Lessons from Evaluations

Private Sector Development Learning Session
Session 3: The Bank’s Downstream Support to PSD

Presenters:
Khaled Samir, BDEV.1
Eneas Gakusi, BDEV.1
Akua Arthur-Kissi, BDEV.2

How can the Bank best Use its Instruments to Support Private Sector Development?
OUTLINE

- Overview of Bank’s Instruments - Evaluations
- What is Known about Bank’s Instruments
- Lessons from LOCs
- Ensuring quality to maximize benefits of NSOs
- Ensuring quality – Institutional commitments
The Bank utilizes different instruments to support PSD in Regional Member Countries (RMC). The general focus of most of these instruments is to target the following areas:

- Investment climate and enabling environment (policy, strategy, laws, regulations)
- Access to finance (volume of funding available to private enterprise)
- Financial infrastructure and supporting structures (export promotion bodies, payment systems, etc.)
- Capacity Building (resources for more bankable projects)
The following list of instruments are used by the majority of Bank down stream PSD operations:

- Lines of Credit (LOC) for financial intermediaries
- Equity participations in financial intermediaries
- Investments in equity funds
- Partial credit guarantees
- Senior loans to large project finance operations
- Technical assistance grants
What is Known about Bank’s Instruments—Supporting SMEs

• The prevalent use of foreign-exchange funding limits the reach of Bank operations, as SMEs’ financing needs are usually in local currency – Expanding the utilization of local currency financing improves SME reach.

• The Bank played a pioneering role in launching the African Guarantee Fund for SME. The Bank is also currently revising its policy on Guarantees. Expanding the use of Guarantees could be used to reduce the risk of default associated with SME lending to FIs and improve access to finance to this segment.
What is Known about Bank’s Instruments- support to SMEs

- The Bank’s Investment Funds operations are a positive addition to its SME work. However, Bank catalytic role in in most of these operations is not always demonstrated.

- Operations to leasing companies are very limited. Ramping up assistance to the leasing sector would improve access to SMEs in the manufacturing sector.
Lessons from the Use of LOCs

LOCs are long-term loans, provided by International Financial Institutions (IFI) to enhance financial and technical capacity of Financial Intermediaries (FIs) for on-lending to the their customers, which are generally referred as end-beneficiaries.

Because of the lack of well-documented impact on development, they have become the object of increasing scrutiny in recent years.
Design of LOC

**Pipeline Approach**

- LOC provided on the bases of an indicative pipeline
- Financial Intermediary (DFIs, Commercial Banks, Microfinance, etc.)
- On-lending
- Reporting on the use of loan amount for operations

**Final beneficiaries**
(Enterprises, SMEs, women entrepreneurs, traders, homeowners, green investment, etc.)

**Portfolio approach**

- Loans to eligible businesses in policy priority area
- Financial Intermediary (DFIs, Commercial Banks, Microfinance, etc.)
- On-lending
- Reporting on portfolio status and development of target portfolio

**Final beneficiaries**
(Enterprises, SMEs, women entrepreneurs, traders, homeowners, green investment, etc.)
Delivery Models - LOCs

- LOC operations
  - LOC operations/SMEs
  - Facility to speed the approval

National/ regional development banks

Client FIs (commercial banks, microfinance institutions, housing finance, trade finance, agri credit, etc.)

LOC beneficiaries (enterprises, SMEs, women entrepreneurs, traders, homeowners, green investments)
### Effectiveness of LOC is not Easy to Measure

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<th>FIs</th>
<th>Final beneficiaries</th>
<th>Financial system</th>
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<td>• Improved financial performance: such as profitability, diversification of sources of funding, capital adequacy and asset quality.</td>
<td>• There are no reliable data on the impact of LOCs on the final beneficiaries in terms of improved profitability or employment levels because: (i) FIs do not have management information systems in place to perform such tasks; and (ii) the IFIs exercise poor oversight during LOC disbursement.</td>
<td>• Attribution is possible when a financial market is severely undersupplied with credit. • Little impact in middle or upper middle-income countries. • No evidence on impact on competition and financial inclusion.</td>
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Points for Consideration for the IFIs

- Be more proactive in holding FIs to account for reporting on LOC development objective obligations.
- Underpin the rationale and design of LOCs by analytical work to make more realistic assumptions about how LOCs will contribute to improving access to finance for underserved market segments. This required increased collaboration between the investment officers and the country economists.
- Provide complementary measures to LOCs such as technical assistance.
- Set up effective checks to verify that funds are used as originally agreed.
- Find ways to extend financing instruments to SMEs in fragile situations.
Ensuring Quality to Maximize Benefit of the Private Sector Operations

Quality during Design

• Importance of strengthening appraisal analysis of the operations.
• Paying greater attention to important risks during the appraisal review process (both credit risks and operational risks)
• Importance of leveraging TA to mitigate risks especially corporate governance risks

Quality at Implementation

• Importance of a proactive project management approach: enhanced supervision by all actors of the operation. (enhancing support through appropriate tools, IT platforms for info sharing)
• Need for incentives to foster effective results reporting at client level and by the Bank – staffing, resource, TA
• Adequate preparation for project closing and outcome reporting.
Ensuring Quality of the Private Sector Operations

- **Guidelines and approach**: clarity of roles and responsibilities of keys actors.
- **Incentives to drive a quality culture**: Strengthening incentives for portfolio quality (equal importance to project origination and portfolio monitoring, resonates among findings of other IDEV evaluations, CSPE, CEDR), training for capacity of staff.
- **Resources**: right sizing staff to project ratio for both investment officers and portfolio management, providing customised training across the project cycle activities.
- **Budgeting for quality across the project cycle**: project preparation facilities, monitoring and supervision resources.
Ensuring quality for Private Sector Operations –

**Institutional commitments for quality assurance**

- QA Action Plan to improve NSOs (to be adopted soon)
- Collaboration with BDEV to ensure good practice standards in results reporting (XSR guidelines, formats)
- Continuous learning through knowledge dialogues to improve quality at all levels.