EVALUATION OF 5 INVESTMENTS OF BIO IN EAST AFRICA

Improving MSME development through indirect investments in East Africa

1. Background

BIO is the Belgian Investment Company for Developing Countries. In the framework of its agreement with the Belgian Government, it is mandated to conduct an annual evaluation of a sample of its investments. For 2015, BIO selected 5 investments in the financial sector in East Africa, which comprise a sample of indirect investments in micro, small and medium-sized companies (MSMEs):

- 3 financial institutions, namely **Bank of Africa Tanzania** and **AccessBank Tanzania** focusing on MSMEs in Tanzania, and **EFC Uganda**, a microfinance institution targeting micro and small enterprises in Uganda;
- 2 funds, namely **Grofin East Africa Fund and Catalyst Fund I** that invest in larger SMEs in the East African region.

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2. Evaluation Objectives

The primary objective of the study was to assess the contribution of BIO's investments to local economic development. A second objective is to assess the additionality of BIO's financing, i.e. to what extent BIO's funding is complementary, and not alternative, to existing sources of funding provided by the market. The evaluation follows the evaluation criteria of the OECD's Development Assistance Committee (DAC criteria), namely: relevance, effectiveness, efficiency, impact and sustainability, as well as 2 additional criteria added by BIO, i.e. financial and non-financial additionality. These are linked to a Theory of Change approach. From this assessment, key lessons learned and recommendations are identified.

EFC, Uganda

3. Results of the evaluation based on DAC evaluation criteria

Based on the evaluation of the five BIO-investments in two SME-funds and three Financial Institutions in East Africa, and taking into consideration the rapidly-changing context for financial inclusion in Kenya, Tanzania, Uganda, the performance of BIO is satisfactory. Results and insights based on individual criteria are detailed hereinafter.

3.1. Relevance

Overall, the five BIO investments investigated score very well on the criterion of relevance:

- BIO invested in innovative and adequate entities in areas where credit constraints for MSMEs were high
- The investment objectives were clearly stated, but not always translated into SMART (Specific, Measurable, Attainable, Realistic and Timely) development goals that could be effectively monitored.

3.2. Effectiveness

The BIO investments have been successful in realizing their direct results according to their investment objectives:

- Improving access to finance for MSMEs: the five BIO investees provide access to finance to about 32,000 MSMEs of varying size, thus alleviating their credit constraints;

- Encouraging innovation for the SME funds to develop adapted and well-designed products for SMEs (mezzanine finance with a strong Business Development Assistance component);
- However, the outreach to MSMEs was in some cases delayed or lower than forecasted.

3.3. Impact

Development impact of BIO's investments was quite good, looking at the investment's original objectives for the targeted MSME outreach, though for two cases it is too early to assess as the investments are still in their infancy:

- Impact on MSMEs financed can be demonstrated, particularly for the funds (quality, professionalism, higher survival rate, increased profitability).
- From the perspective of the local economies as a whole, the impact is more limited, as demonstrated by the modest absolute number and extent of MSMEs reached and the increase in employment and tax revenues.
- As the evaluated investees mainly operate in urban areas, the impact on rural economies is still negligible.

3.4. Sustainability

Overall, the sustainability of the investments is of average quality:

- Two out of the three financial institutions are financially weak or still unprofitable; one SME fund closed with negative return and for the remaining fund it is still in its infancy;
- A positive point is that the funds are seriously promoting Environmental, social and governance (ESG) standards with the SMEs financed.

3.5. Efficiency

The efficiency of the investments can be considered as fair:

- From the point of view of the investees, BIO provided patient capital, flexibility and light reporting requirements, coupled with a stable representation in the Board and Advisory Committees (AC);
- BIO's standardized investment process and financial monitoring, as well as its short reporting lines and lack of bureaucracy offer efficiency to BIO;
- These strong points are offset to some extent by the insufficient monitoring of development objectives and by the relative small ticket size (i.e. amount) of BIO's investments.

Development Impact to be attributed to BIO *(PHB estimates)*

	Total			Can be attributed to BIO investment				
Investee	#MSMEs reached	#FTEs sustained and new (direct)	BIO equity Investment size, in €	#MSMEs reached	#FTEs sustained and new (direct)	#FTEs newly created	# of FTEs (direct and indirect)**	Lives impacted***
AccessBank Tanzania	26,537	27,523	1,423,000	647	666		666	3,332
Bank of Africa Tanzania****	4,885	5,212	4,385,000	209	220		324	1,620
EFC	956	1,077	424,842	80	90		90	449
Catalyst Fund I	7	4,152	4,400,000	0.5	276	38	829	4,147
Grofin East Africa Fund*	48	1,385	2,640,000	7.6	218	43	654	3,268
TOTAL	**32,433**	**39,349**	**13,272,842**	**943**	**1,470**	**81**	**2,563**	**12,815**

** based on Grofin Impact Excel*
*** multiplier of 1.5 for BOA-T and 3 for the SME funds*
**** multiplier of 5*
***** including retail loans for BOA-T*
FTEs: means Full Time Equivalent and is used as a measure of equivalence to a full-time worker. It was calculated by adding employements total employments created at the institution and at the SMEs level

3.6. Secondary Objective of Additionality

Overall, the five evaluated cases show that BIO's investments were clearly additional in both financial and non-financial terms:

- BIO offered substantial additionality to kick-start operations of the selected funds and financial institutions in a crucial period and take a substantial risk, which had a demonstration effect;
- BIO's active and committed membership in the boards and advisory committees supported the investees and was appreciated by their management;
- BIO provided crucial Technical Assistance (TA) in the start-up phases of some of the investees,

4. Lessons Learned and Recommendations

- Investment targeting and social impact could benefit from better market intelligence, supporting BIO to become more proactive in identifying impactful financial sector investments.

- To better address development impact or sustainability of its investees, BIO could make more use of its Technical Assistance facilities, by developing products that are more relevant for clients/players at the bottom-of-the pyramid (BoP) or assisting investees to move outside the urban/better served areas.

- Expansion of proven successful approaches of investees is not always taking place, as sometimes it is still too early for commercial players to do the follow-up investments. BIO could consider more extensively if and how to stay involved in the subsequent phases, to ensure further scaling up.

- Defining and monitoring of 'investment development objectives' and ESG standard has improved significantly since the five studied investments. In 2014-2015 BIO developed a 'Development Assessment and Monitoring tool' to replace the previous tool. Also an ESG officer is active since 2014.