

Fund Manager's Response to the MTE Final Report

Prepared 24 September 2015

Introduction

This document sets out the Fund Manager's response to the *Mid-Term Evaluation (MTE) Final Report* prepared by the *Evaluation Management Unit (EMU)*. This response is structured as follows:

1. **Critical conceptual issues affecting the analysis and findings of the MTE.**
2. **MTE conclusions which because of their significance require review** to ensure they are supported by appropriate analysis and evidence.
3. **Other noted observations and inaccuracies** comprising a non-exhaustive list of issues identified for consideration.

Critical conceptual issues

While it is noted that the MTE includes the EMU's interpretation of the AECF's theory of change (p16), it is arguable that two aspects of the AECF's model as a challenge fund have been misunderstood in this interpretation. As a result the analytical approach and key findings of the MTE require careful review. These two aspects are:

a) Treatment of the AECF as a collection of projects rather than a portfolio

This is a critical issue because it leads to an incorrect and negative assessment of the effectiveness of the AECF.

Throughout the MTE the standard unit of analysis – particularly when considering forecast development impact – is that of individual AECF funded projects. For example, the *Effectiveness scores* table on p42 are based on whether the sampled projects reach their targeted number of rural households and turnover forecasts. Similarly, with the *Development impact scores* table on p48. While the MTE is correct to observe that there is often a discrepancy between a project's forecast numbers and reality, this should only have been one area of analysis. It was never envisaged, nor should it have been, that the AECF would be evaluated by assessing whether individual projects meet the targets they have set for themselves – these are known to be over-estimates, are not static and are generally revised during implementation. To draw a balanced conclusion of the AECF's performance requires comparative analysis be undertaken at the portfolio and window level which is not adequately done in the MTE. The direct result is that a large part of the MTE is unduly negative in findings and tone.

When the MTE primarily treats the AECF as a collection of projects rather than a portfolio, it misunderstands the method by which the AECF seeks to achieve development impact. It is the aggregate impact of the AECF that is most relevant and it is important to note that all AECF windows have exceeded the development impact targets set for them by donors.

Applying scorings to each project based on achievement of project specific targets and using the arithmetic averages of these scorings to inform conclusions suffers from a key methodological problem. This is that it is inevitable a material proportion of AECF funded projects struggle to meet their targets given the challenging contexts in which they operate and, in fact, a 30% project failure rate is expected and the accepted target for the AECF. This guarantees that the resultant average scorings will appear misleadingly low. A more insightful approach would have been to have also conducted analysis based on averages weighted by development impact. Doing so would better reflect the reality that the AECF is a portfolio of projects that has out-performed the targets set for it by its funders. It is to be expected that a relatively small number of 'high impact'/outperforming projects

across the portfolio account for a large proportion the development impact achieved. This fact is shown clearly on p10 of the *2014 Impact Report* and is a common characteristic of many portfolios ('The Pareto principle').

b) Failure to logically connect the incidence of project failure to the AECF's design as a risk sharing mechanism

The AECF seeks to identify business ideas which ordinarily would not be implemented by the private sector because of their perceived cost and risk. This is because, at the core of the AECF's model, is the concept of risk sharing, such that a business idea or project that was previously considered too risky becomes attractive for funding by the private sector when the AECF shares some of the risk associated with a project. Explicitly, the funding that the AECF makes available to grantees is intended to 'trip' the risk barrier, and by so doing, catalyse private sector investment in innovative business ideas with significant potential to impact poor rural households.

Therefore by design the AECF funds projects that have a relatively high chance of failure. A high chance of failure is to be expected, particularly in the case of start-ups, and particularly given the fact that the projects funded by the AECF operate in difficult environments and seek to reach economically hard to reach groups. It is also an indication that the public funding provided through the AECF is indeed 'additional' in nature (noting the direct alignment with DCED criteria on p33).

The MTE does not appear to have fully understood this aspect of the AECF's design. For example, when it states that '*it is difficult to find a rational explanation for the large share of less- or none- sustainable projects in the sample*' (p66). As above, the impact of this is a negative bias by the MTE with regards to its assessment, ex-post, of the effectiveness of the AECF as a development mechanism. It is arguable that if anything, the AECF should be taking more risk.

To note: it is stated in the MTE that '*the AC should agree on an acceptable rate [of failure], which might need to be higher than the present targets*' (p73). Such agreement was secured – at the rate of 30% – between donors and AGRA when the AECF was established.

MTE conclusions which require review

This section identifies potentially significant conclusions made in the MTE which require review to ensure they are adequately supported by appropriate analysis and evidence.

c) Finding that in 50% of cases the additionality of AECF's funding is uncertain

'For a proportion of 50% of the case studies additionality is questioned' (p69).

'Undeniably additionality for example based on preference of the grantee for non-bank funding is doubtful' (p71).

The quality of analysis undertaken in Section 4 of the MTE is poor and this means that judgments concerning the additionality of the AECF's funding cannot be fully substantiated. The importance of the conclusion drawn requires that the section be carefully reviewed.

The MTE correctly identifies a set of criteria for assessing the AECF's additionality (DCED) but fails to fully transpose the criteria into the numeric scoring applied. The DCED states that to make an 'informed and credible judgment' that additionality has occurred at least one of the following criteria should be satisfied: i) the company cannot self-finance the project (within a reasonable time frame); ii) it does not have the knowledge or skills to implement the project activities alone; and/or iii) it is unwilling to implement the project because it perceives the costs or risks to be higher than the benefits.

Specifically, the scoring used in the MTE excludes any meaningful consideration of the third criteria – critically important aspect given that the one of the strategic objectives of the AECF is to share risk. This also means that the analysis does not follow the accepted best practice prepared by the DCED in consultation with a large number of donors and private sector development practitioners.

In particular, the report states that three multinationals *‘with ready access to own and foreign capital [...] would most likely have been able to proceed without AECF support’* (p35). This statement makes no reference to the willingness of those companies to implement the projects in the absence of financing to share risk. Therefore the conclusion that follows *‘when interventions were considered highly additional this was mainly because of the nature of the company (small, start-ups) and the intervention (risky, innovative)’* is not substantiated.

Furthermore, with regards to the first criteria, there is no consideration of the ‘within a reasonable time frame’ issue.

The 2014 Impact Report sampled 82 projects and found good evidence that AECF funding generated important development additionalities in a very large number of projects (p17) with statements from projects that give concrete examples of these (p18). It is noted that these findings triangulate with many of the responses to the survey conducted for the MTE (p89-111, particularly questions 28-32).

d) Ambiguity concerning the vision and mandate of the AECF

‘There appears to be some ambiguity concerning the vision and mandate of [the] AECF’ (p15).

This finding is not supported and the MTE’s proposed revised mandate neither justified nor necessary. The AECF’s core purpose has remained broadly constant: *‘To make agribusiness, rural financial and information services and renewable energy market systems work better for the poor in rural areas of Africa.’* The AECF’s strategic objectives are further set-out in the 2014 Impact Report (p3-p5). The AECF has evolved from being a single fund running standard agribusiness competitions annually to a competitions platform while remaining true to its core purpose.

e) Rigor of the business planning process with respect to development impact forecasts

‘Projections for development impact are often overrated [...] this raises questions about the rigor of the business planning process and it could be questioned whether the business plans as approved by the IC provide a realistic basis for selection and planning’ (p69).

This conclusion is not supported: the FM makes its own estimate of potential impact as part of the project selection process. The FM’s estimate of development impact is typically lower than the business’ estimate.

Both sets of estimates (the business and the estimate made by the FM) are used to make decisions. This means it is less likely than suggested on p31 that better proposals with more realistic estimates are ‘pushed out’.

‘In the application process the FM should provide an independent view on the projected outreach and impact numbers’ (p72).

In recent windows the FM already provides its view on the projected outreach and impact numbers.

f) Slow disbursements due to poor performance of the AECF (p71)

While it is possible to observe that disbursements are at times slow, it is not possible to directly conclude that this is due to poor performance of the AECF (either AGRA or the FM). A more useful analysis would have been to have examined and classified the reasons for slow disbursements.

For example, in a large majority of cases this is due to grantees not being compliant with the AECF's conditions.

g) Poverty outreach of AECF funded projects

'In the case of Kenya for example this is in most cases not true, rich farmers are not excluded and most if not all the beneficiaries, although clearly rural households, are above the USD2 per day limit' [for AAW/GW], p49.

The MTE makes a number of relatively strong statements which are not clearly delineated. For instance, while the AECF selects projects based on their potential to reach a large proportion (60%+) of rural households which earn less than USD2 per day per person, it is too simplistic to treat the USD2 threshold as a 'limit', or as implied, to consider those earning more than USD2 a day as 'not poor'.

Care needs to be taken to ensure that any assessment of a project's outreach to target beneficiaries is made with reference to their baseline situation. The AECF's objective is to sustainability raise the incomes of rural people above USD2 per day and the AECF has been successful in raising a large number of people above this threshold.

It is recognised that further data is required to provide a more comprehensive evidence base with respect to assessing what proportion of the AECF's beneficiaries are those who earn less than USD2 per day. Accordingly, the Fund Manager continues to commission verification studies in accordance with the DCED Standard where funding is available and is currently undertaking a review of lessons learned in undertaking such studies.

To note: the MTE states that 60% of benefits *'should accrue to households living on less than USD 2 p/d'* (p50). This is not correct – the AECF's target group is the rural poor, 60% of whom should earn less than 2 USD per day.

h) Possible misunderstanding with respect to matching funds

'Problems related to the input of Matching Funds show the dependency of some grantees on the AECF funding' (p45).

'In the case of the PCW, where all funding was provided as a grant, a smaller grant versus more 'cash' matching funds would have been fully suitable' (p72).

Grantees seek funding from the AECF because they do not have access to other funding sources. It is unsurprising that grantees are dependent on the AECF's funding. Consequently, in-kind contributions are one way of holding grantees to the principle of risk sharing and mutual investment, but doing so in a way that recognises the challenges grantees face.

'In cases creative solutions were found to calculate in-kind contributions which can hardly be seen as a real investment. It is not uncommon that management time is accepted as in-kind contribution' (p44).

'The requirements for matching funds could be somewhat relaxed for applicants who for obvious reasons are not in a position to match the AECF funding fully, but not fully' (p73).

The above finding and recommendation are not entirely consistent with each other and run contrary to other comments elsewhere in the MTE that grantees do not commit enough cash. Moreover it is entirely reasonable to accept management time and other staff costs as an in-kind contribution.

Other observations

i) Lack of balance

One of the objectives of the evaluation was to identify the conditions for AECF's success. These have not received equivalent attention as the challenges the AECF faces. For example, the survey conducted by the EMU received a large number of very positive comments from the AECF's grantees (e.g. p109) but these are not considered in the body of the report.

j) Misunderstanding of IC approval and due-diligence process

'The process of approving the concept notes and business plans is at times ambiguous' (p55).

This is not correct, the selection criteria are clear.

'The due diligence assessment of the grantees is not very extensive' (p55).

It is a very efficient process given the two days available and is accompanied by requests for supporting documentary evidence.

'The assessment is very much based on the data of the expected outcomes and impact of the projects data provided by the grantees and less on a full analysis of the (financial) strength of the grantees by the FM' (p55).

This is incorrect, the due diligence process is fundamentally an organisational assessment.

k) Scoring criteria are unrealistically demanding

To achieve a four in the scoring criteria is the equivalent of achieving 100% of expectations – i.e. this will only occur in exceptional cases. More credit should be given to AECF funded projects that are performing satisfactorily in difficult circumstances, or those projects which are performing well, but behind schedule.

l) The credibility of findings and conclusions would be enhanced through better use of evidence

It is difficult to understand why certain conclusions or ratings were made because the explanations do not always relate back to specific examples or the rating scoring criteria. More detailed explanations and footnotes would address this. Some examples below:

- *'It can therefore be concluded that with only one exception no parties were harmed by the AECF interventions' (p51).* No reference/evidence is provided.
- *'In some of the case studies it appeared that the business model for outgrowing and contract farming were never likely to be viable for the poorest, with the company temporarily engaging with them to get AECF funding' (p67).* This is a strong statement to make – one that the Fund Manager strongly disagrees with – and yet it is completely unsubstantiated.
- *'The sustainability of half of the sampled projects is not satisfactory' (p68).* The basis for making this judgement is not adequately substantiated.
- Assertion that innovation and systemic change have *'not always received the required attention'* (p71). This statement is not justified with any evidence.

Project case studies could have been linked in the MTE Final Report while still respecting considerations regarding commercial confidentiality. This could have been done by giving each project a code/reference number which referred to the case in the annexes.

m) **The cost implication of recommendations is not acknowledged**

Noted factual inaccuracies

- **The report frequently refers to smallholders as the AECF's target beneficiary group.** While this is often the case, it is more correctly the rural poor – and specifically at least 60% of whom should earn less than USD2 per day – who are AECF's target beneficiary group.
- **Application figures are incorrectly stated** (bottom of p26). As of February 2015: i) 20,228 companies had registered with the AECF; ii) 6,113 concepts had been submitted; iii) 862 concept notes had been shortlisted for the AECF Investment Committee; iv) 422 business plans were submitted for approval; and v) 202 projects were approved.
- **Emphasis of TZAW on 'small indigenous Tanzanian and female entrepreneurs'** (p27). While additional funds are available to help indigenous and female owned businesses with the application process, there is no selection bias towards them. Instead the objective was achieved via marketing and application workshops (i.e. pre-selection). All applicants must meet the AECF's minimum requirements. Moreover, the funder's objective remained to see a diversity of grantees, not only local or women.
- **Innovation score of TZAW understated** (p28). The Fund Manager's figure is 2.83 (including round three), 2.65 (excluding round three).
- **The net benefit recorded per USD spent data presented in table 7.4 (p61) is misleading.** This is because it does not take account of the different average age of the projects in each window. For example, this means that GW scores better than other windows where projects are still scaling up.
- **Three AECF windows (GW, AAW and RIB) are continent wide, not two (GW and AAW) as stated** (p21).