



Review of Enterprise Challenge Fund Pilot Program MANAGEMENT RESPONSE

Initiative Summary

Initiative Name			
AidWorks initiative number	INH329		
Commencement date	1 July 2007	Completion date	30 October 2013
Total Australian \$	\$20.5 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 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 progress review (IPR) of the Enterprise Challenge Fund (ECF) was conducted in September 2011. The goal of the review was to assess the performance of the ECF program and propose enhancements during the second phase of the pilot program. In addition, the review team were tasked with providing recommendations on the suitability of the challenge fund model in promoting pro-poor private sector development in South East Asia and Pacific island countries. As part of the review the team visited Cambodia, Solomon Islands, Vanuatu, Sydney and Canberra.

The ECF is a six year, \$20.5 million pilot program (2007-13) supporting private sector development, economic growth and poverty alleviation in South East Asia and the Pacific Island countries. ECF has provided matching grants to enterprises in eight countries: Cambodia, East Timor, Laos, Philippines, Papua New Guinea, Solomon Islands, Fiji and Vanuatu. ECF has awarded grants for 21 projects. Since its inception the focus of the ECF has been on disbursing funds to grantees and monitoring and evaluation of projects.

The review team's overall assessment was that AusAID's support for pro-poor private sector development was desirable and welcomed by stakeholders. The review found that the ECF's portfolio of investments had achieved mixed results, but that the results to date were satisfactory for a pilot program of this nature. The ECF lacked a clear strategy and hierarchy of objectives which created uncertainty about what it was and what it was expected to achieve with a resulting negative effect on the program's performance. ECF's lack of geographic and sector focus was a weakness.

The report concluded that the remaining period of ECF should focus on: 1) expanding the benefits of successful projects, and 2) sharing the lessons from implementing these projects within AusAID, with partner governments and other donors. These recommendations are now being implemented.

Review Completion Date: November 2011

Review Team: Triple Line Consulting: David Smith—Team Leader, Simon Armstrong—Strategic Advisor, Rodney Woolcock—Cost Benefit Analysis Specialist, Mihaela Balin—Project Consultant.

AusAID's response to the review report:

The independent progress review report ('the report') is a well-structured and constructive analysis. Several projects have performed better than expected and even those that performed moderately well, positively affected the lives of the poor. The program has also generated valuable lessons for future private sector development activities and the use of challenge funds in particular. We agree that the lessons from this program should be shared and support the review's approach to improving ECF over the remaining period of implementation.

In line with the pilot nature of the ECF, AusAID will conduct an evaluation of ECF two years after its completion date (2015) to draw further 'lessons learned' from the experience. This approach is in line with the Donor Committee on Enterprise Development (DCED) standard which acknowledges that positive results from many enterprise development investments do not emerge until at least three years after the initial investment has been made. Taking this approach will not only provide a more robust evidence base around the effectiveness of the ECF, but also greatly inform AusAID's policy positions and future decision making with respect to private sector development programs and enterprise challenge funds specifically.

AusAID's response to the specific recommendations made in the report

1. Recommendations relating to the remaining period of the Existing Enterprise Challenge Fund:

Encourage scale-up and/or replication of successful projects

Response: Agree. Challenge Fund projects are intended to stimulate wider systemic change once the business model has been proven and the initial development impacts for communities are realised. AusAID supports changes in the ECF that prioritise the **scale up of** projects that have a sustainable business model; pro-poor benefits; potential for replication; and that are relevant to AusAID's overall policy and strategic direction. This will increase the number of poor people benefiting from ECF within the approved funding envelope.

Actions: In August 2012, a contract amendment shifted resources away from poorly performing projects towards targeted efforts to **scale up** high performing ones. Four high performing projects have been selected to be part of this final phase of the ECF pilot. Further information on the scale-up of these projects is available on www.enterprisechallengefund.org.

Encourage changes in the business enabling environment.

Response: Agree. AusAID agrees with the recommendation that ECF utilise the experience gained from the program to advocate for improvements in business **enabling environments (BEE)**. During their implementation, many ECF projects were faced with inefficient or counterproductive legal and regulatory barriers in the business operating environments of a number of countries. AusAID agrees that such lessons should be documented and shared with governments, other donors, and our own programs with the aim of improving inefficient or counterproductive legal and regulatory barriers to businesses.

Actions: As part of the final phase, the ECF is also documenting how constraints in the **BEE** of a number of countries impacted on several individual projects. Where appropriate, AusAID and/or the ECF managing contractor, will share this information with governments and other development partners to encourage further change and reform in their BEE.

Encourage business to business linkages.

Response: Agree. AusAID agrees that facilitating **business to business linkages** should be a key part of the final phase of the ECF pilot. Businesses similar to those supported by ECF will benefit if information from the experience of these projects can be shared. Successful projects may also expand if they are linked to supporting businesses up and down the value chain.

Actions: Since November 2011, the ECF managing contractor has made efforts to **link selected grant recipients with other businesses**. In Fiji for example, the ECF is facilitating the exchange of information between a bottled water company and mining companies interested in carbon offsets in partnership with the Future Forests Company (an ECF grant recipient). It is hoped that such linkages will lead to increased demand for Future Forest Company trees, leading to an expansion in business opportunities, and in turn creating further employment opportunities for poor people.

Undertake activities to provide policy advice to AusAID.

Response: Agree. Private sector development is an area of increasing importance for the Australian aid program as outlined in Australia's Effective Aid Policy (2011) and AusAID's 2012 Private Sector

Development Strategy. Prior to 2011, the ECF was one of the few AusAID programs, not delivered by multilateral agencies, which directly assisted business entities. Documenting and sharing these lessons can help AusAID improve current and future private sector development programs.

Action: The ECF managing contractor has developed an action plan to document the lessons from projects and ECF as a whole. This includes:

- A research paper on the ECF experience of private sector development with policy recommendations to be completed in late 2012.
- Research on the impacts of the ECF on women's economic empowerment, in partnership with AusAID's gender policy unit. This is to be completed in late 2012.
- Two thematic review papers on the subjects of access to finance and nucleus estate farms (nucleus estate farming models have a central plantation that provides some certainty of throughput and accesses small holder supply from the surrounding area). These two papers have been drafted and peer reviewed. They are currently being finalised.
- A report detailing the ECF experience in reporting on headline results to be submitted to AusAID in December 2012.

AusAID's Sustainable Economic Development Branch (SED) will prepare a guidance note on challenge funds for AusAID country programs (to be completed in early 2013). The note will outline experience with the ECF; advise on when a challenge fund is an effective mode of private sector development; and how AusAID could maximise value for money when managing such programs.

The SED has increased its engagement with country programs on the ECF and on private sector development more generally. Country programs were briefed following the finalisation of the review and have had the opportunity to meet with ECF Managers. SED will continue to engage country programs in the development and dissemination of the guidance note. The note will be updated with the completion of the ECF in October 2013.

In addition, AusAID will conduct an evaluation of the ECF two years after its completion that will be used to give further evidence to its policy position.

In line with AusAID's transparency charter all documents will be made available to the public.

2. Recommendations as to possible future market-based pro-poor private sector development for South East Asia and for Pacific Islands

A new more focused Enterprise Challenge Fund for South-East Asia should be established.

Response: Partially Agree. The report identifies a lack of geographic and sector focus as a weakness of the ECF. AusAID fully supports the recommendation that any future enterprise challenge programs be more geographically focused and be managed by country/regional programs responsible. AusAID officers will continue to consider options for supporting market based pro poor private sector development in South East Asia.

Actions: SED will provide guidance on mechanisms (including challenge funds) to support private sector development to AusAID country and regional areas.

Consider two separate approaches to pro-poor private sector development in the Pacific Islands: cost-sharing grants to the private sector to establish or expand nucleus farm systems; and provide access to commercial finance for tourism SMEs by contributing to the IFC managed Risk Sharing Grant Facility.

Response: Agree. AusAID has considered, and will continue to consider, different approaches to private sector development in the Pacific. For example, AusAID is providing cost-sharing grants to the private sector (including agriculture and tourism) through the Market Development Facility (in Fiji). In addition, AusAID has a long-standing partnership with the IFC to promote private sector development in the Pacific. This has included funding support for a feasibility assessment for a regional risk sharing facility focused on the tourism sector.

Actions: SED will provide guidance on mechanisms (including challenge funds) to support private sector development in the Pacific region. Should new programs in agriculture be developed in the Pacific, cost-sharing grant models to support nucleus estate farming will be considered.