

AFRICAN DEVELOPMENT BANK GROUP



MULTINATIONAL

**FIRST LINE OF CREDIT TO EASTERN
AND SOUTHERN AFRICAN TRADE AND DEVELOPMENT
BANK (PTA BANK)**

Project Performance Evaluation Report (PPER)

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

13 March 2007

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This report was prepared by Mrs. G. HALL-YIRGA, Principal Evaluation Officer, Operations Evaluation Department, (OPEV) and Mr. Akinola AKINTUNDE (Consultant), following a field mission to East Africa. Any further matters relating to this report may be referred to Mr. D. A. BARNETT, Acting Director, OPEV, extension 2041 or to Mrs. HALL-YIRGA, extension 2263.

CURRENCY EQUIVALENTS

	At Appraisal 1993	At PCR 1999	At PPER 2006
1 UA =	US\$1.404	US\$1.351	US\$1.453
1 UA =	KES56.3	KES88.1	KES105.0
1 UA =	TZS533	TZS 942	TZS1702
1 UA =	UGX1693	UGX1881	UGX2619
1UA =	ZMK448	ZKM2833	ZKM4758

Financial Year of PTA Bank

January 1 to December 31

Financial Year of COMESA Countries

July 1 to June 30

ABBREVIATIONS AND ACRONYMS

ADB	=	African Development Bank
ADF	=	African Development Fund
BIF	=	Burundi Franc
COMESA	=	Common Market for Eastern and Southern Africa
DFI	=	Development Financial Institution
EADB	=	East African Development Bank
EEC	=	European Economic Community
EIA	=	Environmental Impact Assessment
GDP	=	Gross Domestic Product
IDB	=	Industrial Development Bank of Kenya
KES	=	Kenya Shilling
LOC	=	Line of Credit
LOC I	=	First Line of Credit to PTA Bank
MDBs	=	Multilateral Development Banks
PCR	=	Project Completion Report
PTA	=	Preferential Trade Area for Eastern and Southern Africa
PTA Bank	=	Eastern and Southern African Trade and Development Bank
RMCs	=	Regional Member Countries
SME	=	Small and Medium Enterprise
TAF	=	ADF Technical Assistance Fund
The Bank	=	ADB
TDFL	=	Tanzania Development Finance Limited
TZS	=	Tanzania Shilling
UA	=	Unit of Account of African Development Bank Group
UGX	=	Uganda Shilling
UNDP	=	United Nations Development Programme
USD/US\$	=	United States Dollar
ZMK	=	Zambia Kwacha

BASIC LOC DATA SHEET

A. <u>BASIC INFORMATION</u>			
1.	Country	:	Multinational
2.	Name of project	:	Line of Credit to the PTA Bank
3.	LOAN NUMBER	:	B/ESATDB/PTA/LC/94/1
4.	LOAN AMOUNT	:	UA 15 million
5.	SECTOR	:	Finance
6.	BORROWER	:	The PTA Bank
7.	BENEFICIARY	:	The PTA Bank
8.	EXECUTING AGENCY	:	The PTA Bank
9.	LOAN INSTRUMENT	:	ADB
10.	APPROVAL DATE	:	23 February 1994
11.	DATE OF SIGNATURE	:	13 May 1994
12.	EFFECTIVE DATE	:	14 March 1996
B. <u>PROJECT DATA</u>			
		<u>Appraisal</u>	At PCR
			At PPER
1.	Loan amount (UA)	15,000,000	
2.	Disbursement to date		12,370,000
3.	Undisbursed balance		2,630,000
4.	Loan balance		2,630,000
1.	Total project cost (UA)	15,000,000	
2.	Project completion	31/12/97	30/06/2002
C. <u>STATUS OF DISBURSEMENTS</u>			
		<u>Amount</u>	Interest
		UA	%
			Grace
			Repayment
			Period
			Period
1.	Loan amount	15,000,000	8.5%
2.	Disbursement to date	15,000,000	4yrs
			14yrs (including grace)
			On lending rate was a fixed rate of 12%
			per annum
D. <u>PERFORMANCE INDICATORS</u>			
1.	Time overrun	4 years	
2.	No. of subprojects	19	
3.	Project implementation status	Completed	
E. <u>MISSIONS</u>			
	Type of Mission	Composition	Person-days
	Preparation	0	
	Appraisal (June 1993)	2	30
	Supervision (November 1998)	1	17
	Project Completion Report (October 1999)	2	30

EVALUATION SUMMARY

Evaluation Criteria	PCR	PPER
Relevance	2.7 (relevant)	3 (relevant)
Achievements of objectives “Efficacy”	2.7 (satisfactory)	2.7 (satisfactory)
Efficiency	1.8 (unsatisfactory)	2.4 (unsatisfactory)
Institutional Development Impact	1.7 (unsatisfactory)	2.8 (satisfactory)
Sustainability	1.6 (unsatisfactory)	2.6 (satisfactory)
Aggregate Performance Indicator	2.1 (unsatisfactory)	2.7 (satisfactory)
Borrower Performance	1.8 (unsatisfactory)	2.3 (unsatisfactory)
Bank Performance	1.7 (unsatisfactory)	2.3 (unsatisfactory)

- Note:
1. The difference in the ratings is a result of the improved performance of both PTA Bank and sub-projects after restructuring of the PTA Bank that helped to turn around a few of the non-performing sub-projects. Although the performance of the Borrower and the Bank has improved in recent years, their overall performance related to the design and implementation of this LOC is rated unsatisfactory.
 2. The PCR ratings are from 0 to 3, (0 = highly unsatisfactory, 1 =unsatisfactory, 2 =satisfactory and 3= highly satisfactory). Where as the PPER ratings are from 1 to 4 and ratings above 2.5 is rounded to satisfactory.

EXECUTIVE SUMMARY

1. The Eastern and Southern African Trade and Development Bank, commonly known as PTA Bank, was established in 1985 and mandated to facilitate the complementary development of the PTA member states, which was latter transformed into the Common Market for Eastern and Southern Africa (COMESA) member states. PTA Bank's shareholders comprise 17 African states, one non-regional sovereign state and one institutional shareholder.¹ PTA Bank is the largest sub-regional organization in Africa covering virtually all countries in Eastern and Southern Africa. Its objective is to provide project and trade finance to the private sector in the sub-region.

2. The First Line of Credit, the subject of this evaluation, was extended to PTA Bank in 1994. It was a period when structural adjustment programmes were being implemented in many member states, with the resulting economic liberalisation increasing the demand for term credit to finance projects. The ADB line of credit, therefore, assisted PTA Bank to meet part of this demand. ADB had supported PTA Bank and COMESA secretariat during the formative stage in 1989, with UA2 million technical assistance grant for institutional support, that was followed in 1991 with equity financing of UA15 million (UA5 million as paid-in and the balance as callable). In 2003, ADB extended a loan of UA20 million and a grant of UA0.68 million to finance PTA Bank Support Project.

3. This evaluation covers primarily LOC I that was implemented from 1994 to 2002, the latter being the last disbursement year. The evaluation also goes further by assessing to the present the performance of both PTA Bank and the sub-projects to better examine the sustainability of LOC outcomes. The evaluation is carried out using the standard evaluation benchmarks followed by MDBs, which cover criteria such as relevance, efficacy, efficiency, institutional development impact and sustainability of outcomes. The findings and recommendations of this evaluation will serve as input to the review of Bank assistance to sub-regional development banks, which will be undertaken in 2007.

4. A total of 17 sub-projects were financed under LOC I of which 12 (accounting in value for about 70% of LOC I) are local resource-based and export-oriented enterprises located in seven PTA member countries². About 52% of the sub-projects were new and sponsored by indigenous promoters. At the time of this evaluation, 12 (70%) of the sub-projects, representing 75% of the total LOC amount, were performing. Out of these 41% are successful sub-projects and 29% are partially successful. The remaining 18% are unsuccessful, needing restructuring, while 12% failed and their assets were sold out to recover the loans. PTA Bank's monitoring since 2000 has been so effective as to bring about a turnaround of non-performing sub-projects

¹The PTA Bank shareholders include seventeen African States and one non-regional state: Burundi, China, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe. Tanzania is non-COMESA member while Angola, D. R. Congo, Libya, and Madagascar are COMESA members but non PTA Bank member countries. The Peoples Republic of China became the first non-regional sovereign state to join the membership of the Bank in 2000. The African Development Bank (ADB) is the only institutional shareholder.

² The member countries that benefited from LOC I are Burundi, Eritrea, Kenya, Sudan, Tanzania, Uganda and Zambia.

reported in the 1999 Project Completion Report and, thereby, limiting the failed sub-projects to 2 (12%) that represented some 19% of the total LOC amount. The successful sub-projects have contributed to foreign exchange savings or earnings and provided job opportunities. The additional direct jobs provided by the performing sub-projects are over 2300, which is higher than the 1,830 figure reported in the PCR. Women hold about 30% of the jobs. Indirect jobs have also been created due to the backward and forward linkages in the economies of the sub-region.

5. Several factors contributed to the poor performance or failure of some sub-projects. These include high fixed on-lending interest rates on the foreign loans in periods of declining market rates; foreign exchange risk on the loan repayments; unfavourable weather conditions for the horticulture sub-projects; and, inadequate working capital, scarce entrepreneurial and managerial capacities for the new indigenous enterprises.

6. PTA Bank had in the past serious governance issues and overall poor financial performance resulting from inadequate selection, preparation, appraisal and monitoring of its portfolio. PTA Bank faced mounting arrears in loan repayments from its clients, including those financed under this LOC, and also delays on capital subscriptions by member states. At the time the PCR was prepared in 1999, PTA Bank was under serious institutional crises necessitating a diagnostic study to review its management and operations as a matter of urgency. The study was carried out in 2000 and the recommendations have been implemented since then. This has contributed to improve portfolio management and to turnaround some of the poorly performing sub-projects reported in the PCR.

7. In general, LOC I has been relevant and in line with ADB and COMESA member countries' policy of private sector development. Considering the types of the sub-projects (about 53% were new and sponsored by indigenous promoters), and PTA Bank's success in turning around some of the under performing sub-projects, the criteria of efficacy, institutional development impact and sustainability have been evaluated as satisfactory. However, LOC's efficiency is rated unsatisfactory, largely due to its poor implementation performance. In aggregate, however, LOC's overall performance is rated satisfactory. But Bank and Borrower performance on LOC implementation were both unsatisfactory.

8. Since the 2000 restructuring, PTA Bank had a positive turnaround in its operation, financial performance, and portfolio management. Significant credit arrears from the sub-projects and arrears related to subscriptions and equity capital contributions by member states have been cleared. Subsequent LOCs from ADB and other donors are performing better than earlier ones, largely due to better selection, design, risk management and monitoring of the sub-projects. ADB performance has also improved recently because of better design—particularly the inclusion of technical assistance, and, also, the enhanced monitoring through the country office in the sub-region.

9. LOC I was designed with the policy objective of providing term credit to SMEs. However, in line with PTA Bank's mandate, most of the sub-projects financed under this LOC were medium- and large-scale enterprises whose capital requirements were over US\$200,000. The evaluation, therefore, draws attention to the fact that the term credit and technical assistance needs of small and micro-enterprises in the sub-region remain largely unmet.

10. PTA Bank is now a well functioning sub-regional bank. However, it requires resources on a sustainable basis from its donors and member states to meet its higher mandate of promoting regional integration. At the same time, it needs to forge linkages with national financial intermediaries, with appropriate financing modalities, to meet the needs of small and micro-enterprises.

Main Findings (Lessons) and Recommendations

11. The main findings (lessons) and recommendations are as follows:

A. Although PTA Bank's portfolio management function has improved in recent years, there is need to enhance quality-at-entry, as well as monitoring and reporting systems.

ADB's future interventions should critically assess that best business practices and good governance are fully institutionalized and sustained in PTA Bank.

ADB should, in particular, ascertain that PTA Bank has enhanced monitoring and reporting systems to capture information and data on the performance of the sub-projects and the development outcomes of the LOCs.

B. Financial reporting from some sub-projects is suspect. In spite of sustained performance, the financial accounts of sub-projects show deficits or very modest profits, presumably a result of deliberate understatement. Such accounting practice does not allow build up of capital for sustainability and counters development objectives. It is for the tax authorities in the respective countries to review accounting practices of resident companies and reassess company results for tax purposes.

As part of the governance issue, ADB needs to assist member states to have better functioning tax and regulatory bodies to oversee the performance of the private sector.

ADB's future interventions need to include conditions requiring PTA Bank to ensure that sub-projects financed under its LOC submit audited financial accounts prepared on the basis of accepted financial accounting principles and practices.

C. A major initial advantage of LOC I was its low interest rate at the time relative to the then prevailing market conditions, which enabled PTA Bank to pass on the funds to borrowers at competitive rates. Over the life of the line of credit, however, PTA Bank found its fixed rate to be very constraining in view of the significant changes in the interest rate structure in the market following liberalization policies of member states. Moreover, some sub-projects needed term credit in local currency. In recent years, ADB has adopted variable interest rates but provision of local currency loans has not yet been entertained.

The application of variable interest rates by ADB and PTA Bank in recent years is encouraging and should continue with up to date systems in place to make timely adjustments to changes in market rates.

ADB needs to consider local currency financing at sub-regional level through encouraging co-financing with commercial banks; or through guarantees to repay foreign currency loans and raise working capital SMEs, particularly indigenous ones. In addition, the possibility of swapping foreign currency loan to local currency loan should be explored to mitigate exchange risks.

D. The limit set on sub-regional development banks, such as PTA Bank, to finance specific sub-projects is too low for exercising their broader mandate of promoting regional integration. The limit also hardly helps in relieving ADB from going into smaller size projects for direct financing. On the other hand, such banks are not effectively structured to meet the fundamental needs of small and micro enterprises (such as local currency term credit, working capital and capacity building support).

ADB should enhance its financial intermediation for channelling bulk resources through sub-regional development banks, so that the latter could, in turn, on lend to national financial intermediaries, including micro-finance institutions. The sub-regional development banks could then focus on direct financing of medium to large-scale projects at the national level and on co-financing large-scale sub-regional projects, while national DFIs would on lend to small and micro enterprises.

ADB should forge partnership with and establish appropriate linkages to small enterprises development agencies and NGOs that provide technical assistance services to micro and small enterprises in areas such as business plan development, loan application procedures and processes, accounting practices and financial reporting.

There is, therefore, a need to revisit ADB's financial intermediation policy and strategy with a view to designing appropriate financial products and technical assistance to sub-regional and national DFIs.

E. The main challenges facing PTA Bank are augmenting its capital base regularly, improving its asset base steadily, and mobilising resources to meet its mandate sustainably.

ADB needs to enhance its dialogue with COMESA members on ways of mobilizing concessional resources for PTA Bank and raising funds from local bond markets to help lower PTA Bank's on lending costs.

I. INTRODUCTION

1.1 Background on the First Line of Credit

1.1.1 ADB's assistance to PTA dates back to 1989 when the Bank approved a grant of about UA2 million for Institutional Support to the PTA (now COMESA) Secretariat, and to PTA Bank. In 1991, ADB invested UA15 million equity financing in PTA Bank (comprising UA 5 million paid-in capital and the balance as callable). ADB extended the First Line of Credit (the subject of this PPER) in 1994 with an amount of UA 15 million. Since then, ADB extended in 2003 the Second Line of Credit, including technical assistance, amounting to UA20.68 million. A Project Completion Report (PCR) was prepared on LOC I; this evaluation is carried out with the objective of drawing additional lessons of experience.

1.1.2 At the time of the LOC I appraisal in 1993, most COMESA countries were going through economic reforms to enhance recovery from years of economic decline caused by inappropriate development policies, civil strife, and repeated droughts. The reforms included removing interest rate controls, privatising state-owned banks and productive enterprises, allowing easier entry to private sector banks and, generally, creating an enabling environment for private sector development. The reforms undertaken through structural adjustment programmes (SAP) were mainly country-specific, though the need for regional macro-economic programming -- targeting indicators such as the regional impact of SAP on poverty and integration -- was also recognised at the time.

1.1.3 LOC I was extended with the objective of providing foreign exchange resources for development of small- and medium-scale enterprises (SMEs) in the industrial and other productive sectors of the sub-region. The LOC I implementation period (1994 and 2002), and even the subsequent years were times of periodic economic turbulence for COMESA member states. Although there have been signs of recovery in recent years, structural problems, including disadvantageous foreign trade regimes, still constrain the achievement of sustained, robust economic growth, regional integration and poverty reduction.

1.2 Economic Background on COMESA

1.2.1 The economies of PTA Bank member states represent a sub-regional market of about 360 million people with a combined GDP of about US\$198 billion (2005). As noted above, the countries have had extended periods of weak economic performance, although there have been modest improvements recently. In 2004, the countries' GDP growth rate averaged 3%, with 11 of the 16 countries exceeding that rate. This compares with a rate of 1 or 2% that prevailed during the 1990s. The countries have been implementing poverty reduction and growth-promoting strategies, which focus on macroeconomic stability and the pursuit of pro-poor policies, especially increased public spending on basic education and primary health. Priority has also been given to developing and maintaining physical infrastructure, strengthening foreign trade to enhance exports, and increasing domestic savings and promoting investments to accelerate growth and development. Further, the strategies provide for attending to such concerns as equity in income distribution, and fostering institution building -- issues that are crucial for sustaining long-term development.

1.2.2 COMESA member states have been working closely with domestic and external development partners to raise resources for implementing their development programmes. It is against this background that ADB has been providing its assistance through financing individual programmes and projects in COMESA member states and collectively through the provision of LOC to sub-regional development banks, such as PTA Bank for on lending to SMEs.

1.2.3 The development of the export sector is of strategic importance to the economic development of the COMESA member countries as it earns foreign exchange and creates employment. In addition, the export sector, through intra-regional trade, also contributes to deepening the economic integration of COMESA member countries. In recent years, exports outside COMESA, which include commodities from agriculture, mining, as well as manufactured goods, have grown and intra-COMESA trade has also increased. Annex 1 and 2 cover the performance of the main economic sectors (agriculture, industry and tourism) and the financial sector in recent years (based on available data).

1.3 The PTA Bank

1.3.1 The Eastern and Southern African Trade and Development Bank, commonly known as PTA Bank, was established on 6th November, 1985 pursuant to the provisions of Chapter 9 of the Treaty (1981) establishing the Preferential Trade Area for the Eastern and Southern African States (PTA) which was later transformed into the Common Market for Eastern and Southern Africa (COMESA). The objective of establishing PTA Bank is to facilitate the complementary development of the PTA member states. PTA Bank is now a development and trade finance bank that aims to provide project and trade finance to the private sector in the sub-region. Currently PTA Bank is the largest sub-regional organization in Africa covering virtually all the countries in Eastern and Southern Africa. And although PTA Bank is the financial arm of COMESA, its membership is open to Non-COMESA States as well as institutional shareholders.

1.3.2 As at 31st December 2005, PTA Bank's membership comprised eighteen member states (fifteen of which are COMESA members): Burundi, China, Comoros, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Malawi, Mauritius, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe. The Peoples Republic of China became the first non-regional sovereign state to join the membership of the Bank in 2000. Tanzania is non-COMESA member while Angola, D. R. Congo, Libya, Madagascar and Seychelles are COMESA members but non PTA Bank member countries. The African Development Bank (ADB) is the only institutional shareholder.

2. THE EVALUATION

2.1 Evaluation Methodology and Approach

2.1.1 The purpose of the evaluation is to assess the Bank's assistance and performance in LOC I. The evaluation also takes up the development effectiveness of regional development banks as a conduit for ADB support to private investment in the sub-region. This evaluation, therefore, examines LOC's implementation performance and outcomes, as well as its

usefulness as an instrument for channelling resources to sub-regional development banks. It also takes up policy and strategy issues that could influence future interventions. The evaluation lessons will serve as input to the review of ADB assistance to sub-Regional Development Banks, which will be carried out in 2007.

2.1.2 The evaluation began with a desk review of the PCR and other relevant documents available within the Bank. It was followed by a field mission to PTA Bank Headquarters and three member countries that benefited from LOC I. Evaluation questionnaires were devised and administered during the field mission to capture and analyse information on the overall performance of PTA Bank and the sub-projects financed. The questionnaires also covered the different evaluation dimensions, namely additionality, complementarity and competitiveness of the Bank in bulk financing. LOC performance assessment is based on the evaluation benchmarks of relevance, efficacy, efficiency, institutional development impact and sustainability. PTA Bank's restructuring outcomes have been assessed in so far as they contribute to improving the institution's monitoring performance regarding LOC I.

2.2 Key Performance Indicators

2.2.1 At appraisal, PTA Bank had 17 member states, 16 of which were also COMESA member states. Available economic data about the regional grouping as a whole was minimal in the appraisal report and specific quantitative financial and socio-economic targets were not set for the LOC I. The logical framework of the LOC provided a few general indicators and some financial indicators were contained in the body of the appraisal report. These are:

- 17 sub-projects will be financed in seven COMESA member countries;
- About 12 sub-projects will be expected to produce goods that are exportable within and outside COMESA;
- Improvement in profitability of PTA Bank;
- Creation of jobs;
- Earning or saving of foreign exchange;
- Enhancing regional integration.

2.2.2 The key assumption for achieving LOC I objectives was that the environment in which the sub-projects operate would sustain them favourably. It was also assumed that PTA Bank's management and professional capacity would be adequate to monitor the sub-projects which, in turn, would have the requisite managerial capability for effective operation. The lack of quantified indicators at appraisal time constrains the scope of this evaluation. Therefore, information and data provided in the Project Completion Report was used as a base to assess the evolution of performance since then. The absence of a monitoring system that captures the achievement of developmental objectives has also limited the depth of this evaluation.

3. IMPLEMENTATION PERFORMANCE

3.1 Loan Effectiveness, Start-up and Implementation

3.1.1 The line of credit was approved in February 1994, the Loan Agreement signed in May 1994, the loan declared effective in March 1996, and the first disbursement made only in May 1996. The time lapse of some two years between loan approval and effectiveness ensued from delays in fulfilling conditions for loan effectiveness. PTA Bank offices' relocation from Bujumbura, Burundi to Nairobi, Kenya also partly accounted for the delay.

3.1.2 It is quite appropriate that PTA Bank should have in place operations guidelines to facilitate implementation of its first LOC. The process of preparing the guidelines, however, took longer than expected and contributed to delay the entry into force of the loan. ADB should have offered assistance to strengthen PTA Bank so it could implement LOC more effectively. As this was the first LOC to PTA Bank, provision of technical assistance would have helped to meet the logistical requirements in the fulfilment of conditions. Drawing lesson from this, the subsequent LOC has included technical assistance for PTA Bank in areas such as the setting up of risk management and environment units, improving corporate governance and enhancing operational capacity.

3.1.3 The problems encountered during implementation included delayed submission of acceptable sub-projects for approval and allowing procurement from non-ADB members, which was later rectified. After the initial problems, PTA Bank was able to submit eligible projects. Other problems include inability of promoters to come up with owners' contributions, and cumbersome processes of perfecting securities provided by promoters, which lead some cancellations of loans already approved.

3.1.4 Another problem was that about 36% of LOC 1 was committed to Zambia, contravening a condition in the Loan Agreement limiting exposure in any one country to 25%. The reason advanced was the late readiness of one of the sub-projects and the need to disburse the loan balance before the last disbursement's deadline (which had already been extended twice). All other LOC 1 resource allocations were below the upper limit. Overall, PTA Bank was able to fulfil most of the loan conditions, even if with some delay.

3.1.5 LOC's planned implementation period was between 1995 and 1997; however, due to the start-up delays noted above, implementation was extended to 2002. The delays in start-up and implementation resulted significantly from the fact that PTA Bank was not familiar with Bank Group policies and procedures at the time. Some of the problems could have been resolved without undue delays had ADB undertaken launching and regular supervision missions.

3.2 Disbursement and Financing Arrangements

Implementation delays in turn resulted in disbursement slippage, as shown in Table 3.1. The reimbursement method of disbursement was adopted for LOC I. The financing plan of the sub-projects requires the promoters to come up with their contributions to the project costs and use them upfront before disbursement of the loan portion. This proved difficult in a number of cases thus contributing to disbursement delays. No

disbursement was made in 2000, as this was the year of restructuring at PTA Bank. The lesson drawn from the delays associated with the disbursement system employed in LOC I led to applying the Special Account Method of disbursement for the subsequent LOC.

Table 3.1: Disbursement of LOC I (million UA)

Year	Projected	Actual
1995	5.00	
1996	5.00	5.01
1997	5.00	4.32
1998		2.57
1999		0.61
2000		
2001		0.40
2002		2.67
Total	15.00	14.87

3.3 Supervision, Reporting, Monitoring and Evaluation

The supervision, monitoring and reporting system relating to LOC has been weak at both PTA Bank and ADB. PTA Bank did not submit quarterly progress reports and annual audited accounts, while ADB did not follow-up the issue until 1998, when it conducted the only supervision mission during LOC implementation. In 1999, PTA Bank, for the first time, submitted its audited accounts on the LOC. Thereafter, ADB was receiving the annual accounts and audited reports – testimony to the value of conducting supervision missions regularly. PTA Bank created a separate department for portfolio management following its 2000 restructuring that has contributed to improving monitoring performance in recent years. However, more needs to be done to have a monitoring and reporting system that captures information and data on the financial performance of the sub-projects and the development outcomes of the LOC.

4. PERFORMANCE EVALUATION AND RATINGS

4.1 Relevance of the LOC

4.1.1 LOC was extended to support the economic recovery of PTA Bank member states by providing needed foreign exchange resources. LOC I's overall objective was promoting exports, generating employment and contributing towards meeting cross-cutting issues such as poverty reduction, environmental sustainability, financial and private sector development, and regional integration. Some of the objectives and targets were provided in the LOC logical framework, but most were considered in various parts of the appraisal reports, including the loan conditions. The LOC was curved out from PTA Bank's Corporate Plan and Pipeline of Sub-projects, 1993-1997. Thus, LOC I concurs with PTA Bank's corporate plan, which is formulated within the socio-economic framework and strategies of COMESA as well as its member states. LOC I is **relevant** since it accords with ADB policy and strategies on

financial intermediation. The evolution of ADB LOC policies and strategies is presented in Annex 3, and the retrospective logical framework matrix is presented in Annex 4.

4.1.2 LOC's specific objectives were to assist in the development of the industrial and other productive sectors by providing foreign exchange resources for on lending to promoters of small- and medium-scale industrial projects in PTA Bank member states. The project was designed to finance new and existing private industrial enterprises, tourism and small-scale mineral processing ventures to increase foreign exchange earnings/savings as well as to create employment opportunities.

4.1.3 PTA Bank originally submitted a pipeline of sub-projects, which comprised mainly medium and large on-going concerns. It was during implementation that the ADB required PTA Bank to submit new and labor intensive sub-projects. The floriculture (cut flower) ventures, which started in the region at the time, were considered good candidates for financing. Thus, about 53% of the LOC was used to finance new indigenous enterprises engaged in floriculture, which is labor intensive and export oriented. The three main sectors that benefited from LOC I are tourism, industry and agriculture (specifically floriculture) in seven COMESA member countries.

4.2 Achievements of Objectives and Outputs (“Efficacy”)

Policy Goals and Objectives

4.2.1 Efficacy relates to the achievement of the stated goals, objectives, outputs and outcomes, as well as the contribution to cross cutting issues through financing and implementing the activities envisaged under LOC I. The policy goals and some objectives were included but measurable targets were not provided for most of them. Specific objectives in terms of foreign exchange earnings, employment opportunities and regional integration are indicated but not quantified.

4.2.2 On the whole, the LOC has availed resources to meet the foreign exchange needs of private sector enterprises. The performing sub-projects have contributed to generating employment, earning or saving foreign exchange, and enhancing trade in the region. The regional impact was in terms of export to other regional member countries, sourcing of raw materials and, in some cases, employment opportunities were opened in the sub-region. The full achievement of objectives, however, was constrained in the earlier years of the LOC by several adverse factors that led some sub-projects to perform poorly and to default on loans, as stated in the Project Completion Report. The factors that contributed to poor performance were: weak project selection, insufficient working capital, low managerial capability, poor governance in some of the sub-projects, as well as in PTA Bank itself, inadequate export market survey, unfavourable weather conditions for cut-flower sub-projects, and security problems for some tourist lodges sub-projects, and insufficient monitoring from ADB. These constraints notwithstanding, significant improvement has been achieved following PTA Bank's 2000 restructuring that in turn enhanced the achievement of the objectives in the areas discussed below.

Outputs

4.2.3 A total of 19 loans amounting to UA 14.98 million was approved and disbursed to 17 sub-projects in seven (7) member countries. The sub-projects' status is summarized in Annex 5, while the distribution by member countries and sectors is presented in table 4.1 below. As could be seen, Tanzania, with three (3) sub-loans, has taken up 21.52% of the total LOC, while Uganda has the highest number of approvals, with five (5) sub-loans, but only 12.97% of the total loans value. Zambia has four (4) sub-projects that make up for 35.86% of the total loans value – a ratio representing the largest share of the LOC and exceeding the 25% exposure limit set for each member country.

4.2.4 The sectoral distribution by value indicates that the share of Agriculture (including floriculture) was 17.36%, Manufacturing 18.23%, Agro-processing 41.94%, Tourism 13.47% and Mining 9%. The LOC was fully disbursed for the intended purposes thus enabling PTA Bank to partly meet the term credit needs of SMEs. Indigenous promoters sponsored about 53% of the sub-projects. The outputs objectives have been achieved.

Table 4.1: Sub-project Distribution by Member Countries and Sector

Country	No. of Sub-Loans	Loan Amount in UA	Ratio %
Burundi	1	427,668	2.85
Eritrea	1	281,040	1.88
Kenya	3	1,284,381	8.57
Sudan	2	2,449,629	16.35
Tanzania	3	3,224,274	21.52
Uganda	5	1,942,290	12.97
Zambia	4	5,371,346	35.86
Total	19	14,980,628	100.00
Sector	No. of Sub-projects	Loan Amount in UA	Ratio %
Agriculture (Floriculture)	6	2,600,713	17.36
Manufacturing	3	2,730,669	18.23
Agro-processing	5	6,283,412	41.94
Tourism	2	2,017,558	13.47
Mining	1	1,348,276	9.00
Total	17	14,980,628	100

Financial Objectives and Targets

4.2.5 No specific financial objectives and targets were set in the logical framework at the time of appraisal. But the appraisal report raised the expected improvement in PTA Bank's financial performance, and included some conditions in the loan agreement regarding the credit limit to a single country (25% of the LOC) and the interest spread which required a minimum of 2% to be charged on ADB's rate for on-lending. Some of the financial targets considered in the retrospective logical framework include improvement in PTA Bank's

portfolio and financial performance. From 1993 to 1997, the loan portfolio was to increase from US\$62million to US\$90million, and net profit was to grow from US\$1.6million to US\$10million. Improving the liquidity position and reducing arrears were also important targets.

4.2.6 The analysis indicates that the credit limit was not observed since one member country was allocated over 25% so PTA Bank can disburse the remaining committed funds before the closure date for the last disbursement. The financial performance targets stipulated in the form of conditions were not fully met, but there is improvement in recent years, as discussed in section 4.4.

Institutional Development Objectives

4.2.7 The logical framework of the LOC did not include any specific institutional development objectives. However, loan conditions require PTA Bank to confirm with ADB policy and procedures in preparing sub-project proposals, to review the organizational structure for better span of control, and to create a properly staffed internal audit. Section 4.5 discusses the institutional development impact.

Social Objectives and Targets

4.2.8 The logical framework stated employment generation as part of the social objectives without, however, setting specific targets. Although attribution and even contribution to social development resulting from this LOC is difficult due to the small size of the assistance and the diversity of development partners involved in the member states, some general appreciation could be made on the basis of the sub-projects' outcomes. Clearly, the LOC has influenced positively the social wellbeing of those directly or indirectly affected by the the successful sub-projects. At appraisal, it was estimated that the LOC could create at least 2000 direct and indirect jobs for COMESA nationals. Most of the implemented sub-projects had created new jobs at the beginning though they were sustained only with the successful ones.

4.2.9 At the time of the PCR, the total direct jobs created were limited to about 1830 direct jobs since many of the sub-projects were not performing. Through PTA Bank and promoters' efforts, some of the non-performing sub-projects had been turned around to be operational since then. As a result, at the time of this evaluation, the total direct jobs created and sustained were 2300 -- well above the appraisal estimate. Women occupy, on average, 30% of the jobs. To this should be added the indirect jobs created in the backward and forward businesses through supplying raw materials to or buying the products from the sub-projects. In the case of one food-processing sub-project financed under this LOC, 124 direct jobs have been created, of which the share of women was about 40%. In addition, several indirect jobs have also been created through regional sales outlets for finished products, sources of raw materials, etc.

4.2.10 All the successful horticulture sub-projects employ women and men from the project area. A horticulture farm in Kenya financed under this LOC provides employment ranging from 600 to 700 people per year, of which 200 are permanent staff. Women represent 75% of the work force. The minimum wage is Kshs. 150 per day (Kshs. 4500 per month that is equivalent to about US\$2/day or US\$72/month). About 15% of the work force is housed on

the farm while the others are local people living in the vicinity. Regarding the tourist lodge in Tanzania financed under the LOC, communities sell artisan products to the tourists staying in the lodges. Also, the communities supply vegetable and fish produces to the lodge operators.

4.2.11 The successful sub-projects have contributed to improving the living standards of the workers and communities. Thus, the achievement of the social objectives is satisfactory since 70% of the sub-projects are performing and only 12% (2 sub-projects) failed. PTA Bank is closely following up the unsuccessful sub-projects (18%) to improve their performance.

Environmental Objectives

4.2.12 The logical framework did not include any environmental objectives and targets other than noting in the appraisal report and in the loan condition that PTA Bank should follow ADB guidelines regarding impact assessment of sub-projects on the environment. PTA Bank has developed capacity for assessing the environmental impact of the projects to ensure, among others, industrial emission levels are at acceptable rates, hazards and contaminants are controlled and well disposed, noise levels and health and safety measures, as well as mitigating mechanisms are put in place and observed. Generally, the sub-projects comply with the respective countries' environmental guidelines, which are in most cases similar to those of the ADB and PTA Bank. The sub-projects production and services delivery processes are environmentally safe considering that most of them are activities in horticulture, agro-processing and tourist lodges.

4.2.13 The attention given to environmental issues may be shown by summarizing the kind of measures that have been put in place in the horticulture sub-projects. There are trees around the farm to control erosion. The wastewater is treated before it is released to the river. There are rainwater drainage system and septic tanks for waste disposal. The use of manure is encouraged to reduce chemical fertilizer application, while fighter sealers feeding on spidernites restrain chemical spraying needs. Employees engaged in such tasks as spraying insecticides and pesticides have appropriate working gears, including working clothes, gloves and masks. They are also provided with milk supply on a daily basis. Those working in cool areas have protective clothes. Overall the environmental effects are positive in the performing sub-projects.

Financial and Private Sector Development Objectives and Targets

4.2.14 The appraisal report discussed LOC's contribution to financial and private sector development qualitatively in the context of term credit availability and SMEs development in COMESA member states. Viewed in retrospect, LOC I has been catalytic in attracting other donors to assist PTA Bank. Following LOC I, PTA Bank was able to obtain similar financial resources from external donors such as Export and Import Bank of India, Exim-Bank of USA, Ned Bank of South Africa, Exim-Bank of China, FMO of the Netherlands and DBSA of South Africa. Regarding its trade finance, PTA Bank has succeeded in raising short-term LOCs from external donors. PTA Bank has also issued floating rate bond instruments in a few of its member states. Thus, LOC I together with the other sources have contributed to increase resources in the financial sector. However, LOC's small size did limit its contribution to meeting the financial and private sector development objectives.

4.2.15 At PTA member state level, many of them have carried out financial and private sector reforms over the years to enhance the development of the private sector in general and SMEs in particular. Notwithstanding the reforms, financial and private sector development is still constrained, importantly because of the inadequate enabling environment to support saving, investment and growth in the economies. Instances of such inadequacies include lack of effective regulatory body, poorly defined land tenure systems, scarcity of infrastructure facilities, including electricity and roads, shortage of entrepreneurs. Also a major obstacle is lack of well performing national development banks to provide term credit and working capital financing, particularly in local currency (details in Annex 1). Such unfavourable conditions have particularly impeded the development of small enterprises.

Regional Integration Objectives and Targets

4.2.16 The logical framework referred to trade links within the sub-regions as an objective. The appraisal report further referred to regional integration through financing regional projects or indirectly in terms of promoting exchange of goods and services. Retrospectively, LOC I has some degree of regional impact not only because of intraregional trade but also because some of the promoters have businesses across the region and were, therefore, able to link their raw materials inputs and markets for finished products. In addition, employment opportunities at regional level were also encouraged in sub-projects such as horticulture and tourist lodges, where skilled labour from Kenya was recruited in other countries. However, there was no regional sub-project involving two or more countries.

Outcomes

4.2.17 LOC I along with funds raised from other financing sources has contributed to increasing PTA Bank operations. During the five years from 1998 to 2002, a period that largely covers LOC I implementation, 17 sub-projects were financed, of which 12, accounting for about 70% of LOC I's value, are local resource-based and export-oriented enterprises. Thirteen were co-financed with other development finance institutions, including IFC, EADB, IDB of Kenya, TDFL of Tanzania, DBZ of Zambia and ZDB of Zimbabwe. Thus, the main objective of availing foreign exchange to finance the sub-projects has been achieved.

4.2.18 Portfolio quality was, however, negatively affected by both external and internal factors. The external factors include the unfavourable economic policies in some of the member states. The internal factors had to do importantly with PTA Bank's governance crisis that subsequently led to full restructuring and replacement of the President in 2000. Since then, PTA Bank has managed to restructure some of the poorly performing sub-projects through loan rescheduling, or facilitating ownership transfer to other promoters. Full success was achieved in 7 (41%) of the sub-projects, while the success in another 6 (29%) was partial. This brings the total performing sub-projects to 70%, which took up about 75% of the LOC amount. The unsuccessful sub-projects that require close PTA Bank attention were 3 (18%) and the completely failed sub-projects were 2 (12%), as shown in Table 4.2 (details in Annex 5).

4.2.19 It should be noted that the gains in the performance of the sub-projects were mainly due to improvements in governance and portfolio management in PTA Bank since 2000, and the increased commitment of the promoters to work for viable results. Thus, the overall achievement of the LOC objectives is evaluated to be **satisfactory**.

Table 4.2: Status of Sub-Projects

Outcome	Number	% in terms of number	Amount (in UA)	% in terms of amount
Performing Sub-projects				
Successful sub-projects under original owners	6			
Successful sub-projects under new owners	1			
Sub-total of successful sub-projects	7	41	5,838,711	39
Partially successful sub-projects under new owners	5	29	5,422,421	36
Total of performing sub-projects	12	70	11,261,132	75
Non-Performing Sub-projects				
Unsuccessful sub-projects	3*	18	912,368	6
Failed sub-projects	2	12	2,809,128	19
Total of non performing sub-projects	5	30	3,719,496	25
Total number of sub-projects financed	17	100	14,980,628	100

* Based on PTA Comments, one of the unsuccessful sub-projects has been restructured and is reported to be partially successful instead of unsuccessful, thus reducing the unsuccessful sub-project to 2.

4.2.20 All the new sub-projects, and a few on-going concerns, financed under LOC I are medium and large-scale enterprises with capital investment of over USD 200,000. The needs of very small enterprises cannot be met because of this lower credit limit. Moreover, very small enterprises require technical assistance for capacity building.

4.2.21 The non-performing ones are new and sponsored by indigenous promoters. The enterprises faced a variety of problems ranging from raw material and market outlets to implementation constraints that in turn resulted in delayed cash flows to meet repayment obligations -- indicating that indigenous promoters require more than finance during the incubation period. Notwithstanding PTA Bank's efforts to turn around some of the unsuccessful sub-projects, it can be concluded that sub-regional development banks, such as PTA Bank, may be short on the required expertise and resources (technical assistance funds) to nurture new businesses for success.

4.3 **Efficiency**

PTA BANK

4.3.1 **LOC Implementation Performance:** There was time overrun in the LOC loan processing and utilisation. The lapse between appraisal in June 1993 and loan approval in February 1994 resulted from delays in effecting the loan negotiation. There was also a delay of about two years due to PTA Bank's inability to fulfil the conditions prior to loan entry into

force. Originally, the loan was to finance 6 to 8 medium sized sub-projects, which changed to reflect ADB's priority for smaller and new sub-projects that address poverty concerns. This resulted in some sub-projects submitted for financing being declined, thereby requiring PTA Bank to carry out afresh appraisal and approval of new sub-projects that were mainly agro-based (more than 60% of the financed sub-projects turned out to be horticulture and agro-processing industries). The reselection process delayed LOC being used within the original estimated period. Delays also ensued from PTA Bank's failure to adhere to ADB procurement rules, mainly because it wasn't familiar with them.

4.3.2 Draw down of the LOC also took longer as some of the sub-projects were cancelled due to project sponsors' inability to fulfil loan effectiveness conditions. As a result, PTA Bank had to request deadline extensions for the loan's last disbursement – stretching it out by three years from 1999 to 2002. Some of the delays could have been avoided if ADB had carried out a launching mission and adequately supervised the LOC, which would have provided the opportunity for the required guidance, considering that it was the first LOC operation for PTA Bank.

4.3.3 **Operation Performance:** At the time of this LOC, PTA Bank faced serious operational problems and did not generate profit over the years due to the poor quality of its portfolio, and the mounting arrears from both the sub-projects and the member states. Partly because of PTA Bank's inexperience with LOC, and also because of the unfavourable macroeconomic environment at the time, many of the sub-projects selected and financed from the LOC were not performing well and, as such, repayment to PTA Bank was not smooth in the earlier years. To address the problem of loan arrears and losses, PTA Bank took aggressive measures to restructure its operations and portfolio management. The shareholders also increased the share capital of the PTA Bank gradually over the years, reflecting their commitment to the goal and objectives of the institution. It has now an equity capital base of over USD100 million and a callable capital of about USD250 million. For 2005, equity and long-term borrowing constituted 70% of its assets. About 82% of PTA Bank's long-term capital (excluding trade finance) was invested in long-term assets.

4.3.4 Despite the fact that shareholders have, in recent years, met their obligations to strengthen PTA Bank's financial structure, much yet remains to be done to promote private investments in the 17 member states. Thus, the great challenge facing sub-regional development banks, such as PTA Bank, is the steady augmentation of their capital base to improve their leverage to mobilize resources for investment and development in member countries.

4.3.5 **LOC Rate of Return:** The internal rate of return (IRR) of the LOC as a whole was not determined at appraisal. This is mainly because the LOC preparation was based on a pipeline list of sub-projects for which no full financial assessment could be carried out since the list was indicative and could change during implementation for various reasons, both within and outside PTA Bank's control. The IRR was not calculated in the PCR, or in this PPER since data disaggregation to isolate the contribution of this LOC was not possible. Instead, the financial accounts of PTA Bank have been reviewed for an indication of the LOC's contribution to PTA Bank's financial performance, as discussed below.

4.3.6 Financial Performance: Although it is difficult to disaggregate data and determine LOC's specific contribution to PTA Bank's financial performance, an overall assessment is made to appreciate the evolution of PTA Bank financial performance since the full implementation of LOC I (Annex 7). PTA Bank's profitability has steadily been growing since 2000, mainly due to improvement in corporate governance, as well as implementation of restructuring measures that have led to stringent cost controls. For the financial period 2000 to 2005, net profit rose from about US\$0.5million to US\$3.2million, while return on equity increased from 0.55% to 2.7%. This contrasts with the trend before 2000 when net profit declined from US\$1.6 million in 1993 to US\$0.5 million in 2000. PTA Bank's liquidity position has also improved over the years and its leverage and capital adequacy ratios are solid. The overall level of arrears had declined steadily, from well over 30% to less than 10% in recent years. PTA Bank's overall performance has improved largely due to its efforts in turning around some of the poorly performing sub-projects under the LOC I, and in pursuing rigorous risk management practices for newly financed sub-projects.

4.3.7 LOC Repayment to ADB: PTA Bank has never been in arrears to meet its ADB obligations, although it has not fully recovered loan repayments from the non-performing sub-projects. The main terms for the LOC included: (i) the repayment of the principal balance in ten years after a grace period of 4 years commencing from the date of signing the loan agreement; (ii) interest at ADB's average fixed borrowing rate of about 8.5% payable every six months in January and July of each year; and (iii) commitment charge at the rate of 1% per annum on the undisbursed portion of the line of credit which accrues 60 days from the date of the loan agreement's signature. PTA Bank's on-lending was a fixed 12% rate that proved very constraining in view of the significant change over the years in the market interest rate structure. The PTA Bank has already repaid 85% of the LOC 1 (Table 4.3), and is servicing lines of credits from other sources satisfactorily. Overall, PTA Bank has the financial capacity to service the line of credit and borrowings from all sources. Thus, the LOC I investment outcome is satisfactory for ADB.

Table 4.3: LOC I Repayment Ledger Summary as at May 2006

Year	Repayments in UA	
	Charges in UA	Principal in UA
1995	145,068.49	
1996	182,503.54	
1997	436,579.47	
1998	711,974.53	504,510.01
1999	853,677.82	1,238,895.10
2000	668,153.28	1,118,466.11
2001	457,464.88	1,016,569.49
2002	511,724.15	1,093,277.06
2003	577,756.82	1,603,829.72
2004	508,452.38	4,952,586.63
2005	253,154.48	816,991.62
2006	67,395.35	397,085.22
TOTAL	5,373,905.19	12,742,210.96

Sub-Projects

4.3.8 While LOC I was fully utilized, there have been time and cost overruns on most of the sub-projects. The new enterprises sponsored by indigenous promoters make up about 52% of the sub-projects, and most of these suffered from by time and cost overruns. Promoters had to cover the cost overruns in addition to finding credit for working capital. In most cases, lack of adequate permanent working capital had incapacitated some of the new sub-projects from meeting operational and financial costs (accrued cost of funds - interests, commitment charges, interest on interest, penalties, interest on penalties, etc.,) because of implementation delays and poor performance. As a result, some of the non-performing sub-projects were put under receivership with a view to liquidating the assets or transferring ownership to new sponsors.

4.3.9 After the 2000 restructuring, PTA Bank had taken extra miles in turning around some of the poorly performing sub-projects thus limiting the failed sub-projects to 2 (12%). The failed enterprises are those engaged in cut-flower businesses that were adversely affected by inadequate working capital, unfavourable weather, declining auction prices, poor management and weak commitment from the promoters.

4.3.10 At the time of each sub-project's appraisal, PTA Bank determined the respective financial and economic internal rate of returns (FIRR and EIRR). PTA Bank did not, however, put in place a mechanism for collecting financial information needed to calculate retrospective IRRs. But a review of the limited available accounts shows that none of the sub-projects met the profitability projected at appraisal. The full financial status of the successful sub-projects is not known due to lack of transparency in financial reporting, since in spite of sub-projects' satisfactory performance, the financial accounts reviewed show deficits or very modest profits. It is for the tax authorities in the respective countries to review the accounting practices of private enterprises and reassess company results for tax purposes.

4.3.11 Since the PCR preparation, PTA Bank has taken steps towards restructuring and selling out to new owners unsuccessful and failed sub-projects with the aim of recovering debt arrears and improving the performance of some of the sub-projects. These efforts had yielded positive results. Debts have been paid or recovered substantially or fully from 47% (8) of the sub-projects; partial recovery was made from 24% (4) of the sub-projects, while efforts are underway to recover from the remaining 29% (5) of the sub-projects. In most cases, PTA Bank has recovered the principal amounts and interests, excluding penalties on accrual interests.

4.3.12 In summary, considering that 70% of the sub-projects accounting for 75% of the LOC amount are performing and there is improved monitoring in recent years on the part of PTA Bank, the performance of both the LOC and the sub-projects was rated **satisfactory**.

4.4 Institutional Development Impact

4.4.1 As noted above, PTA Bank went through a period of significant operational and managerial problems caused mainly by the institution's inappropriate corporate governance. The problems led to a significant deterioration in PTA Bank's operational and financial

conditions spanning over several years. The portfolio quality deteriorated, with mounting loan arrears, while the ability to mobilize additional resources was curtailed. Although ADB technical assistance, provided in 1989, did help in capacity building, it was not strengthened with additional assistance that could have been attached to LOC I. However, ADB had stipulated the fulfilment of certain conditions that aimed at improving PTA Bank's institutional performance. The conditions relate to issues such as developing appraisal guidelines and procedures; reviewing organizational structure for improved span of control; recruiting suitable internal auditor and qualified director for Projects and Trade Department. Fulfilment of the conditions, although delayed, has contributed to improve PTA Bank's performance in recent years.

4.4.2 In 2000, PTA Bank undertook a diagnostic study that entailed major institutional reforms that addressed LOC I loan conditions. The study came up with a new organizational structure. Technically, all employees were removed from their posts, with existing staff and new applicants interviewed afresh to fill the vacant managerial and professional positions of the new organizational structure. Only 50% of the staff strength was retained, and the required additional staffs were recruited externally. A new president was appointed. Two functional departments were created for the core activities -- credit and business development department and portfolio management department. The services department include finance, legal, administration and compliance. A technical committee and credit committee were set up to review and recommend for board consideration all investment proposals.

4.4.3 In the old structure, the president chaired the Board all the time, while under the new set up, board members rotated in assuming the responsibility. An internal audit was set up for the first time in 2000. A new set of operational manuals was developed and effectively applied. Clearly, the changes were far-reaching and the outcomes satisfactory, as evidenced by the improved portfolio performance and profitability. The restructuring addressed most of the problems and laid the foundation for further advances in PTA Bank's performance. Some of the key elements and gains of the reform are highlighted below:

- i.) Risk Management Policies: PTA Bank has developed policies and procedures for risk management, including the management of liquidity risks, currency risks and interest rate risks.
- ii.) Financial Controls: PTA Bank has separated treasury from accounting functions and installed an integrated information system, known as SAP/R3. The system offers a complete solution for the finance and accounting activities thereby strengthening financial controls.
- iii.) Economic Planning and Research Functions: PTA Bank has strengthened the planning and research functions to cover economic planning and research, corporate planning, sector profiles, annual report preparation, strategic planning, and project risk analysis. This has enabled the institution to analyze and gauge economic developments in member countries and in the region as a whole, and to make appropriate operational responses.
- iv.) Portfolio Management: PTA Bank has separated the lending function from the monitoring function and thereby contributed to improve portfolio management.

4.4.4 Although specific technical assistance was not included in LOC I, the combination of ADB resources and conditions, complemented by other resources, have been catalytic in getting PTA Bank to move on institutional reforms. The contribution of this LOC to institutional development impact is thus rated **satisfactory**.

4.5 Sustainability

4.5.1 PTA Bank has come out of its earlier problems to become a reformed institution with significant improvement in its operational and financial performance. There is now better selection and design of sub-projects backed with risk analysis and improved portfolio management. PTA Bank has also managed to restructure some of the poorly performing sub-projects through loan rescheduling and/or facilitating the sale of unsuccessful sub-projects to other promoters, which helped turn around their status to successful or partially successful sub-projects. PTA Bank is closely watching the under performing sub-projects to improve their performance or implement appropriate exit strategy.

4.5.2 As stated above, ADB assistance has served as a catalyst. PTA Bank had since been mobilising resources from other sources such as IFC, the Export and Import Bank of India, Exim-Bank of USA, NedBank of South Africa, Exim-Bank of China, FMO of the Netherlands and DBSA of South Africa. PTA Bank has also been able to raise resources through sale of bonds (a Kenya bond of US\$10 million, a Tanzania bond of US\$15 million, a Uganda bond of US\$ 7 million, and a Malawi bond of USD 3.2 million)³. The PTA Bank's local resource mobilisation efforts are part of the positive indicators for the sustained stability of the institution.

4.5.3 The large term credit needs in the member states and the growing resources raised from ADB (LOC II) and other external donors, such as IFC, as well as the co-financing of PTA Bank with other national DFIs bring out the complementarity and additionality of the different sources and contributes to sustainability. The fact that some commercial banks compete to take away well performing clients should be more a source of encouragement than of concern, as it would relieve PTA Bank to focus on its development role by taking on new ventures that commercial banks shy away from. What is required is for PTA Bank to have resources for on-lending to national development banks that, in turn, finance and nurture new enterprises, particularly indigenous ones. There is thus a need to enhance the capacity of the national DFIs, which are mostly under performing, to effectively reach out to SMEs. The sub-regional development banks, such as PTA Bank, can then concentrate in direct financing of medium and large sub-projects, as well as regional projects.

4.5.4 The existing poor infrastructure (particularly electricity) in most of the countries can, however, negatively impact on competitiveness with imported goods, and this may compromise sustainability. However, overall sustainability of the successful sub-projects is **satisfactory** because of the promoters' commitment and well functioning business practices as well as PTA Bank's improved governance and portfolio management.

4.5.5 For the way forward, the sustainability of good performance in PTA Bank operations hinges on the continued selection of sound projects and committed clients, rigorous

³ This is the latest figure provided by PTA Bank through their comments presented in Annex 10.

appraisal, monitoring and supervision, as well as the provision of technical assistance for newly established enterprises, particularly those initiated by indigenous promoters. There is thus the need to institutionalize and sustain best business practices in PTA Bank in order to strengthen the recent recovery from the past difficulties. It should also be noted that changes in organizational structure and operational practices alone do not assure the sustenance of positive performance. Also vital is to have in place good corporate governance on a sustainable basis.

4.6 Aggregate Performance Rating

The overall performance of LOC I was rated **satisfactory** by assessing the aggregate ratings for each of the evaluation benchmarks of Relevance, Achievement of Objectives, Efficiency, Institutional Development Impact and Sustainability. The detailed evaluation and ratings of the LOC is presented in Annex 6, while the summary of the ratings is given in Table 4.4 below:

Table 4.4: Summary Performance of Evaluation Ratings for LOC I

Evaluation Criteria	PCR	PPER
Relevance	2.7 (relevant)	3 (relevant)
Achievements of objectives “Efficacy”	2.7 (satisfactory)	2.7 (satisfactory)
Efficiency	1.8 (unsatisfactory)	2.4 (unsatisfactory)
Institutional Development Impact	1.7 (unsatisfactory)	2.8 (satisfactory)
Sustainability	1.6 (unsatisfactory)	2.6 (satisfactory)
Aggregate Performance Indicator	2.1 (unsatisfactory)	2.7 (satisfactory)
Borrower Performance	1.8 (unsatisfactory)	2.3 (unsatisfactory)
Bank Performance	1.7 (unsatisfactory)	2.3 (unsatisfactory)

Note: 1. The difference in the ratings is a result of the improved performance of both PTA Bank and the sub-projects after the restructuring that helped to turn around some of the non-performing sub-projects. Although Borrower and Bank performance have improved in recent years, their overall performance related to the design and implementation of this LOC is rated unsatisfactory.

2. The PCR ratings are from 0 to 3, (0 = highly unsatisfactory, 1 =unsatisfactory, 2 =satisfactory and 3= highly satisfactory). Where as the PPER ratings are from 1 to 4 and ratings above 2.5 is rounded to satisfactory.

4.7 Performance of the Borrower

4.7.1 The Borrower delayed in fulfilling the conditions precedent to loan effectiveness and the other conditions stipulated in the Loan Agreement. The selection of sub-projects was not rigorous and the monitoring function was also weak with respect to LOC I. Lack of close monitoring resulted in start-up and implementation delays that contributed to building up of arrears for several sub-projects. The poor performance of many of the sub-projects financed under LOC I affected negatively PTA Bank’s operations, financial performance and portfolio quality. Being its first Line of Credit, some slippage was perhaps inevitable; the more so since the ADB did not carry out launching and supervision missions that would have assisted PTA Bank in its formative years. PTA Bank also exceeded the limit on country level

commitment in one case because of a sub-project's late approval. Furthermore, PTA Bank did not submit in the past the progress reports and financial accounts required in the loan agreement. Thus, PTA Bank's implementation performance on LOC I was **unsatisfactory**.

4.7.2 Since the 2000 restructuring, PTA Bank's operational and financial performance, as well as its portfolio management have significantly improved and brought a turn around of some non-performing sub-projects. However, the monitoring function still needs strengthening to capture fully the developmental outcomes of the sub-projects.

4.8 Performance of ADB

4.8.1 LOC I preparation was based on PTA Bank's corporate plan and a pipeline of sub-projects submitted for financing. The corporate plan was aligned with COMESA policies, as well as ADB policies relating to financial intermediaries. Initially, the identified sub-projects were mainly medium and large on-going concerns. ADB then requested PTA Bank to include smaller size projects with the intention of meeting poverty reduction objectives. At the time, horticulture ventures were coming up, and these became appropriate clients for term credit since they are agro-based and labour intensive. In addition, the cut flowers were mainly destined for European markets thus generating foreign exchange. Because of these changes, 35% of the sub-projects were horticulture and another 29% were agro-processing industries.

4.8.2 Thus, the Bank intervention was timely and assisted in meeting much-needed term credit for the ventures that were expected to provide employment to low-income communities in the project areas. However, the enthusiasm to finance pro-poor enterprises seemed to have overtaken the requirements of rigorous risk analysis, with the result that many of the horticulture sub-projects ended up faring badly. Given PTA Bank's weak performance at the time, ADB should have considered providing technical assistance upfront to strengthen PTA Bank's operational system; the more so because LOC was the first financing to PTA Bank. Furthermore, ADB's scant presence in the field (no launching mission and only one supervision mission) exacerbated LOC I's weak implementation performance. ADB's lax follow-up record is also reflected in its inaction to get the required PTA Bank financial accounts and progress reports on LOC I and the sub-projects. The Bank's overall performance for this LOC is, therefore, **unsatisfactory**.

4.8.3 Notwithstanding the implementation lapses in LOC I, the ADB has, of course, been a key development partner in COMESA member states. The Bank's strategy has emphasized trade development and economic integration through financing the productive sectors consistent with PTA Bank's strategic plan developed on a five-year basis. This LOC, being the first one, was beneficial to PTA Bank to enhance its term lending operations. ADB's assistance has served as a catalyst since PTA Bank was able to raise additional resources from both foreign and local sources in subsequent years. ADB has also provided a second LOC since then. There is need to revisit ADB policy and financial instruments to see if the needs of SMEs, particularly those initiated by indigenous promoters, could be supported and sustained by national DFIs, while the sub-regional development banks such as PTA Bank, could focus on financing regional projects.

4.9 Factors affecting Implementation Performance and Outcome

4.9.1 Several macro-economic, financial, social and institutional factors, positive and otherwise, affected LOC I's implementation performance and outcomes. With the successful sub-projects, the major factor for positive outcomes was the commitments and determination of the promoters. PTA Bank's improved monitoring, following its restructuring, has also contributed to turnaround the non-performing sub-projects. Another positive factor is that this LOC served as a catalyst for mobilizing additional resources from other sources.

4.9.2 Some of the factors that adversely affected PTA Bank's performance in the earlier years are: poor project preparation and monitoring function, inadequate capitalization of PTA Bank, insufficient and intermittent flow of LOCs from multilateral banks and bilateral donors, and lack of technical assistance for institutional capacity building. Chronic problems such as legal constraints to debt recovery, absence of credit reference bureaus, etc. are added burdens on financial intermediaries such as PTA Bank. Similarly, the scarcity of working capital, particularly for indigenous newly established enterprises, the inadequacy of infrastructure (particularly electricity), and the lack of enabling environment for SMEs development have negatively affected the performance of some sub-projects. These are discussed further in Annex 8.

5. CONCLUSION, MAIN FINDINGS (LESSONS) AND RECOMMENDATIONS

5.1 Conclusion

5.1.1 LOC I was extended to PTA Bank at a time when structural adjustment programmes were being implemented in member states. The resulting economic liberalisation increased the demand for term credit to finance projects in the sub-region. The provision of the line of credit from ADB, therefore, assisted PTA Bank to meet part of this demand.

5.1.2 PTA Bank had in the past serious governance issues and weak financial performance that adversely affected the preparation, appraisal and monitoring of the sub-projects. A major recommendation of the PCR prepared in 1999 was that, since PTA Bank was confronted with serious institutional crises, a diagnostic study should be undertaken to review the management and operations of PTA Bank as a matter of urgency. The study was carried out and the recommendations have been implemented with results that helped transform PTA Bank to a well-managed and financially healthy institution. LOC I have served as a catalyst to encourage the reforms and the flow of resources from other donors.

5.1.3 LOC substantially achieved the objectives set at appraisal in the provision of term credit to the private sector. Most of the sub-projects financed were mainly local raw material users thus creating the necessary backward linkages. Forward linkages were also realized through supply of finished products in the region that contributed to earning or saving foreign currency. Employment creation by the performing sub-projects was also significant. The completely failed sub-projects account for 12% of the total number of sub-projects financed. The major factors that contributed to the poor performance of the sub-projects relate to high fixed interest rates on the foreign loans (12%) at a time when rates were declining in the market; unfavourable weather conditions and inadequate working capital for the horticulture sub-projects; and, lack of

entrepreneurial and managerial capacities in the indigenous new enterprises. To date about 50% of the sub-projects have fully or substantially repaid their loans, while systematic debt recovery is being pursued for the outstanding balance. LOC I is rated satisfactory with respect to relevancy, efficacy, institutional development impact and sustainability. It is rated unsatisfactory with respect to efficiency. The aggregate evaluation of the LOC I is satisfactory, considering the overall achievements. On the other hand, Borrower and Bank performance on LOC I's implementation are both rated unsatisfactory.

5.1.4 In line with PTA Bank's mandate, most of the sub-projects financed under the first LOC were medium and large-scale enterprises. The needs of new enterprises with capital requirements below US\$200,000 were not covered under the LOC. This implies that sub-regional banks, such as PTA Bank, might not be well equipped to meet the financial (particularly local currency) and technical assistance needs of small and micro-enterprises.

5.2 Main Findings (Lessons) and Recommendations

The following are the main findings (lessons) and recommendations:

A. Although PTA Bank's portfolio management function has improved in recent years, there is need to enhance quality-at-entry and monitoring and reporting systems.

ADB's future interventions should critically assess that best business practices and good governance are fully institutionalized and sustained at PTA Bank.

ADB should, in particular, ascertain that PTA Bank has enhanced monitoring and reporting systems that capture information and data on the performance of the sub-projects and the development outcomes of the LOCs.

B. Financial reporting from some sub-projects is suspect. In spite of sub-projects' sustained performance, their financial accounts show deficits or very modest profits. Such an accounting practice does not allow capital build up for sustainability and counters development objectives. It is for the tax authorities in the respective countries to review accounting practices of resident companies and reassess company results for tax purposes.

As part of the governance issue, ADB needs to assist member states to have better functioning tax and regulatory bodies to oversee the performance of the private sector.

ADB's future interventions need to include conditions requiring PTA Bank to ensure that sub-projects financed under its LOC submit audited financial accounts prepared on the basis of accepted financial accounting principles and practices.

C. A major initial advantage of LOC I was its low interest rate at the time relative to the then prevailing market conditions, which enabled PTA Bank to pass on the funds to borrowers at competitive rates. Over the life of the line of credit, however, PTA Bank found its fixed rate to be very constraining in view of the significant changes in the interest rate structure in the market following liberalization policies of

member states. Moreover, some sub-projects needed term credit in local currency. In recent years, ADB has adopted variable interest rates but provision of local currency loans has not yet been entertained.

The application of variable interest rates by ADB and EADB in recent years is encouraging and should continue with up to date systems in place to make timely adjustments to changes in market rates.

ADB needs to consider local currency financing at sub-regional level through co-financing with commercial banks; or through guarantees to repay foreign currency loans and raise working capital to SMEs, particularly indigenous ones. In addition, the possibility of swapping foreign currency loan to local currency loan, should be explored to mitigate exchange risks.

D. The limit set on sub-regional development banks, such as PTA Bank, to finance specific sub-projects is too low for exercising their broader mandate of promoting regional integration. Neither is it of much help in relieving ADB from going into smaller size projects for direct financing. On the other hand, such banks are not effectively structured to meet the fundamental needs of small and micro enterprises (such as local currency term credit, working capital and capacity building support).

ADB needs to enhance its financial intermediation for channelling bulk resources through sub-regional development banks, so the latter could, in turn, on lend to national financial intermediaries, including micro-finance institutions. The sub-regional development banks could then focus on direct financing of medium to large-scale projects at the national level and on co-financing large-scale sub-regional project while national DFIs attend to small and micro enterprises.

ADB should forge partnership with and establish appropriate linkages to small enterprises development agencies and NGOs that provide technical assistance services to micro and small enterprises in areas such as business plan development, loan application procedures and processes, accounting practices and financial reporting.

There is, therefore, a need to revisit ADB's financial intermediation policy and strategy with a view to designing appropriate financial products and technical assistance to sub-regional and national DFIs.

E. The main challenges facing PTA Bank are augmenting its capital base regularly, improving its asset base steadily, and mobilising resources to meet its mandate sustainably.

ADB needs to enhance its dialogue with COMESA members on ways of mobilizing concessional resources for PTA Bank and raising funds from local bond markets to lower PTA Bank's on lending costs.

BRIEFS ON THE ECONOMIC AND FINANCIAL SECTORS OF COMESA MEMBER STATES

1. Main Economic Sectors

1.1 By 1995, intra-COMESA trade had increased by 10 per cent reaching US\$5.4 billion. However, as a proportion of global trade of the member countries, this represents only 7 per cent. The development of the export sector is of strategic importance to the economic development of the COMESA member countries as it provides foreign exchange earnings and employment opportunities. In addition, the export sector through intra-regional trade, also contributes to deepening the economic integration of COMESA member countries since individually their economies are too small to achieve economies of scale. Exports outside COMESA which include commodities from agriculture, mining and manufactured goods are also growing. The highlights of the main economic sectors (agriculture, industry and tourism) targeted under the lines of credit operations are covered hereunder:

1.2 **Agriculture** provides livelihood for about 80% of the population. The main agriculture products include tea, coffee, cotton, food crops and oil seeds, forestry, livestock, dairy, fisheries and horticulture. While some of the fruit and vegetable produces of the region are consumed locally, the bulk, including cut flowers is exported to international markets, particularly the EU. In 2003, fruits, vegetables and flowers were together the largest export earner for Kenya, contributing about 26.7% of total export earnings.

1.3 **Tourism** in COMESA has continued to grow and has the potential for substantial growth due to the wildlife resources of the region (wildlife, a rich variety of wilderness areas ranging from tropical forests to empty deserts, natural wonders of the world, long sandy beaches, scenic mountain ranges and plentiful sunshine). Individual member states have been reviewing their tourism policies and strategies at different times to enhance the sector's performance. The sector continues to play an important role in employment creation, direct investment and foreign exchange earnings, in Egypt, Mauritius, Kenya, Uganda, and is developing in Tanzania, Rwanda and Zambia. The COMESA strategy for the tourism sector involves encouraging member states to develop a collective and coordinated approach to the promotion and marketing of tourism in the Common Market. To this end, member states are encouraged to, among others, remove restrictions on the movement of tourists within the Common Market, and promote regional tourist circuits and co-ordinate the policies governing the tourism industry. COMESA is working with member states to create the necessary regulatory and institutional framework necessary for regional promotion, development, co-ordination and supervision of the operations of the tourism industry. Furthermore, the composite nature of tourism makes it imperative that the sector establishes formal links with other sectors like Transport and Communications for its sustainability. This is being enhanced through implementing regional projects.

1.4 **Industrial Sector** in the COMESA member countries has shown improvement over time, although with varying degrees of success. This sector is perceived to play a key role for transforming their economies. It is also realised that regional cooperation and integration plays an important role in market synergies that can further industrial development. Industrial and private sector support programmes have been implemented over the years in order to enhance the expansion of industrial production and intra-COMESA trade. Despite these efforts, the industrial capacity utilisation has declined since the 80s due mainly to a combination of factors including serious foreign exchange shortages, weakening domestic demand, declining investment and widespread inefficiency in the use of resources in the sector. Other constraints, which inhibited sustained expansion of the sector, include the narrow and fragmented individual domestic markets, weak institutional support, lack of infrastructure and deficient human resources and skills for industrial deepening. The foreign exchange constraints have been severe for the development of the private sector in particular small and medium scale enterprises (SMEs). The ADB LOC I was to support the efforts of the member countries in addressing the foreign exchange shortages to this segment of the private sector.

1.5 Although **SMEs** play a critical role in the creation of opportunities that make the attainment of the much needed equitable and sustainable growth and development in the sub-region possible, the enabling environment for their development remains inadequate. Most SMEs in the sub-region are facing a number of constraints, which have affected their development. These include inadequate legal and regulatory framework, insufficient business development services as well as lack of necessary financial resources especially medium to long-term financing to start or expand businesses. Most financial institutions are averse to giving credit to SMEs due high-perceived risks. To address some of the above-mentioned constraints, COMESA member countries have created information networks to facilitate the exchange of useful information on existing technologies and expertise, business linkages, sub-contracting schemes, sources of business finance, SME training institutions and best practices. Also some countries have dedicated government policies to develop the SME sector and governments of these countries have pledged to provide a wide range of incentives to promote private sector development. However, the impact are yet to be adequately felt across those countries. In the countries visited, the enabling environment for SME development (in particular for small enterprises) is still found to be inadequate. There is a need to come up with clear policy and get committed to assisting the development of small productive enterprises. SMEs need is not limited to term credit alone but is more broad extending to entrepreneur and skill development, sustained capacity building and provision of adequate infrastructure such as water supply, electricity and transportation/market outlets, etc.

1.6 With regard to resource constraint, EIB and IDA have attempted to assist SMEs by providing resources under apex arrangements through central banks (Egypt, Malawi, Kenya, Tanzania and Uganda), which on-lend the resources to participating banks, which in turn provide the resources to final sub-borrowers. Other donors (such as FMO, DEG, USAID, CIDA) are also providing both financial (equity capital and lines of credit) and technical assistance in the sub-region. The ADB has also provided several lines of credit to regional development banks such as PTA Bank, East African Development Bank (EADB), Development Bank of Southern Africa (DBSA) and national development banks for supporting the SMEs in the various regional member countries (RMCs).

2 The Financial Sector

2.1 Financial sector development represents a critical factor for regional economic growth strategy. COMESA in 1992 adopted a Monetary and Fiscal Policies Harmonization Program, which aimed to establish a Monetary Union in the year 2025. The main elements of the financial system, the banking, insurance and the capital market are still at a lower stage of development in the sub-region. Apart from the creation of PTA Bank, COMESA had undertaken other measures to facilitate trade and investment in the sub-region. These measures included the establishment of a reinsurance company, which is currently providing reinsurance and therefore retains resources within the sub-region, the creation of the African Insurance Agency, whose purpose is to provide insurance against political risks for investments in the sub-region as well as other African states.

2.2 Well functioning financial markets help mobilise savings and allocate resources efficiently and greatly contribute to development of the private sector. In essence, member states are taking measures to address the weaknesses of the banking systems under the liberalization policy. The situation of the banking system is improving in a number of countries in the sub-region as a result. For instance, a recent World Bank/IMF financial assessment in Tanzania found the banking system to be generally liquid and well capitalized and that of Uganda to be fundamentally sound and posed no threat to macro-economic stability.

2.3 In spite of the measures taken by member states to diversify the financial sector in general and the banking sub-sector in particular, commercial banks continue to dominate the financial sector in the sub-region. They are highly concentrated with a majority of the sector assets in a few banks. On the other hand, they are not yet well developed to provide a variety of flexible instruments. Commercial banks lending is biased towards short-term facilities due to the higher degree of risk aversion, limiting their contribution to private sector development, particularly SMEs. Another reason why commercial banks are reluctant to lend to SMEs is the difficulty in enforcing creditor rights owing to weak judicial systems.

In order to address these weaknesses, some PTA Bank's member countries have embarked on judicial and legal reforms as part of broader efforts to improve the legal and regulatory framework for business.

2.4 The few capital markets in the sub-region provide financing source. but the capital markets have not been able to fill the gap. Egypt is by far the most advanced in the sub-region with 1,150 companies listed on the two Egyptian stock exchange markets – Cairo and Alexandria accounting for about 10% of Africa's total market capitalization behind South Africa. After Egypt is Zimbabwe's stock exchange. There are too few listed companies (due to stringent qualification rules), small average company sizes, low liquidity levels (the value of shares traded in relation to total market capitalization) and the pool of liquid capital being too small to enable most firms to secure backing for investment schemes. Therefore, the capital markets are rather shallow to meet the growing demand for medium to long term financing in the COMESA sub-region.

2.5 The development of the private sector hinges on the development of the financial sector for the provision of short and long-term credit on the one hand and on the other, the improved business climate, legal systems and infrastructure conditions in the member states. As stated above, the financial sector development in many of the member states is not yet deepened to provide all the financial resources required. Thus, the external assistance in the form of LOCs, will continue to be very essential to fill the gap.

2.6 Several factors have contributed to the slow development of SMEs in the region. First of all the definition of small and medium enterprises (SMEs) poses problems and varies from country to country. Some use employment level and initial capital investment and other use turnover and employment. In most of the member states, 80 to 90% of the private sector activities can be classified under SMEs, while only 10% can be considered as large-scale enterprises. This classification is based on employment level and initial capital. For example, in some countries, 5 to less than 20 employees and less than US\$100,000 initial investment is considered as small enterprise; while from 20 to 100 employees (in some countries raised to 500 employees) with up to US\$1million capital is considered a medium enterprise; and over this threshold is considered a large-scale enterprise.

2.7 Notwithstanding definitional issues, in many of the PTA Bank member states, small and medium enterprises are the major players in the economy. From the outset, the major sources for term credit in these member states are PTA Bank for COMESA member states, EADB for EAC member states and DBSA for SADC States. A few national development banks in the region also provide term credit to SMEs. However, most are not performing and many have moved into commercial banking services. For example, the Development Finance Co. Uganda (DFCU) is the only national financial intermediary (excluding micro-finance institutions) that provides term loan at national level. It provides assistance to micro-finance institutions for on lending to small enterprises. The Uganda Development Bank, the public sector bank, is currently dormant. According to DFCU, the sub-regional development banks such as PTA Bank and EADB are not 'structured to reach the typical small enterprises'.

2.8 In the PTA member states, a few micro-finance institutions meet the requirement of operating as deposit taking banks. However, these institutions have inadequate funds to meet the financial needs of numerous indigenous small enterprises. For example, one of these institutions in Uganda (the Uganda Micro-finance Ltd.) intimated that, for a population of 25 million, commercial banks have 1 million individual accounts; credit associations have 80,000 clients; micro-finance institutions have 450,000 clients, giving about 1.5 million. The estimated number of bankable people in Uganda is 12 million. Thus, only 10-12% of the population is getting access to banking services. PTA Bank's lower lending limit was US\$200,000 at the time of this LOC but has since been increased to US\$300,000 while its upper limit is US\$10 million for a single sub-project. Thus, its assistance is largely for medium and large enterprises. The average loan to sub-project financed under LOC I was about US\$700,000. This indicates that PTA Bank is not catering to micro and small enterprises whose capital requirements are below US\$300,000.

2.9 In general, small enterprises contribute about 20% of GDP in the sub-region but their financial needs have not been addressed adequately thereby constraining their development. The concern is not the interest rate as such for new enterprises but the associated problems from implementation delays or poor performance that result in the accumulation of the accrued interest, which is compounded for delayed payment with interest on interest and penalties. This discourages many promoters from applying for term credit. Those who have already borrowed had to discontinue the sub-projects since the accumulated debts become too much to pay back while the project is still under implementation or not generating adequate income. One way of addressing the repayment issue is to capitalize interest during implementation of the sub-projects on the initial credit amount and allow the repayment of both the interest and principal after the grace period by which time it is expected that sub- projects will have streams of income.

2.10 Private sector development is further constrained by lack of several essential elements, such as: land tenure system, infrastructure particularly electricity; middle class that can save, entrepreneurs, well performing national development banks to provide term credit and working capital financing particularly in local currency, and effective regulatory body. Governments need to put the enabling environment right and adopt clear policy directions to help the development of the private sector particularly micro and small-scale enterprises in the region as a whole. Both ADB and the sub-regional development banks need to look into the possibility of providing adequate resources (in foreign and local currency) to national development banks and micro-finance institutions in order to meet effectively the term credit and working capital needs of small and micro-enterprises. The local currency requirements could be met by forging appropriate linkages with commercial banks in the sub-region.

SELECTED STATISTICS OF SOME COMESA MEMBER STATES

(based on available date for selected countries benefiting from the LOC I)

Burundi

Origins of gross domestic product 2003	% of total
Agriculture	49
Industry	19
Services	32

Source: Economic Intelligent Unit

Economic Indicators

	2001	2002	2003	2004	2005
GDP at market prices [Burundi franc (BIF)].[(in billion (bn)]	550	584.6	644.7	748.5	875.5
GDP (US\$ bn)	0.7	0.6	0.6	0.7	0.8
Real GDP growth (%)	3.2	4.5	-1.2	5.5	1.1
Consumer price inflation (average; %)	9.2	-1.4	6.1	12.6	16
Population [million (m)]	6.6	6.8	7	7.3	7.4
Exports of goods fob (US\$ m)	39.2	31	37.5	48	91.3
Imports of goods fob (US\$ m)	108.3	104.8	130	176.3	221.5
Current-account balance (US\$ m)	-39	-10.2	-37.3	-34.2	-29.9
Foreign-exchange reserves excl gold (US\$ m)	17.7	58.8	67	65.8	104.9
Total external debt (US\$ bn)	1.1	1.2	1.3	n/a	n/a
Debt-service ratio, paid (%)	49.7	61.1	65.8	n/a	n/a
Exchange rate (average) BIF:US\$	830.4	930.7	1,082.60	1,100.90	1,095.00

Source: Economic Intelligent Unit

Kenya

Origins of gross domestic product 2004	% of total
Agriculture, forestry & fishing	27.5
Manufacturing	13.3
Trade, restaurants & hotels	11.2
Transport, storage & communications	10.5
Government services	14.8
Others (net)	22.7

Source: Economic Intelligent Unit

Percentage Growth Rates by Sector in Real Terms

	2002	2003	2004
Agriculture, forestry & fishing	0.1	2.4	1.4
Manufacturing	0.6	4.9	4.1
Wholesale and retail trade, repairs	-2.3	1.2	9.5
Restaurants & hotels	4.7	-20.3	15.1
Financial Services	-1.8	1.7	1.5
Construction	-2.6	1.7	3.5
Transport, storage & communications	6.8	4.9	9.7
Government services	0	2.6	1.8
Others (net)	1.4	4.3	2.6

Source: Central Bureau of Statistics Economic Survey 2004

Economic Indicators

	2001	2002	2003	2004	2005
GDP at market prices (KES bn)	1,025.90	1,038.80	1,141.80	1,277.10	1,462.00
GDP (US\$ bn)	13.1	13.2	15	16.1	19.4
Real GDP growth (%)	4.4	0.4	2.8	4.3	5.2
Consumer price inflation (average; %)	5.7	2	9.8	11.7	10.3
Population (m)	31.4	32	32.7	33.5	34.3
Exports of goods fob (US\$ m)	1,891.40	2,162.50	2,412.20	2,722.70	3,276.50
Imports of goods fob (US\$ m)	3,238.20	3,159.00	3,554.80	4,320.20	5,896.80
Current-account balance (US\$ m)	-341.2	-136.9	67.8	-378.4	-1,494.30
Foreign-exchange reserves excl gold (US\$ m)	1,064.90	1,068.00	1,481.90	1,519.30	1,798.60
Total external debt (US\$ bn)	5.6	6.1	6.8	7	7.3
Debt-service ratio, paid (%)	16	16.6	15.8	12.1	9.3
Exchange rate (average) KES:US\$	78.56	78.75	75.94	79.17	75.55

Source: Economic Intelligent Unit

Tanzania

Origins of gross domestic product 2004	% of total
Agriculture, forestry & fishing	46.4
Mining	3.2
Manufacturing	8.8
Construction	4.6
Services	34.5

Source: Economic Intelligent Unit

Percentage Growth Rates by Sector in Real Terms

SECTOR	2000	2001	2002	2003
<i>Agriculture</i>	3.4	5.5	5	4
Mining and Quarrying	10.9	16.6	15	17
Manufacturing	4.8	5	8	8.6
Electricity & Water	5.9	3	3.1	4.9
Construction	8.4	8.7	11	11
Trade, Hotels & Restaurants	6.5	6.7	7	6.5
Transport & Communication	6.1	6.3	6.4	5.1
Finance & Business Services	4.7	3.3	4.8	4.4
Public administration & Other services	3.6	3.5	4.1	4.1

Source: National Bureau of Statistics

Economic Indicator

	2001	2002	2003	2004	2005
GDP at market prices (TZS bn)	8,274.10	9,445.90	10,692.40	10,090.30	11,264.00
GDP (US\$ bn)	9.4	9.8	10.3	9.3	10
Real GDP growth (%)	6.2	7.2	7.1	6.7	6.8
Consumer price inflation (average; %)	5.1	1	3.5	4.1	4.2
Population (m)	34.4	35.2	35.9	36.7	37.4
Exports of goods fob (US\$ m)	811.7	911.6	1,156.60	1,278.10	1,595.70
Imports of goods fob (US\$ m)	1,631.40	1,526.50	1,980.40	2,184.10	2,378.70
Current-account balance (US\$ m)	-456.6	-216.9	-393.4	-437.1	-479.5
Foreign-exchange reserves excl gold (US\$ m)	1,156.60	1,528.80	2,038.40	2,295.70	2,048.80
Total external debt (US\$ bn)	6.8	7.3	7.5	7.9	7.7
Debt-service ratio, paid (%)	9.7	6.6	4.7	6.6	6.6
Exchange rate (average) TZS:US\$	876.4	966.6	1,038.40	1,089.30	1,128.90

Source: Economic Intelligent Unit

Uganda

Origins of gross domestic product 2003	% of total
Agriculture	38.8
Industry	19.5
Manufacturing	9.4
Services	41.7

Source: Economic Intelligent Unit

Percentage Growth Rates by Sector in Real Terms

SECTOR	2000/01	2001/2	2002/03	2003/04	2004/05
Agriculture	4.6	3.9	2%	5.2	-
Mining and quarrying	10.1	11.1	2.7	-1.2	-
Electricity and Water	8.2	5.4	4.7	6.8	
Construction	1.9	11.7	12.2	7.8	-
Manufacturing	8.9	5.3	4	4	-
Wholesale and retail	6.3	6.7	4.1	4.8	
Community services	3.5	6.4	5	4.5	-
Tourism	7.1	18.1	7.5	7.9	-
Owner occupied dwellings	8	7	6.5	6	
Transport & communication	9.6	12.4	14.9	14.4	-

Source: Uganda Bureau of Statistics, Bank of Uganda

Economic Indicators

	2001	2002	2003	2004	2005
GDP at market prices [UGX billion (bn)]	10.2	10.9	12.7	13.9	15.8
GDP (US\$ bn)	5.8	6.1	6.5	7.7	8.9
Real GDP growth (%)	6.1	6.8	4.7	5.9	5.5
Consumer price inflation (average; %)	2	-0.3	7.8	3.3	8.4
Population [(million (m))]	25.1	26	26.9	27.8	28.8
Exports of goods fob (US\$ m)	475.6	480.7	563	705.3	856.8
Imports of goods fob (US\$ m)	975.4	1,054.50	1,240.90	1,458.90	1,766.10
Current-account balance (US\$ m)	-367.5	-359.9	-352.2	-199.7	-350.5
Foreign-exchange reserves excl gold (US\$ m)	983.4	934	1,080.30	1,308.10	1,450.00
Total external debt (US\$ bn)	3.7	4	4.6	4.9	5.1
Debt-service ratio, paid (%)	4.1	6.3	7.1	8.3	7.1
Exchange rate (average)UGX:US\$	1,755.70	1,797.60	1,963.70	1,810.30	1,783.80

Source: Economic Intelligent Unit

Zambia

Origins of gross domestic product 2004	% of total
Agriculture	22.6
Industry	28.3
Manufacturing	3.2
Construction	9.4
Mining	12
Services	49.1

Source: Economic Intelligent Unit

Percentage Growth Rates by Sector in Real Terms

	2000	2001	2002	2003*
Agriculture, Forestry and Fishing	1.6	(2.6)	(1.7)	5.0
Mining and Quarrying	0.1	14.0	16.4	3.4
Manufacturing	3.6	4.2	5.7	7.6
Electricity, Gas and Water	1.2	12.6	(5.2)	0.6
Construction	6.5	11.5	17.4	21.6
Wholesale and Retail trade	2.3	5.4	5.0	6.1
Restaurants, Bars and Hotels	12.3	24.4	4.9	6.9
Transport, Storage and Communications	2.4	2.8	1.8	5.0
Financial Institutions and Insurance	(0.6)	0.1	3.5	3.5
Real Estate and Business services	17.0	3.5	4.4	4.0
Community, Social and Personal Services	(0.5)	5.8	1.6	1.6

Source: Central Statistics Office, Zambia

Economic Indicators

	2001	2002	2003	2004	2005
GDP at market prices (ZMK bn)	13.1	16.3	20.5	25.3	31.1
GDP (US\$ bn)	3.6	3.8	4.3	5.3	7
Real GDP growth (%)	4.9	3.3	5.1	5.4	5.1
Consumer price inflation (average; %)	21.4	22.2	21.4	18	18.3
Population (m)	10.9	11.1	11.3	11.5	11.7
Exports of goods fob (US\$ m)	912	945	1,081.00	1,810.00	2,127.10
Imports of goods fob (US\$ m)	1,253.00	1,204.00	1,393.00	1,727.00	2,068.00
Current-account balance (US\$ m)	-507	-346	-416	-286	-419.9
Foreign-exchange reserves excl gold (US\$ m)	183.4	535.1	247.7	337.1	559.8
Total external debt (US\$ bn)	5.7	6	6.4	6.4	4.6
Debt-service ratio, paid (%)	27.5	40.2	43.6	27.2	21
Exchange rate (average) ZMK:US\$	3,610.90	4,307.00	4,733.30	4,778.90	4,463.50

Source: Economic Intelligent Unit

EVOLUTION OF BANK'S LOC POLICIES AND STRATEGIES

1. There is no separate policy for the Bank's financial intermediation in sub-regional development banks. The Lines of Credit extended to Public Sector Financial Intermediaries such as the PTA Bank are governed by the policy document (Ref. ADB/AD/81/140) issued in 1981 which was later incorporated within the Industrial Sector Policy Guidelines of 1986, which covered in main Line of Credit and Equity Financing of DFIs at national and sub-regional level. A new Financial Sector Policy was issued in October 2003 to guide the Bank's indirect intermediations in RMCs. In this Policy document, the Bank Group is expected to satisfy through its LOCs two interrelated objectives:

- (i) To address market failures (such as limited longer maturity lending and limited SMEs access to credit); and
- (ii) To strengthen the capacity of the participating financial institutions to lend more to SMEs.

2. In this policy, the Bank is expected to direct LOCs to institutions, which have in place good and transparent management, suitably designed operating standards, especially for accounting and provisioning for risks, and good negotiation with clients and proper supervision. At the time the LOC I was extended to PTA Bank, these expectations in the 2003 policy were non-existent since they are of recent development resulting from the failure of many DFIs in the past. Notwithstanding, the Bank had attached conditions to the first LOC such that PTA Bank's performance would meet these expectations. Thus, the LOC I has responded to the policy and strategy of the Bank prevailing at the time.

3. Since 1991, the Bank expanded its operations for private sector development with the establishment of a private sector window. A separate private sector strategy that was issued in 1996 is used for the operations of this window. This strategy aims at sharpening the operational focus of the private sector activities to enhance the Bank's capacity to respond to the growing needs of the private sector in RMCs. By this strategy, new financing instruments such as LOCs and guarantees were introduced to enable the private sector department of the Bank broaden the scope of its assistance to the private sector. In line with this strategy, the department began in 1998 to provide lines of credit (LOCs) without government guarantees to private financial intermediaries (PFIs). The LOCs are intended to enable the Bank to respond to a broad range of specific needs of private enterprises and fulfil its development objectives in ways that cannot be met through direct lending. The strategy requires the LOCs to enhance the capacity of the Bank to perform its catalytic role and promote private sector development.

4. In November 2004, the Bank approved a new Private Sector Development (PSD) strategy. The strategy is anchored on the Bank Vision, the Strategic Plan 2003-2007, private sector policies and guidelines approved and refined since 1996, the Private Sector Country Profile (PSCP), the Country Governance Profile (CGP), and the Country Policy and Institutional Assessment (CPIA) and the prudential financial and risk management to safeguard the Bank as a sound development financial institution. The main objective of the PSD strategy is to support the development of a viable private sector in the RMCs consistent with the three pillars of the Bank's Strategic Plan, which covers ownership, partnership and selectivity issues.

5. Furthermore, there are dimensions to the concept of development effectiveness that are particular to the private sector and are key factors to formalizing the economy through fair competition reflected in a level playing field and open markets; good corporate governance; financial risk mitigation; regional integration; and corporate citizenship with respect to social and environmental responsibility. Thus, the policies, strategies and guidelines for private sector operations have evolved over the years.

6. Currently, the Bank's public sector LOCs are appraised in a similar fashion as those of the private sector LOCs (the difference is that of intensity since the latter require no government guarantee). In the new Bank structure, all LOCs are now under the responsibility of the Bank's Private Sector Department. This calls revisiting the policies and strategies of financial intermediations through LOCs to effectively address the key dimensions of sustainable economic growth, private sector development, and poverty reduction in RMCs.

7. The sub-regional development Banks such as PTA Bank are now constrained by the credit limits on sub-projects and therefore could not go into financing/co-financing large scale projects exceeding UA8 million. There is need to carry out an in depth study to review this credit limit so that the ADB would effectively use the sub-regional development banks such as PTA Bank as a conduit for wholesale financing. The ADB needs to concentrate more in non-lending assistance such as good governance and financial sector and institutional development of the financial intermediaries in RMCs. The ADB needs to develop appropriate instruments to the sub-regional banks to accelerate regional integration in the RMCs on one hand and, on the other, establishing necessary linkages with national development banks, commercial banks and micro-finance institutions such that the term credit and working capital needs of smaller enterprises could be met effectively through these national level financial intermediaries. Appropriate linkages are required with small enterprises development agencies and NGOs to facilitate the lending and non-lending activities of the ADB so that such agencies and organizations could be well financed and assisted to contribute effectively to the development of micro and small enterprises. Such orientation requires reflection and revisiting the policy and strategies relating to the LOC instrument of the Bank and the terms and conditions of providing the various financial products to the financial and non-financial intermediaries operating in RMCs.

RETROSPECTIVE RESULT-BASED LOGICAL FRAMEWORK OF LOC I

PPER Team: Mrs. G. Yirga-Hall and Mr. A. Akintunde

Narrative Description	Verifiable Indicators			Means of Verification	Assumptions/ Risks
	Appraisal (1993)	PCR (1999)	PPER (2006)		
<p>1. Sector Goals and other objectives</p> <p>1.1 Sector Goals 1.1.1 To enhance private sector development through financing productive enterprises in general and encouraging the establishment of an export oriented ventures in the member states in order to increase trade links within and outside member states of COMESA.</p> <p>1.2 Financial Objectives 1.2.1 Credit limit of 25% in a single member country 1.2.2 A minimum of 2% spread for on lending 1.2.3 Loan portfolio to be increased from UA62 million to UA90 million 1.2.4 Net profit to increase from UA1.6 million to UA10 million 1.2.5 Improved liquidity position and reduced level of arrears</p> <p>1.3 Institutional Development Objectives 1.3.1 Confirm with Bank policies and procedures 1.3.2 Review organizational structure and create internal audit</p> <p>1.4 Social Objectives and Targets 1.4.1 employment generation (see above 1.1)</p> <p>1.5 Environmental Objectives 1.5.1 Bank rules to be followed</p> <p>1.6 Financial and Private Sector Development Objectives and Targets 1.6.1 Enhancing term credit to financial sector to promote private sector development</p>	<p>1.1 Number of new enterprises and number of on going enterprises developed and financed 1.2 Employment created 1.3 Number of regional projects promoted</p>	<p>1.1 A total of 12 Sub-projects producing exportable goods within and outside COMESA.</p>	<p>1.1 A total of 12 subprojects earning foreign exchange or producing exportable goods within and outside COMESA 1.2 Successful projects created and sustained direct and indirect jobs. The direct jobs sustained are 2,300 1.3 No regional projects promoted but the national level sub-projects had resulted in trade for goods and services among the member states</p> <p>1.2.1 the credit limit in one country was over 25% 1.2.2 The LOC was secured at 8.5% per annum and the PTA Bank on-lending rate was 12 percent which confirms the required minimum 2% spread 1.2.3 Loan portfolio has increased to US\$255 million by the end of 2002 which was significant 1.2.4 Net profit however, increased only to US\$9.87 million by 2005 1.2.6 Liquidity position has significantly improved and arrears have been decreased from over 30% to 7% of total term credit outstanding</p> <p>1.3.1 Had problem of confirming with Bank policies and procedures relating to selection of sub-projects, procurement methods and disbursements being its first LOC but these were corrected 1.3.2 Major restructuring were carried out from 2000 and the changes made were very positive</p> <p>1.4 See above 1.1</p> <p>1.5.1 Bank and member state environmental rules observed satisfactorily</p> <p>1.6 The LOC has served as a catalyst in attracting other donors to provide resources. This has helped in private sector but the financing went mainly to medium and large scale enterprises</p>	<p>COMESA Reports, Country Central Bank Reports & Budgets ADB/EIU/World Bank Reports OPEV field mission PTA Bank records</p>	<p>(Goal to Super goal) Enabling environment for business to flourish is created through reform programmes. COMESA is strengthened and sustained.</p>

1.7 Regional Integration Objectives and Targets (see above- 1.1)			1.7 See above 1.1		
2. Project Objective 2.1 The objective of the LOC I is to provide financial support to PTA Bank to enable the institution extend term lending to private sector sub-borrowers in the productive and service sectors of the economies of its member states.	2.1 Increase in number of projects with regional impact 2.2 Increase in export and intra-trade oriented projects 2.3 improved profitability of PTA Bank	2.1 UA 13.39 million disbursed to 17 subprojects in seven member countries of COMESA	2.1 UA 14.98 million disbursed for 19 loans to 17 subprojects in seven member countries of COMESA.	ADB portfolio reports PTA Bank annual reports PTA Bank investment portfolio reports	(Project Objective to Goal) 2.1 Environment is adequate to sustain subprojects. 2.2 Management and professional capacity of PTA Bank is adequate to monitor subprojects. 2.3 Managerial capacity adequate to sustain subprojects.
3. Outcomes 3.1 a total of 17 Successful and sustained sub-projects			Successful sub-projects 6 Partially successful project 6 Unsuccessful sub-projects 2 Failed sub-projects 3 Total 17	OPEV field mission PTA Bank records	
4. Outputs 4.1 17 Subprojects established or rehabilitated in 7 COMESA member states.	4.1 Number of subprojects and amount disbursed	4.1 19 sub-loans approved by ADB for 17 sub-projects, disbursed and implemented by the PTA Bank	4.1 19 sub-loans approved by ADB for 17 sub-projects, disbursed and implemented by the PTA Bank.	4.1 (ADB, OCDE and FLAD) & The PTA Bank Portfolio reports.	(Output to Project Objective) 4.1 PTA Bank has capacity to identify and select good projects.
5. Activities 5.1 ADB Board approved LOC 1 of UA 15 million. 5.2 PTA Bank fulfilled loan conditions 5.3 19 loans to 17 subprojects approved by PTA Bank 5.4 ADB approved 17 subprojects 5.5 ADB disbursed UA 14.98 million	Inputs/Resources Number of subprojects sent to ADB Commitment of the LOC Disbursements	5.1 ADB approved UA 15 million in February 1994 5.2 Loan agreement signed in May 1994 5.3 UA 13.39 million disbursed by December 1998	5.1 ADB approved UA 15 million in February 1994 5.2 Loan agreement signed in May 1994 5.3 UA 14.89 million disbursed by December 2001	5.1 Summary records of ADB Board meeting. 5.2 CLEG and OCDE records/ FLAD and PTA Bank financial records	5.1 The PTA Bank has the ability to implement the LOC 5.2 Subprojects submitted are good.

SUMMARY STATUS OF SUB-PROJECTS FINANCED UNDER LOC I

No	Sub-Project*	Country	Sector	Date Approved	Loan Amount UA	Job Created and Sustained	Status
1	A	Tanzania	Mining	06/09/1995	1,348,276	175	Partially successful. Operational under new ownership. Outstanding debt partially recovered (rated 2)
2	B	Tanzania	Agro-trading	26/09/1995	647,985	75	Partially successful. Operational under new sponsor. Outstanding debt substantially recovered (rated 2)
3	C	Tanzania	Tourism/Hotel	09/05/1996	1,228,013	320	Successful. Loan fully prepaid. (rated 4)
4	D- I	Zambia	Agro-industry	13/02/1995	2,403,427	165	Partially successful. Operational under new ownership. Outstanding debt partially recovered (rated 2)
	D- II	Zambia	Agro-industry	12/06/1998	409,909		Same as above
5	E	Uganda	Tourism/Hotel	21/03/1995	789,545	85	Successful under new ownership. Outstanding debt substantially paid (rated 3)
6	F	Sudan	Manufacturing	25/03/1996	1,959,674		Failed. Recovery underway through sale of mortgaged property (rated 1)
7	G	Uganda	Floriculture	09/05/1996	305,039	108	Successful under new ownership. Outstanding debt partially recovered (rated 2)
8	H	Uganda	Agro-industry	26/09/1996	467,741	124	Successful. Loan fully repaid (rated 4)
9	I	Eritrea	Manufacturing	18/11/1996	281,040		Unsuccessful. Not yet recovered. Under litigation for debt recovery (rated 1)
10	J	Kenya	Floriculture	17/03/1997	436,927	500	Successful. Loan is being serviced satisfactorily (rated 4)
11	H	Uganda	Floriculture	16/12/1997	257,096	320	Successful. Loan is being serviced satisfactorily (rated 4)
12	I	Uganda	Floriculture	16/12/1997	122,869	124	Partially successful. Outstanding debt substantially recovered) Operational under new ownership (rated 3).

13	J	Zambia	Floriculture	16/12/1997	203,660	100	Unsuccessful. Under receivership to recover outstanding debt (rated 1)
14	K	Kenya	Floriculture	19/04/1995	409,811		Failed. Not yet recovered. Efforts underway to recover outstanding debt (rated 1)
	L	Kenya	Floriculture	16/12/1997	437,643		Same as above
15	M	Sudan	Manufacturing	27/10/1997	489,955	84	Partially satisfactory. Operational under new owner. Outstanding debt substantially recovered (rated 3).
16	N	Burundi	Rose Farm	18.04.00	427,668		Unsuccessful. Not yet recovered. Efforts underway to recover outstanding debt (rated 1). Based on PTA Bank comments, this sub-project is reported to have been resructrued and is currently partially successful.
17	O	Zambia	Agri-Business	21.09.00	2,354,350	120	Successful. Debt being serviced through close monitoring of export proceeds (rated 4)
					14,980,628	2,300**	6 successful, 6 partially successful, 2 unsuccessful, 3 failed Rating results: 5 rated 4(29%); 3 rated 3(18%); 4 rated 2(24%); and 5 rated 1 (29%).

* sub-project's same are excluded in line with the Bank's disclosure policy

**women employment represents about 30% of total (i.e. about 760)

Note: Repayment ratings: Fully paid =4; substantially recovered=3; partially Recovered=2; Not yet Recovered=1

PERFORMANCE EVALUATION AND RATING

PROJECT PERFORMANCE

No.	Component Indicators	Score (1 to 4)	REMARKS
1	<p><u>Relevance and quality at entry assessment</u></p> <p>Consistency with country overall development strategy</p> <p>Consistency with the Bank's assistance strategy</p>	3	Satisfactory (the LOC supports economic recovery and regional integration through trade)
2	Achievement of objectives & Outcomes ("Efficacy")	2.7	Satisfactory for the LOC I
	Policy Goals and LOC objectives	2.5	Policy Goals were appropriate but not adequate to meet the needs of SMEs particularly indigenous promoters
	Physical objectives (outputs)	3	Most output targets achieved
	Financial Targets Financial viability	2.5	PTA Bank's financial performance has improved in recent years PTA Bank succeeded to turnaround non performing sub-projects to performing ones by restructuring or sale out to new sponsors
	Institutional Development Objectives Restructuring	2.8	PTA performance was poor under LOC I, but the 2000 restructuring has improved its performance. The LOC as acted as a catalyst for the institutional restructuring
	Social Objectives and Targets	2.5	Performing sub-projects have provided employment Female employees in PTA Bank and sub-projects
	Environmental Objectives	3	Meets Bank and Country standards
	Financial and Private Sector Development Objectives	2.5	Statutory constraints remain. Governments commitments and effective regulatory body is still inadequate for SMEs PTA Bank is not meeting the term credit needs of small enterprises
	Regional Integration	2.5	Achieved through interstate trade. However, no regional projects financed under this LOC
3	Efficiency	2.4	Unsatisfactory for LOC I
	Economic Rate of return Appraisal Estimate% Re-estimated at completion (PCR/PPER)%	2.5	Not calculated but qualitatively assessed Not calculated Qualitative assessment. Forecast made not achieved

	Financial Rate of Return Appraisal Estimate% Re-estimated at completion (PCR/PPER)%	2.0	No data on the sub-projects Not calculated No data qualitatively assessed. Forecast made not achieved
	Cost-Effectiveness Indicators (Specify....)	2.7	No data on the sub-projects. There has been cost and time overruns in some sub-projects. Several sub-projects were not performing at the time of the PCR, but following the restructuring of 2000, PTA Bank portfolio management improved that helped turnaround non performing sub-projects
4	Institutional Development Impact (ID) Executing Agency	2.8	Satisfactory (the LOC served as a catalyst for the reform. PTA Bank was performing poorly during the implementation and the early part of the monitoring of the LOC I. But its performance improved in recent years
5	Sustainability	2.6	Satisfactory for the majority of the sub-projects under the LOC I thanks to the promoters commitment and close monitoring by PTA Bank
6	Aggregate Performance Indicator	2.7	Satisfactory for the LOC I

BORROWER PERFORMANCE

Component Indicators	Score (1 to 4)	Remarks
1 . Quality of Preparation and Appraisal of sub-projects	2.5	PTA Bank's 5-year plan & subproject appraisal. Projections on the sub-projects financial performance were very ambitious and risk analysis was not rigorous
2. Quality of Implementation	2.0	About two years of delays in loan effectiveness and delay caused by suspension of disbursement due to procurement from ineligible countries. This resulted from the fact that the LOC was the first for PTA Bank and the ADB was not providing the required technical assistance at the time
3. Compliance with Covenants	2.5	Delays in the conditions precedent to entry into force, and contravention of one of the conditions (procurement eligibility).
4. Adequacy of Monitoring & Evaluation and Reporting	2.0	Reporting by PTA Bank was inadequate and ADB was not informed on the progress of implementing the subprojects.
5. Satisfactory Operations (if applicable)	2.5	PTA Bank had governance issues at the time of the LOC, which was later improved following restructuring, and change of management team including the president of the PTA Bank.
<u>Overall Borrower Performance</u>	2.3	Unsatisfactory for the LOC I

BANK PERFORMANCE

Component Indicators	Score (1 to 4)	Remarks
<p>Identification</p> <p>Project consistency with member states development strategy and Bank's strategy on private sector development</p>	3	Satisfactory
<p>Preparation</p> <p>Relevance of Bank support</p> <p>Timely Bank support</p>	2.5	The ADB support was relevant and timely. However, ADB should have provided technical assistance to improve the PTA's operational systems at the time.
<p>Appraisal</p> <p>Quality of technical, economic, financial, institutional, social, environmental analyses</p>	2.5	Although appraisal report had covered all aspects. However, the condition requiring PTA Bank to prepare operational guidelines should have been made prior to appraisal. The assistance failed to include TA as part of the package to improve the monitoring system. Adequate monitoring plan was not set.
<p>Supervision</p> <p>Adequacy of Bank staff (skills, time & continuity)</p>	1	<p>The Bank neither launched the LOC nor gave appropriate orientation to PTA bank being its first LOC. Only one supervision mission towards end of the project implementation hence, unable to recognise the operational and financial problems and provide solutions.</p> <p>The Bank did not follow up submission of progress reports to know about implementation issues effectively. Only one supervision mission was conducted during the implementation period of the LOC I</p>
<p><u>Overall Assessment of Bank Performance</u></p>	2.3	Unsatisfactory for the LOC I

PTA BANK HISTORICAL FINANCIAL STATEMENTS: 2000-2005 (US \$)

PROFIT AND LOSS ACCOUNT

	2000	2001	2002	2003	2004	2005
	Audited	Audited	Audited	Audited	Audited	Un-Audited
INCOME						
Interest Income						
From Ordinary Trade Finance Activities	2,637,426	2,251,811	2,042,681	2,730,774	2,974,216	4,993,663
From Project Financing	7,787,920	7,276,087	7,194,382	7,291,823	8,481,977	9,865,776
From Investments	1,041,151	810,460	509,396	287,172	358,690	1,047,816
Total Interest Income	11,466,497	10,338,358	9,746,459	10,309,769	11,814,883	15,907,255
Less: Borrowing Costs	(4,797,225)	(3,779,670)	(2,184,329)	(2,718,112)	(3,898,426)	(7,137,985)
Net Interest Income	6,669,271	6,558,688	7,562,130	7,591,657	7,916,457	8,769,270
Total Fee Income	1,235,669	1,948,348	1,883,807	1,589,607	3,047,188	5,792,171
Net Revenue from Structured Pre-shipment Finance Facility (SPFF)	705,910	332,948	439,407	329,305	-	-
Total Net Income From Operations	8,610,850	8,839,984	9,885,344	9,510,569	10,963,645	14,561,441
<i>% Growth</i>		3%	12%	-4%	15%	33%
Interest on capital arrears	154,079	1,448,831	2,003,847	2,208,130	92,541	-
Other Income	13,894	24,416	10,048	386,684	(387,020)	182,598
Total Net Income Before Operating Expenditure	8,778,824	10,313,231	11,899,239	12,105,383	10,669,167	14,744,039
OPERATING EXPENDITURE						
Administration Expenditure						
Personnel Costs	4,009,317	4,988,156	3,708,360	4,256,442	3,766,086	3,473,728
Provision for depreciation & amortisation	161,816	145,161	260,404	620,620	581,548	603,957
Audit fees	80,916	28,878	26,800	22,800	22,800	22,800
Other Operating Expenses	772,903	750,722	572,971	474,440	394,483	438,050
Total Administration Expenditure	6,932,758	7,632,125	6,056,880	6,667,185	5,577,634	5,517,538
Other Expenditure						
Loan Loss Expense	1,380,517	2,485,397	3,827,553	3,720,290	2,860,846	4,009,532
Exchange Losses / (Gains)	(157)	(12,785)	17,299	(61,625)	(384,087)	-
Total Operating Expenditure	8,313,117	10,104,737	9,901,732	10,325,850	8,054,393	9,527,070
Net Profit for the year	465,707	208,495	1,997,506	1,779,533	2,614,774	5,216,968

PTA BANK- HISTORICAL FINANCIAL STATEMENTS: 2000-2005 (US \$)

BALANCE SHEET

ASSETS	2000	2001	2002	2003	2004	2005
Cash and Bank Balances	3,782,271	4,833,674	5,354,250	1,936,998	21,310,952	11,501,493
Deposits	226,130	984,173	4,283,440	6,012,173	4,910,368	20,916,967
Investments	5,486,379	5,624,324	5,656,825	2,551,166	2,480,385	-
Other Receivables	26,987,851	2,816,553	2,926,127	2,635,995	1,657,565	2,500,000
Trade Finance Loans	43,743,476	53,302,898	36,336,362	57,189,976	70,840,407	90,694,146
Less Provisions	(11,134,351)	(13,735,111)	(4,140,659)	(2,676,645)	(2,797,549)	(4,804,485)
Project Finance Loans	64,864,966	81,441,198	86,885,376	102,293,583	123,832,458	154,806,371
Less Provisions	(17,994,418)	(18,706,228)	(19,589,578)	(13,408,343)	(13,045,665)	(13,181,123)
Equity Investments	6,577,677	7,078,280	7,285,588	7,705,226	5,291,218	5,551,218
Fixed Assets (net)	18,699,812	19,273,320	19,419,673	18,922,872	19,328,453	19,061,493
Total Assets	141,239,793	142,913,080	144,417,404	183,163,000	233,808,592	287,046,080
CAPITAL AND RESERVES						
Share Capital	91,594,847	95,730,648	99,925,059	106,642,447	114,099,467	119,099,467
Retained Profit	(7,029,000)	(978,072)	(2,857,877)	(2,860,197)	(245,423)	4,971,545
Total Shareholders Funds	84,565,848	94,752,576	97,067,182	103,782,250	113,854,044	124,071,012
LIABILITIES						
Short Term Borrowings	25,863,014	18,665,203	26,269,574	31,656,324	56,370,223	74,584,848
Long Term Borrowings	28,854,085	26,696,534	18,918,111	40,239,815	50,141,863	78,442,219
Accruals	203,244	365,300	345,251	1,300,370	842,964	2,991,658
Other Payables	1,753,602	2,433,466	1,817,285	6,184,241	12,580,093	10,000,000
Total Liabilities	56,673,945	48,160,504	47,350,222	79,380,750	119,935,143	166,018,724
Total Liabilities & Shareholders Funds	141,239,793	142,913,080	144,417,404	183,163,000	233,789,186	290,089,736

FACTORS AFFECTING IMPLEMENTATION PERFORMANCE AND OUTCOME

Factors	Substantial	Partial	Negligible	N.A.	Remarks
1. Not subject to Government Control					
1.1 World Market Prices		-			Some cost overrun was reported on sub-projects investment on equipment imported
1.2 Natural events		-			Bad weather conditions adversely affected the cut-flower ventures.
1.3 Bank Performance	-				Sub-project selection was not well-reviewed visa vice risk and launching and adequate monitoring was not made. The then high and fixed interest rate of the Bank became too high compared to declining market rates at the time contributing to aggravating sub-projects arrears on repayment e.
1.4 Performance of contractors		-			Delays during construction in most of the sub-projects have been reported contributing to mounting arrears.
1.4b Performance of consultants				*	
1.5 Civil war		-			Civil strives in some areas had affected sub-projects in the tourist sector (such as tourist lodges).
1.6 Other-		=			lack of good quality raw material sources, declining market prices adversely affected sub-projects performance
2. Subject to Government Control					
2.1 Macro policies		-			The macroeconomic environment of most of the member states have improved over the years benefiting the private sector but some are not adequately conducive to carry out private sector businesses
2.2 Sector policies		-			Market liberalization has resulted in lack of level playing field since cheap products have been imported to complete with high cost locally produced products (the high cost mainly resulting from poor infrastructure such as electricity)
2.3 Government commitment		-			Government commitment is considered inadequate for promoting indigenous private sector promoters. This has contributed adversely to the performance of newly established ventures.
2.4 Counterpart funding (investment and working capital)		-			PTA Bank raises local funds locally to match the LOC received from ADB and other sources. However, working capital are not covered by ADB and PTA Bank adequately

2.5 Administrative capacity	-				Security registration process, legal recourse for payment of outstanding debts of failed sub-projects, internal processing such as custom clearance and approval of contract and disbursement processing, all contributed to delayed implementation and/or recovery of debts.
2.6 Other -		=			Poor infrastructure adversely affected the performance of sub-projects
3. Subject to Executing Agency Control (PTA Bank and Sub-Project Promoters)					
3.1 Management	-				There has been poor governance in PTA Bank that adversely affected the selection and design as well as monitoring of the sub-projects; but this has improved over the years. While the successful sub-projects have good management, most of the sub-projects particularly new ones suffered from poor management during implementation and operation.
3.2 Staffing		-			PTA Bank had to restructure and reassign staff in managerial and professional positions afresh to improve performance.
3.3 Use of technical Assistance			+		Some TA was used to improve performance of PTA Bank and some sub-projects had particularly in cut-flower business and tourism sector had hired external assistance
3.4 Monitoring & Evaluation	-				Monitoring of the LOC I was poor at the level of PTA Bank in the past but this has improved since 2000.
3.5 Beneficiary Participation				*	
3.6 Other -					
4. Factors Affecting implementation					
4.1 Changes in project Scope/scale/design		-			There had been changes in sub-projects selection that contributed to implementation delays of the sub-projects.
4.2 Deficiency in estimating physical inputs, the base unit costs		+			Promoters contribution were inflated at times to make the sub-projects eligible for financing
4.3 Inadequacy of price/physical contingencies			-		Physical and price contingencies were not made adequately at appraisal of the sub-projects to limit the term loan.

4.4 Changes in exchange rates, in financial and institutional arrangements		+(PTA) - (sub)		<p>The institutional reforms of PTA Bank have contributed to improve the operational and financial performance of the PTA Bank and its repayment capacity to ADB.</p> <p>Changes in exchange rates had burdened promoters to repay the credit. Working capital requirements have been always underestimated that resulted in adversely affecting sub-project performance.</p>
4.5 Unrealistic implementation schedule		-		<p>Implementation schedule was realistic but internal processing need to be streamlined to minimized delays.</p>
4.6 Quality of management including financial management	-			<p>PTA Bank's operational and financial management was poor before 2000; but it has significantly improved since then. Successful sub-projects have good operational and financial management while those unsuccessful suffer from poor management at implementation and operation</p>
4.7 Inefficient procurement and disbursement procedures		-		<p>The reimbursement method of disbursement delayed actual disbursements since promoters were required to disburse their contribution upfront before credit part was disbursed. Promoters find it hard to raise their counterpart funds on time.</p>
4.8 Other (working capital in local currency)	±			<p>Lack of adequate working capital for the new enterprises adversely affected their success</p>

SOURCES OF INFORMATION

1. Annual Report 1995 – 2004
2. Annual Audited Financial Statements 2005
3. Aide Memoirs for ADB Missions
4. Compliance Charter
5. Specimen Loan Agreement with PTA Bank Clients
6. Information Memorandum on TSHS 15 billion Fixed Rate Bonds Due 2010
7. Revised Operations Policy and Operations Manual
8. Procurement Policy Guidelines and Loan Disbursement Procedures
9. Environmental and Social Management Policy Guidelines Loan Portfolio
10. Management and Debt Recovery Policy Manual
11. CD – A glance at UGAROSE
12. Bank of Tanzania Economic Bulletin for the Quarter ending December 2005
13. Bank of Tanzania Annual Report 2004/2005
14. Bank of Tanzania Monthly Economic Review February 2006
15. Small and Medium Enterprise Development Policy, Ministry of Trade and Industry, Tanzania
16. HABARI Newsletter of Small Industries Development Organisation, Tanzania January 2006
17. ROAR the Voice of Simba – Newsletter of Simba Plastics Limited December 2005
18. Bank of Uganda Monthly Economic and Financial Indicators – February 2006
19. Bank of Uganda Quarterly Economic Report September 2005
20. Consolidated Low and High Expenditure Motivation Survey – Report 2003; Ministry of Tourism, Trade & Industry, Uganda
21. The Marketing & Agro-Processing Strategy (MAPS) Ministry of Tourism, Trade & Industry, Uganda
22. Uganda Sustainable Tourism Development Programme: Marketing Strategy 2004-2008
23. Tourism Policy for Uganda, Ministry of Tourism, Trade & Industry
24. Uganda-An Elegant Adventure, Uganda Tourist Board
25. Annual Report 2004 – DCFU Limited
26. An Investment Guide to East African Community: Opportunities and Conditions July 2005.

COMMENTS OF PTA BANK

1. PTA Bank membership details need to be corrected on page (v) - Executive Summary. First paragraph should indicate 17 African States as shareholders and not 15. The footnote should reflect the membership of Seychelles and delete Swaziland. Also under the footnote, COMESA members not yet members of the Bank should exclude Seychelles. Similar corrections should be made on page (2) para 1.4.2 while para 2.2.1 should reflect 18 member states of the PTA Bank, 15 of which are COMEA member states.

2. Point number 9 under Executive Summary (Page vi)

The report states that LOC 1 was designed within ADB's policy objective of providing term credit to SMEs and yet by the nature of PTA Bank mandate most of the sub-projects financed under LOC 1 were medium and large-scale enterprises.

Comment: As correctly stated PTA Bank's financing intervention caters for medium and large-scale projects and the line of credit was utilized for such projects. However, we would like to point out that PTA Bank does provide credit line to local commercial and development banks who could on-lend to small and micro-enterprises.

The report further states that the technical assistance needs of the financed projects have not been met.

Comment: The Portfolio Management Officers held various consultations with the sponsors of the projects in respect to the various aspects of their operations. As Greenfield projects most of them required much more assistance through out the project life. Notwithstanding that, PTA Bank provided as part of its monitoring tools **advisory services** in the areas of recruitment of appropriate management, putting in place basic accounting systems, financial management and controls and marketing of their respective products.

3. Point number 11 A under Executive Summary (Page vii)

The report states that there is need to enhance monitoring and reporting system to capture intermediate information and data on the developmental outcomes of sub-projects.

Comment: The Bank has further enhanced its project monitoring since recently. Every project is visited for monitoring, supervision, inspection and collection of information and data at least once in every quarter. This is in addition to the continuous monitoring through deskwork based on analysis of audited financial statement and/ or management accounts, field reports and our own loan repayment records. This practice has proved to be quite effective. The Bank will continue to further enhance its monitoring operation going forward.

On reporting system to capture information and data on performance of the projects, the Bank does maintain all the necessary information including audited financial statements, regular monitoring and field inspection reports, project performance evaluation reports, and environmental and social impact assessment. However this information is compiled and maintained by the Bank for the life of the loan up until it is fully settled. The loan file will then become inactive which means the flow of such information from the borrowing company and our banking relationships with it discontinues legally and the Bank would not as a matter of responsibility follow up the sustainability of the project performance. We noted that the ADB Project Performance Evaluation Team expected to get up-to- date information and data even on those sub-projects whose loans had been settled some years back.

4. Para 4.3.6 on page 12 should show the correct profit for 2005 i.e. \$3.2 million and a return on equity of 2.7%. Similarly, annex 8 (historical financials) should incorporate the audited financial statements a copy of which we should send to the ADB.

5 Annex 5 Summary Status of sub-projects and Table 4.2 on page11: Agro Trading is classified as unsuccessful. However, the project has been restructured and is servicing the loan albeit slowly and may merit a rating of 3 - partially successful.

6. Para 4.2.12 and 4.5.2: please include FMO of Netherlands and Development Bank of South Africa under bonds and mention US\$ 15 million Tanzanian bond and US\$ 10 million Kenya bond. Small Industries Development Bank of India should be excluded since we have not secured funding from them.

7. References to UA 30 million for the Bank Support Project (Page (v) of the Executive Summary and Para 1.1.1 page 1) should be changed to reflect UA 20 million equivalent to US\$ 30 million.

8. Para 4.4.2 page 15. Reference to number of professionals retained should be changed to reflect that" about 50% of the old staff were retained". The 8 indicated is not quite correct.