Annual Review

Title: Private Enterprise Programme Zambia (PEPZ)		
Programme Value £ (full life): £21.15		**Review Date: March 2019**
Programme Code: 201980	**Start Date:** June 2013	**End Date:** June 2020

Summary of Programme Performance

Year	2014	2015	2016	2017	2018	2019	2020
Programme Score	**A**	**A**	**A**	**B**	**A**	**A+**	
Risk Rating	**Medium**	**Medium**	**Major**	**Major**	**Major**	**Major**	

DevTracker Link to Business Case:	
DevTracker Link to Log frame:	

A. Summary and Overview

Description of programme

The UK is providing up to £21.15 m over a six-year period (2014-2020) to strengthen and build the capacity of Zambia's private sector to create jobs, contribute to the diversification of the economy, and to promote inclusive economic growth

The programme aims to tackle low levels of productivity and to increase the competitiveness of the private sector by strengthening the capacity of Small and Medium Enterprises (SMEs). It does this through activities that build the skills and capabilities of firms, help firms access finance for investment, and link small companies to big suppliers and multinationals.

In its original design, PEPZ had four components, which map to its four outputs:

i. Accelerator Fund (AF) – this provides early-stage capital, technical assistance and mentoring support to investment-ready SMEs capable of transformative growth in order to increase competitiveness and create jobs.

ii. Business Linkages Programme (BLP) – this aims to facilitate increased use of domestic SMEs by large Zambian-based firms, in lieu of goods/services they currently import or manage in-house. This is achieved by facilitating contact between the larger and smaller firms, building the capacity of the SMEs to meet requirements and by improving availability of information on SMEs' quality.

iii. Business Development Services (BDS) – this aims to improve demand for and supply of high-quality BDS. This is to be done by subsidising SME access to innovative BDS, and vetting, training and helping advertise capable BDS providers.

iv. Business Plan Competition (BPC) – this is a nationwide competition between entrepreneurs to win a prize entailing a cash grant and BDS support. This is intended to help innovative businesses grow, raise the profile of entrepreneurship in Zambia and change attitudes so that entrepreneurship is seen as a positive career choice. It has a focus on young people and women.

Component (i) is delivered though a Special Purpose Vehicle called Prospero, which provides funding to a venture capital fund called Kukula Seed. Components (ii) – (iv) are delivered through a commercial contract with DAI and Nathan Associates as the implementers

Following a 'B' in the 2017 Annual Review, the programme took forward a fundamental restructure of components (ii) – (iv), recruiting a new team leader and organising activities according to three focus sectors: tourism, agriculture and mining/mining services. PEPZ scored an 'A' in the 2018 Annual Review, which noted that the change of direction was starting to bear fruit.

In 2018, a £5 million Business Case extension was agreed, which included provision for £1 million to the accelerator fund/Prospero component and a £4 million extension to the contract with DAI/Nathan. The extension will enable the programme to continue to deliver results and make progress towards the intended outcomes. It will also provide a bridging phase while DFID Zambia designs the next phase of private sector programming in Zambia.

Summary supporting narrative for the overall score in this review

Overall the programme scores an 'A+' in this annual review. Outputs 1, 3 and 4 met expectations and scored 'A', while output 2 (30% weighting) substantially exceeded expectations and scored an 'A++'.

The programme has continued to make good progress and maintain momentum following the strategy refresh in 2017. Under the output 1 accelerator fund, DFID has made indirect investments in 9 SMEs, enabling them to grow their businesses and create 176 direct and 1034 indirect jobs. Under outputs 2-4 DFID has worked with at least 326 SMEs in the agriculture, mining and tourism sectors, creating 3447 direct and 9,960 indirect jobs.

PEPZ has continued to make a conscious effort to ensure that economically disadvantaged and vulnerable groups (women, youth, people with disabilities and remote rural populations) have access to information on PEPZ's activities, and that wherever possible programme interventions are tailored to the specific needs of these groups. A future phase of the programme could go further to actively target and analyse the impacts of programme activities on target groups.

Progress at the outcome level is still off track, following poor performance in the first 2 years of the programme. However, this review finds that PEPZ is catching up, particularly on investment leveraged and indirect jobs, and it is likely that targets will be met by the end of the programme.

In September 2019 DFID's Internal Audit Department (IAD) reviewed PEPZ as part of their review of the DFID Zambia. They identified a number of areas for continuous improvement, relating to programme management in PEPZ and also recommended that safeguarding measures be strengthened. The programme team have worked closely with the delivery partners to strengthen programme management mechanisms and safeguarding measures in response to IAD's recommendations.

Recommendations for the year ahead

This review identifies the following recommendations for the next (final) year of implementation of PEPZ:

- DFID SRO and Lead Adviser to work closely with delivery partners to help the programme meet its ambitious targets to scale up in the final year (spend under output 2-4 will be double that of 2018). Closely monitor performance and regularly assess delivery risks (fortnightly progress meetings with partners, monthly internal board meetings, quarterly strategy meetings);

- DFID to take forward a capacity building programme for Prospero, addressing the due diligence recommendations and allowing for scale up in the next phase of programming; this will be commissioned through PEPZ/Nathan with close reporting to DFID (kick off May 2019 and run to March 2020);

- Nathan to work with DFID to conduct a major refresh of the log frame (by end of April 2019), shaping the outputs in line with the PEPZ strategy (around sectors) agreed in 2017. This will better reflect the reality of programme implementation;

- PEPZ/Nathan to work with DFID to develop a learning strategy for 2019 (by end of April 2019), setting out what research / learning the programme will generate in order to inform design and implementation of the next phase.

- DFID to continue to follow up on IAD recommendations, particularly on risk management, safeguards and forecasting accuracy. The DFID Lead Adviser should complete a safeguarding stocktake and plan for strengthening safeguards by May 2019.

- The next phase of the programme could have even higher levels of ambition in relation to working with disadvantaged groups (women, people with disabilities, youth and rural communities). The Business Case for the new programme should consider how this can be incentivized.

B: DETAILED OUTPUT SCORING

Output 1

Output Title	Accelerator fund (AF) facilitates access to patient capital, technical assistance and mentoring support to Small Medium Enterprises (SMEs)		
Output number per LF	Output 1	**Output Score**	A
Impact weighting (%):	25%	Impact weighting % revised since last AR?	No

Indicator(s)	Milestone for this review	Progress
1.1 Additional investment generated as a result of the intervention (crowded in)	***Target*** £5.49 m ($8.1 million)	***Target exceeded*** £5.67m (103%)
1.2 Number of SMEs provided with loans / investments under the AF	***Target*** 9	***Target met*** 9
1.3 Value added by enterprises supported by the Fund (GBP and cumulative)	***Target*** $3,900,000	***Target not met*** $1,177,493 (30%) *Methodological issues – see narrative below*

Background

This component facilitates early stage investment and intensive management support into start-ups and early stage companies in order to create jobs and strong, growing businesses.

In the original programme design the accelerator fund was situated as a component under the contract with Nathan Associates. In 2015 DFID set up a Special Purpose Vehicle (SPV), Prospero, to manage this fund. The aim was to set up a fund that would be sustainable beyond the programme lifetime.

Prospero Limited is a company limited by guarantee which DFID Zambia can transfer grant funds to. Board members include representatives from DFID-Zambia, CDC, Nathan Associates, the Zambian banking sector, and Kukula Seed (a venture capital fund).

Through Prospero DFID has provided finance to Zambia's first venture capital fund, Kukula Seed. Kukula and DFID have invested in 9 SMEs. In total DFID has invested £4.5 million in Kukula Seed through Prospero.

Prospero Limited is a legal entity in Zambia but it currently has no staff. Its day to day functioning is in practice supported by Kukula Seed, who provide a Secretariat service to the Board of Directors. The Board of Directors (on which DFID sits) has met on a quarterly basis during the reporting year and made strategic decisions about the future of the company.

Supporting narrative for the score

Overall this output is scored at an A (met expectations). The two targets relating to the number of companies supported and the investment generated were met.

The component is now providing capital investment and intensive management support to 7 companies, all of which are growing and creating jobs. They are also delivering other development benefits – for example Green Dairy is improving access to milk for poor people; and Live Clean has health and sanitation benefits.

So far Kukula has managed to create an IRR on portfolio level of 7.8% in ZMW, equivalent to 5.4% in USD for the period. Kukula report that this is substantially above the industry average for sub-Saharan Africa (3.5%).

By end of 2018 a total net of ZMW 8.4 million had been paid from Kukula to Prospero in repayments from the companies invested in. Prospero has reinvested the funds in Kukula. Over time it is expected that the generated funds will be utilized to support other initiatives fulfilling Prospero's objectives.

However, not all of the companies supported have reached "break even" point yet in terms of commercial sustainability. Four of the companies (Live Clean, Green Dairy, Eagle Metal Fabrication, and Impanga Development) require a further capital investment in 2019 in order to be commercially sustainable.

Support to two companies has been scaled back – Bumi and BFC Lusaka. Bumi was exited in 2018 with a loss. The write off was done in the 2018 financial year and has been absorbed by the positive return from the rest of the portfolio.

The other investment that has scaled back is BFC Lusaka, where Kukula Seed (and thereby Prospero) has downscaled its engagement as it is believed that the company does not offer a strong outlook for future value creation (both financial and job creation).

The nature of this programme means that DFID expects to be taking risks, with some companies performing better than expected and some losses. When making investments, in particular in early-stage SMEs, it is expected that a number of them will fail. It is hence important that the results are evaluated on portfolio level and that a diversified portfolio is maintained with no large single-investment exposure.

The target for output 1.3 relating to "value added by enterprises supported by the fund" was not met. In its original design, this indicator aimed to measure the change in the valuation of the companies. However, it has not been practical to conduct a full company valuation each year.

Instead the results under 1.3 have been calculated by using EBITDA "*earnings before interest, taxes, depreciation, and amortization*" (used as an indicator of the overall profitability of a business) for the past year, multiplied by 2. This measure gives an overall idea of the profitability of the businesses but is unlikely to fully reflect their value in terms of future earnings potential. The methodology also multiplies any losses by 2 and so may artificially over compensate for negative returns.

Given that these companies are in early stages of development it is unsurprising that the target was not met using this methodology. This does not mean that the businesses have no value. The site visits conducted by DFID for this review suggest that the 7 companies receiving management support are growing fast, creating jobs, and have the potential to generate large financial and development returns in the future.

The DFID team visited the companies in March 2019 as part of this review. Table 1 gives an overview of the performance of each of the 9 companies supported by the programme.

The Kukula Seed model involves intensive management support – essentially the Kukula team are running the 7 companies. The model is working in that the companies are growing and creating jobs. However, this might not be a scalable model – Kukula would need a much larger team if it were to take on a larger portfolio. Kukula note that if they were to run a second phase they would like to make slightly larger investments (minimum $1 million) and work with more established SMEs.

The Kukula Seed pilot is starting to demonstrate that venture capital investment is possible, and profitable in Zambia. At least one new venture capital firm is looking to enter the market in 2019.

Table 1: Progress of accelerator fund companies

Company	Focus	Investment	Company performance	Development impact
1. Bumi	A start-up pioneering high quality, affordable women's sanitation products	~£127,000 (9% equity, 91% debt)	Kukula assessed that this business would not generate a large enough return in the long run and have scaled back support.	3 direct jobs created.
2. Betternow Finance Company *Lusaka branch*	A finance company that provides working capital to SMEs, enabling them to secure contracts to supply larger off takers like mines	~£153,000 (100% equity)	Kukula assessed that this business would not generate a large enough return in the long run and have scaled back support	10 direct, 80 indirect jobs
3. Betternow Finance Company *Solwezi brance*	As above	~£198,000 (73% equity, 27% debt)	This company is doing well and growing fast. They have ~75 loans to SMEs on their books at any one time.	8 direct jobs and 927 indirect jobs created through stimulation of the local market of SMEs who supply to the mining sector.
4. Eagle metal works	A new workshop that makes vital repairs and fabricates new equipment for large and small clients (e.g. mines, trucking companies).	~£657,000 (1%, 99% debt)	Company is growing and looking to expand in to new products. Mines are now able to buy parts locally instead of importing.	24 direct jobs, 2 indirect, as well as demonstrating that good quality parts can be produced locally.
5. Live Clean sanitation company	A start-up fabricating hygienic toilets out of cargo containers, offering an affordable pay-as-you-go service in poor urban areas.	~£222,801 (2% equity, 98% debt)	Three toilet facilities have now been set up in poor urban areas. Customer base increasing, plans to expand in 2019.	4 direct, 3 indirect jobs. Clear health benefits for local communities. Reduced risk of cholera transmission. Waste water is recycled; solid waste used for biogas energy
6. Kunzubo real estate company	A real estate company developing a vibrant office complex and a commercial business park which will stimulate growth for a variety of local SMEs.	~£1m (6% equity, 94% debt)	Local business park created as hub for SMEs in Solwezi. Brining more accommodation options for local business people.	6 direct jobs an and at least 7 indirect jobs in construction (likely to be more). Creating a hub for SMEs, helping to stimulate local economic growth.
7. Green Dairy	A greenfield commercial dairy farm selling affordable fresh milk to the local market.	~£1.4m (3% equity, 97~% debt)	The farm has not broken even yet but expects to do so in 2019. Three shops have been set up selling affordable milk	58 direct jobs. Potentially very large benefits in terms of nutritional impact of affordable milk. Demonstration that sustainable farming

			to ~2,000 customers per day.	methods can be profitable.
8. Bresmar Building Materials (BBM)	An early stage commercial quarrying company that supplies refined silica to Kansanshi mine for its copper smelter.	~£1.5m (38% equity, 62% debt)	Company growing fast and successfully selling product to the mines.	45 direct and 15 indirect jobs. Demonstration that silica mining can be done in an environmentally sustainable way.
9. Impanga sustainable forestry project	Company will tackle harmful deforestation and traditional charcoal practices and introduce sustainable forest management.	~£500,000 (13% equity, 87% debt)	Various permits and land ownership issues have caused delays to the full commencement of operations.	3 direct jobs. When up and running this will create better paid jobs for poor people who rely on charcoal production. Environmental benefits as charcoal production becomes more efficient.

The programme also made progress on the development of the Prospero vehicle itself during the reporting year (not captured in the log frame). The Board has become more professional, with the inclusion of Board members from CDC and a large Zambian bank.

In previous reporting years DFID funds were transferred to Prospero via the contract with Nathan Associates. In the reporting year DFID conducted a Due Diligence Assessment of Prospero. A series of actions were identified in order to build the capacity of Prospero for the future.

The Due Diligence assessment gave DFID sufficient assurance that funds could be transferred to Kukula Seed via Prospero in its current form (as long as progress is being made against the recommendations). As a result DFID signed an Accountable Grant agreement with Prospero and transferred £650,000 to be utilised by Kukula Seed.

Lessons identified this year, and recommendations for the year ahead linked to this output

- The new mechanism for supporting Prospero – via an Accountable Grant overseen by the Board - has been put in place. The Due Diligence Assessment of Prospero assessed that the current organisation structure gave DFID sufficient confidence to make a disbursement of £650,000 in 2018. However, a number of actions were identified in relation to the governance and control mechanisms, ability to deliver, and financial management. These recommendations need to be taken forward, especially if DFID wishes to scale up Prospero in a new phase of the programme. This should be done by the DFID programme team – starting in May 2019 and completing in March 2020.

- The DFID SRO and lead adviser should conduce a review of the safeguarding mechanisms in Prospero and develop an action plan to take forward any necessary actions to strengthen safeguards (by May 2019).

- The 2018 Annual Review recommended an impact evaluation for Prospero/Kukula, but this was not taken forward in the reporting year. This review recommends that DFID includes an evidence review of Prospero as part of the PEPZ learning strategy (developed by Nathan and agreed by DFID by May 2019). This should capture and better assess the costs, financial returns, and development returns from the Prospero/Kukula investments.

- The Prospero review should also look at the contractual agreement between Prospero and Kukula and advise as to whether amendments should be made for any new phase of programming (commissioned in May 2019, completed by August 2019)

Output 2

Output Title	**Business Linkages Programme enables capable Zambian SMEs to capture an increasing share of large corporate's purchasing power**		
Output number per LF	Output 2	**Output Score**	**A++**
Impact weighting (%):	30%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone for this review**	**Progress**
2.1. Anchor firms in active partnership* with PEPZ	***Target*** 35	***Target exceeded*** 42 (120%)
2.2. SMEs committed** to increasing management capacity/improving access to technology and skills to supply market demand	***Target*** 140	***Target exceeded*** 326 (232%)
2.3. Private sector resources mobilized	***Target*** £1,000,000	***Target exceeded*** £4,230,479 (423%)
2.4. Number of facilitation mandate letters*** signed	***Target*** 20	***Target exceeded*** 26 (130%)

**Active partnership is defined as having a signed cooperation agreement with PEPZ, being a member of the Champions for Business Linkages group, or actively engaging in facilitation interventions.*

*** SME commitment is defined as SMEs that have signed a grant agreement, a facilitation mandate letter, or a challenge fund investment project agreement.*

**** these are formal agreements to provide support to SMEs to achieve a specific business objective or anchors to realise the benefits of a new practice. This indicator aims to capture the broader range of valuable business linkages that PEPZ facilitates but which do not necessarily result in a direct financial PEPZ intervention.*

Output 3

Output Title	**Business Development Services (BDS) supply-side is stimulated to deepen the market for standalone BDS and large firms are encouraged to supply embedded BDS**		
Output number per LF	Output 3	**Output Score**	**A**
Impact weighting (%):	25%	Impact weighting % revised since last AR?	No

Indicator(s)	**Milestone(s) for this review**	**Progress**
3.1. Micro-enterprises receiving commercially viable business services from input suppliers, off-takers, or business service providers	***Target*** 5000	***Target exceeded*** 5136 (102%)
3.2 Organisations in partnership with PEPZ to improve delivery of commercially viable business services	***Target*** 200	***Target exceeded*** 206 (103%)

Background

Outputs 2 and 3 are implemented through the contract with Nathan Associates. These outputs have been combined as part of the new implementation strategy agreed in 2017.

Under output 2 (in original design) the programme aims to identify commercial opportunities in core value chains, and then strengthen the capacity of Zambian SMEs to effectively compete into those value chains, creating jobs and adding value to goods and services in Zambia where previously these may have been imported.

Under output 3 (in original design) PEPZ aims to create a market that enables SMEs to access affordable and commercially sustainable services to help them grow and take advantage of business opportunities.

Following the new strategic approach agreed in 2017, PEPZ's activities are structured around the three priority sectors (agriculture, mining and tourism) and there is little distinction between separate 'Business Linkages Programme' (BLP) and Business Development Services (BDS) activities.

The Nathan PEPZ team still reports according to the output indicators and components in the original log frame. This will be revised in 2019 so that the team are able to report progress in the three priority sectors, better reflecting the reality of the implementation approach.

The activities implemented by the Nathan PEPZ team under the new strategy include:

- Identification of 'anchor firms' in the priority sectors and linking these to Zambia SMEs;
- Providing small grants to SMEs in the priority sectors, enabling them to take forward an innovative business idea or new opportunity;
- Providing capacity building (subsidised BDS) to SMEs in receipt of grants, enabling them to use capital effectively and grow their business according to an agreed plan;
- Making connections and facilitating dialogue between firms, and between investors and firms.

Supporting narrative for the score

The programme significantly exceeded expectations against output 2 and scores an A++. Targets for number of anchor firms partnered with, number of SMEs supported, investment leveraged, and connections made were all exceeded.

The programme met / slightly exceeded expectations under output 3 and scores an A. More than 5,000 micro-enterprises received capacity building services, and over 200 organisations worked in partnership with PEPZ to deliver those services.

There is clearly momentum and energy behind the activities being delivered by the PEPZ team. The strategy refresh 2 years ago has had a real positive impact, with results being delivered at scale.

Activities in each of the priority sectors are detailed below.

<u>Mining and mining services</u>

- PEPZ has created relationships with 14 anchor firms in the mining sector. These include some of the big mines such as FQM and Munali Nickel Mine. The relationships are helping to link the mines to local SMEs in order to promote sustainable local economic development in the mining community.

- PEPZ has provided grants to 4 SMEs in the sector and has TA agreements with a further 6 companies. This is helping smaller companies to supply goods and services to the mines. Collaboration with SMEs in the mining sector has mobilised £419,727 of investment.

- In the reporting year PEPZ set up and facilitated steering committee on "local content". This is a forum where government, mines, chambers of commerce and SMEs can discuss ways to increase use of local goods and services in mining. PEPZ will build on this initiative in 2019.

Food and agriculture

- In this sector PEPZ has relationships with 6 anchor firms – for example the programme works with MRI Syngenta, one of the largest suppliers of inputs to smallholder farmers.

- PEPZ has 23 grant agreements with SMEs in the sector, helping to mobilise over £3.3 million in match funding. For example, DFID visited Kiecan farms and DaisyMeats for this review. Kiecan farms have started to grow high quality vegetables (including off-taking from smallholders) and retail these to hotels and high-end supermarkets. DaisyMeats are expanding their pig farm, purchasing pigs from other farmers and starting production of a range of meat products.

- In the reporting year PEPZ also established the first "rural enterprise hub". The hub is anchored by a new maize milling machine in a rural centre, which can be used by local maize farmers who are part of the cooperative. PEPZ has helped to set up a small office building where companies such as mobile phone operators can sell their products. This pilot will be expanded in 2019.

Tourism and hospitality

- PEPZ has worked with 14 anchor firms in the tourism and hospitality sector. In total it has made 22 grant agreements with SMEs, mobilising £365,765 in match funding.

- The grant agreements included 15 craft makers – these are people who make wood carvings, baskets, and other crafts for sale to tourists. In the reporting year PEPZ helped artisans to improve the design and quality of their products, tailoring more to the export market. PEPZ facilitated visits from wholesale buyers from the US and UK, who have started to order the products for sale in American and British retail stores.

- PEPZ has also been working on policy, regulatory reform and coordination the sector. An agreement was signed with the Zambian Tourism Agency (ZTA), helping ZTA to develop an implementation plan for quality rating in the hospitality sector. In Livingstone, PEPZ worked directly with the museum and art gallery and facilitated a stakeholder round table, looking at how tourism in Livingstone can be developed.

Cross cutting

- A major achievement in the reporting year was PEPZ involvement in the Impact Capital Africa (ICA) conference in October 2018. The conference was attended by 15 investors, 40 SMEs and 56 speakers, who took part in panel discussions and seminars.

- PEPZ directly supported 28 SMEs to take part in the conference. Of these 11 received grants from PEPZ to help them prepare to raise capital from much larger investors.
- By The end of the reporting year (3 months after the conference), 3 companies had signed deals worth ~£2 million in investments. A further 10 companies are in discussion with investors. It is likely that these deals will make large contributions towards the PEPZ outcome targets in 2019.

Lessons identified this year, and recommendations for the year ahead linked to this output

- The programme is clearly building momentum under the new strategy. In 2019 the log frame should be revised to ensure the reporting mechanisms are aligned with the implementation approach (new log frame agreed by DFID by May 2019).

- The food and agriculture sector activities are generating benefits in terms of nutrition and climate resilience, which are not being captured by the programme logframe. For example, DaisyMeats will be improving access to affordable protein for the urban poor. The PEPZ team estimate that support to smallholder farmers has improved climate resilience of ~14,000 people. This should be added to the logframe in 2019 as it can contribute towards DFID's International Climate Fund results (new log frame agreed by DFID by May 2019).

- The design of the new phase of the programme should look at how wider development impacts – such as those on nutrition and climate resilience – can be captured. This should be included in the Business Case for PEPZ 2 (DFID Lead Adviser, by June 2019).

Output 4

Output Title	Business Plan Competition (BPC) improves or promotes positive attitudes towards entrepreneurship in Zambia through active marketing and promotion of BPC on TV and other media channels.		
Output number per LF	Output 4	**Output Score**	A
Impact weighting (%):	20%	Impact weighting % revised since last AR?	No

Indicator(s)	Milestone(s) for this review	Progress
4.1 Removed for 2019 as BPC concluded, and as discussed in Annual Review 2018	--	--
4.2 Number of businesses supported through BPC (cumulative)	***Target*** 180	***Target met*** 180 (100%)
4.3 Amount of media coverage generated through BPC (estimated value of coverage)	***Target*** £ 890,000	***Target exceeded*** £ 1,389,548 (156%)

Background

Nyamuka (which means 'to rise up' in Cinyanja language) was PEPZ's business plan competition aimed at stimulating Zambian entrepreneurship. It has a particular focus on young people and women.

The competition was closed in 2017 with a limited number of activities planned for 2018 and 2019. During the reporting year past winners continued to receive BDS vouchers and took part in the motoring scheme. The number of businesses supported through the BPC totalled 180 as expected, with 60 winners awarded each year (2015-2017).

As part of the strategy refresh in 2017 PEPZ (with DFID) agreed to move away from small grants to very small firms / entrepreneurs, towards bigger investments.

The 2018 Annual Review found that the Nyamuka brand gained widespread recognition during its implementation, and almost all stakeholders (across all components) have heard of Nyamuka. However, although sponsors showed willingness to continue providing support, no entity was found that is willing to fully take ownership and continue running the competition beyond the planned 3 years of PEPZ support.

Supporting narrative for the score

Overall output 4 met expectations scoring an A. These milestones are the cumulative total from the end of 2017 (no further progress was planned for 2018).

Lessons identified this year, and recommendations for the year ahead linked to this output

- The Business Plan Competition was successful in supporting entrepreneurs and start-ups but was resource intensive to manage and implement. DFID Zambia should commission a study review the costs and benefits of the competition in to inform the next phase of programming in Zambia. The study should also track the competition winners to assess their progress after the programme was completed. This should be included in the PEPZ learning strategy (to be developed by Nathan and agreed with DFID by May 2019)

C: THEORY OF CHANGE AND PROGRESS TOWARDS OUTCOMES

Summary of programme theory of change and any major changes in the past year

The Business Case (April 2013) for the PEPZ programme identifies the programme **impact** as: a private sector capable of delivering inclusive growth. In the log frame this is measured using "proportion of the labour force in non-public sector wage employment" and "private investment ratio as a proportion of GDP".

The programme **outcome** identified in the Business Case is: MSMEs with increased size and capability. Three outcome indicators were identified to measure this. In the Business Case it was estimated that by 2019 it is estimated that the programme would:

- Contribute to the creation of 40,600 full time jobs, 40% for women;
- Create £30 million in additional investment;
- Create £47.6m in value added (measured as increased profits of firms supported by the programme).

These estimates were based on a cost benefit analysis that estimated the expected returns from investments in the four original programme components (private equity to firms, business linkages, business development services, and a business plan competition).

The theory of change for the programme assumes that the programme will achieve against **four outputs**: (i) increased investment by SMEs as a result of access to finance; (ii) increased productively of SMEs through business linkages; (iii) increased capacity of SMEs as a result of business development; and (iv) entrepreneurial skills developed and new businesses established as a result of business plan competitions.

There have been no changes to the theory of change in the last 12 months. However, there was major shift in the programme implementation approach in 2017.

In 2017 outputs 2 – 4 of the programme were redesigned around three sectoral focus areas (mining, food and agriculture and tourism), rather than around business linkages, BDS and business plans.

The implementation approach has shifted over time to work less with individual entrepreneurs and more about access to finance and capacity building for growing SMEs in the focus sectors. Over time the programme has increased the average grant size and moved away from start-ups towards slightly larger SMEs. This has been improving programme performance in terms of jobs crated and investment leveraged (see next section).

The theory of change diagram has not been formally revised. However, the new approach has been agreed with the implementing partners, who will continue to work along sectoral lines in 2019. The log frame needs to be revised to reflect the revised implementation approach.

Progress against impacts and outcomes

<u>Impact level</u>

It has not proved possible to measure progress against the impact indicator 1 (wage employment) due to lack of data. The last survey measuring this data was in 2014. In the next phase of the PEPZ programme more measurable indicators should be chosen.

Impact indicator 2 is significantly off track -thought this cannot be attributed to the PEPZ programme. The investment ratio was just 6% of GDP in comparison to the target of 22% identified in 2013 during programme design. This reflects the less favourable performance of the economy than expected, rather than poor programme performance.

Outcome level

There are four outcome indicators identified in the log frame. These are summarised in table 2. Overall the programme is off-track towards achieving outcome targets, but progress has speeded up in the past 2 reporting years (following poor programme performance in early years).

Table 2: progress against outcome indicators

Outcome indicator	Target Jan 2019	Progress Jan 2019
Outcome 1, Policy influence: Models of engagement with private sector demonstrated by the Private Enterprise Programme Zambia (PEPZ) and taken up by government and development partners (qualitative indicator)	**Target** Evidence that business linkages models are being replicated by both government and other development partners. Evidence that business plan competitions are also being used by other donors.	**On track** Business linkages programmes underway by: 1. Government: MCTI, ZTA, ZDA, Ministry of Mines 2. Other DFID programmes: AgDevCo, CFU, Musangu, CIG, FSDZ, 3. Other non-DFID Programmes: Musika, WFO, World Bank
Outcome 2, investment: Additional investment by Micro Small Medium Enterprises (MSMEs) supported by PEPZ (Great British Pound (GBP) and cumulative)	**Target** £22,000,000	**Off track** £16,841,545 (76%)
Outcome 3, value added: Increased value addition by MSMEs supported by PEPZ (GBP and cumulative	**Target** £16,000,000	**Off track** £5,583,592 (35%)
Outcome 4, jobs: Additional full time jobs created by MSMEs directly or indirectly supported by PEPZ, direct/indirect/women (cumulative)	**Target** Direct: 8,085 Indirect: 12,700 Women direct: 5,060	**Off track** Direct: 3,623 (45%) Indirect: 10,994 (86%) Women direct: 1,141 (22%)

Outcome 1 is on track, with business linkages approaches underway by a range of other partners. It is difficult to assess whether this is attributable to the programme, but PEPZ is a well known brand in Zambia and the programme has good relationships with government, development partners, and other programmes, suggesting there is lesson sharing going on. In particular the World Bank have designed a major new initiative working with SMEs in the agriculture sector, drawing heavily on the PEPZ model.

Progress of off track on outcomes 2 and 4, but the rate of progress has improved in the last 2 years of implementation (since the programme shifted to a sector focus). This can be seen in graphs 1 – 3 below. In particular the programme is starting to rapidly create indirect jobs. The PEPZ team note that there is now momentum behind their interventions and make rapid progress in 2019. More analysis is needed to see whether targets for women are on or off track.

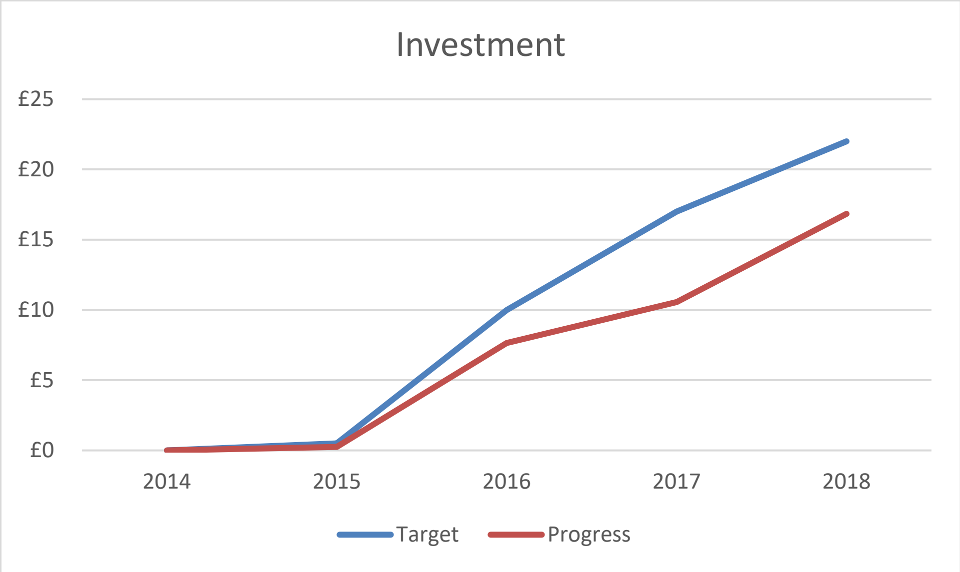

Chart 1: Additional investment by SMEs. Off track but rate of change increasing. Likely target will be met at PCR.

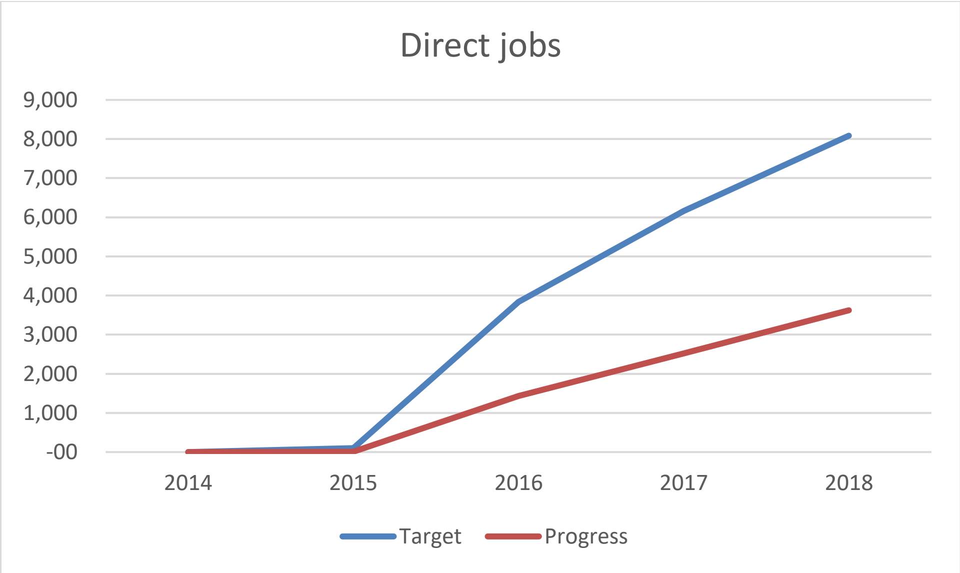

Chart 2: Direct jobs created. No significant scale up observed, likely that target will not be met by PCR.

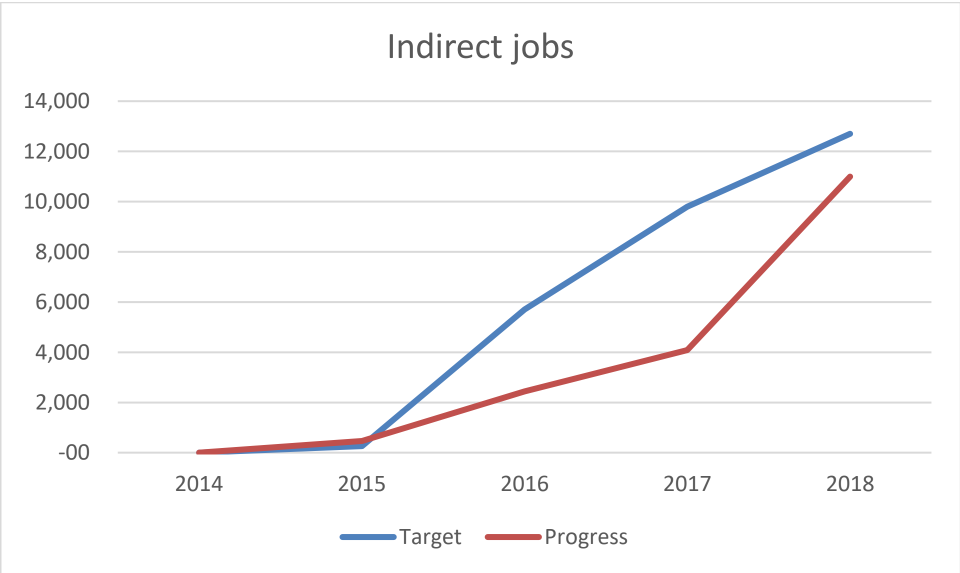

Chart 3: Indirect jobs created. Rapid scale up observed, likely that target will be met by PCR.

Outcome 3 (value added) is off track but there are methodological problems with this indicator. The results are calculated by summing the increase in profits of firms who have received support (in various forms) from the PEPZ programme. However, during implementation is has become evident that there is a significant time lag between firms receiving support and increase in profits.

It is not therefore reasonable to expect the full benefits value addition to be captured during the programme lifetime. This review recommends that the value addition indicator be moved to impact level.

Major changes to the logframe in the past year

Following the 2018 Annual Review, a minor change was made to output indicator target 1.2. The number of target investments was revised down to 9 as no new investments were planned under the Prospero/Kukula seed component.

The 2018 review recommended that the methodology for outcome indicator 3 (value added) and output indicator 1.3 (value addition) be revised. This was not done during the reporting year.

Describe any planned changes to the logframe as a result of this review

- This review recommends that the log frame undergoes a major revision to capture the results in the remaining 12 months of implementation. Outputs 2 – 4 should reflect the sectoral focus of the programme, as opposed to the pre-2018 output areas. This will make it much easier to assess progress against the PEPZ strategy agreed for 2019. (New logframe developed by Nathan and agreed by DFID in May 2019).

- The methodologies for outcome indicator 3 and output indicator 1.3 should be reviewed, especially to inform the design of the next PEPZ programme (by Nathan and agreed with DFID by end of May 2019).

- Nathan should produce some analysis of whether results for women (direct and indirect jobs created) are on track at the outcome level and consider how the programme should respond (for example through greater targeting of female entrepreneurs). (By end of May 2019)

D: VALUE FOR MONEY

Assessment of VfM compared to the proposition in the Business Case, based on the past year

Effectiveness

The PEPZ Business Case estimated that the programme could generate net benefits (benefits minus costs, discounted at 10%) amounting to £80 million. Of this, £54 million would be attributable to DFID. The 4 interventions outlined in the business case were expected to generate 13,900 jobs directly and 26,700 jobs indirectly (note that these figures differ from the output targets in the log frame which are 8,085 and 12,700 respectively).

It is not yet possible to calculate whether the programme has achieved the net benefits estimated during programme design. In 2019 the programme will conduct a cost benefit analysis which will estimate the actual benefits. This will ensure that the data is ready in time for the project completion report. It will enable the programme team to see which components of the programme have been the most effective.

Tables 3 and 4 below summarise the progress so far against the assumptions made in the business case. As described in the theory of change section above, the programme is not currently on track to meet the target number of direct jobs to be created (outcome indicator), but greater progress has been made in later years of the programme. It is likely that the target for indirect jobs will be met.

The most effective component of the programme in terms of job creation is (now combined) outputs 3 and 4, which created 3,067 direct and 5,713 indirect jobs.

There are also a number of positive benefits resulting from the programme that were not monetised in the business case and are not captured in the log frame.

Table 3: Business case component 1: impact investment / accelerator fund

	Expected	**Actual**
Costs	£3.1 million (from DFID) in an impact investment fund and seek an extra £3.1 million from other investors	£4.5m DFID spend ~£5.5m additional investment from others
Benefits	Expected net benefits (benefits – costs, discounted) = £9 million 710 direct jobs and 3,500 indirect jobs	CBA would be required to monetise actual benefits achieved. 176 direct jobs, 1034 indirect jobs In addition there have been qualitative benefits: - Prospero set up as Zambian investment fund - Kukula seed invested in 9 companies, 7 of which are continuing to grow and create jobs with Kukula support - Stimulation of local economy in Solwezi – full indirect jobs unlikely to be captured - Demonstration that venture capital to SMEs can work - Pipeline for CDC starting to be developed

Comments	Total costs exceed the expected costs of this component, but the business case did not define how many firms would be invested in. Jobs figures not meeting expectations yet, but firms are growing and likely to continue to create jobs. Spillover benefits have been achieved, these were not monetised in the business case.

Table 4: Business case components 2 - 4

	Expected	**Actual**
Costs	• Business linkages = £5m • BDS = £5.4m • Business Plan Competition = £1.5m Total = £11.9m	• Business linkages = £1.7m (spent) • BDS = £1.8m (spent) • BPC = £0.9m (spent) • Cross cutting implementation fees + expenses = £4m (spent) Total = £8.4m
Benefits	• Business linkages = Net benefits £27.1. 3,000 formal, full times jobs additional 6,000 jobs created indirectly. Assist 500 MSMEs to increase their capability and grow • BDS = Net benefits £7.7m. Provide BDS to 14,000 transformative MSEs in Zambia, increasing turnover by 30%. 6,700 jobs would be generated directly with an equal number generated indirectly • Business Plan Competition = Net benefits £3.1m. Expected to benefit 750 MSEs. to generate over 3,500 jobs directly and an estimated 7,000 jobs indirectly	CBA would be required to monetise actual benefits achieved. Jobs = 3,449 direct; 9,960 indirect Demonstration that: - anchor firms want to work with programme and link with SMEs - it is possible to build SME capacity and improve access to finance - there is interest from investors in coming to Zambia - a sector focus is a good way to improve SME productivity and create jobs - slightly larger grants to more mature firms tend to create more jobs and investment
Comments	The programme has not yet spent the budget envisioned in the Business Case, indicating that the rate of disbursal is much slower than anticipated. At present the number of jobs created are expected to be below what was anticipated in the appraisal.	

Efficiency

The programme measures a series of indicators to assess efficiency of programme delivery under the Nathan Associates contract (outputs 2-4). The programme does not currently track efficiency indicators against of output 1.

Though some of the efficiency indicator targets were not met, this was only by a small margin. Progress clearly improved during the reporting year as the programme continues to gain momentum.

- Efficiency indicator 1: Leverage ratio of PEPZ grants. This is the total sum of matched funds divided by the total sum of PEPZ disbursed grants. The target of £0.24. was narrowly missed. The leverage ratio improved during the course of the reporting year from £0.15 in Q1 to £0.19 in Q4.

- Efficiency indicator 2: Cost per business receiving commercially viable services as a result of PEPZ. The target of £371 was narrowly missed. Progress also improved during the reporting year from £702 in Q1 to £391 in Q4. The programme reached more businesses as the year progressed, bringing down the cost per business.

- Efficiency / effectiveness indicator 3: Cost per job created. This is the sum of disbursed PEPZ grant contributions divided by the sum of direct and indirect jobs created. The target of £202 was met. Improvement were made on this indicator during the year, with costs coming down from £290 in Q1 to £159 in Q4.

- Efficiency / effectiveness indicator 4: Additional investment per PEPZ £ invested. This is the sum of all PEPZ disbursed grant contributions divided by the additional investment created to date. The target of £7.02 was missed. This target was missed but progress improved during the year from £2.96 in Q1 to £5 in Q4. This reflected the additional investment that was leveraged during the ICA investment conference that took place in Q3.

Economy

The programme tracks a series of economy indicators in order to measure and drive down the key cost drivers of the programme. Currently the programme is only tracking economy under the Nathan contract (outputs 2-4). Economy metrics are not yet in place for output 1.

Overall performance against the economy indicators was good, with most indicators met. The rising cost of domestic travel is driving up costs, but this is unavoidable if the programme is to work with remote communities.

- Economy indicators 1 and 2 : Average daily cost of international and national consultants. These were within the targets (£554 compared to a target of £555) and (£204 compared to target of £204).

- Economy indicator 3 and 4: Average of international and domestic flights. The cost of international flights was within target (£673 compared to target of £950) but the cost of domestic flights was above target (£255 compared to £150). This was due to the increased cost of domestic travel in Zambia, coupled with increased monitoring of partner SMEs in difficult to reach parts of the country.

- Economy indicator 5: Lusaka accommodation costs. This was £93, within the target of £125.

The programme also tracks (i) the ratio of management costs to grant funding and (ii) the ratio of management costs to overall total programme costs. On these measures:

- The average management costs to grant funding ratio for the year was 7.1%, above the target of 5%. This worsened as the year went on (from 6,5% in Q1 to 7.3% in Q4). The PEPZ team explained the slowdown in grant disbursement as a consequence of uncertainly about whether the programme would be extended for 2019 (discussed further in section F below).

- The ratio of management costs to overall total programme costs was fixed at 16.3% during the October contract amendment, this is within and below the original programme budget which set a ceiling of 17%.

Equity

The programme measures a series of indicators to assess equity in programme delivery under the Nathan contract (outputs 2-4). We are not currently tracking equity indicators to measure the inclusivity of output 1.

Overall performance against the equity indicators is broadly on track.

- Equity indicator 1: Interventions inclusive of gender. The target of 13 interventions with 266 SMEs was narrowly missed, with 12 interventions reaching 247 SMES.

- Equity indicator 2: Interventions inclusive of remote rural communities. The target of 33 interventions was met. However, the outreach of 4,303 micro-enterprises was below the target of 6,268.

- Equity indicator 3: Interventions inclusive of youth. The target of 5 interventions reaching 446 micro enterprises was exceeded, with 7 interventions reaching 458 micro enterprises.

- Equity indicator 4: Interventions inclusive of people with disabilities. The target of 2 interventions was not met as only 1 intervention took place. However, the target outreach of 180 micro enterprises was met with the single intervention.

In the reporting year PEPZ took forward a series of activities to improve inclusivity of interventions:

- PEPZ has continued to make a conscious effort to ensure that economically disadvantaged/vulnerable groups (PEPZ has identified women, youth, people with disabilities and remote rural populations) have access to information on PEPZ's activities, and that wherever possible intervention partnerships are tailored to the specific needs of these groups.

- To improve access to information, PEPZ has continued to reach out to women-owned and women-managed businesses through a range of communications channels. The programme has been actively reaching out to women entrepreneurs through Twitter and has engaged women-led grantees to share experiences and information to further incentivise women entrepreneurs to apply to PEPZ. In addition, PEPZ is planning to organise a "Women in Business" event in 2019 year to further raise awareness among this group.

- PEPZ has also tailored its activities to ensure that economically disadvantaged/vulnerable groups have access to PEPZ funds. For example, when launching the Challenge Fund in March 2018 PEPZ realised that the minimum grant size planned during the design phase demanded a level of grantee contribution that disproportionately excluded businesses owned or managed by the groups that we wanted to reach. The thresholds were then reduced to ensure more inclusive access to this funding mechanism.

Whether and why the programme should continue from a VfM perspective, based on its own merits and in the context of the wider portfolio

A cost benefit analysis to be completed in 2019 will determine whether the benefits of the programme are commensurate with those predicted in the business case. Progress so far suggests that the outcome targets will be difficult, but not impossible, for the programme to achieve. Progress against outcomes has gained momentum in the last 2 years since the programme implementation approach was revised.

The programmes is performing well against the economy, efficiency and equity indicators measured under the Nathan Associates contract (outputs 2-4).

The programme is yet to develop VFM metrics for output 1. Since there is only 12 months of implementation remaining, this review recommends that metrics are developed that could be applied to the next phase of the PEPZ programme.

DFID Zambia has recently developed a new country strategy paper, which identifies SME finance as an important future area of work with DFID. The PEPZ programme is firmly in line with the strategy and it will be important for DFID Zambia to learn from PEPZ to inform the design of future programming.

Overall this review finds that the programme is offering good VFM and should continue. Progress is being made at both output and outcome level. There are also other programme benefits – such as demonstration that venture capital investment is feasible in Zambia – that are highly valuable and not currently captured in the programme log frame. These can be taken forward in any new phase of the programme.

Recommendations relating to VFM

- Nathan should conduct a cost benefit analysis of PEPZ (including the Prospero component) in 2019, looking at how the costs and benefits of the programme compare to those predicted in the business case. The analysis should include a comparison of VFM of different components of the programme (e.g. cost per job created). (Commissioned in May 2019 and complete by September 2019).

- DFID should develop VFM metrics for Prospero, that can be integrated in to the next phase of the programme. (Lead Adviser, by June 2019).

- DFID Zambia should create a database of economy metrics that can be compared across programmes. This will enable the office to compare the delivery costs across suppliers and programmes. (DFID Zambia Economist and Commercial Advisers, by June 2019).

- The next phase of the programme could have even higher levels of ambition in relation to working with disadvantaged groups (women, people with disabilities, youth and rural communities). The Business Case for the new programme should consider how this can be incentivised.

E: RISK

Overview of programme risk and mitigation

The overall risk rating for the programme is ‘major’. Table 4 sets out the appetite for the programme against the DFID risk categories. The DFID programme team regularly discuss risks against these categories and assess whether the current level is within the agreed appetite.

Table 4: Risk appetite for PEPZ

Category	Appetite	Rationale

Contextual	Major	The delivery context is highly dependent on government policy and changes in the performance of the economy. These can vary in Zambia.
Delivery	Major	The programme is working with SMEs, some of which may be successful in taking forward innovative business ideas, and some of which may fail. The programme has a fairly high appetite for delivery risk to allow for innovation.
Fiduciary	Minor	Low appetite for fiduciary risk.
Reputational	Minor	Low appetite for reputational risk.
Safeguarding	Minor	Low appetite for safeguarding risk.
Operational	Moderate	This risk appetite is set at moderate, reflecting that it is sometimes difficult to secure visas for international personnel working on DFID programmes, this could affect staff retention

Key programme risks that emerged and were mitigated during the reporting year were:

1. Delivery

Two amendments to the contract with Nathan Associates were required during the reporting year – one to reallocate budget between components, and one to increase the budget and timeline for an additional year of implementation (discussed further in section F).

The contract amendments were identified as a delivery risk, which did emerge as a constraint to programme performance. The amendments took significant staff time in both DFID and Nathan. They led to delivery delays as Nathan was unable to sign new grant agreements with SMEs before contracts were signed with DFID. Staff at Nathan were uncertain about whether their roles would continue, which may have affected staff morale.

To mitigate the risk DFID Zambia kept in close contact with both Nathan and Procurement and Commercial Department and acted as quickly as possible to renew contracts.

2. Safeguarding

DFID's Internal Audit Department reviewed the PEPZ programme in September 2018. They identified safeguarding as a key risk to this programme and suggested that measures be strengthened (discussed further in section F). The programme works with hundreds of SMEs and they in turn have multiple sub partners / suppliers. There is a risk that some of these companies might not meet safeguarding standards. For example, companies might not comply to labour standards, minimum wage, or have adequate polices for sexual harassment.

To mitigate this risk PEPZ is in the process of developing a much more detailed delivery chain map, including analysis of risks at all levels of the chain. The programme is putting in place a training programme on safeguarding for sub-partners and strengthening due diligence processes. New grant agreements are also being developed to improve the legal basis on which safeguards are agreed with sub partners.

Key upcoming risks for next year

A Business Case addendum was agreed in 2018, extending the PEPZ programme for 1 year and increasing the budget by £5 million. Of this £1 million is allocated to output 1 (Prospero/Kukula) and £4 million is to Nathan Associates.

This is a significant scale up of activities, particularly for Nathan Associates. To mitigate this delivery risk DFID has agreed a strategy with Nathan Associates to guide the delivery of activities in 2019. This includes detailed plans as to how activities will be implemented in the coming year.

DFID and Nathan will meet regularly (at least fortnightly) to track progress on both physical and financial performance.

F: DELIVERY, COMMERCIAL & FINANCIAL PERFORMANCE

Performance of partners and DFID, notably on commercial, and financial issues

<u>Performance of DFID</u>

The programme is overseen by the Senior Responsible Officer (SRO), who is also the Team Leader for the Inclusive Growth and Resilience Team in DFID Zambia. He is supported by an Economic Adviser and Programme Manager, who manage day to day operations of the programme. In 2018 DFID Zambia faced staffing gaps which did limit the amount of advisory time available for PEPZ. A new (additional) Private Sector/Economic Adviser was recruited in early 2019 so this is likely to be less of an issue in the final year of implementation.

PEPZ is implemented by two delivery partners, Prospero/Kukula seed for output 1 and Nathan Associates for outputs 2-4. During the reporting year DFID monitored progress of Nathan Associates through fortnightly catch up meetings. Delivery by Kukula Seed was monitored through more ad hoc meetings, as well as the quarterly Prospero Board meetings. DFID also took part in regular field trips in order to engage with sub partners.

Internally DFID managed performance through Programme Board meetings, which took place on a monthly basis. These are chaired by the SRO and cover progress updates, review of the delivery plan, financial performance and review of the risk matrix. DFID Zambia also holds quarterly scrutiny meetings with the Head of Office.

In September 2019 DFID's Internal Audit Department reviewed PEPZ as part of their review of the DFID Zambia. They identified a number of areas in which the programme could further improve its approach to programme management. These included:

- Development of a more comprehensive delivery chain map in line with new DFID safeguarding requirements;
- Reduction in forecasting variances (discussed below);
- Improved analysis of fraud and safeguarding risks in the risk register.

In response, DFID reviewed programme management processes in the programme, refreshed the risk register, and took forward detailed discussions (especially on safeguarding and delivery chains) with the delivery partners. All of the suggestions put forward by IAD have now been taken forward.

During the reporting year DFID made an addendum to the programme Business Case, extending the programme value by £5 million and adding a further 12 months of implementation. This will allow the programme to continue to deliver results while a new programme is being designed in 2019. The addendum includes an additional £1 million for output 1 and £4 million for outputs 2 – 4.

<u>Performance of Prospero / Kukula seed (output 1)</u>

Kukula Seed are performing well in their role as Secretariat for Prospero. The Board meetings took place on time and members were provided with documentation that enabled them to discuss strategic direction and risks. To improve, more detail could be provided on the financial position of the companies supported.

A Due Diligence Assessment of Prospero was conducted in the reporting year. This gave DFID confidence that Prospero as a vehicle is effectively able to manage the funding provided to Kukula Seed. As a result, a new Accountable Grant agreement was put in place. (This means that DFID monies can be transferred to Prospero directly, rather than through the contract with Nathan).

The Due Diligence did however highlight a series of actions that need to be taken forward if DFID is to expand the role and remit of Prospero in the future. The organisation needs to start to employ staff, develop policies and systems, and put in place a strategy for the future.

DFID will be supporting an initiative to develop the capacity of Prospero throughout 2019.

<u>Outputs 2 – 4: Nathan Associates</u>

Two contract amendments were required during the reporting year, which took significant staff time in both DFID and Nathan. The first of these was a contract amendment, allowing PEPZ to reallocate implementation funds away from the Business Plan Competition (which was closed) towards other activities. Implementation of programme activities (for example disbursement of grants to SMEs) was delayed while the new contract was being agreed.

The second amendment was a contract extension to allow for implementation for a further year (March 2019 – March 2020). This also led to some delays in delivery as the programme team were unsure as to whether activities would be continuing beyond March 2019.

The quality and timeliness of narrative reports provided by Nathan Associates on a quarterly basis was good. Each report included a thorough discussion of programme delivery, operational issues, financial performance, communications, VFM assessment, and financial performance.

The quarterly reports do not include a discussion on risks and risk mitigation measures, this should be included in future reports.

As per the findings from the DFID Internal Audit Report, the approach to risk management and safeguarding could be improved. (DFID has already started to work with Nathan to address this). In particular:

- A full delivery chain map needs to be developed, including an assessment of risks at each part of the delivery chain (this was underway at the time of writing);
- More analysis to be conducted to identify safeguarding risks in each of the priority sectors (for example adherence to minimum wage laws, use of child labour);
- The importance of safeguarding to be better communicated to sub-partners and explicitly included in due diligence assessments and grant agreements / contracts;
- Company policies, such as Procurement and Operations Manuals to be updated in line with DFID's new safeguarding policies.

Internal Audit Department also noted the variances observed between Nathan's monthly financial forecasts and invoices. DFID have discussed this with Nathan in detail and will be closely monitoring their financial management performance in the coming year.

Recommendations related to delivery, commercial and financial performance

- There are no KPIs in place to help DFID monitor and measure supplier performance under this contract. They could measure for example quality of delivery, personnel performance, reporting quality, and financial management. It is recommended that KPIs are included in any contracts for the next phase of the programme.

- DFID should continue to work closely with the delivery partners in 2019 to ensure that safeguarding requirements are met.

- Nathan Associates should include a detailed analysis of emerging risks and mitigation measures as part of their quarterly reporting processes.

Date of last narrative financial report(s)	26/02/2019
Date of last audited annual statement (s)	21/11/2018

G: MONITORING, EVIDENCE & LEARNING

Monitoring

Output 1: Prospero / Kukula seed

The Kukula Seed team have set up a field office in Solwezi which allows them to have day to day contact with the companies supported through the programme. Senior members of the Kukula team based in Lusaka visit Solwezi on a fortnightly basis.

Kukula Seed are tracking progress on development impact of the investments, especially the number of direct and indirect jobs created. They report this to Nathan Associates who consolidate the data in to the overall programme logframe for DFID.

Whilst Kukula Seed are able to report results in terms of jobs created, they have less expertise in capturing and reporting wider development results – such as nutrition and sanitation. In a future phase of the programme DFID could design an M&E unit that could support investors like Kukula to capture the full spectrum of results generated.

The Prospero Board meets on a quarterly basis and hears a progress update on the commercial progress as well as development impact of the companies supported.

Outputs 2 – 4: Nathan Associates

The PEPZ Nathan team (outputs 2- 4) made some progress in the reporting year on aligning their monitoring framework to the revised implementation strategy agreed in 2017. For each of the interventions under the priority sectors, the team developed a 'results chain map' detailing the expected path from activities, outputs, (new) intermediate outcomes and outcomes. This is helping the team to assess the success of individual interventions.

In the reporting year the team conducted a review to look at how each of the PEPZ grantee SMEs could contribute to the log frame at output and outcome level. An M&E plan for the remaining year of programme delivery was developed.

The PEPZ Nathan team conduct regular field visits and are in day to day contact with grantees. DFID also took part in a series of field visits throughout the reporting year, including for this annual review.

Evidence

Output 1: Prospero / Kukula seed

The Prospero Board meet on a quarterly basis and review the financial performance of the companies supported by the programme. At present a crude measure of company value is being used (see output 1.3) and a more formal company valuation would be needed to truly assess the value of the companies. A valuation in 2019 would be helpful in assessing VFM of the investments informing the design of the next phase of the programme.

Kukula seed is capturing data on the number of jobs created. However, as a venture capital firm they do not have the expertise in measuring development impact that DFID would expect from one of our more traditional partners (development consultancies, NGOs etc). In a future phase of the programme DFID could provide support to companies like Kukula Seed to help them measure development impacts.

Outputs 2 – 4: Nathan Associates

The PEPZ Nathan team are collecting data to inform the log frame as well as case studies on a sample of PEPZ supported SMEs. At each quarterly report the team provide a summary of all interventions, which gives details on all of the organisations supported. This data could be synthesised to look at common themes and trends.

In 2019 a Cost Benefit Analysis will be independently conducted in order to test whether the programme has achieved the expected benefits identified in the business case. This will be an important source of evidence to inform design of the new programme.

Learning

The programme has not developed a learning strategy or systematic way of sharing lessons from programme implementation with key audiences. This could be improved upon in the final year of implementation and in the next phase of the programme.

Whilst the programme is capturing results in terms of jobs created, there is little or no qualitative analysis as to whether these are "decent" jobs, or whether they benefit marginalised groups. More could be done to analyse and reflect on this, both in the final year of implementation and the next phase of the programme.

The Prospero/Kukula component of the programme (output 1) is sharing learning via board meetings. If this model is scaled up post 2020, Prospero needs to have its own (or access to) an M&E function to support data collection, evaluation, and learning.

The Nathan Associates components of the programme (outputs 2-4) primarily share learning with DFID, through their quarterly and annual reports. These contain reflections on the successes and challenges faced by the programme. Programme successes are also shared widely in the media. However, it is not clear to what extent PEPZ is capturing learning on a systematic basis or sharing this with audiences beyond DFID.

Recommendations related to monitoring, evaluation and learning

- This review recommends that DFID works with Kukula Seed and Nathan Associates to develop a learning strategy for 2019. This will ensure that lessons from the programme are captured and inform design and implementation of the next phase. (To be developed by Nathan and agreed with DFID by May 2019). The strategy should include:
    - The cost benefit analysis / VFM comparison of programme components;
    - Review of Prospero, looking at effectiveness, efficiency and economy; and the contractual model;
    - Review of the business plan competition, looking at the journey of winners after the programme;
    - A study on 'decent' jobs, looking at the type of jobs created by the programme, and who has benefited from them.

Progress on recommendations from previous reviews

Table 5 summarises progress made on the recommendations made in the 2018 Annual Review. Progress was made on the delivery related recommendations, for example on maintain momentum and agreeing new contracts. Limited progress was made on the evidence and learning recommendations, in particular reflections on the performance of the Business Plan Competition, and case studies from the Kukula Seed companies were not delivered (note, some progress was made on this in early 2018, after the end of the reporting year).

Table 5: Progress on previous recommendations

Recommendation	Progress
• The PEPZ team needs to keep the recent excellent momentum going and manage the risks of staff or partners leaving or losing focus as the programme comes towards its end point	Met - Momentum maintained in reporting year.
• DFID, DAI and Nathan need to swiftly agree the best implementation approach possible within the existing contract parameters (i.e. fees and implementation resources) to deliver the remainder of the programme (immediate).	Met – contract amendment and contract extension for 2019 agreed and signed
• PEPZ should increase its focus on promoting gender equality and inclusion through its new approach and provide a specific update on progress with this to DFID by September 2018	Met – quarterly report amended to include update on social inclusion for all interventions as well as addition of section on inclusivity in the annual report.
• PEPZ should immediately close down the BPC component as there is no sustainable way for it to be taken forward and the potential business incubator is not a viable option (July 2018).	Met – BPC closed.
• As part of the wind-down, PEPZ should identify lessons learned and what (if anything) could have been done differently to ensure long term sustainability of the Nyamuka business plan competition (September 2018).	Not met – formal close out report being prepared
• PEPZ staff highly appreciated DFID taking the time to talk to each of them during the AR – DFID should repeat this approach next year and consider incorporating this into other programme reviews where appropriate (March 2019).	Met – DFID met with PEPZ staff on a regular basis throughout the year and interviewed the team as part of this review
• Kukula Seed should prepare case studies for the following Accelerator Fund investments: Kunzubo; BBM; Green Dairy; Live Clean; Eagle and BFC in order to assess their impact and learn lessons on the investment approach helping to inform opportunities to replicate or scale (March 2019).	Partly met – the Kukula Seed Annual Report provides summaries on the companies, including background and photos. These do not include a rigorous assessment of impact or lessons learnt.