
What did IDEV evaluate?

The evaluation examined a portfolio of 70 operations approved between 2006 and 2013 that specifically support SME development. These include 46 investment operations, 16 technical assistance grants, and eight institutional support projects totaling approximately USD 1.9 billion, or about 3.7 percent of all Bank approvals.

What did IDEV find?

Relevance

The Bank’s strategic orientation is satisfactory. The Bank has long recognized the importance of SME development in Africa, which has been a recurrent theme in strategic and policy documents. However, neither a dedicated SME strategy nor a harmonized definition of SME exists, and SME assistance lacks a unified conceptual framework. Limited use of local currency lending is a persistent gap in the Bank’s product mix that limits its ability to effectively reach SME beneficiaries.

The Bank’s SME assistance operations are moderately satisfactory. They were often undermined by design weaknesses, and financing agreements often lacked appropriate eligibility criteria for sub-loans, thereby hampering proper targeting of SMEs. However, since 2013 the SME focus has been considerably strengthened, and operations are much more aligned with SMEs’ financing needs.

Effectiveness

SME assistance operations are moderately satisfactory. The Bank’s ability to reach SMEs was limited due to design weaknesses: while 90 percent of the firms receiving funding can be classified as SMEs, they received less than 40 percent of the funding (with the balance going to larger enterprises). Only a few financial intermediaries expanded their SME portfolio and even fewer introduced new financial products for SMEs. On the positive side, the majority of projects performed well in financial terms, with few or no defaults.

Additionality

The Bank’s interventions are deemed moderately satisfactory. Provision of long-term resources enabled financial intermediaries to match the demand for term credit. Further, the Bank was an important investor in a dozen equity funds although it rarely played a catalytic role. Non-financial additionality is rather modest.

Efficiency

The Bank’s organizational set-up and procedures are deemed moderately satisfactory. On an average it took 10-12 months to process an investment operation (i.e., twice the average approval time at the International Finance Corporation (IFC) or the European Bank for Reconstruction and Development (EBRD)). The Bank also had about twice as many approval gates and a particularly laborious project clearance process. And the various units involved in
SME-related work share experience on a limited basis, despite some recent improvements.

The appropriateness of the Bank’s M&E arrangements is moderately unsatisfactory. While tools for measuring the performance of SME assistance were developed, problems persist in data collection, client financial institutions are less inclined to provide data in a timely manner, and Bank staff sometimes hesitate to put pressure on clients.

What did IDEV recommend?

1. Develop a comprehensive conceptual framework for SME assistance, while revamping analytical work.

2. The Bank should adopt an official definition of SME so that target groups are clearly defined.

3. Expand the utilization of local currency financing, which is currently envisaged under the Africa Small and Medium Enterprise Program (ASMEP).

4. Improve the design of investment operations, with a more accurate assessment of Partner Financial Institutions’ (PFIs) financial needs in order to reduce cancellations.

5. Diversify the range of client PFIs and countries of operations already envisaged by the ASMEP, and deploy efforts to translate this into concrete action.

6. Strengthen eligibility conditions to ensure that SMEs are effectively reached.

7. Improve the relevance of technical assistance and facilitate its implementation such that TA initiatives are tailored to the specific needs of each intermediary and more consistently aligned with the objectives of the associated lending or investment operations.

8. Improve coordination among services involved in SME assistance by establishing mechanisms (e.g., community of practice) to better integrate the various Bank services concerned.

9. Simplify project approval procedures by building on the experience gained from procedures exhibited in the ASMEP: reduce the number of project approvals; and streamline approval procedures.

10. Improve the collection of information on project achievements.

11. Establish a system similar to that in most MDBs to monitor and report on results (e.g., the IFC’s Development Outcome Tracking System, and EBRD’s Transition Impact Monitoring System).

What did IDEV recommend?

Independent Development Evaluation (IDEV) of the African Development Bank carries out independent evaluations of Bank operations, policies and strategies, working across projects, sectors, themes, regions, and countries. By conducting independent evaluations and proactively sharing best practice, IDEV ensures that the Bank and its stakeholders learn from past experience and plan and deliver development activities to the highest possible standards.

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What did Management respond?

Management welcomed the independent review of the Bank’s Assistance to SMEs 2006-2013 – its relevance, additionality, effectiveness, sustainability, and efficiency of SME operations and the approach to SME development – which presented a positive view of AfDB interventions and notes the continued improvements made in the years since the evaluation period.

The evaluation made several useful recommendations, many of which are in line with Management’s own findings since the period under review. These have therefore been implemented. Management was pleased with the opportunity to further refine the approach to SME assistance, as detailed in the Management Action Record.

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