



Australian Government
Department of Foreign Affairs and Trade

Review of Enterprise Challenge Fund Pilot Program
MANAGEMENT RESPONSE

Initiative Summary

| Initiative Name | | | |
|----------------------------|--|-----------------|------------------|
| AidWorks initiative number | INH329 | | |
| Commencement date | 1 July 2007 | Completion date | 31 December 2013 |
| Total Australian \$ | \$16.996 million | | |
| Total other \$ | Private sector contributions were \$15.2m as of October 2012 | | |
| Delivery organisation(s) | Coffey International | | |
| Implementing Partner(s) | Various Private Sector Organisations | | |
| Country/Region | South East Asia and Pacific Region | | |
| Primary Sector | 43010 – Multi-sector aid | | |
| Initiative goal | The goal of ECF is private sector-led growth in poorer regions of Asia and the Pacific. The purpose is to improve the livelihoods of poor men and women through increased incomes, greater employment opportunities and better basic services. | | |

Review Summary

An independent project completion report of the Enterprise Challenge Fund (ECF) was published in January 2014. The report assessed the performance of the ECF program against Departmental criteria for effectiveness, efficiency, and other relevant measures. The report also assessed the role of Departmental staff and made recommendations to improve future private sector development programs. As part of the review the report team visited Cambodia, Fiji, Vanuatu, and Canberra.

The ECF was a six year (2007-13), \$16.996 million pilot program to support private sector development, economic growth and poverty alleviation in South East Asia and Pacific island countries. ECF provided matching grants to enterprises and operated in eight countries: Cambodia, East Timor, Laos, Philippines, Papua New Guinea, Solomon Islands, Fiji and Vanuatu. The ECF approved 24 individual projects, of which 19 completed the program. The focus of the ECF was on disbursing grant funds and monitoring and evaluating projects, although the program manager also provided ad hoc business support to projects in need.

The review team's overall assessment was that the ECF demonstrated the feasibility of a challenge fund for Australia's aid program but had limited other outcomes. In short, as a pilot to teach lessons the program was successful, but as a tool for driving economic growth the program was less successful.

The report concludes that private sector development programs should remain a priority in the Australian aid program and that future programs will increase effectiveness by implementing the lessons of the ECF.

Review Completion Date: February 2014

Review Team: Triple Line Consulting: David Smith-Team Leader, Mihaela Balan—Project Consultant.

DFAT's response to the review report:

The completion report is a well-structured and constructive analysis, focussed largely on eight projects that were reviewed in periodic 'validation of impact' surveys, the last of which was conducted in October 2013. The independent completion report also considers findings from other reports, including the 2013 independent Cost Benefit Analysis (CBA) of the program. The CBA found that the program delivered an overall positive economic benefit, although the majority of benefits came from a single project (WING Cambodia) and without this project the program would have operated at a net economic cost.

The conclusions on the eight projects considered in detail are well-founded and the broader conclusions of the program are supported by DFAT. The actions taken in response to specific recommendations are outlined below.

The Independent Completion Report is available on the Departmental website but, in line with Australian Government policies, the CBA is not provided publicly because it contains personal information and commercially sensitive information.

DFAT's response to the specific recommendations in the report

1. A future ECF should build on the success of identifying a mutually beneficial relationship between the business community and donors. Importantly there needs to be a clear alignment of motivations between a sustainable for profit business activity and poverty reduction.

Actions:

The report recommends that future programs be clearer in the distinction between the rationales and consider targeting only one objective. This recommendation acknowledges that there are different rationales for challenge funds or similar private-sector programs, chief of which is the distinction between programs that directly develop enterprises ('enterprise development') and those that influence the way businesses – often large multinationals – operate to enhance their poverty impact ('business impact'). The ECF was primarily focussed on direct enterprise development but also worked with large firms (ANZ and Carnival Cruises) to support delivery of services or infrastructure upgrades that would not otherwise have been priorities of the company. A 2014 paper by the Development Policy Centre (Davies and Elgar 2014) considers the different types of program in greater detail and is a useful reference for future programming.

Policy advice for future programs incorporates the recommendation to clearly articulate the purpose of the program and, where possible, to focus on either enterprise development or business impact, not both.

Recommendations relating to scope and design

2. The ECF instrument is not appropriate for the Pacific due to issues of scale (minimum grant size) and there is a need for a more proactive instrument of support to the business sector.

Actions:

3. DFAT, in association with the Asian Development Bank, is developing a Pacific Business Fund that will implement some of the lessons of the ECF, in particular that businesses in the Pacific need access to high quality business advisory services, as well as finance, to grow, diversify or expand their operations. (<http://aid.dfat.gov.au/LatestNews/Pages/foreign-minister-visits-solomon-islands-vanuatu-and-nauru.aspx>) A pre-requisite for a future ECF is the need for the managing agency to clearly identify the objectives: business growth or poverty reduction.
4. It is also essential that there is a clearly identified market need for a challenge fund to address market failure. For example in Cambodia since the start of the ECF, a number of private equity funds and impact investors have been introduced so there may be less of a need for an ECF, whereas there may remain a more compelling case in parts of Indonesia, the Philippines, Myanmar and Laos.
5. Narrowing the country focus and sectors would strengthen both the potential for achieving a sustainable impact in the target markets and substantially reduce the cost of managing the fund.
6. The design of any ECF should enable the grant to build on the availability of commercial finance rather than it being an exclusion criteria as in the ECF.

Actions:

These recommendations have been included in policy advice for DFAT program areas. The Department's policy guide on challenge funds now clearly indicates the need to set objectives and target priority countries and industry sectors based on identified barriers to economic growth and suitability criteria. Alternatively, programs may take a tiered funding model like USAID's Development Innovation Ventures – under which many innovative ideas are pilot-tested but only those able to demonstrate impact and cost-effectiveness proceed to progressively higher levels of funding.

Future challenge funds or other private-sector programs will clearly indicate whether they are intended to grow businesses to increase overall economic activity, or use commercially sustainable businesses to deliver increased income and services for people in poverty. For example, the Pacific Business Fund is designed to leverage commercial finance from banks, rather than providing grants.

Recommendations relating to project selection and due diligence

7. The Fund Manager should play a more proactive role in identifying market opportunities, starting with an active marketing approach to identify both opportunities and networks but also to build local ownership of the Fund.
8. A Challenge Fund must have the separation of fund management from decision making and therefore an independent panel is essential. But the experience to date would indicate that the Fund Manager needs to have a greater role in reviewing the rationale and viability of the projects, undertaking more intensive due diligence and ensuring that the criteria of the ECF will be met. This would leave the panel to have more of an adjudication role and would provide better value for money than the approach adopted of engaging regional and international assessment panels. Moreover the use of the panel should be as efficient as possible – providing the Fund Manager with a more proactive role in culling concept notes and leaving the panel to have a more critical role in selecting the best projects to meet the portfolio criteria.

Actions:

These recommendations have been included in policy advice for DFAT program areas. DFAT staff will monitor programs to ensure active management from fund managers.

Recommendations relating to monitoring and measurement

9. Results measurement should not be done entirely by the Fund Manager. The challenge fund should involve the businesses much more in the collection and reporting of the business data and local service providers could be used for monitoring.
10. There needs to be a clear budget allocation for data collection included as part of the ECF grant with the FM taking greater explicit responsibility for ensuring the collection of data on development impact and systemic impact. The wider systemic changes to the market and business enabling environment is challenging to measure. Key changes in business behaviour, empowerment and how markets are working better for the poor need to be tracked using qualitative tools and case studies starting with baseline studies.

Actions:

The recommendation to involve businesses in the collection and reporting of data needs to be balanced against the need to avoid burdening businesses with overly onerous reporting for Australian Government purposes. The balance can be found where there are business uses in collecting data or where data is of core importance to a program and a reasonable 'cost' of participating in a DFAT program to support business. For example, gender disaggregated data is a mandatory part of DFAT program reporting. Where data collection falls outside these parameters, program managers will work with other sources to obtain data.

Much of the data that a program will seek to collect is also of concrete benefit to a business, for example the number and nature of clients will identify whether the program is reaching the intended population but also help businesses to identify the markets most important to their business.

Recommendations relating to governance and management

11. Programs will achieve far greater relevance to country needs and country objectives with more explicit oversight role and engagement by DFAT posts in defining the local 'challenge', as well as following the outcomes of the projects
12. The ECF was too small to have a cost-effective country management structure. A program with 12+ sizeable projects (\$250,000) within a country can justify full-time in-country support to monitor the programme and facilitate scale-up and dissemination of the lessons.

Actions:

DFAT staff will take a more active management role in future programs, including in the initial economic analyses to identify specific barriers or priority industry sectors that should be targeted with private-sector development programs.

The recommendation to engage a dedicated country manager only where at least 12 projects of \$250,000 exist infers that, under this threshold, project support and monitoring should be provided by a part-time or

regional (not national) coordinator. This recommendation is consistent with trends away from multiple, small interventions that raise transaction costs and reduce the cost effectiveness of aid investment.

A minimum investment size of \$250,000 will exclude many small businesses and a number of medium-sized businesses from participating in challenge fund programs, especially if provided on a matching basis (i.e. a \$250,000 aid investment must be matched by at least \$250,000 investment by the partnering business). Program areas that wish to support small and medium enterprises under this threshold, might consider a mechanism other than a challenge fund, such as partnering with an established micro-finance provider. Alternatively, a challenge program or business investment fund could be delivered in stages that provide increasing levels of funding. For example, the USAID Development Innovation Ventures offers up to USD100,000 to demonstrate the feasibility of proposals but only the activities that demonstrate the strongest results are eligible to progress to second (up to USD1 million) or third (up to USD15 million) funding rounds.