

AFRICAN DEVELOPMENT BANK GROUP



**REVIEW OF BANK GROUP ASSISTANCE TO THE
SUB-REGIONAL DEVELOPMENT BANKS**

APPROACH PAPER

**OPERATIONS EVALUATION DEPARTMENT
(OPEV)**

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ABBREVIATIONS AND ACRONYMS

ADB	=	African Development Bank
ADF	=	African Development Fund
AfreximBank	=	African Export-Import Bank
Africa-Re	=	Africa Reinsurance Corporation
AU	=	African Union
AMU	=	Arab Maghreb Union
BCEAO	=	Central Bank of West African States (Banque Centrale des Etats de l’Afrique de l’Ouest)
BDEAC	=	Development Bank of Central African States (Banque de développement des Etats de l’Afrique Centrale)
BDEGL	=	Development Bank of the Great Lakes States (Banque de développement des Etats des Grands Lacs)
BEAC	=	Bank of Central African States (Banque des Etats de l’Afrique Centrale)
BOAD	=	West African Development Bank (Banque Ouest Africaine de Développement)
CEAO	=	Economic Community of West Africa (Communauté Economique de l’Afrique de l’Ouest)
CEDEAO	=	Economic Community of West African States (Communauté Economique de Etats de l’Afrique de l’Ouest)
CEEAC	=	Economic Community of Central African States (Communauté Economique des Etats de l’Afrique Centrale)
CEMAC	=	Economic and Monetary Union of Central Africa (Communauté Economique et Monétaire de l’Afrique Centrale)
CEPGL	=	Economic Community of the Great Lakes States (Communauté Economique des Pays des Grands Lacs)
CFA	=	African Financial Community (Communauté financière de l’Afrique)
COMESA	=	Common Market for Eastern and Southern Africa
DBSA	=	Development Bank of Southern African
DFI	=	Development Finance Institution
EADB	=	East African Development Bank

ECA	=	Economic Commission for Africa
ECOWAS	=	Economic Community of Western African States
EEC	=	European Economic Community
FI	=	Financial Institution
IFC	=	International Finance Corporation
LOC	=	Line of Credit
NEPAD	=	New Partnership for Africa's Development
MDBs	=	Multilateral Development Banks
MLT	=	Medium and Long Term
OAU/AU	=	Organization of African Unity/African Union
PCR	=	Project Completion Report
PPER	=	Project Performance Evaluation Report
PTA	=	Preferential Trade Area for Eastern and Southern Africa
PTA Bank	=	Eastern and Southern African Trade and Development Bank
RMCs	=	Regional Member Countries
SADC	=	Southern African Development Community
Shelter Afrique	=	The Company for Housing and Habitat in Africa
SME	=	Small and Medium Enterprise
TAF	=	ADF Technical Assistance Fund
The Bank	=	ADB
UA	=	Unit of Account of African Development Bank Group
UEMOA	=	West African Economic and Monetary Union (Union Economique et Monétaire Ouest Africaine)
UMOA	=	West African Monetary Union (Union Monétaire Ouest Africaine)
UDEAC	=	Customs and Economic Union of Central African States (Union Douanière et Economique de l'Afrique Centrale)
USD/US\$	=	United States Dollar

1. REVIEW CONTEXT

1.1 Introduction

1.1.1 This approach paper is prepared to define the need for and objectives of the Review of Bank Assistance to sub-Regional Development Finance Institutions (DFIs). It demarcates the scope, outlines the methodology, and specifies the expected deliverables of the Review. The paper also estimates the staff/weeks and budget required for the Review.

1.1.2 The Bank Group has been carrying out its financial intermediation through instruments such as Lines of Credit (LOCs), equity participation, guarantee provision, and technical assistance. Its first assistance dates back to 1969 when ADB extended LOC to East African Development Bank, a sub-regional DFI. The magnitude of assistance to sub-regional DFIs from 1969 to 2005¹ can be summarized as follows:

- The total LOCs to sub-regional financial institutions amounted to about UA400 million (which is about 8% of the total Bank LOC operations of UA4,9 billion).
- Equity participation in sub-regional DFIs amounted to about UA56.3 million, which is 32% of the Bank's total equity participation of UA172 million.
- The total Bank guarantee provision is UA266 million and more than 50% was extended to a sub regional development bank (specifically Development Bank of Southern Africa).
- Technical assistance funds of UA9 million have been provided to sub-regional DFIs (which is just 1% of the total technical assistance grants of UA847 million).

1.1.3 Annex 1 shows the sub-regional financial institutions that have benefited from the Bank's assistance. A glossary on financial intermediaries and instruments is presented in Annex 2.

1.2 Need for the Review

1.2.1 Over the years, the Bank has carried out self- and independent-evaluations on some completed LOCs extended to sub-regional and national financial intermediaries. There have also been a few attempts by the Bank to carry out an overall review of LOCs' effectiveness in meeting objectives such as economic growth, regional integration, private and financial sector development and poverty reduction. A summary of the earlier reviews is presented hereunder in chronological order.

- The first Bank review was carried out in 1991, and focused on issues regarding the poor macro-economic environment, which at the time had severely affected the performance of the LOCs and the development of the private sector.

¹ Figures will be updated at the time of the review.

- In 1993, the Bank conducted a review that assessed the effectiveness of its policy with respect to LOCs. This review provided useful analysis on the development effect of the LOCs.
- In 2001/2002, the Bank carried out a study on Strengthening Development Finance Institutions in Africa was carried out.
- The Bank's 2005 review focused on private sector LOCs during the period 2000-2004. The study provided useful findings on LOCs impact on the financial sector, on participating financial institutions, and on selected individual enterprises.
- The Bank's 2006 review covered all LOCs (public and private) and assessed the effectiveness of LOC as instrument for channelling development finance.
- A review of Bank public sector equity investments was carried out in 1983 and 2006.

1.2.2 Similarly, external donors such as the World Bank and International Finance Corporation (IFC) had periodically reviewed their respective assistances to DFIs.

1.2.3 All earlier Bank and other donor reviews and evaluations have advocated the importance of DFIs as vehicle for channelling resources to SMEs. Annex 3 provides the main findings of previous reviews and studies. These reviews and evaluations have sufficiently covered the donors' financial intermediations through DFIs operating at national level. **What has not been well covered is the donors' assistance to sub-regional DFIs.** Thus, this review will provide an independent and comprehensive assessment of the Bank's assistance to sub-regional DFIs covering the LOCs, equity participation, guarantee provisions, and technical assistance provided so far. It will validate and consolidate earlier findings and assess current mandates, policies, strategies, roles and responsibilities as well as performance of sub-regional DFIs in order to draw lessons and formulate recommendations for the way forward.

1.2.4 **This review is all the more important as the Bank commits to enhance regional integration in RMCs through initiatives such as NEPAD that attach high priority to infrastructure development. Regional integration has also re-emerged as one of the mandates of the Eighth and Ninth ADF Replenishments, with Deputies earmarking resources for multinational operations that enhance regional integration.** In response, the Bank has prepared several sub-Regional Strategy Papers to guide its assistance that has sub-regional scope. **It is therefore, timely that the mandate, role and performance of sub-regional DFIs be re-assessed with particular emphasis on their contribution to regional integration.** Already, some sub-regional DFIs, such as DBSA have been engaged in financing infrastructure projects of regional scope; and others, such as BOAD and EADB, are following suit. This review is thus required to assess the effectiveness of Bank's and sub-regional DFIs' mandates, policies and strategies in enhancing in particular regional integration operations in the continent.

2. THE REVIEW

2.1 Objectives and Scope of the Review

2.1.1 The objective of the review is to assess Bank assistance to sub-regional DFIs with respect to supporting, among others, regional integration and private sector development, which ultimately contribute to economic development and poverty reduction in their respective sub-regions.

2.1.2 The review covers all sub-regional DFIs that have benefited from Bank Group financing from inception to end of 2005². The sub-regional groupings that support DFIs operating in their respective regions will be reviewed with respect to their mandates, institutional arrangements, financing and enabling environment. National level DFIs and other financial and non-financial institutions will be covered in as far as their bearing on establishing linkages for channelling development finance to SMEs. While eight of the DFIs are established at sub-regional level, the remaining three fall under a pan-African category. These are Afreximbank that is largely involved in trade finance (import and export); Shelter Afrique, whose mandate is to provide housing loans; and African Reinsurance whose mandate is to foster the development of the insurance and reinsurance industry. Although there are no sub-regional DFIs in North Africa, the mandates and roles of the existing regional organization (Arab Maghreb Union) and the experience of national DFIs in North Africa particularly Tunisia and Egypt will be reviewed from available documents to draw lessons of experience in meeting the term credit needs of the private sector in general and SMEs in particular.

2.2 Methodology of the Review

2.2.1 The review will assess Bank lending and non-lending assistance to sub-regional DFIs in the light of existing policy, strategy and operational guidelines. It will be based on desk work and field missions to elucidate the magnitude of assistance and portfolio performance to date. The mandates of sub-regional organizations and sub-regional DFIs will be reviewed vis-à-vis their performance to determine gaps and the underlying reasons thereof. The review will examine the case for scaling sub-regional DFIs mandate to enhance, on the one hand, their contribution to regional integration and private sector development, and, on the other, to strengthen their linkages with national level DFIs, including micro-finance institutions that address the needs of SMEs. The review will be forward looking with the primary aim of enhancing ADB financial intermediation through sub-regional DFIs. The review will have two major phases:

Phase I - Policy and Portfolio Review: This will be a desk review of available documents such as PCRs, PPERs, supervision mission reports and annual portfolio review reports of Bank lending and non-lending assistance to sub-regional DFIs. Other donor reviews, such as those of the World Bank and IFC, will be consulted to draw lessons of experience. The document review will take into account crosscutting issues such as those bearing on poverty, environment, governance, regional integration, financial and private sector development. The review covers assessment of the relevance, implementation and

² Figures will be updated at the time of the review.

adherence of policy documents, strategies and operational guidelines and procedures introduced in relation to Bank lending and non-lending assistance to sub-regional DFIs. Interviews with concerned Bank staff will be conducted to capture their views and to help bridge information gaps. Three sets of questionnaires will be developed and administered, on-line and/or through mail, to review the mandate, roles and performance of sub-regional organizations, and sub-regional DFIs, as well as the performance of sub-projects. The responses to the questionnaires will be reviewed to identify gaps that will be addressed during field missions. This phase will culminate in the production of an inception report that will, among others, provide a road map for the field missions.

Phase II - Field Missions: The headquarters of the selected sub-regional blocks and the sub-regional DFIs will be visited to exchange views on the mandate, roles and responsibilities of the sub-regional groupings and the DFIs. Additional information that complements the questionnaire findings will be gathered during the field missions. The review will critically assess the current mandates and performance of DFIs. It will also evaluate Bank lending and non-lending activities carried out through the sub-regional DFIs applying the standard evaluation framework, as detailed in section 2.4. Due to the long time lapse of the assistance provided to some sub-regional DFIs, visits of sub-projects financed under Bank assistance may not be feasible. However, to get some insight, a few active sub-projects will be visited to assess results on the ground.

2.2.2 A consulting firm will be recruited for this review, which will assign at least four experts to work with OPEV. The experts will carry out the field missions in a team of two. OPEV will assign two staff members, who will provide overall guidance to the consultant team and lead each team during the field missions. One of the OPEV experts will be a Task Manager, who will ensure the sound execution of the assignment. For the field missions, one team will cover French speaking sub-region (Central, Western Africa and Northern Africa [Tunisia]) and the other team English speaking sub-region (Eastern, Southern and Northern Africa [Egypt]). After the field missions, Back to Office Reports will be prepared followed by a draft main report. The main report will be prepared in the English language. The consultants shall incorporate Bank comments and present the final report to a feedback workshop. The consultants will produce the main final report incorporating the feedback, and the comments of an external peer reviewer.

2.3 Target Groups

The review outcomes are targeted to benefit the following audience group:

- Boards of Directors of the Bank
- Management of the Bank
- Other financiers operating through financial intermediaries
- Governments of member states
- Sub-regional organizations and DFIs
- SMEs and support organizations

2.4 The Review Framework

2.4.1 Historical Perspective

2.4.1.1 In the 1960s, the newly independent African countries opted for a development pattern that relied on high levels of government intervention in their economies. During this period, industrialisation, by way of import substitution, became the route for economic growth. For this purpose, governments with the assistance of multilateral development Banks (MDBs) set up national level DFIs to provide medium- and long-term (MLT) credit to productive enterprises since such financing (particularly in foreign currency) was outside the domain of the then existing commercial banks. DFIs were thus organized and structured to provide the term credit needs as well as the non-financial services, such as technical advice and close monitoring, required by indigenous promoters. Unlike Japan, where DFIs' role was to implement government development strategies as "policy-based lending institutions", those in many African countries were set to channel funds from MDBs to sub-regional and national level DFIs, which would provide SMEs with MLT credit and technical advice.

2.4.1.2 The period (from the late 1960s onwards) also witnessed the creation of sub-regional cooperation and integration organizations with the aim of accelerating political integration, structural transformation and economic growth in the sub-regions to redress the development disparities of the colonial era. Regional integration was advocated to overcome small-size markets at country level, to promote intra-African trade and to enhance diversification for accelerating industrialization and increasing employment. The aim was to facilitate the removal of the structural and institutional weaknesses in member states to better attain sustained development, individually and collectively as a regional bloc.

2.4.1.3 The regional organizations set up over the years involve those operating at continental level, such as Pan-African Regional Institutions, and at sub-regional level grouped in five blocks (North Africa, West Africa, Central Africa, Eastern Africa, and Southern Africa). The Organization of African Unity (OAU), recently restructured as African Union (AU), and the Economic Commission for Africa (ECA) were Pan-African organizations set up to accelerate Africa's political and economic integration. Others were created as sub-regional groupings with varying and, in some, overlapping memberships. The main organizations serving these sub-regions are cited below to lay out the analytical framework for the review.

2.4.1.4 Several groupings were set up to promote sub-regional cooperation and integration and to accelerate socio-economic development in the respective sub-region. These include: the Economic Community of Central African States (CEEAC)³; the Economic and Monetary Community of Central Africa (CEMAC)⁴; the Economic Community of the Great Lakes States (CEPGL) consisting of the Democratic Republic of the Congo, Rwanda and Burundi; the Preferential Trade Area for the Eastern and Southern African States (PTA), which was later transformed into the Common Market of Eastern and Southern African States (COMESA),

³ CEEAC members are all 10 Central African Countries (Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic, Congo Republic, Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe) and Burundi, Rwanda and Angola

⁴ CEMAC members consists of Cameroon, Central African Republic, Chad, Congo, Republic, Equatorial Guinea and Gabon

whose members are currently 22⁵ countries; the Economic Community of West African States (ECOWAS) consisting of 15 west African states⁶; the West African Economic and Monetary Union (UEMOA) with seven (7) of the West African states⁷; the Union of Maghreb countries (UMA)⁸; the East African Community (EAC) consisting of Kenya, Tanzania and Uganda, Burundi and Rwanda (the latter two joined recently); and the Southern African Development Community (SADC)⁹. Recently set up sub-regional community is the Community of Sahel-Saharan States (CEN-SAD) of 1999¹⁰. The list of regional groupings related to the sub-regional DFIs is presented in Annex 4.

2.4.1.5 Recognizing the huge financial resources required for economic growth, the next move was to set up financial institutions through which development funds could be channelled for investment in productive sectors (public and private), infrastructure, and projects with a regional, as well as national scope. Such overarching objectives initiated the creation of regional level financial institutions and development banks. At the apex level, the ECA, a Pan-African organization, was instrumental for the creation of the African Development Bank (ADB) in 1964, as a regional development bank to serve the African continent as a whole.

2.4.1.6 This was followed with the establishment of a few sub-regional DFIs in which ADB provided equity financing during their formative years. EAC set up the East African Development Bank in 1969. UEMOA facilitated the creation of the West African Development Bank (BOAD) in 1973. In 1975, it also set up the Central Bank of West African States (BCEAO). In the following year (1976), ECOWAS established the ECOWAS Fund. In 1977, CEPGL set up the Development Bank of the Great Lakes States (BDEGL). The Development Bank of Southern Africa (DBSA), established in 1983 by the Government of South Africa, focused initially on infrastructure financing to municipalities and local governments in South Africa, and it was only in 1997 that DBSA's role and mandate was extended to include the SADC countries. COMESA set up the PTA Bank in 1985 primarily for trade finance but latter extended its mandate to provide term credit to SMEs. Other financial institutions set up at continent level include-- Africa Reinsurance (1976), Shelter Afrique (1982) and Afreximbank (1993).

⁵ COMESA members are currently 22: Angola, Burundi, China, Comoros, Djibouti, D.R. Congo, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

⁶ ECOWAS countries are Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. ECOWAS countries are classified into two groups according to the nature of the exchange and payments systems in force at the time. The first group is made up of countries with liberal systems. It consists of member states of the 'West African Economic and Monetary Union' (UEMOA). A common central bank-- Banque Central des Etats de l'Afrique de l'Ouest (BCEAO) controls this group of countries, which forms part of the franc zone.. Each of the countries in the second group has its central bank, which issues its own currency notes and coins. A clearing-house makes it possible to complete the transactions between countries with different currencies

⁷ UEMOA members are Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Senegal and Togo

⁸ UMA members are Algeria, Libya, Mauritania, Morocco, and Tunisia

⁹ Until mid-2004, the 14 SADC member countries were Angola, Botswana, the Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. As of July 2004, Seychelles terminated its membership of SADC, while Madagascar membership was approved.

¹⁰ Members of CEN-SAD are Benin, Burkina Faso, Central African Republic, Chad, Cote d'Ivoire, Djibouti, Egypt, Eritrea, The Gambia, Ghana, Liberia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo and Tunisia.

2.4.1.7 Past reviews indicate that in the early 1970s, DFIs, with strong government and donor backing, had made positive contribution to economic growth in most developing countries. Starting from the late 1970s, however, their developmental effectiveness failed to be sustained. Over the years, government interventions became more politicised and DFIs were used to serve interest groups – with resulting distorted incentives, a constrained private sector, and non-performing public enterprises. The situation was exacerbated in the late 1970s and early 1980s by exogenous factors such as the oil crises, unfavourable terms of trade and high interest rates that further lead to high internal and external indebtedness. The effectiveness of the DFIs and the overall financial systems was further constrained by inappropriate legal, regulatory and prudential framework; lack of disclosure requirements; lack of credit bureaus, absence of uniform and appropriate accounting standards; lack of appropriate technologies and human skills; and weak judicial system. DFIs were hard hit and were financially distressed.

2.4.1.8 The economic and financial reforms undertaken in the late 1980s in many African states further constrained the performance of many DFIs. The role of government and market was redefined giving more significance to the latter in the efficient mobilisation and allocation of resources. The reforms led to liquidation of several national level DFIs, particularly in the West Africa region, while a few were restructured to become more market and short-term orientated in their operations. Converted or not, DFIs continued to have resource constraints since they are by their very nature, dependent on external financiers for access to medium- and long-term financing. Their conversion into commercial banks did not help meet their need for long-term resources through access to public deposits, which is strictly governed by central bank regulations.

2.4.1.9 In general, the broader mandate of sub-regional DFIs relating to regional integration and poverty reduction objectives were not achieved in whatever status they performed. In addition, the overlapping mandates and memberships of sub-regional DFIs have stretched external financiers' assistance, including that of the ADB. Past reviews and evaluations have indicated that piecemeal restructuring and injection of thinly spread resources to the national and sub-regional DFIs have not produced the expected results.

2.4.1.10 Micro-finance institutions that emerged in the 1990s based on the Grameen Bank model were expected to bridge the financial intermediation gap in the informal sector with the aim of combating poverty. However, the Grameen Bank poverty reduction model has not been replicated satisfactorily in many African countries due to the inadequate availability of financial and technical assistance resources needed to nurture new ventures. Moreover, the model is more suited for short-term credits than medium- and long-term ones. Thus, the financial resource needs of indigenous entrepreneurs for capital investments continued to remain largely unmet.

2.4.1.11 In view of the foregoing experience, DFIs effectiveness to meet development objectives such as economic growth and poverty reduction has been much debated. The debate hinges on whether or not DFIs (national or sub-regional) have outlived their usefulness in contributing to the regions' economic development. Past ADB and other reviews have concluded that DFIs are still useful, but they need sustained flow of resources and technical assistance to perform as per their mandates. Such reviews underscored the vital need for collaboration among governments, central banks and DFIs to provide appropriate financial infrastructures, and to mobilize sustained

assistance from multilateral and bilateral financiers, sub-regional bodies and national governments, as well as from regional and national financial markets.

2.4.1.12 At present, the Bank is scaling up its regional cooperation and integration functions as a major pillar of its operations in order to advance economic growth and poverty reduction. The increased importance assigned to regional cooperation and integration as part of RMCs' and the Bank's development strategies requires a more systematic and coherent approach for channelling development finance and technical assistance. This is particularly the case since the adoption, by the African Heads of State and Government, of the NEPAD Program in 2001. It is, therefore, timely that this review is carried out to assess the mandate, role and effectiveness of sub-regional DFIs and sub-regional groupings to work in partnership with the Bank to advance regional cooperation and integration in the continent.

2.4.2 Review Features

2.4.2.1 The foregoing perspective helps in assessing the performance of the sub-regional DFIs, and the sub-regional organizations within which they operate, and in evaluating their role and responsibilities in meeting their mandates. It will guide the assessment of the sub-regional organizations in promoting an enabling environment that support the development of financial infrastructures conducive for DFIs effective operation. The perspective provides a summary background that helps in understanding the specificity of each sub-region, and in reassessing the role of governments and markets in channelling development finance.

2.4.2.2 The sub-regional DFIs' operational and financial performance shall be reviewed in the light of the historical perspective noted above. The review features cover the standard evaluation benchmarks adopted by the Bank and other MDBs as outlined in Annex 5. This review framework helps in assessing the comparative advantage, additionality and complementarity of the sub-regional DFIs in mobilization and allocation of development resources, and the compatibility of incentives to meet their mandates. The review will draw lessons of experience and propose recommendations to strengthen sub-regional DFIs and to enhance ADB's development, integration, and financial intermediation functions. It will also advise on the policy and strategy shifts, as well as the financial infrastructure requirements that may be needed to scale up the mandate of sub-regional DFIs so they can effectively respond to Bank strategies. The review will also make a broad assessment to determine the niche of ADB and sub-regional DFIs and the linkages with national level DFIs to render them more relevant in the overall financial system and enhance their contribution in mobilization and allocation of financial resources -- with due consideration given to relevancy, additionality and complementarity. The evaluation matrix along with key questions and sources of information is presented in Annex 6.

3. DELIVERABLES

The review will culminate in the production of a main report covering findings on policy, strategy, guidelines and procedures of Bank lending and non-lending intermediation carried out through the sub-regional DFIs. The review will come up with lessons and recommendations to guide the Bank's future assistance to sub-regional DFIs. Specifically, **the report will give clear**

and concise lessons and recommendations for the way forward relating to (1) policy, strategy, guidelines and procedural issues; (2) the niche of ADB and sub-regional DFIs to enhance regional integration; (3) the upstream linkages of ADB and sub-regional DFIs for regional infrastructure investments and financial and private sector development; and (4) the downstream linkages with national level financial intermediaries to enhance the development of SMEs.

4. REPORTING

Reporting will be done in line with the major milestone dates by submitting progress reports such as inception reports, desk review findings' report, field mission findings' report, draft report and final report as per the processing schedule presented in Annex 7.

5. INTERNAL AND EXTERNAL REVIEWS

The OPEV team will submit the final draft report for review internally within OPEV. The report will be finalized after external review and workshop feedback.

6. DISSEMINATION

The final report will be distributed to CODE for consideration. The report will be distributed to a wider audience within and outside of the Bank. There will be dissemination workshop for targeted audience.

7. RESOURCES

7.1 Team Composition

7.1.1 The team for this review will consist of two OPEV staff (one assigned as a Task Manager), four consultants and a research assistant. The OPEV staff will oversee the review tasks and participate in field missions. Detailed Terms of Reference will be prepared following acceptance of this Approach Paper.

7.1.2 The cost of consultancy services will be covered from bilateral funds. Preferably a consulting firm will be recruited for this assignment to ensure accountability and quality. The staff's mission and the short-term staff (research assistant) costs will be covered from OPEV budget.

7.2 Duration of the Review and Milestones

7.2.1 A total of 91 staff weeks will be required from preparation of Approach Paper to Production of Final Report.

7.2.2 The front end activities will take 8 weeks (including the preparation of this Approach Paper). The total OPEV professional staff time for the Task Manager and the second OPEV staff, will be 34 staff/weeks (including front end activities). The consultancy services duration will be a total of 52 staff/weeks (34 staff/weeks for two of the consultants and 18 staff/weeks for the other two experts. An equivalent of 5 working days is allocated for short-term staff to provide research assistance services. The breakdown of the duration of the review and major milestones are covered in Table 7.1.

Table 7.1: Level of Efforts

Major Tasks	Staff/Weeks							Short-term Staff	Total
	OPEV		Consultancy Services						
	Task Manager	Staff Member	Macro-level economist/financial Experts		Institutional Experts				
			Team Leader	Expert	Team Leader	Expert			
Preparation of Approach Paper	3								3
Processing Short-list, RFP & Recruitment of Consultants	5								5
Desk Review & Inception Report	2	2	4	2	4	2		3	19
Field Missions	4	4	4	4	4	4			24
Draft Report Preparation	4	4	4	3	4	3			22
Consolidation	2	-	2		2			2	8
Feedback Workshop	1	1	1		1				4
Final Report	2		2		2				6
Total Staff/Weeks	23	11	17	9	17	9		5	91

7.3 Cost Estimates

The Staff mission cost (including short term staff cost) is estimated at UA18,000 or about UA12,000 and the consultancy services cost is estimated at US\$281,660 or UA190,882¹¹. The details on consultancy costs are presented in Annex 8.

8. CONSULTANTS QUALIFICATION

8.1 As stated above, a consulting firm will be recruited for this review. At least four qualified experts will form the team for the review. The firm shall have adequate experience in monitoring and evaluation of donors' interventions in developing countries in general and the African Continent in particular. The consultants shall have graduate level education in the fields of economics and finance as well as adequate experience in the financial sector policy and intermediation operations of multilateral financial institutions. The consultant shall have the expertise to review macro-level financial sector policies and strategies relating to sub-regional

¹¹ Conversion rate used is January 2007 rate: 1 UA=US\$ 1.47557

financial intermediation in the form of LOCs, equity participation, guarantee provisions, etc. and assess if they adequately and effectively assist in translating the African Development Bank's Vision relating to regional integration and poverty reduction in general and the scaled up sub-regional strategy focus in particular.

8.2 The consultants required for this evaluation are the following:

- **Macro-level Economist/Financial Expert:** Quantity two: A graduate degree in macro economics and finance relating to investment/development banking and having adequate experience in assessing policies and strategies of sub-regional groupings and sub-regional financial institutions in developing countries as well as evaluation experience in multilateral financial institutions.
- **Institutional Expert:** Quantity two: A graduate in management and operational systems with respect to organization, mandates, roles and responsibilities of financial institutions and having adequate experience in governance, manpower and incentive issues.
- **Language and Computer Skills:** English language and adequate IT skills is required. At least two of the consultants (the economist/financial expert and the institutional level expert should be French speaking with good writing skill in the English language.

BANK'S LENDING AND NON-LENDING OPERATIONS TO SUB-REGIONAL DFIs

Name of sub-regional Development Bank	Date of first LOC/ Equity	Approved Equity Participation* (in million UA)	Date of Technical Assistance Grant	Number of LOCs and Grant Operations**	Approved loans and grant (in million UA)***	Net Loan and grant (in million UA) ***
East African Development Bank	1969/1970 1999	5 (5) 3.2 (3.2)	1969/2004	7 (1)	107.71 (0.90)	95.22 (0.90)
Banque de développement Des états de BDEGL	1987		1975	2 (1)	9.61(0.92)	4.28 (0.86)
Banque Ouest Africaine de développement (BOAD)	1987/1976	2.7 (0.66)		2	28.42	0.99
Fonds de la CEDEAO LOME	1988			2	34.19	10.85
Banque de développement des Etats de l' Afrique (BDEAC)	1989/1975	4.3 (1.6)		2	19.68	4.76
PTA Bank	1989/1985	15 (5)	1989/2003	2 (2)	35.47 (3.12)	35.33(2.79)
Development Bank of Southern Africa	1998		-	4	195.55	195.55
Banque Centrale des états de l' Afrique (BCEAO)			2002	-(1)	6.20	6.20
Africa Re	1976	5.8 (5.8)				
Shelter Afrique	1982	3.4 (3.4)				
Afreximbank	1993	16.9 (6.8)				
Total		56.3 (31.5)		21(5)	436.83 (4.92)	353.18 (4.55)

* Figures in bracket represent the amount disbursed

** Figures in bracket is the number of technical assistance provided

***Figures in bracket is the amount of technical assistance provided

Note: Equity is denominated in the specific local currency (conversion to UA is made using December 2006 rate:

1 UA= US\$ 1.47557

GLOSSARY ON DEFINITION AND APPLICATION IN THE CONTEXT OF THIS REVIEW

Sub-Regional Development Banks/ Financial Institutions (DFIs/FIs)

A sub-regional development Bank or sub-regional financial institution (DFI) is an institution that provides term credit to private or public sector projects in two or more countries of the sub-region concerned. In most cases, the countries of the sub-region members are also shareholders of the DFI. Development Banks, Guaranty Funds, Housing Finance institutions and specialized financial institutions (such as insurances, stocks exchange) which are operational at sub-regional level, are among the sub-regional DFIs/FIs.

This review mainly covers those DFIs/FIs that are engaged in provision of credits to commercially run small and medium enterprises (SMEs) engaged in productive and service activities of the member countries of the sub-region concerned. It also covers DFIs such as DBSA, which on lend to public corporations such as public utilities that are financially viable. Such sub-regional DFIs raise resources from external and internal sources. The external funds are raised in the form of lines of credit, equity financing or guarantee provisions from multilateral financial institutions such as ADB and bilateral sources. The internal funds are raised from retained earnings and through issue of bonds to local banks, insurance companies, pension funds managing institutions and the like. In general, sub-regional DFIs have to run on corporate norms and earn profits (i) to cover the risks related to their activities, (ii) participate in non-lending activities related to their development mandate, (iii) increase their equity to raise loanable resources from external and internal sources, and (iv) pay out dividends to the shareholders. Financial institutions set up at continental or sub-regional level that deal with import/export, housing and insurance activities are also covered to draw lessons of experience in their contribution to development in general and regional integration in particular.

Financial Instruments

In the Bank, financial instruments relates to lending and non-lending resources provided directly or indirectly to public or private sector. This review mainly covers those resources indirectly provided through financial intermediaries set up at sub-regional level. The Bank's indirect financial instruments are mainly in the form of lines of credit, equity financing, and provision of guarantee and technical assistance. The definition and application of the main financial instruments currently used are given below:

Lines of Credit

Lines of credit are defined as funds provided by external creditors such as the ADB to financial intermediaries for on-lending purposes primarily used to finance SMEs in the private sector or even commercially run public sector such as infrastructure sector. Unlike direct lending, the risk is passed from the donors to the financial intermediary (FI), which on-lend the funds to several final borrowers in a demand driven manner against guarantee to cover any failed repayment of the credit. The close monitoring responsibility rests with the FIs but donors such as the ADB has the responsibility to oversee that the funds provided have development outcomes. The Bank has

extended LOCs to sub-regional DFIs, national level DFIs and FIs as well as micro-finance institutions.

Equity Financing

Equity participation is defined as provision of funds to increase the share capital of the financial intermediaries and for which dividend payment is expected to shareholders. Equity participation is another tool at the disposal of the Bank for promoting both private sector and financial sector development through cooperation with the FIs and other private institutions. Under its statutes, the Bank can hold equity in any public or private enterprises or FIs but without assuming any managerial functions, though it can oversee the operations of the enterprises or FIs whose equity it holds. In the case of FIs, such oversight is justified on the grounds that FIs are very important vehicles for private sector development and poverty reduction. In the case of sub-regional DFIs the Bank has an additional oversight on achieving regional integration objectives. While the overriding objective of the Bank's equity participation is not financial return, in recent years the Bank has refrained from taking up equity in enterprises and FIs that do not provide dividends.

Guarantee Provisions

Guarantee provisions is an instrument that facilitates the access of enterprises or FIs to local or foreign currency funding on attractive terms and maturities not otherwise available. However, to the Bank, guarantees carry risks similar to those of direct lending. As such, the projects for which guarantees are issued by the Bank, are appraised, processed and supervised in the same fashion as project loans, and are subject to exposure limits¹². Since the primary objective of the instrument is private sector development, the main beneficiaries are private enterprises including financial institutions. Government-owned financial institutions such as sub-regional DFIs may also benefit from the facility if the operation could be of considerable advantage to private enterprises financed by the DFIs.

Technical Assistance

Technical assistance is covered under grant funds to be used for studies and institutional capacity building. It is usually provided as part of the LOCs. This assistance is enhanced in recent years to improve the management and operational systems of sub-regional DFIs.

Financial Infrastructure

Financial infrastructure is the set of institutions that enable effective operation of financial intermediaries. This includes such elements as payment systems, credit information bureaus and collateral registries. More broadly, financial infrastructure encompasses the existing legal and regulatory framework for financial sector operations.

Credit Bureaus

Credit bureaus collect information on a borrower's credit history from various sources including financial institutions, non-bank lenders, telecoms, courts and other sources. The information is then merged and analyzed to form a comprehensive credit history record for each borrower and is sold to lenders in the form of credit reports or credit scores.

¹² African Development Bank: Policies for Lines of Credit, Agency Lines and Guarantees to Private Sector Financial Institutions, Board document, August 1998.

MAIN FINDINGS FROM REVIEWS/EVALUATIONS OF LOCs AND EQUITY INVESTMENTS

African Development Bank

PCRS AND PERS

1. There is not separate policy and strategy that address ADB's intermediation through sub-regional DFIs.
2. Sub-regional DFIs are reported to be under funded and under-capitalized to effectively fulfil their broad mandate of regional integration and private sector development;
3. The sub-regional DFIs are not suitable for meeting the broad needs of small and micro-enterprises (such as term credit and working capital in local currency, technical assistance, market outlets, infrastructure, enabling environment, etc.);
4. Bank's intermediation through sub-regional DFIs and national level DFIs and private financial institutions is providing mixed signals since issues of competitiveness, additionally and complementarily are not well addressed;
5. Some DFIs are highly dependent on the financial resources from multilateral financial institutions such as ADB. On the other hand, the flow of resources from such donors is sporadic and thinly spread adversely affecting the smooth performance of the DFIs;
6. Result-based monitoring and evaluation function are not yet mainstreamed effectively in DFIs' corporate systems to capture the intermediate development outcomes and impact of the assistance on private sector development, poverty reduction and regional integration.

THE 2001/2002 STUDY ON STRENGTHENING DFIs IN AFRICA

The main findings of this study are:

1. DFIs can play important roles for channelling resources for the development of the private sector in general and SMEs in particular. In order to effectively carry out their mandates the require good governance and the right environment and support;
2. There is need for enhanced partnership in the effort to strengthen the DFIs. The development of the financial sector in general is an important step the require government commitment to play its role at the policy, infrastructure and institutional levels to create an enabling environment that generates opportunities for the DFIs in terms of mobilizing resources and being able to find creditworthy borrowers;
3. The Central Banks at the country or sub-regional level are required to introduce the needed refinancing mechanisms to assist banks in setting up appropriate guarantee mechanisms

and to adapt the banking regulations to the constraints and particularities of medium and long term credit;

4. DFIs themselves need to improve their management in areas of skills, governance and internal operating and monitoring systems to make them more competitive;
5. MDBs should continue to provide appropriate and effective technical and financial support to strengthen the DFIs. MDBs should effectively collaborate with governments to establish the right policies and to set up the guarantee mechanism, which is an important step towards strengthening DFIs;

THE 2006 REVIEW ON EFFECTIVENESS OF LOCs

The main findings of this review are:

1. LOCs contribution to financial sector development in RMCs is weak. LOCs should more systematically form part of an integrated approach to the development of the financial sector in RMCs;
2. Major contributing factor for the success of LOCs is good governance at DFIs and sub-project levels. In future, LOCs should be directed only towards DFIs, whether under public or private ownership, meeting well-defined standards in terms of governance, organization, risk management, accounting and monitoring;
3. Financial intermediaries' comparative advantage needs to be considered in providing LOCs instead of direct financing of projects. For example, the Bank should consider wholesale LOC operations through regional DFIs to take advantage of their local knowledge and presence. In addition, strong-institutional support and capacity building should be included in order to reinforce their role in the sub-regions of the continent;
4. Technical assistance should continue to be offered as an instrument for institutional development of DFIs, especially former development banks and microfinance institutions along side the LOCs and to set up systems needed to capture developmental outcomes on development and poverty reduction impacts;
5. The development impact and poverty alleviation objectives of the LOCs should be more clearly defined with appropriate indicators at the design of the LOCs;
6. LOCs for on-lending to small and micro-enterprises should be provided through specialized financial institutions rather than mainstream development or commercial banks.

Management response to the above review covers its concurrence with the main findings and concludes that Lines of Credit should be continued by the Bank with enhanced support through technical assistance and dialogue to further improve the economic and policy environment of RocS and governance and monitoring function of DFIs.

THE 2006 REPORT ON THE BANK'S EQUITY INVESTMENTS IN PUBLIC SECTOR INSTITUTIONS

The main findings of this review are:

1. ADB's participation in the reviewed institutions through equity helped attract other multilateral and bilateral investors;
2. ADB's LOC financing have assisted to improving the investment resources available for on-lending;
3. The provision of technical assistance have strengthened the capacity of the institutions and improve good governance but needs to be enhanced in areas of portfolio and risk management;
4. Although the financial institutions have regional coverage, the impact of their interventions or activities is limited to only a few countries;
5. There is need to strengthen the legal system to facilitate title deeds registration processes.

World Bank

The World Bank reviewed in 2005/06 its LOCs approved between 1993 and 2003 amounting to a total of \$13.4 billion and representing 8.4 percent of total Bank commitments for investment lending. It also reviewed in the same period its assistance for Financial Sector Reform. Between 1993 and 2003, its assistance for financial sector reforms was supported by about US\$56 billion in lending, or 24 percent of its total commitments; most of this lending was embedded in multisector loans. During this period, lending for financial sector reforms declined, due mainly to the sharp drop in lines of credit (LOC). The main findings of these reviews are as follows:

1. There is lack of coordination among donors in financial intermediation.
2. Implementation of its guidelines for LOC has been poor. One quarter of the LOC were approved in highly unstable macroeconomic conditions. Less than one-half of the projects used clear eligibility criteria to select the participating financial intermediaries for channelling its funds;
3. At completion, almost 40 percent of the LOC had no information on repayment rates from the funded sub-projects;
4. Outcomes are poor at 52% satisfactory by number of loans and 45 percent by net commitments;
5. Cancellation rates have been high reaching as high as 40% of original commitments, more than double the cancellation rates of other investment loans during the period;

6. Better outcomes for LOC are associated with (i) stable macroeconomic conditions; (ii) stronger financial sectors, including satisfactory competition policies and good legal and regulatory regimes governing financial institutions, and mostly market determined interest rates, few distortion credit and tax policies, and limited state ownership of financial institutions; (iii) use of clear eligibility criteria in the selection of participating financial institutions, and (iv) use of only private sector financial intermediaries;
7. The review concluded that in spite of the downward trend in Bank [World Bank] lending for LOC, they are unlikely to disappear. Demand from client governments remains strong, and its recent internal report on enhancing support to middle-income countries recommends making greater use of lending for infrastructure through LOC to sub-national level governments (mainly municipalities);
8. With respect to the financial sector review, the main findings suggest that although reforms supported by its lending during the past decade can be associated with improvements, they have not been sufficient to bring about the ultimate objective of well developed financial systems in the client countries. The assistance has, however, followed good practices in areas of reducing government ownership of financial intermediaries, improving prudential regulations to be consistent with international norms, and strengthening banking supervision to adhere more closely to international principles.

International Finance Corporation (IFC)

The IFC has taken over the role within the World Bank Group of investing in financial intermediaries. The IFC carries out an annual review of its evaluations findings for its direct and indirect lending operations. For the 2005 review, random sample of 210 operations through out the world approved in 1997-99 and evaluated in 2002-04 were used. For the fiscal year 2005, the findings points to the following challenges:

1. The need to deepen its strategic engagement with the World Bank and other development partners towards improving business climates in Africa and increasing private sector investment;
2. The need for adequate supervision, resources and technical solutions including better environmental performance;
3. The need for deepening its reach to non-exporting SMEs through the development of local currency financing and reducing barriers to SME lending by local financial institutions;
4. The need for improved IFC performance throughout the project life cycle;
5. There is need to deepen its strategic engagement, with the World Bank and other development partners to help improve business climate and increase private sector investment in Africa.

SUB-REGIONAL ORGANIZATIONS RELATING TO SUB-REGIONAL DFIs

Ser. No.	COUNTRIES	CEPGL	COMESA/ PTA	EAC	ECOWAS	SADC	CEEAC	UEMOA	UMA*
1	Algeria								X
2	Angola		X			X	X		
3	Benin				X			X	
4	Botswana		X			X (H)			
5	Burkina Faso				X			X (H)	
6	Burundi	X	X	X			X		
7	Cameroon						X		
8	Cape Verde				X	X			
9	Central African Republic						X		
10	Chad						X		
11	Comoros		X						
12	Congo						X		
13	Congo, DR	X	X			X	X		
14	Cote d'Ivoire							X	
15	Djibouti		X						
16	Egypt		X						
17	Equatorial Guinea						X		
18	Eritrea		X						
19	Ethiopia		X						
20	Gabon						X (H)		
21	Gambia				X				
22	Ghana				X				
23	Guinea Bissau				X				
24	Guinea Conakry				X				
25	Kenya		X	X					
26	Lesotho					X			
27	Liberia				X				
28	Libya		X						X
29	Madagascar		X			X			
30	Malawi		X			X			
31	Mali				X			X	
32	Mauritania								X
33	Mauritius		X			X			
34	Morocco								X
35	Mozambique		X			X			
36	Namibia		X			X			
37	Niger				X			X	
38	Nigeria				X (H)				
39	Rwanda	X (H)	X	X			X		
40	Saharawi Arab Dem Rep								
41	Sao Tome & Principe						X		
42	Senegal				X			X	
43	Seychelles		X						

	COUNTRIES	CEPGL	COMESA /PTA	EAC	ECOWAS	SADC	CEEAC	UEMOA	UMA
44	Sierra Leone				X				
45	Somalia		X						
46	South Africa					X			
47	Sudan		X						
48	Swaziland		X			X			
49	Tanzania		X	X (H)	X	X			
50	Togo				X			X	
51	Tunisia								X (H)
52	Uganda		X	X					
53	Zambia		X (H)			X			
54	Zimbabwe		X			X			
	Total	3	25	5	16	15	11	7	5

* There are not sub-regional DFIs operating in UMA sub-region

Source: Approach Paper on a Review of the Contribution made by Bank supported physical infrastructure projects and programmes towards promoting regional integration in Africa.
ADB/BD/IF/206/184

The letter H is to indicate the country where the headquarters of the sub-regional organization is located.

CEEAC = **Economic and Monetary Union of Central African States**
CEPGL = **Economic Community of the Great Lakes States**
COMESA/PTA = **Common Market of Eastern and Southern African States**
EAC = **East African Community**
ECOWAS = **Economic Community for West African States**
SADC = **Southern African Development Community**
UEMOA = **West African Economic and Monetary Union**
AMU (UMA) = **Arab Maghreb Union**

GENERAL AND SPECIFIC FEATURES OF THE REVIEW

General Features

Policy, Strategy and Guidelines: Relevance, Scope and Implementation

The Bank is committed to the enhancement of private sector development in RMCs through amongst others, its financial intermediation to DFIs. Development of a strong and dynamic private sector and regional integration is necessary for sustainable economic growth that takes account of poverty reduction and the environment. This review will assess the adequacy of the Policy and Strategy applied for the Bank's financial intermediation through sub-regional DFIs in meeting, among others, regional integration and poverty reduction objectives. The review will cover the Bank's lending and non lending assistance to sub-regional DFIs. Issues such as the extent the Bank uses its catalytic role in assisting sub-regional DFIs to raise development finance from internal and external sources and whether its financial intermediation responds to good practice standards of competitiveness, additionality and complementarity will also be addressed. The evaluation will also assess if these aspects are clearly stipulated in the Policy and Strategy of the Bank's financial intermediations in as far as they apply to sub-regional DFIs. Relevance, implementation and adherence of the existing policy and strategy as well as guidelines will be assessed in the light of the evolving roles and responsibilities of sub-regional DFIs.

The operation process and the portfolio performance will be reviewed against existing guidelines in order to assess the Bank's operational effectiveness in carrying out its intermediation through the sub-regional DFIs.

Regional Grouping and Macro-Economic Context

The regional grouping and the macro-economic and financial markets environment have significant impact on regional integration efforts of the member countries in the group. The review shall evaluate these aspects in as much as they relate to the sub-regional development banks of the respective member states in order to underscore the enabling or disabling factors to the development of the financial and private sector in the regional context. The comparative advantages or disadvantages of the Bank's direct assistance to other sub-regional institutions will be reviewed in comparison to financial intermediation through sub-regional development banks.

Conducive political and socio-economic environments as well as appropriate financial sector strategy are necessary to enhance private sector development and regional integration. Above all, appropriate incentive mechanisms to induce the various stakeholders to sustain their commitments are among the essential factors that could enhance development effectiveness. The review shall identify the key issues as they relate to the macro-economic context and the regional groupings in general and concerning the activities of the sub-regional DFIs in particular with the view to coming up with appropriate recommendations and action plans to address them.

Financial Sector Reforms

Appropriate financial sector policies, legislative support and institutional frameworks are required to guide the various stakeholders and provide the enabling environment for any development initiatives. The review will assess the extent to which the Bank has provided assistance to the concerned regions in the financial sector reform efforts. In addition, the review will examine the Bank's policies developed over the years to guide its intermediation through the sub-regional DFIs. The review shall identify the key issues within the financial sector as they relate to the regional groupings in general and the activities of the sub-regional DFIs in particular with the view to coming up with appropriate recommendations and action plans to address them.

Specific Features

Bank Group's and the concerned regions' strategy for the Lending and non-lending assistance to Sub-Regional Development Banks- Relevance and Quality at Entry

The review will examine the overall objectives of the Bank's intermediation through instruments such as lines of credit (LOC), equity participation, guarantee provisions, technical assistance, etc. to sub-regional development banks with respect to the magnitude of the financing and outcomes. The policy orientation, institutional arrangements, capacity of the sub-regional DFIs and the level of comparative advantage and catalytic role played by the Bank in co-financing as well as the assistance of the Bank in financial sector reforms will be examined to assess the extent to which the Bank exercised its development role in the regions concerned.

The relevance of an intervention in relation to the regions and Bank's development strategy and the orientation to meeting regional integration and poverty reduction objectives is an important feature in the allocation of limited resources. This aspect shall be evaluated for each region and the DFI serving the region.

Quality at entry with respect to full understanding of the financial sectors and the development strategies of the sub-regions as well as that of the sub-regional DFIs serving the regions is an important feature to contribute to the success of an intervention. The review shall assess the Bank's performance in ensuring the quality at entry of its intermediation through sub-regional DFIs for the lending and non-lending assistance. The economic and sector work, the financial sector review carried out over the years, the completeness of Logical Frameworks applied for the interventions, the financial and economic viability of the assistance, the consideration of cross-cutting issues in the appraisal works, and the clarity and relevance of conditions applied for providing the assistance, will be reviewed with the view of assessing the quality at entry and drawing appropriate lessons.

Achievement of Objectives and Outputs (Efficacy)

The review shall assess the efficacy of the Bank's assistance to the regions concerned with respect to improving the sub-regional development banks' service delivery and enhancing the development effectiveness of the interventions. To this end, the review shall assess the achievement of the assistance's objectives and outputs in the sub-regions. All cross-cutting objectives related to financial, economical, social and environmental, private sector development and regional integration will be covered in the assessment of achieving overall development objectives and outputs.

Efficiency of Lending and Non-lending Activities

The review shall examine the efficiency of Bank Group's development assistance highlighting the strengths and shortcomings to draw appropriate lessons. The following features will be reviewed in this connection.

a. Efficiency of Implementation

The review shall assess the level of success in implementation as measured by time and cost impacts on the financial and socio-economic benefits derived from the interventions. The efforts of the regional groupings to providing the enabling environment for the success of the interventions will be reviewed to assess the contribution to the implementation success or otherwise of the interventions.

b. Development Outcomes

The review shall assess the cost and benefits of the development outcomes and highlight the factors that have positively or negatively affected their achievement to draw appropriate lessons to guide future interventions.

Institutional Development Impact

Priority should be given to reliable arrangements for effectively using the LOCs and other instruments for the intended purposes including the sub-projects capability in delivering the output in order to ensure good governance and sustained commitments. The review shall assess the Bank Group's assistance in institutional strengthening for the sub-regional DFIs as this is necessary to ensure sustainable development. The review shall assess this aspect in the light of the evolving roles of the financial sector in general and the sub-regional DFIs in particular. The review shall examine the institutional arrangement put in place at the level of the sub-regional DFIs and the capacity building efforts in this connection.

Sustainability of the Assistance

a. Appropriateness of the Assistance

The types and terms and conditions of the assistance could have far reaching impact with respect to the original capital investment and working capital of the sub-projects. The rationale for the Bank's involvement in LOC, equity capital participation, guarantee provision, and/or technical assistance will be critically reviewed to assess the appropriateness of the assistance. For example, with respect to LOCs, the issue of crowding out shall be examined. The client base shall also be reviewed against the type and terms and conditions of the assistance. 'One fit all' approach across the board may not be beneficial particularly if the aim is to reduce poverty. In this respect, the review shall assess the appropriateness of the LOCs in past interventions to meet poverty reduction and regional integration objectives. The different instrument used shall be assessed for adequacy and appropriateness. In addition, the review shall assess the extent of the Bank's involvement in the selection of sub-projects in terms of review of investment proposals, providing advice to the sub-regional DFIs before or during implementation of the interventions in the regions concerned.

b. DFIs Performance and Commitment for Private Sector Development

The review shall also assess the sub-regional DFIs' readiness in providing LOCs and technical assistance to country level national financial and non-financial institutions through forging appropriate linkages in order to achieve economy and efficiency (avoiding crowding out their services) to enhance private sector development in general and meet the broad needs of SMEs in particular.

c. Financial Sustainability

Questions of pricing, cost recovery, affordability and equity need to be addressed and appropriate funding mechanisms for sustainable outcomes, with attention to effective and efficient utilisation of resources, need to be put in place. The review shall examine the evolution in this respect and the extent the Bank has assisted the sub-regional DFIs towards achieving financial objectives and ensuring sustainability of outcomes.

d. Socio-economic and Environmental Sustainability

Private sector development is a key element in enhancing growth in the economy. The review shall examine the benefits and sustainability achieved in the outputs and outcomes of the assistance; and shall assess the Bank's involvement towards contributing to sustainable development in the regions concerned. The review shall examine the impact of the various interventions on the socio-economic development, gender equality and environmental sustainability of the investment financed by sub-regional DFIs under the Bank's assistance.

e. Enabling Environment for Financial and Private Sector Development

Collaboration and participation of all players in the financial and private sector are beneficial for sustainable outcomes. The review shall examine the extent the Bank has assisted the sub-regional DFIs in meeting the financial and private sector development objectives. The review shall examine the mechanism put in place and the overall enabling environment to enhance and sustain the financial and private sector development in the concerned regions.

f. Overall Sustainability

In the light of the foregoing assessment of the various features, the review shall assess the overall outcome of the interventions and the extent of sustainability to enhance the development of the affected economic sectors and regional integration achieved under the Bank's assistance to sub-regional DFIs in order to draw lessons of experience.

Contributors Performance

The review shall assess the performance of all parties in the design and implementation and operational phases of the different instruments used in financial intermediation. The experience of other financiers in the sub-regional will be assessed to situate the Bank's contribution in assisting the sub-regional DFIs in order to carry out their respective mandates effectively.

Main Findings/Lessons and Recommendations

The review will culminate by summarizing the main findings/lessons on the overall Bank assistance to sub-regional DFIs. The report will have clear and concise lessons and recommendations for the way forward relating to policy, strategy, guidelines and procedural issues; the niche of sub-regional DFIs to enhance regional integration and the upstream linkages for regional infrastructure investments and financial and private sector development, and the downstream linkages with national level financial intermediaries for the development of SMEs in the countries of the sub-regions.

EVALUATION MATRIX

Evaluation Framework	Key Questions	Sources of Information
I. POLICY AND STRATEGY		
<p>1. Relevance and synergies of the Bank’s Policy and strategy and those of the regional groupings and the sub-regional DFIs</p> <p>1.1 Consistency of sub-regional policies and strategies for meeting respective mandates and objectives</p> <p>1.2 Coherence between policies and strategies of sub-regional organisations and those of individual member countries</p> <p>1.3 Complementarity of the Bank’s policy and strategy of financial intermediation with other multilateral and bilateral financiers</p>	<p>Have policy and strategies evolved to meet the changing regional aspirations and circumstances?</p> <p>What are the mandates, policies and strategies of regional organizations, the ADB and sub-regional DFIs and are they relevant with respect to regional integration?</p> <p>Do they facilitate operations that enhance regional integration?</p> <p>Do they have their respective niche?</p> <p>Is there a need to revise mandate, policies, strategies in the light of the Bank’s sub-regional strategies?</p> <p>To what extent the policy/strategy reflect relative institutional comparative advantage?</p> <p>How well aligned are the policy/strategy of sub-regional groupings with that of the respective sub-regional DFIs and the Bank and other financiers?</p> <p>How enabling are the policy and strategy of each member country to regional integration efforts?</p>	<p>Review of the mandate, role and responsibilities of sub-regional groupings, the sub-regional DFIs, the ADB and those of other financiers operating in the region</p> <p>Review of guidelines and processes of the Bank for financial intermediations through sub-regional groupings and sub-regional DFIs</p> <p>Questionnaires and field findings</p>
<p>2. Resource Allocation (loans, equity, Guarantee, and grants)</p> <p>2.1 Effectiveness of instruments used for resource allocation</p> <p>2.2 Criteria for allocation and choice of instruments provided to sub-regional groupings, sub-regional DFIs</p> <p>2.3 Criteria for size of instruments used</p>	<p>What are the patterns of resource allocation in the sub-regional groupings and sub-regional DFIs?</p> <p>Is resource allocation consistent with sub-regional groupings and DFIs mandates, policies and strategies ?</p> <p>How effective are current resource allocation systems – type of instruments, size, timing, etc?</p>	<p>Internal programming documents</p> <p>Internal guidelines and processes in resource allocation</p> <p>Internal and external documentation co-financing data and information</p>

<p>2.4 Co-financing level and effectiveness 2.5 Factors contributing to sustained Assistance</p>	<p>To what extent have they evolved over the period?</p> <p>What has been the scale and trend of co-financing and who are the main co-financiers?</p> <p>To what extent the Bank apply its catalytic role in resource mobilization?</p> <p>How effectively resources are used for meeting mandates in general and regional integration objectives in particular?</p>	<p>sub-regional groupings and DFIs views on co-financing- questionnaires and field findings</p> <p>Bank's non lending operations- Dialogue, co-financiers meetings, Donors meetings</p>
II. EVALUATION OF KEY BUSINESS PROCESSES		
<p>3. Management and Organizational Dimensions for the sub-regional groups, Sub-regional DFIs and ADB</p> <p>3.1 Organizational structure 3.2 Delegation Matrix 3.3 Institutional capacity (financial, human, IT, etc.) 3.4 Monitoring systems 3.5 Presence</p>	<p>What is the current organizational structure including reporting arrangements?</p> <p>How capable is the respective institutions to fulfil their mandates, roles and responsibilities in general and with respect to regional integration activities in particular?</p> <p>To what extent is the overlapping regional membership of sub-regional organization and that of DFIs affect priorities and objectives as well as resource flows in meeting their respective mandates?</p>	<p>Statistical data and information on Organization (organizational charts, Manpower level, etc)</p> <p>Questionnaires, Interviews and discussions with concerned institutions</p>
<p>4. Effectiveness of the Lending and Non-Lending activities' cycle management</p> <p>4.1 Financial Instrument's design and quality at entry 4.2 Negotiation, approval and effectiveness 4.3 Monitoring and Evaluation Systems (supervision, mid-term reviews, PCR)</p>	<p>How effectively are the various activities carried out throughout the portfolio cycle?</p> <p>What role is played by the respective sub-regional organizations in overseeing the interventions and ensuring that they are in line with the policy and strategy of the time?</p> <p>Are Logical Framework used? Are measurable performance indicators clearly spelt out?</p> <p>Are financial and economic viabilities and cross cutting effects considered at appraisal?</p>	<p>Review of the preparation and appraisal PCRs, PPERs, and reviews documents</p> <p>Interviews with task managers, the sub-Regional organizations and DFIs</p>

5. Policy and Sector Work, Policy dialogue and partnership building		
<p>5.1 Relevance, technical quality and quantity of policy and sector work at sub-regional level</p> <p>5.2 Level of assistance in non-lending activities (resources and presence)</p> <p>5.3 Participation in shareholders meeting(if Equity is involved) and other donors' meeting</p>	<p>Was the assistance in non-lending activities carried out effectively?</p> <p>How active is the Bank in its non-lending function?</p> <p>How active are the sub-regional organizations and the DFIs in fulfilling their mandates in general and regional integration objectives in particular?</p> <p>How active are other development partners?</p> <p>Is the ADB adequately represented in DFIs' Board Meetings, and how influential is the Bank?</p>	<p>Review of policy and sector work reports</p> <p>Discussions with key policy persons in sub-regional organizations</p> <p>Evidence from comparator organizations</p> <p>Interview with task manager, DFIs staff and other major regional partners</p>
III. EVALUATION OF DEVELOPMENT RESULTS		
6. Performance and Outcomes of the Portfolio (LOCs, Equity, Guarantee, Grants)		
<p>6.1 Evaluation Benchmarks</p> <ul style="list-style-type: none"> -Relevance -Efficacy -Efficiency -Institutional Development Impact -Sustainability 	<p>To be evaluated based on OPEV evaluation guidelines</p> <p>Past reviews indicate that some sub-regional DFIs are totally dependent of ADB's and other donors' assistance while others have ceased borrowing from multilateral financial institutions such as ADB? What are the underlying reasons for such lop-sided assistance of the Bank to DFIs?</p> <p>What is the advantage or disadvantage of direct lending to sub-regional organizations compared to indirect lending through DFIs?</p>	<p>Desk review of all available reports and documents; field missions findings</p>
<p>7. Performance of Partners</p> <ul style="list-style-type: none"> -Sub-regional organizations -DFIs -ADB -Other financiers -Other development partners 	<p>To be evaluated based on OPEV evaluation guidelines</p> <p>Aspects to be considered are additionality, complementarity, catalytic effects, contribution to financial and private sector development in general and in particular regional integration and development of SMEs</p>	<p>Desk review of all available reports and documents; field mission findings from discussions with various partners</p>

IV. THE WAY FORWARD		
<p>8. Lessons and Recommendations</p> <p>8.1 On sub-regional organizations</p> <p>8.2 On sub-regional DFIs</p> <p>8.3 On ADB</p> <p>8.4 On other development partners</p>	<p>What revision is required in the exiting mandates policy, strategy, guidelines, etc</p> <p>There is concern that some sub-regional groupings are more political blocks and are not yet fully transformed into a true instrument for regional economic integration. In addition, there are issues on harmonization of laws, rules and regulations. In what ways should ADB play its catalytic role in enhancing the enabling environment through harmonization and scaling up their roles to concentrate on economic integration?</p> <p>How effectively should sub-regional groupings' development funds be channelled through sub-regional DFIs to address poverty reduction objectives?</p> <p>What improvement should be made on revamping the sub-regional organizations in conceptualizing regional strategy, coordinating and monitoring regional development operations and creating appropriate linkages with sub-regional DFIs?</p> <p>How effectively should the Bank assist sub-regional DFIs to have appropriate upstream and down stream linkages and carve out the respective niches in meeting regional integration and financial and private sector development objectives as well as the broad needs of SMEs?</p> <p>How could the Bank forge appropriate linkages with the sub-regional organizations and DFIs to implement sub-regional assistance strategy, which is being mainstreamed in the Bank's operations?</p> <p>How effectively could the Bank dialogue with sub-regional organizations to remove constraints on trade integration, which is a factor to encourage the conceptualization & implementation of sub-regional projects and programs?</p>	<p>Desk review, questionnaire findings and discussions with various partners during field missions</p>

	<p>How effectively could the Bank's recently created Regional Integration Unit coordinate the Bank-wide Regional activities including those of NEPAD in the sub-regions and to what extent the sub-regional DFIs could pro-actively engage in these efforts?</p> <p>It is asserted that those sub-regional DFIs converted into universal banking have a tendency of abandoning their development functions for the shorter term, less-risky and more profitable lending portfolios. How effectively could the ADB create suitable refinancing mechanisms for DFIs so that they give more priority to their core function as a supplier of medium and long term finance?</p> <p>What changes are required in the Bank's financial intermediation policy and strategy such that the Bank could concentrate more on refinancing and technical assistance?</p> <p>How could the Bank enhance its interventions in Equity financing and guarantee provisions to sub-regional DFIs?</p> <p>How effectively could the Bank operate to serve as a advocate of DFIs so as to improve their function and governance and their credit</p> <p>How effectively could the Bank assist in the development of sub-regional capital markets?</p>	
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PROCESSING SCHEDULE

TASKS/months	2007												2008						
	1 st Quarter			2 nd Quarter			3 rd Quarter			4 th Quarter			1 st Quarter			2 nd Quarter			
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	
Approach Paper	■																		
Processing and approval of bilateral funding		■																	
Short list, RFP, Recruitment of Consultants				■															
Desk Review							■												
Field Mission									■										
Preparation of Draft Report										■									
Feedback Workshop																			
External Peer Review													■						
Production of Final Report																			
Submission to Board																			

Note: Gaps between bar charts is the time taken by the Bank to review reports submitted at each milestones (after desk review, field mission, draft main report, final main report as well as time allowed for translation)

CONSULTANCY COSTS

A consulting firm will be recruited through financing from bilateral trust funds. The Consultancy services will be for a maximum duration of 52 staff weeks. The total estimated consultancy fees will be USD281,660 or UA190,882, which covers professional fees (including the firm's administrative costs and profit margin), per diem and travel costs. The breakdown of the costs is as follows:

	Cost Category	Amount in US Dollars
1.	Professional fees* for 260 working days (at US\$800/working day**)	208,000
2.	Per Diem for the missions days in Tunis and the field visits (at an average rate of US\$220/day) for 29 staff weeks or 203 calendar days***	44,660
3.	Transport Cost (as per the Bank's Rules - Round trip ticket to and from Tunis (twice for the two consultants And three times for the consultant team-leader and field missions)	25,000
4.	Incidental Expenses	4,000
	Total	US\$281,660 or UA190,882

* Professional fees include firm's administrative costs and profit margin.
**Calendar days per week is taken as 5 days per week
***Per Diem expenses is not considered for work carried out at home office
Conversion rate used: 1UA=US\$1.47557

LIST OF REFERENCE DOCUMENTS

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4. ADB Lending Policies and Related Operational Policies, ADB/BD/IF/85/10
5. Finalization of the Industrial Sector Policy Guidelines, ADB/BD/IF/87/17
6. Co-financing with Commercial Banks, ADB/BD/WP/86/111
7. Environmental Policy Paper, ADB/BD/WP/89/123
8. Bank Group Policy Blending, ADB/BD/WP/89/30
9. Policy Paper on Women in Development, ADB/BD/WP/89/142
10. On-Lending Policy, ADB/BD/WP/90/36
11. Private Sector Operational Policies, ADB/BD/WP/90/77
12. On-Lending Policy Paper, ADB/BD/WP/91/61
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14. Poverty Evaluation Strategy and Action Programme, ADB/BD/WP/92/94
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32. Portfolio Management Manual (October 2001)
33. Multilateral Development Banks: A Partnership for Development, Growth and Poverty Reduction, ADB/BD/IF/2001/34
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35. Bank Group Financial Sector Policy, ADB/BD/WP/2002/49
36. The Vision of the African Development Bank, 2003 ADB, 2nd edition
37. Operational Guidelines for Non-Sovereign Guaranteed Public Sector Loans, ADB/BD/WP/2003/29
38. Bank Policy on Guarantees, ADB/BD/WP/2003/85

39. Bank Group Policy on Poverty Reduction, ADB/BD/WP/2003/124
40. Quarterly Portfolio Status Reporting Guideline
41. Annual Supervision Reporting Guideline
42. Economic Cooperation and Regional Integration Policy Paper, ADB/DB/WP/2003/13
43. Bank Group Policy on Environment, ADB/BD/WP/2003/116
44. Management's Proposal to Establish a Focal Point Regional Integration, ADB/BD/WP/2003/129
45. Lines of Credit Impact Study, Draft Final Report, 2003
46. Information Note of the Role of the African Development Bank in support of NEPAD, ADB/BD/WP/2004/48
47. Monitoring and Evaluation Guidelines for private sector projects, ADB/BD/WP/2004/12
48. Southern Africa: Regional Assistance Strategy Paper, ADB/BD/WP/2004/110 (ADF/BD/WP/2004/134)
49. Evaluation Guidelines for Private Sector Lines of Credit Operations, ADB/BD/IF/2005/304
50. Multinational: Medium to Long-Term Strategic Framework (MLTSF) Study for infrastructure development, ADB/BD/IF/2005/161
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55. Policy Framework for Bank Lending in RMC currencies, ADB/BD/WP/2006/73
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