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January 2022 | EBRD Evaluation Department

Doing and expanding business in Sub-Saharan Africa by multilateral development banks – selected evaluation insights

This note highlights key evidence-based lessons from independent evaluation reports on multilateral development banks (MDBs)' operations in Sub-Saharan Africa (SSA), a region of possible, limited and incremental expansion for the EBRD. To this end, the EBRD's Independent Evaluation Department (EvD) conducted an in-depth screening of 40 independent evaluation reports, focused predominantly on private rather than public sector operations, that have been published over the last decade by the African Development Bank (AfDB), the European Investment Bank (EIB), the International Finance Corporation (IFC) , the World Bank (WB) and the Development Finance Institutions' (DFI) Working Group. This body of evidence was further substantiated by seven independent evaluation reports produced by EvD that touched upon recent experiences from the EBRD's expansion to Mongolia (2006), SEMED (2011) and West Bank and Gaza (2017). A range of operational and strategic themes that emerged were then distilled into a non-exhaustive list of seven lessons. These lessons are applicable at any stage of an MDB's engagement in the SSA region, whether prior to its expansion or while already on the ground.

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Context: growing presence of MDBs

The mandates and operations of MDBs have evolved and expanded in recent decades. Many were created in the 1960s, during the period of decolonisation, while others came into being after the end of the Cold War to support reconstruction, development and regional integration. The "club" of MDBs grew from three banks at the end of 1960s to sixteen today[1] with their total subscribed capital[2] reaching more than US$ 1 trillion.[3]

The MDBs have not only expanded in terms of numbers and volume, but also in terms of their geographical coverage. Central Asia (including the Caucasus), and North, West and East Africa are the regions with the largest number of active MDBs. In contrast, the Pacific region stands out as being served by just a few.[4] SSA has been a region of operations for five MDBs.[5] AfDB is the only MDB with the majority of its portfolio concentrated in the SSA region (81.3 per cent, or US$ 49.2 billion).[6] Other large MDBs have a more moderate exposure to the region, for example, IFC (18 per cent, or US$ 11.2 billion)[7] and EIB (2.5 per cent, or US$ 1.5 billion).[8] However, considering the huge needs and demand for support to both the public and private sectors in SSA, all MDBs intend to ramp up their investments in the region over the next decade, some dramatically.[9]

MDBs operating in SSA

- **African Development Bank (AfDB)**
- **European Investment Bank (EIB)**
- **Islamic Development Bank (IsDB)**
- **New Development Bank (NDB)**
- **World Bank Group (WBG) including International Finance Corporation (IFC)**

The recipe for operational success differs widely by region. In turn, this requires MDBs to tailor their strategies and operations, and often learn from others' experiences to adapt swiftly. Findings from independent evaluations are an important source of evidence-based knowledge that can support learning from MDBs' experiences.

This note is produced in the context of EBRD's *possible, limited and incremental* expansion to SSA and Iraq, as set out formally during the Bank's Annual Meeting of 2019 in Sarajevo.[10] Since then, the Bank has embarked on extensive preparatory work involving, among other things, country diagnostics and assessments of the Bank's capital position, together with a potential value proposition for SSA countries and Iraq. The decision of whether, and if so, when, to how many, and which countries the Bank may expand is expected to be taken by the Governors during the EBRD's May 2022 Annual Meeting in Marrakesh.

Considering the huge needs and demand for support to both the public and private sectors in SSA, all MDBs intend to ramp up their investments in the region over the next decade, some dramatically.

1 For a list of all 16 MDBs see ODI, 2018. *A Guide to Multilateral Development Banks.*
2 Defined as the share of capital within its authorised capital for which an MDB has received applications from its shareholders.
3 Subscribed capital as reported in ODI, 2018. *A Guide to Multilateral Development Banks.*
4 ODI, 2018. *A Guide to Multilateral Development Banks.*
5 These include: African Development Bank (AfDB), European Investment Bank (EIB), Islamic Development Bank (IsDB), New Development Bank (NDB) and the World Bank Group (WBG), which includes private sector-oriented International Finance Corporation (IFC).
6 AfDB, 2021. 2020 Annual Report. *Calculation of the SSA portfolio size excludes multi-regional projects (US$ 1.8 billion).
7 IFC, 2021. *IFC Financial Report 2021: Financial Highlights.*
8 EIB, 2021. *European Investment Bank Financing and Borrowing Activities 2020.*
9 For instance, *IFC plans to double its annual investment in SSA by 2030. See IFC, Annual Report 2020.*
10 EBRD, 2019. "EBRD shareholders overwhelmingly back start of preparations for ambitious five-year work programme." Available at: https://www.ebrd.com/news/2019/ebrd-shareholders-overwhelmingly-back-start-of-preparations-for-ambitious-five-year-work-programme.html. Last accessed: 21st January 2022.
11 UNDP Africa, 2021. *About Sub-Saharan Africa.*

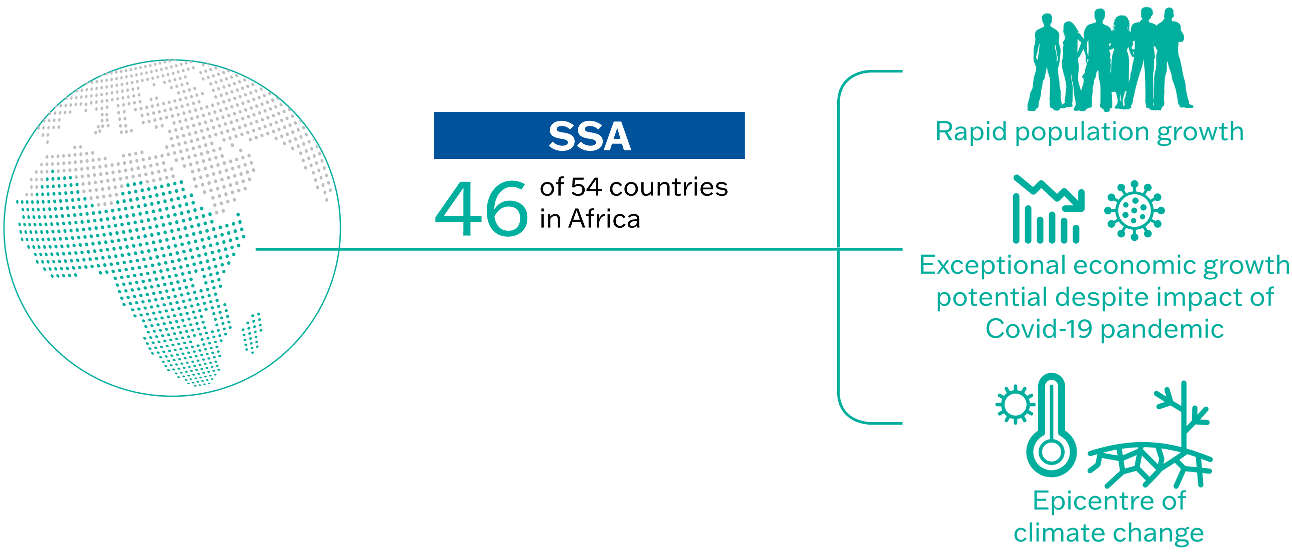
SSA: a diverse region with immense needs, challenges and opportunities

Defining the SSA region is not without its challenges, but it typically encompasses those African countries and territories that are fully or partially south of the Sahara Desert. The UN Development Program lists 46 of Africa's 54 countries as "Sub-Saharan", excluding Algeria, Djibouti, Egypt, Libya, Morocco, Somalia, Sudan and Tunisia.[11] Irrespective of the intricacies of definitions and semantics, SSA is a huge and diverse region, which makes generalisations difficult. Of the several countries tentatively shortlisted by the EBRD for further analysis in the context of a possible expansion to SSA, Sudan is the only one not included under the UN's definition of SSA.

Half of global population growth over the next three decades will take place in SSA as the region's population is projected to double (from about 1 billion to 2 billion people), exceeding China and India's populations combined by 2060-70, according to IMF projections. This trend represents the SSA region's single biggest challenge, but it may also constitute its greatest opportunity.[12] SSA's working-age population (25 to 64 years) is growing faster than any other age group, providing a valuable opportunity for accelerated growth. More than 1.5 million people enter the labour force every month, and within 10-15 years, more than half of the world's new job market entrants will come from SSA, giving it the potential to be the world's next engine of economic growth. This, however, entails a sizable rise in investment, including in the private sector, while many SSA countries wrestle with limited or no fiscal headroom. As of end-2020, the ratio of public debt to GDP for the whole SSA region was 70 per cent,[13] compared to 60 per cent for the economies where the EBRD currently operates.[14]

Prior to the Covid-19 pandemic, AfDB estimated that Africa's GDP could increase to over US$ 15 trillion by 2060, from a base of US$ 1.7 trillion in 2010.[15] By that time, most SSA countries were projected to attain upper middle-income status. However, the pandemic has impacted those forecasts. The cumulative loss of real per capita output in the region due to Covid-19 was 5.6 per cent during 2020 and the SSA region's economy was expected to see a lacklustre recovery of just 3.7 per cent in 2021 – becoming one of the world's slowest growing regions in that year.[16] Growth in SSA for 2022 and 2023 is expected to remain below 4 per cent. Going forward, however, regardless of risks and uncertainties, the region's potential remains formidable.

SSA is in the epicentre of climate change. Despite having contributed the least to global greenhouse gas emissions, the region will bear the brunt of climate change impacts, and at the same time have the fewest resources to cope and adapt.[17] One-third of the world's droughts already take place in SSA, and its dependence on rain-fed agriculture makes it particularly vulnerable to rising temperatures and extreme weather events.[18] To have some realistic chance of success in tackling these challenges, the role of the private sector, supported by MDBs, will be paramount.



12 IMF, 2021. *Regional Economic Outlook: Sub-Saharan Africa.* October 2021.
13 World Bank Group, 2021. *Global Economic Prospects*, June 2021.
14 EBRD, 2021. *Regional Economic Prospects*, June 2021.
15 AfDB, 2011. *Africa in 50 Years' Time:* The Road towards Inclusive Growth. September 2011.
16 IMF, 2021. *Regional Economic Outlook: Sub-Saharan Africa*. October 2021.
17 Weiler F, Klöck C, Dornan M. 2018. *Vulnerability, good governance, or donor interests? The allocation of aid for climate change adaptation.* World Development. 2018; no. 104.
18 IMF, 2021. *Regional Economic Outlook: Sub-Saharan Africa.* October 2021.

7 Key lessons from evaluations

1 “Boots on the ground” in SSA are essential

Independent evaluations from the AfDB, IFC and WB stress that local office presence is often a sine qua non condition for achieving development impact and sound business. It allows MDBs develop new business, undertake proper monitoring of ongoing projects (detecting early warning signals) and assisting clients in the project implementation, and market and integrity intelligence. It also enables the forging of good working relationships with other players in the development space and with local policy-makers whose buy-in and ownership can be essential for helping to bring projects to fruition.

AfDB has the largest foothold in Africa of all MDBs with 34 offices in 54 African countries, with the remaining countries being served by regional hubs[19] in larger neighboring countries. The decision to establish or adjust a country office is based on business considerations, including criteria such as portfolio size and complexity; (ii) the country’s transition situation; (iii) the constitution of the project pipeline; and (iv) transport logistics and local living conditions. Likewise, the IFC decided to decentralise from its HQ in Washington D.C. to regional hubs (it has set a target of 80 per cent of staff to be in local offices by 2022) and currently has 29 offices in Africa with two more planned openings.[20] On the other hand, the EIB field offices in Africa are few (9), albeit this has been changing (opening of the EIB East Africa Hub in Nairobi in 2021).[21] Generally, even for those MDBs that have a comparatively extensive network of local offices in Africa, staffing levels may sometimes be low. Some smaller country offices may employ less than a few staff members, and still fewer technical personnel dealing daily with the bread and butter of a project origination, structuring and implementation. One may note that none of the MDBs currently present in the SSA region has more than one office per country. Whether this is determined by business or other considerations, it differs from the model that the EBRD uses in the economies where it currently operates, with an office in the capital along with one or more sub-regional offices in secondary centres of economic activity.

Local presence may imply a number of challenges of an operational and strategic nature; in particular in some Fragile and Conflict Affected States (FCS), of which nearly half are in SSA.[22] Out of 50 coups d’état and attempted coups in the world since 2010, some 34 (68 per cent) took place in SSA.[23] A number of evaluation reports from the AfDB and WB also point to security concerns, inherent difficulties in incentivising the mobility of the right type of staff to local offices in more challenging locations, or issues around optimal arrangement of authority split between a local office and HQs. For instance, AfDB has a rotation system that limits staff to a maximum of three years’ residence in a high-risk country and it also applies an unwritten rule that the service in a “fragile” country is an advantage in the internal career development of their staff.[24]

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19 For instance, AfDB has five regional hubs in Africa: North Africa Regional Hub Office in Tunis (Tunisia), East Africa Regional Hub Office in Nairobi (Kenya), West Africa Regional Hub Office in Abidjan (Ivory Coast), Central Africa Regional Hub Office in Yaoundé (Cameroon), and Southern Africa Regional Hub in Centurion (South Africa).
20 Physical opening of offices in Mali and Uganda will take place once Covid-19 constraints are lifted.
21 EIB, 2021. *EIB Strengthens Engagement in Africa. New Nairobi Hub.* Available at: https://www.eib.org/en/press/all/2021-425-eib-strengthens-engagement-in-africa-with-new-nairobi-hub-and-backs-eur-400-mln-business-fragile-region-and-housing-investment Last accessed: 21st January 2022.
22 World Bank, 2021. *Classification of Fragile and Conflict Affected Situations.* Available at: https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations Last accessed: 21st January 2022
23 See for instance: https://en.wikipedia.org/wiki/List_of_coups_and_coup_attempts_since_2010 Last accessed: 21st January 2022
24 AfDB, 2020. *Evaluation of the AfDB’s Strategy for Addressing Fragility and Building Resilience in Africa (2014–2019).*

However, evaluation evidence shows that the alternative of "fly in, fly out visits" rather than permanent presence, unless in rare cases of a very strong client on the ground, does not offer the same traction. Among negative implications stemming from the lack of an office in a country, the *Evaluation of the Assistance of the AfDB to Fragile States* (2012) lists, among other things, reduced understanding among stakeholders of how the Bank works, its objectives and its key drivers; poor communication and some miscommunication; limited visibility and leverage; lack of responsiveness causing delays; lack of shared responsibility and accountability when the Bank surrenders its decision making authority to donors in-country; and difficulties in coordinating with other donors. A more recent *evaluation of the Assistance of the AfDB's strategy for addressing fragility and building resilience in Africa* (2020) confirms the importance of the physical presence in fragile transition states. *AfDB's Independent Evaluation of the Implementation of the Development and Business Delivery Model of the AfDB* (2019) concluded that the Bank's resources were too concentrated in its headquarters, and field offices not sufficiently resourced or empowered to drive business development and delivery effectively.

In the context of the EBRD's recent expansions to Mongolia and SEMED specifically, past independent evaluation reports also point to the crucial role of the local presence in a new economy, as well as an optimal skills mix of local staff. For example in Egypt, under-resourcing and an insufficient number of locally hired experts with a defined responsibility to promote a policy dialogue agenda in early days of expansion was coupled with a heavy workload and limited Operation Leader capacity. More generally, EIB *Ex-Post Evaluation of EIB's Investment Fund Operations in Facility for Euro-Mediterranean Investment and Partnership (FEMIP) and Africa, Caribbean and Pacific (ACP) countries* (2013) found that any investment fund with a team lacking professional skills is likely to deliver reduced developmental impact.[25]

2

A large informal economy – a distinctive feature of SSA – requires careful consideration and tailored approaches

The informal sector accounts for 40 per cent of the SSA economy and 80 per cent of its employment (compared to 25 per cent of employment in Europe and Central Asia),[26] albeit there are certain disparities across the region.[27] Women and younger workers are more often employed in the informal sector, as are those parts of the labour force with lower levels of education level and those residing in rural areas. Workers in the informal economy are more vulnerable to shocks and face a higher risk of poverty than those in the formal economy, while informal economic units exhibit lower productivity and income.[28] Informality in the region is particularly prevalent in the micro and small enterprise (MSE) sector.

A number of evaluations from MDBs highlight important constraints associated with a large informal sector, which impact the degree of operational success in SSA. Adapting and tailoring donor support to specific challenges and circumstances in those countries and markets with a large informal economy is vital for success, particularly in SSA countries with fragile and conflict situations, as found in the IFC *Evaluation of Engagement in Fragile and Conflict Affected Situations* (2019).

Evidence shows that informal sector needs should be carefully embedded in the design of any new intervention in SSA. The *Inception Report for the Evaluation of AfDB Non-Sovereign Operations* (2021) warns that efforts towards strengthening the role of the private sector and building on its potential may be jeopardised if informality is not factored in, and tackled strategically.

Likewise, *the Inception Report for the Evaluation of AfDB Non-Sovereign Operations* (2021) lists informal economy among the top constraints for the development of the private sector. This is particularly acute for SMEs, which are often not ready to receive MDB support due to lack of governance structure and compliance procedures, as well as poor reporting standards. *The Evaluation of EIB Intermediated Lending through the Investment Facility in ACP* (2018) noted that many SMEs in need of credit operate at the

25 Note that the evaluation refers to investment fund teams supported by EIB financing, not its own staff.
26 For comparison, ILO estimates that employment in the informal sector is 68.2 per cent in Asia and the Pacific, 68.6 per cent in the Arab States, 40.0 per cent in the Americas and 25.1 per cent in Europe and Central Asia. Available at: https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_627189/lang--en/index.htm Last accessed: 21st January 2022
27 AfDB, 2021. *The role of private sector in Africa's economic development.*
28 Kiaga, A., V. Leung. 2020. *The Transition from the Informal to the Formal Economy in Africa.* Global Policy Review. Background Paper No.2. International Labour Organization.

edge of informality, they are not registered, and keep no or poor financial records. They often lack the skills to develop bankable projects and to submit viable credit applications.

Hence, MDBs can play a crucial role in providing tailored upstream work including policy dialogue and additional support in the form of business advisory services/technical assistance. Those require more time and elevate project costs but may eventually allow MDBs to turn opportunities into bankable projects in the SSA region.

3

MDBs modus operandi in SSA calls for enhanced political economy diagnostics

A number of evaluations from the AfDB, IFC and the WB point to risks of unsystematic and superficial political economy diagnostics. At the same time, these reports emphasise its crucial role in the success of an individual project as well as wider policy engagement in the region. The more fragile a SSA country is, the higher the cost of this omission is likely to be.

Some examples of concrete shortcomings of inadequate political economy diagnostics highlighted in AfDB, IFC and WB evaluations include insufficient analytical capacity in local offices with disproportionate amount of work done by distant HQ staff; scant effort to understand who are the winners and losers of a particular reform and their motivations and bargaining power in the fragmented country systems (as those actors affect the likelihood and timing of desired policy outcomes); lack of inclusion (or cursory at best) of scenarios based on political economy and conflict risks/drivers with built-in contingencies to adjust objectives and results if risks materialise; and, finally, no clarity on how MDB programmes should fit into national peace-building and state-building objectives.

A lack of comprehensive understanding of the political economy context may also lead to poor sequencing of interventions and unrealistic expectations. A number of AfDB Country Strategy Evaluations and the World Bank's *Evaluation of its Engagement in Situations of Conflict between 2010-20* (2021) highlight that timely conflict risk monitoring, for example by tracking shifts in societal perceptions and dynamics, and harvesting views from beyond the usual group of key local stakeholders (for example, including civil society organisations), can lead to adaptive decision-making.

The IEG *Evaluation of the IFC's Approach to Engaging Clients for Increased Development Impact* (2018) suggests that proper political economy diagnostics may be also instrumental in assessing the feasibility and design of support for upstream work concentrating, for instance, on early project preparation and policy dialogue, an essential area of potential focus for MDBs in more challenging African markets.

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4

Scarcity of available bankable projects in the private sector is a key feature of the SSA markets and requires more upstream and policy work from MDBs

The scarce pipeline of available bankable projects in the private sector has been a material issue in many areas of MDB operations, not just in SSA. However, existing evaluation reports suggest that many countries in SSA, especially poorer ones, present an even greater challenge in this respect. This is down to a number of factors that often amplify each other and include: businesses' inability to meet MDBs' due diligence, social, environmental or/and corporate governance standards; absence of (quality) collateral; poor quality of business plans; a testing business environment; lack of infrastructure; an insufficient number of private sponsors; the elevated share of the informal sector; or a country risk that prevails over the client's risk, even if the latter is lower.

To a certain extent, the lack of available bankable projects has been reflected in MDBs' investment flows and portfolios. Despite the long-standing appetite for an increase, the overall private investment portfolio in the AfDB remained modest. In addition, distribution of private investment volumes has been skewed towards a limited number of countries, suggesting that there are inherent challenges in doing private-sector deals in less advanced SSA countries, and that those few conducive markets may be already relatively crowded. For instance, over the period 2014-19, AfDB invested in the private sector in just 25 out of 46 countries in the SSA region. And still, for 14 out of these 25 countries the investment volume over that five-year period was negligible and did not exceed US$ 100 million. More generally, 72 per cent of the AfDB's total private investment in the SSA region from 2014-19 was concentrated in just five countries.[29] Similarly, 70 per cent of the IFC's private-sector portfolio in the SSA region is concentrated in five countries.[30]

The recent WB *Evaluation of Group's Experience with the IDA Private Sector Window (PSW)* (2021), the first blended finance instrument to provide concessional support for private investments deployed by the WB, pointed to a relatively disappointing uptake of available funds, with only around half of the funding dedicated for the 2018 window being allocated by Q4 2020. Challenges facing the PSW include: addressing non-financial constraints (underdeveloped institutions and markets) to develop a pipeline of bankable projects, balancing concessionality to avoid market distortion while making private investment commercially viable, and extending the pool of sponsors and clients with which IFC and Multilateral Investment Guarantee Agency (MIGA) can work.

Against this backdrop, some evaluation reports stress the need for an even more instrumental role for early project preparation work in SSA, bearing in mind that upstream work often translates into a tangible rise in project costs for MDBs. In 2020, the IFC – supported by donors – invested into a new *Global Upstream Department* (with 280 dedicated staff hired between early 2020 and mid-2021)[31] combined with human resources incentives for upstream efforts to increase the flow of eligible private-sector projects. Apart from firm-level advisory services, the remit of the department also includes policy engagement work, addressing the policy and regulatory constraints that prevent private investment, and has strong sector-specific focus.

AfDB's E*valuation of the AfDB's Private Sector Development Strategy 2013-2019* (2020) identifies upstream policy among the key private sector development enablers in Africa; others being legal and regulatory reforms, strengthening institutions in support of the policy, legal, regulatory and financial sector reforms.

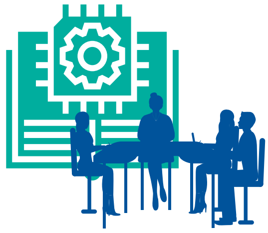
Some evaluation reports stress the need for an even more instrumental role for early project preparation work in SSA, bearing in mind that upstream work often translates into a tangible rise in project costs for MDBs.

29 This includes: Nigeria (US$ 1,691 million; 30 per cent); South Africa (US$ 811 million; 14.3 per cent); Kenya (US$ 619 million; 10.9 per cent); Côte d'Ivoire (US$ 515 million; 9.1 per cent); Mozambique (US$ 449 million; 7.9 per cent). Data source: Independent Development Evaluation at African Development Bank (2022).

30 This includes Nigeria (US$ 16,008; 36 per cent); South Africa (US$ 5,394; 12 per cent); Ghana (US$ 4,211; 10 per cent); Kenya (US$ 3,823; 10 per cent); and Cameroon (US$ 1,505; 3 per cent). Portfolio figures include loan and guarantee participations while regional investments have been excluded from the calculations. Data source: *IFC Annual Report 2021: Financials*.

31 IFC, 2021. *Annual Report 2021.*

5 The SSA region calls for a more tailored approach towards operational engagement with a critical role for technical assistance



While deploying a sole financial envelope may suffice in more developed markets with sophisticated client base, engagement in SSA needs to be tailored towards smaller and weaker businesses that operate in a poorer business environment with non-conducive or limited regulatory and legal frameworks, among other constraints. A number of evaluations from the AfDB, EIB, WBG including IFC consistently emphasise the vital role of the additional component of technical assistance[32] (TA) accompanying an investment, as a common prerequisite for a private-sector operations in SSA.

For instance, the IEG's *Early Stage Assessment of the WBG's Experience with the IDA Private Sector Window* (2021) point to TA as a *critical* risk-reducing element for project development and capacity building of less-experienced clients and stakeholders in high-risk markets, such as those in the SSA region. Early evidence from the evaluation shows that the inclusion of TA in the projects may have helped to increase and sustain the PSW pipeline. And indeed, various advisory services have been a key modality of the IFC's engagement in SSA in particular – while its regional exposure stood at 18 per cent of the overall portfolio in 2021, expenditure on advisory services in SSA accounted for nearly twice as much (32 per cent) of its global advisory services expenditures.[33] More broadly, and in terms of effectiveness (including development impact), AfDB's *Evaluation of Non-Sovereign Operations 2006-2011* (2013) found that the effectiveness of private-sector projects supported by the Bank could be greatly improved through the use of TA in areas such as project design and feasibility studies, market knowledge or the reform of corporate governance.

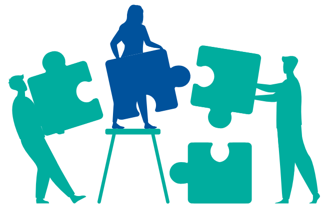
And yet, no one size fits all, as TA in SSA may also come with some incremental costs. EIB *Ex-post Evaluation of EIB TA Outside the EU, 2003-2013* (2014) argues that the design of the TA in the African context should embed more flexibility to respond to unstable institutional and political environments. It also highlights that a quality TA in such environment often required significant in-house capacity to accompany and supervise (even if partially/fully outsourced to consultants). Similarly, the IEG's *Evaluation of WBG Assistance to Low-Income Fragile and Conflict Affected Countries* (2014) acknowledges that IFC deployed its standard instruments with little adaptation or product innovation in FCS contexts. It argues that conventional IFC products may not be conducive to working with the largely informal economies of FCS where private firms are on average smaller, with weaker capacity, and more informal. More recently, IFC's advisory services effectiveness score[34] for the SSA region has been consistently the lowest across all its regions of involvement.[35]

A number of evaluations from the AfDB, EIB, and WBG including IFC consistently emphasise the vital role of the additional component of technical assistance accompanying an investment, as a common prerequisite for a private-sector operations in SSA.

32 Technical assistance is defined as a non-lending instruments, which could include pure technical assistance as well as policy dialogue, advisory services, economic and sector work, other analytical work, and capacity building support.
33 IFC, 2021. *Annual Report 2021.*
34 The score is calculated as the percentage of projects rated mostly successful or better in total number of advisory projects rated in retrospective evaluation for a fiscal year.
35 IFC, 2021. *Annual Report 2021.*

6

Complementarity and closer collaboration between International Financial Institutions and other development partners in SSA is needed, especially in policy dialogue



There are good reasons for international financial institutions (IFIs) and other development partners[36] to work together to increase the value added for their clients, particularly in SSA. These include getting to scale, reducing transactional costs and duplications, reinforcing impact through greater coherence (for example, by joined-up policy work relieving absorption risk), and optimizing use of the financial and human capital assets of each institution.

A number of evaluations from the EBRD's most recent expansions to new economies confirm the importance of cooperating closely with other IFIs. Unlike in the 1990s in the case of Eastern Europe and Central Asia, the EBRD was a relative latecomer to the SEMED region and could have benefited from greater collaboration with those MDBs already in place. This could also apply in the context of SSA where many other IFIs and bilateral development organisations have been active for a long time, making careful planning and coordination an imperative to avoid overlaps and inefficiencies.

A clear-cut competitive advantage can make a difference. *EvD-EBRD Investment Climate Support Activities Case Study* (2019) finds that the EBRD has been able to differentiate itself from other IFIs and avoid extensive overlap in its initiatives thanks to its explicit focus on the private sector in a busy ecosystem of international partners that operate in Egypt.

A particular need for close collaboration with other IFIs in the policy dialogue sphere specifically stands out as a clear lesson from the EBRD's experience in SEMED. The *EvD-EBRD Special Study on Policy Engagement in SEMED* (2020) calls for the use of cross-conditionality in pursuing policy reforms. The evaluation also finds that national reform agendas can act as a good reference point to develop cooperation and complementarity with other IFIs that goes beyond ad-hoc cooperation efforts.

Similarly, *Evaluation of the EIB Intermediated Lending through the Investment Facility in ACP* (2018) calls for enhanced coordination with partner institutions to address legal and regulatory barriers. Underdeveloped regulatory environments for example weak laws and regulations in the areas of creditor protection and capital requirements, require MDBs to define a clear area for cooperation.

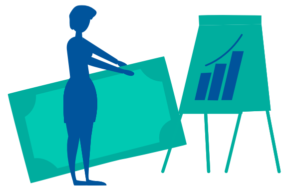
Donor coordination, particularly in the most fragile states in SSA, has not always been conducted in an optimal way. The *Evaluation of the Assistance of the AfDB to Fragile States* (2012) finds that in countries lacking an AfDB field office, partnerships were constrained, limiting the Bank's role at both the strategic and tactical/operational levels. In countries with a field office, the evidence showed that the AfDB would have benefited from making more efforts to coordinate with other state and non-state or international partners in fragile states at a strategic level. In most cases, coordination took place at the sector or project level. Among areas for improvement of MDB collaboration, simplification of coordination processes and harmonisation of MDBs' long-terms plans are highlighted by some evaluation work.

A particular need for close collaboration with other IFIs in the policy dialogue sphere specifically stands out as a clear lesson from the EBRD's experience in SEMED.

36 Development partners include bilateral aid agencies, UN agencies, and philanthropic organizations, among others. It is worth noting that some bilateral donors (for instance France, UK) or philanthropic organizations such as Gates Foundation can have larger portfolios in SSA region than IFIs do.

7

Concessional blended finance appears to be a promising tool for MDBs to support private sector development in SSA



There is no silver bullet in development finance, as there is no single financing instrument or strategy that would bring sustainable private investment to challenging environments like those in SSA. However, blended concessional finance is considered to hold unique potential to mobilise development finance, foster the private sector and de-risk projects in many markets. Deployment of blended concessional funds by MDBs has been on the rise and reached US$ 1.4 billion in 2019.[37] This trend is expected to continue in the coming years while SSA has been, and will likely remain, the largest global recipient of blended concessional finance from MDBs (38 per cent of total, as of 2019).

Even a relatively small amount of concessional donor funds may mitigate specific investment risks and help rebalance the risk-reward profile of pioneering and high-impact investments in the private sector. The recent report of the *DFI Working Group on Blended Concessional Finance for Private Sector Projects* (2021) points out that although the predominant sector of focus for concessional blended finance was infrastructure (closely linked to climate change), support for SMEs and agriculture have been also well represented in SSA portfolios.[38] Senior debt, often with below-market interest rates, longer maturity and/or longer grace periods, followed by equity and risk-sharing facilities and guarantees, have been the most commonly used concessional instruments in the region.

Existing evidence suggests that blended concessional finance can be particularly useful for scaling up the private sector and accelerating development efforts in lower-income countries. And yet, lower-income countries tend to require also a more diversified instrument mix, higher ratios of concessional finance, and higher levels of advisory support to develop projects and markets.

The IFC *Study on Using Blended Concessional Finance to Invest in Challenging Markets* (2021) notes that an important approach within blended concessional finance that has seen a rise in popularity of a "returnable capital" model, where donors receive regular reflows of interest, fees, dividends and principal repayments. In many cases, such contributions are later classified as *investments* in government budgets rather than *expenditures*. This is a relevant advantage given the limited fiscal headroom of many bilateral donors, and therefore something that could galvanise greater flows to the private sector while freeing up grant monies for other purposes. However, given the key features of this model, it is not applicable for projects without regular reflow of funds for example, those involving grants and performance-based incentives to clients, or the funding of advisory services.

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Acknowledgements

This note was prepared by Oskar Andruszkiewicz (andruszo@ebrd.com), Senior Evaluation Manager, and Natalia Kryg (krygn@ebrd.com), Principal Economist. Keisuke Taketani, Visualisation Specialist, led on the design of the note while Disha Zaidi, Independent Consultant, provided some support with the literature review. The note was prepared under the overall guidance of Véronique Salze-Lozac'h, Chief Evaluator.

The document benefited from fact-checking from selected evaluation departments, most notably by representatives of Independent Development Evaluation at African Development Bank and Independent Evaluation Group at the World Bank Group

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