCs improved their financial performance during the period of the LOCs. With the exception of two development banks (the Development Bank of Namibia and the East African Development Bank) and Fortis Microfinance Bank, the financial institutions receiving LOCs showed non-performing rates below industry averages (as of 2018). In some cases, the LOC helped attract funding from other sources, helping clients to grow and diversify their funding base. The signaling effect of being an AfDB client was mentioned by some clients as a positive effect of the LOCs, which helped improve their access to other funding.

Whether partners will continue serving the intended client segments is questionable in some cases. As stated under the Relevance section, LOCs have only a limited impact on clients' incentives and capacities to serve specific underserved target groups. In Kenya, it is unlikely that supported financial intermediaries will continue serving small enterprises and other underserved groups post the AfDB's support, as the underlying constraints such as high transaction costs, informality and real or perceived risks have not been addressed. The country case study points out that there is a significant risk that financial intermediaries will revert back to serving corporates and previously served creditworthy clients. This lack of alignment between the AfDB's development objectives and the strategic objectives of supported financial institutions raises questions about the AfDB's partner selection and the sustainability of results. In some cases, for example, in Burkina Faso and the LOC to Hannibal Lease in Tunisia, there is sufficient evidence to suggest that the financial intermediaries will continue serving SMEs, which constitute a growing share of their portfolio and a strategic priority. In Nigeria, the AfDB's clients have a developmental mission and are therefore more likely to continue lending to the target segments.

The lack of long-term funding is addressed only temporarily through LOCs. While the AfDB mostly supported sustainable financial intermediaries and contributed to improving their performance, its operations addressed the lack of long-term funding only temporarily. There is no evidence, and no reflection, on whether the AfDB's clients will have improved access to long-term funding when the LOCs provided by the AfDB come to an end. Project supervision reports mostly focus on the financial performance of client institutions, and do not analyze whether or how the client institution contributed to financial sector development. Attribution to AfDB support is not referenced either.

Trade Finance Lines of Credit

The sustainability of TFLOCs was satisfactory. The financial institutions supported by the AfDB are well positioned and likely to continue providing trade finance facilities to their clients. In Nigeria and Tunisia, the AfDB's support helped clients secure additional funding from other IFIs. Furthermore, the AfDB helped embed ESG principles and strengthen the monitoring capacity of partner institutions.

Risk-Participation Agreements and Partial Credit Guarantees

Insufficient sustainability of PCGs. The sustainability of this very specific operation was assessed in terms of the likelihood by which the

Government of Cameroon could manage a similar operation in the future and the viability of public debt. Using these two perspectives, sustainability of PCGs is judged to be unsatisfactory. In addition, there was no documentation of the process, which limits replicability in the future, while the increased level of public debt poses significant risks.

Equity Participations

The sustainability of all equity participations was assessed as satisfactory. In all cases, the investees are likely to continue serving the intended end-beneficiaries beyond the AfDB's assistance. In addition, equity participations have helped investees attract additional funding, mainly from other IFIs.

Through its equity investments, the AfDB has contributed to financial sector development. The investment in ZEP-RE helped to grow the insurance sector and benefit multiple insurance providers in the region. Financial sector-level outcomes are likely to continue in the long term.

Grants/Technical Assistance

As indicated above, the AfDB's support to Tunisia Stock Exchange and PACBA in Burkina Faso started only recently, and it is still too soon to assess their sustainability. Given that the grants intend to address underlying constraints for SMEs, respectively in the agriculture sector and in accessing finance, they are likely to lead to sustainable results.

Policy-based Operations

Strong ownership and leadership by the Government of Tunisian will likely lead to transformative results. The PBO contributes to transformative outcomes that support the deepening of Tunisia's financial market. These changes include alignment of the financial markets with international standards, the revision of the Insurance Code and financial market reorganization, which will have a lasting impact on access to finance and the development of the Tunisian financial sector.

AfDB's Performance

Most stakeholders are satisfied working with the Bank. Clients consider that the AfDB helps them to crowd in other funders given the AfDB's Triple A rating. Interactions with AfDB staff were satisfactory from the clients' perspective, which views AfDB staff as being responsive and proactive in dealing with enquiries and requests. Technical capacity of AfDB staff is acknowledged, but staff are overstretched, as investment officers often have to carry out supervisory activities. The relationship management, especially during transitions between staff, could have been improved in some cases. One outlier situation is represented by the case of the Line of Credit in Support of Small and Medium Sized Enterprises in Tunisia approved in 2011. The World Bank provided a similar LOC at the same time. The World Bank completed its operation and carried out a completion report in 2015 before providing a second LOC, which is currently ongoing. Meanwhile, the disbursement rate of the LOC provided by the AfDB was only 70 percent in July 2019. Tunisia's central bank, which is the implementing agency, is highly dissatisfied with this situation.

The AfDB's TA offer (e.g., provided as part of Africa SME Program) was appreciated by clients and seen as adding real value to other facilities. From interviews with different institutions, it appeared that more TA is needed to build FIs' capacity in a variety of areas. This gap was also identified by the supervision missions in Kenya and Namibia.

The AfDB contributed toward strengthening clients' corporate governance through board seats and ESG integration. The AfDB played a strong role in supporting clients with ESG management and, in some cases, risk management (Burkina Faso, Kenya, Namibia, Nigeria and Afreximbank), which is appreciated by clients. In addition, the AfDB contributes to strengthening the corporate governance of its clients through actively participating in the board of investees, for example at ZEP-RE, the Development Bank of Nigeria and Afreximbank.

Clients found AfDB procedures cumbersome compared with other IFIs. The AfDB was considered by some clients as using unnecessarily cumbersome procedures, some of which had been abandoned by other institutions. For instance, in Tunisia, private banks lamented that the Bank required the provision of a non-objection letter from the Ministry of Finance before benefiting from an LOC. This was considered to be an unnecessary step given that the banks are regulated by Tunisia's central bank. It was also noted that conditioning disbursement upon an audit, as in the case of the APEX facility, was a practice that had been abandoned by the World Bank. Likewise, clients underscored some inefficiencies in procurement, as the AfDB did not have an automated procurement system.

Beyond its operations, the AfDB is not visible as an actor in financial sector development. Among the countries visited, with the exception of Tunisia where the AfDB has played a major role in supporting the government's financial sector reform plans, AfDB has not systematically engaged in policy advocacy—a missed opportunity that could have been utilized to create far more impact. Even in Namibia, where the CSP envisaged AfDB support for business environment reforms, there is no evidence that the AfDB was involved in policy advisory to influence financial regulations. In Kenya, staff occasionally engaged in policy dialogue, but there is no evidence of a deliberate strategy for the AfDB's sector engagement in policy and regulatory dialogue. The AfDB is mostly transaction-driven, which is misaligned with development challenges such as capital market development and financial inclusion.

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Summary of the Main Findings

Overall, the AfDB's operations were in line with the FSDPS and relevant to their respective country contexts. AfDB operations mostly focused on channeling long-term funding to priority sectors of the economy. Given the broad scope of the FSDPS and significant gaps in financial sector development, the AfDB's operations were aligned with the strategy and country needs. However, they mainly focused on providing resources to financial intermediaries for on-lending to the real economy. Other potential measures to increase the availability of long-term funding were not given sufficient consideration.

The high priority given to access to finance by partner countries is not reflected in AfDB country strategies. All countries in the sample see financial sector development, and financial inclusion in particular, as a priority for economic development and an enabler of other development goals, such as rural development and women's economic empowerment. All selected countries either have a national financial inclusion strategy (Nigeria, Tunisia, Namibia, Burkina Faso and Cameroon) or a national development strategy with a financial inclusion component (Kenya). Hence, the high strategic priority given to financial sector development by partner countries is not reflected in the AfDB's CSPs. AfDB operations mostly focus on channeling long-term funding to priority sectors of the economy, while many other constraints that are mentioned in partner countries' strategies and the FSDPS (e.g., weak payment systems, regulatory constraints, lack of innovation, informality, etc.) remain unaddressed. The AfDB's CSPs refer to the financial sector mostly as a channel to improve financing for priority sectors, but do not place sufficient emphasis on the need to build strong, sustainable and resilient financial systems.

While the fieldwork focused on countries where the AfDB had multiple financial sector operations, there is no evidence that these operations are part of a coherent Bank strategy toward financial sector development. The lack of thorough financial sector diagnostics to understand the underlying constraints and how to address them might have contributed to this lack of strategic clarity and focus. Except for the operations evaluated in Tunisia, the AfDB's financial sector operations are decided on their case-by-case viability and do not represent a coherent set of interventions that jointly contribute to achieving the FSDPS objectives. In this regard, there are similarities with the prevailing situation when the 2003 financial sector policy was prepared. The policy states that: *"However, so far these interventions appear to have been employed in isolation, without taking into account their mutual and reinforcing relationship, and without a comprehensive framework for the [financial] sector's development"*. The lack of vision for financial sector development at the country level is also reflected by the fact that the AfDB is not visible as a leader in financial sector development and its engagement with other funders to develop a vision for the sector is limited.

The insufficient definition of the target groups and the intended development outcomes limited the AfDB's role in advancing access to finance for the underserved. The development outcomes and end-beneficiaries are not clearly defined in the PARs and other project reporting. LOC objectives loosely refer to access to finance, but without defining clear targets, especially with regard to reaching underserved target groups such as women and youth. In many cases, project reporting does not include information on the actual end-beneficiaries or available information shows that the intended target groups represent only a small part of the portfolio of client institutions benefiting from the AfDB's LOCs. Furthermore, the positioning of SME finance as an enabler of growth and job creation (which is reflected by outcome indicators) leads to a focus on high-growth SMEs, not the underserved.

While the focus on strong SMEs makes sense from a private sector development perspective (i.e., to promote enterprises development for job creation), it risks not sufficiently advancing access to finance for the underserved and excluded. The diverse financial needs of households and individuals, other than business needs (e.g., management of shocks, reduction of vulnerability/poverty, women's empowerment, access to other basic services) are hardly considered in project design. This raises questions regarding strategic clarity and whether operations are effectively targeting underserved and excluded segments of the population and SMEs. A strategic review of the AfDB's SME support operations (Genesis Analytics 2018) also states that *"It is important for any development organization working on MSME development to be able to identify and target the specific profile of firms that most require their support or best achieve their intended development outcomes".*

The efficiency of the AfDB's financial sector development operations was partially satisfactory. More than half of the evaluated operations were efficiently prepared and implemented. Others faced time overruns that, in some cases, led to additional costs for clients or clients missing their lending opportunities. Even in operations where efficiency was satisfactory, clients stated that processes were prolonged, apart from those for repeat operations. Among the main reasons advanced to explain this situation are onerous conditions as requirements prior to disbursement, inefficient communication and the lack of an automated procurement system.

The Bank's operations tend to provide temporary solutions to financial sector development barriers. The AfDB provided much needed long-term funding to its target markets and this has often helped clients to access additional funding from other IFIs. However, the lack of long-term funding was addressed only temporarily through supporting end-beneficiaries via financial intermediaries. In general, the AfDB supported regulated, financially sustainable institutions, but the likelihood that they will continue serving underserved target groups beyond the period of AfDB support is questionable. This is because most operations did not address the underlying constraints that prevent financial institutions from serving the underserved segments of the population and the economy, including SMEs. Such constraints include insufficient capacity and willingness to serve certain segments of the market, weak regulation and supervision, a lack of competition, the existence of information asymmetries, and high transaction costs and risks. These factors also contribute to the high interest rates prevailing in African financial sectors (Beck et al. 2011). Also, any reflection on innovative ways to increase access to finance through digital and other alternative delivery channels was largely absent from the evaluated portfolio, despite their disrupting role in numerous African financial sectors. More recently, the AfDB has become more active in supporting the development of capital markets and digital financial services. However, these operations are not sufficiently mature to be included in the sample of this evaluation.

Suggestions to Consider

Strategic Considerations to Strengthen the AfDB's Role in Financial Sector Development

Conduct sector diagnostics that identify barriers to access to finance. CSPs and the subsequent selection of instruments and partners should be based on thorough financial sector diagnostics to address market failures and systemic constraints with the right instruments. Diagnostics could build on sectoral and thematic studies[14], existing studies conducted by other funders and the abundant information from Making Finance Work for Africa (MFW4A). Diagnostics should go beyond analyzing the banking sector, and also consider how existing financial service providers and their offerings meet the needs of different segments of MSMEs and the population. Financial sector experts should work closely with in-country and regional economists, not only when carrying out country diagnostics but also when preparing country and regional notes and strategy papers.

Define the intended financial sector development outcomes at the country and regional levels. The AfDB would have greater transformational impact if its operations contributed to a clear and shared vision for financial sector development, and financial and non-financial instruments were used in a complementary way to support strong partners (both private and public). There is a need to develop a more comprehensive narrative of how financial sector development in Africa contributes to private sector development, and to better explain its links with increased productivity and economic development at the regional/country levels. CSPs and RISPs (or any other strategic framework with a country or regional focus) should include clear objectives for financial sector development operations, with related outcomes. These objectives should stand at the same level as development objectives of other sectors and be broken down into results indicators at the project level.

Be more explicit regarding how operations contribute toward addressing financial sector development constraints in the long run. Based on the binding constraints identified in the diagnostics, PARs should articulate how supporting specific institutions and the use of relevant instruments will contribute to the three pillars of financial sector development. A more diverse range of instruments and potential measures (e.g., capital market development, investing in financial infrastructure, etc.) to increase the availability of long-term funding should be considered during project design, not only LOCs. All operations should formulate a theory of change that is based on existing knowledge, and is specific to the country or regional context and the target groups.

Suggestions to Improve Benefits for the Intended Target Groups

Better define and measure the project development outcomes and the benefits for target groups. PARs should include specific, measurable financial sector development indicators in their results frameworks, including indicators that measure access to finance for the underserved. Indicators need to be defined at all levels: the financial sector, the client, and the end-beneficiary levels. Wherever possible, the AfDB should use standard indicators of financial inclusion and/or indicators used in countries' financial inclusion strategies. Monitoring requirements and indicators should be discussed with partners upfront and be tracked during supervision missions. The role of investment officers in supervision missions should be revisited and clarified and, if necessary, there should be increased capacity dedicated to monitoring and supervision. For a reflection on impact management systems, the AfDB could consider applying the Operating Principles for Impact Management to ensure that impact considerations

are integrated throughout the investment lifecycle. This is an emerging practice for development finance institutions and impact investors alike (see https://www.impactprinciples.org/principles).

A clear definition of what constitutes a small to medium enterprise needs to be included in the PARs and embedded in the CSPs. Definitions used by operations are often not clarified in PARs, which makes it difficult to assess the contribution of the AfDB to SMEs. The AfDB should identify and target firms that require its support and for which it has a comparative advantage in supporting. If the AfDB uses definitions from RMC governments, partner financial institutions or other IFIs, it should define a methodology for measuring and aggregating impact at the portfolio level[15].The strategic review of the AfDB's SME support operations (Genesis Analytics 2018) provides a detailed analysis and suggestions on how to tackle the challenge of defining SMEs. The Africa SME Program's working definition and practice of verifying that applied definitions can be considered an SME target group in a specific context is a step in the right direction.

Build on effective approaches to support SME finance. Supporting SMEs to contribute to growth and inclusive economic development requires addressing financial and non-financial barriers, which is best done by a dedicated team that can aggregate all SME-related initiatives. Having a dedicated team helps attract the right expertise and is more likely to set the right incentives for SME finance, which can be skewed toward larger transactions if SME finance is bundled with other operations that tend to require larger ticket sizes. Increasing the capacity of the AfDB's 2013 Regional Africa SME Program could be a good step.

The AfDB could explore different approaches to improve the focus on the intended target beneficiaries. Instead of determining a list of projects (pipeline approach) for guiding the on-lending of funding to intended target groups, the AfDB could test defining targets at the portfolio level (portfolio approach). Combined with a tighter and strengthened M&E capacity of partners, portfolio-level targets (e.g., the number, volume and the percentage of SME loans in the overall lending portfolio) might lead to better results. However, at the strategic level, there needs to be deeper reflection on how to reconcile objectives such as maximizing financial inclusion of the underserved and job creation. Along the same lines, clearer strategic objectives for on-lending to companies in fragile states could help increase the AfDB's impact in some of the countries that are most in need.

Narrowing the gender gap in financial access requires a more deliberate approach. So far, women are mentioned alongside other population groups as intended end-beneficiaries of financial sector development operations. However, the PARs tend to lack specific considerations of how operations can help reduce the gender gap in access to finance. There is broad evidence that women face multiple regulatory, cultural, social and economic barriers that hinder their access to formal financial services and their participation in the economy more broadly. These barriers cannot be addressed through targeted lending only but require a gender-transformative approach to financial inclusion. The AfDB should reflect on how it can be more deliberate in advancing women's financial and economic inclusion through its different instruments, and how it can become more gender sensitive as an institution. This will require developing a credible results chain on how an operation is likely to address the barriers. It also implies obtaining more gender-disaggregated data on access to finance for women, with a baseline, targets and effective monitoring.

Suggestions on the Range of Instruments and their Use for Financial Sector Development

The AfDB should increase awareness and usage of its PCGs among investees. The AfDB gained useful learning from its experience with the PCG in Cameroon, which should be documented and made accessible internally to build staff awareness

and capacity. PCGs are a useful addition to the suite of instruments if properly structured, priced and monitored. They can be used to encourage lending to more innovative, and potentially more risky and dynamic activities and companies. They also encourage financial intermediaries to lend to underserved market segments, sectors and fragile states, with higher perceived or real risks. While the PCG extended to Cameroon in 2015 was limited to hedging the exchange rate between the U.S. dollar and the euro, in the Senegal PCG, in 2018, it is possible to track the flow of funds from the special account in which the Eurobond proceeds were held to the actual investment projects, classified according to the AfDB's High 5s.

Consider lending in local currencies. Restrictions on providing LOCs in local currencies limit their relevance and applicability. The AfDB should consider providing local currency loans and, whenever possible, leverage existing mechanisms to promote local currency financing, such as the Africa Local Currency Bond Fund (ALCBF).

Use TA to strengthen institutions that drive sector development. A needs assessment should be conducted prior to providing TA in order to identify capacity gaps. The AfDB could reflect further on how providing TA to a specific institution can contribute to financial sector development more broadly (e.g., by introducing an innovative financial service). The AfDB could provide advisory services to the financial sector, especially in new and emerging areas such as climate and green financing.

Suggestions to Position the AfDB as a Key Player in Financial Sector Development

Improve outreach and the depth of relationships with sector stakeholders, including clients. The AfDB should inform stakeholders of its financial sector policy and strategy, maintain channels of communication with its clients, and organize regular follow-up meetings to improve the efficiency of its operations.

Leverage the AfDB's policy influence and expertise to facilitate policy dialogue. The AfDB needs to purposefully engage in policy and regulatory environment dialogue aimed at addressing constraints and strengthen regulatory environments and supervision of the financial sector. This should include working in close cooperation with, or leveraging initiatives by, other development partners such as the World Bank Group, the IMF, and local advocacy and industry associations.

Consider increasing the resources for regional integration operations aimed at fostering regional integration around access to finance. Given the increased role now being played by cross-border, regional or continental banks in Africa, it is paramount to support operations aimed at fostering the regional integration of financial sectors. This should help to harmonize rules and procedures at the regional level, especially among francophone and anglophone countries.

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Annexes

Annexes

The following annexes are available on the website: http://idev.afdb.org/en/document/access-to-finance

Annex 1: Methodology of the Evaluation and Fieldwork

Annex 2: Detailed List of Selected Operations (status as of July 2019)

Annex 3: References

Endnotes

1. The FSDPS is a hybrid document combining both a policy and a strategy. In March 2019, the Board of Directors decided that new policies or strategies would be distinguishable in form and no new hybrids documents (combining policy and strategy in one document) would be created (AfDB 2019).
2. Total amount approved for the financial sector during 2011–18 was UA 9,326 million, from which to withdraw UA 505 million for 21 fully cancelled operations and UA 113 for partially cancelled operations.
3. Financial Sector Modernization Support Program (2016) and Small and Medium Enterprises Access to Non-Bank Financing Facilitation Project (2017) in Tunisia, the Partial Credit Guarantee for currency risk hedging in Cameroon (2015).
4. The AfDB regularly conducts thematic analyses that can inform financial sector development. Recent studies initiated by capital markets division include: (i) Financial Centres Study, Challenges and Opportunities (2019); (ii) Insurance Development in Africa (2018); and (iii) African Fixed Income and Asset Management Guide Book – by PIFD (2015).
5. Total amount approved for the financial sector was UA 9,326 million, from which UA 505 million was withdrawn for fully cancelled operations and UA 113 for partially canceled operations.
6. The AfDB is increasing its effort in developing capital markets, which is the objective of one of the flagship programs of its industrialization strategy.
7. Informal services are defined as financial services offered through different forms not subject to regulation but having a relatively well-defined organizational structure.
8. While all operations approved over the period 2011–18 were evaluated in Burkina Faso, Cameroon, Namibia, Tunisia, and Afreximbank based in Egypt, in Kenya, the Bank had approved 11 operations but only five were selected. Likewise, in Nigeria the Bank had approved 25 operations and seven were evaluated. See Annex 1 for more information on the selection of operations.
9. See the methodology in the introduction.
10. The Fund aims to reinforce the safety and growing trends of digital finance transactions on the continent to ensure that 332 million more Africans have access to the formal economy. The fund will deploy US$100 million in grants and US$300 million in the form of debt by 2030. The frontrunner project consists of US$11 million from the Bill and Melinda Gates Foundation to build in the West African Economic and Monetary Union (WAEMU) an interoperable digital payment system allowing transactions from mobile money wallets to other financial institutions' accounts.
11. The previous name was First Securities Discount House Limited. The name changed upon receiving a merchant banking license.
12. For Development Bank of Nigeria (DBN), the LOCs from the AfDB (including LOCs from the World Bank, EIB and KfW) assisted DBN to provide wholesale loans to participating financial institutions (PFIs). As at July 2019, DBN had signed up 26 PFIs (10 commercial and 16 microfinance banks) and disbursed a total of N58.890 billion (US$163.58 million) to 14 PFIs that have equally disbursed same to 35,414 end beneficiary SMEs (72 percent women-owned businesses) across several sectors of the economy (against a target of 14,387 loans in seven years).
13. In Nigeria, the SME definition agreed between Access Bank and the AfDB was taken as companies having turnovers less than N 1.0 billion (which was US$6.04 million in 2014), with loan sizes to be disbursed ranging between US$5 million and US$30 million—too large for an SME. Most of the loans ended up with large corporate organizations.
14. The AfDB regularly conducts thematic analyses that can inform financial sector development. Recent studies initiated by capital markets division include: (i) Financial Centres Study, Challenges and Opportunities (2019); (ii) Insurance Development in Africa (2018); and (iii) African Fixed Income and Asset Management Guide Book – by PIFD (2015).
15. The strategic review of the AfDB's SME support operations (Genesis Analytics 2018) provides a detailed analysis and suggestions on how to tackle the challenge of defining SMEs.

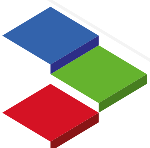
An IDEV **Project Cluster Evaluation**

About this Evaluation

This report presents the results of an evaluation of 32 financial sector development operations extended by the African Development Bank (AfDB) to financial institutions and governments in seven countries across five African regions over the period 2011 to 2018. The evaluation aims to draw lessons from the implementation of the Bank's Financial Sector Development Policy and Strategy in order to inform the preparation of the new financial sector development strategy.

Using mixed-methods to gather data on the Bank's role in increasing access to finance through the selected operations, a four-point rating scale was used to rate the 32 operations, which were organized in clusters by financial instruments.

The evaluation found that access to finance remains a key constraint to private sector development and the economic inclusion of low-income populations, but was not reflected in the Bank's Country Strategy Papers for the selected countries. Also, the evaluation team found no evidence that the operations in the countries in which the Bank had multiple financial sector operations, were part of a coherent Bank strategy toward financial sector development in these countries. The operations' target groups were not sufficiently defined, and the Bank's role in advancing access to finance for the underserved was limited. Although the operations were relevant to their respective country contexts, the evaluation found that they tended to provide temporary solutions to financial sector development barriers rather than addressing the root causes. The evaluation suggests to: i) strengthen the Bank's role in access to finance; ii) improve the benefits for the intended target groups; iii) use a range of instruments for financial sector development; and iv) position the Bank as a key player in financial sector development.



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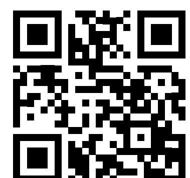

Design & layout: A Parté Design

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