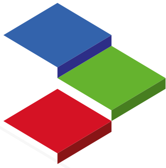

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Evaluation of the AfDB's Role in Increasing Access to Finance in Africa

Summary Report

An IDEV **Thematic Evaluation**

AFRICAN DEVELOPMENT BANK GROUP

July 2020

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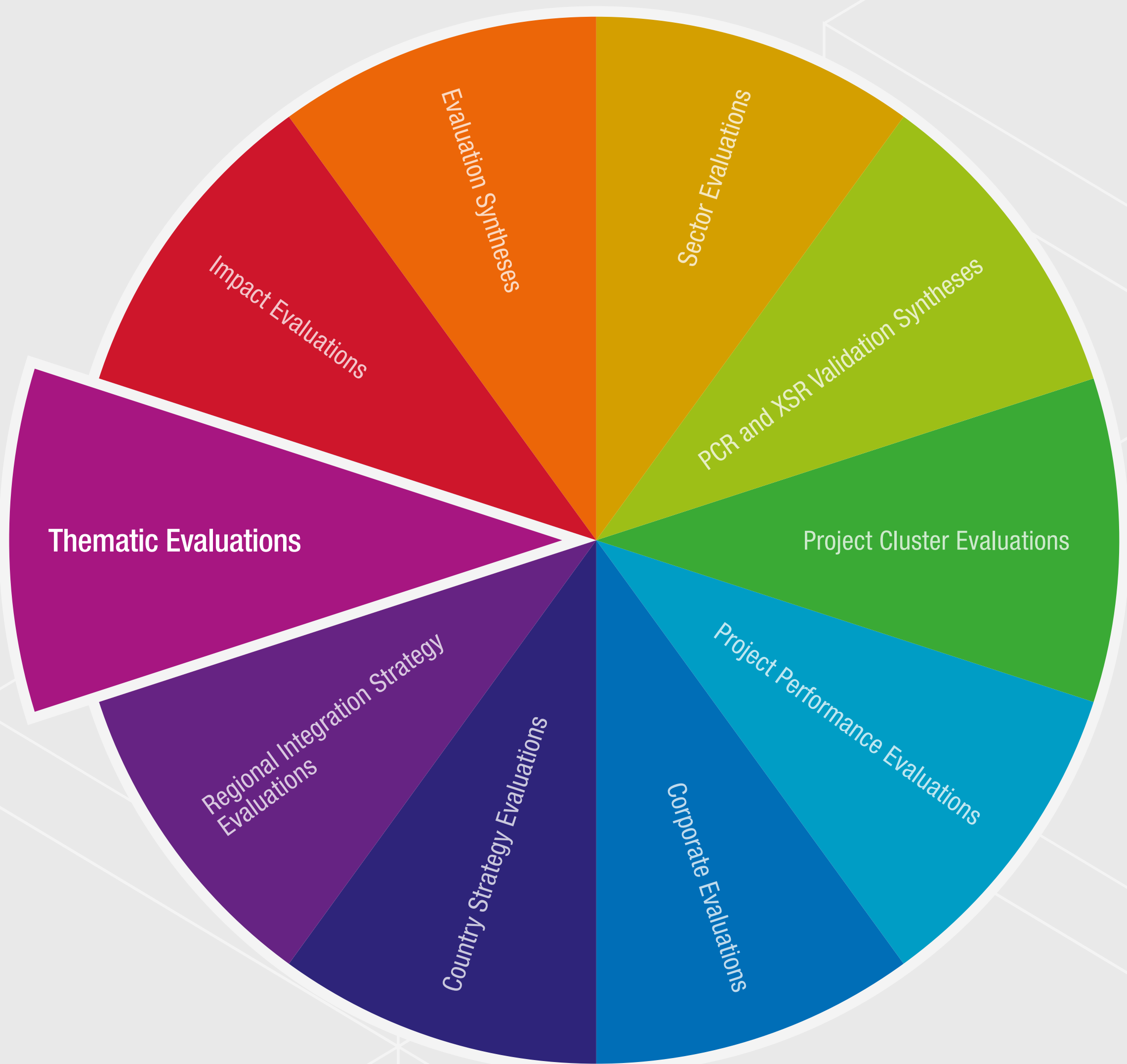

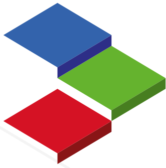

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July 2020

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Evaluation of the AfDB's Role in Increasing Access to Finance in Africa - Summary Report
An IDEV Thematic Evaluation, July 2020

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About the AfDB

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

About Independent Development Evaluation (IDEV)

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

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Abbreviations and Acronyms

ADFI	Africa Digital Finance Initiative
AFAWA	Affirmative Finance Action for Women in Africa
AfDB	African Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
CBN	Central Bank of Nigeria
CSP	Country Strategy Paper
DBDM	Development and Business Delivery Model
DFI	Development Finance Institution
ERG	Evaluation Reference Group
ESAP	Environmental and Social Assessment Procedures
ESMS	Environmental and Social Management System
FSD	Financial Sector Development
FSDPS	Financial Sector Development Policy and Strategy
IDEV	Independent Development Evaluation
IFC	International Finance Corporation
ISS	Integrated Safeguards System
KPI	Key Performance Indicator
LoCs	Lines of Credit
MSMEs	Micro, Small and Medium Enterprises
NBFI	Non-Bank Financial Institution
NPL	Non-Performing Loan
NSO	Non-Sovereign Operation
OECD-DAC	Organization for Economic Cooperation & Development – Development Assistance Committee
OPSM	Private Sector and Microfinance Department
OSGE	Governance, Economic/Financial Sector Reform Department
PAR	Project Appraisal Report
PBOs	Program Based Operations
PIFD	Financial Sector Development Department, previously OFSD
RISP	Regional Integration Strategy Paper
RPA	Risk Participation Agreement
SO	Sovereign Operation
SSA	Sub-Saharan Africa
TA	Technical Assistance
TFP	The Trade Finance Program
TYS	Ten-Year Strategy
UA	Unit of Account

Glossary of AfDB's Financial Instruments

Instruments	Description	Type of beneficiaries	Date of introduction
Equity Funds	Provision of risk capital (usually equity) to specialized operators (equity funds) to invest in enterprises.	Non-Sovereign Organizations	1971
Equity Participations	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 a 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 or national or regional development finance institutions for on-lending for specific projects, often for SMEs.	Sovereign and Non-Sovereign Organizations	1969
Risk Participation	Operations allowing the beneficiary intermediary to 'sell' its exposure to the Bank to reduce its financial risk exposure.	Non-Sovereign Organizations	2013
Sector Program-Based Operations (PBOs)	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
Technical Assistance/Grants	Provision of grants to fund TA to borrowers. Refers to institutional building and project cycle loan and grant operations. As from 1996, TA is provided on a grant basis only.	Sovereign and Non-Sovereign Organizations	Over time
Trade Finance Lines of Credit	Provision of credit to financial institutions dedicated to trade finance, usually with shorter tenor than the conventional line of credit.	Sovereign and Non-Sovereign Organizations	Trade finance program introduced in 2013 (successor to the Trade Finance Initiative launched in 2009)

Executive Summary

Background

The African Development Bank's Ten-Year Strategy (2013-2022 TYS) focuses on improving the quality of Africa's growth through inclusive growth and the transition to green growth. It commits the Bank to strengthening financial sector development. Increasing access to finance is one of three objectives of the 2014-2019 Financial Sector Development Policy and Strategy (FSDPS) approved in October 2014. The other objectives were deepening financial markets and safeguarding the stability of Africa's financial system (AfDB 2014). Conscious of the importance of the financial sector in advancing economic development across the continent and ensuring financial inclusion, the Bank is keen to help Regional Member Countries (RMCs) to improve access to financial services.

The Independent Development Evaluation (IDEV) evaluated the Bank's 2014-2019 FSDPS, with a focus on the role of the Bank in increasing access to finance and financial inclusion in Africa. This evaluation is part of IDEV's work program to provide credible information to help improve policies and strategies going forward.

The evaluation assessed: (i) the relevance and the quality of design of the FSDPS; and (ii) the relevance, quality of design, effectiveness, efficiency, and sustainability of financial sector development (FSD) operations approved between 2011 and 2018, focusing on access to finance. The period covers both the pre- and post- periods of the adoption of the FSDPS in October 2014. The evaluation presents a summary of findings, and makes recommendations to inform the preparation and implementation of the new strategy.

The report's evidence comes from a triangulation of quantitative and qualitative data collection methods presented in the inception report. These include: (i) a desk review of AfDB's and other relevant documents and databases; (ii) a survey through a questionnaire sent to managers and task managers; (iii) interviews with Board members, task managers and managers in charge of the financial sector; and (iv) case studies in Burkina Faso, Cameroon, Kenya, Nigeria, Namibia, Tunisia and Egypt. Egypt was selected because it hosts the African Export-Import Bank (Afreximbank), which received trade finance operations to on-lend to several countries in Africa. The evaluation faced the following limitations: (i) a lack of easily usable databases at AfDB; (ii) unavailability of information at the client and end-beneficiary levels; (iii) limited availability of local financial sector specialists with expertise in evaluation; (iv) measuring the results at the end-beneficiary level; and (v) the fungibility of resources limiting the attribution of the achievements to AfDB support. These limitations represent obstacles to the evaluation of the effectiveness of the operations, especially at the end-beneficiary level. As a result, the performance of the operations is assessed at the client level.

To address these challenges, IDEV planned the evaluation in collaboration with the Financial Sector Development Department (PIFD), and AfDB's regional and country offices. In addition to IDEV's internal review, results of the evaluation were reviewed by an Evaluation Reference Group (ERG) comprising experts from the financial sector and private sector departments at headquarters and decentralized offices, financial policy analysts, risk analyst officers, and three external peer reviewers. Meetings were held with the ERG to discuss the emerging findings and to decide on which recommendations to consider from the desk review in May 2019, the synthesis of the fieldwork in February 2019, and the whole evaluation in May 2020.

Findings

Recent trends in financial sector development in Africa

Recent developments in the financial sector require attention in the revision of the 2014-2019 FSDPS. First, the de-risking phenomenon that resulted in developed country banks withdrawing capital from emerging markets led to a reduction of correspondent banking relationships in jurisdictions that were less attractive, such as those in Africa. Second, there has been an increase of the number and spread of pan-African banks operating in several countries under different regulatory and supervision arrangements. Third, the emergence of fintechs and digital payment platforms that have increased the use of mobile money, remittances, savings, credit provision, etc. have also increased the need for different regulatory regimes and oversight. Fourth, the growing need by African governments and corporates to raise funding from local capital markets to supplement traditional funding sources. Going forward, digitization is likely to be even more important in the post-COVID-19 era. Fifth, the pandemic has pushed most of the world into a lockdown, causing economic recession, financial scarcity, and GDP declines, inevitably increasing bankruptcies and Non-Performing Loans (NPLs) in many countries. This situation requires governments, central banks and International Financial Institutions (IFIs) to significantly increase their financial support to corporates and Micro, Small and Medium-sized Enterprises (MSMEs). To this end, they need to strengthen their financial intermediaries (FIs) and Non-Bank Financial Institutions (NBFIs), including capital and financial markets. The negative effects of the COVID-19 pandemic have seen NPLs surge, spreads widen, and liquidity evaporate as funding sources dry up and bond markets crash. For regulators, these new developments in the financial sector ecosystem and the associated risks require the need to balance financial sector stability, i.e. safety, increased access and innovation.

While there has been substantial progress over the past decade, access to finance continues to be one of the key constraints to private sector development in Africa, particularly among SMEs. Small and Medium Enterprises (SMEs) often mention access to finance as their biggest constraint. Fifty-two percent of SMEs in Sub-Saharan Africa (SSA) are regarded as financially constrained, with an unmet financing requirement of about US$331 billion in 2017. The percentage of adults with an account in a financial institution or mobile wallet was almost 20 percentage points higher in 2017 than in 2014 for all categories of countries classified by income level. However, access to finance in Africa remains lower than in other regions. Also, within Africa, there was a high disparity between countries, with the highest access in Mauritius (90 percent) and very low access in the Central African Republic (14 percent) and South Sudan (9 percent). The percentage of adults using mobile money was by far the highest in SSA, at 21 percent, compared with 6 percent in the Middle East and North Africa, 4 percent in South Asia, and 3 percent in Latin America and the Caribbean.

Financial sector development policy and strategy

The 2014-2019 FSDPS was a hybrid document combining both a policy and a strategy. While the document reflected the state-of-the-art in financial sector knowledge, there was limited clarity on the relationship between the policy and the strategy, and the definitions of the concepts used. Some other AfDB documents combined policies and strategies as documented in the Classification Paper on Bank Group Policies, Strategies and other Directional Documents approved on 25 March 2019. The FSDPS also contained missteps in designing and planning activities, such as: (i) weak conceptual clarity and priority setting, as well as a lack of definition of AfDB's comparative advantages and clear areas of focus; (ii) a lack of clarity on how specific priorities such as fragile states, agriculture, and innovation should be reached; (iii) the lack of a theory of change to explain how activities undertaken by AfDB would translate into desired results: outputs, outcomes and impacts; (iv) the lack of an appropriate business plan with monitorable indicators; and (v) a weak monitoring and evaluation system: weak definition of target groups, indicators often not related to FSD, and the lack of baseline data for most indicators selected.

Findings from the case-studies in Burkina Faso, Cameroon, Kenya, Nigeria, Namibia, Tunisia showed that the high priority given to access to finance in the FSDPS and partner countries was not reflected in the Country Strategy Papers (CSPs). All countries visited consider access to finance and financial inclusion to be a priority for economic development, including rural development, employment, and women's economic empowerment. The 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.

Despite increased internal capacity to deliver, there was weak coordination of FSD activities in AfDB. The number of professional financial sector staff in PIFD almost doubled in 2014-2018, from 22 to 42. However, there was a shortage of staff in the supervision and monitoring functions after disbursement. PIFD's 2018 budget was 1.5 times that of 2014 (OFSD). However, the unifying role played by OFSD has been lost since the implementation of the Development and Business Delivery Model (DBDM) in 2016, implying weak synergy and efficiency in delivering the FSDPS objectives. Despite this, a strong partnership with other actors in the financial sector has helped AfDB to extend its capacity to support the sector.

Structure and the evolution of the portfolio

The number and volume of FSD operations approved almost doubled from 2011-2014 to 2015-2018. The share of FSD operations in the total amount approved by AfDB increased from 17.4 to 21.6 percent from the pre-FSDPS period to the FSDPS period. Financial sector operations accounted for a large share of Non-Sovereign Operations (NSOs). The number of Sovereign Operations (SOs) increased from 8 percent during 2011-2014 to 18 percent of the financial sector during 2015-2018, while the amount increased from 12 to 28 percent of the total amount approved between the two periods for the financial sector. This increase is explained by the increased support to a number of development banks with national and regional outreach.

Lines of credit (LOCs) remained the main instrument used, but approved amounts decreased from 60 percent of FSD operations during 2011-2014 to 34 percent during 2015-2018. Trade finance LOCs (TFLOCs) steadily increased from 5 to 26 percent of the amount approved in the the two periods. The amount approved for TFLOCs during 2015-2018 and the number were 9 times higher than in the previous period. Guarantee amounts increased 2.5 times (but from a small base). Risk participation instruments, first introduced in 2013, represented 5 percent of approvals during 2015-2018. While the FSDPS intended to support all FSD, Program-Based Operations (PBOs) and Technical Assistance (TA) were very limited, although many countries need interventions that explicitly foster FSD as an objective.

The number of countries receiving financial resources increased from 19 to 31 (not including multinational operations, which represent almost 44 percent of the amount approved during each period considered). There was a much lower concentration of resources during 2015-2018 than in 2011-2014. For example, Nigeria received 8.3 percent of the total amount approved in 2015-2018 compared with 29.8 percent in the previous period. The operations from UA 5-50 million increased the most, with amounts and numbers 2.3 times higher than those of the previous period. The small and large operations (less than UA 5 million and above UA 100 million) also increased, but to a lesser extent.

AfDB has at least doubled the number of clients in most categories, but the number of microfinance and insurance companies significantly decreased. The main clients remained commercial banks and equity funds. The number of microfinance institutions supported fell from 10 during 2011-2014 to three during 2015-2018 and that of insurance companies from four to zero. Sovereign client organizations (governments and central banks) almost tripled, highlighting AfDBs' increasing support for public entities to support FSD.

Use of local currency and guarantees, as well as some other FSD operations, increased. First, there was an increase in local currency operations from just two in 2011-2014 to 11 in 2015-2018; amounts approved similarly increased from 2.4 to 10 percent. So far, four currencies have been used (South African rand, Nigerian naira, Botswanan pula and Zambian kwacha). Second, since the end of 2014 until 2018, the operations to support financial capital markets amounted to UA 1,331 million, or 14.3 percent of the total amount approved. Fifty-four percent of this amount was meant to provide guarantees for local currency risk hedging, while 36 percent was for financial sector budget support. The remaining 10 percent consisted of TA to support regulatory authorities, and financial infrastructure and payment system development. Third, while operations in technology and renewable energy were few, the number and amount approved during the FSDPS was 4 times and 4.5 times, respectively, compared with the previous period.

Performance of the operations evaluated

AfDB operations were in line with the FSDPS objectives and relevant to their respective client and country contexts, but the majority did not necessarily serve the underserved. AfDB operations mostly focused on channeling long-term funding to FIs for on-lending to priority sectors of the real economy. Given the broad scope of the FSDPS and significant gaps in FSD, the operations were in line with the FSDPS, and with client and country needs. Furthermore, many other constraints mentioned in partner countries' strategies and the FSDPS remain unaddressed, such as weak payment systems, regulatory constraints, and a lack of innovation and informality, among others.

In the six case-study countries in which AfDB had multiple financial sector operations, there was no evidence that these were part of a coherent Bank strategy toward FSD. The lack of thorough country financial sector diagnostics to understand the underlying constraints may have

contributed to the weak strategic clarity and focus. Except for the operations in Tunisia and Morocco, AfDB's financial sector operations were decided on their case-by-case viability and did not represent a coherent set of interventions that jointly contribute to achieving FSDPS objectives. The lack of a Bank vision for FSD at the country level is also reflected by the fact that AfDB is not visible as a leader in policy dialogue on FSD.

While the operations were effective in providing resources and services otherwise unavailable to client financial institutions, it was not feasible to track and measure development outcomes for end-beneficiaries. Development outcomes and end-beneficiaries were not clearly defined in Project Appraisal Reports (PARs) and in reporting. Although LOCs often target specific underserved and excluded population segments (such as the rural population, women and young people), related results information was missing in many cases. When information was available, it showed that the intended targets represented only a small part of the portfolio of client institutions benefiting from AfDB's LOCs. LOC objectives loosely refer to access to finance, but without defining clear targets for reaching underserved target groups such as women and youth. Furthermore, the positioning of SME finance as a driver of growth and job creation led to a focus on high-growth SMEs. 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 not focusing on 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 regarding strategic clarity and whether operations are effectively targeting SMEs, the underserved, and excluded segments of the population.

The efficiency of AfDB's FSD operations were partially satisfactory. Half the evaluated operations were efficiently prepared and implemented. Others faced time overruns that, in some cases, led to additional costs for clients or missed lending opportunities. Even in operations with satisfactory efficiency, clients stated that processes were overly prolonged apart from those for repeat operations. Among the main reasons advanced to explain the situation were onerous AfDB conditions precedent to disbursement, inefficient communication, and the lack of an automated procurement system.

Although AfDB provides much needed long-term funding to its target markets and has often helped clients access additional funding from other IFIs, its operations tended to provide temporary solutions and did not address underlying constraints in FSD. The lack of long-term funding was addressed only temporarily through supporting end-beneficiaries via financial intermediaries. AfDB supported regulated, financially sustainable institutions, but the likelihood that they will continue to serve 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, information asymmetries, and high transaction costs and risks. These factors contribute to the high interest rates prevailing in African financial sectors.

There were few innovative ways to increase access to finance through digital and other alternative delivery channels in the evaluated portfolio, despite the disrupting role that technology plays in a number of African financial sectors. More recently, however, AfDB has become more active in supporting the development of capital markets and digital financial services.

While AfDB played an important role in introducing Environmental and Social Management Systems (ESMSs) and trained clients on environmental and social (E&S) issues, its performance in supervision was poor. Its E&S safeguards performance at appraisal was found to be strong and significantly improved over time. However, performance in supervision was poor because of a lack of the following: (i) a specific reporting template; (ii) asking clients to submit reports on E&S perfomrnace, even in cases where this was included in the loan agreement; (iii) evidence; (iv) candor in the assessment; and (v) expert support during supervision missions-and more generally, inadequate staffing with E&S experts.

Recommendations

IDEV makes the following recommendations:

1. **Clarify AfDB's role in financial sector development.** Priority areas of action include:

- Focus the Bank's strategic priorities, which are broadly defined in the current FSDPS document. Separately, revise the strategy and update the policy to address conceptual and practical concerns in the current FSDPS.
- Conduct sector diagnostics that identify barriers to access to finance at country and regional levels.
- Be more explicit on how operations contribute to FSD.

2. **Position AfDB as a key player in financial sector development.** Priority areas of action include:

- Step up AfDB's engagement in policy and regulatory dialogue aimed at strengthening the financial sector environment.
- Formalize coordination of departments involved in financial sector activities and institute a Bank-wide information system on financial sector activities to facilitate evaluation and decision-making.
- Improve outreach and the depth of relationships with sector stakeholders, including clients.
- Consider increasing the resources for operations aimed at fostering regional financial integration.
- Prepare an action plan and adequate staffing to address E&S issues.

3. **Improve benefits for the intended target groups.** Priority areas of action include:

- Better define and measure project development outcomes and the benefits for target groups.
- Include a clear definition of what constitutes an SME in PARs and CSPs.
- Build on effective approaches to support SME finance.
- Move from a pipeline approach to a portfolio approach, focusing on increasing the relevant target portfolio.
- Use of a more deliberate approach to narrow the gender gap in access to finance.

Management Response

Management welcomes IDEV's evaluation of the Bank's 2014-2019 Financial Sector Development Policy and Strategy (FSDPS) with a focus on the role of the Bank in increasing access to finance and financial inclusion in Africa. Overall, Management agrees with most of the evaluation's findings and recommendations, which are useful in developing a new Financial Sector Development Strategy for 2021-2026. This note presents Management's responses to key issues raised by the evaluation and provides ongoing and foreseen actions in response to IDEV's recommendations.

Introduction

The financial sector is the lifeblood of the real economy and has played an important role in Africa's recent progress. The financial sector is vital to achieving inclusive growth and the transition to green growth, the two strategic objectives of the Strategy for 2013–2022 of the African Development Bank Group (the Bank Group). However, the absence of deep, efficient financial markets constrains economic growth: limited access to finance lowers welfare and hinders the alleviation of poverty and the emergence of a middle class.

Management recognises that the complexity and the multidimensional nature of financial sector development requires continuous refinement of strategic and operational approaches, analytical tools, financial instruments, as well as policies and procedures. Management therefore welcomes IDEV's evaluation, which assessed: i) the relevance and the quality of design of the FSDPS; and ii) the relevance, quality of design, effectiveness, efficiency, and sustainability of the financial sector development (FSD) operations approved between 2011-2018, focusing on access to finance. The period covers both the pre and post periods of the adoption of the FSDPS in October 2014.

Management takes note of IDEV's findings and recommendations including:

- The FSDPS was highly relevant to the Bank's Ten-Year Strategy and the High 5's, as well as to RMCs and clients;
- Financial sector operations were relevant to the FSDPS objectives, to clients and member country needs, particularly because access to long-term finance is still a challenge in Africa. However, the high priority given to access to finance in the FSDPS and partner countries was not reflected in the CSPs.
- Despite increased internal capacity to deliver, there was a weak coordination of financial sector development activities across the AfDB. However, a strong partnership with other actors in the financial sector has helped AfDB to extend its capacity to support the sector; and
- 65% of the operations evaluated by IDEV were rated satisfactory in terms of design, however there is a need for more clarity in definition of expected outcomes and improved monitoring and evaluation at the end beneficiary level.

Relevance and Quality of Design of the FSDPS

Management notes with satisfaction that the FSDPS was highly relevant to the achievement of Bank's Ten-Year Strategy (2013-2022) and the more recent High 5's strategies and operations. It also agrees with IDEV's comments with respect to the design of the document, including the lack of clarity on the relationship between concepts and objectives of the policy and strategy and how these were to be achieved.

These reflect the fact the FSDPS was a hybrid document combining both policy and strategy. In this context the document did not clearly show how the shorter-term strategy would contribute to meeting the long-term objectives of the policy. IDEV's finding that the FSDPS was overly ambitious is in part, a consequence of this lack of clarity. In line with current practice, management is preparing separate Financial Sector Development Policy and Strategy documents for approval by the Board in Q4 2020.

Management agrees with IDEV on the lack of a Theory of Change (ToC) and a detailed business plan to support the FSDPS. Whilst developing a ToC was not commonplace at the time the FSDPS was prepared in 2013, the revised strategy will build on a strong ToC. A detailed business plan will also be prepared in line with current practice.

Building strong sustainable financial systems requires an integrated approach linking upstream policy and regulatory work with governments to downstream NSO. This was the approach behind the establishment of the Financial Sector Development Department (PIFD) in 2013, which was intended to bring policy and transactional work on the sector under the one department. Since the introduction of the DBDM in 2016, public sector operations in the financial sector have been handled by the regions and NSO transactions by PIFD and some other departments. As underscored by the evaluation, one unintended consequence of the new institutional arrangements has been a dilution of PIFDs unifying role in dealing with sovereign and non-sovereign financial sector interventions.

Management has been working to address this and field based PIFD staff now contribute to CSPs and sector diagnostics, in addition supporting other sector departments in the delivery of financial sector related transactions. Management will reinforce this collaboration with PIFD participation in CSP and Regional Integration Strategy Paper (RISP) missions. Furthermore, management will be looking to increase capacity in this regard under the new strategy, and in the context of the ongoing rightsizing exercise. A number of initiatives are being piloted in terms of policy dialogue as discussed elsewhere in this document. Scaling these up will require increased policy dialogue expertise and access to TA / grant funding to support policy / public sector mandates.

Management will also seek to improve coordination of financial sector interventions through the establishment of an inter-departmental financial sector group as described in the Management Action Record below.

Relevance and Quality of Design of Financial Sector Operations

Management notes IDEV's observation that the financial sector operations were found relevant to the FSDPS objectives, to clients and member country needs, particularly because access to long-term finance remains a challenge in Africa. IDEV also notes that the Bank invested in institutions that played an important role in national and regional financial sectors.

Management accepts that the rationale behind the Bank's interventions may not have always been clear, partly due to the broad definition of objectives in the FSDPS. While there were no targets in the original strategy for different parts of the portfolio, the following trends can be observed from IDEVs' evaluation:

- The number and the volume of the operations approved in 2015-2018 were almost twice as high as those approved in 2011-2014.

- The share of sovereign operations by number increased from 8% in 2011-2014 to 18% in 2015-2018. In value terms, the share of sovereign operations increased from 15% to 28% of financial sector approvals for the respective periods.

- LOCs remain the main instrument used by the Bank, however, their share of approvals in value terms has decreased from 60% to 34%. This decrease was compensated for mainly by a steady increase in Trade Finance Lines of Credit (TFLOCs) from 5% to 26%.

- The number of countries which benefited from financial sector operations increased from 19 to 31, implying a significant effort to expand the access to finance in more countries including low income countries.

IDEV notes that whilst LOCs and TFLOCs were relevant to supply liquidity for on-lending to sub-borrowers, their contribution to access to finance for underserved and the financial sector development was not ascertained. These instruments are by their nature and design not intended to address the underlying constraints of access to finance. LOCS are designed to provide access to longer term liquidity than is available in RMCs whilst TFLOCs address short-term liquidity constraints. Management notes with satisfaction IDEVs' finding that the Bank invested in institutions that played an important role in national and regional financial sectors, including Afreximbank, and sub-regional and national development banks like Nigeria Development Bank, Namibia Development Bank, East Africa Development Bank, Eastern and Southern African Trade and Development Bank.

Addressing the longer-term barriers to access to finance requires TA and policy work, to improve regulatory frameworks and build institutional capacity in RMCs funded mainly through grant facilities. PIFD's ability to provide TA is severely constrained by a lack of such funding. The establishment of the Capital Markets Development Trust Fund (CMDTF), which provides TA to strengthen capital markets enabling environment and institutions, disseminate knowledge, and promote regional capital markets development and integration programmes is a step in this direction.

CMDTF is currently in its pilot phase and is focused on West Africa. Based on the results of this phase, management expects to expand its operations to other regions. The Africa Digital Finance Initiative (ADFI) is a blended finance facility which will intervene across four key pillars, namely; infrastructure, policy and regulation, products and innovation and capacity building with gender as a cross cutting theme. The facility, though managed under the Financial Sector Department, will support both private and public sector entities and work with all departments in the Bank.

The bank has also worked with partners to address these issues including through the ***Africa Long Term Finance Initiative (LTF)*** which is funded by GIZ and FSD Africa through Making Finance Work for Africa. The LTF aims to enhance market transparency through the development of an ***LTF Database and Scoreboard*** that aims to improve the availability of public data on LTF markets in Africa and developing country reform programmes based on country diagnostics. With regards to regional integration PIFD has supported the integration of regional financial markets since the evaluation including: (i) ***the African Exchanges Linkage Project (AELP)*** a joint initiative by the Bank and African Securities Exchanges Association (ASEA) to facilitate cross-border trading and settlement of securities across participating bourses in Africa; and (ii) the ***Project of Support to the Development of the Regional Financial Market (PADMAFIR)*** which supports the West African Monetary Union (WAMU) in the modernization of the regulatory frameworks to improve governance and the deepening of the regional financial market.

These initiatives have however been limited in scope due to a lack of adequate grant funding. The need to identify funding for more ESW work will be discussed in detail in the new strategy.

Effectiveness, Efficiency and Sustainability of Financial Sector Operations

Management notes with satisfaction that 65% of the operations evaluated by IDEV were rated satisfactory in terms of design. This covers a broad range of PIFD interventions including policy-based operations, operations extended to financial intermediaries (development banks, commercial banks) and those under the SME programme.

Areas for improvement include better definition of outcomes and intended results for end beneficiaries. This links to the overall issue of how to monitor and evaluate the impact of financial sector operations, particularly lines of credit and trade finance raised by the evaluation. Management accepts the need to improve monitoring and evaluation and is making efforts in this direction as discussed below. Managements' view, as expressed earlier is that LOCS and TFLOCs are not designed to address the underlying issues of financial sector development on the continent. However, they are important tools for providing long term finance, which is lacking in RMCs, and addressing critical short-term liquidity constraints as underscored in the evaluation.

The Bank currently applies a "pipeline" approach, to monitoring and evaluation whereby client Financial Institutions (FIs) submit an indicative list of projects to be financed under its lines of credit. The Bank is able to influence sectors of focus during due diligence / appraisal and includes this in the results management framework. This allows for verification during supervision. The pipeline approach has number of drawbacks including the fact that the list pf projects can only be indicative at the time of approval. More importantly, the fungibility of funds at the FI level means that it is not feasible to monitor and measure the impacts of specific projects financed by AfDB.

Management supports IDEV's recommendation to move to a portfolio approach, where the AfDB would focus on priority areas at the portfolio level of the FIs. Under this approach, it would be possible to obtain a baseline of what the FI is currently providing in terms of funding to the target groups with a goal to increase it. This also requires defining clear targets (e.g. number and volume of funding towards underserved groups) as well as setting up a suitable monitoring system. With the portfolio approach it would be possible to use a representative sample to measure the results at the end beneficiaries: revenue, jobs, etc. The portfolio approach would also help measure sustainability of impacts since changes in portfolio composition at the FI could be measured beyond the life of Bank facilities. This fits with Management plans to increase capital support of select banks through Tier 2 capital (especially post-COVID 19 recovery period), especially when they are strategically committed to developing SME financing as a business.

Management is working to develop a digital development outcome tracking tool that can be hosted within the African Development Bank and open to the FIs and their SME clients for them to provide on a regular basis their data as funds are being deployed. The tool will allow data inflows from SMEs – to FI/Intermediaries – and from FI/Intermediaries to the Bank, and would .capture for each project, development outcomes including job creation, support of key business sectors, financial inclusion of target groups, loan tenors, and changes in SMEs' revenues and assets. The tool will be tested on SME Programme operations in the first instance and eventually rolled to cover all financial sector operations. Management will also seek to identify grant funding to support FIs to adopt the portfolio approach, including through increased digitalization of M&E and reporting frameworks. Bank staff from PIFD and other divisions, notably ECMR will also require training in this new methodology.

With respect to the effectiveness of the operations, management notes that 76% were rated satisfactory. The evaluation highlights the critical role and additionality of financial sector operations in providing resources otherwise unavailable to clients.

The picture with respect to the efficiency of operations is more mixed, with just over 50% of the sample rated as satisfactory. The rating is due to time overruns in the approval of seven out of thirteen LOCs evaluated, and the perception amongst clients that the Bank's approval processes long compared to other international financial institutions. Whilst IDEV rates the Partial Risk Guarantee (PRG) operation for currency risk hedging in Cameroun as "complex and inefficient", management notes that the report concludes that the operation itself was set up efficiently. Management is of the view that the despite these weaknesses, such operations are an important part of the Bank's support to our RMCs.

In this specific case, Cameroun would not have been able to access financial hedging instruments from the international commercial banks without a guarantee from a AAA rated institution like the Bank. The product is, structurally 'complex' and this was also a 'first' for both the Bank and Cameroun. The cost of launching new products is usually steep, time and cost wise. This however should not stop the Bank from being innovative and embracing new financial products and structures, to continue to be relevant. Notwithstanding this, such products require lengthy discussions and costly negotiations.

Management notes IDEV's conclusion that it is uncertain whether the Bank's clients will continue to serve underserved market segments beyond the term of AfDB's facilities. Its view is that this reflects the short-term nature of the instruments used and the weak monitoring and evaluation systems as discussed earlier.

IDEV also highlights that policy-based operations received "a marginal part of resources" despite their strong role in strengthening financial sector development. Management accepts this assessment, which is due to factors discussed earlier including the unintended consequences of the split between public sector and non-sovereign operations and resource constraints (human and financial) within PIFD. As discussed earlier, management will seek to address this in the new strategy.

Conclusion

The valuable lessons and recommendations in the IDEV's evaluation report will inform and enrich the development of the new Strategy and beyond.

They will also help in shaping the Bank's analytical, strategic, and operational engagement in the financial sector.

IDEV's recommendations are broadly in line with Management's thinking, which gives confidence that the Bank is moving in the right direction.

Management Action Record	
Recommendations	Management Response
Recommendation 1 - Clarify AfDB's role in financial sector development	
- *Prepare a business plan to be approved by the Senior Management detailing realistic actions to be undertaken in the short, medium and longer term, by type of country.* - *Conduct sector diagnostics that identify barriers to access to finance at country and regional levels. 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. CSPs and RISPs should lay out the development objectives for the financial sector and outline a plan to achieve them. Likewise, PARs should articulate how supporting specific operations, institutions and the use of instruments will contribute to advancing FSD in the country.*	**AGREED -** Management generally agrees with IDEV's recommendation and will address them as part of the process of preparing the new FSD strategy. With the respect to articulating how specific operations will contribute to FSD, management's view is that some NSO interventions are designed to address liquidity constraints and provide longer term financing than is available in RMCs, without necessarily impacting the FSD agenda. **Actions:** - PIFD will work with SNSP and relevant units to submit a separate revised strategy and policy documents and a business plan. The strategy will include a strengthened Theory of Change and be supported by a business plan **[PIFD, SNSP Q2 2021];** - The new strategy and business plan will lay-out the additional HR resources required and will be discussed in the context of the rightsizing exercise. In the interim, PIFD will strengthen collaboration with country offices and regional directorates and participate in CSP and RISP missions. PIFD will also contribute to participate in Country Program Performance Reviews, Country Diagnostic Notes, etc. **[PIFD, Q2 2021].**
Recommendation 2 – Position the AfDB as a key player in financial sector development. Priority areas of action include:	
- *Step up AfDB's engagement in policy and regulatory dialogue aimed at strengthening the financial sector environment.* - *Formalize the coordination of the departments involved in the financial sector activities and institute a Bank's wide system of information on the financial sector activities to facilitate evaluation and decision making. Also, improve the skills mix to include non-transactional staff to cover engagement in RMCs on reforms and diagnostics.* - *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. Likewise, AfDB could periodically organize an open day to present its strategy and operations, its instruments and partnership opportunities to the private sector at regional and countries' levels.* - *Consider increasing the resources for operations aimed at fostering regional financial integration.*	**AGREED -** Management accepts IDEVs' recommendation, which speaks to the need for additional resources to support policy and analytical financial sector work, and increased coordination both internally and with other development partners. **Actions:** - PIFD will increase number of joint programmes/ initiatives and gradually scale up facilities like the Capital Markets Development Trust Fund, and Africa Digital Finance Inclusion Facility and other technical assistance vehicles to support policy work in RMCs **[PIFD Q4 2023]**; - PIVP, RDVP and ECVP to discuss and agree Terms of Reference for a bank wide FSD Coordination Group **(PIVP, Q12021)**; - PIFD will host two regional financial sector events a year in partnership with other DFIs/ partners **[PIFD Q2 2021]**. - The revised financial sector strategy and business plan will lay out human and financial resource needs to fully implement this recommendations **[PIFD Q2 2021]**.

Management Action Record	
Recommendations	Management Response
Recommendation 3 - Improve benefits for the intended target groups. Priority areas of action include:	
▪ *Better define and measure the project development outcomes and the benefits for target groups. A robust results framework and functioning monitoring and evaluation system focusing on results and aligned with the corporate results measurement framework is critical. It should be an integral part of the financial sector strategy.* ▪ *Include a clear definition of what constitutes an SME in PARs and 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 if applied definitions can be considered an SME target group in a specific context is a step in the right direction.* ▪ *Further increasing the capacity of the AfDB's 2013 Regional Africa SME Program could be a good step.*	**AGREED -** Management accepts this recommendation. The proposed actions below must be seen in the context of the ongoing development of a bank-wide results based logical framework, and should be coordinated with ECMR. With respect to increasing the capacity of the SME programme, the Board approved an increase from $125 million to $150 million in 2019, after IDEVs' evaluation. **Actions:** ▪ SNOQ will work with PIFD, and SNDR, when finalizing new operational guidelines for the results based logical framework (including for SOs and NSOs). The guidance will place increased focus on defining a theory of change for key sectors and instruments, with relevant outcome and output indicators. This exercise will also link in with the planned review of the Bank's RMF. PIFD will integrate the framework into the Development outcomes tool being developed for financial intermediaries **[SNOQ, Q1, 2021];** ▪ PIFD will work with Task Managers to include client definitions of SMEs in PARs and CSPs **[PIFD Q2 2021];** ▪ Management will move from a pipeline to a portfolio approach to measure the results at the end beneficiary level. This means moving from a focus on financing specific beneficiaries to increasing the FI's portfolio of target beneficiaries **[PIFD, ECMR, SNOQ Q4 2021];** ▪ PIFD will work with the Gender, Women and Civil Society Department and other internal and external partners to implement specific programmes/products specifically targeting women., including the Affirmative Finance Action for Women in Africa (AFAsWA) **[PIFD, Q2 2021]**.

Management Action Record	
Recommendations	**Management Response**
▪ *Move from a pipeline approach to a portfolio approach, focusing on increasing the relevant target portfolio. The AfDB should improve its 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 should define 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. Once a portfolio approach is adopted, it would be possible to use a representative sample to measure the results at the end-beneficiaries: jobs, sales, etc. Digital platforms could be used and AfDB should be willing to support FIs in adopting the portfolio approach and to help them increase their level of digitization.* ▪ *Use of a more deliberate approach to narrow the gender gap in access to finance. So far, women are mentioned alongside other population groups as intended end-beneficiaries of FSD 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. Aligned with other efforts in the Bank, such as the AFAWA approved in April 2020, the AfDB should reflect on how it can advance 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.*	▪ PIFD will seek specialist resources (including through Trust Funds) to support the portfolio approach with FIs on SME financing, including to: (i) support FIs to deepen their internal capacity to scale-up lending to SMEs; (ii) develop financial infrastructure to support increased lending to SMEs such as credit bureaus, collateral registries and SME credit insurance; and, (iii) innovate through other mechanisms for SME financing such as leasing, SME shared service platforms, and factoring solutions for SMEs in corporate value chains **[PIFD, Q2 2022].**

Introduction

Background, Scope, and Objectives of the Evaluation

This report presents a summary of the work carried out to evaluate the assistance of the African Development Bank ("AfDB" or "the Bank") in increasing access to finance in Africa. Increasing access to finance is one of the three objectives of the FSDPS approved in October 2014. The other objectives are deepening financial markets and safeguarding the stability of Africa's financial system (AfDB 2014). The evaluation is part of the Independent Development Evaluation (IDEV) work program to provide credible information on the role of the Bank in increased access to finance and financial inclusion in Africa. According to the FSDPS, this consists of: "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 evaluation assesses the relevance and the quality of the FSDPS, as well as the relevance, quality of design, effectiveness, efficiency, and sustainability of FSD operations approved between 2011 and 2018, and financed through available instruments to support access to finance. The period covers both the pre- and post- periods of the adoption of the FSDPS. The evaluation presents the main findings and makes recommendations to inform the preparation and implementation of the new strategy. Contrary to the FSDSP, IDEV understands that the new document will be a standalone strategy in line with the Board recommendation to avoid any new hybrid document combining a policy and a strategy in one document (AfDB 2019).

Methodology and Limitations

This report summarizes the findings based on quantitative and qualitative information collected from different sources detailed in the inception report. Data collection methods include: (i) a desk review of the Bank's and other IFIs' relevant documents and databases; (ii) a questionnaire sent to managers and task managers; (iii) interviews with Board members, task managers, and managers in charge of the financial sector; and (iv) case studies in Burkina Faso, Cameroon, Kenya, Nigeria, Namibia, Kenya, Tunisia and Egypt. Egypt was selected because it hosts the African Export-Import Bank (Afreximbank), which received trade finance operations to on-lend to several countries in Africa. The evaluation combines both a summative approach for the completed operations and formative approaches for those still ongoing. Annex 1 presents a comprehensive methodology note, while Annex 4 contains summary notes on the case studies. The case studies were synthesized in a separate report (IDEV 2020). Figure 1 presents the steps taken to plan and prepare the summary report.

Figure 1: Evaluation Building Blocks

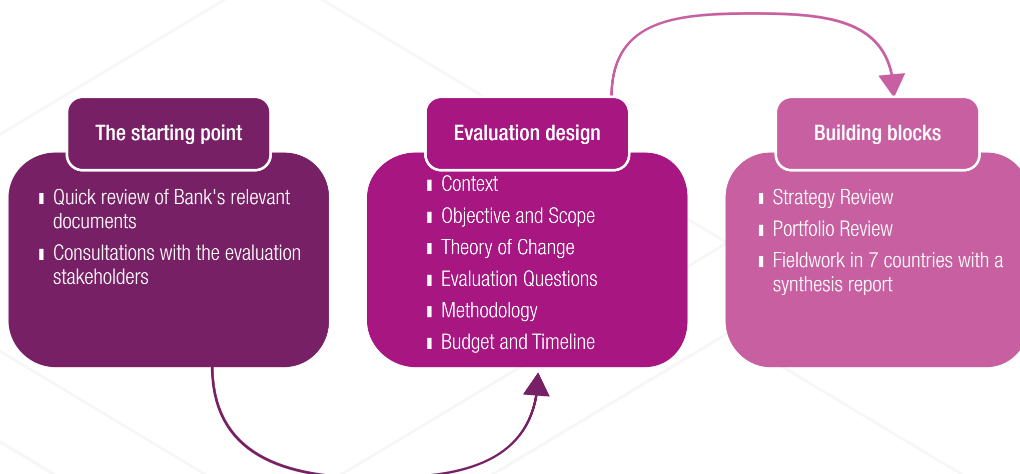


Table 1: Evaluation Rating Scale

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

Evaluation Questions. The evaluation responded to the following questions:

a. Was the policy and strategy relevant and designed to attain its objectives?

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

c. Were the development objectives achieved?

d. Was the implementation timely and cost effective?

e. Are the results achieved sustainable?

f. Did the Bank have the capacity for implementation and partnership?

For the portfolio review, a descriptive analysis examined the trends and structure of approvals for all 226 operations approved during the period 2011-2018. In addition, 32 operations were selected to be part of the field work in seven countries. A detailed analysis using a four-point rating scale was carried out to rate those operations and to summarize the judgment on their performance in terms of relevance, effectiveness, efficiency, and sustainability (Table 1). For the consistency and validity of the ratings, the scoring was carried out separately by two evaluators who discussed the results and agreed on the rating to give to each evaluation criteria for the operations evaluated.

The evaluation faced the following limitations: (i) a lack of easily usable databases at AfDB; (ii) unavailability of information at the client and end-beneficiary levels; (iii) limited availability of local financial sector specialists with expertise in evaluation; (iv) difficulties in measuring the results at the end-beneficiary level; and (v) the fungibility of resources limiting the attribution of the achievements to AfDB support. These limitations represent obstacles to the evaluation of the effectiveness of the operations especially at the end-beneficiary level. As a result, the performance of the operations is assessed at the client level.

To address the above challenges in the current evaluation, IDEV planned the evaluation in collaboration with the Financial Sector Development Department (PIFD), and AfDB's regional and country offices. In addition to IDEV's internal review, the results of the evaluation were reviewed by an ERG composed of experts from the financial sector and private sector departments at headquarters and decentralized offices, financial policy analysts, risk analyst officers, and three external peer reviewers. Meetings were held with the ERG to discuss the emerging findings and to decide on which recommendations to consider from the desk review in May 2019, the synthesis of the fieldwork in February 2019, and the whole evaluation in May 2020. In May 2019, the ERG held its first meeting to discuss the emerging findings and suggestions from the desk review. The second meeting took place in February 2020 to discuss the summary and suggestions of the synthesis report of the fieldwork. The last meeting was held in May 2020 to discuss the summary of the main findings and recommendations from the desk review and the fieldwork.

Structure of the Report

The rest of the report is organized as follows: The following section presents a synthesis of the main trends in the financial sector; Section 3 discusses the relevance, the quality of the design of the FSDPS, its implementation and organizational capacity; Section 4 analyzes the evolution and the structure of the portfolio during 2011-2018; Section 5 relates to the performance of the financial sector development operations; Section 6 summarizes the main findings; and this is followed by the recommendations in the final section. References used for the evaluation are reported at the end of the main text of the report.

Recent Trends in Financial Sector Development in Africa

Reforms after the 2008/2009 Financial Crisis

As recalled in the FSDPS, the environment in which African financial systems operate has changed significantly in recent years. The global financial crisis in 2008/2009 heightened attention to the interactions and trade-offs between FSD and financial stability, and to the links between the financial systems and the real economy. A negative effect of much of the new financial regulation that the G20 ushered in under the Basel III regulatory framework focused on increasing capital buffers in rich countries' banks, which resulted in developed countries' banks withdrawing capital from emerging markets, including Africa (Willem te Velde 2018). This situation also led to a reduction in correspondent banking relationships, with a focus on perceived high-risk jurisdictions, which included Africa. This de-risking had significant effects on trade finance, which led AfDB to put in place the trade finance initiative in 2009 to respond to these negative effects (this initiative was replaced by Trade Finance Program, TFP, in 2013). These changes meant that access to finance was hindered by more stringent international regulations and stronger prudential control, including minimum capital, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements, among others.

Access to Finance

While there has been substantial progress over the past decade, access to finance continues to be a key constraint for firms in Africa, particularly for small and medium enterprises (SMEs). Table 2 shows that credit to financial sector depth in SSA is low, despite increasing from 33 percent in 2014 to almost 40 percent in 2018. SSA also lags behind other regions in access to finance, with only 19 percent of firms having a bank loan or line of credit. Despite an increase from 34 to 43 percent between 2014 and 2017, the percentage of adults with an account in SSA and Middle East and North Africa (MENA) was the lowest compared with the other regions. However, SSA outpaced MENA for access to finance for the female population and it achieved far better access than the other regions for which information is available for the use of mobile money.

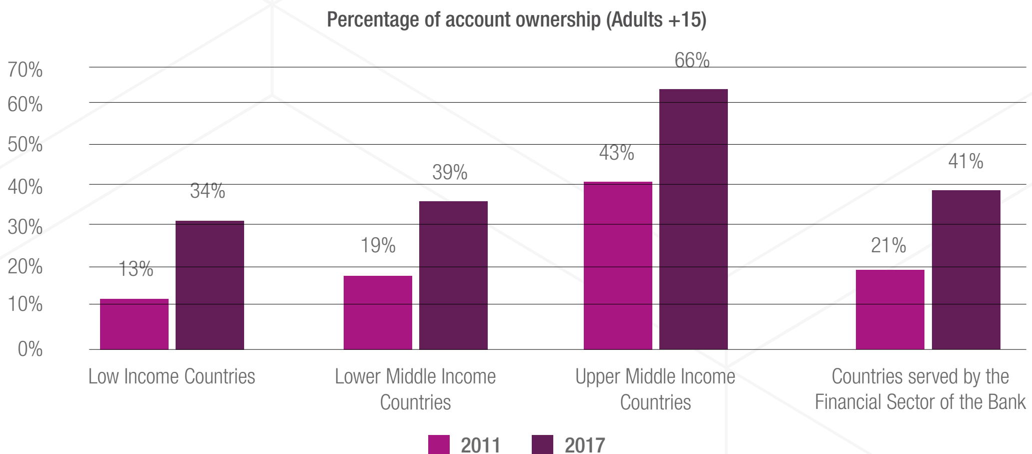
Within Africa, the increase of the share of adults (15 years and older) with access to a basic transaction account with a financial institution or mobile wallet was, on average, almost 20 percentage points between 2011 and 2017 for all categories of countries. Also, Figure 2 shows that countries that have been supported by AfDB during this period have achieved the same increase. However, there is a big difference between countries in terms of the level of access and its variation between the two dates (see Annex 3 for detailed information). In 2017, access to finance was the highest in Mauritius, Kenya, Namibia, and South Africa with, respectively, 90, 82, 71, 69 percent of adults with an account. Access to finance was the lowest in Madagascar, Niger, the Central African Republic, and South Sudan with, respectively, 18, 16, 14, 9 percent of the same variable. The increase in access was fostered mostly by the advancement in mobile-based innovations and the emergence of other financial services providers. The percentage of adults with mobile money was the highest in Kenya (73), Uganda (51), Zimbabwe (49), Gabon (44), and Namibia (43). Countries with less than 10 percent included Niger with 9 percent; Congo Republic; Mauritius and Nigeria with 6 percent, and Mauritania with 4 percent.

Table 2: Credit to the Economy, Firms' Access to Credit and Financial Inclusion

Regions	Credit to economy by financial sector (Percent of GDP) (a)		Percent of firms with a bank loan/ line of credit (a)	Percent of adults with an account (a)		Percent of women with an account (b)		Percent of adults with a mobile money account (b)	
	2014	2018	2019	2014	2017	2014	2017	2014	2017
Sub Saharan Africa	33.2	39.7	19.3	34	43	30	37	12	21
Middle East and North Africa	55.7	67.5	31.2	33 (2011)	43	26 (2011)	35	n.a.	6
South Asia	47.1	46,9	21.9	47	70	38	64	3	4
Latin America & the Caribbean	50.3	54.1	41.2	51	54	49	51	2	5
Europe & Central Asia	95.2	91.1	25.1	78	81	76	79	n.a	n.a
North America	194.7	187.2	n.a	94	94	95	93	n.a	n.a

Source: Global Findex and World Bank database, consulted in March 2020; n.a: non available.

Figure 2: Access to Finance in Africa in 2011 and 2017



Source: Findex Data.

Long-Term Financing and the Renewal of Interest in Development Banks

Use of long-term finance-frequently defined as financing for a tenor exceeding one year-is more limited in developing countries, particularly among smaller firms and poorer individuals. Where it exists, the bulk of long-term finance is provided by banks; use of equity, including private equity, is limited for firms of all sizes (World Bank 2015). Furthermore, the global financial crisis of 2008/2009 led to a reduction in leverage and use of long-term debt for firms in developing countries. SMEs in lower middle-income and low-income countries were particularly affected, witnessing a reduction in both their leverage and the use of long-term debt. Large firms in developing countries that are able to access financial markets were affected, as well

as they relied on international markets to a greater extent than their high-income counterparts. Such firms were also more vulnerable to the large drop in syndicated lending during the crisis (World Bank Group 2019).

Several policies aimed at promoting long-term lending have generally been unsuccessful. This is because: (i) the underlying institutional problems and market failures that underpin the low use of long-term finance have remained; and (ii) political capture and poor corporate governance practices have undermined the success of direct interventions by governments. What is required is that governments need to focus on fundamental institutional reforms, including: (i) pursuing policies that promote macroeconomic stability, low inflation, and viable investment opportunities; (ii) promoting a contestable banking system with healthy entry and exit, supported by strong regulation and supervision; (iii) putting in place a legal and contractual environment that adequately protects the rights of creditors and borrowers; (iv) fostering financial infrastructure that limits information asymmetries; and (v) laying the necessary institutional and incentive frameworks to facilitate long-term development of capital markets and institutional investors (World Bank 2019). In fact, local long-term capital markets and well-run development banks need to be developed, as they both help catalyze private flows and channel them to inclusive and sustainable development. So far, there is a lack of depth and liquidity in most of Africa's capital markets, individual capital markets are not integrated, and there is very low participation of SMEs within the capital markets ecosystem.

There has also been renewed interest in national and regional development banks since the 2008/2009 global financial crisis. Recent research asserts that development banks that provide long-term financing may contribute to systemic stability, and help develop and deepen financial markets, among other roles (Griffith-Jones 2016; Griffith-Jones and Ocampo eds. 2018). These institutions have been recognized to have played a countercyclical role during the global financial crisis when private financial sector entities become highly risk averse. During financial crises, however, private banks' growth rate of lending decreases, while that of public banks increases; the latter helps to maintain economic activity during "bad times" and seems to accelerate recovery.

Regulatory and Supervision Capacity

Developments in the financial sector over the past decade have put pressure on regulators, especially when new players that have entered the financing space. One of the constraints that has been observed during the period is that regulators and supervisors lack the capacity and resources to keep up with market developments, and to oversee increasing complexity in the financial sector. The financial sector reforms that have been implemented in Africa during the past decade have led, for example, to the increase of Pan-African banks, which have driven homegrown FSD, but also overstretched the supervisory capacity of home and host countries, and added complexity to the oversight process (IMF 2016). Governments, and regulatory and supervisory authorities are being challenged to set up and enforce legislation and implement regulations.

Traditionally, regulators were focusing in deposit-taking institutions to prevent them from losing depositors' funds and to prevent systemic risks in the financial sector. However, the emergence of new business models enabled by digital technology and the diversification of financial services has put further pressure on regulators and supervisors. Those business models often cross the boundaries of traditional financial services, and require strong cooperation between regulators and supervisors from the financial and telecommunications sectors. With regulatory and supervisory resources already limited, governments tend to take a rather restrictive approach, which limits innovation, but may protect financial stability. Given the high costs of financial crisis and the current limitations of regulatory and

supervisory resources, there seems to be a case for governments and regulatory authorities to discourage excessive complexity and opaqueness of financial instruments, as these may generate financial stability risk without necessarily having significantly positive development impacts. Furthermore, recent experience, including in the 2008/2009 global financial crisis, seems to show the importance of having a risk-based financial regulation that balances the objectives of inclusion, stability, integrity, and consumer protection.

Coronavirus and Its Implications for the Financial Sector

The outbreak of the COVID-19 pandemic in early 2020 has resulted in economic recession and aggravated the already daunting difficulties to support the financial sector. According to the IMF (2020) the pandemic threatens to exact a heavy human toll and the economic recession triggered can up-end recent development progress. Governments are pursuing various mitigation measures, which include increased public health expenditure; fiscal policy measures to support cash transfers; and monetary policy intended to support commercial banks and other financial service providers to continue to provide needed financing and other support to firms to maintain their operations. Overall, however, it is expected that the crisis will increase government debt, while at the same time hurting many businesses, and causing much higher levels of unemployment and lower sales in most sectors. This will lead to debt service problems, surging NPLs and problems in the financial sector that threaten liquidity and solvency. AfDB, similar to many International Financial Institutions (IFIs), will need to increase its support to governments and Financial Institutions (FIs) to mitigate the effects of COVID-19 now and during the economic recovery. Among the non-resource-intensive countries, those that depend on tourism are expected to witness a severe contraction because of extensive travel restrictions, while emerging market and frontier economies will face the consequences of large capital outflows and tightening financial conditions.

The Bank's Policy and Strategy Response

The Bank's Financial Sector Development Policy and Strategy

The FSDPS considered the financial sector to be the lifeblood of the continent's real economy as the absence of deep, efficient financial markets had constrained economic growth, and hindered the alleviation of poverty and the emergence of a middle class. It also underscored that: (i) implementing monetary policy in a context of shallow markets was costly and inefficient; and (ii) the aim should be well-functioning financial systems that mobilize and allocate savings, supply the credit needs of economic agents, and allocate resources more efficiently, while reducing intermediation costs. While recognizing recent improvements, the FSDPS stated that much more needed to be done to ensure that financial resources reach all sectors of the economy-notably traditionally disadvantaged sectors, such as agricultural businesses, MSMEs, and women-owned businesses. Its vision was to foster a vibrant, innovative, robust and competitive financial systems, both domestic and regional, so that Africa's financial systems would seek to provide near universal access by 2025 to essential financial services for all-critical for inclusive growth. Those systems should also offer the full range of financial products and services to the economic sectors including agriculture, infrastructure, manufacturing, mining, MSMEs, and trade. A huge financing gap could be filled by improvements in the financial sector's ability to mobilize and intermediate finance.

The Bank was to achieve its vision through three policy objectives:

- **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.
- **Deepening financial markets** through sound financial sector policies, laws, and regulatory frameworks that provide a conducive environment for a diverse range of financial institutions that can provide a wide range of products and services (leasing, factoring, insurance) and the development of diverse financial instruments (credit lines, bonds, equities, warrants) that can mobilize term finance.
- **Safeguarding the stability** of Africa's financial system through strengthening the monitoring and supervision of financial institutions, and capacities to ensure compliance with national and regional regulations, and international financial standards, such as AML-CFT frameworks

The three objectives were translated into two strategic pillars and a cross cutting theme, as illustrated in Figure 3.

Figure 3: The Bank's Financial Sector Development Policy and Strategy Pillars

	PILLAR I Increasing access to financial services for the underserved	PILLAR II Broadening and deepening Africa's financial systems
EXPECTED OUTCOMES	▪ Near universal access to basic financial services ▪ Greater coverage of the informal sector ▪ Increased access to financial resources by women ▪ Branchless banking and digital platforms ▪ Innovative products and services for previously underserved sectors of the economy, such as Islamic Finance ▪ Payment systems to support Branchless banking & digital platforms ▪ Enhanced Skills development (including women entrepreneurs and the youth)	▪ Higher savings and investment levels (including for infrastructure) ▪ Increased supply of long-term finance ▪ Innovation in financial services and products ▪ Lower intermediation costs ▪ Efficient mobilization and flow of remittances, including related products ▪ Strengthened credit unions, savings banks, post offices, etc. ▪ More competitive and resilient national and regional financial systems ▪ Deeper national and regional capital markets ▪ Better financial infrastructure at national and regional levels
Financial Stability and Governance ▪ Improved financial sector policies ▪ Stronger financial sector regulatory and supervisory frameworks which ensure compliance with national and regional regulations and international best practice ▪ Enhanced capacity of financial institutions and regulatory and supervisory authorities ▪ Africa-wide forum of financial sector policymakers, regulators, and supervisors		

The FSDPS had ownership, selectivity, additionality, reinforcement of markets, and financial integrity as its guiding principles for selecting regional and national activities. It planned to prioritize areas such as regional financial integration, financial sector reform, and convening power for policy dialogue. Interventions in RMCs were to be differentiated based on the stage of development of their financial systems, i.e., the introduction of basic financial services for underdeveloped systems, focus on stability in basic systems, and attention to capital market development in more advanced systems. It paid special attention to fragile states, gender, food security, and agriculture. Through this strategy, AfDB also aimed to foster innovation and promote the scaling-up of breakthrough technologies, some pioneered in Africa. A more detailed plan of action was expected in a follow-up business plan. The FSDPS built on and superseded the 2003 financial sector policy. While the policy was supposed to articulate a new FSD trajectory for the future, with a focus on use of technology and other innovations, the targeted areas of interest were similar in both documents (Table 3).

Table 3: Areas of Focus of the Policy and Strategy Documents

Financial Sector Policy 2003	Financial Sector Policy 2014-19
Promote the poverty reduction orientation of the financial system by improving access of the poor and women to finance	Increasing access to the underserved to the full range of financial services
Improving the depth and development orientation of the financial systems	Broadening and deepening Africa's financial systems to help RMCs improve access to financial service by the undeserved, broaden and deepen the continent's financial systems
Supporting establishment of healthy and sound financial systems	Financial systems stability and governance

In addition to LOCs, equity funds, guarantees, and TA already part of the 2003 policy, the FSDPS used TFLOC and risk participation adopted in 2013 and PBO adopted in 2011. It is worth noting that, in 2005, AfDB approved operational guidelines for agency lines to respond to a range of specific needs of private enterprises, especially projects that were too small to be directly funded by the Bank, or too difficult to be identified and assessed from headquarters. However, AfDB's financial sector portfolio does not contain any agency line operations so far. Agency lines address some of the transactional constraints for the IFI but, unlike a LOC, the loans would be direct agreements between the IFI and the end-beneficiaries. The challenge consists in identifying an agent with the knowledge and capability to build a viable portfolio on the IFI's behalf (AfDB 1998).

Policy and Strategy Relevance

The FSDPS was designed to play a central role in economic growth and poverty reduction. It was approved to guide AfDB's interventions in FSD at the national and regional levels, and in both the private and public sectors, in support of corporate and SME priorities. Therefore, it was highly relevant to the achievement of Bank's Ten-Year Strategy (2013-2022) and the more recent High 5s' strategies and operations. The FSDPS was prepared one year after the adoption of the TYS in 2013. The TYS aimed to support the RMCs to achieve more inclusive growth and a gradual transition to green growth through five operational priorities-infrastructure development, regional economic integration, private sector development, skills and technology, governance and accountability-while paying particular attention to fragile states, agriculture and food security, and gender equality. It committed the Bank to: "strengthen the financial sector by stimulating the lending to MSMEs, help develop local capital markets, promote better governance and risk management of financial institutions, promote the adoption and implementation of financial standards and regulations and support initiatives that enhance financial inclusion" (AfDB 2013).

New leadership of the AfDB in September 2015 introduced the High 5s, aimed to drive the implementation of the Bank's TYS, while focusing on the High 5 priority objectives, namely: (i) Light up and Power Africa; (ii) Feed Africa; (iii) Industrialize Africa; (iv) Integrate Africa; and (v) Improve the quality of life for Africans. Similar to the TYS, the High 5s placed access to finance at the service of the productive sectors and for strengthening the capacity to finance Africa's inclusive growth. While several policy documents underscored the importance of the financial sector to enhance and facilitate private sector participation in promoting national and regional programs, the recent regional integration strategy document dedicated one of its pillars to financial integration to foster the development of the private sector across the continent (AfDB 2018).

The FSDPS was based on a well-grounded knowledge of the sector and adequately identified challenges to access to finance. This knowledge was drawn from the Bank's experience since its Financial Sector Policy of 2003 and the lessons from the independent evaluations of NSOs, equity funds, SMEs, and microfinance. The preparation of the FSDPS also reflected the experiences from similar institutions such as the International Finance Corporation (IFC), the World Bank and the International Monetary Fund (IMF).

The FSDPS vision was, however, overly ambitious. The FSDPS aimed "to help RMCs improve access to financial services by the underserved and to broaden and deepen the continent's financial systems". The vision was that "Africa financial systems will seek to provide near universal access by 2025 of essential financial services for all-critical for inclusive growth. Those systems should also offer the full range of financial products and services to the economic sectors including agriculture, infrastructure, manufacturing, mining, micro, small and medium enterprises, and trade. A huge financing gap should be filled by improvements in the financial sector's ability to mobilize and intermediate finance". However, the FSDPS did not detail how this ambitious vision would be implemented to achieve the hoped-for results. A more detailed plan of action was expected in a follow-up business plan, which was not discussed and approved by the Board to make it mandatory. Overall, the ambitious FSDPS vision was and remains relevant today. The question is how to pursue the vision in a more realistic way that creates the highest impact within the resources available.

Quality of the Design

While the preparation of the FSDPS was largely participatory within the Bank, the consultation of main external stakeholders is not visible in the document. While the FSDPS is based on the principle of ownership by RMCs, there was no proper dissemination and discussion of the FSDPS across RMCs. A good practice would have been to carry out a wide consultation with external stakeholders on the main issues to address and their root causes before selecting the most effective instruments to use in each context. This limitation was overcome by the ongoing preparation of the new strategy grounded on a broad discussion with the main stakeholders during the seminars organized in the five regions in 2018. During these seminars, the main stakeholders from the private and public sectors, as well as from civil society, had the opportunity to share their views on the root causes of the low access to finance, the challenges they face, and the role the Bank could play.

The FSDPS constituted a hybrid document with limited conceptual clarity between the policy and the strategy. The FSDPS stated that the financial sector is vital to achieving inclusive growth and the transition to green growth, the two AFDB's strategic objectives of the Strategy for 2013-2022. However, Figure 1 of the document presented an inverse relation. Likewise, it is not clear how the pillars of the strategy presented in Figure 2 are related to the objectives defined in the policy and the priorities of the financial sector defined in Figure 1. Also, there was a variation in the formulation of the objectives in the policy side of the document and the ones related to the pillars of the strategy. Overall, the presentation of the relationships between the strategy and the policy on one side, and the FSDPS and the two goals of the TYS on the other side, was not clear. The Board document of 25 March 2019 has recommended to avoid any new hybrid document (AfDB 2019).

Priority setting and incomplete planning. The activities under each pillar were specified in too broad a manner, which did not help the Bank to define areas of concentration, while taking into account its comparative advantages and capacity. There was an absence of upfront identification of where funding would go and for which reasons. This made it difficult to make ex-post judgements on, for example, whether the volume of funding going to trade finance relative to financial sector reform development policy lending was estimated appropriately (Centennial Group 2019). The FSDPS

set out aspirations to support the development of the financial sector and highlighted some internal constraints to implementation. However, it contained limited implementation details, including how the activities would be incrementally funded or staffed with new skills. It defined intervention areas and listed the activities under each pillar, but it did not indicate, among those activities, what would be achieved as priorities within a given time and in different countries, depending on the level of their FSD.

A theory of change was not clearly articulated. While the FSDPS was built on solid knowledge of the financial sector in Africa, its preparation was not fully informed by a clear theory of change with a clear narrative, including hypotheses to explain how the intended outcomes would be reached. It was an important missed step in FSDPS preparation, also consistent with findings of the self-evaluation of the FSDPS (AfDB 2019). Annex 2 contains a reconstruction of the theory of change of the FSDPS.

Monitoring and evaluation gap. The self-evaluation of the FSDPS rightfully underscored that: "An M&E system was never put in place to monitor progress thereby making it not possible to monitor progress. The absence of an FSDPS M&E system was quite problematic since in its absence, the PIFD utilized the Bank-wide Key Performance Indicator (KPI) system to measure progress. Not only does the KPI system not focus on outcomes but even at the output level it does not include the same measures of effectiveness as included in the FSDPS. For example, FSDPS planned to measure the customization of financial sector activities at the country and regional levels by monitoring that all RISPs and CSPs had a financial sector-informed design whereas these are not part of PIFD's KPIs (Centennial Group 2019). In addition to the inappropriateness of several of the indicators used, 23 out of 55 of them did not have baseline data. While the vision was relevant, the follow-on process management was missing. There were no detailed business plans developed, there were no financial strategies toward countries, there were no identified development outcomes, and no system put in place to measure these.

Financial Sector Development in AfDB's Country and Regional Strategies

Financial sector development is positioned primarily as a contributor to enhancing industrial and trade competitiveness in the FSDPS. The Strategy outlines multiple ways in which the Bank can leverage FSD to contribute to regional integration, namely 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 AfDB's role in strengthening domestic financial institutions and improving access to finance for disadvantaged sectors. However, the only explicit intended result related to FSD included in the FSDSP'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 are silent on access to finance objectives. The FSDPS supports the Bank's vision for the financial sector as a catalyst for Africa's economic transformation. This vision is reflected in CSPs, which refer to FSD mostly as a means to improve financing for priority sectors or infrastructure projects. FSD operations are also seen to contribute to improved governance, job creation and employability, the business climate and competitiveness. As such, FSD 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 CSPs of selected countries 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 FSD as a contributor to real sector growth, the 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 regional or country strategies address the potential trade-off between supporting access to finance for high-growth SMEs, and supporting financial inclusion of underserved and vulnerable populations. The CSPs lack mention of innovative ways to increase access to finance or leverage mobile payment ecosystems as a driver of innovation and a basis for economic development. This may be due to the fact that the increase in mobile money in several selected countries is recent. Bringing the FSDPS vision to tangible actions within a country will require a different approach to financial sector strategy development-based financial sector challenges and priorities, which vary greatly by country.

The Bank's Organizational Capacity and Partnerships

There was an evolving organization of the FSD activities within AfDB from a decentralized to centralized structure, and then to decentralization. The financial sector department (OFSD) was created in 2013 as a result of fine-tuning of the Bank's structure. OFSD was tasked to lead the development of the FSDSP and to coordinate all relevant FSD activities and initiatives, which were transferred to the newly created department. The merger aimed to address the organizational fragmentation derived from overlapping mandates, and different governance structures and balance sheets, and operating models. It also aimed to improve synergies between public and private sector activities. In 2016, following the Board's approval of the DBDM (2016) emphasizing increased decentralization of the operations, the Bank's was again restructured and financial sector activities re-organized as follows:

- The private sector development operations are managed by the financial sector department (PIFD).
- Public sector financial development operations are managed by regional offices.
- Equity investments in funds are managed by the private sector department (PINS); these funds act as 'financial intermediaries' and provide financing to sub projects.
- Other financial sector operations are managed by various operational departments such as infrastructure, energy, agriculture, industry, etc. Those operations are not intermediated and they were not taken into account in the portfolio review.

There was increased capacity but weak coordination. Although the majority of the financial sector operations are handled by PIFD (85 percent), there are nine departments-some of them were set up recently-involved in financial sector operations. Despite an unofficial coordination, the dispersion of the financial sector operations across many departments is a source of confusion and duplication of efforts (Table 4). This led to missed opportunities in terms of better use of both financial and human resources, and the ability to attain the highest development impacts. Some of the financial sector departments' officers are deployed in regions and report both to the Regional Director and to PIFD.

The PIFD staff numbers doubled in 2011-2014, and doubled again during 2015-2018. However, while the budget allocated to the PIFD also steadily increased until 2016, it subsequently decreased. The average size of approved amount per staff

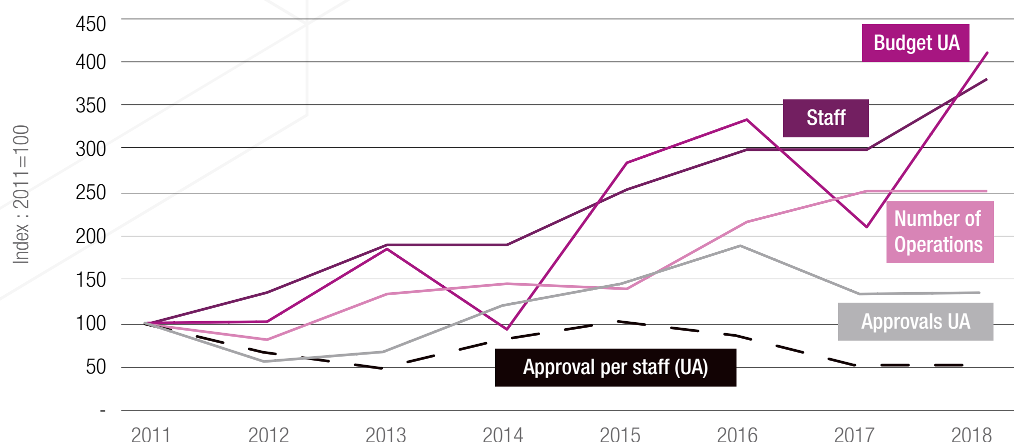
has been decreasing since 2015. While there was a substantive increase in the number of the staff, interviews with PIFD management and its memorandum of 2018 requesting additional staff indicated that there was a staff shortage in the supervision and monitoring functions. This led PIFD to reorganize the work program and assign seven staff, who had been exclusively dedicated to origination to to also lead supervision duties. Figure 4 indicates the evolution of those variables with the value of 2011 fixed at 100.

Table 4: Departments in Charge of the Financial Sector Operations in 2011-2018

Department names	2011-2014			2015-2018		
	Number of operations	Approval UA million	Percentage	Number of operations	Approval UA million	Percentage
OFSD/PIFD	8	221.5	6.5	98	5,053.8	85.0
OPSM/OPSD/PINS	64	2,579.0	76.3	16	234.6	3.9
FRMB/FIRM/PSF				14	150.7	2.5
Regional Directorates				10	370	6.1
PESR				3	60.8	1.0
PITD				2	30.4	0.5
PERN				2	17.7	0.3
AHFR				1	10.7	0.2
PICU				1	28.9	0,5
OSGE	4	213.7	6.3			
Task force	1	64.7	1.9			
Total	**77**		**100**	**147**	**5,957.6**	**100**

PESR: Power system development; PITD: Industrial and trade development; PERN: Renewable energy; AHRFR: Agriculture finance & rural development; PIC: Infrastructure, cities and urban development; OSGE: Governance, Economic & Financial Management Department. UA: Unit of account.

Figure 4: Increased Capacity of AfDB



During the FSDPS, there was an increase in partnerships in support to financial sector operations. Before the design of the policy, several strategic partnerships were in place and continued to be useful in the policy implementation stage. These included Making Finance Work for Africa (MFW4A), a unique arrangement that enables governments, the private sector and development partners to coordinate financial sector development interventions across the continent, while maximizing the development impact. The Bank is also hosting the African Financial Markets Initiative (AFMI), which promotes the development of the African local currency bond market. Furthermore, the Bank is a member of CGAP, a global partnership of more than 30 leading development organizations, which share the mission of advancing financial inclusion to improve the lives of the poor. The Bank contributes regularly to the CGAP annual survey on funding to financial inclusion, which aims to improve transparency on funding flows. The Bank and the EU signed several grant agreements in 2018 worth €70.5 million to support FSD in RMCs. In addition, other grant funds were mobilized, such as the ADFI to support the scaling-up of financial inclusion through digital financial services and Affirmative Finance Action for Women in Africa (AFAWA), with access to finance as one of the core pillars. The Boost Africa and Gates Foundation were to support sectors that leverage innovation and hence the potential to create jobs, and deliver superior economic impacts, such as agriculture, information and communications technology (ICT), financial services, education, and renewable energy.

Dealing with increased organizational complexity. An increasing number of operations, more partnerships, larger staff numbers, and more complex instruments such as blended finance, mean that the costs and the value of coordination are increasing markedly. The issue is how management can address this in a transparent and cost-effective way, and how the Board can ensure that this occurs. One approach is to deepen the strategy and business planning process at both the country, regional and department levels. This would also help move from vision to action.

Structure and Evolution of the Bank's Financial Sector Portfolio

Overall Trends

The Bank has significantly increased its support to the financial sector after the adoption of the FSDPS in 2014. The number and the amount of the operations approved after 2014 were almost twice as high as in the previous equivalent period (Table 5). The share of FSD operations in the total amount approved by AfDB increased from 17.4 percent during 2011-2014 to 21.6 percent during 2015-2018. The average amount approved decreased from UA 42.8 million to UA 40.7 million between the two periods. The number of SOs increased from 8 percent during 2011-2014 to 18 percent during 2015-2018, while the amount approved increased from 12 to 28 percent between the same two periods. The number of NSOs decreased from 92 to 82 percent and the amounts from 82 to 72 percent. During the FSDPS period, the operations ranging from UA 5-50 million have recorded the highest increase. Their number and amount during the FSDPS period were almost 2.5 times that of the previous period. The operations less than US 5 million and above UA 100 million increased in a smaller proportion than the overall portfolio.

Almost 50 percent of all FSD operations were ongoing at the time of this evaluation. For operations approved between 2015 and 2018, 34 percent of the operations were approved and signed but with the first disbursement still pending (Table 6). Most of these operations were approved in 2018. There were 39 operations completed, of which 28 had a completion report (for public operations) or an expanded supervision report (for private sector operations). Overall, 21 operations were fully canceled for a total amount of UA 505 million. These represented UA 284 million during 2011-2014 and 221 in the subsequent period. While the number of canceled operations remained almost the same in the two periods, their proportion in the policy and strategy period was almost half of those of the previous period, respectively, 13 and 7 percent. In termes of value, they represented 8 and 4 percent. Four other operations were partially canceled for UA 113 million. Cancelations were mainly due to delays in signing before the 180-day delay limit specified in the Bank's cancelation guidelines.

Table 5: Trends in Number, Volume and Size of FSD Operations

Operations/periods	2011-2014 (a)		2015-2018 (b)		2011-2018		Ratio (b/a)	
	Number	Value (million)	*Number*	Value (million)	*Number*	Value (million)	*Number*	Value
All operations	*79*	3,382	*147*	5,943	*226*	9,326	*1.9*	**1.8**
Sovereign Operations	*6*	393	*27*	1,676	*33*	2,069	*4.5*	**4.3**
Non-Sovereign Operations	*73*	2,990	*120*	4,267	*193*	7,257	*1.6*	**1.5**
Operations of less than UA 5 million	*19*	38	*24*	63	*43*	101	*1.3*	**1.7**
Operations between UA 5.1 to 50 million	*37*	707	*92*	1,626	*129*	2,333	*2.5*	**2.3**
Operations above UA 50 million	*23*	2,638	*32*	4,254	*55*	6,892	*1.4*	**1.6**

Source: AfDB database.

Table 6: Status of Operations

Operations	2011-2014		2015-2018	
	Number	Percentage	Number	Percentage
Ongoing	37	47	77	53
Approved and signed	1	1	51	34
Canceled	10	13	11	7
Completed	8	10	3	2
Closed (completed with a completion report or an extended supervision report)	23	29	5	3
Total	**79**	**100**	**147**	**100**

* Only full cancelations are reported. Partial cancelations are reported in ongoing operations.

Instruments

LOCs remained the main financing instrument, but the use of other instruments was more diversified during the FSDPS period. The proportion of LOCs in the amount approved decreased from 60 to 34 percent between 2011-2014 and 2015-2018 (Table 7). The amount approved for TFLOCs and their number during 2015-2018 was 9 times that of the previous period. The number increased from three to 28. Guarantees recorded the second-largest increase (2.5 times). Risk participation, introduced in 2013, represented five percent of approvals in the 2015-2018 period. PBOs and equity funds experienced the smallest increase after LOCs. Though both the 2003 and 2014 policy documents promised to support the whole FSD, their implementation shows that support through PBO lending and TA was very limited, yet many countries in Africa need interventions that explicitly foster FSD as an objective.

The analysis of PARs shows that one-third of operations benefited from a grant for TA. However, the rationale of these grants was not always clearly stated, and it did not necessarily align with FSD objectives. Overall, the number of operations comprising a grant for TA doubled from the period 2011-2014 to the period 2015-2018. Previously, private financial institutions were the main beneficiaries of these grants. However, the most recent period experienced a higher increase of grants to public entities, which corresponds to recent efforts to support public organizations (Table 8). In addition, their actual use is not always detailed in the appraisal report and most of supervision reports reviewed do not report on them. When mentioned, the use of most of the grants aimed to strengthen the clients' capacity, including for improving social and environmental management systems, in some cases.

Table 7: Financial Sector Operations by Instruments for 2011-2018 (UA million)

Instruments	2011-2014 (a)		2015-2018 (b)		2011-2018 (b/a)		Ratio
	Amount	Percentage	Amount	Percentage	Amount	Percentage	
LOCs	2 033,6	**60,1**	2 029,1	**34,1**	**4 062,8**	**43,6**	1,0
TFLOCs	174,9	**5,2**	1 570,9	**26,4**	**1 745,3**	**18,7**	9,0
Guarantees	458,9	**13,6**	1 159,7	**19,5**	**1 618,7**	**17,4**	2,5
Equity	416,1	**12,3**	505,2	**8,5**	**921,3**	**9,9**	1,2
PBOs	282,8	**8,4**	343,0	**5,8**	**625,8**	**6,7**	1,2
Risk Participation	0,0	**0,0**	310,3	**5,0**	**310,3**	**3,0**	--
TA	15,9	**0,5**	25,6	**0,4**	**41,5**	**0,4**	1,6
Total	**3 382,4**	**100**	**5 943,8**	**100**	**9 326,2**	**100**	**1,8**

Table 8: Technical Assistance to Beneficiary Institutions

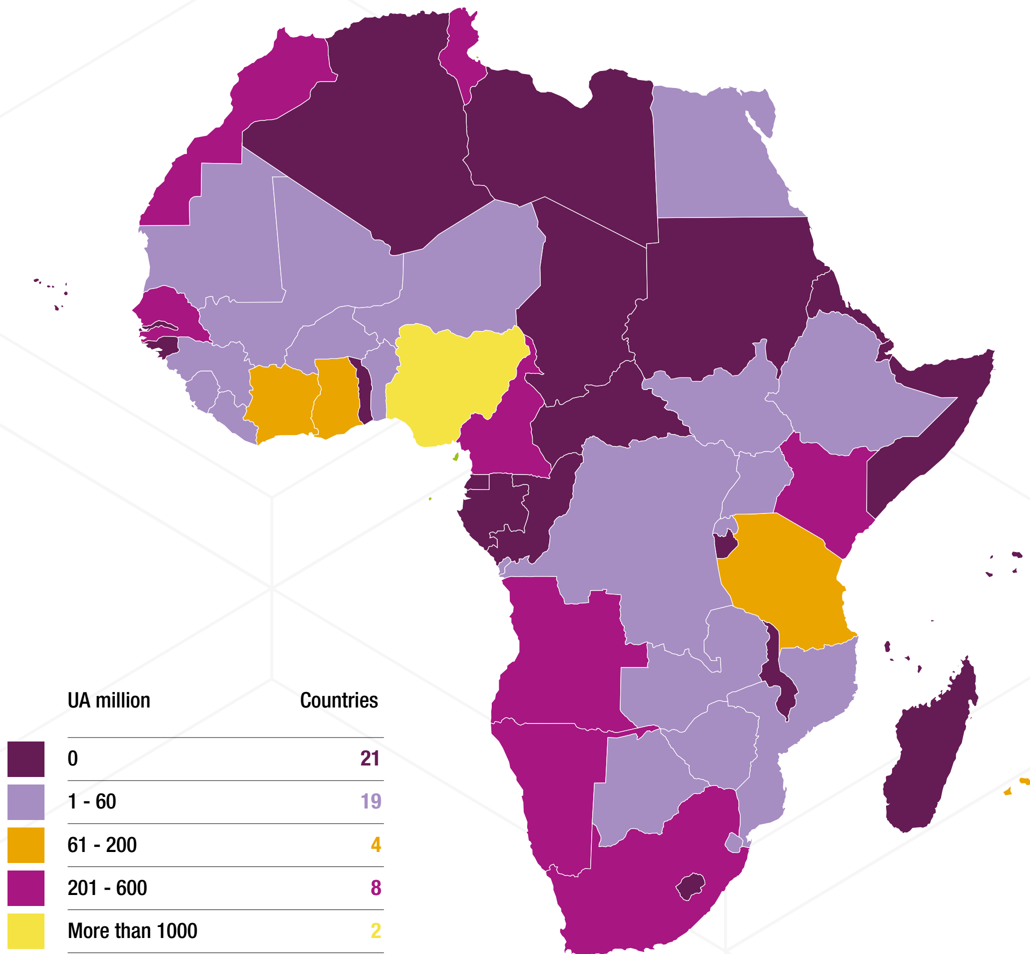
Type of beneficiaries, number	2011-2014 (a)	2015-2018 (b)	2011-2018	Ratio (b/a)
Private entities	21	36	**57**	1.7
Public entities	5	17	**22**	3.4
Total	26	53	**79**	2.0

Geographic Coverage

The number of countries in which AfDB extended financial sector operations increased from 19 during 2011-2014 to 32 during 2015-2018, implying a significant effort to expand access to finance to more countries, including low-income countries. Of the total of 54 African countries, AfDB approved financial sector operations in 33 countries during the entire period; 21 did not benefit from any operation and 18 countries have continuously received FSD operations (Figure 5 and Table 9).

There are several reasons for this geographical distribution, including the strategic choices of AfDB, the high risks for some countries, the size of markets, the quality of counterparts, the competitiveness of AfDB pricing, etc. However, it should be noticed that the number of countries reached is actually higher than indicated in the above numbers, given that 44 percent of the operations are multinational extended to regional development financial institutions, funds and commercial banks. These operations are not included in the portfolio review of individual countries.

Figure 5: Geographic Distribution of the Approval for Financial Sector Operations, 2011-2018



During 2011-2014 and 2015-2018, multinational operations received almost 44 percent of the amount approved in each period. Apart from multinational operations, Nigeria, Morocco and South Africa comprised 48.6 percent of the total amount approved in 2011-2014, with Nigeria receiving 30.3 percent, Morocco 10.2 percent, and South Africa 8.1 percent. In accordance with the FSDPS, which promised to avoid the excessive concentration of its financial sector portfolio in a few countries, there was a much lower concentration of resources during 2015-2018, with Nigeria receiving 8.5 percent, followed by Senegal (6.6 percent), Cameroon (6.5 percent), Angola (5.1 percent), Tunisia (4.8 percent), Namibia (4.4 percent), and Kenya (3.6 percent). The rank of Cameroon and Senegal is linked to the support extended to both countries to hedge the variation of the exchange between the US dollar and the euro for their eurobonds (in 2015 for Cameroon and 2018 for Senegal). While the resources remained concentrated in countries with a high GDP per capita, the number of low-income countries almost doubled, and the number of lower middle-income countries almost tripled during 2015-2018 (Annex 5).

Table 9: Country Coverage, 2011-2018

Status	Countries	Number
Countries that did not receive any FSD operations	Algeria – Burundi – Cabo Verde – Central African Republic – Chad – Comoros – Congo – Djibouti – Equatorial Guinea – Eritrea – Gabon – Gambia – Guinea-Bissau – Lesotho – Libya – Madagascar – Malawi – Seychelles - Somalia – Sudan – Togo	21
Countries that received FSD operations in 2011-2014	Benin – Burkina Faso – Cameroon – DR Congo – Ghana – Kenya – Liberia – Mali – Mauritius – Morocco – Mozambique – Namibia – Niger – Nigeria – South Africa – Tanzania – Tunisia – Uganda – Zambia	19
Countries that received FSD operations in 2015-2018	Angola – Benin – Botswana – Burkina Faso – Cameroon – Côte d'Ivoire – DR Congo – Egypt – Ethiopia – Ghana – Guinea – Kenya – Liberia – Mali – Mauritania – Mauritius – Morocco – Namibia – Niger – Nigeria – Rwanda – Sao Tome & Principe – Senegal – Sierra Leone – South Africa – South Sudan – Swaziland – Tanzania – Tunisia – Uganda – Zambia – Zimbabwe	32
Countries that received FSD operations in both periods	Benin – Burkina Faso – Cameroon – DR Congo – Ghana – Kenya – Liberia – Mali – Mauritius – Morocco – Namibia – Niger – Nigeria – South Africa – Tanzania – Tunisia – Uganda – Zambia	18

Table 10: Regional Coverage of the Financial Sector Operations

Regions	2011-2014		2015-2018		2011-2018		Ratio
	UA million (a)	Percent	UA million (b)	Percent	UA million	Percent	(b/a)
Multinational	1,466.0	43.34	2,642.0	44.45	4,108.0	44.0	1.8
West	1,057.7	31.27	1,212.7	20.40	2,270.4	24.3	1.1
South	364.0	10.76	812.1	13.66	1,176.2	12.6	2.2
North	377.1	11.15	510.0	8.58	887.2	9.5	1.3
East	116.4	3.44	357.6	6.02	474.0	5.1	3.0
Central	1.0	0.03	409.3	6.89	410.3	4.4	393.5
Total	**3,382.4**	**100.00**	**5,943.7**	**100.00**	**9,326.1**	**100.0**	**1.8**

The share of West Africa was by far the highest among the regions, followed by Southern Africa and North Africa (Table 10). The Central Africa region benefited the least from AfDB's support but experienced the highest increase in funding during the FSDPS period. However, this was mainly due to the risk participation agreement extended to Cameroon, mentioned previously.

Type and Size of Recipient Institutions

AfDB has more than doubled the number of different categories of clients but the number of microfinance and insurance companies has decreased. The main clients remained commercial banks and equity funds, while AfDB decreased its support to microfinance and insurance companies (Table 11). The number of microfinance institutions decreased from 10 in the policy and strategy period to three during the post policy and strategy period. With regard to SOs, the number of government and central bank clients almost tripled, highlighting the Bank's increasing support to public entities to support the development of the financial sector. These funds include those established or sponsored by the Bank (representing around 10 percent of the funds supported, such as the Africa Guarantee Fund, the Africa Domestic Fund, Africa 50) and other funds (mainly private equity funds).

Table 11: Number of Financial Sector Operations by Type of Client Institution

Type of institutions	2011-2014	2015-2018	Ratio
Commercial Banks	21	51	2.4
Funds	17	36	2.1
Governments/Central Banks	7	19	2.7
Development Finance Institutions	14	20	1.4
Other Financial Institutions*	5	15	3.0
Leasing	1	3	3.0
Insurance Companies	4	0	--
Microfinance Banks/Institutions	10	03	0.3

* Other financial institutions include specialized banks such as housing companies (4) commodity banks (4) ; and other non-banking financial institutions such as trade finance banks (4), soft commodity program (1) mortgage refinance (1), one regional economic community, etc.

Use of Local Currencies

An analysis of the AfDB database shows that the use of local currencies was marginal, but there was an increase in their use, which is in line with the FSDPS. In the first period, most operations were denominated in US dollars, euro, or units of account (UA). These represented 90 percent of the amount approved during 2011-2018. So far, only four local currencies were used: South African rand, Nigerian naira, Botswanan pula and Zambian kwacha. During 2011-2014, there were only two operations using South African rand. They represented 2.4 percent of the amount approved during that period. This number increased to 11, corresponding to 10 percent of the approved amount during 2015-2018 (Table 12).

Alignment of the Portfolio to the FSDPS

There was no reference to pillars in most of the PARs to clearly position operations against the FSDPS objectives. More often than not, PARs referred to CSPs and, for more recent operations, the High 5 strategies. Therefore, PARs did not contain resources allocated by pillars. A classification of operations from the stated objectives in PARs showed that most of the operations covered two or three pillars at once (Table 13). Pillar II, broadening and deepening the financial sector system, was the most frequently reported pillar. It pays special attention to long-term finance to support investments in the formal sector of the economy, as well as working capital and trade finance. It was followed by Pillar I, increasing access to financial services for the underserved, including SMEs. The policy focused on a universal access to basic financial services, with the poor economic actors from the informal sector as the main beneficiaries. However, the operations mainly served corporates and SMEs. Pillar III, covering stability and governance, was mainly addressed by PBOs, TAs, and grants provided to financial institutions to strengthen their capacity, in addition to the financing, whether provided to governments or other financial institutions.

Table 12: Use of Local Currencies in Financial Sector Development Operations

Currency	2011-2014		2015-2018	
	Number	Value	Number	Value
US$	55	2,752.8	97	3,709.0
EUR	20	498.2	27	1,587.2
UA	2	48.7	11	59.4
ZAR	2	82.6	7	490.6
NGN			2	15.8
BWP			1	55.6
ZMW			1	21.0
Percentage of local currency	**2.5**	**2.4**	**7.5**	**9.8**

Note: US$ = US dollar; EUR = euro; UA = unit of account; ZAR = South African rand; NGN = Nigerian naira; BWP = Botswanan pula; and ZMW = Zambian kwacha.

Table 13: Alignment of the Portfolio to the 2014 FSDPS

Pillars	2011-2014		2015-2018	
	Frequency	Percentage	Frequency	Percentage
Pillar I	42	53	92	63
Pillar II	73	92	129	88
Pillar III	34	43	51	35
Total	**79**	**100**	**147**	**100**

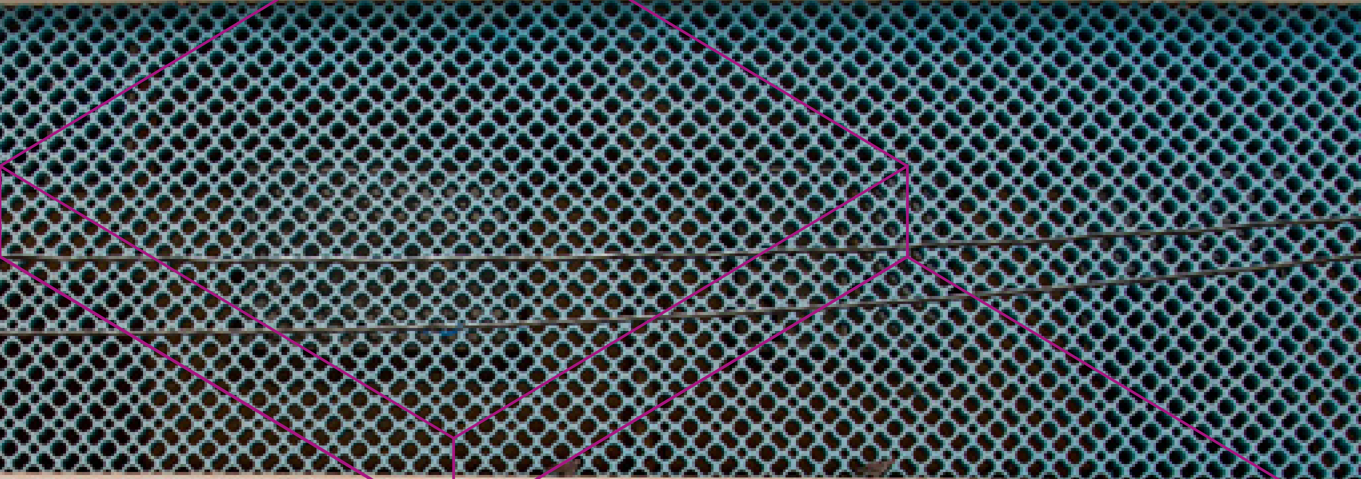
Another noticeable feature of the portfolio is the increase of the support to capital markets since the approval of the FSDPS. From the end of 2014 to 2018, the operations approved to support financial market amounted to UA 1,333.1 million. These comprised operations to strengthen market institutions through guarantees to local currency risk hedging, at 54 percent of the total volume, financial sector budget support at 36 percent, and TA to support regulatory reform, and the remaining 10 percent for strengthening market institutions, and financial infrastructure and payment systems development. AfDB also supported capital markets funds such as the African Domestic Bond Fund (ADBF), the African Local Currency Bond Fund (ALCB FUND) and the African Guarantee Funds (AGF), among others, and it worked with development partners in the framework of the African Bond Market Initiative.

There was an increase in the support to innovation that was consistent with the FSDPS call to "foster innovation and promote the scaling-up of breakthrough technologies, some pioneered in Africa". As for the macro policy issues where AfDB did not play a significant role, there were a few operations supporting innovations, limiting opportunities for replicating and scaling up successes. Table 14 shows that there were a few operations in technology and renewable energy, but their number and amounts approved quadrupled during the FSDPS compared with the equivalent previous period. Nevertheless, these operations represented less than two percent of the amount approved during 2015-2018. Operations also used innovative instruments with risk participations and partial credit guarantees. Adopting sectoral financial sector budget support in Tunisia and Morocco was also an innovative approach. However, given that innovation was defined as a priority in both Pillars I and II, and the increasing role it plays in the financial sector, it could have received more weight in the portfolio.

Overall, the structure and evolution of the portfolio had many positives. For instance, the number of countries reached grew from 19 to 32, the portfolio concentration declined with smaller average exposures, the amount approved, and the number of operations almost doubled, local currency operations grew from UA 2.4 to UA 9.8 million but remained only two percent of the amount approved. Innovative deals went from four to eight. The exposure to multinational operations remained steady at 44 percent of the amount approved. Public operations went from 19 to 32 percent of the amount approved. However, it was not possible to judge these achievements to a set of targets, as they had not been defined.

Table 14: Operations Supporting Innovations

Innovative areas	2011-2014		2015-2018		Ratio	
	Number of operations (a)	Amount, UA million (b)	Number of operations (c)	Amount, UA million (d)	Number of operations (c/a)	Amount, UA million (d/b)
Digitalization	-	-	3	18.2	NA	NA
Renewable Energy	2	24.5	5	93.2	2.5	3.8
Total	2	24.5	8	111.4	4.0	4.5



Performance of the Operations Evaluated

Detailed Operations Evaluation

This chapter relies on a triangulation of information from a desk review of FSD operations, interviews with managers and task managers, the responses of task managers to a survey carried out at an early stage of the evaluation, and on the results of the fieldwork covering 32 operations approved in seven African countries across the five African regions. These included 15 LOCs, five TFLOCs, three Risk Participation Agreements (RPAs), six equity participation, two grants/TA, and one PBO. There were 15 operations during 2011-2018 and 17 operations during 2015-2018. Some operations were still ongoing and could not be rated for effectiveness, efficiency and sustainability. The sample represented 14.2 percent of the total number and 27.2 percent of the total amounts approved for the FSD operations and helps to identify good and less good practices, which is useful for improving the performance of the operations in terms of their relevance, quality of the design, effectiveness, efficiency, and sustainability. Given that there was no statistical difference in the percentage of satisfactory operations between the two periods, Table 15 provides a weighted average of the percentage of satisfactory operations.

Relevance

Relevance assessed whether the objectives of the operations were consistent with the FSDPS, with country, client and target group needs, and good practices in FSD.

From the analysis of the 32 PARs and interviews, all operations but one were found to be relevant with regard to the FSDPS objectives. The analysis of the PARs showed that most of the operations aimed to respond to more than one of the three pillars of the FSDPS: *(i) Increasing access to financial services for the underserved; (ii) Broadening and deepening Africa's financial systems; and (iii) Financial stability and governance*. Most of the operations aimed at improving access to long-term funding corresponding to Pillar II. Increasing access to financial services for the underserved was the second pillar frequently mentionned. Financial stability and governance was the least frequently mentioned pillar. Policy-based operations, which supports policy reforms through a budgetary support, TA to countries and to financial institutions responded to this objective.

Table 15: Percentage of Satisfactory Operations

2011-2018			
Criteria	Rated operations	Satisfactory operations	Percentage of satisfactory
Relevance	32	31	97
Project Design	32	21	66
Effectiveness	25	18	72
Efficiency	25	13	52
Sustainability	24	19	79

Operations were found relevant for clients' needs. The operations aimed to address clients' needs for long-term funding to on-lend to end-beneficiaries, to engage in new lending activities or expand their portfolios. The longer maturity of the Bank's support constituted its additionality, as it contributed toward decreasing the maturity mismatches. RPA operations aimed to help FI beneficiaries to reduce their risk capital charge and freed up scarce capital to underwrite additional business. FIs also intended to benefit from the signaling effect of being an AfDB client by crowding in other investors. AfDB's support aimed to provide TA to reinforce FIs' capacity, particularly on aspects related to environmental, social and corporate governance (ESG). Almost all FIs visited underscored the role played by AfDB in introducing ESG principles in their business.

Operations were found to be relevant for country needs, particularly because access to long-term finance remains a challenge in Africa. In only a few cases, AfDB's facilities aimed to support financial sector reforms, as was the case for Tunisia and Morocco (Morocco was not part of the case studies). In some other cases, support came as a countercyclical response to mitigate the impact of an economic or political crisis. For example, in Nigeria, there was scarcity of US dollars in the period 2015-2017 due to a steep decline in the price of crude oil[1]. This led to an abrupt fall in US dollar earnings and a devaluation of the Nigerian naira, illustratinging the importance of the LOCs in enhancing the long-term financing capabilities of the FIs. Likewise, the LOC provided to Namibia in 2015 came at a time when the economy was sliding into recession due to various domestic and global issues. In Tunisia the support of AfDB addressed the market failures during the post-revolution period of political instability after 2011. In some countries, AfDB's interventions were designed to be complementary to governments' initiatives to support SMEs, and export-led and import-led businesses. For instance, in Nigeria, AfDB's interventions complemented 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 (CBN) and Nigeria Export-Import's creation of two trade finance support lines to export-led and import-led businesses. Through its equity investments, AfDB intended to contribute to the diversification of financial services, and to facilitate directly and indirectly access to finance, for example for SMEs and the agriculture sector (Tunisia-Bourse, FAFIN in Nigeria, Kenya). Given the significant shortage of long-term funding in most countries, the risk of market distortion or crowding out of other lenders was found to be low.

AfDB invested in institutions that played an important role in national and regional financial sectors. This was the case of FIs such as Afreximbank, PTA, and sub-regional and national development banks, including the Nigeria Development Bank, Namibia Development Bank, East Africa Development Bank, and the Eastern and Southern African Trade and Development Bank. For example, strengthening a reinsurer such as ZEP-RE in Kenya served many insurance providers and was an important support function for an insurance market to develop. ZEP-RE has also a training academy focused on developing the insurance and reinsurance sectors at a regional level. By strengthening such support functions, AfDB aimed to contribute to broadening and deepening Africa's financial system, and to support regional integration, as well as financial stability and governance. The Bank also contributed to building funds to cater for specific needs (Africa 50, Africa Guarantee Fund, Boost Africa, etc.). These operations were intended to benefit the whole financial sector system.

Although the portfolio was considered relevant, the evaluation also found a lack of strategic clarity in appraisal reports for the following reasons:

- No business plan was prepared to identify the areas and countries where the Bank could bring the highest additionality: operations were selected on the basis of their viability, while their impact on the financial sector was rarely considered.

- Due to the wide financing gap for FSD in Africa, nearly any type of support would respond to the needs in most of the countries.

- Given the very broad scope of the policy objectives and the lack of concrete strategies and targets, almost any FSD operations would fall within the scope of the strategy without necessarily being the best option.

The Bank's intervention rationale was not always clear. While the Bank's intervention justification is mentioned in the PARs, the justification did not always explain the Bank's comparative advantages: responding to market failures, counter cyclical support, support to national or regional development banks, support to large regional financial institutions, etc. The justification was particularly weak when partner institutions were likely to have access to other sources of funding: large established commercial banks, upper middle-income countries or large international banks. The reports rarely articulated why the intervention was considered to be the best option among several alternative investments.

There was no evidence of a thorough assessment of the root causes of weak, or the lack of, access to finance in PARs. Although the market challenges and the needs of target groups were mentioned in appraisal reports, most of them focused their assessment on the partner institution, rather than on the market conditions hindering the institution to better serve underserved target groups in order to justify the appropriateness of use of instruments. As a consequence, operations tended to bring temporary solutions to identified problems. For example, while liquidity shortage in a market justified the use of LOCs, these only provided a temporary supply of funding and did not address the binding constraints that restrict the availability of long-term funding in a market. Therefore, assessment of development outcomes can hardly go beyond clients served by partner institutions, as operations did not aim and were not designed to influence the broader financial sector. A similar observation was made in the 2003 financial policy on the use of LOCs in the following terms: *"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 FSD at the country level is also reflected by the fact that AfDB is not visible as a leader in FSD, and its engagement with other funders to develop a vision for the sector is limited.

While LOCs and TFLOCs were relevant to provide liquidity for on-lending to sub-borrowers, their contribution to access to finance for underserved and to FSD was not ascertained. Given both instruments represented a large share of AfDB's FSD portfolio (65.3 percent between 2011 and 2014, and 60.5 percent between 2015 and 2018), other constraints that hinder FSD did not receive sufficient attention and funding, thereby limiting the contribution of AfDB to its stated objective to increase access to finance for underserved segments. Those constraints include weak payment systems, regulatory constraints, and a lack of innovation and informality, among others. An evaluation synthesis 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).

Quality of the Design

Quality of design looks at whether operations' intervention logic was clearly presented, and comprised baseline data and targets with measurable indicators. It assessed whether the design was based on plausible hypotheses on how to attain intended outcomes.

Out of the 32 operations that were rated, 21 were rated satisfactory. Those operations were mainly: (i) policy-based operations; (ii) operations of the Africa SME program; and (iii) operations extended to development banks. For those operations, PARs presented a credible results chain indicating how the operation was likely to attain its objectives, a baseline

and clear expected outcomes and/or impacts of the operations in access to finance or in strengthening the financial sector. Fortis Bank in Nigeria is an example of a good design of a LOC part of the Africa SME Program. The facility was in local currency and used a local definition of SME, clearly defined end-beneficiary targets and had an easy disbursement process. Another example of a good design was a TA in Tunisia, which aimed at facilitating SMEs' access to capital markets, consisting of a triangular collaboration between the government of Tunisia, the Tunis stock exchange and entrepreneurs. It had a clear objective to support a portfolio of SMEs accessing capital market through a grant for training qualified SMEs. Some operations presented weaknesses in their intervention logic from a development point of view, even if they were satisfactory from a financial perspective. PARs of those operations did not convincingly explain how providing financial resources to a client financial institution would contribute to the intended development objectives. For example, for larger operations supporting commercial banks, PARs did not show how supporting these organizations would lead to impact on the financial sector. In Kenya, under the interest rate cap regime, while AfDB selected good performing financial institutions, these institutions had limited appetite to lend to the perceived riskier segments of the market, such as SMEs.

More often than not, operations were not designed to address the binding constraints in the financial sector. The design of operations was mainly demand-driven. For many operations, the Bank's support was justified by the lack of long-term funding as an important barrier to business. However, operations were not designed to address the underlying causes of why there was a lack of long-term funding in target markets: they aimed to provide resources as a temporary solution without setting up sustainable conditions for partner institutions to access to long-term funding.

Expected outcomes were mainly defined in terms of economic development and were difficult to track. These indicators were often set in terms of GDP, job creation, revenue to government, etc., without demonstrating the results in terms of access to finance and/or FSD. This situation reflected weaknesses in developing the results framework with a confusion between private sector development and FSD. In addition, results on indicators such as job creation-while referred to in supervision reports-could be hardly attributed to an AfDB operation, given the fungibility of resources and the lack of results tracking by AfDB's clients.

Intended results for end-beneficiaries were not clearly defined, which created conditions for the exclusion of underserved segments from accessing to finance. Often SMEs are defined as a target group, particularly for LOCs. However, the lack of clear definitions made targeting SMEs difficult-SMEs represent a broad and diverse range of enterprises in terms of size and access to finance. In these circumstances, operations are more likely to benefit mostly medium size to large companies, leaving behind smaller, less mature and informal SMEs. This was compounded by the pipeline approach in which the results of the operations were set based on the clients' estimates on the basis of the list presented, which in reality changed following new opportunities and market dynamics.

The rationale of providing TA is not always clearly stated and rarely refers to the FSD objectives. TA was used to advance the integration of ESG principles but rarely for FSD objectives. PARs had an adequate assessment of clients' needs and operations' commercial viability. In some cases, TA needs were diagnosed during appraisals and AfDB took measures to address the issues identified. For example, ESG conditions were assessed during the appraisal of the operations and AfDB assisted clients to include ESG principles in their operations through TA measures. In other operations, the rationale for allocating TA was not always clearly defined and their use was not systematically mentioned in appraisal or supervision reports. IDEV's synthesis evaluation of LOCs had already underscored that TA does not serve directly the objectives of AfDB in terms of developing and deepening FSD (IDEV 2019).

Conditions, pricing and repayment schedule are not always adapted to client needs. In some cases, bullet repayment structure or financing tenor did not fully match the needs of the clients. In Nigeria and Kenya, clients lamented the high pricing of the TFLOC. In other cases, restrictions to provide local currency limited the relevance and applicability of some operations, as it led to unfavorable pricing compared with the local currency, or it limited the typology of end-beneficiaries. For example, for Access Bank in Nigeria, AfDB provided a LOC in hard currency, but SMEs often cannot prudently bear foreign exchange risks. Only 12 percent of the LOCs were on-lent strictly to SMEs, resulting in significant crowding-out of some SMEs from benefiting from this LOC. This was based on a central bank circular that restricted commercial banks from granting foreign-currency denominated loans to entities that had no capacity to generate foreign-currency proceeds.

Effectiveness

Effectiveness assessed whether the operations actually contributed to improving access to finance.

Out of 25 operations evaluated, 19 were rated satisfactory. These operations were effective in providing resources and services otherwise unavailable to client financial institutions. This was particularly true when countries suffered from a lack of liquidity because of the retrenchment of global banks from Africa further to more stringent regulatory conditions of Basel III and other new regulations around anti-money laundering and terrorism financing[2]. TFLOC operations helped FIs to increase their capacity to support international trade. This was the case for operations supporting Afreximbank, or Banque de l'Habitat in Tunisia, Commercial Bank of Africa in Kenya and FSDH Merchant Bank Limited in Nigeria, which were part of the fieldwork for this evaluation. For example, the support to Afreximbank allowed to extend its trade finance commitments to hundreds of FIs, corporates and SMEs in 20 RMCs. The investment in ZEP-RE in Kenya helped the insurer increase insurance penetration in Africa in the region. Through its equity participations, AfDB could increase the capacity of FIs to support the real economy. These operations also led to a crowding-in effect thanks to the AAA status of AfDB. In addition, AfDB participated in the Board of the FIs and contributed to good governance of client institutions, which is in line with the cross-cutting pillar of the strategy. Policy-based and TA operations enabled to move the financial sector reform agenda forward. In many cases, AfDB's operations contributed to crowding in capital from other IFIs.

The prevailing pipeline approach did not guarantee that resources would be extended to target groups, as defined in appraisal reports. First, the provision of resources to FIs to extend them to SMEs-a heterogenous group, gathering a wide range of institutions in terms of turnover, staff size, needs, access to funding, which may vary from country to country, does not necessarily mean allowing easier access to funding to underserved targets. Access to finance by underserved target groups would be more effective if those groups were specifically defined in the portfolio with clear baseline data and indicators to monitor over time. Assessing the contribution to FSD objectives was also challenging as the metrics were expressed in general economic terms, such as jobs created rather than the financial sector. This finding is in line with an earlier evaluation synthesis 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 are missing"* (IDEV 2018).

Development indicators were mostly defined with a focus on job creation and the number of enterprises funded, but remained vague on types and profiles of end-beneficiaries. This practice encourages clients to fund larger enterprises that are less risky. As a consequence, small enterprises and other underserved groups remained excluded. In some cases, there is a clear mismatch between the intention to enhance access to finance for women and the types of enterprises funded by clients (mostly sectors that employ men). Furthermore, the pipeline

approach, which suggests that AfDB has control over end-beneficiaries, does not help improve targeting, as projects approved and actually implemented are often different. Some operations 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 actually benefited from the operation due to weak internal reporting systems of clients. Some clients pointed out that reporting requirements had been discussed insufficiently or too late in the appraisal process.

Lack of operations restructuring during their implementation corresponded to lost opportunities for beneficiaries. This is true in two cases in Nigeria, where clients could not lend to the intended target businesses due to regulatory requirements, and where AfDB could have adjusted the terms of the operations or intended outcomes. Given the above-mentioned central bank circular that restricted commercial banks from granting loans in foreign currency to clients that could not bear foreing exchange risks, AfDB should have ensured that the pipeline for this operations comprised sufficient eligible SMEs or it should have explored the possiblity to onlend in local currency.

In these two cases, only a small share of the LOCs was on-lent to SMEs, following a central bank circular that restricted commercial banks from granting foreign currency-denominated loans to entities that had no capacity to generate foreign-currency proceeds. Another example is provided by an LOC extended to the Central Bank of Tunisia, which was difficult to access due to unrealistic eligibility criteria for participating financial institutions. Weak follow-up and lack of adjustments in the eligibility process led to a use of 70 percent of resources in July 2019, long after the planned completion date. An identical LOC provided in parallel by the World Bank was fully disbursed and an additional tranche was being implemented.

Efficiency

Efficiency looked at the respect of cost and time for design and implementation.

Thirteen operations over 25 operations evaluated were rated as being satisfactory. Once approved, implementation of the operations was efficient, especially for repeated operations. However, sometimes long and cumbersome approval processes limited the efficiency of the operations and led to missed lending opportunities for clients.

LOCs are an efficient mechanism to channel large amounts of funding to intended beneficiaries. However, the efficiency of seven out of 13 LOCs that were part of the fieldwork was unsatisfactory, mainly due to time overruns in the approval phase. Even LOCs where efficiency was satisfactory overall, clients stated that processes were long compared with other IFIs. Delays were caused both by AfDB and clients. Among the main factors that caused the delays was the failure to meet conditions prior to disbursement by clients, but also weak relevance of some AfDB's conditions. For instance, some clients questioned the fact that AfDB required to present some ministerial approval whereas other IFIs had abandoned this practice, the imposition of lawyers during the appraisal phase paid at a high price, whereas the clients could find more competitive experts on the market (case of Burkina Faso), and the use of outdated procurement processes whereas other IFIs had embraced automated procurement (as in the case of Tunisia). In other cases, delays were caused by the lack of a clear lending pipeline, legal procedures or a high level of liquidity delaying the use of funding. In one case in Cameroon, the design of the operation was complex, lengthy and required mobilizing costly expertise.

The efficiency of TFLOCs was overall satisfactory. Some delays were experienced due to legal procedures in the case of the TFLOC to FSDH, Nigeria. Delays in the disbursement of the TFLOC to the Commercial Bank of Africa in Kenya were mostly due to internal matters, including high liquidity at the time of TFLOC disbursement and the lack of a clear lending pipeline.

The efficiency of providing RPAs extended to Afreximbank, part of a trade finance package, was satisfactory for the RPA of the first package and unsatisfactory for the RPA of the second package. This was due to the condition linked to the second RPA that Afreximbank should finance SMEs while it was involved in large deals. Hence, 40 percent of RPA of the second package was not used. In addition, there was no supervision for the second RPA, although there was a close interaction between the Bank and Afreximbank.

The partial risk guarantee for currency risk hedging in Cameroon was complex and inefficient. While the actual swap was set up efficiently, the negotiations and project management by AfDB's team and Cameroonian counterparts were lengthy and required mobilizing costly expertise. The eurobond was finally issued with a five-month delay, resulting in a higher interest rate that constrained the government to limit the final amount of the eurobond issue.

Overall, the efficiency of equity 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 (e.g., the Development Bank of Nigeria), but a lack of clarity on which teams within AfDB should handle certain requests led to further delays (e.g., 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 delay some investment decisions, implying lost opportunities for the insurer.

Regarding grants and TA, the grant to the Tunisian Stock Exchange for the SME project has just started and, as a result, the efficiency of the operation could not be assessed. 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.

Efficiency of disbursement and implementation of the budget support to the Tunisian Government was highly satisfactory. The PBO built on AfDB's and other IFIs' previous financial sector interventions, which contributed to its efficiency. In addition, the operation benefited from the consultations with key beneficiaries, under the coordination of the Tunisian authorities, as well as from the workshops organized over the two years preceding the approval of the PBO. The monitoring of development outcomes was also satisfactory.

Sustainability

The review scored the probability of continued long-term benefits based on the recipient's financial sustainability, as well as the capacity and the commitment to continue providing the services supported after AfDB's operations.

Most financial institutions that benefited from AfDB's support improved their financial performance during the duration of the facilities. In some cases, the facilities helped attract funding from other sources, helping clients to grow and diversify their funding base. During the fieldwork, the signaling effect of being an AfDB client was often mentioned by clients as a positive effect. This was particularly the case for funds (equity, venture capital) and regional and pan-African FIs.

Whether AfDB's clients will continue supporting access to finance by underserved segments is uncertain. The main instruments used by AfDB have a limited effect on clients' incentives and capacities to serve specific underserved target groups. In Kenya, it is unlikely that supported FIs will continue serving small enterprises and other underserved groups post AfDB's support, as the underlying constraints such as high transaction costs, informality and real or perceived risks have not been addressed. The information collected in seven countries shows that there was a significant risk that FIs will revert back to serving corporates and previously served creditworthy clients. This lack of alignment between AfDB's development objectives and the strategic objectives of supported financial institutions raises questions about AfDB's partner selection and the sustainability of results. In some cases, for example Burkina Faso and for the leasing company in Tunisia, there was sufficient evidence to suggest that the FIs will continue serving SMEs, which constitute a growing share of their portfolio and a strategic priority. In Nigeria, AfDB's clients have a developmental mission and are therefore more likely to continue lending to the target segments.

While the FSDPS aimed to develop the financial sector, its resources were focused on FIs whose effects on FSD were not obvious. While the financial sector context was analyzed and the funding needs justified, PARs rarely explained how the operation would contribute to advance access to finance or FSD. The exceptions are operations that contributed to building large organizations in trade/import-export finance, leasing, and reinsurance markets. Not only did these benefit the entire sector, but they are also more likely to have a long-term impact. For example, the investment in ZEP-RE has helped grow the insurance sector and benefits multiple insurance providers in the region. Another example is policy-based operations focusing on the financial sector, such as in Morocco and Tunisia, which supported national regulation efforts in terms of strengthening the financial sector. For these cases, sector-level outcomes are impactful and likely to continue in the long term.

The lack of long-term funding is addressed only temporarily. While providing long-term financing is useful to on-lend to the real economy, its business model is limited in terms of supporting FSD. In fact, the model addresses the apparent manifestations of a lack of resources without addressing the causes. AfDB's 2003 financial sector policy had arrived at the same observation. However, the introduction by AfDB of new instruments, such as risk participation and equity, are more likely to have long-term impact. Indeed, instruments such as risk participation encourage FIs to lend to riskier markets such as some categories of SMEs that they will not serve in normal businesses. This could facilitate access to finance for firms. As for equity investments, they provide a long-term support to the FIs and enable AfDB to have a voice on FIs' strategy.

Despite their strong role in strengthening FSD, policy-based operations received only a marginal part of the resources. These operations enable the offering of budgetary support to countries or regions, combined with institution building, and provides a platform for continuous policy dialogue to support policy reforms. During the period under evaluation, PBOs dedicated to support financial sector reforms were implemented in Morocco and Tunisia. In the two countries, they contributed to move financial sector reforms forward in several aspects. However, PBOs represented only 8 percent of value of operations before 2015 and less than 6 percent since 2015. These were the few examples of operations serving *Financial stability and governance*, the cross-cutting theme of FSDPS, which was not often addressed by the operations. The review also highlighted weak engagement at policy level. PBOs and TA were extended to only seven countries, in North Africa, East Africa and West Africa. They addressed various aspects of the financial sector (payments infrastructure, financial inclusion, interoperability of digital financial services, etc.).

Enforcement of environmental and social issues in FIs operations. AfDB's clients in the countries visited for this evaluation were unanimous on the important role played by AfDB in introducing ESMSs and the training to report on environmental and social (E&S) issues. However, this evaluation did not focus on evaluating the extent to which the standards were effectively respected by the operations, since this was already addressed in IDEV's 2019 Evaluation of AfDB's Integrated Safeguards System (ISS), which focused among other areas on (FIs). Among others, the evaluation highlighted the following:

- E&S safeguards performance at appraisal was found to be strong and significantly improved, compared with a 2011 review, but supervision of FI operations did not pay enough attention to E&S aspects. For 56 FI operations, the desk review found that AfDB was successful in supervising only two of the 37 evaluable FI operations at the implementation stage, echoing findings in other studies both by AfDB and other IFIs. The evaluation identified some good practices of AfDB's E&S supervision reports of equity funds, which performed significantly better than the FIs with LOCs.

- Issues leading to such poor performance in supervision were due to lack of the following: (i) a specific reporting template; asking clients to submit reports on E&S performance, even in cases where this was included in the loan agreement; (ii) evidence; (iii) candor in the assessment; and (iv) expert support during the supervision missions-and more generally, inadequate staffing with E&S experts.

- The Environmental and Social Assessment Procedures (ESAP) did not provide specific guidance about E&S reporting of NSOs, and FI operations in particular. The evaluation did not find any documented evidence that AfDB's team had verified that FI portfolio considered at risk operations notified or submitted ESAP/Environmental and Social Management Plans on their high-risk sub-projects.

- AfDB efforts to strengthen borrowers' safeguards systems and to develop their capacity to manage E&S risks progress was limited. While it continues to be a relevant objective, due to budget and staff shortages at the Bank's E&S function the Bank has only managed to conduct a series of studies, right after the approval of the ISS. A 2015 assessment of the use of "country systems" found weak capacity in all case countries, with greater deficiencies for transition states and middle-income countries experiencing conflicts.

- The Bank provided comprehensive support to develop the E&S capacity of the FI sector at the beginning of the evaluation period, but this was not continued afterwards. From 2012 to 2015, AfDB ran a successful and thorough "Fund for African Private Sector Assistance (FAPA) Training and Consultancy on E&S Management in FIs and Microfinance Institutions in Africa project", which included in-house internal training for the Bank's staff and 10 regional workshops and in-company (FIs) coaching sessions that reached 160 people in 101 FIs. At that time, AfDB was the only MDB to have such a comprehensive E&S capacity-building program for the FI sector. Since the end of the FAPA training, due to limited E&S staffing and budget, the Bank has provided relatively little TA to develop ESMSs for FIs.

AfDB's Performance

Focused on clients' satisfaction, procedures of AfDB and its collaboration with other stakeholders.

Nineteen of 25 operations evaluated were found to be satisfactory. In the seven countries visited, most stakeholders were satisfied working with AfDB. Clients considered that AfDB helped them crowd in other funders thanks to AfDB's triple A rating. Interactions with AfDB staff were satisfactory from the clients' perspective, which saw AfDB staff as being responsive and proactive in dealing with enquiries and requests. The technical capacity of staff was acknowledged. The relationship management,

especially during transitions between staff, could have been better in some cases. An outlier situation was the case of the *LOC 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. At the same time, the disbursement rate of the LOC provided by AfDB was only 70 percent as of July 2019. The Central Bank of Tunisia, which is the implementing agency, was dissatisfied with this situation.

Clients find AfDB procedures cumbersome compared with other IFIs. Clients noted that AfDB used unnecessary cumbersome procedures, which had been abandoned by other institutions. For instance, in Tunisia, private banks lamented that the Bank requires providing a non-objection letter from the Ministry of Finance before benefiting from a LOC. This is considered an unnecessary step given that the banks are regulated by the Central Bank of Tunisia in any case. It was also noticed that conditioning disbursement upon an audit 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 Bank did not have an automated procurement system.

AfDB is not visible as an actor in FSD beyond providing financial resources. With the exception of Tunisia, where AfDB has played a strong role in supporting the government's reform plans, in other visited countries AfDB had not systematically engaged in policy advocacy, which has been a missed opportunity in terms to having a greater impact. Even in Namibia, where the CSP envisaged AfDB support for business environment reforms, there is no evidence that AfDB was involved in policy advisory to influence the financial regulation. In Kenya, staff occasionally engaged in policy dialogue, but there was no evidence of a deliberate strategy for AfDB's sector engagement on policy and regulatory dialogue. AfDB is mostly transaction-driven, which is misaligned with the development challenges that some of the divisions are meant to address, specifically, capital market development and financial inclusion.

Lack of a business plan led to discrepancies in country approach. From 2015, AfDB used new instruments and increased its support to public and private sectors, to try to address the challenges faced by the financial sector. The Bank also reinforced its policy dialogue in some countries through a wide consultation process with various actors of the financial sector. This was the case, for example, in Tunisia. However, the country approach showed discrepancies. In Tunisia, AfDB adopted an integrated approach for FSD, using a variety of instruments, targeting various beneficiaries and supporting various aspects of the financial sector. However, this was not the case in other countries, where the approach was more "opportunist".

The Bank has been working closely with other international organizations for public sector operations, while its cooperation with the private sector remains limited. The analysis of the appraisal, supervision, and completion reports highlighted that collaboration with other international organizations materialized mainly in public sector operations. Policy-based and TA operations supporting financial sectors reforms showed a great level of experience-sharing and coordination to ensure efficiency and sustainability of operations. This collaboration also materialized in operations to support national developments banks (such as in Nigeria) or financing to SMEs through central banks (such as in Tunisia). In this particular case, AfDB collaborated closely with the World Bank during the preparation phase of a joint financing of a LOC in 2011. However, collaboration was insufficient during implementation, which resulted in AfDB finance being underused and the World Bank approving an additional tranche. The cooperation was limited and more on an opportunistic basis for private sector operations, with IFIs being seen mainly as competitors. It only appeared on: (i) co-financing for dedicated funds, where several IFIs would contribute depending on their appetite; and (ii) equity investments for some microfinance investments. These ad-hoc engagements show the potential for greater cooperation with IFIs-a potential that was also recognized by AfDB's staff in the questionnaire.

The evaluation highlighted that collaboration with other international organizations materialized mainly for public sector operations. Policy-based and TA operations supporting financial sector reforms showed a great level of experience-sharing and coordination to ensure efficiency and sustainability of the operations. For instance, the grant to facilitate SMEs' access to non-banking financing in Tunisia benefited from strong coordination between various lenders. AfDB also participated in initiatives from other donors such as the Compact with Africa Initiative.

AfDB's responsiveness during the implementation process was acknowledged by most clients. It was highlighted by clients that AfDB's staff were quick to respond to challenges and issues brought to their notice during the appraisal and implementation periods, and that a good relationship existed with AfDB's team, with the exception of an operation extended to the Central Bank in Tunisia, where issues were encountered during implementation that were not effectively or timely managed. In the case of PBOs, consultations with key beneficiaries, policy dialogue based on lessons learned from previous financial sector interventions at AfDB and at other IFIs' contributed to the efficiency of the operations. The 2011 LOC in Tunisia remains an outlier which, in principle, would require management to take an appropriate decision.

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Conclusion and Recommendations

Recent Trends in Financial Sector Development in Africa

Recent developments in the financial sector require attention in the revision of the 2014-2019 FSDPS. First, the de-risking phenomenon that resulted in developed country banks withdrawing capital from emerging markets led to a reduction of correspondent banking relationships in those jurisdictions that were less attractive, including in Africa. Second, the increase and the spread of pan-African banks operating in several countries under different regulatory and supervision arrangements has complicated the operating environment. Third, the emergence of fintechs and digital payment platforms has increased the use of mobile money, remittances, savings, credit provision, etc., and the need for different regulatory regimes and oversight. Fourth, the growing need by African governments and corporates to raise funding from local capital markets to supplement traditional funding sources; going forward, digitization is likely to be even more important in the post-COVID-19 era. Fifth, this pandemic has increased bankruptcies and NPLs in many countries. This situation requires from governments, central banks and IFIs to significantly increase their financial support to corporates and MSMEs. To this end, they will need to strengthen their FIs and NBFIs, and also capital and financial markets. For regulators, the new developments in the financial sector ecosystem and the associated risks require the need to balance financial sector stability, i.e. safety, increased access and innovation.

While there has been substantial progress over the past decade, access to finance continues to be one of the key constraints to private sector development in Africa, particularly among SMEs. SMEs often quote limited access to finance as their biggest constraint. Fifty-six percent of SMEs in SSA are regarded as financially constrained, with an unmet financing requirement of about US$331 billion in 2017. The percentage of adults (15 years and older) with an account in a financial institution or mobile wallet was almost of 20 percentage points higher in 2017 than in 2014 for all categories of countries classified by income level (Table 2). However, access to finance-at 43 percent in 2017-remains lower than in other regions and the disparity between countries is high. However, the percentage of adults using mobile money was by far the highest in SSA, at 21 percent, while it was only six percent in the Middle East and North Africa and even lower in other regions.

Financial Sector Development Policy and Strategy

The 2014-2019 FSDPS was a hybrid document combining both a policy and a strategy. While the document reflected the state-of-the-art in financial-sector knowledge, there was limited clarity on the relationship between the policy and the strategy, and the definitions of the concepts used. The FSDPS also comprised missteps in designing and planning the activities, including: (i) weak conceptual clarity and priority setting, as well as a lack of definitions of AfDB's comparative advantages and clear areas of focus; (ii) lack of clarity on how specific priorities such as fragile states, agriculture, innovation should be reached; (iii) non-formulation of a theory of change to explain how activities undertaken by AfDB would be translated into desired results: outputs, outcomes and impacts; (iv) an appropriate business plan with monitorable indicators was not available; and (v) weak monitoring and evaluation system: weak definition of target groups, indicators often not related to FSD, and a lack of baseline data for most indicators selected.

Findings from Burkina Faso, Cameroon, Kenya, Nigeria, Namibia, and Tunisia, that were part of the fieldwork, showed that the high priority given to access to finance in the FSDPS and partner countries was not reflected in the CSPs. All countries visited consider access to finance and financial inclusion a priority for economic development, including rural development, employment and women's economic empowerment. However, the 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.

Despite increased internal capacity to deliver, there was weak coordination of FSD activities in AfDB. Professional staff almost doubled from 2014 to 2018 and budget increased 1.5 times. However, there was a shortage of staff in charge of supervision and monitoring. The unifying role played by the central department has been lost since the implementation of the DBDM in 2016, implying weak synergy and efficiency in delivering the FSDPS objectives. Despite this, a strong partnership with other actors in the financial sector has helped AfDB to extend its capacity to support the sector.

Structure and the Evolution of the Portfolio

The number and volume of FSD operations approved in 2015-2018 were almost twice as high as those approved in 2011-2014. The share of those operations in the total amount approved by AfDB increased from 17.4 to 21.6 percent from the pre-FSDPS period to the FSDPS period. NSOs had the largest share of FSD operations, albeit with an increasing share of SOs from 12 to 28%. This increase is explained by the increase in the level of support to a number of development banks with national and regional outreach.

LOCs remained the main instrument used but decreased from 60 to 34 percent of the total amount approved for the FSD during 2011-2014 and 2015-2018, respectively. The amount approved for TFLOCs during 2015-2018 and the number were 9 times higher than in the previous period. Guarantees recorded the second-largest increase, at 2.5 times. The risk participation instrument introduced in 2013 represents 5 percent of the portfolio for the 2015-2018 period. While the FSDPS intended to support whole FSD, PBOs and TA were very limited, although many countries need interventions that explicitly foster FSD as an objective.

The number of countries that received financial resources increased from 19 to 31 (not including multinational operations that represent almost 43.5 percent of the amount approved during each period considered). All operation sizes increased, but those ranging from UA 5-50 million increased the most (these more than doubled by number and size). There was a much lower concentration of resources by country in the period 2015-2018 than in 2011-2014.

AfDB has increased the number of most of the categories of its clients by at least 2 times, but the number of microfinance and insurance companies decreased significantly. The main clients remained commercial banks and equity funds. The number of microfinance institutions fell from 10 in 2011-2014 to three in 2015-2018, and that of insurance institutions from four to zero. Regarding SOs, the number of governments and central bank clients almost tripled, highlighting the Bank's increasing support for public entities to support the development of the financial sector.

The evaluation found several other noticeable developments. First, operations in local currencies increased - from two during the pre-FSDPS period to 11 during its implementation. So far, only 4 local currencies have been used, with approval amounts increasing from just 2.4 percent during 2011-2014 to 10 percent during 2015-2018. Second, since the end of 2014 until 2018, the operations to support financial capital markets amounted to UA 1,331 million, i.e. 14.3 percent of the total amount approved. Fifty-four percent of the amount of those operations were meant to provide guarantees to local currency risk hedging, while 36 percent were for financial sector budget support. The remaining 10 percent consisted of TA to support regulatory authorities, financial infrastructure and payment systems development. Third, while operations in technology and renewable energy were few, the approved number and amount during the FSDPS were 4 times and 4.5 times, respectively, compared with the previous period.

Performance of the Operations Evaluated

AfDB operations were in line with the FSDPS objectives, and relevant to their respective clients and country contexts, but did not necessarily serve the underserved. AfDB operations mostly focused on channeling long-term funding to FIs for on-lending to priority sectors of the real economy. Given the broad scope of the FSDPS and significant gaps in long-term FSD, the operations were in line with the FSDPS, and with client and country needs, but they mainly focused on providing resources to FIs for on-lending to the real economy. Furthermore, many other constraints mentioned in partner countries' strategies and the FSDPS remain unaddressed, such as weak payment systems, regulatory constraints, a lack of innovation and informality, among others.

While the fieldwork focused on six countries in which 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 FSD in these countries. The lack of thorough country financial sector diagnostics to understand the underlying constraints may have contributed to the weak strategic clarity and focus. Except for the operations in Tunisia and Morocco, AfDB's financial sector operations were decided on their case-by-case viability and did not represent a coherent set of interventions that jointly contribute to achieving the FSDPS objectives. The lack of a Bank vision for FSD at the country level is also reflected by the fact that AfDB is not visible as a leader in policy dialogue on FSD.

Insufficient clear definition of target groups and intended development outcomes limited AfDB's role in advancing access to finance for the underserved. Development outcomes and end-beneficiaries were not clearly defined in PARs and in reporting. Although LOCs often target specific underserved and excluded population segments, related information was missing in many cases or it showed that the intended targets represented only a small part of the portfolio of client institutions. LOC objectives loosely refer to access to finance, but without defining clear targets for reaching underserved target groups such as women and youth. Furthermore, the positioning of 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 are hardly considered in project designs.

The efficiency of AfDB's FSD operations was partially satisfactory. 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 missed lending opportunities. Even in operations with satisfactory efficiency, clients stated that processes were overly prolonged apart from those for repeat operations. Among the main reasons advanced to explain the situation were onerous AfDB conditions precedent to disbursement, inefficient communication, and the lack of an automated procurement system.

Although AfDB provides much needed long-term funding to its target markets and has often helped clients access additional funding from other IFIs, its operations tended to provide temporary solutions in addressing underlying constraints in FSD. 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, information asymmetries, and high transaction costs and risks. These factors contribute to the high interest rates prevailing in African financial sectors (Beck et al. 2011).

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, however, AfDB has become more active in supporting the development of capital markets and digital financial services.

Recommendations

1. **Clarify AfDB's role in FSD:** Priority areas of action include:

- **Focus the Bank's strategic priorities, which are broadly defined in the current FSDPS document.** Separately revise the strategy and update the policy to address conceptual and practical concerns in the current FSDPS. Develop a clear theory of change of how FSD contributes to economic growth and inclusion. Prepare a business plan to be approved by the Senior Management detailing realistic actions to be undertaken in the short, medium and longer term, by type of country.

- **Conduct sector diagnostics that identify barriers to access to finance at the country and regional levels**. The selection of the appropriate instruments and partners should be based on thorough financial sector diagnostics to address market failures and systemic constraints. Diagnostics should 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.

- **Be more explicit on how operations contribute to FSD**. When applicable, CSPs and Regional Integration Strategy Paper (RISPs) should lay out the development objectives for the financial sector, and outline a plan to achieve them. Each strategy should include: (i) an allocation of resources between projects-NSOs and SOs-and explain how these are linked in the development plan of the country and/or the region; (ii) the types of instruments to be used and their justification; (iii) specifically address innovation, technology, payments, remittances, digital channels, regulations, competition, financial transaction costs, risks, supporting infrastructure, anti-money laundering (AML) and de-risking; and (iv) a resource plan-skills, headcount, capital deployed, costs and revenues to meet the plan. Likewise, PARs should articulate how supporting specific operations, institutions, and the use of instruments will contribute to advancing FSD in the country. A more diverse range of instruments and potential measures (e.g., capital market development, investing in financial infrastructure, use of local currencies, etc.) to increase the availability of long-term funding should be considered. Each operation should formulate a theory of change.

2. **Position AfDB as a key player in FSD.** Priority areas of action include:

- **Step up AfDB's engagement in policy and regulatory dialogue aimed at strengthening the financial sector environment.** 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.

- **Formalize the coordination of the departments involved in the financial sector activities** and institute a Bank-wide system of information on financial sector activities to facilitate evaluation and decision-making. Also, improve the skills mix to include non-transactional staff to cover engagements by RMCs in reforms and diagnostics.

- **Improve outreach and the depth of relationships with sector stakeholders, including clients.** 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 operations. Likewise, AfDB could periodically organize an open day to present its strategy and operations, and its instruments and partnership opportunities to the private sector at the country and regional levels.

- **Consider increasing the resources for operations aimed at fostering regional financial integration**. Given the increasing role played by cross-border, regional or continental banks in Africa, it is of paramount importance to support operations aimed at fostering regional integration, which could help harmonize rules and procedures at the regional level, especially in francophone and anglophone countries. This will require active engagement with regulators in each country and region supported by clear strategies.

3. **Improve benefits for the intended target groups.** Priority areas of action include:

- **Better define and measure the project development outcomes and benefits for target groups**. A robust results framework and functioning monitoring and evaluation system focusing on results, and aligned with the corporate results measurement framework, is critical. It should be an integral part of the financial sector strategy. PARs should include specific, measurable FSD indicators in their results frameworks, including indicators that measure access to finance for the underserved. Indicators need to be defined at all levels: financial sector, client and end-beneficiary. Monitoring requirements and indicators should be discussed with partners upfront and be tracked during supervision missions. For further reflection on impact management systems, 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).

- **Include a clear definition of what constitutes an SME in PARs and CSPs.** Definitions used by operations are often not clarified in the PARs, making it difficult to assess the contribution of AfDB to SMEs. AfDB should identify and target firms that require its support and for which it has a comparative advantage in supporting. If AfDB uses the definitions of RMC governments, partner FIs or other IFIs, it should define a methodology for measuring and aggregating impacts at the portfolio level. The strategic review of 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 if 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 together with other operations that tend to require larger ticket sizes. Further increasing the capacity of AfDB's 2013 Africa SME Program could be a positive step.

- **Move from a pipeline approach to a portfolio approach, focusing on increasing the relevant target portfolio.** AfDB should improve its focus on intended target beneficiaries. Instead of determining a list of projects (pipeline approach) for guiding the on-lending to the intended target groups, AfDB should define 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 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 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 AfDB's impact in some of the countries that are most in need. Once a portfolio approach is adopted, it would be possible to use a representative sample to measure the results at the end-beneficiaries: jobs, sales, etc. Digital platforms could be used and AfDB should be willing to support FIs in adopting the portfolio approach and to help them increase their level of digitization.

- **Use of a more deliberate approach to narrow the gender gap in access to finance.** So far, women are mentioned alongside other population groups as intended end-beneficiaries of FSD 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 toward financial inclusion. Aligned with other efforts in the Bank, such as the AFAWA approved in April 2020, AfDB should reflect on how it can advance 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.

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Annexes

Annexes

The following annexes are available on the website: http://idev.afdb.org/en/document/evaluation-bank%E2%80%99s-role-increasing-access-finance-africa-thematic-evaluation

Annex 1: Methodological Note

Annex 2: Reconstruction of the Theory of Change of the FSDPS

Annex 3: Access to Finance in African Countries

Annex 4: Summary Notes from the Reports on the Fieldwork

Annex 5: Financial Sector Operations per Country during 2011-2018

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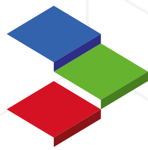
Endnotes

1. Crude oil prices decreased from US$99 a barrel in 2014 to US$52 in 2015; US$44 in 2016 and US$54 in 2017. https://www.statista.com/statistics/409404/forecast-for-uk-brent-crude-oil-prices/

2. Potential fines for breaching the rules are heavy and often very punitive (in some cases in the billions of US dollars) and most international banks feel they are more prone to such risks in emerging markets, especially Africa (conversation with Yaw Kuffour, Division Manager of Trade Finance in PIFD at AfDB).



IDEV

Independent Development Evaluation

African Development Bank

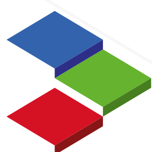
An IDEV **Thematic Evaluation**

About this Evaluation

This evaluation presents a summary of the work carried out to assess the assistance of the African Development Bank (AfDB or "the Bank") in increasing access to finance in Africa over the period 2014-2019. The period covered both the pre- and post-periods of the adoption of the Financial Sector Development Policy and Strategy (FSDPS). It made recommendations to inform the preparation and implementation of the new strategy. Its findings are based on quantitative and qualitative information collected from different sources, and that combined both a summative approach for the completed operations and formative approach for those still ongoing.

It was found that all countries visited during this evaluation consider access to finance and financial inclusion to be a priority for economic development, including rural development, employment, and women's economic empowerment. Despite increased internal capacity to deliver, there was weak coordination of Financial Sector Development (FSD) activities in the Bank. Nonetheless, the share of FSD operations in the total amount approved by the AfDB increased from 17.4 to 21.6 percent from the pre to post FSDPS period. The operations were in line with the FSDPS, as well as with client and country needs, though only half the evaluated operations were efficiently prepared and implemented.

Three core recommendations, each with priority areas of action, were made to improve the Bank's intervention in increasing access to finance in Africa: 1) The role of the Bank in FSD should be clarified; 2) Position the AfDB as a key player in FSD; and 3) The Bank should improve the benefits for the intended target groups.



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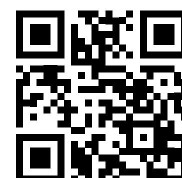

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