

AFRICAN DEVELOPMENT BANK GROUP



LINES OF CREDIT IMPACT STUDY

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

May 10, 1993

LINES OF CREDIT IMPACT STUDY

**Performed for the African Development Bank
by Development Alternatives, Inc.
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EXECUTIVE SUMMARY

Lines of credit have been an important part of the project financing done by the African Development Bank Group. As of December 31, 1991 they had reached a cumulative total of US\$ 2.468 billion, or 11.1% of the Group's total lending.

Any attempt to evaluate the impact of these lines of credit (LOCs) runs into problems of definition. What were the announced objectives? Were they appropriate to the realities of the situation? The quality of information available is varied because **both at the ADB level and at that of the financial intermediaries in member countries, systems for tracking results have in the past been largely neglected.**

In addition, there have been profound changes in both the macroeconomic situations of the member countries and the policies of the ADB, so that the assessment of LOCs cannot be done in a static fashion. It must take account of the instability of the environment and suitability of policies.

The principal findings with regard to both ADB policy and the macroeconomic environment through the mid-1980s are as follows:

MACROECONOMIC SETTING

- o Large deterioration of the macroeconomic framework, aggravated by the two petroleum pricing shocks;
- o heavy state involvement in economies and support of inefficient public enterprises;
- o industrial development models based on protective tariffs and exchange rate controls;
- o legal and institutional framework constraints to business creation and development.

ADB POLICIES

- o No policy of intervention in the industrial sector until 1986;
- o very general support of development finance institutions, considering them best way to fill gap left by commercial banks for financing long-term investment in industry--especially small and medium-scale;
- o ambiguous mandate for development finance institutions;
- o little consideration of macroeconomic and institutional constraints when granting lines of credit;
- o accent on use of local resources and import substitution;
- o no specific policy of private sector support; only nationality of operators taken into account.

Given the limitations on information available for this period, only general conclusions can be reached:

SUBPROJECTS

- o the enterprises financed have been of relatively large size: BUA 3.4 million in North Africa, 130 employees and an average investment of BUA 1.7 million in the other countries;
- o fairly high cost per job created: 39,702 in the North, BUA 11,068 in the other regions; -- which translates into a concentration on relatively capital-intensive subprojects;
- o a survival rate for subprojects of less than 50% North Africa excepted; in EAst Africa this is largely due to the high import dependency of subprojects and their doubtful viability in the context of market liberalization.

DEVELOPMENT FINANCE INSTITUTIONS

- o they have often not been truly independent from government interference;
- o services offered have been limited to partial financing; no other financial services furnished and other support to entrepreneurs has been limited;
- o resource mobilization has been limited to international development finance institutions and state governments; no local savings mobilization;
- o subproject selection procedures have not taken the economic environment into consideration and thus produced numerous unsustainable investments;
- o performance has generally been weak, even for those DFIs that survived the economic crisis and structural readjustments; and existing performances are put in question by the high average level of arrears.

AFRICAN DEVELOPMENT BANK

- o objectives for line of credit projects have been defined only in general terms'
- o institutional parameters have not in general been taken into account at either the DFI or the subproject level;
- o the effect of macroeconomic constraints were underestimated;
- o subproject tracking and follow-up have been very limited;
- o it is difficult to see what the ADB has done to focus its financing (limited in comparison with that of other international agencies) so that it is brought to bear on targets where the ADB has a comparative advantage.

These observations regarding the limited durability of both DFIs and subprojects have mostly been made already by the ADB. Corrective measures have been taken, bearing on procedures and subproject tracking and evaluation:

ADB POLICY

- o **definition of an industrial policy;**
- o **questioning of the DFIs' exclusive role and use of other financial intermediaries;**

consideration of institutional variables and the possibility of using other intermediaries in subproject financing;

- o development of a private sector support strategy.**

PROJECT CYCLE

- o linkage of projects with the macroeconomic climate by means of the Country Strategy Papers and the Economic Perspectives and Country Programming Papers;**
- o requirement that regular subproject supervision be performed and project completion reports rendered in a timely manner.**

PROCEDURES

- o development of a procedures manual;**
- o establishment of an ad hoc committee to integrate finding of OPEV postevaluations into future project designs.**

Macroeconomic criteria must be tempered by other strategic consideration in the granting of lines of credit, or there will be a tendency to limit them or award them principally to those few countries that have already come successfully through the process of structural adjustment. Among the strategic considerations is the widespread need for support to the development of micro-, small-, and medium-scale enterprises. The tendency toward concentration has been visible in recent years, with five countries receiving over 80% of the line of credit loans, and one of them absorbing almost 40% of the total funding. The indicative lending programme for 1993-1995 confirm this tendency.

Also, the LOCs should reflect the new priorities established in FYOP 3, particularly:

- o the struggle against poverty and the integration of women into the development program;**
- o private sector development;**
- o maximization of the leverage effect from ADB financing; and**
- o improvement of project quality.**

These policy orientations should bring about major changes in the ways that lines of credit are used, and current policies of the ADB in this regard will need to be adjusted accordingly.

IMPROVEMENTS RECOMMENDED FOR LINES OF CREDIT

PRIORITIES	STEPS FOR IMPROVEMENT
	Create a specific strategy for microenterprise

<p>Alleviation of poverty and women in development</p> <p>recognition of development</p>	<p>development and apply it through specific lines of credit.</p> <p>Put into place a Women in Development structure to guide and oversee related actions.</p> <p>Define quantitative objectives for amount of LOC financing to be devoted to these priorities in the coming years.</p>
<p>Private sector development</p>	<p>Reinforce measures already taken through the PSDU.</p> <p>Launch experimental LOC applications through PSDU that do not require government guarantees.</p> <p>Include conditionalities requiring LOCs be applied to private sector subprojects.</p> <p>Develop policies appropriate for ADB participation in the inevitable process of DFI privatization (with respect to those DFIs in which ADB has significant involvement).</p>
<p>Improvement of project quality and maximization of ADB leverage effect</p>	<p>Reexamine strategy in regard to industrial sector intervention, support to development finance institutions, and SME development--state the objectives in order of priority.</p> <p>Spell out specific guidelines for LOC evaluation, reflecting these priorities and defining analytical standards for financial intermediaries, quantification of objectives, and leverage effect goals.</p> <p>Reinforce the application of subproject monitoring methods and establish in the guidelines the use of basic impact indicators for subprojects.</p>

I. INTRODUCTION

Background of the Present Study

During 1990, the Operations Evaluation Office (OPEV) of the African Development Bank (ADB) employed Louis Berger International, Inc. to conduct a study evaluating the impact of the lines of credit that ADB provides to its Regional Member Countries. In particular, the study was to:

- o define line of credit (LOC) effectiveness; and
- o measure the macroeconomic impact of these lines on recipient countries, as well as their effect on Development Finance Institutions and LOC-funded subprojects.

Although the Berger research covered a wide range of inquiry and assembled a great deal of information, it did not present the sort of conclusions and operational recommendations that the ADB sought:

- o Are the credit lines made available to DFIs having the desired effect for economic development?
- o What specific program of actions can the ADB implement to increase DFI effectiveness and/or furnish LOC funding through other financial intermediaries which can onlend it effectively?

As a result, the ADB contracted with Development Alternatives, Inc. to perform a complementary study addressing these questions.

Development of the Study Plan

During the first week, the study team held detailed discussions with the Director and Staff of OPEV. Together they agreed that:

- o the present work will be based essentially on data compiled in the Berger report, dealing principally with the industrial sector;
- o these data would be complemented and updated with information available from appropriate ADB offices;
- o given the brief time available for the current study, the field research would be limited to a single "field reality check," intended to fill out and verify some of the findings made at ADB headquarters; and

- o finally, that the unstable economic environment of Africa in the 1970s and 1980s has been characterized by some severe and hard-to-predict deteriorations, which form an essential parameter in any attempt to evaluate the impact of lines of credit.

This report contains the following:

1. a brief description of the African macroeconomic environment in the 1970s and 1980s;
2. a discussion of the policies and procedures of the ADB and their evolution over the last twenty years regarding support to industrial sector development and the application of lines of credit;
3. an approach to evaluating LOCs;
4. the team's principal findings at the levels of the ABD, the financial intermediaries, and the subprojects;
5. findings from the field case study;
6. current ADB policies and approach with regard to LOCs; and
7. the study team's recommendations.

THE SETTING AND THE ABD POLICY FRAMEWORK

As of December 31, 1991 the African Development Bank Group (the ADB, African Development Fund, and Nigerian Trust Fund) had cumulative commitments in the industrial sector amounting to \$22,321.5 million. Credit lines accounted for 11.1% of the Group's total and commitments and 7.2% of those in the industrial sector.

Cumulative Bank Group Lending by Sector

SECTOR	Cumulative Lending (US\$ millions)	Percentage Share	Number of Loans/Grants	Average Loan Size Million US \$
Agriculture	5,989.9	26.8	445	13.5
Transport	3,704.9	16.6	328	11.3
Public Utilities	4,917.6	22.0	348	14.1
Industry	3,398.9	15.2	195	17.4
Education & Health	2,057.6	9.2	222	9.3
Multisector	2,262.5	10.2	76	21.8
TOTAL	22,321.5	100	1 614	13.8
Lines of credit of which	2,468.0	11.1	144	17.1
Industry	1,602.0			
Agriculture	865.7	7.2	102	15.7
		3.9	42	20.6

Source: African Development Bank compendium of statistics

These resource commitments should be seen in both the general economic context of African countries in the 1970s and 1980s, and in relation to the policies and procedures of the ADB, as described below.

General Economic Context of the 1970s and 1980s in Africa

Economic Indicators

	1965-73	1973-80	1980-89
Population growth rate	2.6	2.7	3.2
GDP Growth	4.8	3.2	2.1
GDP per capita growth	1.7	0.6	-1.2
GDP structure (end of periode)			
- Agriculture	31	28	32
- Industry	25	32	27
Terms of trade (variation in %)	-6.7	5.4	-5.7
Total external debt (millions US\$ 1980)	9,911 (1970)	109,497 (1980)	231,390 (1989)
Life expectancy at birth (years)	9	4	3

Source: World Bank report and African Development report

During the last two decades, Africa has confronted many constraints, both internal and external, and has ended up in an unprecedented crisis. During the 1980s the rate of growth was negative and in some respects the continent returned to the level of 1960.

Growth and development plans were based on noncompetitive industries (to the detriment of agriculture), the growth of a public sector that was both overlarge and ineffective, and a growing recourse to external debt to finance projects that proved neither economically nor financially viable. This made the African economy very fragile.

In this general setting, some economies suffered practically fatal blows from the petroleum price jolts of 1973 and 1979, the progressive reduction of external investment and financing inflows, and their own balance of payment crises tied to deteriorating exchange terms.

The frequent delays in undertaking measures to correct severe economic distortions aggravated the situation and made the return to economic growth longer and more difficult.

ABD Approaches with Regard to the Industrial Sector

The African Development Bank's Board of Directors approved in 1986 the first policy document with regard to Bank intervention in the industrial sector. The only related documentation prior to that consisted of references to the support of small and medium enterprises. These references were found in annexes to policies on lines of credit and development finance institutions.

The preamble to the 1986 policy document states that despite the major funding committed in the area, "the results have been very irregular and unequal, which can be explained in part as follows: the Bank would have obtained better results if it had developed a clearly defined policy for its actions in favor of the industrial sector.... The formulation of such a policy has now become urgent."

The following are the major action steps defined at that time that were adopted in the Lagos Plan:

Objectives

- o support member countries in the development of long-term strategies to establish an environment favorable to industrial development based on optimal use of comparative advantages;
- o favor enterprises that generate foreign exchange;
- o assist development finance institutions and other finance organizations that mobilize resources for industrial development;
- o encourage private sector growth;
- o improve the management of enterprises and institutions of which the functions directly influence this sector's development.

Strategies

- o improve the project selection process and emphasize the productive sectors using local resources;
- o support private sector development and the creation of direct lending instruments to the extent that governments are reluctant to guarantee such investments;
- o give preference to rehabilitation projects;
- o support financial intermediaries, especially development finance institutions which have suffered particularly from the economic crisis raging in Africa and governmental interference; this will require a case-by-case examination in order to define the most appropriate intermediaries.
- o once again emphasize the PMEs;
- o support the training of managers in the member countries.

ABD Policy with Regard to Development Finance Institutions

The ABD's initial policy toward Development Finance Institutions (DFIs) was defined in 1967. It was subsequently revised in 1982 and 1986.

The 1967 strategy only confirmed the ABD's support to DFIs in general terms, without defining particular eligibility criteria. The DFIs were defined as instruments for the mobilization of capital (public and private) at the national and international levels, for the purpose of financing development projects. The ways in which these institutions were to be created and managed were left open. The general principle of ADB support was confirmed and the methods of intervention were left for case-by-case definition.

In 1981, in the document ADBD/81/140, the lines of credit made available to DFIs are defined as being intended to furnish medium and long-term financing to small and medium-scale African enterprises. These are recognized as being especially important instruments for employment creation, regional development, the use of local resources, and the reduction of imports through a policy of import substitution. Their complementarity with large-scale industry is also a factor in the growth of interindustrial exchanges.

The main conditions of eligibility for lines of credit are:

Development Finance Institutions

- o must have their government's endorsement;
- o must be mainly dedicated to the financing of long-term and mid-term investments supporting the economic development of member countries;
- o must give proof of good administrative, technical, and financial management, as well as need for the LOC funds;
- o may be associated with national organizations for the development of small and medium enterprises (SMEs) in order to facilitate the preparation of loan applications, and also for the management and tracking of SMEs benefiting from the lines of credit.

Small and Medium Enterprises

- o assets net of investments must not exceed 2 million Units of Account (UA) following the investment in question (3 million for subregional DFIs);
- o must be majority owned by citizens of ADB member countries;
- o must produce goods or services and be able to show acceptable levels of both economic and financial viability; in addition, priority is given to projects using local raw materials and offering employment creation and foreign exchange savings.

Revisions were made to this strategy in 1986 that were aimed mainly at lifting some of the constraints implicit in the foregoing terms. The revisions addressed:

- o the clause about the nationality of SME owners, which would henceforth be applied on a case-by-case basis and considered in the light of project quality;
- o the previous policy statement that the ADB would not intervene directly to finance projects for less than UA 8 million, while at the same time placing a UA 2 million ceiling on subprojects had seemed to prohibit all financing between UA 2 and 8 million. So the UA 2 million threshold was dropped and funding decisions were to be made on the basis of individual analyses, provided the whole stayed under the UA 8 million limit.

Procedures for Granting Lines of Credit

Programming

Since 1982, the ABD has used a multiyear approach for planning its resource commitments, which are finalized in the Five-Year Operational Program (FYOP). The FYOP itself is regularly evaluated. It establishes the Bank's major policies and its allocation of resources by sector and financing instruments (financing projects and programs in support of the policies).

At that stage there is no specific allocation by country, except that this has been done for the African Development Fund in an indicative manner since FAD V. The countries are grouped according to their GNP per capita as follows:

Countries	GDP per capita US\$
Group A	less than 510
Group B	511 to 990
Group C	more than 991

ADF funds are assigned by first allocating planned amounts to the Technical Assistance Fund and to loans in support of reforms. Then the balance is divided among the eligible countries according to predetermined percentages for the groups. At present 90% goes to Group A and 10% to Group B.

Since 1987, the overall allocation of funds (ABD, ADF, and NTF) and the sectorial allocations have been set in a document with a three-year time horizon, the Perspectives Economiques Par Pays (PEPP). The PEPP is rounded out by specific policy documents for each country that set performance indicators and permit reallocation of resources according to the results.

Six indicators are used and they are weighted as follows:

INDICATORS	Weighting
Macroeconomic management	45%
Antipoverty program	20%
Environmentally sound development	5%
Performance of ABD portfolio	20%
Institutional capacity	8%
Management of affairs of state	2%

Project Cycle

The project cycle used at ADB is basically the same as that used at other development institutions.

The different stages of this cycle and the reports required at each stage were initially defined in a manual of administrative procedures. They were completed and assembled in an operations manual adopted in 1989 by the Bank's Board of Directors. These directives establish the general framework and specify:

- o the policies in effect for the different sectors of Bank intervention;
- o the overall policies and the content of different documents to be prepared at each step of a project.

These general guidelines were supposed to be filled in with detailed directives for each sector. This has not yet happened in regard to the evaluation of lines of credit. The existing directives deal only with:

- o the content of project coversheets;
- o the way in which subproject dossiers shall be presented by financial intermediaries;
- o the content and timing of activity reports and supervisory reports to be produced respectively by the subproject beneficiaries and the project managers;
- o the Project Completion Reports.

Distribution of Responsibility for LOC Management within the ADB

A detailed organigramme of the ADB is shown in Annex A. A summary of the distribution of LOC responsibilities is as follows:

Responsible Official	Vice President Central Operations	Vice President Operations North Region	Vice President Operations South Region	President
- Policies	Central Project Department Infrastructure & Industry Development Division			
- Programing & Allocation of resources		- Country Programmes Department - Country Divisions	- Country Programmes Department - Country Divisions	
- Appraisal		- Infrastructure & Industry Depart. - Industry & Development Bank Division	- Infrastructure & Industry Depart. - Industry & Development Bank Division	
- Implementation Supervision		- Country Divisions - Industry & Development Bank Division	- Country Divisions - Industry & Development Bank Division	
- Completion		- Industry & Development Bank Division	- Industry & Development Bank Division	
- Post evaluation				- Operations Evaluation Office

Operational responsibility for managing the lines of credit is very concentrated, being given largely to two divisions (NISI and SISI). At present these two divisions supervise all the LOC's portfolio and their combined staff equals eight.

II. THE IMPACT TO DATE OF LINES OF CREDIT

The Evolving Policy Setting

To evaluate the impact of lines of credit is a complex process, in that it implies tracking and data collection over a long period. In effect the criterion to be applied at the level of both the financial intermediary and the subloan beneficiary is sustainability. Is anything left after all the work and investment? After all, that is the whole point of LOCs: not to subsidize entrepreneurs and their new businesses indefinitely, but just to give them a one-time access to capital (including some foreign exchange) to get them started. After that the hope is that they will be able to continue on their own, with their own credit sources, and help to enlarge the industrial bases of their countries.

As stated above, these lines of credit were provided in a setting that was evolving quickly and was very unstable. As a result the African Development Bank has had to adapt its policies to the overall shifts in Africa's economic situation and to define these policies where none had previously existed. For example, this was the case regarding support for industrial development up until 1986. With regard to the policy toward development finance institutions, the Bank went through important policy shifts around this date. Finally, there have been further developments in ADB policy since then that have had important effects on lines of credit, as with:

- o the development of adjustment loans, both general and sectorial;
- o new policies toward the private sector, including the creation of an ADB staff unit devoted especially to private sector development and the development of new instruments like the African Private Development Project Facility.
- o recognition and inclusion of other essential policy elements such as the vital role of women in development and therefore the necessity of providing them with access to credit.

In attempting to evaluate what have been the results of the ADB's lines of credit, the study team has had to recognize both the changing economic situation and the changing policy environment of the Bank as the setting within which LOC results must be examined. This evaluation has two phases:

- * the first looks at the existing data, some of which are fairly old and far from complete;
- * the second phase considers recent developments of policy and how these tie into the Five Year Operational Program for 1992-1996.

Information Sources

The data on results presented below are drawn from:

- o information collected in 1990 by the Berger study, which covered 13 member countries and their DFIs;

- o Project Performance Audit Reports (PPARs) and other postevaluation materials developed by OPEV;
- o the ADB's project operations staffs (NISI and SISI), policy staff (CEPR), and country programs managers.
- o a sample of recent LOC'S appraisal reports (12 LOC'S in 9 countries).

This information is complemented where possible by information collected in the Zambia case study.

In all, the available data cover 19 countries, totalling about 800 Millions BUA.). It must be emphasized that the available information on credit lines is not exhaustive, nor has it been standardized, which makes comparisons across countries and projects difficult. So, for each of the evaluation criteria set forth below, the projects covered are not strictly the same.

Evaluation Criteria

The essential purposes of lines of credit are:

- o to compensate for the deficiencies of commercial banks with regard to their willingness or ability to furnish medium and long-term credit to small and medium enterprises--to do this by supporting financial intermediaries willing to cover this segment of the market;
- o to provide member countries with financing in foreign exchange;
- o to develop member countries' industrial base and thereby support economic growth and employment creation.

Based on these purposes, the evaluation criteria for LOCs at the subproject and DFI levels are as follows:

Subprojects

OBJECTIVE	INDICATOR
SME development	- Number of subprojects financed - Number of jobs created - Nature of services offered
Develop a durable industrial base	- Failure rate of subprojects

Development Finance Institutions

DFIs must be judged above all on the basis of their viability, and thus their ability to give continued support to this segment of the financial market. This in turn implies that they be judged on the types of services they provide, their methods of financing, and the ways in which they select subprojects on criteria of both their management and their potential profitability.

OBJECTIVES	INDICATORS
SME development	<ul style="list-style-type: none"> - Number of subprojects financed - Extent and adequacy of services - Subproject selection procedures
Resource mobilization	<ul style="list-style-type: none"> - Promote internal savings - Nature of external resources mobilized
Profitability	<ul style="list-style-type: none"> - Results - Cost of operations - Portfolio quality

Findings

Synthesis of OPEV and Louis Berger Reports

NORTH AFRICA AND EGYPT	000 BUA and %
Total lines of credit	165 000
Total investment cost of subprojects	912 878
% of ADB financing	18%
Number of subprojects	267
Average value of investment	3 419
Number of jobs created	22 993
Average cost per job created	39 702
% of subprojects operating normally	87%
% of subprojects in difficulty	12%
% of subprojects that have ceased operation	1%
OTHER AFRICAN COUNTRIES	
Total lines of credit	53 300
Total investment cost of subprojects ¹	171 960
% of ADB financing	18%
Number of subprojects	174
Average value of investment	1 653
Number of jobs created	14 431
Average cost per job created	11 068
% of subprojects operating normally	43%
% of subprojects in difficulty	25%
% of subprojects that have ceased operation	32%

¹/ to compare with 33 000 BUA, the total cost of investments is not available for some sub projects

DEVELOPMENT FINANCE INSTITUTIONS
FINANCIAL PERFORMANCES (average)

Development Finance Institution Country	ROA % average assets	ROE % average assets	Operating costs % average assets	Equity growth %	Debt Equity ratio	Deposits % of total resources	Arrears End of Period % of Portfolio
Development Bank of Mauritius (1983-1990) MAURITIUS	1.04%	4.72%	1.81%	225%	3.42	-	20%
National Industrial Bank (1978-1983) GHANA	3.40%	20.56%	2.85%	198%	1.77	15%	NA
Banque Nationale Pour le Développement Industriel (1983-1987) NIGERIA	1.04%	2.38%	3.47%	100%	1.07	-	22%
Banque Nationale de Développement du Tourisme (1985-1989) TUNISIE	1.28%	6.47%	1.15%	22%	2.68	-	19%
Development Bank of ZAMBIA (1985-1989) ZAMBIA	0.98%	6.51%	3.25%	264%	5.00	-	NA
Development Industrial Bank (1985-1989) EGYPTE	0.03%	4.52%	1.34%	72%	11.73	2.7%	33%
East Afrikan Development Bank (1975-1986)	1.75%	4.10%	3.09%	41%	1.34	-	58%
National Development Bank (1974-1983) SIERRA LEONE	- 14.26%	NC	6.81%	NC	NC	-	NA
Banque Nationale de Developpement Economique (1974-1986) MOROCCO	0.3%	6.6%	0.65%	445%	16.45	-	11.3%
SOFIDESIT (1976-1986)	- 5.2%	NC	3.91%	NC	NC	-	41%

SENEGAL							
Industrial Development Bank (1987-1989)	-0.5%	-3.4%	1.95%	-15.6%	4.05	_	36%
KENYA							

Subprojects

It is difficult to perform a detailed evaluation of subproject results at this time, **since neither the DFIs nor the African Development Bank have developed an overall system for tracking subprojects.** At this point, it is possible to make an evaluation only in general terms.

This brings up a fundamental problem faced by the national development banks--the traditional form of DFI--and by the African Development Bank itself. Their titles include two terms that it is hard to reconcile: "development" and "bank." They are in the paradoxical situation of being chartered to promote development, with many of the investment risks that implies, and act as banks, maintaining their credit ratings and protecting their investors' equity. They are neither commercial banks nor PVOs, and the political and economic upheavals that many of the African member countries have endured have sometimes made it hard for the development banks to play both roles--or either. This is certainly the case now in Zambia (see Annex A).

A Definite but Fragile Contribution to Employment

Creating jobs is one of the four major objectives of lines of credit. Those subprojects with LOC funds for which information is available succeeded in creating a substantial number of jobs. However, the average cost per job was quite high, indicating that the LOC-funded projects were in general very capital-intensive.

Albeit that there are wide disparities in the impact of LOCs, due in large part to the differences among member countries, their overall effect appears to have been positive in terms both of businesses started and jobs created.

In any case, the positive results are tempered by the failure rates encountered, especially in Sub-Saharan Africa, and the large volume of arrears found at the level of the DFIs. In addition, there is no information available on the number of loan applications that have been turned down by the financial intermediaries because potential subproject promoters lacked the personal capital or security that the DFIs required.

Another aspect of DFI subloan portfolios that has led to many problems is that the predictions of profitability, market, and financial soundness were made in a political/economic policy environment emphasizing import substitution as the primary goal. Part of this environment was often protectionist tariff barriers and an overvalued national currency. This led to decisions by DFIs to finance new businesses that were economically not viable, with high levels of foreign inputs on which they were dependent. When the economic crisis deepened in Africa, a first reaction of many authoritarian regimes was to clamp down on resource allocations, especially those in the form of foreign exchange.

Tendency toward Medium and Large Enterprises

Defining the break point between what is a micro, small, medium, or large enterprise has been a much-discussed topic--with no widely agreed results. It is generally accepted that a microenterprise employs ten or less people, but above that the borderlines are not clear. For Sub-Saharan Africa it seems reasonable to use the following classifications:

- o 10 to 50 salaries = small;
- o 50 to 100 salaries = medium;
- o above 100 is large.

Using these standards, we find that most LOC onlending has gone to support medium and large-scale industries.

With regard to any preference for supporting private operators, the ADB's policies did not state one clearly until 1986. The main criterion for selection was the national character of the investor, not whether the investor was a public or private entity. While private operators appear to form the majority of LOC beneficiaries, it is still the case that in some member countries the primary beneficiaries were parastatals and public enterprises that were ineffective but benefitted from government sponsorship and guarantees. This is particularly so with regard to projects sponsored by the East African Development, which has arrears in 62% of its portfolio, more than half of them owed by governments for their public enterprises.

Development Finance Institutions: Questions of Resource Mobilization and Allocation

Procedures and Services That Are Not Always Adapted

Although the procedures used by development banks vary widely, a characteristic that they share is that the major criterion for selecting those dossiers to be financed is the quality of security the potential borrower can offer. This approach tends to minimize risk, but it does not necessarily lead the bank to select the best managers or most profitable business opportunities. This weakness is increased by the general lack of follow-up during subproject execution. It is common for the DFIs to take no special interest in a given subproject until it falls in arrears on its debt service.

Despite the obligation put on DFIs that they conduct analyses of the financial and economic soundness of proposed projects, it is clear that these were not done effectively, when they were done at all. It is worth noting that this sort of analysis is complex, implies knowledge of shadow prices, and takes place in an environment characterized by major economic distortions. Thus the effort to look at both economic and financial soundness is likely to yield divergent results that don't help decision making.

Some rare cases like the Development Bank of Mauritius have tried to develop a full range of services adapted to client needs, especially export guarantees and the development of industrial zones. But in general the services offered by the DFIs are limited to partial investment financing without taking into account other client needs like working capital financing.

In short, ADB support to economic operators in the form of ongoing advice has been the exception. Without this continuing relationship, it has often been the case that the Bank first gets involved when arrears build up.

Resource Mobilization Limited to Member Governments and International Development Assistance Organizations

Resource mobilization has two aspects, external and internal. As far as the external goes, the DFIs have often been able to obtain substantial funding from bilateral and multilateral organizations.

This has normally been done with support and guarantees of government, which has at the same time granted the DFIs a virtual monopoly in the longer-term, foreign currency financing market. But at the same time, the DFIs have rarely played a role in the mobilization of local resources, thus increasing their dependence on outside lender organizations that are often their principal stockholders as well.

This dependency on outside financing of course causes the DFIs in question to be very vulnerable to foreign exchange risk in relation to changes in the value of the local currency. This danger has usually been met by government guarantees--amounting to an important subsidy--and/or a policy of passing all the exchange risk on to the borrowers in their loan terms. This has been done in the Zambia case, with the expectation that subloan beneficiaries would at least be able to pass most of any increase in debt service costs on to their customers through higher prices. Of course this can't be taken for granted and isn't working in the newly restructured open market system from which tariff protection has been lifted and foreign exchange allowed to seek its market price.

A Status of Relative Autonomy

With national governments being the primary or sole shareholders in many DFIs, the degree of DFI independence has varied widely. The ADB's 1986 document on the industrial sector notes that "DFI portfolio quality is bad due to the proportion of doubtful viability financed at government urging".

The public status of many DFIs has had another important effect noted in the Berger report: there has been a high turnover of qualified personnel due to the disparity in salary levels of government compared to the private sector.

Varying Financial Results

In sum, the DFIs have so far produced positive (though not strong) results, and done so in spite of their difficult environments. But the positive data are largely contradicted when held up beside the average percentage of arrears on their payments. In the current environment of structural adjustment, this leads to the simple conclusion that they should either be shut down completely or subjected to substantial change and reorientation.

Development Banks and Development

In an extremely difficult and constraining economic environment, many of these institutions seem to have oscillated between two conflicting demands: on the one hand the necessity to finance only certain and profitable projects; on the other hand to help the development of new, high-risk enterprises. For various reasons, that probably include their public character, the missions that have been trusted to them by international funding agencies, and their own weaknesses, these DFIs haven't been able to get past this contradiction of roles. This may reflect their inability to deal with the market, as shown by the absence of project tracking.

In fact the successes presently visible in Africa in the financing of microenterprises by institutions that are sometimes public show that it is possible to overcome these constraints, at least in part.

Findings with Regard to the African Development Bank

Evaluation

The first lines of credit that the team reviewed date back to the 1970s, just when the ADB was beginning its operations. There was initially no standard model by which evaluations were performed, and these varied in scope and depth. These variations seem to have resulted in the establishment of very general objectives for the evaluations of the time and this in turn makes an ex post assessment difficult. In fact, the primary criterion for judging banks was the existence of a pipeline of approved projects and the resulting need for subproject funds.

Also, DFIs have for a long time been considered the best instrument for filling the gap left by commercial banks when it comes to willingness to provide long-term financing to small and medium enterprises in their start-up phase. This idea, although it was already questioned by the time the 1981 policy revisions were issued, has hung on. It led to the underestimation of the importance of the macroeconomic and institutional framework of member countries, especially with regard to:

- o exchange rates;
- o industrialization policy and administrative procedures;
- o financial sector policies;
- o commercial law and the judicial system.

During the initial phase, these were considered to be variables that were exogenous to the environment in which the DFIs functioned.

As the economic situation in most African countries deteriorated, the related economic distortions and institutional weaknesses became apparent. The first reaction was often to turn to administrative responses, often in the form of authoritarian allocations of resources that affected the subproject enterprises and their financing DFIs.

ADB Strategy

Institutional support is one of the priorities published in the general ADB strategy documents, especially that of 1981, both with regard to DFIs and the support of SME development. However, few projects have included these elements, and it has often been left to other organizations already established in the field. Given the multiplicity of organizations that have furnished lines of credit to development finance intermediaries, and the proportionally small role the ADB plays in this financing, the Bank's contribution is hard to distinguish clearly.

Follow-up and Supervision

Some of the OPEV studies show the supervision of lines of credit to be sometimes inadequate. There are differences between the means and objectives originally foreseen for subprojects and the actual results. These differences have affected the beneficiaries (not necessarily those originally intended), the onlending conditions, and the financing methods. Also, the project completion reports are sometimes not produced within a reasonable time after the subloan funding is spent.

One reason for this is doubtless the small size of the ADB staffs concerned, compared to the large number of projects they are supposed to be supervising. It is likely that a combination of the internal operational objectives of the ADB and the financing demands of member countries often take priority over the supervisory work.

It also seems that the dossiers submitted for subproject financing are generally approved with little question. They have been treated with varying speed and degrees of attention.

III. RECENT DEVELOPMENTS

Faced with the deteriorating economic situation of Subsaharan Africa, the spread of structural adjustment programs, and the recognition that some of its policies were not effective, the African Development was largely able to adapt its methods and procedures so as to respond better to the needs of its member countries.

These changes, which make some of the findings presented above out-of-date, affect many areas. This report considers only those that are most important for their direct or indirect effects on lines of credit.

Policy Evolution

Support for Changing Policies

The statement of policy with regard to the industrial sector issued in 1986 affirmed "the necessity for the ADB to pay close attention to the industrial policies of African States in order to be able to contribute to the development of new strategies, the application of which will bring about a climate that is more favorable to industrial development."

As a result, FAD V and FYOP 2 included financing for programs in support of adjustment policies, both general and sectorial, and the establishment of quotas for the various types of ADB loans:

Instrument	ADB	ADF	NTF
Policy based	25	22.5	-
Project based	75	77.5	100
TOTAL	100	100	100

Private Sector Development

Faced with high levels of debt that limit their access to further loans, and with the weakness of public enterprises, African states came to see it as a necessary step for them to place greater reliance on private operators. In this situation, and considering the reluctance of national governments to guarantee repayment of funds lent by international financing agencies, the ADB needed to develop new instruments with which to meet these needs.

These new instruments were set forth in the 1989 policy statement on assistance to the private sector:

- o All private enterprises are eligible, as long as the planned project fits with the country's development policy, the country's macroeconomic situation is favorable, and the national government's policy has created an environment favorable to private operators.

- o The ADB can intervene through either loans or capital participation; its financing may not exceed a contribution in excess of one third of the total value of the project and must fall in a range between US\$100,000 and US\$10 million.

In support of this policy, the ADB established a Private Sector Development Unit in December 1990, placing it under the Vice President for Central Operations. The unit was set up to:

- o coordinate ADB private sector activities;
- o make direct loans or participate in the equity of private businesses;
- o follow up on the portfolio of related loans.

At the end of 1992, seven operations of this type had been started: six loans and one equity participation. The overall cost of these investments was UA 88 million and the participation was around UA 15 million.

Reaffirmation of SME Support

In 1986, the Bank again stated its policy of giving priority support to small and medium enterprises. These were defined according to their size:

- o small: capital less than UA 1 million;
- o medium: capital of more than UA 1 million (but with no ceiling).

These businesses are considered to be a way for countries to diversify risks by making maximum use of local resources, rather than using limited funding for capital-intensive projects. Such projects, if they fail, can cause important and lasting losses for the state.

The Need to Reinforce and Restructure DFIs

Given the difficulties that DFIs have been encountering, it is necessary to ask whether development needs require a specialized financial institution. If this is so, it is time to consider restructuring measures on a case-by-case basis. If necessary, some of these institutions can be closed and accompanying interim loan programs put in place.

Use of New Intermediaries for Lines of Credit

DFIs are no longer considered to be the only intermediaries through which lines of credit can be channeled. Commercial banks can serve this function when:

- o there is no DFI and the scope of development financing in the country does not warrant starting one;
- o the government of the country has established an all-purpose bank.

Other means can also be used, such as special agencies established to promote small and medium enterprise.

Ways to Give Women Greater Access to Credit

In 1990 the ADB adopted a policy recognizing the role of women in development; in 1992 strategies and means were identified to give African women easier access to credit. This was rounded out with issuance of "Guidelines for Integrating Gender Issues into Bank Group Industrial Projects."

The Bank recognized that women play a decisive role in a whole series of economic activities, but that they are also faced with many constraints that hinder their integration into the economy and their access to credit. The Bank's principal objective in this regard has been to make credit more accessible. Various approaches have been proposed to:

- o establish lines of credit specifically for women, furnished through new intermediaries, NGOs, or the PSDU;
- o support the creation of new activities within existing DFIs to meet the specific requirements of women involved in small business.

This sort of approach could also be included in the work of agencies specializing in SME development. In any case the importance of this element has been recognized so that for all future line of credit activities the effect on women is to be considered.

Cooperation with Nongovernmental Organizations

The ADB adopted a policy of cooperation with NGOs in 1991. The policy foresaw the use of NGOs as the agents for formulation and execution of certain elements of the projects that the Bank finances. In this regard, priority was given to projects designed to:

- o provide income and employment to low-income social groups and thereby alleviate poverty;
- o provide technical support, organization, and training to project beneficiaries.

This cooperation with NGOs for work in priority sectors should emphasize;

- o furnishing credit and lines of credit in rural environments;
- o integration of women into the development process;
- o capacity building etc..

Poverty Reduction

In order to reduce poverty, LOC policy will need to focus on the small and microenterprises, since it is in this sector that job creation is the least expensive, the largest proportion of local inputs is used, and there is the least vulnerability to macroeconomic and national policy shifts. More is said on this below.

Development of Procedures

Adoption of a New Procedures Manual

The ADB issued a new manual in 1989, which was intended to make the documents it produces more standardized. All stages of the project cycle are covered, especially:

- o preparation and management of the lending program and its application by country;
- o identification, development, and evaluation of projects;
- o project execution and supervision; and
- o postevaluation.

Integration of Project Loans into the Macroeconomic Context and Improvement in Portfolio Quality

Within the overall framework of the Five Year Operational Program, individual projects are developed to fit the macroeconomic setting and the individual country's economic perspectives (PEPP--see Chapter I). This approach, fitted in turn to the country strategy and annual program, permits the ADB to:

- o operate in ways that take into account what is happening at both the macroeconomic and microeconomic (project) levels; and
- o reassign resources as a function of both the management performance and absorption capacity of specific countries, as well as developments in their macroeconomic situations.

At the same time, the manual established the measures to be taken at the stages of initial project assessment, tracking, supervision, and postevaluation:

- o adoption of a LOGFRAME-type approach to assessment by the end of 1992;
- o increase in supervisory visits so that projects are visited at least once a year, and provision for systematic midcourse evaluations;

- o speeding up of PCR delivery (and specification of this requirement in the original terms of the loan to the LOC onlending institution);
- o description of procedures for postevaluation and establishment of a committee to examine the postevaluation reports prepared by OPEV, so that their recommendations are taken into account during the development of succeeding projects.

Effects of Policy Development, as Seen in Recent Projects

Since these aspects of ADB policy are quite recent additions, it is too early to evaluate their effects in any detail. Nonetheless, the study team felt that it would be interesting to see what general shifts seem to be taking place in the light of ADB policy developments in 1986 and 1989, especially the taking into account of macroeconomic conditions and the provision of institutional support to member countries.

The overall picture for LOCs since 1988 looks like this:

Years	Number of LOC's	Number of countries	Total Amount 000 BUA	Average Amount 000 BUA
1988	10	6	145 840	14 584
1989	5	5	110 770	22 154
1990	6	5	120 500	20 083
1991	10	9	434 000	43 400
1992	3	3	144 000	48 000
TOTAL	34	28	955 120	34 111

Sources: OPEV and compilation done by the consultant

Taking into Account the Macroeconomic Climate

Project assessments done since 1988 have been set in the PEPP framework and have considered the economic framework. This led to new groupings of recipient countries according to their geographic location. The consultant was able to obtain the details on a significant subsample of these--a total of 12 LOCs granted to 9 countries and having a total value of UA 678 million. These were lines of credit given in the industrial sector.

Out of the subsample, five countries absorbed 81% of the total funding, with Tunisia alone receiving 38.7%

This trend reflects both the varying levels of development of the different countries and the wide

degrees of difference in their progress toward macroeconomic adjustment. Given the disparities in rates of readjustment and the delays incurred before some countries undertook such programs, it is foreseeable that the disparities will continue in the coming years.

In any case, it is important to emphasize that in some cases it is not sufficient just to look at the macroeconomic framework alone; attention must also be paid to the related sectoral analysis. For example, this is so in the case of Tunisia, where the ADB and the government need to take an in-depth look at the tourism sector--given the large amounts of LOC money and other funding that have already been put into it.

Further Consideration of the Institutional Variable

Structural readjustments that have taken place, especially in the West African countries, have resulted in an in-depth restructuring of the financial sector. This has produced:

- o the decline of specialized banking; and
- o the dissolution of some development finance institutions (for example SOFIDESIT in Senegal).

These sorts of changes require the ADB to use new financial intermediaries for the LOCs. The recent experience of Senegal is an interesting case in this regard.

L'EXPERIENCE DU SENEGAL

Montant de la ligne de crédit: 100 Millions d'UC - date 1991

Engagé depuis le début des années 1980 dans un programme d'ajustement structurel, le Gouvernement du Sénégal a pris des mesures dans tous les domaines pour réformer son économie en profondeur.

En ce qui concerne le secteur financier, la réforme menée à bien a conduit à liquider les deux banques de développement existantes (SOFIDESIT et BNDS) en raison de leur inefficacité et des pertes qu'elles avaient accumulées. De même, la Société Nationale de Garantie et d'Assistance au Commerce qui devait garantir les prêts bancaires a été également fermée pour les mêmes raisons que les Banques de Développement. Les institutions financières restantes sont donc des Banques commerciales.

Par ailleurs, afin d'appuyer le développement industriel et notamment les petites et moyennes

industries, différentes mesures institutionnelles et structures d'appui ont été mises en place:

- assouplissement du code du travail;
- création d'un guichet unique;
- développement de zones industrielles destinées aux PME et fourniture de services annexes;
- création d'une société d'étude et de promotion industrielle destinée à appuyer les entrepreneurs et à élaborer des dossiers bancables etc...

Dans ce contexte et afin d'appuyer les efforts du Gouvernement, la BAD a accordé une ligne de crédit de 100 Millions d'UC. Le schéma retenu est le suivant:

- le Gouvernement rétrocédera cette ligne de crédit à une structure chargée de la répartition des fonds, le Fonds de Promotion Economique créée à cette fin.
- cette structure très légère, rétrocédera les fonds aux banques commerciales qui en feront la demande au vu de l'examen des dossiers et moyennant une commission de 1% pour couvrir ses couts;
- en parallèle, un fonds de garantie sera mis en place et géré par cette structure. Il sera alimenté par une dotation du Gouvernement et par une commission de 2% qui sera versée par les banques;
- afin de pallier le manque de fonds propres des promoteurs, un système de prêts participatif est également mis en place.

Les mécanismes de déboursement sont accélérés avec des décaissements préalables par tranche et justification ex post des dossiers.

Les dossiers en instance auprès des banques représentent un investissement total de 85 Millions de BUA pour une taille moyenne de 204 000 BUA. 5 500 emplois devraient être créés avec un coût unitaire de 15 500 BUA environ.

Across the projects that the study reviewed, there is a developing use of commercial banks, which indicates the real possibility of using them as an alternative intermediary through which LOC funding can be channeled.

If the institutional mechanisms in place are not completely developed, it continues to be possible to use mixtures of ABD and ADF funds and to make provision for technical assistance when this is

needed.

Measures that Can Be Taken to Increase the Effectiveness of Lines of Credit

Taking into consideration the past results, the development of the ADB's policy framework, and the ongoing integration of these policies into the structure and management of projects, it is possible to outline the steps that can be taken to improve the impact of LOCs. These are laid out in the following charts.

STEPS TO IMPROVE THE EFFECTIVENESS OF THE LINES OF CREDIT

OBJECTIVES	FINDINGS	ACTIONS TAKEN	STEPS FOR IMPROVEMENT
Support the creation of small and medium enterprises.	The data show that it is generally medium and large enterprises that have benefited from LOC financing.	No specific actions. The industrial sector policy adopted in 1986 defined the objectives in very general terms without describing the specific ways in which they were to be achieved.	issue policy that defines the objectives in greater detail sets specific mechanisms by which small- and medium-scale enterprises are to be supported. Lift the constraints on which sectors may receive LOC financing. Make these policies consistent with the ABD's strategic goals of promoting the role of women in development and reducing poverty.
Create employment.	The average cost per job created is relatively high.	No specific actions of objectives in this regard.	See above; the smaller the enterprise in general, the less employment creation costs.
Promote the use of local resources, especially raw materials.	There were no stated objectives in this regard until 1986.	Establish standards requiring that a minimum of 30% local inputs.	Although hard to enforce, this policy should be pushed. Also, SME's normally use a high proportion of local inputs and this is another reason for giving them greater support.

OBJECTIVES	FINDINGS	ACTIONS TAKEN	STEPS FOR IMPROVEMENT
<p>Support development finance institutions.</p>	<p>Numerous DFIs are ineffective and some have been closed.</p> <p>There is often strong government interference.</p> <p>There is a movement away from specialization due largely to the small size of markets.</p> <p>Mobilization of local savings is weak.</p> <p>There are general conditionalities with regard to privatizations in the framework of structural adjustment programs.</p> <p>There are no clear rules regarding the conditions for LOC onlending to subprojects.</p>	<p>The policy adopted in 1986 foresaw the possibility of reorienting DFIs, or shutting them down.</p> <p>Use of funding channels other than DFIs for some recent projects.</p> <p>Institutional support for management and reduction of borrower arrears.</p>	<p>Support the movement to reorient DFIs, especially those in which the ADB is a substantial investor.</p> <p>In this regard, ABD could play a role in preparing for and facilitating the transition.</p> <p>Link the future granting of LOCs to minimum levels of DFI performance.</p> <p>Give technical assistance where needed to help DFIs with the management of arrears collection.</p> <p>Encourage local savings mobilization (where there is an adequate macroeconomic framework) in order to increase institutions' dependence on development assistance organizations and limit DFI exposure to exchange risk.</p> <p>Put in place realistic interest rate policies.</p> <p>Apply ABD coverage methods to handling the exchange risk.</p>

OBJECTIVES	FINDINGS	ACTIONS TAKEN	STEPS FOR IMPROVEMENT
Support private sector development	Private sector development was not a stated priority until 1986. Nonetheless, the majority of credit line funding through DFI seems to have been used for the benefit of private business.	Publication of a specific policy in 1989. Creation of a Private Sector Development Unit.	Continue with current operations and undertake some that are experimental with regard to granting LOCs directly to financial intermediaries without passing through the national governments. Make it a condition of LOCs that onlending be done to private operators, with the governments using other means for public sector financing.
Improve the definition and purpose of projects.	Objectives stated in too general terms; disparities among project documents; need to take greater account of the macroeconomic and institutional setting.	Development of a procedures manual; integration of projects into the PEPP and DSP framework; development of institutional support measures.	Develop a policy dealing specifically with small and medium enterprises; integrate sectorial policy. Develop guidelines specific to LOC projects, like those that exist already for other sectors.
Reinforce DFI supervision.	Supervisory visits are of very limited scope and frequency, not permitting the ABD to make early enough identification of DFI disfunctions.	Requirement for an annual supervisory visits; introduction of systematic midterm review for projects.	Follow up to assure that these recommendations are implemented.

OBJECTIVES	FINDINGS	ACTIONS TAKEN
Improve the evaluation of results.	No specific indicators that permit objectives of an evaluation to be quantified; completion reports delayed; project monitoring reports by DFIs of mixed content.	Project completion reports required prior the granting of further lines of credit.

IV. INTEGRATING OBJECTIVES INTO THE FRAMEWORK OF FYOP 3

The third Five Year Operational Programme² dealing with the period 1992-1996 has laid out the major orientations of the ADB for the coming years.

Economic Perspectives and Resource Needs

The 1980s were marked by the most serious economic crisis that Africa has known, resulting in a 15% drop in per capita income. Despite some recent improvements, seven to ten years of growth will be required just to return to the per capita income levels that existed at the beginning of the 1980s.

Although some countries have been able to achieve good performances, the overall result is that the African population as a whole finds itself worse off than it was thirty years before. To restart growth will require a major influx of resources. The estimates of what's needed run around \$50 billion per year:

ADB Group Projections on Africa's Economic Performance and External Resource Requirement

	Average 1992-96	Average 1997-2001	Average 1992-2001
Real GDP (US\$ billion, 1990)	443.8	569.6	502.5
Growth rate (%)	4.5	5.5	5.0
ICOR	6.0	5.0	5.5
Investment (US\$ billion, 1990)	114.7	148.5	131.6
Domestic Savings (US\$ billion, 1990)	66.6	99.2	82.9
External resources requirement (US\$ billion, current)	55.4	67.3	61.4
% ADB	5%	5%	5%

²1. The program with which the study team worked is not the final version. According to ADB managers interviewed, the final version does not modify the strategies; only the overall resources involved and the allocation percentages could change, in a marginal manner.

Considering the size of these needs, the ADB's contribution needs to be enlarged through cofinancing operations. These should represent a total of 50% of the Bank's operations, with the multiplier reaching 3.5 as compared to the 2.4 that previously existed.

Thematic and Sectorial Approaches

Reconstruction and Rehabilitation: The economic troubles of the 1980s had a devastating effect on the infrastructure and capital stock of the member countries. Infrastructure reconstruction and rehabilitation will be a necessity to which the ADB will need to devote a major part of its resources.

Economic Integration and Exchanges: The development of economic exchanges being a precondition of growth, the Bank will need to support all measures that can promote integration.

Private Sector Development: Future growth will be largely based on the private sector and the transfer to private hands of activities formerly performed by the state. In this regard, the Bank should limit its role to that of a catalyst, using as tools the lines of credit and direct project assistance. It is to be expected that the demand for these will increase with economic growth.

Poverty reduction: Reducing poverty is an essential objective that needs to be integrated into all projects that may have an impact, especially in the sectors of health and agriculture. With particular regard to the industrial sector, one major objective is employment creation.

These objectives can be translated into sectorial and instrument terms, this comes out as follows:

Sectorial Composition of the Lending Programme Percentage

SECTOR	ADB Range	ADF Range
Agriculture	25-30	35-40
Industry	25-28	5-7
Public utilities	20-22	12-14
Transport	17-21	20-22
Health and Education	5-7	20-25

**Lending Programme Instruments
Percentage allocations**

INSTRUMENT	ADB Range	ADF Range	NTF Range
Project Lending	76-87	63-74	100
Public investment	46-52	47-54	80-100
Private Investment:	30-35	16-20	0-20
Guaranteed	24-25	13-15	0-20
Unguaranteed	6-10	3-5	
Policy based lending	17-20	20-22.5	0
Technical assistance	0	10	0

The Integration of Lines of Credit into the ADB Strategy

From examining the findings on the effectiveness of lines of credit and holding them up against the major policies of the Bank Group, it is clear that these instruments need to be used effectively as part of the long-term strategy.

Principal points are:

The Catalyzer Role of the ADB

Given that the ADB has limited resources to contribute against the overall needs of Africa in the coming years (less than 5% of total requirements), the Bank needs to develop its role as catalyst and maximize the leverage effect of its financing within the member countries. This is reflected in the cofinancing activities and growth of the multiplier coefficient to be reached under FYOP 3.

The selection of LOC subprojects should be driven by the FYOP 3 objectives, with interventions in priority sectors being adjusted according to the degree of funding made available by other funding sources.

Dealing with Strong Economic Disparities

In the period covered by FYOP 3, the situation of African countries will continue to be marked by a profound disparity between the few that have successfully completed their programs of macroeconomic adjustment and those that are still in the process, or just starting. With regard to the latter group, the economic environment will not lend itself to relaunching industrial investments under lines of credit as was done in the past (with varying results).

In this situation, the ADB will need to put in place new approaches with which to respond to the needs of those countries that are trying to catch up--either that or concentrate its lines of credit on a few countries (as is now happening) and not perform the role of catalyzer that it is seeking under its announced policy.

The Struggle Against Poverty: a Strategic Priority

Given the major deterioration in African social indicators, the antipoverty struggle is a major strategic issue for the ADB. Like the process of recognizing and supporting the role of women in development and providing them with access to credit, the poverty issue is multisectoral and makes it necessary that the ADB undertake a serious policy in regard to microenterprise and small enterprise, to include and increase in financing of these sectors.

Small and microenterprises have the advantage of being less dependent on the macroeconomic situation and being vehicles for the creation of jobs and increased use of local resources (e.g. as raw materials).

In this case, it will be important for the ADB to recognize that these small and microenterprises require the support of financial intermediaries that are very different from the DFI. The financing they require is on a much smaller scale and largely involves working capital; also, managing credit for them requires a more immediate and constant field presence of the loan managers than is the tradition in DFI operations.

Improving Project Quality

Improving the overall quality of projects has been an ADB priority for some years. The overall guidelines for LOC management now emphasize SME development and employment creation. In any case, the current directives are written in very general terms and do not integrate the current strategies. The rapid development of guidelines is needed, and these guidelines should deal with:

- o creating leverage;
- o supporting the private sector;
- o the choice of financial intermediaries for the LOCs;
- o the current priority objectives in terms of employment creation, the antipoverty program, and the role of women in development.

With these major orientations as a starting point, the recommendation made in Chapter III can be regrouped as follows to form an operational program for improving the effectiveness of lines of credit.

SUMMARY OF RECOMMENDATIONS FOR IMPROVING LINES OF CREDIT

OBJECTIVE	ACTIONS
<p>Improve line of credit quality and maximize ADB leverage.</p>	<p>Issue detailed policy for SME promotion and specific guidelines for LOC management, subproject selection and supervision including:</p> <ul style="list-style-type: none"> . definition of objectives . variety of projects that may be financed . variety of financial intermediaries appropriate to subprojects of different size and type . equity and security required from promoter. <p>Link granting of future LOCs to minimum levels of financial intermediary performance.</p> <p>Set minimum levels of local resources as inputs. Put in place realistic interest rate policies.</p> <p>Encourage local savings mobilization (where the macroeconomic framework is favorable) to reduce dependence on development assistance funding and exposure to exchange risk.</p> <p>Lift constraints on which sectors may receive LOC funding.</p>
<p>Promote private sector development</p>	<p>Make it a condition of LOCs that onlending be done only to private operators.</p> <p>Undertake experimental lending directly to intermediaries without passing through governments.</p>
<p>Poverty alleviation and promotion of women in development (which are closely linked)</p>	<p>Promote microenterprise development to create employment and promote use of local resources.</p> <p>The smaller the enterprise in general, the lower the cost of employment creation and the less the dependence on foreign exchange and raw materials.</p> <p>Try experimental lending programs for this level of business that have NGO intermediaries and permit shorter payment terms, provision of working capital, lower equity contribution, closer support/supervision.</p>

	<p>Both poverty reduction and recognition of WID are often closely tied to microenterprise development, though not exclusively. Access to credit is key, plus some advice and assistance (see Kenya Rural Enterprise Program, in which microenterprises grew to be small enterprises).</p>
<p>Improve the evaluation of results.</p>	<p>Define specific indicators in terms of the cost of job creation, size of investments, required content of local inputs.</p> <p>Require that financial intermediaries produce project tracking reports that permit ADB to evaluate the status of enterprises financed and the likelihood of their continued operation.</p>

ANNEX A
ORGANIZATION CHART

ANNEX B

CASE STUDY: DEVELOPMENT BANK OF ZAMBIA

Purpose

John Buck (referred to as "I" hereafter) traveled to Zambia and spent April 27-30 doing a case study on the Development Bank of Zambia and its subprojects that were funded with ADB lines of credit. Zambia was chosen because:

- o DBZ is a long-established DFI and was one of the first to use lines of credit, so results can be tracked over time;
- o the problem of foreign exchange risk, the biggest for LOC users, is writ large in Zambia. The country has gone through all stages, from a stable currency and tariff protection to its present situation of radical structural readjustment.

The purpose of this single visit to a Regional Member Country was not to evaluate the operations of its DFI, but to perform a "field reality check" of information and impressions that the study team had developed during their first two weeks at the ADB.

The Zambian Setting and the DBZ

Since Zambia became independent in 1964, it has been through major changes in in both its economic environment and national policies. From independence until the collapse of world copper prices in 1975, Zambia knew a decade of prosperity. Exports of copper from the northern border region accounted for 90% of the country's foreign exchange. The government took a majority interest in mining and other major industries and pursued a development policy of promoting import substitution.

In this setting, the Development Bank of Zambia (DBZ) was incorporated in 1973 and began operating in January 1974. Sixty percent of the share capital (Class A shares) was allocated to the Government of Zambia and forty percent (Class B shares) to a variety of international and domestic financial institutions. The ADB purchased a 1.5% interest. The DBZ's Board of Directors is a reflection of original shareholding, with six members being appointed by the government and four by the outside investors. These proportions are fixed by statute and have therefore been maintained despite shifts in the percentage of equity provided by holders of the two classes of stock. (The equity is expected to be over 90% Zambian by the end of 1993.)

The presence of outside Board members is one of the reasons that observers have credited the DBZ with maintaining a good measure of independence from government control (see sources listed in Annex ...) Nonetheless, DBZ has reflected the general emphasis of current government policy, while at the same time maintaining a cautious, conservative approach to investment.

While this method has prevented the bank from being a dynamic force for change and development, it seems also to have permitted DBZ to survive some of the wild swings of the last twenty years. Whether it can continue to do so is discussed below.

The 40% drop in copper prices in 1975 was followed by years of stagnation and a 36% decrease in per capita GNP. The government continued its reliance on state-controlled, capital-intensive industry.

This industry was dependent on foreign inputs and a heavily protected domestic market.

By 1982 the government was forced to recognize that its external debt was growing massively, as were its arrears. Zambia opened negotiations with the World Bank and IMF that resulted in programs of stabilization and adjustment.

There followed a confusing period of debt rescheduling and an attempt at foreign exchange auctions. The Zambian kwacha had been greatly overvalued and foreign exchange was scarce. This was partially alleviated by the auctions; however, by 1987 the auction method had produced varying degrees of devaluation of the kwacha, ranging as high as 90%. At that point the GOZ abandoned structural adjustment, broke off its relations with the IMF, and went back to a state-controlled economy.

In 1989 Zambia reestablished relations with the IMF and World Bank and reentered on structural adjustment. The elections of October 1991 brought in a new government and a vast acceleration of adjustment programs. These included:

- * divestiture of parastatals;
- * a floating market exchange rate for the kwacha;
- * huge inflation;
- * removal of protective tariff barriers; and
- * opening of national markets to foreign competition.

DBZ Use of Lines of Credit

Through all the upheavals, DBZ has kept going. During the years of protectionism and control, it was the only source of long-term lending (both local currency and foreign exchange) for small and medium scale enterprises, especially in their start-up period. Even with the recent opening of the foreign exchange market, this is still the case.

Although DBZ draws its loan funds from a variety of bilateral and multilateral lenders, the largest has been the ADB. DBZ has had four lines of credit, the first for UA 1.8 million being approved in 1973--almost simultaneous with incorporation of the bank. Disbursements began in 1974. The basic data for this and the subsequent LOCs are shown in Table A-1.

TABLE A-1: ADB LINES OF CREDIT

Line of Credit	ADB I	ADB II	ADB III	ADB IV
Value (UA million)	1.8	8	10	15
No. of Subprojects		9	17	15
First Disbursement	1974	1980	1982	1987
Last Disbursement	1980	1985	1987	1992
Repayment Status	Paid	Paid	Some arrears*	Some arrears*

* As of May 1993, the Government of Zambia had brought its payments on all ADB loans current to July 93. The arrears mentioned here are owed by the subproject borrowers to DBZ.

During the first decade, DBZ's portfolio--including the lines of credit--seems to have been of good quality with very few arrears. However, the last five years have seen increasing difficulties that have become acute with the present restructuring. In the six months from November 92 through April 93:

- o bank credit in both local currency and foreign exchange was drastically tightened by the government;
- o the kwacha on the open foreign exchange market fell in value from 150K/\$1 to 540K/\$1;
- o the rate of inflation soared accordingly;
- o the market distortions that favored import-substitution firms were removed and those dependent on foreign inputs had great difficulty, both in purchasing raw materials and servicing their foreign debt.

The only positive news at present is that the kwacha may have found its market rate. During the last two weeks of April and the first week of May 93 it remained "stable" between 500K and 550K per dollar.

Naturally, these problems touch several of the LOC subproject borrowers. All LOC loans place the exchange risk on the final borrower. Repayments to the DBZ, and its repayments to the ADB, are required to be made in the current kwacha equivalent of foreign currency.

A total of five subproject loans from ADB III and fourteen from ADB IV are in arrears. Two from ADB IV still have amounts of principal outstanding, but are current in their payments. So, in total there are 21 subloans with balances still owing, of which 19 are in arrears.

The Outlook for DBZ

It was in this context of uncertainty that I spent four days in Lusaka with the DBZ, trying to draw lessons from this case study that would help the study team to reach reality-based conclusions and recommendations regarding the way that the ADB manages lines of credit. I also tried to get to the copperbelt region in the north, around Ndola. This is the major industrial area and the one in which most of the LOC money was spent. I was on standby with Zambia Airways for two days; however, the flights were booked solid both days.

There are two aspects of the Zambia case that are clearly related to the handling of LOCs in many member countries:

- o First, there's the foreign exchange risk and the question of who should bear it--the subproject borrower? The DFI or other financial intermediary? The national government?
- o Then there are the difficulties of judging the viability of proposed subprojects in one economic/political environment and having this framework change dramatically, as it did in the case of Zambia.

Some of the changes may have been partially predictable through risk analysis, given the artificial exchange rate that existed, the untenable nature of the country's price controls, and its burgeoning foreign debt. However, it would have been hard to predict changes of this magnitude and speed, or to know exactly how to manage on such assumptions.

It is impossible to foresee what success the current adjustments will have, or what the outcome will be for DBZ. The bank is engaged in continuing negotiations with the ADB regarding a fifth line of credit directed at the Development of Small and Medium Scale Enterprise. The loan was approved by ADB in 1991 following two closely spaced visits to the country by a Principal Financial Analyst of the Bank. At that time the DBZ was judged capable of wrapping up the fourth line of credit despite delays in project implementation, due largely to an embargo on foreign currency disbursements which the ADB imposed on Zambia in 1988.

The missions also noted that the debt/equity ratio of DBZ exceeded its 7:1 statutory limitation and DBZ was thus unable to raise further foreign currency loans.

The outcome was that ADB approved the new LOC for UA 20 million, consisting of FUA 10 million and BUA 10 million. One of the conditions is that the GOZ immediately commit FUA 2.7 million to increase the DBZ's capital base. By a DBZ calculation dated 23 March 93, this would change the bank's debt/equity ratio from 19:1 back to a level of 5.38:1--well within the limit.

Though the fifth LOC has been approved since 1991, the conditions precedent have still to be met by the GOZ and the first disbursement has yet to be made. At present the government is seeking to negotiate some of these conditions. While the GOZ is apparently willing to guarantee loan repayment in foreign currency, it is also seeking to have disbursements to foreign suppliers made directly in hard currency and charged to DBZ's account as equivalent kwacha amounts that are frozen as of that day as the sums in kwacha owed to the ADB by DBZ. It is not clear how these negotiations will turn out, or which of the other foreign investors will provide new funds to DBZ if it works. In any case this

arrangement could give the DBZ a real chance of survival. Its future is, of course, largely dependent on the macroeconomic situation of Zambia and the GOZ policy framework.

Judging the Effectiveness of LOCs

Since Zambia has had some of the ADB's oldest lines of credit, I reviewed information and discussed with knowledgeable staff members what had become of past projects. Though the money of all four LOCs had been disbursed and most has been repaid, DBZ personnel are still in touch with--or at least aware of--the majority of past subloan borrowers.

My questions were: What's left? What can be learned from the survival rate of past subprojects that gives an idea of their sustainability? The people interviewed included the former Northern Regional Director in Ndola (now Director of Operations at headquarters) and the person who was previously North Region Industrial Projects Manager and oversaw the starting of most copperbelt subprojects (now the Rehabilitation Manager in Lusaka). Cross-checking their information with that from other sources and the written materials, I was able to come up with the following assessment of how each former LOC subproject is doing at present. This includes nine cases out of the fifty LOC recipients for which my respondents had no current information.

TABLE A-2: CURRENT STATUS OF PAST SUBPROJECT BORROWERS

	ADB I	ADB II	ADB III	ADB IV	TOTAL
No. of Subprojects	9	9	17	15	50*
Current status:					
Very good	0	2	0	3	5
Good	4	5	8	4	21
Having problems	1	0	5	8	14
Unknown	4	1	4	0	9
Out of business	0	1	0	0	1

* This total includes one subproject, Mukuba Textiles, Ltd., which has had loans under ADB II, III, and IV. In each case, it requalified as a paid-up borrower that was expanding. It is now in full swing and considered "very good."

ANNEX C
BASIC DATA - Louis Berger Report -

COUNTRY	KENYA	EGYPTE	MOROCCO
INSTITUTION	Industrial Development Bank Limited	Development Industrial Bank	Banque Nationale Pour le Développement Economique
LINES OF CREDIT			
- number	3	4	5
- total amount (000 BUA)	28.000	85.000	72.000
- total disbursed	62%	77%	90%
- date of appraisal of the last LOC	1984	1984	1986
MACRO ECONOMIC INDICATORS			
- 1988 GDP per capita (million of SDR at 1980 constant prices)	403	670	1.006
- Average GDP p/c growth rate (Average 1980-1984, 1984-1988)	- 2.1 %, 0.7%	4.0%, 0.9%	- 0.7%, 2.9%
- Central Government Surpl/Deficit (as % of GNP 1988)	- 6.6 %	N.D	- 4.6%
- Gross Domestic Investment as % of GNP (average 1980-1988)	24.3 %		26.1%
- Gross Domestic Savings as % of GNP (average 1980-1988)	20.2 %	27.7%	19.8%
- Ressource Balance as % of the GNP (average of the period)	- 4.0 %	15.6%	- 6.3%
- Average inflation rate	9.6 %	12.1%	7.6%
	- 159 %	-	- 100%
	19.6 %	10.6%	24.8%
		- 6%	
		13.9%	

- Exchange rates: variation of the national currency/SDR - Debt service as % of exports of good and services (1988)			
FINANCIAL SECTOR			
Financial Institutions - Commercial banks - Development Finance Banks - Others Stock exchange market General Settings	25 5 >300 ND Kenya is trying to liberalize its economy. However the financial sector is still administrated and the interest rates are fixed by the Government. The financial market is tight becaus of the low differential between interest rates of loans and deposits.	N.D (4 main banks, 80% of the assets) 5 (including 3 private) N D Yes Financial sector still administrated Interest rates negative in real terms.	15 2 5 Yes Financial sector still higly administrated. Low differential between deposit and loans interest rates. So the commercial banks are not interested in long term funding.

DEVELOPMENT FINANCE INSTITUTION (1985-1988)	Industrial Development Bank Limited	Development Industrial Bank	Banque Nationale Pour le Développement Economique
Shareholder			
- State and parastatals	100%	100%	ND
- Private	0%	0%	ND
- Others	0%	0%	ND
Market	Medium and large scale industry	Small and medium industrie	Large enterprises
Position	Two DFI (IDB and EADB) have a monopoly on long term funding in foreign currencies	In competition with three private investment bank	Quasy monopoly on long term financing
Profitability			
- Net return on assets		0.2%	0.4%
- Net return on equity	-0.1%	3.4%	9.7%
- Arrears as % of outstanding loans	-3.0%	33.0%	8.3%
- Provision as % of portfolio	36.0%	13.3%	ND
- Financial position	11.0%		
	The arrears non covered by provisions represent 2 fold the equity. The Bank is in danger of bankrupt.		
	Restructuring process on the way	7.1%	10.9%
		62.2%	39.2% (Foreign) 30.9%
Mobilisation of resources (as % of average liabilities)	16.3%	4.7%	(10.9%)
- Equity	66.2%	26.0%	19.0%
- Government and multilateral debt	0.0%	Weak appraisal procedures mainly because of lack of staff. Supervision is also poor (1 people for 200 projects).	
- Deposits	17.5%		
- Other	Weak appraisal procedures based mainly on collateral		The BNDE has good procedures including appraisal and

<p>Organisation and procedures</p>	<p>value. Poor financial analysis. Variation of exchange rate and impact on import substitution industry not taken in account. Important management turn over. Foreign exchange risk supported by the borrowers.</p>	<p>For DIB, the exchange risk was covered by the state until 1985. Now it is supported by the bank and the borrowers. Lack of qualified staff and important turn over.</p>	<p>following. It has a monopoly for refinanced loans. It gives direct credits or guarantees loans from commercial banks (55% of total financing).</p> <p>The total contribution of BNDE reaches 25% of the total investments of the country.</p>
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SUBPROJECTS	Industrial Development Bank Limited	Development Industrial Bank	Banque Nationale Pour le Développement Economique
	LOC one and Two: Number of projects financed: 15 operating well: 7 difficulties: 4 (all with arrears) receivership: 4	88 projects financed on the five LOCS Average size: 600 000 BUA	

COUNTRY	MAROCCO	MAURITIUS	NIGER
INSTITUTION	Caisse Nationale du Crédit Agricole	Development Bank of Mauritius	Banque de Développement de la République du Niger
LINES OF CREDIT			
- number	3	4	2
- total amount (000.BUA)	102 400	20.000	9.000
- total disbursed	100%	43.7%	42.9%
- date of appraisal of the last LOC	1986	1991 (10.00 0)	1980
MACRO ECONOMIC INDICATORS			
- 1988 GDP per capita (million of SDR at 1980 constant prices)	1.006	1.726	349
- Average GDP p/c growth rate (Average 1980-1984, 1984-1988)	- 0.7%, 2.9%	3.1%, 6.9%	- 7.1%, 0.5%
- Central Government Surpl/Deficit (as % of GNP 1988)	- 4.6%	0.3%	ND
- Gross Domestic Investment as % of GNP (average 1980- 1988)	26.1%	22.1%	16.3%
- Gross Domestic Savings as % of GNP (Average 1980- 1988)	19.8%	19.1%	1.9%
- Ressource Balance as % of the GNP (average of the period)	- 6.3%	-	- 14.3%
- Average inflation	7.6%	2.2%	3.6
	- 100%	7.8%	-
	24.8%	86.6%	21.0%

rate - Exchange rates: variation of the national currency/SDR - Debt service as % of exports of good and services (1988)		10.0%	
FINANCIAL SECTOR			
Financial Institutions - Commercial banks - Development Finance Banks - Others Stock exchange market General settings		18 3 2 Yes	6 1 ND No
		The financial sector is almost totally liberalised	The Niger is part of the UMOA. See general regulations in these country

DEVELOPMENT FINANCE INSTITUTION (1985-1988)	Caisse Nationale du Crédit Agricole	Development Bank of Mauritius	Banque de Développement de la République du Niger
Shareholder			
- State and parastatals	100%	100%	33%
- Private	0%	0%	
- Others	0%	0%	
Market	Short, medium and long term credit in the agricultural sector	Long term loans (foreign and local currency) to industry (including large enterprises)	Medium and long term loans to the industry. Because of the small difference between short and long term interest rates, the commercial banks were not interested in according long term loans. Therefore, the BRDN had a monopoly and was the most important Bank for the credit to the economy (55%).
Position	Monopoly	DBM is now in competition with commercial banks but has a strong position in small and medium projects funding.	Because of its poor management and the generaleconomic conditions prevailing in Niger, the BRDN is in receivership since 1990.
Profitability			
- Net return on assets	0.3%	0.6%	
- Net return on equity	2.4%	5.6%	
- Arrears as % of outstanding loans	20.0%	20.0%	
- Provision as % of portfolio	ND	N.D	
- Financial position	Good	Good	
Mobilisation of resources (as % of average liabilities)	13.4%	12.3%	
- Equity	52.9%	62.9%	
- Government and multilateral debt (LT)	69% of the outstanding loans are medium and long term. The procedures are good.	24.8%	
- Local Debt (LT)	The CNCA has a	Appraisal is based mainly on collateral and needs to be	

<ul style="list-style-type: none"> - Deposits - Other <p>Organisation and procedures</p>	<p>special privilege from the state and the arrears are recovered by the treasury.</p>	<p>shifted to cash flow base lending. However, the level of arrears is low. The range of services offered is small and, because of the new competition, the DBM is considering to give total financing packages including working capital. In that purpose, the staff needs to be enforced.</p>	
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SUBPROJECTS	Caisse Nationale du Crédit Agricole	Development Bank of Mauritius	Banque de Développement de la République du Niger
		<p>51 projects financed on the LOCS 1 and two. 21 in arrears and 1 liquidated. 27 projects financed on LOC 3; no results known now.</p>	

COUNTRY	SIERRA LEONE	TOGO	TUNISIE
INSTITUTION	National Development Bank	Banque Togolaise de Développement	Banque de Développement Economique
LINES OF CREDIT			
- number			5
- total amount (000.BUA)	3	2	73.000
- total disbursed	14.000	4.850	84.5%
- date of appraisal of the last LOC	21.5%	76.8%	1990 (30.000)
	1991 (10.000)		
		1	
		9	
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		0	
MACRO ECONOMIC INDICATORS			
- 1988 GDP per capita (million of SDR at 1980 constant prices)	297		1 446
- Average GDP p.c growth rate (Average 1980-1984, 1984-1988)	- 0.6%, - 2.6%	3 5 5	1.2%, 0.2%
- Central Government Surpl/Deficit (as % of GNP 1988)	N D	- 4.0%, -1.0%	-4.8%
- Gross Domestic Investment as % of GNP (average 1980-1988)	12.1%	2.6%	27.8%
- Gross Domestic Savings as % of GNP (average 1980-1988)	7.1%		22.1%
- Ressource Balance	- 4.8%		-5.8%
		N D	7.7% -126%
			24.0%

as % of the GNP (average of the period)			N D	
- Average inflation rate	753%	- 3		
- Exchange rates: variation of the national currency/SDR	46.3%		N D	
- Debt service as % of exports of good and services (1988)			6.1%	
			N D	
			18.2%	
FINANCIAL SECTOR				
Financial Institutions		6		
- Commercial banks		1 2	N D	1 7
- Development Finance Banks		No		8
- Others				
Stock exchange market			N D	9
General Settings			N D	Y e s
	The financial sector is still highly administrated. However the interest rates (debtors) are now being liberalised. Because of the importance of the budget deficit and the inflation (more than 100%), interest rates are negative in real terms.		N D	Since 1987, the f i n a n c i a
			See general regulations of UMOA	

				I S E C T O R H A S B E E N L I B E R A L I Z E D A N D L E S S S P E C I A L I S E
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				d . The interest rates are now mainly fixed by the
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Organisation and procedures	3		D	14
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	.			%
	1		N	
	%		D	61
	N	As said above, the NDB is now mainly a commercial bank. Because of the high level of inflation, the return on equity seems high. In real terms, it is negative.	Because of the high level of arrears and debt, the losses for the period 1987_1989 are twice the net worth. A restructuring process is on the way.	.8
	D			%
	N			23
	D			.9
				%
		N.D	The procedures are good. The staff is well trained and experienced. The foreign exchange risk is supported by the Government.	
		ND		
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	<p style="text-align: right;">3 1 .3 %</p> <p>The staff seems to be inadequate for evaluating industrial projects. Because of this situation and the lack of projects to be financed due to the general economic conditions, the NDB is now no more involved in long term funding.</p>		
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SUBPROJECTS	National Development Bank	Banque Togolaise de Développement	Banque de Développement Economique
	<p>23 projects financed of which 9 are in receivership. The others are operating with the difficulties because of the scarcity of foreign currencies.</p>	<p>20 projects financed for a total of 777.4 Millions of CFA.</p>	<p>ND</p>

COUNTRY	ZAIRE	ZAMBIA	BURKINA FASO
INSTITUTION	Société Financière de Développement	Development Bank of Zambia	Banque Nationale de Développement-B
LINES OF CREDIT			
- number		4	
- total amount (000.BUA)		34.800	
- total disbursed	2		
- date of appraisal of the last LOC	15.000 98.5% 1981	1987	
MACRO ECONOMIC INDICATORS (Million of US \$)			
- 1988 GDP per capita (million of SDR at 1980 constant prices)		584	233
- Average GDP p.c growth rate (Average 1980-1984, 1984-1988)		-3.9%, - 0.9%	0.4%, 5.9%
- Central Government Surpl/Deficit (as % of GNP 1988)		-9.8%	0.4%
- Gross Domestic Investment as % of GNP (average 1980- 1988)		15.9%	ND
- Gross Domestic Savings as % of GNP (average 1980- 1988)		14.0%	ND
- Ressource Balance as % of the GNP (average of the period)		-1.9%	ND
- Average inflation		33.1% -961%	3.2% -
		14.1%	39.5%

rate - Exchange rates: variation of the national currency/SDR - Debt service as % of exports of good and services (1988)			
FINANCIAL SECTOR			
Financial Institutions	11	12	4
- Commercial banks	1 5	2 8	2
- Development Finance Banks	No	No	No
- Others			
Stock exchange market			
General Settings		Higly administrated financial sector. The Government is on the way to liberalize the économie. Because of the level inflation, the interest rates are nagative in real terms and there is a squeeze of credit.	See general regulations of UMOA

DEVELOPMENT FINANCE INSTITUTION (1985-1988)	Société Financière de Développement	Development Bank of Zambia	Banque Nationale de Développement-B
Shareholder			
- State and parastatals	40.0%		84%
- Private	47.5%	6	
- Others	12.5%	0	Mainly commercial
Market	medium and large scale enterprises	.	activities and
Position	mainly industrial.	0	housing.
Profitability	ND	%	
- Net return on assets	0.0%	4	
- Net return on equity	0.0%	0	
- Arrears as % of outstanding loans	43.0%	.	
- Provision as % of portfolio	14.0%	0	
- Financial position	The portfolio is constituted of 365 loans. All but 35 are in arrears. The institution should be in receivership.	%	Balance sheet are unaudited since 8 years. The loss in 1988 was two fold the net worth.
Mobilisation of resources (as % of average liabilities)	10.5%	i	
- Equity	83.5%	n	
- Government and multilateral debt	6.0%	c	
- Deposits	Poor evaluation procedures and weak supervision. SOFIDEEH has also been	l	
- Other	affected by political decisions that are	u	
		Small, medium and large enterprise.	
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<p>Organisation and procedures</p>	<p>illustrd by the arrears on portfolio.</p>	<p>Monopoly</p>	
			(1990)
			1
			.6
			%
			1
			.6
			.4
			%
			N
			D
			5
			.0
			%
		The DBZ has allways made profit. But because of the laock of informations on arrears, no assumption can be made.	
			9
			.8
			%

		DBZ have good	8 1 · 1 % 9 · 1 % P R O C E D U R E S B U T M O S T O F T H E S U R E	
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SUBPROJECTS	Société Financière de Développement	Development Bank of Zambia	Banque Nationale de Développement-B
	<p>Most of the sub projects financed on the ADB LOCs 1 and 2 are in a critical conditions. 12 are operating and 42 have difficulties or are in receivership. 3 are not still operating.</p> <p>The total arrears represent 64% of the outstanding loans.</p>	<p>All the enterprises financed on the first two lines of credit have fully repaid.</p>	<p>The LOC 1 and 2 have financed 7 enterprises. 2 are operating normally and 5 have difficulties or are have been liquidated.</p>