AECF Mid-Term Evaluation

Management Response

The AECF management team finds this mid-term evaluation report, conducted by the Ecorys and Carnegie Consult team, useful as it highlights and brings to attention, in a formal way, a number of strategic issues. At the same time we observe that certain aspects of AECF that the consultants have analysed may require more in-depth study, or a different approach. Below follows a set of reflections on the MTE findings.

The main objectives of the AECF

- *There appears to be some ambiguity concerning the vision and mandate of AECF' (p15).* While there has always been spirited discussion on the direction of AECF, and this is expected to intensify in the strategic review process in 2016, we don't believe its fundamental purpose is ambiguous. The Fund, since its inception, has provided financial support to innovative, inclusive businesses that engage low income individuals in rural areas. The vision and mandate are clearly stated in foundation documents of the AECF.

Investigating individual projects rather than the entire portfolio as a whole

- The analysis in the MTE focuses a great deal on evaluating a sample of individual project case studies and deriving conclusions from these about the effectiveness of the AECF as a whole. Greater consideration of the various processes that AECF uses to measure impact of AECF as a portfolio of projects could have provided for a more balanced approach. AECF is very much an innovation fund and failures are to be expected. It is to be expected that the majority of the impact is achieved by a minority of projects (the so called Pareto principle), and a limited sampling of individual projects risks missing this.

Projected impact

- The report notes that projected impact by applicant businesses is frequently overrated (p.69). This is to be expected, as was pointed out by the review. However, these figures are not taken at face value, and over time the FM and IC have become more experienced at reassessing the potential impact targets and making them more realistic. A more thorough and rigorous review of anticipated impact should continue as part of the business planning process.

Additionality

- Additionality is questioned in 50% of the cases (p. 77-78) that the consultants have evaluated. It is further proposed that an interest-bearing loan could have been a more appropriate financial instrument to use. While the discussion on interest bearing loans is welcome, we feel that there is a difference between whether a company *could have* implemented a project without AECF support and whether it *would have* implemented the project. AECF serves a catalytic function and we do not see enough evidence in the report to suggest that in 50% of the investigated cases AECF's additionality could be questioned. That said, AECF will continue to refine its consideration the additionality of its support based on its experience to date

Matching funds

- The aspect of matching funds is raised on several occasions (p. 43, 46) and the conclusion that the report seems to arrive at is that AECF tended to be too lenient on this requirement. On the contrary, we believe that that the condition of the grantees *having skin in the game* remains central to the selection process – but that this can be interpreted in a number of ways. What AECF does do is to take into account various market and company-specific constraints which means that not only equity is accepted as matching funds but also equipment or land (when it is warranted by the nature of the business) which had been recently acquired.

Repayment of loans

- Repayment of loans is singled out as one of the problems that AECF faces (p. 64). We agree that it is indeed an issue that AECF needs to address and resolve. It is worth noting, however, that while the loan element was, and still is, meant to stimulate a business-mindset in the grantee company, and possibly make the long term financing of AECF more sustainable, the AECF was not set up to be able to recover loans. The AECF Board will need to look into a number of options with regard to encouraging a more entrepreneurial mind-set among the grantees as well as boosting the financing sustainability of the Fund.

Supporting the extremely poor

- The report states on p.55 that it is questionable whether AECF grantees truly benefit individuals in rural areas who live on USD 2/ day or less. This is a valid observation, and while the extremely poor are certainly benefiting from AECF projects as well, the question which, in effect, is introduced here is whether a challenge fund mechanism is the most suitable tool to support and increase the incomes of truly the poorest people in rural areas.

Negative side effects

- We are very pleased to note that the evaluation has not recorded any negative side effects of the AECF activity (p.57).

Monitoring and Evaluation

- Despite improvements the MTE report indicates that M&E remains an area that should be further strengthened. *Based on our assessment to date, the M&E system has definitely improved, but is still variable across the portfolio and the system is not (yet) delivering the expected results* (p.65). We tend to agree with the above statement. Impact figures do still rely to a significant extent on information provided by the grantees and on very small samples of beneficiaries. However, this is an issue for most challenge funds – and other private sector development approaches – and we believe that AECF has invested more than most in improving this aspect of the program. Activity in monitoring and results measurement (MRM) and in learning across the portfolio, has stepped up markedly in from the second half of 2015.

Presence outside of Anglophone Africa