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Enabling the rural poor
to overcome poverty

Proposed IFAD engagement in the Africa Enterprise Challenge Fund

Executive Board — Ninetieth Session
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For: **Information**

Note to Executive Board Directors

This document is submitted for the information of the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal points with any technical questions about this document before the session:

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Proposed IFAD engagement in the Africa Enterprise Challenge Fund

I. Introduction

1. The Africa Enterprise Challenge Fund (AECF) is a proposed multidonor enterprise challenge fund, to be based in Africa. This innovative grant instrument is aimed at galvanizing the private sector to test new business models that will expand market opportunities for the poor, especially in rural areas. The AECF will focus on stimulating innovation in agricultural markets and promoting access to financial markets.
2. The AECF is being established on the recommendation of the Commission for Africa and will build on the lessons and successes of past enterprise challenge funds. The design process for the AECF has been initiated by the Department for International Development (DFID) of the United Kingdom of Great Britain and Northern Ireland, and DFID has now gathered a group of donors interested in influencing the final design and contributing to the funding of the AECF.
3. IFAD has been invited to participate in the Donor Steering Committee along with other multilateral agencies such as the African Development Bank, the International Finance Corporation, the Consultative Group to Assist the Poor; bilateral agencies such as DFID and the Ministry of Foreign Affairs of the Netherlands; and private foundations such as the Gatsby Charitable Foundation, the Bill & Melinda Gates Foundation and the Rockefeller Foundation. IFAD's involvement so far has focused on helping finalize the design of the initiative, the intention being to support pro-poor innovative activities under the challenge fund in due course. The minimum start-up capital recommended for the AECF is US\$50 million. DFID has already committed US\$20 million over a period of three years.

II. Background and relevance to IFAD

4. The enterprise challenge fund will award grants through an open competitive process for innovative, commercially sustainable projects. Many of these projects will be implemented by a consortium of strategic partnerships, which may include public and private entities.
5. Funding will be available to support activities in any African country. The AECF will focus on clusters of countries, taking into account the transaction costs and the potential for social and development impact. Participating donors may specify that they want their funds to be deployed in specific countries or regions, provided that the quantum of funds justifies such focus in terms of transaction costs and potential impact.
6. The AECF concept note has integrated IFAD's recommendations to give priority to rural areas and to target the poor through enterprise development, market access and rural finance outreach. During the first steering committee meeting, held in London, the mandate and the strategic orientation of IFAD were presented. This was to ensure that the design corresponds with IFAD's operational policies for cofinancing projects dealing with rural enterprise development in Africa.
7. This initiative is in line with two of IFAD's strategic framework objectives, i.e. to provide: (i) a broad range of financial services; and (ii) opportunities for rural off-farm employment and enterprise development.

III. Proposed next steps

8. It was agreed that the World Economic Forum on Africa, to be held in Cape Town, South Africa, in June 2007, would be an appropriate platform for donors to announce the formal launch of the initiative. This would provide a significant opportunity for IFAD to strengthen its association with the AECF, further highlighting IFAD's programmatic involvement and comparative advantage in the region.
9. The Technical Advisory Division has held extensive discussions with the three relevant divisions – Eastern and Southern Africa, Western and Central Africa Division and Near East and North Africa Division – on IFAD's contribution to the design of the AECF. These regional divisions have shown considerable interest in the fund. Furthermore, IFAD intends to participate in the Donor Steering Group and in the launching ceremony during the World Economic Forum on Africa in June. IFAD is interested in collaborating with the Fund, including financially, and will actively explore this potential. Any further involvement and financial contribution would be subject to IFAD's standard appraisal and approval procedures.
10. The following steps are planned in relation to the AECF:

1. Develop technical document	April 2007 (Design team)
2. Next Donor Steering Group meeting	June 2007 (This could be preceded by a conference call in April/May 2007)
3. Identify host	May/June 2007 (DFID/Donor Steering Group)
4. Establish project manager	May/June 2007 (Donor Steering Group)
5. Public announcement/launch of initiative	World Economic Forum on Africa, 13-15 June 2007 (launch by Donor Steering Group)
6. Prepare legal documents	July-September 2007
7. Establishment process: set up governing body, constitute investment committee and identify the fund manager	October-December 2007

