

PRIVATE SECTOR PEER LEARNING: MECHANISM PROFILES

Africa Enterprise Challenge Fund (AECF), Alliance for a Green Revolution in Africa

Description: The [Africa Enterprise Challenge Fund](#) (AECF) is a USD 244 million fund that awards grants and repayable grants through competitions to private companies that wish to implement innovative, commercially viable, high-impact projects in agribusiness and renewable energy in Africa. It was established as a special partnership initiative of the Alliance for a Green Revolution in Africa based in Kenya, which hosts the fund and has fiduciary responsibility. The AECF is supported by Australia, Canada, Denmark, the Netherlands, Sweden, the United Kingdom and the International Fund for Agricultural Development and managed on a day-to-day basis by KPMG International Development Advisory Services. The AECF provides the means to target donors' focus areas and regions, awards donor funds through different funding windows and monitors and evaluates progress. The Swedish International Development Cooperation Agency supports four of the eight windows – the Agribusiness Africa Window, Renewable Energy and Adaptation to Climate Technologies Tanzania Window, Tanzania Window and Post-Conflict Window, in addition to providing funds to the Financial Unit Connect initiative.

Objectives: The AECF aims to facilitate pro-poor growth and poverty alleviation in Africa by making agribusiness, rural financial services and market systems work better for the poor. The fund expands entrepreneurs' access to finance to stimulate innovation and find profitable ways of improving access to markets and the way markets function for the poor, particularly the rural poor and smallholder farmers.

Partners: Competitions for AECF funding are open to for-profit private companies from anywhere in the world provided that their business ideas are implemented in Africa (or specific African countries for certain windows). Non-governmental organisations are not eligible as lead applicants, but may be included in a proposed partnership led by a private sector entity, such as a public limited company, private company limited by shares, registered co-operative society, partnership or sole trader.

How it works: Private companies are invited to compete for AECF funding by submitting new and innovative business ideas to a particular AECF window and competition. Ideas must comply with the rules on eligibility and selection criteria of the competition. While each competition is different, all competitions call for projects that are innovative, are commercially viable, and will have benefits for the rural poor in terms of increased incomes, job creation, reduced costs or improved productivity. The AECF can provide up to USD 1.5 million per project in grants and interest-free loans that are repayable over the life of a project. Companies must provide matching funds (own resources or funds from partners or third parties, at least half of which must be cash and what remains can be in-kind) equal to or greater than 50% of the total cost of the project (the higher the percentage of own resources or funds from partners or third parties, the higher the probability of being selected).

The competition process is common for all AECF windows. First, applicants submit concept notes outlining their business ideas in terms of commercial viability and potential impact on rural development. The concept notes are assessed for quality and, if approved, applicants are asked to submit comprehensive business plans. The AECF then engages with and visits the companies preparing plans. The finalised business plans are presented to the independent Investment Committee for a decision on the winning business ideas. Companies that have been awarded funding are invited to an Induction Workshop, which is followed by contract signing, the disbursement of funds and reporting.

Development Assistance Committee members:

Multiple, submitted by Sweden

Duration: Ongoing since 2008

Budget: USD 244 million

Geographic focus: Africa

Sectoral focus: Agribusiness, financial services, information, climate change adaptation and renewable energy

Offered: Grants, interest-free loans and repayable grants

The AECF manages eight windows with specific aims and eligibility criteria.

The **Agribusiness Africa Window** aims to support business ideas in the fields of agribusiness, financial services, information and value chains that positively impact the rural poor. Business ideas being implemented in any African country are eligible for support.

The **General Window**, the oldest of the eight windows, was launched to support companies that implement their business ideas in Africa. The General Window was replaced by the Agribusiness Africa Window though it is still active.

The **Post-Conflict Window** aims to provide opportunities for applicants from post-conflict countries. Business ideas implemented in the Democratic Republic of the Congo, Liberia, Sierra Leone and Somalia/Somaliland are eligible for support.

The **Renewable Energy and Adaptation to Climate Technologies (REACT) Window** aims to fund projects based on low-cost clean energy and climate technologies that help smallholder farmers access energy services and adapt to climate change. Business ideas must demonstrate an environmental benefit and a positive impact on the rural poor. Three categories of business ideas are considered: 1) increased access to low-cost clean energy for rural businesses and households; 2) products and services that help rural households and smallholder farmers adapt to climate change; and 3) financial services that increase access to finance for low-cost clean energy and climate technologies or catalyse financial solutions.

The **Research Into Business Window** aims to facilitate the commercialisation of existing, readily available and near-complete agricultural research and technologies for the benefit of the rural poor in Africa. Primary agricultural research is not eligible. Four categories of business ideas are considered: 1) partnerships between agribusinesses and agricultural research institutions; 2) the commercialisation by agribusinesses of research already in the public domain, the source of which can be identified and acknowledged; 3) the commercialisation of the results of agribusinesses' own research and development; and 4) knowledge and technology transfer between researchers and agribusinesses/farmers.

The **South Sudan Window** aims to support the same activities of the Agribusiness Africa Window, but only for projects implemented in South Sudan.

The **Tanzania Window** aims to support companies in the agricultural sector with innovative business ideas that will have a high development impact. Only projects implemented in Tanzania can be financed. A wide range of agribusinesses are eligible for support, including farming, plantation and ranching companies, outgrower schemes, producers, manufacturers and distributors of agricultural inputs, agro-processors, traders, merchants and other private sector service providers, such as market information and extension service providers.

The **Zimbabwe Window** aims to support the same activities of the Agribusiness Africa Window, but only for projects implemented in Zimbabwe.

Monitoring and evaluation: The AECF assesses overall impact and individual project impacts by looking at business performances, incomes and job creation. The wider impact on market systems and, in cases of renewable energy, environmental impact are also assessed. Grantees must self-report semi-annually (or quarterly if they need funds disbursed) and the fund manager visits projects mainly to assess technical and financial progress.

Carnegie Consult conducted a mid-term review of the fund in 2011. The review assessed projects in Ghana, Kenya and Tanzania to determine whether they were on track in terms of purpose and output. It focused on the relevance of projects, the governance structure, effectiveness and efficiency of the AECF, the alignment of the monitoring and evaluation framework with the log frame, and the pros and cons of using various funding windows instead of one general window as was originally foreseen. Carnegie Consult and Ecorys are conducting a second mid-term review and a final evaluation is expected in 2017.

Results: According to the AECF website, 20 competitions have been held and 202 projects have been approved for funding, with a commitment of USD 148.9 million, since the AECF's launch in 2008. A further USD 388 million has been committed to these projects by the private sector. At the end of 2014, 1.39 million households benefited from AECF projects and 5 100 formal jobs were created. The fund also had a good impact on business performances, measured by turnover and profitability, with 56% of AECF-funded companies that were three years old or older having had positive revenue growth rates from inception. The impact on market systems was measured by replication of agronomic or other practices associated with AECF projects. The most common type of systemic change, reported by 40% of AECF-funded companies, was business copying by others that did not benefit from the fund.

The first mid-term review of the AECF highlighted various positive results, concluding that the fund had developed effective systems for attracting applicants, selecting the best business ideas and managing a diverse portfolio, with an appropriate level of risk, significant potential for development impact and systemic change in market systems, and evidence of additionality in most cases. Identified shortcomings included the governance structure and aspects of functionality. The review recommended the use of more independent private sector expertise and an increased level of ownership by the Alliance for a Green Revolution in Africa. Changes to the overall organisational model are being made and will consider the need to maintain a balance between donor preferences and administrative efficiency.

Insights: The AECF, as a mechanism for allocating and disbursing donor funds efficiently and fairly by challenging private companies to be innovative, is innovative in itself. The fund promotes itself as a different challenge fund based in and run from Africa, focusing exclusively on supporting the private sector, providing an open and transparent competition for donor funds, and funding innovative projects that are commercially viable and will have a broad development impact on the rural poor. The fund's governance structure is guided by private sector principles, while strong business engagement is part of a flexible, responsive and results-orientated approach. The AECF leverages both donor and private sector funds to support national, international, regional and continental projects. The AECF is aware of the fact that, although its purpose statement focuses on making market systems work better for the poor in Africa, challenge funds are not designed to impact market systems in a Making Markets Work for the Poor (M4P) sense because they respond to private sector ideas, rather than picking sectors and sub-sectors to address, and typically do not have advocacy and regulatory components. Country-specific windows improve the potential for systemic impact. The AECF tries to maximise its impact on market systems by selecting projects with disruptive innovation potential, concentrating projects in certain sectors and promoting business-to-business engagement.

SOURCE:

AECF (n.d.), Africa Enterprise Challenge Fund website, www.aecfafrica.org (accessed 1 July 2016).