Executive Summary

Background
Despite the relatively high per-capita income of African middle-income countries (MICs), they continue to face significant development challenges, including rising levels of income inequality and pockets of poverty, high youth unemployment, and persistent infrastructure deficits. Furthermore, MICs have varied development needs given their heterogeneity in socioeconomic and demographic characteristics. Importantly, this group of countries varies in terms of economic competitiveness, level of financial market and private sector development, as well as state capacity.

The Middle-Income Country Technical Assistance Fund (MIC-TAF or “the Fund”) was established by the African Development Bank Group (AfDB or “the Bank”) in 2002 to address issues such as the limited access of regional member MICs to financial resources for investment preparation and analytical studies. The objective was to enhance the volume, quality, competitiveness and development effectiveness of the Bank’s operations by providing grant resources for capacity building, economic and sector work (ESW), and project preparation in MICs and blend countries.

In April 2018, the Board of the Directors of AfDB directed Independent Development Evaluation (IDEV) to conduct an evaluation of the MIC-TAF, with a view to examining the extent to which the Fund had achieved its original goals and delivered development results in recipient countries. The evaluation also investigated issues around the Fund’s governance, as well as the factors that hindered (or promoted) the utilization of funds from both the supply- and demand-side.

The evaluation covered the life of the Fund’s operational existence from its establishment in 2002 through to 2018. In particular, the evaluation sampled MIC-TAF operations that had become effective both before and after the revision of the Fund’s Operational Guidelines in 2011. In line with the standard OECD-DAC evaluation criteria, the evaluation responded to questions on the MIC-TAF’s relevance, effectiveness, efficiency, sustainability, and governance.

In terms of methodology, the evaluation relied on content analysis, portfolio and document reviews, and structured interviews in the Bank to analyze information on the MIC-TAF. Field missions and beneficiary consultations were also carried out to triangulate and validate all the findings.

The findings of this evaluation aim to inform future discussions on net income allocations and the replenishment of the Fund. The recommendations are also expected to inform the Management’s decisions on how to improve the effectiveness of the MIC-TAF and the Bank’s engagements in MICs.

MIC-TAF operations
The MIC-TAF supports activities in the following five priority areas: (i) project preparation; (ii) technical assistance, capacity and institution building; (iii) ESW; (iv) private sector development; and (v) regional integration. Eligibility to the Fund is limited to Regional Member Countries (RMCs) with access to the ADB window (Category C countries) and those with access to both the ADB and ADF windows (Category B, or blend countries).

At the establishment of the Fund, the Bank provided an initial allocation of UA 1 million as seed money. In response to the growing needs of regional member MICs, AfDB made annual allocations from its net income to the Fund, with the exception of years 2003, 2005, 2012, 2013 and 2016. In total, UA 96 million was allocated to the Fund from the ADB net income between 2002 and 2017.

During the period under review, the MIC-TAF funded 185 projects in 17 MICs (including two blend countries and multinational projects) amounting to a total portfolio of UA 103.77 million, of which 10 MIC-TAF projects worth UA 4.93 million were terminated between 2004 and 2016.

Findings

Relevance
The relevance of the Fund and its operations was
judged to be generally satisfactory with, however, one caveat with regard to selectivity and quality at entry.

Results from the project reviews indicated that overall, MIC-TAF grants were aligned with the Bank’s strategy for recipient countries, as well as their development needs and governments’ priorities.

While the Fund aims to accomplish the development objectives of recipient countries, there was no systematic or strategic choice in the selection of financed projects.

The Fund lacked a clear strategic focus. It supported a wide range of activities across multiple sectors. The evolution of the Fund through the various guidelines shows that its purpose has widened over time, with an increasing list of activities. Although interviews with operations staff suggested that broadening the scope was necessary to increase the use and coverage of the Fund, as well as to meet the needs of countries, the evaluation considered that this evolution potentially reduced the Fund’s development effectiveness.

This lack of focus has never been considered as an issue largely due to the fact that resources had always been available in the Fund for user countries until recently when it was depleted. As a result, the link between MIC-TAF projects and the Bank’s operations was limited with significant variations between recipient countries.

Although the Fund’s guidelines mention the need for selectivity, between 2004 and 2016 the focus was more on increasing the Fund’s utilization. As a result, requests for MIC-TAF grants did not follow a rigorous analytical process aimed at optimizing the Fund’s strategic utility.

Quality-at-entry of MIC grants presented a mixed picture. Project reviews showed a wide variation in the quality of Project Appraisal Reports (PARs) supported by MIC-TAF grants. This weakness in the results framework made it difficult to link project objectives to measurable development outcomes. The poor design of grants was attributable to a lack of incentives to invest adequate time and resources in the design of the relatively low value operations.

The most important weakness of financed projects was their unrealistic implementation timelines, which often resulted in extended implementation delays and high transaction costs. Ultimately, this led to cancellations and political issues with the governments, and a negative impact on the Bank’s image.

The quality of MIC-TAF projects was sometimes affected by various forms of country-specific risk. Three categories of risk that required attention were: (i) risks related to a country’s internal political environment; (ii) risks related to the capacity of implementing partners to execute an approved project; and (iii) risks in sustaining the development impact of projects beyond the point of exit.

**Effectiveness**

The effectiveness of the Fund was rated as satisfactory overall and this was based on its ability to achieve one of its main objectives, namely improving the Bank’s portfolio in MICs, albeit with an appreciation of the Fund’s limited capacity to generate development outcomes.

Improving the Bank’s pipeline of projects in MICs was one of the key reasons for establishing the Fund. Overall, the total MIC-TAF portfolio of 185 projects amounting to UA 103.7 million generated UA 1.51 billion in total investment for the Bank, either directly or indirectly. This means that for every UA 1.00 of MIC-TAF resources spent in MICs, on average UA 14.52 was generated in funding.

However, it is worth noting that only 17 of the 185 projects had clear ties with subsequent Bank operations. Of the 53 grants expected to yield a project, only about one-third (17) actually resulted in a project being approved by the Bank. This implies that only 9 percent of the total number of MIC-TAF projects directly contributed to the generation of new lending operations for the Bank. This points not only to issues with the Fund’s effectiveness and selectivity, but also to the Fund’s potential to generate more projects.

There was clear evidence that the Fund served as a tool for strategic influence in MICs. In particular, the Fund positioned the Bank as a ‘partner of choice’ in MICs and facilitated its continuous engagement with countries where it had limited loan operations. Evidence suggests that the Fund could generate a larger pipeline of projects if quality-at-entry and client ownership were improved. The reasons for the minimal

The number of projects generated by the Fund included: (i) the Bank’s inability/lack of interest in funding more projects; (ii) the limited interest of the recipient countries in borrowing from the Bank; and (iii) the implementation delays that rendered studies or project ideas obsolete, as government priorities had shifted in the interim.

ESW financed by the Fund showed mixed results. Various national counterparts noted the usefulness of ESW funded through the Fund to support policymaking and policy dialogue. However, the issues surrounding the effectiveness of the operations had an adverse effect on the usefulness of the ESW, mostly notably its timeliness and relevance for action.

Unfortunately, the ability to assess the achievement of the Fund's outcomes was compromised by a systemic failure to comply with reporting requirements, such as Project Completion Reports (PCRs).

Based on the available documentation and case studies conducted, strong evidence of the achievement of development outcomes could only be documented in 17 out of the 185 grants in the MIC-TAF portfolio that could be linked to new or ongoing lending operations in beneficiary countries. Overall, based on the project review sample, most operations eventually delivered their planned outputs, but the usefulness of those outputs was variable. Furthermore, as was the case for ESW, evidence from the interviews with the Bank’s Task Managers suggested that the follow-up on outputs to ensure their continued usefulness and the concrete achievement of outcomes was not systematic.

Efficiency
The Fund’s efficiency was rated as highly unsatisfactory. Although it has recorded clear efficiency gains since its inception in 2002, the processing and delivery of the financial instrument has remained inefficient relative to comparable instruments in similar Multilateral Development Banks (MDBs). Long delays in responding to, and processing, MIC-TAF requests have had an adverse impact on the timely completion of investment projects and capacity-building initiatives. In several instances, these extended delays adversely affected clients’ interest in, and ownership of, MIC-TAF grants, thus reducing their effectiveness.

Some PCRs identified a lack of capacity of the implementing partners and agencies as a key contributory factor, which should have been identified and mitigated during the appraisal report stage of the project. The nonperformance of the executing agencies could also be explained by an unwillingness in some cases to devote adequate resources (staff, time and finances) to ensure effective implementation. The absence of systematic project launch missions was also one of the contributory factors affecting the smooth implementation of Fund projects.

The average time between a country’s request for a grant and its approval by the Bank increased slightly from 6.2 months in 2002-11, to 6.7 months in 2012-17. This timeline was still significantly higher than the target of 30 working days for processing requests up to approval by the Vice-President, as indicated in the Fund’s guidelines.

In sum, the efficiency of the Fund varies significantly across beneficiary countries. For instance, whereas it takes an average of nine months for a MIC grant to be implemented in Gabon and Morocco, it takes just three months in Seychelles. A benchmark of similar institutions reveals that the average time taken to process Technical Assistance from Concept Note to Approval was higher in AfDB.

As at the end of 2017, UA 13.4 million of MIC-TAF grants were eligible for cancellation, indicating poor project performance. The amount eligible for cancellation covered projects approved as of 2009 and represented about 15 percent of total approvals during the 2009-17 period. However, only UA 2.3 million of projects were in fact cancelled during 2004-17, reflecting a relatively small proportion of the Fund’s projects (16 percent). The high level of projects eligible for cancellation was also linked to the fact that many grants were studies that could only be disbursed in the latter period of implementation.

Challenges to improved efficiency included weak institutional contexts and capacity gaps within the implementing partners and agencies, and issues of quality-at-entry, as well as complex procurement processes at the Bank level, which sometimes rendered the project obsolete. Overall, there was general agreement among Bank staff and user countries that the implementation delays were mainly linked to the complexity of the Bank’s procurement processes and gaps in the capacity of the implementing agencies.
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**Sustainability**
This evaluation could not apply a systematic assessment of the sustainability criterion due to the limited number of PCRs available. Nonetheless, some extrapolations regarding the Fund’s project sustainability were made based on interviews with Bank staff and recipient regional MICs. However, the evaluation did not provide a final rating for the sustainability criterion.

Project reviews and interviews revealed that Fund projects were more likely to be sustainable when they were constituents (complementary or integral components) of ongoing Bank operations. In contrast, the sustainability of other Fund projects that aimed to generate new investment opportunities for the Bank, such as feasibility studies and project preparation, was likely to be poor if the grants failed to generate an operation.

Determining the extent of government ownership in Fund projects was a challenge, as evidence of client ownership was mixed. Four factors were identified as explanatory for a beneficiary government not to prioritize the use of a MIC-TAF grant: (i) procurement and implementation delays; (ii) the origin of the grant request; (iii) the size of a MIC grant and the capacity of the executing agency; and (iv) the country’s regime changes and high Bank staff turnover.

**Governance**
The lack of strategic focus in the evolution of the Funds had the effect of turning it into a financing instrument that supplements the Bank’s administrative budget. While the Fund is not the only source of concessional resources for MICs in the Bank, there appears to be strong Bank interest in the Fund relative to other similar financial instruments. There has been an increasing trend towards resorting to the use of the Fund due to the non-existence or inadequacy of other instruments or procedures that allow for greater flexibility in MICs.

In addition, the quest for swifter responsiveness in approving MIC grants led to a practice of limiting the amount requested for Fund projects up to the approval authority levels of the Vice President and President, in part to avoid the delays and cumbersome nature of the Board’s approval requirements. In contrast to the Bank’s loan operations, there was no specific readiness review process for Fund projects.

The supervision of Fund projects was inadequate due to the non-availability of dedicated funds and specific provisions to ensure their systematic implementation. In addition, no specific team was assigned to manage the Fund. The focal point role was taken up by RDGN, with a staff serving on a part-time basis as a focal point mainly for information purpose. As such, the Fund had no specific institutional positioning in the Bank. Discussions in SMCC in 2018 led to the decision to take the focal point role away from RDGN, but no clear decision was made as to where the Fund should sit and be managed from. The evaluation did not include in its scope to address where the Fund could be ideally seated, as this is a prerogative of Management to ensure operational effectiveness. However, interviews with staff suggest that appropriate locations could be in the front office of RDVP that covers the regions; in the department of resource mobilization (FIRM) that is in specialized in the management of other funds in the Bank; or in the department of syndication, co-financing and client solutions (FIST).

The main issues identified during the evaluation were related to the Fund’s lax monitoring and documentation systems, and concerns over the direct and indirect consequences of the high turnover of Task Managers responsible for managing grants.

**Conclusion**
Overall, the Fund was effective in producing results and the main objective of generating new operations for the Bank was achieved. The portfolio analysis shows that UA 1.00 of Fund investments directly and indirectly generated UA 4.75 and UA 9.77, respectively. On average, this implies that UA 1.00 of Fund resources spent generated UA 14.52 for the Bank.

However, in terms of development effectiveness, the evidence points towards the weak generation of development outcomes. Project reviews and country cases studies have led to the conclusion that many of the Fund’s outputs did not result in follow-up actions by clients, adversely affecting effectiveness and sustainability. Also,
there was little evidence that capacity-building projects actually produced results beyond just outputs.

The governance of the Fund also did not focus on development effectiveness. The lack of PCRs limited an assessment of the Fund’s contribution to development outcomes.

The review processes for the proposed projects and their appraisal did not result in well-designed projects. Monitoring focused on disbursement and fiduciary issues, and less on development outcomes.

The governance of the Fund should continue to address efficiency issues, attention should also be given to maximizing its contribution to the Bank’s development effectiveness.

**Recommendations**

The Fund is an effective tool for the Bank in MICs and its continued operations have the potential to increase the Bank’s development effectiveness in those countries. As such, the following recommendations are addressed to the Bank’s Management. The recommendations include potential actions to be considered by Management.

**At the strategic level**

**Recommendation 1.** Clarify the institutional arrangement of the Fund and establish an effective management.

- Define clearly which department in the Bank should host the Fund and be the primary responsible for its management. This important decision is a critical step to ensure the success of the Fund and the effective implementation of the subsequent recommendations.

- Consider establishing a dedicated team for the Fund or a shared services platform with other funds in the Bank. This arrangement should play a significant role in coordinating the selection process, ensuring monitoring and compliance with the guidelines (including proactive cancellation of non-performing grants), and maintaining an updated management information system on the Fund’s activities.

- Define the Fund’s strategic directions for a five-year cycle, to help ensure the maximum development effectiveness with the limited level of resources available. The strategic direction should include only key priority sectors aligned with the Bank’s Long-Term Strategy and the High 5s. Strengthening the strategic framework would also help to mobilize additional development partner resources for specific objectives that could be reviewed at the end of each cycle.

**Recommendation 2.** Enhance the financial sustainability of the Fund and set-up a Project Preparation Facility (PPF) specifically for MICs.

- Increase the net allocation to the Fund to expand its ability to respond to current and evolving demands from MICs.

- Diversify the sources of funding for the Fund. Exploring this possibility is aligned with the provisions of the 2011 guidelines that mentioned seeking contributions from bilateral donors, among others. The Bank should consider exploring non-traditional donors, such as the Arab Fund for Economic and Social Development, Private Foundations and bilateral agencies, and some of the MICs in Africa. While this would help improve the financial sustainability of the Fund, it is advised that the Fund should remain entirely Bank-executed, with no conditionalities attached.

- Reduce the burden on the Fund by considering establishing a PPF for project preparation in MICs and/or developing a policy to allow the Bank to engage in Reimbursable Advisory Services (RAS) and Reimbursable Grants that could be reimbursed by the country in case the project does not go forward or will be integrated as a component of the project if the latter is generated. The reimbursable options in supporting project preparation activities would also help to ensure stronger links between the Fund and planned Bank projects, as well as enhancing ownership and sustainability. The attractiveness of such options for MICs should be assessed. While there is a possibility of limited attractiveness at inception, these instruments could become valid alternatives in the future to balance the Bank’s services to MICs.
At the operational level

**Recommendation 3.** Improve the Fund’s guidelines and establish a stronger quality assurance process for MIC grants.

With demand currently exceeding available resources, there should be a mechanism for allocating Fund resources based on clear criteria. Project selection should be more selective, rather than being based on a ‘first-come first-served’ basis. The Bank should consider the following:

- **Enhance the selectivity with a rigorous risk-based quality assurance process.** This could include peer-reviews by sector and technical specialists, and could involve a selection committee which would make recommendations on grant approvals. This process should remain light and with a risk-based approach taking into consideration the size of the grant.

- **Enforce the supervision mechanisms and clarify the contradictions of PCR requirements for MIC grants and ensure the systematic production of quality PCRs.** These PCRs should be tailored to the grant’s size and used to identify what the Bank could do to encourage and support follow-up actions to the Fund’s project outputs, by drawing lessons based on experience. All grant-related documents, including PCRs, should be stored and accessible in the Bank’s information systems.

**Recommendation 4.** Increase support to ongoing Bank lending operations and consider Bank execution of selected projects when necessary.

- **Increase the integration of MIC grants in ongoing Bank lending operations.** Support to ongoing operations establishes a clear and direct link to AfDB projects. This would yield efficiency gains in procurement, financial management, as well as the disbursement of grants.

- **Reduce the average time between a user country’s request for a MIC-grant and the approval (or response) by the Bank,** given MICs preference for timeliness and flexibility in grants for project preparation and ESW. The delivery of the Fund’s projects will, therefore, increase its relevance and usefulness to the beneficiary countries.

- **Review and enhance staff incentives for the effective management of the Fund.** Current incentives in the Bank lead staff to focus on large investment operations and pay little attention to other key activities, such as Fund and TA projects. This needs to be remedied by reforming the Bank’s staff performance evaluation system. One approach will be to incorporate the performance of the Fund in the Bank’s Results Management System (RMS), as well as in the Key Performance Indicators (KPIs) of staff involved the implementation of these grants.
About this Evaluation

This report summarizes the findings of an independent evaluation of the Middle-Income Country Technical Assistance Fund (MIC-TAF or “the Fund”) of the African Development Bank (AfDB), covering the period 2002 to 2018.

In 2002, the AfDB set up the MIC-TAF with the aim to enhance the volume, quality, competitiveness and development effectiveness of the Bank’s operations in African middle-income countries (MICs). The Fund gives grants for project preparation and institutional strengthening, among others, based on the specific needs of the country. By 2018, the Fund had disbursed close to USD 143 million across 185 projects in 19 eligible countries.

The evaluation examines the extent to which the MIC-TAF has achieved its goal of delivering development results in the beneficiary countries during the period 2002 to 2018. It also investigates issues around the Fund’s governance, as well as the factors that hindered (or promoted) the utilization of funds from both the supply- and demand-side. The evaluation used mixed methods (qualitative assessments and data analyses) and multiple lines of evidence including portfolio and document reviews, comparator benchmarking, country visits, and interviews with both staff and clients of the Bank.

The evaluation found that the MIC-TAF is an effective tool for the Bank and that its continued operations have the potential to increase the Bank’s development effectiveness in the MICs. However, the Bank is advised to sharpen the Fund’s strategic focus and to address the shortcomings in the governance, the quality assurance process, the financial sustainability and the timeliness of the Fund.