



**Brussels Rural Development Briefings**  
A series of meetings on ACP-EU development issues

**Briefing session n° 13**

**Upgrading to compete in a globalised world:  
What opportunities and challenges for SMEs in agriculture in ACP countries?**

*Wednesday 23<sup>rd</sup> September 2009 – 8h30 – 13h00*

**Private sector investments' in African rural areas: the Africa Enterprise Challenge Fund**  
**André Dellevoet - Africa Enterprise Challenge Fund (AECF)**

*Executive Summary*

**What is the AECF?**

The **goal** of the Africa Enterprise Challenge Fund (AECF) is to promote pro-poor growth in Africa, thereby increasing employment, livelihood opportunities and incomes and to reduce poverty. Its **purpose** is to catalyse private sector entrepreneurs in Africa to innovate and find profitable ways of improving market access and functioning for the poor – especially in rural areas. This concept is also known as Making Market Work for the Poor (MMW4P).

The AECF has three main **outputs** to achieve this goal and purpose:

1. *A robust, flexible and transparent mechanism is established and governed effectively to provide funding to innovative projects with large economic, social and environmental benefits for the rural poor that would not have gone ahead without AECF support.* The mechanism enables funding allocations, in the form of (repayable) grants, for private enterprises in Sub-Sahara Africa, utilising an open, competitive and transparent process of multiple bidding rounds and targeted funding windows.
2. *The commercial viability of new business models and technologies is demonstrated* benefiting large numbers of the African poor directly.
3. *Wider (beyond any project specific impact) pro-poor systemic change* in the way markets operate is triggered, through replication and policy and institutional change that locks in the benefits of innovation, benefiting even greater numbers of the poor.

The AECF will focus on sectors particularly important to the poor - finance and agribusiness. In the **financial sector**, any project involving the provision of financial services to the poor or the enterprises from which they earn their livelihoods, will be considered thus addressing the twin objectives of improving access to finance and financial deepening. The (repayable) grants will support innovative ways of expanding financial services to rural areas and new ways of distribution to reach poor clients. Similar programmes in the past were successful in delivering banking (i.e. savings, loans and transactional services) and non-bank (i.e. insurance) financial services to consumers in rural areas using innovative distribution methods and technology solutions. Improved access to financial services benefits the poor directly, as users of these services and, indirectly, through financial deepening which is a causal factor in increasing growth and the incomes of the poor.

**Agribusiness** refers to any commercial activity linked to agriculture from production through to the marketing of finished products<sup>1</sup>. In the agribusiness sector, grants from the previous challenge funds were successful in (1) catalysing local supply chains, creating effective demand for the produce of smallholder farmers; (2) supporting firms who provide intermediary services to small farmers to provide better access for smallholder

<sup>1</sup> Agribusiness covers (1) agricultural production, (2) the production and supply of agricultural inputs e.g. seeds, fertiliser, pesticide and farm machinery (or importing, wholesaling, packaging and retailing of such products where they are not locally produced), (3) agro-processing (the processing of agricultural goods into marketable products), and (4) post-harvest or post-processing activities, such as storage, wholesaling, retailing, shipping and exporting. It may also cover other commercial activities that will help to increase the incomes that the poor derive from agriculture such as providing access to knowledge and information.

farmers to input and output markets and transfer knowledge (extension) and information; and (3) introducing new production methods and establishing local production processes where none existed before. These interventions directly benefited large numbers of the poor as producers, as well as employees of rural farmers and agribusinesses. The indirect benefit of these projects was also substantial through replication. Within these sectors, the focus will be on pushing forward innovation frontiers touching rural areas. This could include projects with an entirely rural focus or projects that would benefit both the rural and urban poor. However, projects that will benefit only the urban poor would not be a priority.

The first projects under the AECF seem to confirm the soundness of this approach. Some examples:

- 1) Moninet; the introduction of innovative mobile banking and payment services in East-Africa, benefitting some 800.000 clients with access to financial services at a reasonable cost by the end of year 3 of the project;
- 2) The Ghana Grain Partnership; the development of a maize value chain in Ghana, which will benefit 10.000 smallholders by substantially increasing their incomes;
- 3) Smallholder cocoa improvement in Sierra Leone; benefitting 16.000 farmers by increasing their incomes;

Altogether, in the first year of the AECF's operations, the Fund has already built up a portfolio that will benefit over 4 million smallholders and their families.

### **How is the Fund financed?**

The donors who have already agreed to contribute to the AECF are the African Development Bank (AfDB), the Consultative Group to Assist the Poor (CGAP), the UK Department for International Development (DfID), International Fund for Agricultural Development (IFAD), and the Netherlands Ministry of Foreign Affairs, (NMFA). Other donors may join in due course.

Until now, the Fund disposes of a start-up capital of 36 million USD. It is hoped that this will grow to 100 million USD in 3 years.

### **How does it work?**

Private sector applicants may submit their project proposals during each tender round (4x per year). First, only a brief concept paper is required, which can be filled in and submitted online. Once the independent Investment Committee approves of the concept paper, the applicant is invited to submit full business plans. When the Investment Committee approves the business plan, A contract between AGRA and the applicant firm is prepared. The whole process takes about 5 months.

The applicant is also responsible for project implementation. The management of the Fund, including the tender procedures and monitoring and evaluation, has been entrusted to KPMG and partners.

### **Tailor made bids**

The Fund is a very flexible mechanism. We can diversify our service to donors by offering specific windows for certain issues/sectors or geographical limitations. Good examples are the post-conflict states window and a possible window on microfinance. However, the methodology of the AECF remains the same.

For more information, please consult: [www.aecfafrica.org](http://www.aecfafrica.org)